Baidu, Inc.
Form 20-F
March 27, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014.

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number: 000-51469

Baidu, Inc.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant s name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Baidu Campus

No. 10 Shangdi 10th Street

Haidian District, Beijing 100085

The People s Republic of China

(Address of principal executive offices)

Jennifer Xinzhe Li, Chief Financial Officer

Telephone: +(86 10) 5992-8888

Email: ir@baidu.com

Facsimile: +(86 10) 5992-0000

Baidu Campus

No. 10 Shangdi 10th Street,

Haidian District, Beijing 100085

The People s Republic of China

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American depositary shares (ten American depositary shares representing one Class A ordinary share, par value US$0.00005 per share)	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)
Class A ordinary shares, par value US$0.00005 per share*	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)

* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report.

27,613,315 Class A ordinary shares and 7,492,921 Class B ordinary shares, par value US$0.00005 per share, as of December 31, 2014.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x | International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ | Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨

Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

Table of Contents

TABLE OF CONTENTS

		Page
INTRODUCTION		1
FORWARD-LOOKING INFORMATION		1
PART I		2
Item 1.	Identity of Directors, Senior Management and Advisers	2
Item 2.	Offer Statistics and Expected Timetable	2
Item 3.	Key Information	2
Item 4.	Information on the Company	40
Item 4A.	Unresolved Staff Comments	75
Item 5.	Operating and Financial Review and Prospects	75
Item 6.	Directors, Senior Management and Employees	100
Item 7.	Major Shareholders and Related Party Transactions	109
Item 8.	Financial Information	110
Item 9.	The Offer and Listing	111
Item 10.	Additional Information	113
Item 11.	Quantitative and Qualitative Disclosures about Market Risk	121
Item 12.	Description of Securities Other than Equity Securities	122
PART II		124
Item 13.	Defaults, Dividend Arrearages and Delinquencies	124
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	124
Item 15.	Controls and Procedures	124
Item 16A.	Audit Committee Financial Expert	124
Item 16B.	Code of Ethics	125
Item 16C.	Principal Accountant Fees and Services	125
Item 16D.	Exemptions from the Listing Standards for Audit Committees	125
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	125
Item 16F.	Change in Registrant s Certifying Accountant	126
Item 16G.	Corporate Governance	126
Item 16H.	Mine Safety Disclosure	126
PART III		126
Item 17.	Financial Statements	126
Item 18.	Financial Statements	126
Item 19.	Exhibits	126
SIGNATURES		134

Table of Contents

INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

we, us, our company, our, or Baidu refers to Baidu, Inc., its subsidiaries, and, in the context of describi operations and consolidated financial information, our consolidated affiliated entities in China, including but not limited to Beijing Baidu Netcom Science Technology Co., Ltd., or Baidu Netcom;

user traffic or traffic refers generally to page views and the reach of a website, with page views measurin the number of web pages viewed by internet users over a specified period of time except that multiple page views of the same page viewed by the same user on the same day are counted only once, and reach measuring the number of internet users and typically expressed as the percentage of all internet users who visit a given website;

China or PRC refers to the People s Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau;

shares or ordinary shares refers to our ordinary shares, which include both Class A ordinary shares and Class B ordinary shares;

ADSs refers to our American depositary shares, and we effected a change of the ADS to Class A ordinary share ratio from 1 ADS representing 1 Class A ordinary share to 10 ADSs representing 1 Class A ordinary share on May 12, 2010, which has the same effect as a 10-for-1 ADS split;

U.S. GAAP refers to generally accepted accounting principles in the United States;

RMB or Renminbi refers to the legal currency of China;

$, dollars, US$ or U.S. dollars refers to the legal currency of the United States; and

all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, expect, anticipate, future, intend, plan, believe, estimate, is/are likely to or other similar expressions. We have

forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to:

our growth strategies;

our future business development, results of operations and financial condition;

our ability to attract and retain users and customers and generate revenue and profit from our customers;

our ability to retain key personnel and attract new talent;

competition in the internet search, online marketing and other businesses in which we engage;

the outcome of ongoing or any future litigation, including those relating to intellectual property rights; and

Table of Contents

PRC governmental regulations and policies relating to the internet and internet search providers and to the implementation of a corporate structure involving variable interest entities in China.

We would like to caution you not to place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3D. Key Information Risk Factors. Those risks are not exhaustive. We operate in a rapidly evolving environment. New risks emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of comprehensive income data for the three years ended December 31, 2012, 2013 and 2014 and the consolidated balance sheets data as of December 31, 2013 and 2014 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income data for the years ended December 31, 2010 and 2011 and the selected consolidated balance sheets data as of December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements for the years ended December 31, 2010, 2011 and 2012, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects below. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

Table of Contents

	For the Years Ended December 31,					
	2010	2011	2012	2013	2014	
	RMB	RMB	RMB	RMB	RMB	US$
	(In thousands except per share and per ADS data)					
Consolidated Statements of Comprehensive Income Data						
Revenues:						
Online marketing services	7,912,869	14,489,767	22,245,643	31,802,219	48,495,215	7,816,010
Others	2,205	11,019	60,383	141,705	557,103	89,789
Total revenues	7,915,074	14,500,786	22,306,026	31,943,924	49,052,318	7,905,799
Operating costs and expenses:						
Cost of revenues	(2,149,288)	(3,896,883)	(6,448,545)	(11,471,839)	(18,885,450)	(3,043,781)
Selling, general and administrative	(1,088,980)	(1,692,810)	(2,501,336)	(5,173,533)	(10,382,142)	(1,673,298)
Research and development	(718,038)	(1,334,434)	(2,304,825)	(4,106,832)	(6,980,962)	(1,125,127)
Total operating costs and expenses	(3,956,306)	(6,924,127)	(11,254,706)	(20,752,204)	(36,248,554)	(5,842,206)
Operating profit	3,958,768	7,576,659	11,051,320	11,191,720	12,803,764	2,063,593
Interest income	103,096	418,201	866,465	1,308,542	1,992,818	321,184
Interest expense	(35,975)	(82,551)	(107,857)	(447,084)	(628,571)	(101,307)
Loss from equity method investments	(8,965)	(179,408)	(294,229)	(5,806)	(26,952)	(4,344)
Other income, net, including exchange gains or losses	44,239	76,278	449,738	137,644	333,484	53,748
Income before income taxes	4,061,163	7,809,179	11,965,437	12,185,016	14,474,543	2,332,874
Income taxes	(535,995)	(1,188,861)	(1,574,159)	(1,828,930)	(2,231,172)	(359,599)
Net income	3,525,168	6,620,318	10,391,278	10,356,086	12,243,371	1,973,275
Less: Net loss attributable to noncontrolling interests		(18,319)	(64,750)	(162,880)	(943,698)	(152,097)
Net income attributable to Baidu, Inc.	3,525,168	6,638,637	10,456,028	10,518,966	13,187,069	2,125,372
Earnings per share for Class A and Class B ordinary shares[(1)]						

Basic	101.28	190.27	298.62	299.75	374.60	60.37
Diluted	100.96	189.88	298.29	299.32	373.15	60.14
Earnings per ADS (1 Class A ordinary share is represented by 10 ADSs)						
Basic	10.13	19.03	29.86	29.98	37.46	6.04
Diluted	10.10	18.99	29.83	29.93	37.32	6.01

(1) As holders of Class A and Class B ordinary shares have the same dividend right and the same participation right in our undistributed earnings, the basic and diluted net income per Class A ordinary share and Class B ordinary share are the same for all the periods presented during which there were two classes of ordinary shares. The weighted average number of ordinary shares represents the sum of the weighted average number of Class A and Class B ordinary shares. Please see Earnings per Share under Note 17 to our audited consolidated financial statements included in this annual report for additional information regarding the computation of the per share amounts and the weighted average numbers of Class A and Class B ordinary shares.

Table of Contents

	As of December 31,					
	2010	2011	2012	2013	2014	
	RMB	RMB	RMB	RMB	RMB	US$
	(In thousands)					
Consolidated Balance Sheets Data:						
Cash and cash equivalents	7,781,976	4,127,482	11,880,632	9,691,797	13,852,725	2,232,654
Restricted cash	38,278	483,387	395,029	259,533	413,010	66,565
Short-term investments	376,492	10,051,578	20,604,223	28,734,761	43,818,037	7,062,186
Total assets	11,048,439	23,340,541	45,668,890	70,985,788	99,661,508	16,062,518
Total liabilities	2,642,847	7,015,028	18,453,765	30,320,538	45,155,920	7,277,812
Total Baidu, Inc. shareholders equity	8,405,592	15,291,716	26,055,229	38,424,915	51,525,629	8,304,424
Total equity	8,405,592	15,389,535	26,181,842	40,665,250	52,611,086	8,479,368

Exchange Rate Information

Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current exchange rates, for the convenience of the readers. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in New York City for cable transfers in RMB as certified for customs purposes by the Federal Reserve Board. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.2046 to US$1.00, the noon buying rate in effect as of December 31, 2014. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On March 20, 2015, the noon buying rate was RMB6.2037 to US$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

	Noon Buying Rate			
Period	**Period-End**	**Average[(1)]**	**Low**	**High**
	(RMB per U.S. Dollar)			
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
September	6.1380	6.1382	6.1495	6.1266
October	6.1124	6.1251	6.1385	6.1107
November	6.1429	6.1249	6.1429	6.1117
December	6.2046	6.1886	6.2256	6.1490
2015				
January	6.2495	6.2181	6.2535	6.1870

February	6.2695	6.2518	6.2695	6.2399
March (through March 20, 2015)	6.2037	6.2526	6.2741	6.1955

Source: Federal Reserve Statistical Release

(1) Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant period.

Table of Contents

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

If we fail to retain existing customers or attract new customers for our online marketing services, our business, results of operations and growth prospects could be seriously harmed.

We generate substantially all of our revenues from online marketing services, a substantial majority of which are derived from our pay-for-performance, or P4P, services. Our online marketing customers will not continue to do business with us if their investment does not generate sales leads and ultimately consumers, or if we do not deliver their web pages in an appropriate and effective manner. Our P4P customers may discontinue their business with us at any time and for any reason as they are not subject to fixed-term contracts. We have in the past removed, and may in the future again remove, questionable paid search listings of some customers to ensure the quality and reliability of our search results. Such removal, whether temporary or permanent, may cause the affected customers to discontinue their business with us. In addition, third parties may develop and use certain technologies to block the display of our customers advertisements and other marketing products on our *Baidu.com* website, which may in turn cause us to lose customers and adversely affect our results of operations. Furthermore, we adjust prices for some of our online marketing services from time to time. We may lose customers who decide not to pay for our increased prices. Failure to retain our existing customers or attract new customers for our online marketing services could seriously harm our business, results of operations and growth prospects.

In recent years, we have generated an increasing amount of online marketing revenues from online advertising. We believe our large user base and traffic provide advertisers with a broad reach and optimal monetization results. However, we cannot assure you that we will be able to continue to attract new advertisers or retain our existing advertisers. If our advertisers determine that their expenditures on our websites do not generate expected returns, they may allocate a portion or all of their advertising budgets to other advertising channels such as television and outdoor media and reduce or discontinue business with us. Since most of our advertisers are not bound by long-term contracts, they may amend or terminate advertising arrangements with us easily without incurring liabilities. Failure to retain existing advertisers or attract new ones to advertise on our websites may materially and adversely affect our business, financial condition, results of operations and prospects.

If online marketing does not further grow in China, our ability to increase revenue and profitability could be materially and adversely affected.

The use of the internet as a marketing channel is at a developing stage in China. Internet penetration rate in China is relatively low as compared to that in most developed countries. Many of our current and potential customers have limited experience with the internet as a marketing channel, and historically have not devoted a significant portion of their marketing budgets to online marketing and promotion. As a result, they may not consider the internet to be an effective channel to promote their products and services as compared to traditional print and broadcast media. Our ability to increase revenue and profitability from online marketing may be adversely impacted by a number of factors,

many of which are beyond our control, including:

- difficulties associated with developing a larger user base with demographic characteristics attractive to online marketing customers;

- increased competition and potential downward pressure on online marketing prices;

Table of Contents

higher customer acquisition costs due in part to the limited experience of small to medium-sized enterprises, or SMEs, with the internet as a marketing channel;

failure to develop an independent and reliable means of verifying online traffic;

ineffectiveness of our online marketing delivery, tracking and reporting systems; and

decreased use of internet or online marketing in China.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our business and results of operations may be harmed.

We believe that our brand Baidu has contributed significantly to the success of our business. We also believe that maintaining and enhancing the Baidu brand is critical to increasing the number of our users, customers and Baidu Union members. We have conducted various marketing and brand promotion activities, but we cannot assure you that these activities will achieve the brand promotion effect expected by us. If we fail to maintain and further promote the Baidu brand, or if we incur excessive expenses in this effort, our business and results of operations may be materially and adversely affected. In addition, any negative publicity about our company, our products and services, our employees, our business practices, or our search results or the websites to which our search results link, regardless of its veracity, could harm our brand image and in turn adversely affect our business and results of operations.

We face significant competition and may suffer from loss of users and customers as a result.

We face significant competition in almost every aspect of our business, particularly from other companies that seek to provide internet search services to users and provide online marketing services to customers. In the Chinese internet search market, our main competitors include U.S.-based internet search providers providing Chinese language internet search services, such as Google, and China-based internet companies, such as Tencent, Alibaba and Qihoo 360. We compete with these entities for both users and customers on the basis of user traffic, quality (relevance), safety and user experience of the search results, availability and ease of use of products and services, the number of customers, distribution channels and the number of associated third-party websites. Some of our competitors have significant financial resources, long operating histories and are experienced in attracting and retaining users and managing customers. They may use their experience and resources to compete with us in a variety of ways, including by competing more heavily for users, customers, distributors, strategic partners and networks of third-party websites, investing more heavily in research and development and making acquisitions. If any of our competitors provides comparable or better Chinese language search experience, our user traffic could decline significantly. Additionally, if the channels that we use to distribute services or products to our users and customers are no longer available to us, we may experience a decline in user traffic. Any such decline in traffic could weaken our brand and result in loss of users and customers, which would have a material and adverse effect on our results of operations.

We also face competition from other types of advertising media, such as newspapers, magazines, yellow pages, billboards, other forms of outdoor media, television, radio and mobile applications. Large companies in China generally allocate, and may continue to allocate, most of their marketing budgets to traditional advertising media and only a small portion of their budgets to online marketing and other forms of advertising media. If these companies do not devote a larger portion of their marketing budgets to online marketing services provided by us, or if our existing customers reduce the amount they spend on online marketing, our results of operations and growth prospects could be adversely affected.

If our expansions into new internet businesses are not successful, our future results of operations and growth prospects may be materially and adversely affected.

As part of our growth strategy, we enter into new internet businesses from time to time by leveraging our large internet search user base to generate additional revenue streams and through our development of new

Table of Contents

business lines or strategic investments in or acquisitions of other businesses. Expansions into new businesses may present operating and marketing challenges that are different from those that we currently encounter. For each new business we enter into, we face competition from existing leading players in that business. If we cannot successfully activate our user base by addressing the new challenges and providing service of exceptional quality, we may not be able to compete effectively against the existing leading players, recover costs incurred for investing in, developing and marketing new businesses, and eventually achieve profitability from these businesses, and our future results of operations and growth prospects may be materially and adversely affected.

If we fail to continue to innovate and provide products and services to attract and retain users, we may not be able to generate sufficient user traffic levels to remain competitive.

Our success depends on providing products and services to attract users and enable users to have a high-quality internet experience. In order to attract and retain users and compete against our competitors, we must continue to invest significant resources in research and development to enhance our internet search technology, improve our existing products and services and introduce additional high-quality products and services. If we are unable to anticipate user preferences or industry changes, or if we are unable to enhance the quality of our products and services on a timely basis or fail to provide sufficient content, we may lose users. Our results of operations may also suffer if our innovations do not respond to the needs of our users, are not appropriately timed with market opportunities or are not effectively brought to market. As search technology continues to develop and mobile devices and applications are increasingly used to access the internet, our competitors may be able to offer products and services that are, or that are perceived to be, substantially similar to or better than those provided by us. This may force us to expend significant resources in research and development and strategic investments and acquisitions in order to remain competitive.

If we fail to keep up with rapid changes in technologies and user behavior, our future success may be adversely affected.

Our future success will depend on our ability to respond to rapidly changing technologies, adapt our products and services to evolving industry standards and improve the performance and reliability of our products and services. Our failure to adapt to such changes could harm our business. In addition, changes in user behavior resulting from technological developments may also adversely affect us. For example, the number of people accessing the internet through mobile devices, including mobile phones, tablets and other hand-held devices, has increased in recent years, and we expect this trend to continue while 3G and more advanced mobile communications technologies are broadly implemented. If we fail to develop products and technologies that are compatible with all mobile devices and operating systems, or if the products and services we develop are not widely accepted and used by users of various mobile devices and operating systems, we may not be able to penetrate the mobile internet market. In addition, the widespread adoption of new internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or integrate our products, services or infrastructure. If we fail to keep up with rapid technological changes to remain competitive, or consequently fail to retain users with products and service of exceptional quality, our future success may be adversely affected.

Interruption or failure of our own information technology and communications systems or those of third-party service providers we rely upon could impair our ability to provide products and services, which could damage our reputation and harm our results of operations.

Our ability to provide products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could interrupt our services. Service interruptions could reduce our revenues and profits and damage our brand if our systems are perceived to be unreliable. Our systems are vulnerable to damage or interruption as a result of terrorist attacks, wars, earthquakes, floods, fires, power

loss, telecommunications failures, undetected errors or bugs in our software, computer viruses, interruptions in access to our websites through the use of denial of service or similar attacks,

Table of Contents

hacking or other attempts to harm our systems, and similar events. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios. In May 2014, the service of our Baidu Yun was inaccessible to some users for approximately four hours due to a failure of the internet infrastructure.

Our servers, which are hosted at third-party or our own internet data centers, are vulnerable to break-ins, sabotage and vandalism. The occurrence of natural disaster or closure of an internet data center by a third-party provider without adequate notice could result in lengthy service interruptions. In addition, our domain names are resolved into internet protocol (IP) addresses by systems of third-party domain name registrars and registries. Any interruptions or failures of those service providers systems, which are beyond our control, could significantly disrupt our own services. If we experience frequent or persistent system failures on our websites, whether due to interruptions and failures of our own information technology and communications systems or those of third-party service providers we rely upon, our reputation and brand could be severely harmed. The steps we take to increase the reliability and redundancy of our systems are expensive, may reduce our operating margin and may not be successful in reducing the frequency or duration of service interruptions.

More people are using devices other than personal computers to access the internet. If users do not widely adopt versions of our web search technology, products and services developed for these devices, our business could be adversely affected.

The number of people who access the internet through devices other than personal computers, including mobile phones, smartphones, handheld computers such as iPad and other tablets, and television set-top devices, is increasing dramatically. The varying display sizes, functionality, and memory associated with some alternative devices make the use of our products and services on such devices more difficult and the versions of our products and services developed for these devices may not be compelling to users, manufacturers, or distributors of devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our products and services may not work or be accessible on these devices. Some manufacturers may also elect not to include our products on their devices. In addition, search queries are increasingly being undertaken through apps tailored to particular devices or social media platforms, which could affect our share of the search market over time. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on these alternative devices and we may need to devote significant resources to the creation, support, and maintenance of our products and services tailored for such devices. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors, and users to adopt and use our products and services, or if we are slow to develop products and technologies that are more compatible with alternative devices, we may fail to capture a significant share of an increasingly important portion of the market for online services, which could adversely affect our business.

We may not be able to manage our expanding operations effectively.

We have significantly expanded our operations in recent years. We expect this expansion trend to continue as we grow our user and customer base and explore new opportunities. To manage the further expansion of our business and growth of our operations and personnel, we need to continually improve our operational and financial systems, procedures and controls, and expand, train, manage and maintain good relations with, our growing employee base. We have experienced labor disputes in the past. Although these disputes were resolved promptly, we cannot assure you that there will not be any new labor dispute in the future. In addition, we must maintain and expand our relationships with other websites, internet companies and other third parties. Our current and future personnel, systems, procedures and controls may not be adequate to support our expanding operations.

8

Table of Contents

We may face intellectual property infringement claims and other related claims that could be time-consuming and costly to defend and may result in an adverse impact over our operations.

Internet, technology and media companies are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties rights. The validity, enforceability and scope of protection of intellectual property in internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes more common in China in resolving commercial disputes, we face a higher risk of being the subject of intellectual property infringement claims. We may be subject to administrative actions brought by the PRC State Copyright Bureau, and in the most severe scenario criminal prosecution, for alleged copyright infringement, and as a result may be subject to fines and other penalties and be required to discontinue infringing activities. Furthermore, as we expand our operations outside of China, we may be subject to claims brought against us in jurisdictions outside of China.

Our search products and services, such as Baidu Video Search, link to materials in which third parties may claim ownership of trademarks, copyrights or other rights. Our audio and video player, Baidu Media Player, enables users to play multimedia files, which may be protected by copyright or other intellectual property rights. In addition, as we adopt new technologies and roll out new products and services, we face the risk of being subject to intellectual property infringement claims that may arise from our use of new technologies and provision of new products and services. Our products and services including those based on cloud computing technology, such as Baidu Yun, Baidu WenKu and Baidu Post Bar, allow our users to upload, store and share documents, images, audios and videos on our servers, or share, link to or otherwise provide access to contents from other websites, and we also operate distribution platforms whereby developers can upload, share and sell their applications or games to users. Although we have made commercially reasonable efforts to request users or developers to comply with applicable intellectual property laws, we cannot ensure that all of our users or developers have the rights to upload or share these contents or applications. In addition, we have been and may continue to be subject to copyright or trademark infringement and other related claims from time to time, in China and internationally.

We have been making continuous efforts to keep ourselves informed of and to comply with all applicable laws and regulations affecting our business. However, PRC laws and regulations are evolving, and uncertainties still exist with respect to the legal standards as well as the judicial interpretation of the standards for determining liabilities of internet search and other internet service providers for providing links to contents on third-party websites that infringe upon others copyrights or hosting such contents, or providing information storage space, file sharing technology or other internet services that are used by internet users to disseminate such contents. The Supreme People s Court of China promulgated a judicial interpretation on infringement of the right of dissemination through internet in December 2012. This judicial interpretation, like certain court rulings and certain other judicial interpretations, provide that the courts will place the burden on internet service providers to remove not only links or contents that have been specifically mentioned in the notices of infringement from right holders, but also links or contents they should have known to contain infringing content. The interpretation further provides that where an internet service provider has directly obtained economic benefits from any contents made available by an internet user, it has a higher duty of care with respect to internet users infringement of third-party copyrights. A guidance on the trial of audio/video sharing copyright disputes promulgated by the Higher People s Court of Beijing in December 2012 provides that where an internet service provider has directly obtained economic benefits from any audio/video contents made available by an internet user who has no authorization for sharing such contents, the internet service provider shall be presumed to be at fault. These interpretations could subject us and other internet service providers to significant administrative burdens and litigation risks.

We conduct our business operations primarily in China. There might be claims that we are subject to U.S. copyright laws, including the legal standards for determining indirect liability for copyright infringement, although we believe

such claims are without merits. We cannot assure you that we will not be subject to copyright infringement lawsuits or other proceedings in the U.S. or elsewhere in the future.

Table of Contents

Intellectual property litigation is expensive and time-consuming and could divert resources and management attention from the operations of our business. We are currently named as a defendant in some copyright infringement suits in connection with our Baidu WenKu, Baidu Post Bar, Baidu Media Player, Baidu Video Search, iQiyi and certain other products or services. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings. There is no guarantee that the competent courts will accept our defenses and rule in our favor. If there is a successful claim of infringement, we may be required to discontinue the infringing activities, pay substantial fines and damages and/or enter into royalty or license agreements that may not be available on commercially acceptable terms, if at all. Our failure to obtain a license of the rights on a timely basis could harm our business. Any intellectual property litigation by third parties and/or negative publicity alleging our intellectual property infringement could have an adverse effect on our business, reputation, financial condition or results of operations. To address the risks relating to intellectual property infringement, we may have to substantially modify, limit or terminate some of our search services. Any such change could materially affect user experience and in turn have an adverse impact on our business.

We have been and may again be subject to claims based on the content found on our websites, the results in our paid search listings or other products and services we offer.

In addition to the content developed by ourselves and posted on our websites, our users are free to post information on Baidu Post Bar, Baidu Knows, Baidu Encyclopedia, Baidu WenKu and other sections of our websites, and our P4P customers may create text-based descriptions, image descriptions and other phrases to be used as text, image or keywords in our search listings, and users can also use our personal cloud computing service, Baidu Yun, to upload, store and share documents, images, audios and videos on our cloud servers. We have been and may continue to be subject to claims for intellectual property infringement, defamation, negligence or other legal theories based on the content found on our websites, the results in our paid search listings or our other products and services, which, with or without merit, may result in diversion of management attention and financial resources and negative publicity on our brand and reputation. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings. Furthermore, if the content posted on our websites or found, stored or shared through our other products and services contains information that government authorities find objectionable, our websites or relevant products or services may be shut down and we may be subject to other penalties. See Risks Related to Doing Business in China Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and subject us to liability for information displayed on or linked to our websites, and negative publicity in international media.

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content posted on our websites to ensure that such content is fair and accurate and in compliance with applicable law. In addition, where a special government review is required for specific categories of advertisements before posting, we are obligated to confirm that such review has been performed and approval has been obtained. See Item 4.B. Information on the Company Business Overview Regulation Regulations on Advertisements. Our P4P services are not subject to PRC advertising laws and regulations, because PRC laws and regulations and administrative authorities currently do not classify P4P services as a form of online advertising. However, if P4P services are classified as a form of online advertising in the future, we would be obligated to examine the content of our P4P customers listings on our websites as required by PRC advertising laws and regulations, which could be very burdensome, and we may have to stop posting certain categories of listings on our websites or otherwise cease our P4P services for certain categories of customers. If advertisements shown on our websites are in violation of relevant PRC advertising laws and regulations, or if the supporting documentation and government approvals provided to us by our advertising clients in connection with the advertising content are not complete or accurate, we may be subject to legal liabilities and our reputation could be harmed.

We have been and in the future may again be subject to claims or negative publicity based on the results in our paid search listings. Claims have been filed against us after we allowed certain customers to register keywords containing trademarks, trade names or brand names owned by others and displayed links to such

Table of Contents

customers websites in our paid search listings. While we maintain a database of certain well-known trademarks and update continually our system algorithms and functions aiming at preventing customers from submitting a keyword containing the well-known trademarks that we know are owned by others, it is not possible for us to completely prevent our customers from bidding on keywords that contain trademarks, trade names or brand names owned by others. There has been negative publicity about fraudulent information in our paid search listings. Although we have been continually enhancing our technology, control and oversight to prevent fraudulent websites, web pages and information from our paid search listings, there is no guarantee that the measures we have taken are effective at all times. Claims and negative publicity based on the results in our paid search listings, regardless of their merit, may divert management attention, severely disrupt our operations, adversely affect our results of operations and harm our reputation.

We may be subject to patent infringement claims with respect to our P4P platform.

Our technologies and business methods, including those relating to our P4P platform, may be subject to third-party claims or rights that limit or prevent their use. In June 2005, we applied for a patent in China for our P4P platform, but our application was rejected on the ground that it is not patentable. Certain U.S.-based companies, including Overture Services Inc., have been granted patents in the United States relating to P4P platforms and similar business methods and related technologies. While we believe that we are not subject to U.S. patent laws since we conduct our business operations outside of the United States, we cannot assure you that U.S. patent laws would not be applicable to our business operations, or that holders of patents relating to a P4P platform would not seek to enforce such patents against us in the United States or China.

Many parties are actively developing and seeking protection for internet-related technologies, including patent protection. They may hold patents issued or pending that relate to certain aspects of our technologies, products, business methods or services. Any patent infringement claims, regardless of their merits, could be time-consuming and costly to us. If we were sued for patent infringement claims with respect to our P4P platform and were found to infringe upon the patents and were not able to adopt non- infringing technologies, we may be severely limited in our ability to operate our P4P platform, which would have a material and adverse effect on our results of operations and prospects.

Our business may be adversely affected by third-party software applications or practices that interfere with our receipt of information from, or provision of information to, our users, which may impair our users experience.

Our business may be adversely affected by third-party malicious or unintentional software applications that make changes to our users computers and interfere with our products and services. These software applications may change our users internet experience by hijacking queries to our websites, altering or replacing our search results, or otherwise interfering with our ability to connect with our users. The interference often occurs without disclosure to or consent from users, resulting in a negative experience, which users may associate with our websites. These software applications may be difficult to remove or disable, may reinstall themselves and may circumvent other applications efforts to block or remove them. In addition, our business may be adversely affected by the practices of third-party website owners, content providers and developers which interfere with our ability to crawl and index their web pages and contents including applications. The ability to provide a superior user experience is critical to our success. If we are unable to successfully combat malicious third-party software applications that interfere with our products and services, our reputation may be harmed. If a significant number of website owners, content providers and developers prevent us from indexing and including their high-quality web pages and contents including applications in our search results, the quality of our search results may be impaired.

11

Table of Contents

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We rely on a combination of copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights. The protection of intellectual property rights in China may not be as effective as those in the United States or other countries. The steps we have taken may be inadequate to prevent the misappropriation of our technology. Reverse engineering, unauthorized copying or other misappropriation of our technologies could enable third parties to benefit from our technologies without paying us. Moreover, unauthorized use of our technology could enable our competitors to offer products and services that are comparable to or better than ours, which could harm our business and competitive position. We have in the past resorted to litigation to enforce our intellectual property rights, and may have to do so from time to time in the future. There is no guarantee that the competent courts will accept our claims and rule in our favor. Such litigation may result in substantial costs and diversion of resources and management attention.

Our success depends on the continuing and collaborative efforts of our management team and other key personnel, and our business may be harmed if we lose their services.

Our future success depends heavily upon the continuing services of our management team, in particular our chairman and chief executive officer, Robin Yanhong Li. If one or more of our executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for management and key personnel is intense, the pool of qualified candidates is limited, and we may not be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel in the future.

If any of our executives or other key personnel joins a competitor or forms a competing company, we may lose customers, distributors, know-how and key personnel. Each of our executive officers and key employees has entered into an employment agreement with us, containing confidentiality and non-competition provisions. If any disputes arise between any of our executives or key personnel and us, we cannot assure you the extent to which any of these agreements may be enforced.

We rely on highly skilled personnel. If we are unable to retain or motivate them or hire additional qualified personnel, we may not be able to grow effectively.

Our performance and future success depend on the talents and efforts of highly skilled individuals. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization and business operations. Competition in the internet industry for qualified employees is intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees. As competition in the internet industry intensifies, it may be more difficult for us to hire, motivate and retain highly skilled personnel. If we do not succeed in attracting additional highly skilled personnel or retaining or motivating our existing personnel, we may be unable to grow effectively.

Our strategy of investments and acquiring complementary businesses and assets may fail.

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic investments and acquisitions of businesses and assets that complement our existing business. In the past three years, we acquired certain businesses and intangible assets, through several strategic investments and acquisitions, such as our investment in Qunar Cayman Islands Limited, or Qunar, and Qiyi.com, Inc., and our acquisition of the online video business of

PPStream Inc. and acquisition of 91 Wireless Websoft Limited, or 91 Wireless. We intend to make other strategic investments and acquisitions in the future if suitable opportunities arise. Investments and acquisitions involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities, including liability for infringement of third-party copyrights or other intellectual property;

Table of Contents

failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;

costs and difficulties of integrating acquired businesses and managing a larger business;

potentially significant goodwill impairment charges;

high acquisition and financing costs;

possible loss of key employees of a target business;

potential claims or litigation regarding our board s exercise of its duty of care and other duties required under applicable law in connection with any of our significant acquisitions or investments approved by the board; and

diversion of resources and management attention.

Any failure to address these risks successfully may have a material and adverse effect on our financial condition and results of operations. Investments and acquisitions may require a significant amount of capital investment, which would decrease the amount of cash available for working capital or capital expenditures. In addition, if we use our equity securities to pay for investments and acquisitions, we may dilute the value of our ADSs and the underlying ordinary shares. If we borrow funds to finance investments and acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Moreover, acquisitions may also generate significant amortization expenses related to intangible assets. We may also incur impairment charges to earnings for investments and acquired businesses and assets which are determined to be impaired, and recognize the proportional share of the net losses of the investees to the extent of the amount of the investments for the equity method investments.

We are subject to risks and uncertainties faced by companies in a rapidly evolving industry.

We operate in the rapidly evolving internet industry, which makes it difficult to predict our future results of operations. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by companies in evolving industries. Some of these risks and uncertainties relate to our ability to:

maintain our leading position in the Chinese language internet search market;

offer new, innovative products and services and enhance our existing products and services with innovative and advanced technology to attract and retain a larger user base;

attract users continuing use of internet search services;

retain existing customers and attract additional customers and increase spending per customer;

upgrade our technology to support increased traffic and expanded product and service offerings;

further enhance our brand;

respond to competitive market conditions;

respond to evolving user preferences or industry changes;

respond to changes in the regulatory environment and manage legal risks, including those associated with intellectual property rights;

maintain effective control of our costs and expenses;

execute our strategic investments and acquisitions and post-acquisition integrations effectively;

attract, retain and motivate qualified personnel and maintain good relations with a young and growing work force; and

build profitable operations in new markets and other overseas internet search markets we have entered into.

Table of Contents

If we are unsuccessful in addressing any of these risks and uncertainties, our business may be materially and adversely affected.

Our historical growth rate may not be indicative of our future growth rate.

We have experienced substantial growth in recent years. Our total revenues and net income attributable to Baidu, Inc. grew at a compound annual growth rate of 57.8% and 39.1%, respectively, from 2010 to 2014. Our growth was driven in part by the growth in China s internet and online marketing industries, which may not be indicative of future growth or be sustainable. Our past growth rate may not be indicative of our future growth rate.

Our indebtedness could adversely affect our financial condition and our ability to obtain additional capital on reasonable terms when necessary.

As of December 31, 2014, we had an aggregate of US$4.2 billion of outstanding indebtedness that will mature between 2015 and 2022 and we may incur additional indebtedness in the future. Our current and future debt requires us to dedicate a portion of our cash flow to service interest and principal payments and may limit our ability to engage in other transactions. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

We may require additional capital to support our business growth or to respond to business opportunities, challenges or unforeseen circumstances. Our ability to obtain additional capital, if and when required, will depend on our business plans, investor demand, our operating performance, the condition of the capital markets, and other factors, and our indebtedness may limit our ability to borrow additional funds. We may have difficulty incurring new debt on terms that we would consider to be commercially reasonable, if at all. In addition, we may also need to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt.

Our results of operations may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our results of operations may fluctuate as a result of a number of factors, many of which are beyond our control. For these reasons, comparing our results of operations on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenues and costs and expenses as a percentage of our revenues may be significantly different from our historical or projected figures. Our results of operations in future quarters may fall below expectations. Any of these events could cause the price of our ADSs to fall. Any of the risk factors listed in this Risk Factors section, and in particular the following factors, could cause our results of operations to fluctuate from quarter to quarter:

- general economic conditions in China and economic conditions specific to the internet, internet search and online marketing industries;

- our ability to continue to attract users to our websites despite the emergence of mobile applications;

our ability to attract additional customers and increase spending per customer;

the announcement or introduction of new or enhanced products and services by us or our competitors;

the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our businesses, operations and infrastructure;

the results of our acquisitions of, or investments in, other businesses or assets;

Table of Contents

PRC regulations or government actions pertaining to activities on the internet, including various forms of entertainment, online payment and activities otherwise affecting our online marketing customers, and those relating to the new products and services we may introduce from time to time;

unforeseen events, such as negative publicity arising from widespread media coverage and other sources and labor disputes; and

geopolitical events, natural disasters or epidemics.

Because of the rapid growth of our business, our historical results of operations may not be useful to you in predicting our future results of operations. Our user traffic tends to be seasonal. For example, we generally experience less user traffic during public holidays and other special event periods in China. In addition, advertising and other marketing spending in China has historically been cyclical, reflecting overall economic conditions as well as budgeting and buying patterns. Our rapid growth has lessened the impact of the cyclicality and seasonality of our business. As we continue to grow, we expect that the cyclicality and seasonality in our business may cause our results of operations to fluctuate.

A severe and prolonged global economic recession and the slowdown in the Chinese economy may adversely affect our business, results of operations and financial condition.

The global macroeconomic environment is facing challenges, including the escalation of the European sovereign debt crisis since 2011, the end of quantitative easing by the U.S. Federal Reserve and the economic slowdown in the Eurozone in 2014. The Chinese economy has slowed down in recent years. According to the National Bureau of Statistics of China, China s gross domestic product (GDP) growth slowed to 7.4% in 2014. There have been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the possibility of a war involving Ukraine. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any prolonged slowdown in the global or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs. Our customers may reduce or delay spending with us, while we may have difficulty expanding our customer base fast enough, or at all, to offset the impact of decreased spending by our existing customers. In addition, to the extent we offer credit to any customer and the customer experiences financial difficulties due to the economic slowdown, we could have difficulty collecting payment from the customer.

Because we rely to a large extent on distributors in providing our P4P services, failure to retain key distributors or attract additional distributors could materially and adversely affect our business. Moreover, there is no assurance that our direct sales model in some key geographic markets will continue to be successful.

Online marketing is at a development stage in China and is not as widely accepted by or available to businesses in China as in the United States. As a result, we rely, to a large extent, on a nationwide distribution network of third-party distributors for our sales to, and collection of payment from, our P4P customers. If our distributors do not provide quality services to our P4P customers or otherwise breach their contracts with our P4P customers, we may lose customers and our results of operations may be materially and adversely affected. Since most of our distributors are not bound by long-term contracts, we cannot assure you that we will continue to maintain favorable relationships

with them. If we fail to retain our key distributors or attract additional distributors on terms that are commercially reasonable, our business and results of operations could be materially and adversely affected.

We have transitioned to using our direct sales force to serve P4P customers in some key geographic markets, such as Beijing, Shanghai and major cities in Guangdong Province. There is no assurance that our direct

Table of Contents

sales model in those markets will continue to be successful. If we fail to maintain an adequate direct sales force, retain existing customers and continue to attract new customers in those markets, our business, results of operations and prospects could be materially and adversely affected.

We rely on our Baidu Union members for a significant portion of our revenues. If we fail to retain existing Baidu Union members or attract additional members, our revenue growth and profitability may be adversely affected.

We pay Baidu Union members a portion of our revenues based on click-throughs by users of Baidu Union members properties. We consider our Baidu Union critical to the future growth of our revenues. Some of our Baidu Union members, however, may compete with us in one or more areas of our business. Therefore, they may decide in the future to terminate their relationships with us. If our Baidu Union members decide to use a competitor s or their own internet search services, our user traffic may decline, which may adversely affect our revenues. If we fail to attract additional Baidu Union members, our revenue growth may be adversely affected. In addition, if we have to share a larger portion of our revenues to retain existing Baidu Union members or attract additional members, our profitability may be adversely affected.

Our overseas operations may not be successful.

We have started to launch products and services in local languages to internet users in several countries. It is uncertain when the operation will become profitable, if at all. In particular, we rely on local telecommunication operators and service providers to provide us with network services and data center hosting services, and our systems for these international products and services are not redundant across different regions and data centers. Any interruption to the internet infrastructure or any data center may render our products and services in the region unavailable.

We face certain risks inherent in doing business internationally, including:

- difficulties in developing, staffing and simultaneously managing a foreign operation as a result of distance, language and cultural differences;
- longer customer payment cycles;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- unexpected changes in laws or regulations;
- severe natural disasters; and
- potentially adverse tax consequences.

One or more of these factors could harm our overseas operations and consequently, could harm our overall results of operations.

If we are unable to adapt or expand our existing technology infrastructure to accommodate greater traffic, content or additional customer requirements, our business may be harmed.

Our *Baidu.com* website regularly serves a large number of users and customers and delivers a large number of daily page views. Our technology infrastructure is highly complex and may not provide satisfactory service in the future, especially as the number of users and customers increases. We may be required to upgrade our technology infrastructure to keep up with the increasing traffic on our *Baidu.com* website, such as increasing the capacity of our servers and the sophistication of our software. If we fail to adapt our technology infrastructure to accommodate greater traffic or customer requirements, our users and customers may become dissatisfied with our services and switch to our competitors websites, which could harm our business.

Table of Contents

If we fail to detect fraudulent click-throughs, our customers confidence in us could be damaged and our revenues could decline.

We are exposed to the risk of click-through fraud on our paid search results. Click-through fraud occurs when a person clicks paid search results for a reason other than to view the underlying content of search results. If we fail to detect fraudulent clicks or otherwise are unable to prevent this fraudulent activity, the affected customers may experience a reduced return on investments, or ROI, in our online marketing services and lose confidence in the integrity of our systems, and we may have to issue refunds to our customers. If this happens, we may be unable to retain existing customers or attract new customers for our online marketing services, and our online marketing revenues could decline. In addition, affected customers may also file legal actions against us claiming that we have over-charged or failed to refund them. Any such claims or similar claims, regardless of their merits, could be time-consuming and costly for us to defend against and could also adversely affect our brand and our customers confidence in the integrity of our systems.

The successful operation of our business depends upon the performance and reliability of the internet infrastructure and fixed telecommunications networks in China.

Our business depends on the performance and reliability of the internet infrastructure in China. Almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. In addition, the national networks in China are connected to the internet through international gateways controlled by the PRC government. These international gateways are the only channels through which a domestic user can connect to the internet. It is unpredictable whether a more sophisticated internet infrastructure will be developed in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China s internet infrastructure. In addition, the internet infrastructure in China may not support the demands associated with continued growth in internet usage.

We rely heavily on China Telecommunications Corporation, or China Telecom, China United Network Communications Group Company Limited, or China Unicom, and China Mobile Communications Corporation, or China Mobile, to provide us with network services and data center hosting services. We have entered into contracts with various local branches or subsidiaries of China Telecom, China Unicom and China Mobile to obtain data communications capacity. We have limited access to alternative services in the event of disruptions, failures or other problems with the fixed telecommunications networks of these companies, or if these companies otherwise fail to provide the services. In May 2014, the service of our Baidu Yun was inaccessible to some users for approximately four hours due to a failure of the internet infrastructure. Any unscheduled service interruption could damage our reputation and result in a decrease in our revenues. Furthermore, we have no control over the costs of the services provided by these telecommunication companies. If the prices that we pay for telecommunications and internet services rise significantly, our gross margins could be adversely affected. In addition, if internet access fees or other charges to internet users increase, our user traffic may decrease, which in turn may harm our revenues.

Failure of information security could subject us to penalties, damage our reputation and brand, and harm our business and results of operations.

The internet industry is facing significant challenges regarding information security and privacy, including the storage, transmission and sharing of confidential information. We transmit and store over our systems confidential and private information of our users, customers, distributors and Baidu Union members, such as personal information, including names, user IDs and passwords, and payment or transaction related information. We are required by PRC law to ensure the confidentiality, integrity, availability and authenticity of the information of our users, customers,

distributors and Baidu Union members, which is also essential to maintain their confidence in our online products and services.

Table of Contents

We have adopted strict information security policies and deployed advanced measures to implement the policies, including, among others, advanced encryption technologies. However, advances in technology, increased level of sophistication and diversity of our products and services, increased level of expertise of hackers, new discoveries in the field of cryptography or others could still result in a compromise or breach of the measures that we use. Because of our leading market position in the internet industry in China, we believe we are a particularly attractive target for security breaches and hacking attacks. We have experienced in the past, and may experience in the future, such attacks. In December 2012, the Standing Committee of the PRC National People s Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision also requires internet operators to take measures to ensure confidentiality of information of users. In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users personal information in the provision of telecommunication service and internet information service in China. However, the effect of these laws on curbing hacking and other illegal online activities still remains to be seen. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. If we are unable to protect our systems, hence the information stored in our systems, from unauthorized access, use, disclosure, disruption, modification or destruction, such problems or security breaches could cause loss or give rise to our liabilities to the owners of confidential information, such as our users, customers, distributors and Baidu Union members, subject us to penalties imposed by administrative authorities, and disrupt our operations. Any negative publicity on our website s safety or privacy protection mechanism and policy could also have a material and adverse effect on reputation and brand and harm our business and results of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may lose investor confidence in the reliability of our financial statements.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on the company s internal control over financial reporting in its annual report, which contains management s assessment of the effectiveness of our internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. We have been subject to these requirements since the fiscal year ended December 31, 2006.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2014. See Item 15. Controls and Procedures. Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting was effective in all material aspects as of December 31, 2014. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

We have limited business insurance coverage.

The insurance industry in China is still at a relatively early stage of development. Insurance companies in China offer limited business insurance products. We do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption may result in our incurring substantial costs and the diversion of our resources.

18

Table of Contents

We face risks related to health epidemics, severe weather conditions and other outbreaks.

Our business could be adversely affected by the effects of avian influenza, severe acute respiratory syndrome (SARS), the influenza A virus, Ebola virus, severe weather conditions or other epidemic or outbreak. Health or other government regulations adopted in response to an epidemic, severe weather conditions such as snow storm, flood or hazardous air pollution, or other outbreaks may require temporary closure of our offices or internet cafes where many users access our websites. Such closures may disrupt our business operations and adversely affect our results of operations.

Risks Related to Our Corporate Structure

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in PRC laws and regulations or changes in interpretations thereof may materially and adversely affect our business.

The PRC government restricts or imposes conditions on foreign investment in internet, online advertising, online audio and video services and mobile application distribution businesses. We and our PRC subsidiaries are considered foreign persons or foreign-invested enterprises under PRC foreign investment related laws. As a result, we and our PRC subsidiaries are subject to PRC legal restrictions on or conditions for foreign ownership of internet, online advertising, online audio and video services and mobile application distribution businesses. Due to these restrictions and conditions, we operate our websites and conduct online advertising, online audio and video services and mobile application distribution businesses in China through our consolidated affiliated entities. As all the nominee shareholders of our consolidated affiliated entities are either PRC citizens or PRC domestic enterprises, these entities are therefore considered as PRC domestic enterprises under PRC law. The nominee shareholders refer to those shareholders who have pledged their equity interest in our consolidated affiliated entities to us and entered into exclusive equity purchase and transfer option agreements with us as part of the contractual arrangements. Our contractual arrangements with our consolidated affiliated entities and the nominee shareholders allow us to have the power to direct the activities of these entities that most significantly impact their economic performance. These contractual arrangements demonstrate our ability and intention to continue to exercise the ability to absorb substantially all of the profits and the expected losses of the affiliated entities. In 2012, 2013 and 2014, we derived approximately 29%, 28% and 27% of our total revenues, respectively, from our consolidated affiliated entities through contractual arrangements.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our consolidated affiliated entities, including but not limited to Baidu Netcom and the nominee shareholders. These laws and regulations may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

Although we believe we comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. The PRC government has broad discretion in determining penalties for violations of laws and regulations. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement

actions against us that could be harmful to our business. Any of these or similar occurrences could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of our

Table of Contents

consolidated affiliated entities that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of our consolidated affiliated entities, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

If the PRC government were to classify P4P services as a form of online advertising or as part of internet content services, our effective tax rate may increase and we might be subject to sanctions and required to pay delinquent taxes.

PRC laws and regulations and administrative authorities currently do not classify P4P services as a form of online advertising or as part of internet content services that require an ICP license, or ICP services. However, we cannot assure you that the PRC government will not classify P4P services as a form of online advertising or as part of ICP services in the future. If new regulations characterize P4P services as a form of online advertising or as part of ICP services, our tax liability may increase, given the advertising revenues are subject to a 3% construction fee for culture undertakings in addition to the 6% value-added tax, or VAT, which has replaced the original 5% business tax for advertising revenues. See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxation for more information on PRC business tax and VAT. Moreover, if the change in classification of P4P services were to be retroactively applied, we might be subject to sanctions, including payment of delinquent taxes and fines. In addition, the classification of P4P services as a form of online advertising could subject us to an obligation to examine the content of our P4P customers listings on our websites and the associated risks. See Risks Related to Our Business We have been and may again be subject to claims based on the content found on our websites or the results in our paid search listings. Such examinations could be burdensome and increase our operating costs and expenses. Any change in the classification of P4P by the PRC government may materially and adversely affect our business, results of operations and financial condition.

Our contractual arrangements with our consolidated affiliated entities in China and the individual nominee shareholders may not be as effective in providing control over these entities as direct ownership.

Since PRC law restricts or imposes conditions on foreign equity ownership in internet, online advertising, online audio and video services and mobile application distribution companies in China, we operate our websites and conduct our online advertising, online audio and video services and mobile application distribution businesses through our consolidated affiliated entities in China. We have no equity interest in any of these entities and must rely on contractual arrangements to control and operate the businesses and assets held by our consolidated affiliated entities, including the domain names and trademarks that have been transferred from our subsidiaries to our consolidated affiliated entities in accordance with requirements of PRC law. These contractual arrangements may not be as effective in providing control over these entities as direct ownership. For example, our consolidated affiliated entities and the individual nominee shareholders could breach their contractual arrangements with us by, among other things, failing to operate our business, such as using the domain names and trademarks our subsidiaries have transferred to them or maintaining our websites, in an acceptable manner or taking other actions that are detrimental to our interests. If our consolidated affiliated entities or the individual nominee shareholders fail to perform their obligations under these contractual arrangements, we may have to incur substantial costs to enforce such arrangements, and rely on legal remedies under PRC law, including contract remedies, which may not be sufficient or effective. If we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of our consolidated affiliated entities, and we may lose control over the assets owned by our consolidated affiliated entities, including our *baidu.com* domain name and website, and any other domain names and websites we have access to may not attract a large number of users and customers at the same level as *baidu.com*. As a result, our ability to conduct our business may be materially and adversely affected, and we may not be able to consolidate the financial results of the relevant affiliated entities into our consolidated financial statements

in accordance with U.S. GAAP, which may materially and adversely affect our results of operations and damage our reputation.

Table of Contents

Our contractual arrangements with our consolidated affiliated entities in China may result in adverse tax consequences to us.

As a result of our corporate structure and the contractual arrangements between our subsidiaries and each of our consolidated affiliated entities in China, we are subject to VAT at a rate of 6% as a result of the pilot VAT reform program on both revenues generated by our consolidated affiliated entities operations in China and revenues derived from our subsidiaries contractual arrangements with these consolidated affiliated entities. Where our consolidated affiliated entity is qualified as a VAT general taxpayer, the VAT charged by our subsidiaries on the revenues obtained from such consolidated affiliated entity based on the contractual arrangement between our subsidiaries and such consolidated affiliated entity will constitute input VAT for the consolidated affiliated entity, and will be creditable against output VAT arising in connection with VAT taxable activities carried out by the consolidated affiliated entity. See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxation for more information on the pilot VAT reform program. Moreover, we would be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between our subsidiaries and these consolidated affiliated entities were not on an arm s-length basis and therefore constituted a favorable transfer pricing. Under the PRC Enterprise Income Tax Law, or the EIT Law, an enterprise must submit its annual tax return together with information on related-party transactions to the PRC tax authorities. The PRC tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm s-length principles. For example, the PRC tax authorities could request that our consolidated affiliated entities adjust their taxable income upward for PRC tax purposes. Such adjustment could adversely affect us by increasing our consolidated affiliated entities tax expenses without reducing our subsidiaries tax expenses, which could subject our consolidated affiliated entities to interest due on late payments and other penalties for under-payment of taxes.

We may have exposure to greater than anticipated tax liabilities.

We are subject to enterprise income tax, or EIT, business tax, VAT, and other taxes in many provinces and cities in China and our tax structure is subject to review by various local tax authorities. The determination of our provision for income tax and other tax liabilities requires significant judgment. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. For example, under the EIT Law, the PRC tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm s-length principles. Particularly, the State Administration of Tax issued a Public Notice, or Public Notice 16, on March 18, 2015, to further regulate and strengthen the transfer pricing administration on outbound payments by a PRC enterprise to its overseas related parties. In addition to emphasizing that outbound payments by a PRC enterprise to its overseas related parties must comply with arm s-length principles, Public Notice 16 specifies certain circumstances whereby such payments are not deductible for the purpose of the enterprise income tax of the PRC enterprise, including payments to an overseas related party which does not undertake any function, bear any risk or has no substantial operation or activities, payments for services which do not enable the PRC enterprise to obtain direct or indirect economic benefits, or for services that are unrelated to the functions and risks borne by the PRC enterprise, or relate to the protection of the investment interests of the direct or indirect investor of the PRC enterprise, or for services that have already been purchased from a third party or undertaken by the PRC enterprise itself, and royalties paid to an overseas related party which only owns the legal rights of the intangible assets but has no contribution to the creation of such intangible assets. Although we believe all our related party transactions, including all payments by our PRC subsidiaries and consolidated affiliated entities to our non-PRC entities, are made on an arm s-length basis and our estimates are reasonable, the ultimate decisions by the relevant tax authorities may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

21

Table of Contents

The individual nominee shareholders of our consolidated affiliated entities may have potential conflicts of interest with us, which may adversely affect our business. We do not have any arrangements in place to address such potential conflicts.

We have designated individuals who are PRC nationals to be the nominee shareholders of our consolidated affiliated entities in China. For example, Robin Yanhong Li, our chairman, chief executive officer and co-founder, is also the principal nominee shareholder of Baidu Netcom, which is our principal consolidated affiliated entity.

Although the individual nominee shareholders are contractually obligated to act in good faith and in our best interest, they may still have potential conflicts of interest with us. For example, some individual nominee shareholders of our consolidated affiliated entities do not have a significant equity stake in our company other than the share options granted to them. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or such conflicts will be resolved in our favor. In addition, these individuals may breach, cause our consolidated affiliated entities to breach or refuse to renew, the existing contractual arrangements with us. Currently, we do not have any arrangements to address potential conflicts of interest between these individuals and our company, except that we could exercise our transfer option under the exclusive equity purchase and transfer option agreement with the relevant individual nomine shareholder to request him/her to transfer all of his/her equity ownership in the relevant consolidated affiliated entity to a PRC entity or individual designated by us. We rely on Mr. Robin Yanhong Li, who is also a director of our company, to abide by the Cayman Islands law, which provides that directors owe a fiduciary duty to the company, and those who are also directors or officers of our PRC subsidiaries to abide by PRC law, which provides that directors and officers owe a fiduciary duty to the company. Such fiduciary duty requires directors and/or officers to act in good faith and in the best interests of the company and not to use their positions for personal gains. There are, however, no specific provisions under the Cayman Islands or PRC law on how to address potential conflicts of interest. If we cannot resolve any conflict of interest or dispute between us and the individual nominee shareholders of our consolidated affiliated entities, we would have to rely on legal proceedings, which could disrupt our business, distract management and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

We may be unable to collect long-term loans to the nominee shareholders of our consolidated affiliated entities in China.

As of the date of this annual report, we have made long-term loans in an aggregate principal amount of RMB2.1 billion (US$343.9 million) to the nominee shareholders of our consolidated affiliated entities. We extended these loans to enable the nominee shareholders to fund the capitalization of these entities. As of the date of this annual report, all of the registered capital of our consolidated affiliated entities in China has been fully funded. We may in the future provide additional loans to the nominee shareholders of our consolidated affiliated entities in China in connection with any increase in their capitalization to the extent necessary and permissible under applicable law. Our ability to ultimately collect these loans will depend on the profitability of these consolidated affiliated entities and their operational needs, which are uncertain.

We are in the process of registering the pledges of equity interests by nominee shareholders of some of our consolidated affiliated entities, and we may not be able to enforce the equity pledges against any third parties who acquire the equity interests in good faith in the relevant consolidated affiliated entities before the pledges are registered.

The nominee shareholders of each of our consolidated affiliated entities have pledged all of their equity interests in the relevant consolidated affiliated entities to our subsidiaries. An equity pledge agreement becomes effective among the parties upon execution. However, according to the PRC Property Rights Law, an equity pledge is not perfected as a

security property right unless it is registered with the relevant local administration for industry and commerce. The pledge relating to each of Baidu Netcom and Beijing BaiduPay Science and

Table of Contents

Technology Co., Ltd., or BaiduPay, has been registered with the relevant local administration for industry and commerce, while we are in the process of registering the pledge of the registered capital of Beijing Perusal Technology Co., Ltd., or Beijing Perusal, relating to recent increase of its registered capital. Prior to the completion of the registration, we may not be able to successfully enforce the equity pledge against any third parties who have acquired property right interests in good faith in the equity interests in the relevant consolidated affiliated entities.

Risks Related to Doing Business in China

Changes in China s economic, political or social conditions or government policies could have a material and adverse effect on our business and operations.

Most of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are affected by economic, political and social conditions in China generally and by continued economic growth in China as a whole.

China s economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development. The Chinese government also exercises significant control over China s economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

Growth of China s economy has been uneven, both geographically and among various sectors of the economy. Since 2012, growth of the Chinese economy has slowed down. Some of the government measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. Any stimulus measures designed to boost the Chinese economy, may contribute to higher inflation, which could adversely affect our results of operations and financial condition. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China for the past decades. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. The following are a few examples:

China enacted the Anti-Monopoly Law, which became effective on August 1, 2008. Because the Anti-Monopoly Law and the related regulations are still new, and there have been very few court rulings and

Table of Contents

judicial or administrative interpretations on certain key concepts used in the law, it is uncertain how the implementation and enforcement of the Anti-Monopoly Law and the related regulations would affect our business.

The PRC Tort Liability Law became effective on July 1, 2010. In accordance with the Tort Liability Law, where an internet service provider is informed or knows that an internet user is infringing upon other persons rights and interests through its internet service but fails to take necessary actions, it will be jointly and severally liable with the internet user as to the damages suffered by the right holders as a result of the infringing activity known to the internet service provider. The interpretation of the applicability and enforceability of the Tort Liability Law on internet search providers remain uncertain, thus we are not sure how it would affect our business.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all. As a result, we may not be aware of our potential violation of these policies and rules. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet business and companies.

The PRC government regulates the internet industry extensively, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, under certain circumstances it may be difficult to determine what actions or omissions may be deemed to be violations of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the internet industry include, but are not limited to, the following:

We only have contractual control over our websites. We do not own the websites due to the restriction of foreign investment in businesses providing value-added telecommunications services in China, including online information services.

The licensing requirements relating to the internet business in China are uncertain and evolving. This means that permits, licenses or operations at some of our PRC subsidiaries and consolidated affiliated entities may be subject to challenge, or we may not be able to obtain or renew certain permits or licenses, including without limitation, a Value-Added Telecommunication Business Operating License, which is issued by the MIIT, an Internet News License, which is issued by the State Council News Office, an Internet Culture Business Permit with the permitted scope of business covering online game operation and online game virtual currency issuance or trading, which is issued by the Ministry of Culture, an Online Audio/Video Program Transmission License, which is issued by the State Administration of Radio Film and Television, or the SARFT (which was consolidated with the General Administration of Press and Publication, or the GAPP, and is currently known as the State Administration of Press Publication, Radio, Film and Television, or the SAPPRFT), an Internet Publication License, which is issued by the GAPP (which was consolidated with the SARFT and is currently known as the SAPPRFT), a Surveying and Mapping Qualification Certificate for internet map services, which is issued by the National Administration of Surveying, Mapping and Geoinformation (formerly known as the State Bureau of Surveying and Mapping), a Payment Service

Permit, which is issued by the People s Bank of China, and a Qualification Certificate for Internet Drug Information Services, which is issued by provincial branch of the State Food and Drug Administration. Failure to obtain or renew these permits and licenses may significantly disrupt our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us.

New laws and regulations may be promulgated to regulate internet activities, including online advertising and online payment. Other aspects of our online operations may be regulated in the future.

Table of Contents

If these new laws and regulations are promulgated, additional licenses may be required for our online operations. If our operations do not comply with these new regulations at the time they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.

We provide value-added telecommunications services through our consolidated affiliated entities, which hold the required licenses. In July 2006, the MIIT issued the Notice of the Ministry of Industry and Information Technology on Intensifying the Administration of Foreign Investment in Value-Added Telecommunications Services. This notice prohibits domestic telecommunication service providers from leasing, transferring or selling telecommunication business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunication business in China. According to this notice, either the holder of a Value-Added Telecommunication Business Operating License or its shareholders must directly own the domain names and trademarks used by the license holder in its provision of value-added telecommunications services. The notice also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain these facilities in the regions covered by its license. Baidu Netcom, Beijing Perusal and BaiduPay, our consolidated affiliated entities, own the necessary domain names and trademarks, including pending trademark applications and have the necessary personnel and facilities to operate our websites.

We offer online games provided by our game operator partners on our websites owned and operated by our consolidated affiliated entities. We have also acquired 91 Wireless, which operates two leading smartphone application distribution platforms in China as well as a mobile game platform through its consolidated affiliated entities. In September 2009, the GAPP (currently known as the SAPPRFT) together with several other government agencies issued a notice, or the Circular 13, prohibiting foreign investors from participating in online game operating businesses through wholly-owned enterprises, equity joint ventures or cooperative joint ventures in China. Circular 13 expressly prohibits foreign investors from gaining control over or participating in PRC operating companies online game operations through indirect means, such as establishing joint venture companies, entering into contractual arrangements with or providing technical support to the operating companies, or through a disguised form, such as incorporating user registration, user account management or payment through game cards into online game platforms that are ultimately controlled or owned by foreign investors. Other government agencies that also have the authority to regulate online game operations in China, such as the Ministry of Culture and the MIIT, did not join the GAPP in issuing the Circular 13. To date, neither the GAPP nor the SAPPRFT has issued any interpretation of the Circular 13. Due to the ambiguity among various regulations on online games and a lack of interpretations from the relevant PRC authorities governing online game operations, there are uncertainties regarding whether PRC authorities would consider our relevant contractual arrangements to be foreign investment in online game operation businesses. While we are not aware of any online game companies which use the same or similar contractual arrangements as ours having been penalized or ordered to terminate operation by PRC authorities claiming that the contractual arrangements constitute control over, or participation in, the operation of online game operations through indirect means, it is unclear whether and how the various regulations of the PRC authorities might be interpreted or implemented in the future. If our relevant contractual arrangements were deemed to be indirect means or disguised form under the Circular 13, the relevant contractual arrangements may be challenged by the SAPPRFT or other governmental authorities. If we were found to be in violation of the Circular 13 to operate our mobile game platform, the SAPPRFT, in conjunction with relevant regulatory authorities, would have the power to investigate and deal with such violations, including in the most serious cases, suspending or revoking the relevant licenses and registrations. If we were found to be in violation of any existing or future PRC laws or regulations, including the MIIT notice and the Circular 13, the relevant regulatory authorities would have broad discretion in dealing with such violations.

As we enter into new businesses, we may encounter additional regulatory uncertainties. For example, it remains unclear whether the provision of online payment services by BaiduPay will require BaiduPay to apply for a Value-Added Telecommunication Business Operating License for online data processing and transaction

25

Table of Contents

processing businesses as provided in the Catalog of Telecommunication Businesses promulgated by the MIIT. BaiduPay, however, has applied for this Value-Added Telecommunication Business Operating License for online data processing and transaction processing businesses. In addition, in March 2014, according to reports on certain websites, the People s Bank of China has formulated a draft of the Administrative Measures on the Online Payment Business of Payment Institutions for the purpose of soliciting opinions from selected groups on certain proposed changes to laws relating to online payments, such as the imposition of limits on the amounts that can be paid for consumption purposes from online payment accounts opened with online payment institutions. There are substantial uncertainties as to if and when the draft administrative measures will be adopted into law and what further changes will be made to such measures prior to or during such adoption. If the draft administrative measures are adopted into law in the future, our Baidu Wallet business may be adversely affected.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business.

Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Ministry of Commerce is currently soliciting comments on this draft and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of actual control in determining whether a company should be treated as a foreign-invested enterprise, or an FIE. According to the definition set forth in the draft Foreign Investment Law, FIEs refer to enterprises established in China pursuant to PRC law that are solely or partially invested by foreign investors. The draft Foreign Investment Law specifically provides that entities established in China (without direct foreign equity ownership) but controlled by foreign investors, through contract or trust for example, will be treated as FIEs. Once an entity falls within the definition of FIE, it may be subject to foreign investment restrictions or prohibitions set forth in a negative list to be separately issued by the State Council later. If an FIE proposes to conduct business in an industry subject to foreign investment restrictions in the negative list, the FIE must go through a market entry clearance by the Ministry of Commerce before being established. If an FIE proposes to conduct business in an industry subject to foreign investment prohibitions in the negative list, it must not engage in the business. However, an FIE, during the market entry clearance process, may apply in writing to be treated as a PRC domestic enterprise if its foreign investor(s is/are ultimately controlled by PRC government authorities and its affiliates and/or PRC citizens. In this connection, control is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% of more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders meeting or other equivalent decision making

bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity s operations, financial matters or other key aspects of business operations.

Table of Contents

The variable interest entity structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See Risks Related to Our Corporate Structure and Our Corporate History and Structure. Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately controlled by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is included in the negative list as restricted industry, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC government authorities and its affiliates or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the negative list without market entry clearance may be considered as illegal.

Through our dual-class share structure, Mr. Robin Yanhong Li, our chairman, chief executive officer and principal shareholder, a PRC citizen, possessed and controlled 53.6% of the voting power of our company as of February 28, 2015. The draft Foreign Investment Law has not taken a position on what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties, while it is soliciting comments from the public on this point. Moreover, it is uncertain whether the internet, online advertising, online audio and video services and mobile application distribution businesses, in which our variable interest entities operate, will be subject to the foreign investment restrictions or prohibitions set forth in the negative list to be issued. If the enacted version of the Foreign Investment Law and the final negative list mandate further actions, such as Ministry of Commerce market entry clearance, to be completed by companies with existing VIE structure like us, we face uncertainties as to whether such clearance can be timely obtained, or at all.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and subject us to liability for information displayed on or linked to our websites and negative publicity in international media.

The PRC government has adopted regulations governing internet access and distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is reactionary, obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements may result in the revocation of licenses to provide internet content and other licenses and the closure of the concerned websites. In the past, failure to comply with these requirements has resulted in the closure of certain websites. The website operator may also be held liable for the censored information displayed on or linked to the website.

In particular, the MIIT has published regulations that subject website operators to potential liability for content displayed on their websites and the actions of users and others using their systems, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local internet service provider to block any internet website at its sole

discretion. From time to time, the Ministry of Public Security has stopped the dissemination over the internet of information which it believes to be socially destabilizing. The State

Table of Contents

Secrecy Bureau is also authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the dissemination of online information. Furthermore, we are required to report any suspicious content to relevant governmental authorities, and to undergo computer security inspections. If we fail to implement the relevant safeguards against security breaches, our websites may be shut down and our business and ICP licenses may be revoked. In addition, internet companies that provide bulletin board systems (BBS), chat rooms or similar services must apply for approval from relevant authorities in practice.

Although we attempt to monitor the content in our search results and on our online communities such as Baidu Post Bar, we are not able to control or restrict the content of other internet content providers linked to or accessible through our websites, or content generated or placed on our Baidu Post Bar message boards or our other online communities by our users. To the extent that PRC regulatory authorities find any content displayed on our websites illegal, they may require us to limit or eliminate the dissemination of such information on our websites. To the extent that PRC regulatory authorities find any content displayed on our websites objectionable, they may suggest that we limit or eliminate the dissemination of such information on our websites. If third-party websites linked to or accessible through our websites conduct unlawful activities such as online gambling on their websites, PRC regulatory authorities may require us to report such unlawful activities to relevant authorities and to remove the links to such websites, or they may suspend or shut down the operation of these third-party websites. PRC regulatory authorities may also temporarily block access to certain websites for a period of time for reasons beyond our control. Any of these actions may reduce our user traffic and adversely affect our business. In addition, we may be subject to penalties for violations of those regulations arising from information displayed on or linked to our websites, including a suspension or shutdown of our online operations.

Moreover, our compliance with PRC regulations governing internet access and distribution of news and other information over the internet may subject us to negative publicity or even legal actions outside of China. In May 2011, eight New York residents filed a lawsuit against us before the U.S. District Court for the Southern District of New York accusing us of aiding Chinese censorship in violation of the U.S. Constitution. In March 2014, the U.S. District Court for the Southern District of New York granted our motion for judgment on the pleadings based upon the First Amendment to the U.S. Constitution and dismissed the plaintiffs complaint in its entirety. Even though we have won the case, our reputation may be adversely affected among users and investors outside of China.

A notice issued by the Ministry of Culture in August 2009 may affect our online music services.

In August 2009, the Ministry of Culture promulgated the Notice on Strengthening and Improving the Content Review of Online Music, which provides, among others, that only internet culture operating entities approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. In addition, it is required that imported music products must pass prior content review by the Ministry of Culture before they are put on internet and domestic music products must be filed with the Ministry of Culture within 30 days after the commencement date of the online operation of the domestic music products. We hold an Internet Culture Business Permit granted by the Ministry of Culture, which allows us to engage in internet culture activities as defined in the relevant regulations promulgated by the Ministry of Culture. See Item 4.B. Information on the Company Business Overview Regulation Regulations on Internet Culture Activities. We provide music for users to stream and download on our platform and we have obtained licenses from many content providers. We have been communicating with the government authority in order to comply with the review or filing requirement. If we are found by the Ministry of Culture to have failed to fully comply with the requirements of this notice, we could be subject to administrative penalties, including an order to stop providing the music products that have not been reviewed by or filed with the Ministry of Culture, fines, or confiscation of income derived from activities deemed in violation of the notice. Any of these occurrences could adversely affect our business and results of operations.

28

Table of Contents

The discontinuation of any of the preferential income tax treatments currently available to us in the PRC could have a material and adverse effect on our result of operations and financial condition.

Pursuant to the EIT Law, as further clarified by subsequent tax regulations implementing the EIT Law, foreign-invested enterprises and domestic enterprises are subject to EIT at a uniform rate of 25%. Certain enterprises may still benefit from a preferential tax rate of 15% under the EIT Law if they qualify as High and New Technology Enterprises strongly supported by the state, subject to certain general factors described in the EIT Law and the related regulations.

A number of our PRC subsidiaries and consolidated affiliated entities, such as Baidu Online Network Technology (Beijing) Co., Ltd., or Baidu Online, and Baidu Netcom are entitled to enjoy a preferential tax rate of 15% due to their qualification as High and New Technology Enterprise , which has a term of three years. If any or some of these PRC subsidiaries and consolidated affiliated entities fail to maintain the High and New Technology Enterprise qualification, their applicable EIT rate will be up to 25%. Furthermore, Baidu Online obtained the certificate of Key Software Enterprise jointly issued by the National Development and Reform Commission, the MIIT, the Ministry of Commerce, the Ministry of Finance and the State Administration of Taxation in April 2013, which entitled it to enjoy a preferential income tax rate of 10% for 2011 and 2012, and successfully re-applied for and obtained the certificate of Key Software Enterprise in December 2013, which entitled it to enjoy a preferential income tax rate of 10% for 2013 and 2014. Baidu Online s Key Software Enterprise certificate and the related tax holiday expired on January 1, 2015. Baidu Online is in the process of re-applying for the Key Software Enterprise status for 2015 and 2016. There is no assurance that Baidu Online will continue to be granted the Key Software Enterprise status. See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxation PRC Enterprise Income Tax.

The discontinuation of any of the above-mentioned preferential income tax treatments currently available to us in the PRC could have a material and adverse effect on our result of operations and financial condition. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

If our PRC subsidiaries declare and distribute dividends to their respective offshore parent companies, we will be required to pay more taxes, which could have a material and adverse effect on our result of operations.

Under the EIT Law and related regulations, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors, and proceeds from any such foreign enterprise investor s disposition of assets (after deducting the net value of such assets) are subject to a 10% withholding tax, unless the foreign enterprise investor s jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. Undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 are exempted from any withholding tax. The British Virgin Islands, where Baidu Holdings Limited, the direct parent company of our PRC subsidiary Baidu Online, is incorporated, does not have such a tax treaty with China. Hong Kong has a tax arrangement with China that provides for a 5% withholding tax on dividends subject to certain conditions and requirements, such as the requirement that the Hong Kong resident enterprise own at least 25% of the PRC enterprise distributing the dividend at all times within the 12-month period immediately preceding the distribution of dividends and be a beneficial owner of the dividends. For example, Baidu (Hong Kong) Limited, which directly owns our PRC subsidiaries Baidu China and Baidu Times, is incorporated in Hong Kong. However, if Baidu (Hong Kong) Limited is not considered to be the beneficial owner of dividends paid to it by Baidu China and Baidu Times under the tax circulars promulgated in February and October 2009, such dividends would be subject to withholding tax at a rate of 10%. See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxation PRC Enterprise Income Tax. If our PRC subsidiaries declare and distribute profits earned after January 1, 2008 to us in the future, such payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company.

29

Table of Contents

We may be deemed a PRC resident enterprise under the EIT Law, which could subject us to PRC taxation on our global income, and which may have a material and adverse effect on our results of operations.

Under the EIT Law and related regulations, an enterprise established outside of the PRC with de facto management body within the PRC is considered a PRC resident enterprise and is subject to the EIT at the rate of 25% on its worldwide income as well as PRC EIT reporting obligations. The related regulations define the term de facto management body as the establishment that exercises substantial and overall management and control over the production, business, personnel, accounts and properties of an enterprise. The State Administration of Taxation issued a SAT Circular 82 in April 2009, which provides certain specific criteria for determining whether the de facto management body of a Chinese-controlled overseas-incorporated enterprise is located in China. The State Administration of Taxation issued additional rules to provide more guidance on the implementation of SAT Circular 82 in July 2011, and issued an amendment to SAT Circular 82 delegating the authority to its provincial branches to determine whether a Chinese-controlled overseas-incorporated enterprise should be considered a PRC resident enterprise, in January 2014. See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxation PRC Enterprise Income Tax. Although the SAT Circular 82, the additional guidance and amendment apply only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals or foreigners, the criteria set forth in SAT Circular 82 may reflect the State Administration of Taxation s general position on how the de facto management body test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If we are deemed a PRC resident enterprise, we may be subject to the EIT at 25% on our global income, except that the dividends we receive from our PRC subsidiaries may be exempt from the EIT to the extent such dividends are deemed as dividends among qualified PRC resident enterprises. If we are deemed a PRC resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Under PRC tax laws, dividends payable by us and gains on the disposition of our shares or ADSs may be subject to PRC taxation.

If we are considered a PRC resident enterprise under the EIT Law, our shareholders and ADS holders who are deemed non-resident enterprises may be subject to the EIT at the rate of 10% upon the dividends payable by us or upon any gains realized from the transfer of our shares or ADSs, if such income is deemed derived from China, provided that (i) such foreign enterprise investor has no establishment or premises in China, or (ii) it has establishment or premises in China but its income derived from China has no real connection with such establishment or premises. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC resident enterprise shareholders and ADS holders, or if any gains realized from the transfer of our shares or ADSs by our non-PRC resident enterprise shareholders and ADS holders are subject to the EIT, your investment in our shares or ADSs could be materially and adversely affected.

Furthermore, if we are considered a PRC resident enterprise and relevant PRC tax authorities consider dividends we pay with respect to our shares or ADSs and the gains realized from the transfer of our shares or ADSs to be income derived from sources within the PRC, it is possible that such dividends and gains earned by non-resident individuals may be subject to PRC individual income tax at a rate of 20%. If we are required under PRC tax laws to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident individuals or if you are required to pay PRC income tax on the transfer of our shares or ADSs, the value of your investment in our shares or ADSs may be materially and adversely affected.

Our subsidiaries and consolidated affiliated entities in China are subject to restrictions on paying dividends and making other payments to our holding company.

Baidu, Inc. is our holding company incorporated in the Cayman Islands and does not conduct any business operations other than holding equity interests in our subsidiaries. As a result of the holding company structure, it currently relies on dividend payments from our subsidiaries in China. However, PRC regulations currently permit

Table of Contents

payment of dividends only out of accumulated profits, as determined in accordance with PRC accounting standards and regulations. Our subsidiaries and consolidated affiliated entities in China are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of foreign currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See Governmental control of currency conversion may affect the value of your investment. Furthermore, if our subsidiaries or consolidated affiliated entities in China incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If our subsidiaries and consolidated affiliated entities in China are unable to pay dividends or make other payments to us, we may be unable to pay dividends on our ordinary shares and ADSs.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign currency out of China. We receive most of our revenues in RMB. Under our current structure, our income at the Cayman Islands holding company level will primarily be derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders or ADS holders.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries or consolidated affiliated entities, or making additional capital contributions to our PRC subsidiaries, which could adversely affect our ability to fund and expand our business.

Baidu, Inc. is our offshore holding company conducting operations in China through our PRC subsidiaries and consolidated affiliated entities. We may make loans to our PRC subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Loans by Baidu, Inc. or any of our offshore subsidiaries to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. Such loans to any of our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested enterprise is the difference between the amount of total investment as approved by the Ministry of Commerce or its local counterpart and the amount of registered capital of such foreign-invested enterprise. Any medium or long-term loans by Baidu, Inc. or any of our offshore subsidiaries to our consolidated affiliated entities, which are domestic PRC entities, must be approved by the National Development and Reform Commission and SAFE, or their relevant local counterparts. We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce or its local counterpart. Meanwhile, we are not likely to finance the activities of our consolidated affiliated entities by means of capital contributions given the PRC legal restrictions on foreign ownership of internet, online advertising, online audio and video services and mobile application distribution businesses.

31

Table of Contents

In August 2008, SAFE promulgated a SAFE Circular No. 142 regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular No. 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise. The use of such RMB capital may not be altered without SAFE s approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. SAFE also promulgated a SAFE Circular No. 45 in November 2011, which, among other things, restrict a foreign-invested enterprise from using RMB converted from its registered capital to provide entrusted loans or repay loans between non-financial enterprises. Violations of these circulars could result in severe monetary or other penalties.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, including SAFE Circulars referred to above, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or consolidated affiliated entities or additional capital contributions by us to our PRC subsidiaries, and conversion of such loans or capital contributions into RMB. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely affect our ability to fund and expand our business.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

The Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular No. 75, and a series of implementation rules and guidance issued by SAFE, including the circular relating to operating procedures that came into effect in July 2011, require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, for the purposes of overseas equity financing activities, and to update such registration in the event of any significant changes with respect to that offshore company. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, on July 4, 2014, which replaced the SAFE Circular No. 75. SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular No. 37 as a special purpose vehicle. The term control under SAFE Circular No. 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular No. 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could

result in liability under PRC law for evasion of applicable

Table of Contents

foreign exchange restrictions. On February 28, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which will become effective on June 1, 2015. After SAFE Notice 13 becomes effective, entities and individuals will be required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under the SAFE Circular No. 37, with qualified banks, instead of SAFE. The qualified banks, under the supervision of SAFE, will directly examine the applications and conduct the registration.

We have notified holders of ordinary shares of our company whom we know are PRC residents to register with the local SAFE branch and update their registrations as required under the SAFE regulations described above. We are aware that Mr. Robin Yanhong Li, our chairman, chief executive officer and principal shareholder, who is a PRC resident, has registered with the relevant local SAFE branch, and is in the process of updating such registration to comply with requirements under the new SAFE Circular No. 37. We, however, cannot provide any assurances that all of our shareholders who are PRC residents will file all applicable registrations or update previously filed registrations as required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures may subject the PRC resident shareholders to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries ability to distribute dividends to or obtain foreign exchange-dominated loans from our company.

As it is uncertain how the SAFE regulations described above will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rule, replacing the earlier rules promulgated in March 2007. Under the Stock Option Rule, PRC residents who are granted stock options by an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. We and our PRC resident employees who have been granted stock options are subject to these regulations. We have designated our PRC subsidiary Baidu Online to handle the registration and other procedures required by the Stock Option Rule. If we or our PRC optionees fail to comply with these regulations in the future, we or our PRC optionees and their local employers may be subject to fines and legal sanctions.

PRC regulations establish complex procedures for some acquisitions conducted by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, adopted by six PRC regulatory agencies in August 2006, among other things, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. In addition, the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic

Enterprises, issued by the Ministry of Commerce in August 2011, specify that mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the Ministry of Commerce, and prohibit any activities attempting to bypass such security review,

Table of Contents

including by structuring the transaction through a proxy or contractual control arrangement. We believe that our business is not in an industry related to national security, but we cannot preclude the possibility that the Ministry of Commerce or other government agencies may publish explanations contrary to our understanding or broaden the scope of such security reviews in the future, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Moreover, the Anti-Monopoly Law requires that the Ministry of Commerce be notified in advance of any concentration of undertaking if certain filing thresholds are triggered. We may grow our business in part by directly acquiring complementary businesses in China. Complying with the requirements of the laws and regulations mentioned above and other PRC regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the China Securities Regulatory Commission, or the CSRC, or the Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor s audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Proceedings instituted by the SEC against certain PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms in China, including our independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of these firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. On February 12, 2014, four of these PRC-based accounting firms

appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid

Table of Contents

suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to our delisting from the NASDAQ Global Select Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Fluctuation in the value of the RMB may have a material and adverse effect on your investment.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China s political and economic conditions and foreign exchange policies. The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People s Bank of China. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again, though there have been periods when the U.S. dollar has appreciated against the Renminbi as well. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

Our revenues and costs are mostly denominated in RMB. Any significant revaluation of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into RMB, as RMB is our reporting currency. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies. Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation, which became effective retroactively as of January 1, 2008, where a non-resident enterprise investor transfers equity interests in a PRC

resident enterprise indirectly by way of disposing of equity interests in an overseas holding company, the non-resident enterprise investor, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at the rate of up to 10%.

Table of Contents

In addition, the PRC resident enterprise may be required to provide necessary assistance to support the enforcement of Circular 698.

On February 3, 2015, the State Administration of Tax issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Public Notice 7. Public Notice 7 has introduced a new tax regime that is significantly different from that under Circular 698. Public Notice 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an indirect transfer by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a substance over form principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions, under Circular 698 and Public Notice 7. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Circular 698 and Public Notice 7. As a result, we may be required to expend valuable resources to comply with Circular 698 and Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company and other non-resident enterprises in our group should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Circular 698 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Circular 698 and Public Notice 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

Risks Related to Our ADSs

The trading price of our ADSs has been volatile and may continue to be volatile regardless of our operating performance.

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. The market price for our ADSs may continue to be volatile and subject to wide fluctuations in response to factors including the following:

actual or anticipated fluctuations in our quarterly results of operations;

Table of Contents

changes in financial estimates by securities research analysts;

conditions in internet search and online marketing markets;

changes in the operating performance or market valuations of other internet search or internet companies;

announcements by us or our competitors or other internet companies of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;

addition or departure of key personnel;

fluctuations of exchange rates between RMB and the U.S. dollar;

intellectual property litigation; and

general economic or political conditions in China or elsewhere in the world.

In addition, the stock market in general, and the market prices for internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these companies securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect the market price of our ADSs. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives.

Substantial future sales or the perception of sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ADSs, the prevailing market price for our ADSs could be adversely affected. In addition, if we pay for our future acquisitions in whole or in part with additionally issued ordinary shares, your ownership interests in our company would be diluted and this, in turn, could have a material and adverse effect on the price of our ADSs.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attached to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attached to the shares represented by the ADSs. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. Upon our written request, the depositary will mail to you a shareholder meeting notice which contains, among other things, a statement as to the manner in which your voting instructions may be given, including an express indication that such instructions may be given or deemed

Table of Contents

given to the depositary to give a discretionary proxy to a person designated by us if no instructions are received by the depositary from you on or before the response date established by the depositary. However, no voting instruction will be deemed given and no such discretionary proxy will be given with respect to any matter as to which we inform the depositary that (i) we do not wish such proxy given, (ii) substantial opposition exists, or (iii) such matter materially and adversely affects the rights of shareholders.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act of 1933, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct most of our operations in China and all of our officers reside outside of the United States.

We are incorporated in the Cayman Islands, and conduct most of our operations in China through our subsidiaries and consolidated affiliated entities in China. All of our officers and a majority of our directors reside outside of the United States and some or all of the assets of these persons are located outside of the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon our executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

It may also be difficult or impossible for you to bring an action against us or against our directors and officers in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2013 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors

and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the

Table of Contents

Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering. Our co-founder, chairman and chief executive officer, Robin Yanhong Li, who acquired our shares prior to our initial public offering, holds our Class B ordinary shares. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equal number of Class A ordinary shares. In addition, if at any time Robin Yanhong Li and his affiliates collectively own less than 5% of the total number of the issued and outstanding Class B ordinary shares, each issued and outstanding Class B ordinary share will be automatically and immediately converted into one Class A ordinary share, and we shall not issue any Class B ordinary shares thereafter.

Due to the disparate voting powers attached to these two classes, certain shareholders have significant voting power over matters requiring shareholder approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control could discourage or prevent others from pursuing any potential merger, takeover or other change of control transactions with our company, which could deprive our shareholders and ADS holders of an opportunity to receive a premium for their shares or ADSs as part of a sale of our company and might reduce the price of our ADSs.

Our articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.

Our articles of association include certain provisions that could limit the ability of others to acquire control of our company, and therefore may deprive the holders of our ordinary shares and ADSs of the opportunity to sell their ordinary shares or ADSs at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions. These provisions include the following:

A dual-class ordinary share structure.

Our board of directors has the authority, without approval by the shareholders, to issue up to a total of 10,000,000 preferred shares in one or more series. Our board of directors may establish the number of shares to be included in each such series and may fix the designations, preferences, powers and other rights of the shares of a series of preferred shares.

Our board of directors has the right to elect directors to fill a vacancy created by the increase of the board of directors or the resignation, death or removal of a director, which prevents shareholders from having the sole right to fill vacancies on our board of directors.

Table of Contents

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequence to U.S. Holders of our ADSs or ordinary shares.

Based on the market price of our ADSs and ordinary shares, the value of our assets, and the composition of our assets and income, we believe that we were not a passive foreign investment company, or PFIC, for our taxable year ended December 31, 2014, and we do not expect to be a PFIC for our taxable year ending December 31, 2015 or for the foreseeable future. A non-U.S. corporation, such as our own, will be considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The value of our assets is generally determined by reference to the market price of the ADSs and ordinary shares, which may fluctuate considerably. In addition, because there are uncertainties in the application of the relevant rules and because PFIC status is a fact-intensive determination made on an annual basis, no assurance may be given with respect to our PFIC status for the current or any future taxable year.

If we were treated as a PFIC for any taxable year during which a U.S. Holder (defined below) held an ADS or an ordinary share, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder. See Item 10.E. Additional Information Taxation United States Federal Income Taxation Passive Foreign Investment Company.

Item 4. Information on the Company

A. History and Development of the Company

We were incorporated in the Cayman Islands in January 2000. Since our inception, we have conducted our operations in China principally through Baidu Online, our wholly owned subsidiary in Beijing, China. Since June 2001, we also have conducted part of our operations in China through Baidu Netcom, a consolidated affiliated entity in Beijing, China, which holds the licenses and approvals necessary to operate our websites and provide online advertising services. In more recent years, we have established additional subsidiaries inside and outside of China and assisted in establishing additional PRC consolidated affiliated entities to conduct part of our operations.

On August 5, 2005, we listed our ADSs on The NASDAQ National Market (later renamed The NASDAQ Global Market) under the symbol BIDU. We and certain selling shareholders of our company completed the initial public offering of 4,604,224 ADSs, each then representing one Class A ordinary share, on August 10, 2005. On May 12, 2010, we effected a change of the ADS to Class A ordinary share ratio from 1 ADS representing 1 Class A ordinary share to 10 ADSs representing 1 Class A ordinary share. The ratio change has the same effect as a 10-for-1 ADS split. Our ADSs are currently traded on The NASDAQ Global Select Market.

In December 2008, our shareholders approved our name change from Baidu.com, Inc. to Baidu, Inc. In November 2009, we moved into our new corporate headquarters, which we name as Baidu Campus. Our principal executive offices are located at Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, the People s Republic of China. Our telephone number at this address is +86 (10) 5992-8888.

In July 2011, we acquired a majority stake in Qunar, an online travel search services provider, and have since then consolidated the financial results of Qunar in our consolidated financial statements. On November 1, 2013, Qunar listed its ADSs, each representing three Class B ordinary shares of Qunar, on the NASDAQ Global Market in connection with its initial public offering. We remain to be the majority shareholder of Qunar after its initial public offering.

In November 2012, we obtained the controlling interest in Qiyi.com, Inc., a prior equity method investee, and have since then consolidated its financial results into our consolidated financial statements. In May 2013, we acquired the online video business of PPStream Inc. and have merged it with iQiyi and have since then consolidated its financial results into our consolidated financial statements.

Table of Contents

In October 2013, we acquired 100% equity interest of 91 Wireless from NetDragon Websoft Inc., or NetDragon, and the other shareholders of 91 Wireless, and have since then consolidated its financial results into our consolidated financial statements.

B. Business Overview

We are the leading Chinese language internet search provider. As a technology-based media company, we aim to provide the best and most equitable way for people to find what they are looking for. In addition to serving individual internet search users, we provide an effective platform for businesses to reach potential customers.

Our *Baidu.com* website is the largest website in China and the fifth largest website globally, as measured by average daily visitors and page views during the three-month period ended December 31, 2014, according to Alexa.com, an internet analytics firm. We are the most used internet search provider in China, with our combined share of PC and mobile search page views standing at 71% in the fourth quarter of 2014, according to Analysys International, a market research firm. Our Baidu brand is one of the highest ranking brands in China in BrandZ Top 50 Most Valuable Chinese Brands 2014, a study published by Millward Brown Optimor, a brand strategy research firm. During the six-month period ended December 2014, approximately 92% of Chinese internet search users have used Baidu as their internet search engine, according to China Internet Network Information Center.

We conduct our operations primarily in China. Revenues generated from our operations in China accounted for approximately 99.5%, 99.8% and 99.5% of our total revenues in 2012, 2013 and 2014, respectively.

We serve three types of online participants:

Users. We offer a Chinese language search platform on our *Baidu.com* website that enables users to find relevant information online, including web pages, news, images, documents and multimedia files, through links provided on our website. We also provide a broad range of products and services to enrich user experience and facilitate easy and quick search, including search products, social-networking products, user-generated-content-based (UGC-based) knowledge products, location-based products and services, entertainment products, security products, mobile related products and services, products and services for developers and webmasters and other products and services. Our products and services can be accessed through PCs and mobile devices. We aspire to provide the best search experience to our users. To this end, we have invested in advanced technology such as deep learning and semantic intelligence.

We offer a broad range of mobile products, including Baidu Mobile Search, Baidu Mobile Maps, Baidu Mobile Assistant, Baidu Connect, 91 Assistant, HiMarket, Baidu Mobile Guardian, Baidu Mobile Browser, Baidu Photo Wonder and Baidu Yun.

Customers. We deliver online marketing services to a diverse customer base operating in a variety of industries. In 2014, we had approximately 813,000 active online marketing customers. Our online marketing customers consist of SMEs throughout China, large domestic companies and Chinese divisions and subsidiaries of large, multinational companies. We have a diverse customer base in terms of industries and geographical locations. Our defined industries in which our customers operate include medical and healthcare, tourism and ticketing, education, software and online games, machinery and equipment, network service, transportation, construction and decoration, financial services, business services and franchising. Customers in our top five industries contributed approximately 49% of our total online marketing revenues in 2014. Although we have customers located throughout China, we have a more active and larger customer base in coastal regions, reflecting the current general economic demographics in China.

We reach and serve our customers through our direct sales force as well as a network of third-party distributors across China. As many of our customers are SMEs, we use distributors to help us identify potential

Table of Contents

SME customers, collect payments and assist SMEs in setting up accounts with us and using our online marketing services. We have also engaged third-party agencies to identify and reach potential customers outside of China. To better enable our customers to capture the mobile opportunity, we provide free tools to customers to help them build and modify mobile landing pages and proactively educate customers about mobile marketing. We also have an integrated bidding system to better streamline the bidding experience for PC and mobile channels for our customers. Mobile revenues accounted for 36.5% of our total revenues for 2014.

Baidu Union Members. Baidu Union consists of a large number of third-party web content, software and mobile application providers. Baidu Union members can display on their properties our customers promotional links that match the content of such members properties. Some Baidu Union members also embed some of our products and services into their properties. We allow Baidu Union members to provide high-quality and relevant search results to their users without the cost of building and maintaining advanced search capabilities in-house and to monetize their traffic through revenue sharing arrangements with us. We reward Baidu Union members which bring higher quality traffic to us by sharing with these members more revenues as a percentage of total revenues recognized by us. Traffic and revenues contributed by Baidu Union members increased in 2014, while the total number of members declined as a result of our continued effort to optimize the quality of Baidu Union members.

Products and Services for Users

We focus on offering products and services that enable our users to find relevant information quickly and easily. We offer our main products and services to users through *Baidu.com* free of charge generally. These products and services can be accessed through PCs, mobile and other non-mobile devices. We organize our products and services into nine categories, namely, search products, social-networking products, UGC-based knowledge products, location-based products and services, entertainment products, security products, mobile related products and services, products and services for developers and webmasters, and other products and services. We also offer some products and services provided by our associated or cooperative websites.

Search Products

Baidu Web Search. Baidu s web search allows users to locate information through search queries. After typing a search query, users generally receive a list of ranked search results, which may include our customers content presented in a specific format. Users can then access the desired information by examining the returned search snippets, or clicking on the hypertext links displayed in the search results.

We have integrated many features into our web search system to help users easily access the right information out of a huge number of web pages. The Baidu web search includes, but not limited to, the following features:

Query Suggestion based on the keywords in users search queries and their search history, we recommend related topics (such as books, historical figures, movies and games) that may be of interest to users in order to unleash their potential demands. With our machine learning and big data analytics technologies, we predict the queries that the users may need later on and display them in the dropdown list under the search box.

Recommended Keywords after Click after a user clicks a search result, browses the relevant web page and returns to search result page, we provide recommended keywords that may be of interest to the user under

the search result that the user has clicked on.

Instant Search returns search results when a user is typing a search query to speed up the search process and save time, by leveraging on our innovative asynchronous pre-fetch technology and big data prediction capability.

Table of Contents

Advanced Search provides multi-vector recommendations, directory navigation, structured guidance and group-based search results filtering that are related to a particular keyword, enabling users easily and conveniently browse recommended search result web pages without jumping to another web page.

Snapshots provides snapshots of web pages when the pages were indexed, allowing users to view web pages that cannot be opened quickly or easily.

Rich Content provides users with live image/video feeds of the world, such as tourist destinations and street views, as well as encyclopedic background knowledge on search terms that together create more depth and breadth to our search results. We are constantly seeking to optimize the crawling, selection, and presentation of images, and encourage webmasters to provide rich content with high-quality images.

Layout Design for users who do not sign in, we have introduced a very simplified home page, which upgraded the layout and interactive experience for our users.

Baidu Personalized Homepage offers a customizable homepage providing signed-in users a personalized experience based on their historical search behavior. Users are presented with an intelligently recommended list of recent favorite websites or online services and can add their favorite websites and online applications on the personalized homepage.

Customized Experience for Different Hardware provides customized search experience for devices such as iPads, PCs and wearable devices. For iPads, we have introduced voice, image and other multi-media search functions, as well as our iPad intelligent home page service. For our PC search app, we provide a wide range of personalized services, such as personal search, mini-apps and reminders. We have also introduced a search app for Android Wear, which allows users to launch the app through movement or voice and to conduct the search through voice command.

In-depth Answers provides relevant and in-depth answers to search inquiries using our deep learning technology to locate, summarize and integrate relevant information from massive data.

Other Baidu products integrates and displays search results from other Baidu products including Baidu News, Baidu Image Search, Baidu Video Search, Hao123, Baidu Post Bar, Baidu Space, Baidu Knows, Baidu Encyclopedia, Baidu WenKu, Baidu Map Search, Baidu Music, Baidu Translation and Baidu Dictionary.

Baidu Image Search. Baidu Image Search enables users to search for images on the internet by term queries or various categories and offers advanced features, such as search by image file type and search within a designated website or web page. Baidu Image Search also allows users to search information on an image or search other similar images by allowing users to upload an image or enter its uniform resource locator (URL). In addition, registered users can upload, label and share with others high-quality pictures through Baidu Image Search.

Baidu Video Search. Baidu Video Search enables users to search by term queries for and access through hyperlinks online video clips that are hosted on third parties websites. Baidu Video Search also allows users to locate and play

various video content on smartphones and tablets, and support blue ray playing based on the mobile cloud technology.

Baidu News. Baidu News provides links to an extensive selection of local, national and international news and presents news stories in a searchable format, typically within minutes of their publication on the internet. Baidu News uses an automated process to display links to related headlines, which enables users to see many different viewpoints on the same story. Baidu News also intelligently recommends news items to users through push notifications based on user preferences and behavior patterns. Baidu News is typically updated every five minutes throughout the day. Users can also choose to have links of specific types of news articles, e.g., financial news, or news articles containing specific keywords delivered to their email accounts.

Table of Contents

Baidu Web Directory. It enables users to browse and search through websites that have been organized into categories.

Hao123.com. We also operate Hao123.com, a popular Chinese website directory navigation site in China.

Qunar. Qunar is a leading internet and mobile travel platform in China. Powered by its proprietary technology and having a user base of hundreds of millions, it enables travelers to find and transact diverse deals in flight, hotel and vacation packages by processing highly fragmented travel products information from tens of thousands of travel service providers in China and globally.

Nuomi. We acquired a majority equity interest in Nuomi Holdings Inc., or Nuomi, previously a wholly owned subsidiary of Renren Inc., in October 2013, and acquired the remaining equity interest in Nuomi in February 2014. Nuomi.com, now a wholly owned subsidiary of us, offers group buying services and products to Nuomi users. Entertainment, dining, health and beauty services make up the majority of its social commerce deals. Nuomi users can access the service through nuomi.com, Nuomi s mobile app and additional channels such as Baidu Maps and tuan.baidu.com.

Baidu Scholar. Baidu Scholar is a search platform of academic resources, providing quality search services to scholars and researchers by integrating internet-wide high caliber academic resources of multiple languages. Baidu Scholar is aimed at establishing a new pathway between users and academic sites, and creating an academic ecosystem of openness, equality and freedom.

Social-networking Products

Baidu Post Bar. Baidu Post Bar provides users with a query-based searchable community to exchange views and share knowledge and experience, as well as an enhanced instant communication tool. Baidu Post Bar offers both web and mobile versions. The mobile version of Baidu Post Bar has a group real-time interaction function, through which users can create or join a group based on their interests or locations. The community can be further expanded by users posting new topics that have not been covered in the community before. In Baidu Post Bar, users can search, read and browse internet message boards and after signing in, reply to other members of the community publicly. Registered users can also follow a topic through text, image, audio and video posts, and send private text and image messages, as well as audio message on mobile devices, to each other within the community. Baidu Post Bar covers a broad range of topics and interest areas, such as society, sports and entertainment. In addition, we have started cooperation with third-party partners by allowing them to set up affiliated post bars to facilitate better communication with users.

Baidu Album. Baidu Album is a cloud-enabled photo storing and sharing service, which allows users to upload pictures without compression and share with others with privacy control. Baidu Album uses cloud-based back-up technology to preserve the uploaded pictures.

UGC-based Knowledge Products

Baidu Knows. Baidu Knows provides users with a query-based searchable community to share knowledge and experiences. Through Baidu Knows, registered users can both post specific questions for other users to respond and respond to questions posted by others. Baidu Knows is accessible through both web page and mobile application. Any users of our *Baidu.com* website can also search, read and browse questions and answers by registered users of Baidu Knows. Baidu Knows has also invited experts in many fields such as medical care, maternal and child health, law and education to address users questions.

Baidu Encyclopedia. Baidu Encyclopedia is an evolving encyclopedia compiled by registered users. Registered users can share their knowledge by adding new terms and new content in Baidu Encyclopedia. Baidu Encyclopedia has experts in many fields, such as medical care and studio arts, among its registered users, which experts have contributed a rich collection of influential content. Any users of our *Baidu.com* website can also search, read and browse all terms and content contributed by registered users of Baidu Encyclopedia.

Table of Contents

Baidu Homework. Tracing its inspiration to the vertical development of Baidu Knows, Baidu Homework is an innovative mobile application aimed at the online K12 education market. Through Baidu Homework, users may post questions or respond to questions posted by others using text or image inputs and can engage with other online users in real time. Baidu Homework is designed to rapidly search for and generate answers and step-by-step analysis of solutions to academic-related questions encountered by users. Baidu Homework also features online tutoring videos taught by thousands of experienced and reputable teachers nationwide.

Baidu WenKu. Baidu WenKu is an online document sharing platform, through which registered users of our *Baidu.com* website can search, browse or read, by categories, documents in various formats such as Microsoft WORD, PDF and Microsoft Excel. Baidu WenKu also allows registered users to upload documents to and download from this user-created documents database.

Baidu Review. Baidu Review is a platform facilitating interaction among users as well as between users and businesses, and aims at building a creditable ecosystem by providing references that could guide users in their decision making for daily activities through user-generated ratings, comments and other content.

Location-based Products and Services

Baidu Maps. Baidu Maps integrates map data from third-party suppliers and web information, providing users with services relating to locations, routes, and local merchants on their PCs and mobile devices in both offline and online modes. Baidu Maps for mobile devices (Baidu Mobile Maps) increasingly serves as a gateway for users to conduct local searches. In addition to Mainland China, Baidu Maps currently also covers Hong Kong, Macau and Taiwan, providing both offline and online modes of service in these regions. It has an open platform that integrates location-based services from third-party partners. According to Analysys International, Baidu Mobile Maps has approximately 71% market share in terms of number of daily active users in December 2014.

Local Life Service. Through Baidu Maps, users can access in-depth information of local merchants and can also review services provided by local business owners. Through Baidu Mobile Maps, users can also locate their current position and search for points of interests and services near their current location or designated location. These points of interests and services include restaurants, hotels, movie theaters, KTVs, gas stations, scenic spots, banks, bars, as well as food delivery, coupons and group buy deals offered and displayed by local merchants. Users can access local merchants telephone numbers, addresses, directions, reviews and comments, coupons and latest group buy offers. Users can make online reservation at a restaurant or cinema or arrange for a taxi or limousine pickup through Baidu Maps.

Intelligent Direction Navigation Service. Users can enjoy comprehensive intelligent *direction navigation* service, including suggested routes for driving, public transportation and walking, voice navigation, real-time traffic status and real-time public transportation status.

Baidu Navigation. Baidu Navigation is a professional navigation application that can be used in both offline and online modes. It can support both Android and iOS systems. Baidu Navigation provides users with destination searching, positioning, route planning and navigation service, all based on real-time traffic situations. Baidu Navigation also supports site searching and navigation launching through voice commands and is compatible with a wide variety of automobile-connected hardware devices.

Baidu Travel. As a leading online database of tourist destinations in China, Baidu Travel provides comprehensive travel information and solutions to our users. Prior to the journey, users can access destination-related information on domestic and international tourist attractions, as well as conveniently book flights and hotels through Baidu Travel. When travelling, users can access real-time information using the location-based services and live broadcasting functions on the Baidu Travel mobile application. After the trip, users can share their travel tips and interact with other users through Baidu Travel. Leveraging our big data analytics capabilities, Baidu Travel has introduced the one-click trip planning function through which we intelligently provide trip planning recommendations to users. Baidu Travel also recently debuted its customized trip planner service for users.

Table of Contents

Baidu Delivery. Baidu Delivery enables users to order food online from restaurants at their selected locations. Users can locate restaurants on either PCs or mobile devices. When accessing from mobile devices, users can search for restaurants close to their current location.

Entertainment Products

IQiyi and PPS. IQiyi is an online video platform with a content library that includes copyrighted movies, television series, cartoons, variety shows and other programs. The programs are provided by content providers under licensing arrangements. Apart from sourcing copyrighted contents, iQiyi also produces a variety of original content. In addition, iQiyi provides online community services to facilitate user communication and interaction. Users can also search and watch iQiyi.com videos on their mobile devices free of charge. In May 2013, we acquired the online video business of PPStream Inc. and have merged it with iQiyi. PPS has since then operated as sub-brand of iQiyi. The combined entity is among the leading online video platforms in China.

Baidu Music. Baidu Music is a digital music service that gives users access to millions of songs. We have partnered with many content providers, including well-known international labels such as Universal Music and EMI Music, to make licensed music available for streaming and downloading for users in geographic locations within the license scope. Baidu Music s front page mainly provides the latest releases, hot charts and editor s compilation, and also contains a search box whereby users can search for music by term queries. Registered members can store their music in a cloud-based digital music space and synchronize their personal playlist across multiple devices. Baidu Music can also be played on iPhone and Android-powered mobile phones.

Baidu Media Player. Baidu Media Player is an audio and video player using the streaming media technology. Baidu Media Player enables users to play multimedia files of various popular formats online and offline.

Baidu Games. Baidu Games is a channel where registered users can play web games provided by our online game operator partners. In addition, we also offer a web games portal, providing game players with updated web game-related information such as new releases, walk-throughs and reviews. Baidu mobile games platform collaborates with Chinese and international licensed content providers in providing a diverse array of licensed and healthy games to users, hosting dedicated mobile channels and up-to-date licensed games, and has attracted a large community of mobile game players.

Security Products

Baidu Mobile Guardian. Baidu Mobile Guardian is a powerful phone security software, using mobile anti-virus technology. It can provide users with free system optimization, mobile handset accelerator, virus sweeper, data privacy, free system optimization, harassing phone intercept, secure payment and other features. Baidu Mobile Guardian has been continuously ranked No. 1 since May 2014 by AV-Test, which is an international authoritative testing organization.

Baidu Guard. Baidu Guard is a computer maintenance software that we offer free of charge. Using cloud-based technology, Baidu Guard offers computer speedup, system cleanup, software management, and security maintenance functions.

Baidu Antivirus. Baidu Antivirus is an antivirus software that we offer free of charge. It offers proactive defense, file protection, USB protection, download protection, browser protection, self-defense and other professional security features, and protects PCs from virus, worms, Trojans and other malware infections. Ultrafast response based on cloud technology provides accurate scan reports and real-time protection for PCs.

46

Table of Contents

Mobile Related Products and Services

Baidu Mobile Search. Baidu Mobile Search enables users to access our search and community-based products and services such as Baidu News, Baidu Post Bar, Baidu Knows and Baidu Map Search using mobile devices, including WAP-enabled mobile phones. Baidu Mobile Search supports text, voice and image search to better serve users of mobile devices. By minimizing graphics and interactive contents, Baidu Mobile Search offers a user friendly and productive mobile internet search experience. We have solidified our leading position in mobile search market through our efforts to improve our offering and strengthen channel distribution.

Baidu Connect. We launched Baidu Connect in September 2014. Building upon Light Apps, Baidu Connect is a powerful tool for merchants that can bring in leads from other Baidu products such as search and maps. It is built with functionality that enables high conversion and offers merchants a powerful CRM system. We provide easy to set up templates tailored for specific industries. The Baidu Connect account helps merchants reach new customers and maintain engagement with existing ones. Baidu Connect enables both pull and push marketing: Pull marketing is achieved through search function, either by a general search or by adding the @ symbol before the real name of a service business and landing directly on the Baidu Connect page. Push marketing is achieved through the Discover button in Mobile Baidu or the Nearby button in Baidu Maps. Once a user has decided to follow a business or make a purchase, the merchant can roadcast to the user, individually or in groups. Baidu Connect features an industry-tailored, user friendly, click-to-action interface. Baidu Connect is still in its early phases of development, and we intend to broaden its rollout to create tangible, positive value for a larger set of merchants.

Baidu Mobile Assistant. Baidu Mobile Assistant is a mobile application marketplace designed for Android mobile devices. The platform offers an extensive and diversified array of applications, and selects and recommends high-quality applications based on big data analytics. Baidu Mobile Assistant helps improve users phone management, allowing users to download, upgrade, manage and delete applications easily and conveniently. It also allows users to share files such as applications, videos, audios and images easily without data usage.

91 Wireless. 91 Wireless is one of the leading mobile application marketplaces and mobile game operators in China. 91 Wireless mainly engages in the development and operation of two leading smartphone application distribution platforms in China, namely 91 Assistant and HiMarket, or together the 91 Smartphone Apps Marketplaces, a community website *91.com*, 91 Launcher, 91 Panda Reader, as well as other popular products for smartphone users. 91 Wireless operates its mobile games through *18183.com*, which is a comprehensive game portal site where users can search and download mobile games, obtain game related news and share experience.

Baidu Mobile Browser. We offer this web browser for mobile phones based on Windows, Android and iOS.

Baidu Yun. Baidu Yun, our personal cloud computing service, allows users to upload documents, images, audios and videos to its cloud servers, stores the uploaded data with security control and provides real-time back-ups, and making the data accessible across different terminals including tablets, smartphones and desktops. Users can also share their data through Baidu Yun.

Baidu PhotoWonder. Baidu PhotoWonder is an application for users of smartphones powered by iOS and Android to take and enhance photos and share them among some social networking sites. Baidu PhotoWonder has a celebrity face match functionality that uses facial recognition and search technology and allows users to find celebrities who look similar to the users.

Other Baidu Mobile Applications. We offer several other mobile applications which provide functions similar to those provided by non-mobile devices such as Baidu Travel, Baidu Encyclopedia, Baidu WenKu, Baidu Album and

Baidu News. These applications are tailored for mobile device users and also offer some particular functions.

Table of Contents

Products and Services for Developers and Webmasters

Baidu Open Cloud. Through the paradigm of LightApp, mobile applications, and opening up its technologies and cloud capacities to developers, Baidu Open Cloud platform provides a complete solution that takes developers from development to distribution and from creation to monetization. Baidu Open Cloud platform works with developer the following aspects in building an ecosystem:

App Builder App Builder is a set of tools to help content publishers and service providers build applications quickly and easily. It provides services such as standardization guidelines, a wide selection of templates and components, and the ability to import data and generate and distribute applications.

Clouda Clouda is an open-source project created and maintained by Baidu Open Cloud and worldwide developer community over the past two years. Clouda uses JavaScript as its only language for both server and client implementations, and has a built-in cloud-client unifying philosophy, a reactive user interface, real-time infrastructure and spider-friendly capability. Clouda can be used to build both web applications and hybrid applications.

SiteApp SiteApp is the tool that allows webmasters to effortlessly transform PC websites into mobile-compatible sites. When users search for a site with Baidu mobile search, they will automatically be directed to the mobile site generated by SiteApp instead of the PC website if the webmasters choose to use SiteApp. The choice will increase traffic to the mobile sites. In addition, SiteApp can help monetize mobile traffic if webmasters choose to utilize online ads or other Baidu Union resources.

Baidu Cloud Push Baidu Cloud Push is a messaging service that helps developers send messages from the server to their mobile applications. It builds a stable communication channel between the cloud and end devices, allowing end-to-end data exchange. Baidu Cloud Push now supports both Android and iOS platforms with a unified backend solution, providing push notifications and push messaging with user targeting and geo-location targeting options.

Personal Cloud Storage (PCS) PCS provides cloud storage and service to individual users. The service allows users to backup or restore personal data, synchronize data among various devices, and share data with others. In addition, PCS provides developers with abundant capabilities, such as handling both file data and structured data, generating thumbnail, transcoding, labeling, Cloud Match and third-party ID access/authorization.

Baidu App Engine (BAE) BAE provides developers with a runtime environment for PHP, JAVA and Python. Additionally, cloud storage, message service and cloud database are also provided by BAE. The goal of BAE is to enable developers to deploy and manage their applications easily and automatically and provide a running environment of dynamic scaling and load balancing. Owing to BAE, developers can focus on the business logic instead of the maintenance work.

Mobile Test Center (MTC) MTC provides developers with overall and automated test services based on hundreds of models, free of charge. It covers both native application and web application, including all the mainstream resolutions, models and Android versions.

Baidu Media Cloud Baidu Media Cloud provides a package of multimedia-related services, including video-processing, face recognition, voice recognition and image-processing services, through cross-platform software development kits (SDKs) and RESTful APIs.

Baidu Website Monitoring This is a cloud technology based service monitoring website security and loading speed in real time.

LBS Open Platform. Location based services (LBS) open platform provides Web, Android or iOS-powered third-party application developers with free services, including location, maps, data on local merchants, cloud storage, cloud computing of LBS data, as well as positioning and tracing services. Based on these basic services, developers can develop their own LBS applications. We also provide automobile manufacturers,

Table of Contents

telematics service providers (TSPs), automobile terminal hardware manufacturers, and hardware related software developers with automobile networking API in order to facilitate the developments of automobile terminal applications, including location search, driving routes search, latitude and longitude search by addresses, sending routes information on the web to mobile phones and inquires about transportation events at current city.

Baidu Webmaster Platform. Baidu Webmaster Platform consists primarily of the tools section, data section and discussion section, and provides website managers with tools and data to allow them to better monitor and manage their websites and improve the search engine optimization (SEO) and hence the user experiences of their websites.

Baidu Top Searches and Search Index. Baidu Top Searches provides listings of top search terms based on daily search queries entered on Baidu.com. The listings are organized by categories and allow users to easily locate popular search terms on topics of interest. We also offer Baidu Search Index, a data sharing platform based on the behavior data of Baidu users, through which one can study the search trend of a particular query, observe users interest and demand, monitor public opinions, locate users features and analyze the market characteristics.

Baidu Open Platform. Baidu Open Platform is a platform providing one-stop online services to users by intelligently identifying users demands before providing optimized treatments and responses. It is also designed to increase coverage of Baidu products and services. Baidu Open Platform, accessible through *open.baidu.com*, has many other specialized accesses such as *mobileapp.baidu.com*. Content providers can submit their contents to Baidu Open Platform. These contents are presented on Baidu s search result pages directly and at accesses such as *open.baidu.com* by categories.

Baidu Statistics. Baidu Statistics is a platform that helps our online marketing customers to evaluate the efficacy of our online marketing solutions by providing various data and analyses that could be used to monitor ROI. Baidu Union members and other website owners can also benefit from Baidu Statistics in web analytics and user experience optimization. Baidu Statistics can be used for mobile applications based on iOS and Android, allowing application developers to monitor the performance of applications on a real-time basis.

Baidu Cloud Acceleration. Baidu Cloud Acceleration is a one-stop management platform that offers acceleration, security protection and search engine optimization services to websites. Baidu Cloud Acceleration can significantly increase the speed for webpage visits through acceleration, buffering and webpage optimization. Baidu Cloud Acceleration features a distributed network system that intelligently recognizes and blocks hacking activities, protecting websites that have connected to the cloud acceleration network and enabling regular visitors and search engines unfettered access to source websites.

Other Products and Services

Baidu Wallet. Baidu Wallet, formerly branded as BaiduPay, provides online and mobile payment services. We strive to build Baidu Wallet into a comprehensive platform for consumption, connecting the broad portfolio of Baidu products and merchants on our platform with our users, as well as offering a suite of payment services that include, for example, online transfer, bill payment, account refills and group social network payment collection services. Baidu Wallet has introduced innovative functions such as payment via images and facial scans. Baidu Wallet is a key service which enables our users to go from query to service fulfillment to payment in one seamless, closed loop transaction.

Baidu Wealth Management. Baidu offers -wealth management products managed by third-party funds and other companies to our users. After registering on the Baidu Wealth Management platform, users can invest in wealth management products provided by third-party funds and other companies. Baidu Wealth Management provides account services to help users manage their wealth. Baidu Wealth Management has introduced the *Baifa 100 Index*, a

pioneering internet finance index in China developed based on big data capabilities.

Table of Contents

Baidu Data Research Center. Baidu Data Research Center is an online platform that delivers industry and market insights into both internet and traditional non-internet sectors to business researchers, decision-makers and others in the form of regularly published industry-specific reports and data products through various channels. Our research reports and data products are generated by mining and analyzing data from diverse sources in depth, which fully utilizes Baidu s core data technologies. Users may browse and download the reports and products once they have registered with Baidu Data Research Center.

Baidu Translate. Baidu Translate is a free online translation service that supports instant translation of texts and web pages in ten different languages, including Chinese, English, Japanese, Korean, Russian, French, Spanish, Thai, Arabic, Portuguese, Deutsch and Italian. Baidu Translate has made a breakthrough by offering localized translation service among Mandarin and Cantonese, modern Chinese and classical Chinese. Baidu Translate supports functions such as dictionary, search and translation services in one interface, and provides free open translation API for developers convenience. Its mobile app enables offline and online, voice activated translation, optical character recognition and image recognition. Baidu Translate also helps users who travel overseas with a menu translation function.

Baidu Reading. Baidu Reading is an e-book platform. Baidu Reading has partnered with copyright owners and offers licensed digital books covering as social science, technology, education and many other fields. Baidu Reading is accessible from PCs and mobile devices, and allows paid online reading and download.

Baidu Browser. Baidu Browser is a PC internet browser. Baidu Browser has a landing page with links to select popular websites. Users can also search for their favorite websites and customize their Baidu Browser landing pages.

Baidu Chuanke. Baidu Chuanke is an emerging online education platform which allows registered users to enroll in online courses, purchase videos of lectures on various topics and interact with lecturers. Baidu Chuanke can also provide a host of one-stop services such as teaching management, content exchange, faculty and student administration and data analytics services to educational institutions. Users can access Baidu Chuanke through PCs, mobile devices and TVs.

Major Products and Services by Associated or Cooperative Websites

Baidu Leju. Baidu Leju is a real estate information search platform jointly developed by Baidu and Leju Holdings Limited, or Leju. Baidu Leju is designed to provide Chinese internet users with comprehensive, timely information relating to the real estate markets throughout China. Leju has the exclusive right to build and operate Baidu s web channels related to real estate and home furnishing.

International Products and Services

We offer search services, PC client-end products including BAV and PC Faster, mobile Android apps Du Battery Saver and Du Speed Booster, an input method editor for PC and mobile users, as well as a directory navigation product, Hao123, and Baidu Browser (for both PC and mobile) in select countries and regions.

Products and Services for Customers

We focus on providing customers with cost-effective and targeted marketing solutions. We generate almost all of our revenues from online marketing services, including online marketing services based on search queries, contextuals, audience attributes, media and placement attributes and online marketing services of other forms. Our online marketing services generally comprise text links, images, multimedia files and interactive forms.

Online Marketing Services Based on Search Queries

Online marketing services based on search queries are keyword-based marketing services targeted at and triggered by internet users search queries, which include our P4P services and other search query based online

Table of Contents

marketing services, for example, BrandZone. Typically, a P4P customer pays us when users click on one of its website links on Baidu search result pages or Baidu Union members properties, while a Brand-Link customer pays us based on the duration of the placement on Baidu search result pages. Users could reach our P4P sponsored links and Brand-Link on either mobile or non-mobile devices.

P4P. Our auction-based P4P services enable our customers to bid for priority placement of their links in keyword search results. We believe we were the first auction-based P4P service provider in China. Our P4P platform enables our customers to reach users who search for information related to their products or services. Customers may use our automated online tools to create text-based descriptions of their web pages and bid on keywords that trigger the display of their web page information and links. Our P4P platform features an automated online sign-up process that allows customers to activate and manage their accounts at any time.

Our P4P platform is an online marketplace that introduces internet search users to customers who bid for priority placement in the search results. Our intelligent ranking system takes into consideration the quality factor of a sponsored link for a search query in addition to the price bid on the keyword. The quality factor of a sponsored link for a search query is determined based on the relevance and certain other factors. The relevance is determined based on our analysis of past search and click-through results. Links to customers websites are ranked according to a comprehensive ranking index, calculated based on both the quality factor of a sponsored link for a search query and the price bid on that keyword. Our P4P online marketing customers may choose to set a daily limit on the amount spent and may also choose to target only users accessing our website from specified regions in China and/or during specific time period of the day.

We customize search results by vertical industries through commercial Knowledge graph. The commercial Knowledge graph enhances the presentation of our customers commercial promotions, and allows users to purchase or acquire the products or services offered by our customers in the search results. The search results of commercial Knowledge graph consist of a special aggregated type of promotion called Card in the search results page, and a corresponding landing page that aggregates customers promotions and information. In order to meet users demand for different industries, we are developing commercial Knowledge graph that target an array of different verticals, including medical care, education, online gaming, finance, and various service industries.

Phoenix Nest, one of our current online marketing systems, is designed to improve relevance in paid search and increase value for customers, thus driving monetization efficiency. Compared to our previous auction-based online marketing system, Phoenix Nest adopts enhanced algorithms that generate more relevant online marketing and provides customers with additional tools and information to help them better manage their spending and achieve higher ROI. We have made enhancements continually to our Phoenix Nest platform. We have opened online marketing on mobile search to all customers to allow them to promote their products and services. Besides text descriptions, customers can also promote their applications on mobile search. In order to help customers achieve better ROI from mobile search campaigns, we provide a series of special management tools in Phoenix Nest, including WAP site building tool for enhanced user experience, online chatting tool for better user engagement, mobile statistics analysis tool for enhanced conversion tracking, and performance reporting for managing campaign effectiveness. Meanwhile, we provide optimization packages in Phoenix Nest to help customers enhance the marketing performance more easily. Moreover, we have launched Phoenix Nest App (Android and iOS) allowing customers to manage their online marketing anywhere and anytime. We provide tools and features, such as Phone Calls, App Downloads, Site-Links on Mobile, Brand-Link on Mobile, allowing customers to manage and optimize mobile marketing and understand the mobile opportunity properly. We have also upgraded the effectiveness and usability of our site building tools such as SiteApp, and provided a series of ancillary tools, so as to improve the number and quality of the sites built by our customers.

In 2014, we further upgraded Phoenix Nest by introducing a suite of new functionalities and services. To enhance the effectiveness and relevancy of our marketing service, we fine-tuned the precision of advertising delivery from provincial level to municipal level, allowing SME customers to accurately select the cities within a

Table of Contents

particular province for advertising delivery. To increase the return and efficiency of marketing spending for customers, we have launched new dynamic marketing solution offering diversified content and format. Leveraging on our ability to precisely recognize the search intention of users and matching the intention with the website content of the customers, our dynamic marketing solution present marketing content in varying formats that we consider would best cater to the needs of users. Furthermore, we can also intelligently present certain value-added content based on the marketing purposes, such as image-centric advertisements which enhance the visual impact and uniqueness of the promotional materials, as well as user reviews and new promotions. Leveraging on our big data capabilities, Phoenix Nest helps merchants locate potential customers more precisely and improve the marketing effectiveness towards the potential customers.

BrandZone. BrandZone is our flagship branding display marketing product. The marketing message for a customer can integrate text description, image and video, and appear in a prominent position of the search result page. The inventory for Brandzone includes not only our web search but also various vertical search products, such as Baidu Knows, Baidu Image Search and Baidu Video Search. BrandZone allows the brand image of an advertiser to be displayed in all the vertical search products in a structured and uniform manner.

Aladdin. Aladdin is a form of commercialization of our Baidu data open platform. Based on our analysis of user search needs, we collaborate with vertical websites, who supply us with high quality and structured data for our inclusion in the search results to our users, and in return receive high-quality user traffic generated by us. We generate revenues from Aladdin service typically based on the duration of contract, while some customers pay us based on the number of clicks on our customers links that we help to generate.

Online Marketing Services Based on Contextuals

Online marketing services based on contextuals refer to our Network Marketing services and native advertising services.

Network Marketing. Using our ProTheme contextual promotion technology, we offer Network Marketing, a service that enables our customers promotional links to be displayed on both Baidu s properties and Baidu Union members properties where the customers links are relevant to the subject and content of such web pages. The properties consist of PC web pages, mobile WAP web pages and mobile applications. We generate revenues from our Network Marketing service based on the number of clicks on our customers links and share the revenues with our Baidu Union members for displaying our customers promotional links on Baidu Union members properties in accordance with pre-agreed terms.

Native Ads. We allow native ads to be placed in our vertical search products. For example, advertisers can provide corporate information and news as well as expert answers to users inquiries in our knowledge-based vertical search products such as Baidu Knows, Baidu Encyclopedia and Baidu News, and place rich media ads in our multimedia vertical search products.

ImagePlus. ImagePlus is the newest monetization model based on our advanced image recognition and advertisement matching technologies, which offer relevant business information to specific image traffic. ImagePlus has been deployed on Baidu s image search and Baidu Union network. We generate revenues from these services typically based on the number of clicks on our customers links and share the revenues with our Baidu Union members.

Online Marketing Services based on Audience Attributes

Online marketing services based on audience attributes allow our customers to match their promotional links or advertisements to their target audience. Customers can define and manage their target audience using a combination of individual audience attributes selected from a portfolio of pre-defined audience attributes, which cover online consumers intent, needs and wants, demographics, location, interest, lifestyle, preferences and

Table of Contents

others. Our online marketing services are accessible through PCs and smartphones. We generate revenue from these services typically based on the number of clicks on our customers links and share the revenues with our Baidu Union members for displaying our customers promotional links on Baidu Union members properties in accordance with pre-agreed terms. Some customers pay us on a cost per thousand impressions basis for the links on Baidu Union members properties.

Online Marketing Services based on Media and Placement Attributes

Online marketing services based on media and placement attributes enable our customers to display links on Baidu s properties or Baidu Union members properties according to the value and attributes of media and placements. We have extended our display ads network to WAP web page and mobile applications, helping mobile website masters and mobile application developers monetize their mobile contents and applications in innovative ways, such as click-to-call, location based services and application distributions. Customers typically pay us based on the duration of the placement, and some customers pay us on a cost-per-thousand-impressions or on a cost-per-action basis.

Online Marketing Services of Other Forms

We offer other forms of online marketing services, including directing traffic to a customer s content to allow more exposure of the content to users, and to enable users to purchase and use the content through non-mobile devices. Users could also access some of the content through mobile devices, such as 91 Wireless mobile game and application distribution platforms. In addition, we also provide group buying services through *nuomi.com*.

Value-added Consultative Services Provided for Customers

We also offer certain value-added consultative services that help customers maximize their ROI.

Baidu Marketing Platform. On Baidu Marketing Platform, customers can not only understand and use our various online marketing services but also enjoy our value-added services. At the early phase of their marketing placement, we provide various consulting services to assist customers in better understanding the market conditions and designing suitable marketing solutions. We also provide all-around marketing infrastructure services, including guidance on building mobile sites, site building tools such as SiteApp, and site testing tools. During the marketing placement, our experts on the platform can assist customers in understanding and using our various products and services to increase customer satisfaction. At the later phase of the placement, our statistics analysis tools can help customers assess the marketing effectiveness and achieve better ROI.

Certification Services. We classify and certify merchants based on the standards developed based on our experiences, and evaluate the credibility of merchants periodically based on their behavior on Baidu Marketing Platform and other business activities. We have adopted related reward and penalty measures aiming to guide the merchants to improve their credibility.

Baidu Credit. Based on customers historical marketing placements and credibility on the Baidu Marketing Platform, we provide a short-term credit line to customers so that they can continue their marketing activities when they are short of capital.

Sales and Distribution

We sell our online marketing services directly and through our distribution network. We have direct sales presence in Beijing, Shanghai and major cities in Guangdong Province, covering the major regional markets for our online

marketing services.

Table of Contents

Our distributors provide numerous services, including identifying customers, collecting payments, assisting customers in setting up accounts with us, suggesting keywords to maximize ROI and engaging in other marketing and educational services aimed at acquiring customers. We offer discounts to distributors as consideration for their services. We have relied on distributors for several reasons. Our P4P customer base in China is geographically diverse and fragmented, as many of our P4P customers are SMEs located in different regions in China. Moreover, SMEs are generally less experienced with online marketing as compared to large companies and therefore benefit from the extensive services provided by distributors. Finally, secure online payment and credit card systems are in early stages of development in China. Distributors serve as an important channel to reach SME customers throughout China and collect payments from them. We offer our online marketing services to medium and large corporate customers through third-party agencies and our direct sales force. We have also engaged third-party agencies to identify and reach the potential customers outside of China.

Marketing

We focus on continually improving the quality of our products and services, as we believe satisfied users and customers are more likely to recommend our products and services to others. Through these efforts and the increased use of internet in China, we have built our brand with modest marketing expenditures.

Our initial public offering in 2005 and subsequent positive media coverage have significantly enhanced our brand recognition. We have also implemented a number of marketing initiatives designed to promote our brand awareness among potential users, customers and Baidu Union members. In addition to our brand positioning in the market, we have also initiated a series of marketing activities to promote our products, especially those in relation to mobile applications, among existing and potential users and customers. In 2014, we hosted an auction for the sale of Baidu display advertising resources in order to further raise the popularity of our media platform. In our 2014 Baidu World event, we shared with our customers our new concepts in technology-based marketing and case studies of innovative sales events based on our media platform in the mobile internet age. Furthermore, we published the manual on digital brand management that we co-authored with McKinsey during our 2014 Baidu Moments Marketing Ceremony, which was aimed at helping brands to better market in the mobile internet era.

Competition

The internet search industry in China is rapidly evolving and highly competitive. Our primary competitors include U.S.-based internet search providers providing Chinese language internet search services and China-based internet companies. We compete with these entities for both users and customers on the basis of user traffic, quality (relevance) and safety and user experience of search results, availability and ease of use of products and services, the number of customers, distribution channels and the number of associated third-party websites. We also face competition from traditional advertising media.

U.S.-based Internet Search Providers. U.S.-based internet search providers such as Google have a strong global presence, well established brand names, more users and customers and significantly greater financial resources than we do. We may also continue to face competition from other existing competitors and new entrants in the Chinese language search market.

China-based Internet Companies. Chinese internet companies such as Sohu and Tencent offer a broad range of online services, including search service. Tencent has merged its search engine SOSO related business with Sohu s search engine Sogou as part of Tencent s investment in Sogou in 2013. These companies have widely recognized brand names in China and significant financial resources. We compete with these portals primarily for user traffic, display advertisement and online marketing. We also compete with B2B service providers such as Alibaba, which also offers

search services on its websites. In addition, Qihoo 360, a company operating an internet platform and primarily providing security products, launched its search services in 2012 and competes with us on internet search.

Table of Contents

Other Advertising Media. Other advertising media, such as newspapers, yellow pages, magazines, billboards, other forms of outdoor media, television, radio and mobile applications compete for a share of our customers marketing budgets. Large enterprises currently spend a relatively small percentage of their marketing budgets on online marketing as compared to other advertising media.

Technology

We have developed a proprietary technological infrastructure consisting of technologies for web search, mobile, P4P, targetizement and large-scale systems. Our established infrastructure serves as the backbone for both our PC and mobile platforms.

We have three labs under the umbrella of Baidu Research, the Silicon Valley Artificial Intelligence (AI) Lab, the Beijing Deep Learning Lab and the Beijing Big Data Lab. We recently opened the Silicon Valley AI Lab in May 2014, enhancing our research and development capabilities in Silicon Valley. We established the Baidu Institute of Deep Learning, currently known as the Beijing Deep Learning Lab, in January 2013. Deep learning is an emerging computer science field that seeks to mimic the human brain with hardware and software. It has helped us develop cutting-edge speech and image recognition technologies, enhance the search experience we provide to users and improve our ad targeting technology and monetization capability.

Web Search Technology

Our web search is powered by a set of advanced technologies including, among others, the following:

Link Analysis. Link analysis is a technique that determines the importance of a web page by evaluating the combination of the anchor texts and the number of web pages linked to that web page. We treat a link from web page A to web page B as a vote by page A in favor of page B. The subject of the vote is described in the anchor texts of that link. The more votes a web page gets, the higher the importance.

Ranking. We compare search queries with the content of web pages to help determine relevance. We have significantly improved the relevancy and freshness of ranking using our machine learning modules to analyze the rich internet and user interaction data and prioritize the search results. For example, our technology determines the proximity of individual search terms to each other on a given web page, and prioritizes results where the search terms are near each other. Other aspects of a page s content are also considered. We have innovatively applied our machine learning technology to better understand the semantics beyond simple text of the keywords inputted by our users, allowing us to provide more relevant search results to users.

Information Extraction. We extract information from a web page using high performance algorithms and information extraction techniques. Our techniques enable us to understand web page content, delete extraneous data, build link structures, identify duplicate and junk pages and decide whether to include or exclude a web page based on its quality. Our techniques can process millions of web pages quickly. In addition, our anti-spam algorithms and tools can identify and respond to spam web pages quickly and effectively.

Web Crawling. Our powerful computer clusters and intelligent scheduling algorithms allow us to crawl web pages efficiently. We can easily scale up our system to collect an ever-growing number of Chinese web pages. Our spider technology enables us to refresh web indices at intervals ranging from every few minutes to every few weeks. We set the index refresh frequency based on our knowledge of internet search users needs and the nature of the information. For example, our news index is typically updated every five minutes, and can be as frequent as every minute, throughout the day given the importance of timely information for news. We also mine multimedia and other forms of

files from web page repositories.

Knowledge Graph. Our knowledge graph aggregates the contents from multiple sources and classifies them into billions of different knowledge entities, where each knowledge entity is of well-defined structure, consisting of various attributes and operations. We have also developed applied computing technology based on our knowledge graph that has generated rich new knowledge based on existing knowledge data to meet the demands

Table of Contents

of users. Our knowledge graph provides a powerful link between knowledge entities and online services in a wide range of areas.

Natural Language Processing. We analyze and understand user queries and web pages by using various natural language processing techniques, including, among others, word segmentation, named entity recognition, syntax and semantic analysis, paraphrasing and language dependent encoding, all of which enhance the accuracy of our search results. For Q&A type searches, we provide relevant and in-depth answers to search inquiries using our deep learning technology to locate, summarize and integrate relevant information from massive data.

Multimedia Technologies. We work on developing intelligent algorithms and systems to better understand human spoken languages, identify audio contents, and recognize the meaning of images and videos. These technologies will enable users to access information in a most natural way, and help our search engine better organize the vast amount of multimedia contents on the web. For example, our speech recognition technology has been applied to our mobile search on smartphones, and our face recognition technology has been applied to generate relevant photos when a person is searched. We have also launched similar image search engine, which can recognize the object and scene in the image that users want to search for and return an image that contains the most similar object and scene.

Mobile Search Technology. For our users, our mobile search technology enables superior user experiences by providing relevant and accurate mobile search results and flexible mobile search input methods. For our customers, we provide free tools to optimize landing pages for mobile devices, by analyzing the content and features and automatically converting to the layouts suitable for mobile devices. The technology also allows users to view the pages in an efficient way, with less time and less traffic consumed. We offer an integrated bidding systems to streamline the bidding experience on both PC and mobile channels. We also provide a series of mobile specific management and analytic tools to help our customers improve return on investments (ROI).

Our Project Aladdin, an ongoing research and development project, aims at discovering useful information of the Hidden Web, which usually refers to the invisible database of the numerous websites and the part of the internet that traditional search engine technology may not be able to index. The resulted Aladdin platform enriches our search index and hence provides richer search results to our users. In 2012, we made a major upgrade to the Aladdin platform, which not only provides a better and faster way to integrate new hidden web information into our search index, but also revolutionizes the search result presentation of the left side of the search result page. Furthermore, the upgraded platform integrates our knowledge graph to render highly relevant knowledge panel at the right side of the search result page to encourage users to acquire more knowledge or take actions directly within the page. Aladdin has become Baidu Open Platform. With Aladdin, mobile application developers do not have to construct and manage websites, and can therefore focus on improving their mobile applications. Aladdin can help incubate websites without web pages.

P4P Technology

Our P4P platform serves billions of relevant, targeted sponsored links each day based on search terms users enter or content they view on the web page. Our key P4P technology includes:

P4P Auction System. We use a web-based auction system to enable customers to bid for positions and automatically deliver relevant, targeted promotional links on Baidu s properties and Baidu Union members properties. The system starts by screening the relevance between the sponsored links and a particular query. Our intelligent ranking system takes into consideration the quality factor of a sponsored link for a search query in addition to the price bid on the keyword. The quality factor of a sponsored link for a search query is determined based on the relevance and certain other factors. The relevance is determined based on the analysis of past search and click-through results. Links to

customers websites are ranked according to a comprehensive ranking index, calculated based on both the quality factor of a sponsored link for a search query and the price bid on that keyword. We employ a dynamic mechanism in determining the minimum bidding price for each keyword.

Table of Contents

One of our current online marketing systems, Phoenix Nest, is designed to generate more relevant results, compared with the previous auction-based online marketing system we used before December 2009. Phoenix Nest helps customers more easily find users favorite search terms to bid on, and provides customers with more tools for budget management and more data for the effective measurement of ROI. We have been continually improving our click-through rate (CTR) estimation technology, for example, we have introduced deep neutral network (DNN) technology into our CTR estimation,

P4P Billing System. We record every click and charge customers a fee by multiplying the number of clicks by the cost per click. Our system is designed to detect fraudulent clicks based on factors such as click patterns and timestamps. This system also computes the amount a Baidu Union member or a distributor should be paid. The billing information is integrated with our internal Oracle ERP financial system.

P4P Customer Service System. This system offers data and tools to analyze data for our customers to evaluate and optimize the performance of our online marketing services provided to them. Through this system, our customers can also manage information relating to online marketing services such as their budgets and time periods for the services.

ProTheme Contextual Promotion Technology. Our ProTheme technology employs techniques that consider factors such as theme finding, keyword analysis, word frequency and the overall link structure of the web to analyze the content of individual web pages and to match sponsored links in our P4P platform to the web pages almost instantaneously. With this targeting technology, we can automatically provide contextually relevant promotional links. For example, our technology can provide links offering tickets to fans of a specific sports team or a news story about that team.

Targetizement Technology

Our Targetizement technology matches our customers promotional links with their targeted internet users. Our automatic algorithm can analyze a user s audience attributes based on his or her past search experience and display promotional links that the user may be interested in viewing.

Large-Scale Systems and Technologies

Large Size Cluster Management. In order to provide highly efficient and stable search services, we have developed an automated management platform for large size clusters. The platform enables us to intelligently manage and allocate resources and automatically debug and relocate services, thereby allowing tens of thousands of different source requests on the Baidu search engine and other non-search business to function stably across multiple internet data centers and thousands of servers.

Storage. We have developed an efficient, distributed and structured storage system to support our search services. Our storage system supports PB-level holistic, sequential data storage, and ten thousand times of real-time processing per second per device. Our storage system also has dynamic data attribute addition and subtraction function and historical data management capability.

Distributed Computing System. We have developed our proxy computing system, a comprehensive set of ultra-large scale distributed computer system, to increase the utility rate of idle resources, providing a strong base support for our core operations. Our proxy computing system has realized various distributed computing software stacks, such as resource isolation, resource distribution, computing modeling and application framework, and supports commonly used computing modules such as MapReduce, Spark, Stream and WebService.

Indexing Technology. Our indexing technology supports billions of daily search requests on over tens of thousands of servers located across multiple internet data centers of different network operators. Through our

Table of Contents

indexing technology, we have been able to index over one hundred billion of web pages without utilizing additional resources and have improved the freshness of indexed information.

Intellectual Property

We rely on a combination of trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. We have 243 issued patents in China and intend to apply for more patents to protect our core technologies. We also enter into confidentiality, non-compete and invention assignment agreements with our employees and consultants and nondisclosure agreements with selected third parties. , our company s name Baidu in Chinese, has been recognized as a well-known trademark in China by the Trademark Office under the State Administration for Industry and Commerce. In addition to owning the trademarks and the related logos, we have applied for registration of the trademark and the related logo. We also have registered certain trademarks in Hong Kong, including and our company logo, in the United States, including and Baidu, in Singapore and Indonesia, including our company logo. In addition, we have registered our domain name *Baidu.com*, *hao123.com* and *baifubao.com* with MarkMonitor.com, *Baidu.jp* with humeia.co.jp and *Baidu.cn*, *Baidu.com.cn*, and certain other websites with China National Network Information Center, or CNNIC.

Internet, technology and media companies are frequently involved in litigation based on allegations of infringement or other violations of intellectual property rights. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving and could involve substantial risks to us. See Item 3.D. Key Information Risk Factors Risks Related to Our Business We may face intellectual property infringement claims and other related claims that could be time-consuming and costly to defend and may result in an adverse impact over our operations and We may be subject to patent infringement claims with respect to our P4P platform.

Regulation

The PRC government extensively regulates the telecommunications industry, including the internet sector. The State Council, the MIIT and other relevant government authorities have promulgated an extensive regulatory scheme governing internet-related services. This section summarizes the principal PRC laws and regulations relating to our business.

In the opinion of Han Kun Law Offices, our PRC legal counsel, (i) the ownership structure relating to our consolidated affiliated entities complies with current PRC laws and regulations; (ii) subject to the disclosure and risks disclosed under Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure, Risks Related to Doing Business in China and Regulation, our contractual arrangements with our consolidated affiliated entities and the nominee shareholders are valid and binding on all parties to these arrangements and do not violate current PRC laws or regulations; and (iii) subject to the disclosure and risks disclosed under Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure, Risks Related to Doing Business in China and Regulation, business operations of our consolidated affiliated entities, as described herein, comply with current PRC laws and regulations in all material respects.

China s internet industry and online advertising market are evolving. There are substantial uncertainties regarding the interpretation and application of existing or proposed PRC laws and regulations. We cannot assure you that the PRC regulatory authorities would find that our corporate structure and our business operations comply with PRC laws and regulations. If the PRC government finds us to be in violation of PRC laws and regulations, we may be required to pay fines and penalties, obtain certain licenses or permits and change, suspend or discontinue our business operations until we comply with applicable PRC laws and regulations.

58

Table of Contents

Regulations on Value-Added Telecommunications Services and Internet Content Services

Internet content services. The Telecommunications Regulations promulgated by the PRC State Council in September 2000 categorize all telecommunication businesses in the PRC as either basic or value-added. Internet content services, or ICP services, are classified as value-added telecommunication businesses. Pursuant to the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT or its provincial level counterparts. The Administrative Measures on Internet Information Services, also promulgated by the PRC State Council in September 2000, require companies engaged in the provision of commercial internet content services to obtain an ICP license from the relevant government authorities before providing any commercial internet content services within the PRC. Commercial internet content services generally refer to provision of information, web page production and other services through internet for a fee. We do not believe our P4P services are categorized as part of internet content services that require an ICP license under these regulations. Although our PRC subsidiary Baidu Online conducts the P4P business by, among other things, designing P4P keywords, interacting with potential P4P customers and engaging in sales activities with our customers, P4P search results are displayed on the websites operated by Baidu Netcom, including *baidu.com*. Baidu Netcom, as the owner of our domain name *baidu.com* and holder of the necessary licenses and approvals, such as an ICP license, operates the website to display P4P search results and other marketing content.

The Administrative Measures for Telecommunication Business Operating License, promulgated by the MIIT with latest amendments becoming effective in April 2009, set forth the types of licenses required for value-added telecommunications services and the qualifications and procedures for obtaining such licenses. For example, a value-added telecommunications service operator providing commercial value-added services in multiple provinces is required to obtain an inter-regional license, whereas a value-added telecommunications service operator providing the same services in one province is required to obtain a local license.

BBS services. The Internet Electronic Messaging Service Administrative Measures promulgated by the MIIT in November 2000 require ICP operators to obtain specific approvals before providing BBS services. BBS services include electronic bulletin boards, electronic forums, message boards and chat rooms. On July 4, 2010, the approval requirement for operating BBS services was terminated by a decision issued by the PRC State Council. However, in practice, the competent authorities in Beijing still require the relevant operating companies to obtain such approval for the operation of BBS services.

Content regulation. National security considerations are an important factor in the regulation of internet content in China. The National People s Congress, the PRC s national legislature, has enacted laws with respect to maintaining the security of internet operation and internet content. Under these laws and applicable regulations, violators may be subject to penalties, including criminal sanctions, for internet content that:

- opposes the fundamental principles stated in the PRC constitution;
- compromises national security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;

incites ethnic hatred or racial discrimination or damages inter-ethnic unity;

undermines the PRC s religious policy or propagates heretical teachings or feudal superstitions;

disseminates rumors, disturbs social order or disrupts social stability;

disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime;

insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or

is otherwise prohibited by law or administrative regulations.

Table of Contents

ICP operators are required to monitor their websites, including electronic bulletin boards. They may not post or disseminate any content that falls within the prohibited categories and must remove any such content from their websites. The PRC government may shut down the websites of ICP license holders that violate any of the above-mentioned content restrictions and revoke their ICP licenses.

Restrictions on Foreign Ownership in Value-Added Telecommunications Services

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises, promulgated by the PRC State Council with latest amendments becoming effective in September 2008, the ultimate foreign equity ownership in a value-added telecommunications service provider must not exceed 50%. In order to acquire any equity interest in a value-added telecommunication business in China, a foreign investor must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and the Ministry of Commerce (or the Ministry of Commerce s authorized local counterparts), which retain considerable discretion in granting approvals. According to publicly available information, the PRC government has issued telecommunication business operating licenses to only a limited number of foreign-invested companies, all of which are Sino-foreign joint ventures engaging in the value-added telecommunication business. We believe that it would be impracticable for us to acquire any equity interest in our consolidated affiliated entities without diverting management attention and resources. Moreover, we believe that our contractual arrangements with these entities and the individual nominee shareholders provide us with sufficient and effective control over these entities. Accordingly, we currently do not plan to acquire any equity interest in any of these entities.

An Notice on Intensifying the Administration of Foreign Investment in Value-Added Telecommunications Services, issued by the MIIT in July 2006, prohibits domestic telecommunication service providers from leasing, transferring or selling telecommunication business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunication business in China. Pursuant to this notice, either the holder of a Value-Added Telecommunication Business Operating License or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunications services. The notice further requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain the facilities in the regions covered by its license. If a license holder fails to comply with the requirements in the notice and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holders, including revoking their Value-Added Telecommunication Business Operating Licenses.

Due to the restrictions under these PRC regulations, we operate our websites mainly through Baidu Netcom and Beijing Perusal, and operate an online payment platform through BaiduPay. Baidu Netcom, Beijing Perusal and BaiduPay are our PRC consolidated affiliated entities, and are considered domestic PRC entities under PRC law given that the nominee shareholders are PRC citizens or PRC entities. Each of Baidu Netcom, Beijing Perusal, BaiduPay and some of our other PRC consolidated affiliated entities holds a Value-Added Telecommunication Business Operating License. In compliance with the Notice of the MIIT on Intensifying the Administration of Foreign Investment in Value-Added Telecommunications Services, Baidu Netcom, Beijing Perusal and BaiduPay, our consolidated affiliated entities, own the necessary domain names and trademarks, including pending trademark applications and have the necessary personnel and facilities to operate our websites. It remains unclear whether the provision of online payment services by BaiduPay will require BaiduPay to apply for a Value-Added Telecommunication Business Operating License for online data processing and transaction processing businesses as provided in the Catalog of Telecommunication Businesses promulgated by the MIIT, although in practice many companies conducting such business do not apply for such license.

60

Table of Contents

Regulations on News Display

Displaying news on a website and disseminating news through the internet are highly regulated in the PRC. The Provisional Measures for Administrating Internet Websites Carrying on the News Displaying Business, jointly promulgated by the State Council News Office and the MIIT in November 2000, require an ICP operator (other than a government authorized news unit) to obtain State Council News Office approval to post news on its website or disseminate news through the internet. Furthermore, the disseminated news must come from government-approved sources pursuant to contracts between the ICP operator and the sources, copies of which must be filed with the relevant government authorities.

In September 2005, the State Council News Office and the MIIT jointly issued the Provisions on the Administration of Internet News Information Services, requiring internet news information service organizations to provide services as approved by the State Council News Office, subject to annual inspection under the provisions. Pursuant to the provisions, no internet news information service organizations may take the form of a foreign-invested enterprise, whether a joint venture or a wholly foreign-owned enterprise, and no cooperation between internet news information service organizations and foreign-invested enterprises is allowed prior to the security evaluation by the State Council News Office.

Baidu Netcom obtained the Internet News License, which permits it to publish internet news pursuant to the relevant PRC laws and regulations, in December 2006, and had the license renewed in June 2010. The Internet News License is subject to annual inspection by relevant government authorities.

Regulations on Internet Drug Information Services

According to the Measures for the Administration of Internet Drug Information Services, issued by the State Food and Drug Administration in July 2004, an ICP operator publishing drug-related information must obtain a qualification certificate from the State Food and Drug Administration or its provincial level counterpart.

Baidu Netcom obtained the Qualification Certificate for Internet Drug Information Services, which permits it to publish drug-related information on its website, in November 2007, and had the certificate renewed in September 2012. We have several other entities in our group that have obtained the Qualification Certificate for Internet Drug Information Services.

Regulations on Internet Culture Activities

The amended Internet Culture Administration Measures, promulgated by the Ministry of Culture and becoming effective in April 2011, require ICP operators engaging in internet culture activities to obtain a permit from the Ministry of Culture. The internet culture activities include, among other things, online dissemination of internet cultural products (such as audio-video products, games, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, distribution and broadcasting of internet cultural products. Imported internet cultural products are subject to content review by the Ministry of Culture before they are disseminated online, while domestic internet cultural products must be filed with the local branch of the Ministry of Culture within 30 days following the online dissemination. Baidu Netcom was granted an Internet Culture Business Permit in April 2007, which was renewed again in November 2013. Beijing Perusal and some other entities in our group were also granted an Internet Culture Business Permit.

The Several Suggestions on the Development and Administration of the Internet Music, issued by the Ministry of Culture and becoming effective in November 2006, reiterate the requirement for the internet service provider to obtain

the Internet Culture Business Permit to carry on any business of internet music products. In addition, foreign investors are prohibited from engaging in the internet culture business operation.

Furthermore, the Notice on Strengthening and Improving the Content Review of Online Music, issued by Ministry of Culture in August 2009, provides that only internet culture operating entities approved by the

Table of Contents

Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. Internet culture operating entities should establish strict self-monitoring system of online music content and set up special department in charge of such monitoring.

Regulations on Internet Publishing

The Interim Provisions for the Administration of Internet Publishing, jointly issued by the GAPP and the MIIT and becoming effective in August 2002, require entities that engage in internet publishing to obtain approval from the GAPP. Pursuant to the provisions, internet publishing refers to the act of online spreading of articles, whereby the internet information service providers select, edit and process works created by themselves or others and subsequently post such works on the internet or transmit such works to the users end through internet for the public to browse, read, use or download. Beijing Perusal and another entity in our group have obtained the Internet Publication Licenses. Baidu Netcom is in the process of applying for the Internet Publication License.

Regulation on Broadcasting Audio/Video Programs through the Internet

In July 2004, the SARFT promulgated the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, or the Audio/Video Broadcasting Rules. The Audio/Video Broadcasting Rules apply to the opening, broadcasting, integration, transmission or download of audio/video programs through internet and other information networks. Anyone who wishes to engage in internet broadcasting activities must first obtain an Online Audio/Video Program Transmission License, with a term of two years, issued by the SARFT and operate in accordance with the scope as stipulated in such license. Foreign-invested enterprises are not allowed to engage in the above-mentioned business activities.

The Rules for the Administration of Internet Audio and Video Program Services, commonly known as Document 56, jointly promulgated by the SARFT and the MIIT in December 2007, reiterate the requirement set forth in the Audio/Video Broadcasting Rules that online audio/video service provider must obtain a license from the SARFT. Furthermore, Document 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled. According to some official answers to press inquiries published on the SARFT s website in February 2008, officials from the SARFT and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Document 56 may re-register and continue to operate without becoming state-owned or controlled, provided that the providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after Document 56 was issued. Baidu Netcom has renewed its Online Audio/Video Program Transmission License, which remains valid till July 2015, iQiyi has an Online Audio/Video Program Transmission License valid till October 2015, and another entity in our group has recently renewed its Online Audio/Video Program Transmission License, which remains valid till March 2017.

Regulations on Payment Services by Non-financial Institutions

Pursuant to the People s Bank of China s Measures Concerning Payment Services by Non-financial Institutions, which took effect in September 2010, and its implementation rules, non-financial institutions that have been providing monetary transfer services as an intermediary between payees and payers, including online payment, issuance and acceptance of prepaid card or bank card, and other payment services as specified by the People s Bank of China, must obtain a license from the People s Bank of China prior to September 1, 2011, in order to continue providing monetary transfer services. BaiduPay applied for the license after the regulations mentioned above were promulgated and prior to September 1, 2011, and was granted the license for online payment in July 2013.

62

Table of Contents

Regulations on Internet Map Services

According to the Administrative Rules of Surveying Qualification Certificate and the amended Standard for Internet Map Services issued by the National Administration of Surveying, Mapping and Geoinformation (formerly known as the State Bureau of Surveying and Mapping) in March 2009 and May 2010, respectively, the provision of internet map services by any non-surveying and mapping enterprise is subject to the approval of the National Administration of Surveying, Mapping and Geoinformation and requires a Surveying and Mapping Qualification Certificate. Internet maps refer to maps called or transmitted through internet. Pursuant to the Notice on Further Strengthening the Administration of Internet Map Services Qualification issued by the National Administration of Surveying, Mapping and Geoinformation in December 2011, any entity without applying for a Surveying and Mapping Qualification Certificate for internet map services is prohibited from providing any internet map services. Baidu Netcom currently provides online traffic information inquiry services as well as internet map services and has obtained a Surveying and Mapping Qualification Certificate for internet map services. Another entity in our group has also obtained the Surveying and Mapping Qualification Certificate.

Regulations on Online Games

Pursuant to the Interim Provisions for the Administration of Internet Publishing, the online games services provided on our websites by our online game operator partners may be deemed as a type of internet publication provided by us, and we may be required to obtain an Internet Publication License from the GAPP. Beijing Perusal and another entity in our group have obtained the Internet Publication Licenses. Baidu Netcom is in the process of applying for the Internet Publication License. The required approval by the GAPP of each online game provided on our websites is handled by our online game operator partners.

In June 2010, the Ministry of Culture promulgated the Interim Administration Measures of Online Games. In accordance with these measures, an ICP service provider operating online games, must obtain an Internet Culture Business Permit. Baidu Netcom and some other entities in our group have obtained an Internet Culture Business Permit for operating online games. These measures also specify that the Ministry of Culture is responsible for the censorship of imported online games and the filing of records of domestic online games. The procedures for the filing of records of domestic online games must be conducted with the Ministry of Culture within 30 days after the commencement date of the online operation of such online games or the occurrence date of any material alteration of such online games. The approval by or filing with the Ministry of Culture of each online game provided on our websites has been handled primarily by our online game operator partners.

In September 2009, the GAPP (currently known as the SAPPRFT) together with several other government agencies issued a Circular 13, which explicitly prohibits foreign investors from participating in online game operating businesses through wholly-owned enterprises, equity joint ventures or cooperative joint ventures in China. The Circular 13 expressly prohibits foreign investors from gaining control over or participating in PRC operating companies online game operations through indirect means, such as establishing joint venture companies, entering into contractual arrangements with or providing technical support to the operating companies, or through a disguised form, such as incorporating user registration, user account management or payment through game cards into online game platforms that are ultimately controlled or owned by foreign investors. We offer online games provided by our game operator partners on our websites owned and operated by our consolidated affiliated entities. We have also acquired 91 Wireless, which operates two leading smartphone application distribution platforms in China as well as a mobile game platform through its consolidated affiliated entities. If our contractual arrangements were deemed to be indirect means or disguised form under the Circular 13, our relevant contractual arrangements may be challenged by the SAPPRFT or other governmental authorities. If we were found to be in violation of the Circular 13 to operate our mobile game platform, the SAPPRFT, in conjunction with relevant regulatory authorities, would have the power to

investigate and deal with such violations, including in the most serious cases, suspending and revoking the relevant licenses and registrations.

Table of Contents

Regulations on Online Game Virtual Currency

The Interim Administration Measures of Online Games require companies that (i) issue online game virtual currency (including prepaid cards and/or pre-payment or prepaid card points), or (ii) offer online game virtual currency transaction services to apply for the Internet Culture Business Permit from provincial branches of the Ministry of Culture. The regulations prohibit companies that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any company that fails to submit the requisite application will be subject to sanctions, including but not limited to termination of operation, confiscation of incomes and fines. The regulations also prohibit online game operators from allocating virtual items or virtual currency to players based on random selection through lucky draw, wager or lottery that involves cash or virtual currency directly paid by the players. In addition, companies that issue online game virtual currency must comply with certain specific requirements, for example, online games virtual currency can only be used for products and services related to the issuance company s own online games. Baidu Netcom and some other entities in our group have obtained the Internet Culture Business Permit for issuing online game virtual currency.

Regulations on Advertisements

The PRC government regulates advertising, including online advertising, principally through the State Administration for Industry and Commerce, although there are no national PRC laws or regulations regulating online advertising business specifically. Under the Rules for Administration of Foreign-Invested Advertising Enterprise, promulgated by the State Administration for Industry and Commerce and the Ministry of Commerce in March 2004 and amended in October 2008, foreign investors are permitted to own equity interests in PRC advertising companies. However, foreign investors in wholly foreign-owned and joint venture advertising companies are required to have at least three years and two years, respectively, of direct operations in the advertising industry outside of China. The Administrative Regulations for Advertising Operation Licenses, taking effect in January 2005, exempt enterprises (other than radio stations, television stations, newspapers and magazines, non-corporate entities and other specified entities) from the previous requirement to obtain an advertising operation license in addition to a business license.

We conduct our online advertising business through our consolidated affiliated entities in China, Baidu Netcom and Beijing Perusal, each of which holds a business license that covers online advertising in its business scope. Our subsidiaries Baidu Times and Baidu China have also expanded their respective business license to cover advertising in their respective business scope.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the contents of the advertisements they prepare or distribute are true and in full compliance with applicable laws and regulations. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been performed and the relevant approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In the case of serious violations, the State Administration for Industry and Commerce or its local branches may force the violator to terminate its advertising operation or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties.

Tort Liability Law

In accordance with the PRC Tort Liability Law, which became effective in July 2010, internet users and internet service providers bear tortious liabilities in the event that they infringe upon other persons rights and interests through the internet. Where an internet user conducts tortious acts through internet services, the infringed person has the right to request the internet service provider take necessary actions such as deleting contents, screening and de-linking. Failing to take necessary actions after being informed, the internet service

Table of Contents

provider will be subject to joint and several liabilities with the internet user with regard to the additional damages incurred. Where an internet service provider knows that an internet user is infringing upon other persons rights and interests through its internet service but fails to take necessary actions, it is jointly and severally liable with the internet user.

Regulations on Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including patents, copyrights, trademarks, and domain names.

Patent. The PRC Patent Law provides for patentable inventions, utility models and designs, which must meet three conditions: novelty, inventiveness and practical applicability. The State Intellectual Property Office under the State Council is responsible for examining and approving patent applications. A patent is valid for a term of twenty years in the case of an invention and a term of ten years in the case of utility models and designs.

Copyright. The PRC Copyright Law and its implementation rules extend copyright protection to products disseminated over the internet and computer software. There is a voluntary registration system administered by the China Copyright Protection Center. Creators of protected works enjoy personal and property rights, including, among others, the right of disseminating the works through information network.

Pursuant to the relevant PRC regulations, rules and interpretations, ICP operators will be jointly liable with the infringer if they (i) participate in, assist in or abet infringing activities committed by any other person through the internet, (ii) are or should be aware of the infringing activities committed by their website users through the internet, or (iii) fail to remove infringing content or take other action to eliminate infringing consequences after receiving a warning with evidence of such infringing activities from the copyright holder. The court will determine whether an internet service provider should have known of their internet users infringing activities based on how obvious the infringing activities are by taking into consideration a number of factors, including (i) the information management capabilities that the provider should have based on the possibility that the services provided by it may trigger infringing acts, (ii) the degree of obviousness of the infringing content, (iii) whether it has taken the initiative to select, edit, modify or recommend the contents involved, (iv) whether it has taken positive and reasonable measures against infringing acts, and (v) whether it has set up convenient programs to receive notices of infringement and made timely and reasonable responses to the notices. Where an internet service provider has directly obtained economic benefits from any contents made available by an internet user, it shall have a higher duty of care with respect to the internet user s act of infringement of others copyrights. Advertisements placed for or other benefits particularly connected with specific contents may be deemed as direct economic benefits from such contents, but general advertising fees or service fees charged by an internet service provider for its internet services will not be included. In addition, where an ICP operator is clearly aware of the infringement of certain content against another s copyright through the internet, or fails to take measures to remove relevant contents upon receipt of the copyright holder s notice, and as a result, it damages the public interest, the ICP operator could be ordered to stop the tortious act and be subject to other administrative penalties such as confiscation of illegal income and fines. An ICP operator is also required to retain all infringement notices for a minimum of six months and to record the content, display time and IP addresses or the domain names related to the infringement for a minimum of 60 days.

An internet service provider may be exempted from liabilities for providing links to infringing or illegal content or providing other internet services which are used by its users to infringe others copyright, if it does not know and does not have constructive knowledge that such content is infringing upon other parties rights or is illegal. However, if the legitimate owner of the content notifies the internet service provider and requests removal of the links to the infringing content, the internet service provider would be deemed to have constructive knowledge upon receipt of such

notification, but would be exempted from liabilities if it removes or disconnects the links to the infringing content at the request of the legitimate owner. At the request of the alleged infringer, the internet service provider should immediately restore links to content previously disconnected upon receipt of initial non-infringing evidence.

Table of Contents

We have adopted measures to mitigate copyright infringement risks. For example, our policy is to remove links to web pages and materials uploaded by the users if we know these web pages or materials contain materials that infringe upon third-party rights or if we are notified by the legitimate copyright holder of the infringement with proper evidence.

Software Products. The amended Administrative Measures on Software Products, promulgated by the MIIT and becoming effective in April 2009, provide a registration and filing system with respect to software products made in or imported into China. Software products may be registered with the relevant local authorities in charge of software industry administration. Registered software products may enjoy preferential treatment status granted by applicable software industry regulations. Software products can be registered for five years, and the registration is renewable upon expiration.

In addition, the Computer Software Protection Regulations and the Computer Software Copyright Registration Procedures apply to software copyright registration, license agreement registration and transfer agreement registration. Although such registration is not mandatory under PRC law, software copyright owners are encouraged to go through the registration process and registered software may receive better protection.

Trademark. The PRC Trademark Law and its implementation rules protect registered trademarks. The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. is recognized as a well-known trademark in China by the Trademark Office under the State Administration for Industry and Commerce. In addition to owning the trademarks and and the related logos, we have applied for registration of the trademark and the related logo.

Domain name. Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT in November 2004. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the China Internet Network Information Center, or CNNIC, is responsible for the daily administration of .cn domain names and Chinese domain names. We have registered *Baidu.cn*, *Baidu.com.cn*, *hao123.com* and certain other domain names with CNNIC.

Regulations on Information Security

The National People s Congress has enacted legislation that prohibits use of the internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

Pursuant to applicable regulations, ICP operators must complete mandatory security filing procedures and regularly update information security and censorship systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets during online information distribution. Specifically, internet companies in China with bulletin boards, chat rooms or similar services must apply for specific approval prior to operating such services.

66

Table of Contents

Furthermore, the Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The Network Information Protection Decision states that ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep relevant records, and report to relevant government authorities.

Baidu Netcom, Beijing Perusal, BaiduPay and some other entities in our group are ICP operators, and are therefore subject to the regulations relating to information security. They have taken measures to comply with these regulations. They are registered with the relevant government authority in accordance with the mandatory registration requirement. Baidu Netcom s policy is to remove links to web pages which to its knowledge contain information that would be in violation of PRC laws or regulations. In addition, we monitor our websites to ensure our compliance with the above-mentioned laws and regulations.

Regulations on Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Network Information Protection Decision provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Pursuant to the Internet Electronic Messaging Service Administrative Measures, ICP operators that provide electronic messaging services must keep users personal information confidential and must not disclose the personal information to any third party without the users consent or unless required by law. According to the Provisions on Protection of Personal Information of Telecommunication and Internet Users, telecommunication business operators and ICP operators shall be responsible for the security of the personal information of users they collect or use in the course of their provision of services. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulge, damage, tamper or loss of users personal information.

The relevant telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the relevant websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on internet privacy. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet.

67

Table of Contents

Regulations on Foreign Exchange

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules, as amended, and various regulations issued by SAFE and other relevant PRC government authorities, RMB is freely convertible to the extent of current account items, such as trade related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, unless expressly exempted by laws and regulations, still require prior approval from SAFE or its provincial branch for conversion of RMB into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside of the PRC.

Payments for transactions that take place within the PRC must be made in RMB. Foreign currency revenues received by PRC companies may be repatriated into China or retained outside of China in accordance with requirements and terms specified by SAFE.

Dividend Distribution

Wholly foreign-owned enterprises and Sino-foreign equity joint ventures in the PRC may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Additionally, these foreign-invested enterprises may not pay dividends unless they set aside at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds, until such time as the accumulative amount of such fund reaches 50% of the enterprise s registered capital. In addition, these companies also may allocate a portion of their after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends.

Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to SAFE s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or SAFE Circular No. 75, issued in October 2005, and a series of implementation rules and guidance, including the circular relating to operating procedures that came into effect in July 2011, PRC residents, including PRC resident natural persons or PRC companies, must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, for the purposes of overseas equity financing activities, and to update such registration in the event of any significant changes with respect to that offshore company. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, on July 4, 2014, which replaced the SAFE Circular No. 75. SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE No. Circular No. 37 as a special purpose vehicle. The term control under SAFE Circular No. 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular No. 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local

SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could result

Table of Contents

in liability under PRC law for evasion of applicable foreign exchange restrictions. We have notified holders of ordinary shares of our company whom we know are PRC residents to register with the local SAFE branch and update their registrations as required under the SAFE regulations described above. On February 28, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which will become effective on June 1, 2015. After SAFE Notice 13 becomes effective, entities and individuals will be required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under the SAFE Circular No. 37, with qualified banks, instead of SAFE. The qualified banks, under the supervision of SAFE, will directly examine the applications and conduct the registration. We are aware that Mr. Robin Yanhong Li, our chairman, chief executive officer and principal shareholder, who is a PRC resident, has registered with the relevant local SAFE branch, and is in the process of updating such registration to comply with requirements under the new SAFE Circular No. 37. We, however, cannot provide any assurances that all of our shareholders who are PRC residents will file all applicable registrations or update previously filed registrations as required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures may subject the PRC resident shareholders to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries ability to distribute dividends to or obtain foreign exchange-dominated loans from our company.

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rule, replacing the earlier rules promulgated in March 2007. Under the Stock Option Rule, PRC residents who are granted stock options by an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. We and our PRC resident employees who have been granted stock options are subject to these regulations. We have designated our PRC subsidiary Baidu Online to handle the registration and other procedures required by the Stock Option Rule. Failure of the option holders to complete their SAFE registrations may subject these PRC employees to fines and legal sanctions and may also limit the ability of the overseas publicly listed company to contribute additional capital into its PRC subsidiary and limit the PRC subsidiary s ability to distribute dividends.

Regulations on Labor

The Labor Contract Law, which became effective in January 2008, and its implementation rules, impose more restrictions on employers and have been deemed to increase labor costs for employers, compared to the Labor Law, which became effective in January 1995. For example, pursuant to the Labor Contract Law, an employer is obliged to sign labor contract with unlimited term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts. The employer has to compensate the employee upon the expiration of a fixed-term labor contract, unless the employee refuses to renew such contract on terms the same as or more favorable to the employee than those contained in the expired contract. The employer also has to indemnify an employee if the employer terminates a labor contract without a cause permitted by law. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective in January 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days per year, depending on their length of service. Employees who waive such vacation time at the request of employers must be compensated for three times their regular salaries for each waived vacation day.

Regulations on Taxation

For a discussion of applicable PRC tax regulations, see Item 5.A. Operating and Financial Review and Prospects Operating Results Taxation.

69

Table of Contents

C. Organizational Structure

The following is a list of our principal subsidiaries and consolidated affiliated entities as of the date of this annual report on Form 20-F:

Name	Place of Formation	Relationship
Baidu Online Network Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
Baidu Holdings Limited	British Virgin Islands	Wholly owned subsidiary
Beijing Baidu Netcom Science Technology Co., Ltd.	China	Consolidated affiliated entity
Baidu (China) Co., Ltd.	China	Wholly owned subsidiary
Baidu.com Times Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
Beijing Perusal Technology Co., Ltd.	China	Consolidated affiliated entity
Baidu Japan Inc.	Japan	Wholly owned subsidiary
Baidu (Hong Kong) Limited	Hong Kong	Wholly owned subsidiary
Beijing BaiduPay Science and Technology Co., Ltd.	China	Consolidated affiliated entity
Qunar Cayman Islands Limited	Cayman Islands	Majority-owned subsidiary
Qiyi.com, Inc.	Cayman Islands	Majority-owned subsidiary
B.D. Mobile Telecommunications Limited	Cayman Islands	Wholly owned subsidiary
Baidu Cloud Computing Technology (Shanxi) Co., Ltd.	China	Wholly owned subsidiary
Baidu Cloud Computing Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
91 Wireless Websoft Limited	Cayman Islands	Wholly owned subsidiary

The following diagram illustrates our corporate structure, including our principal subsidiaries and consolidated affiliated entities as of the date of this annual report on Form 20-F:

* The diagram above omits the names of subsidiaries and consolidated affiliated entities that are insignificant individually and in the aggregate. Baidu HR Consulting (Shanghai) Co., Ltd., a consolidated affiliated entity, has ceased operations and has been liquidated and dissolved.

Table of Contents

(1) Beijing Baidu Netcom Science Technology Co., Ltd. is 99.5% owned by Mr. Robin Yanhong Li, our chairman and chief executive officer, and 0.5% owned by Mr. Zhan Wang, an employee of ours. Please see Item 6.E. Directors, Senior Management and Employees Share Ownership for Mr. Robin Yanhong Li s beneficial ownership in our company. Mr. Zhan Wang s beneficial ownership of our company is less than 1% of our total outstanding shares.
(2) Beijing Perusal Technology Co., Ltd. is 80% owned by Mr. Jiping Liu and 20% owned by Ms. Yazhu Zhang. Mr. Jiping Liu and Ms. Yazhu Zhang are third-party individuals designated by us, and their respective beneficial ownership in our company is less than 1% of our total outstanding shares.
(3) Beijing BaiduPay Science and Technology Co., Ltd. is 91% owned by Beijing Baidu Netcom Science Technology Co., Ltd. and 9% owned by Mr. Zhixiang Liang, an employee of ours. Mr. Zhixiang Liang s beneficial ownership in our company is less than 1% of our total outstanding shares.

Contractual Arrangements with Our Consolidated Affiliated Entities and the Nominee Shareholders

PRC laws and regulations restrict and impose conditions on foreign investment in internet, online advertising, online audio and video services and mobile application distribution businesses. Accordingly, we operate these businesses in China through our consolidated affiliated entities. We have entered into a series of contractual arrangements with our consolidated affiliated entities and the nominee shareholders of our consolidated affiliated entities. These contractual arrangements enable us to:

receive substantially all of the economic benefits from our consolidated affiliated entities in consideration for the services provided by our subsidiaries;

exercise effective control over our consolidated affiliated entities; and

hold an exclusive option to purchase all or part of the equity interests in our consolidated affiliated entities when and to the extent permitted by PRC law.

We do not have any equity interest in our consolidated affiliated entities. However, as a result of contractual arrangements, we have effective control over and are considered the primary beneficiary of these companies, and we have consolidated the financial results of these companies in our consolidated financial statements. If our consolidated affiliated entities or the nominee shareholders fail to perform their respective obligations under the contractual arrangements, we could be limited in our ability to enforce the contractual arrangements that give us effective control over our consolidated affiliated entities. Further, if we are unable to maintain effective control, we would not be able to continue to consolidate the financial results of our consolidated affiliated entities in our financial statements. In 2012, 2013 and 2014, we derived approximately 29%, 28% and 27% of our total revenues, respectively, from our consolidated affiliated entities through contractual arrangements. For a detailed description of the regulatory environment that necessitates the adoption of our corporate structure, see Item 4.B. Information on the Company Business Overview Regulation. For a detailed description of the risks associated with our corporate structure, see Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure.

Contractual Arrangements relating to Baidu Netcom, Beijing Perusal and BaiduPay

The following is a summary of the material provisions of the agreements among (i) our wholly-owned PRC subsidiary, Baidu Online, (ii) each of Baidu Netcom, Beijing Perusal and BaiduPay, our principal consolidated affiliated entities, and (iii) the nominee shareholders of these consolidated affiliated entities.

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 to Baidu Netcom technology consulting and services related to, among other things, the maintenance of servers, software development, design of advertisements, and

Table of Contents

e-commerce technical services. Baidu Online owns the intellectual property rights resulting from the performance of this agreement. Baidu Netcom agrees to pay a monthly service fee to Baidu Online based on the formula as provided in the agreement in exchange for the technology consulting and services provided by Baidu Online. Under the agreement, the monthly service fee is equal to the product of the standard monthly fee for page view per thousand times multiplied by the actual times of page view for the month divided by 1,000. Baidu Online has the right to adjust the service fees at its sole discretion without the consent of Baidu Netcom. The agreement shall 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.

The exclusive technology consulting and services agreement between Baidu Online and each of Beijing Perusal and BaiduPay contains the same terms as those between Baidu Online and Baidu Netcom described above. Each of the agreements shall 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.

The amount of service fees Baidu Netcom paid to Baidu Online was 88% and 89% of its net income before income taxes and the service fees were charged for 2012 and 2013, respectively. After paying service fees to Baidu Online, net income of Baidu Netcom is insignificant because substantially all of its operating profits have been paid as service fees to Baidu Online. In 2014, Baidu Netcom only paid an insignificant amount of service fees to Baidu Online due to its loss position. The amount of service fees Beijing Perusal paid to Baidu Online was over 100% of its net income before income taxes and the service fees were charged for 2012. In 2013 and 2014, Beijing Perusal did not pay any service fees to Baidu Online due to its loss position. BaiduPay has not paid any service fees to Baidu Online due to its break-even or loss position since its inception.

Operating Agreement

Pursuant to the operating agreement by and among Baidu Online, Baidu Netcom and the nominee shareholders of Baidu Netcom, Baidu Online provides guidance and instructions on Baidu Netcom s daily operations and financial affairs. Baidu Online has the right to appoint senior executives of Baidu Netcom. The nominee shareholders of Baidu Netcom must appoint 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. 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 shall 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.

The operating agreement by and among Baidu Online, each of Beijing Perusal and BaiduPay and the respective nominee shareholders contains the same terms as those described above. Each of the agreements shall 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.

License Agreements

Baidu Online and Baidu Netcom have entered into a software license agreement and a web layout copyright license agreement. Pursuant to these license agreements, 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 have been renewed and are in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

Table of Contents

The web layout copyright license agreements that Baidu Online has entered into with each of Beijing Perusal and BaiduPay contain the same terms as the one between Baidu Online and Baidu Netcom described above. Each of the agreements is 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 had also entered into a domain name license agreement and a trademark license agreement with each of Baidu Netcom, Beijing Perusal and BaiduPay previously. After the transfers of the relevant domain names and trademarks (including pending trademark applications) from Baidu Online to Baidu Netcom, Beijing Perusal or BaiduPay, the domain name license agreements and trademark license agreements were terminated. As of December 31, 2014, no domain license agreement and trademark license agreement were outstanding between Baidu Online and each of Baidu Netcom, Beijing Perusal and BaiduPay.

Exclusive Equity Purchase and Transfer Option Agreement

Pursuant to the exclusive equity purchase and transfer option agreement by and among Baidu Online, Baidu Netcom and the nominee shareholders of Baidu Netcom, the nominee shareholders of Baidu Netcom have irrevocably granted Baidu Online an exclusive option to purchase, or require any of the nominee shareholders of Baidu Netcom to transfer to another person designated by Baidu Online, 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 nominee shareholders shall remit to Baidu Online any amount that is paid by Baidu Online or its designated person in connection with the purchased equity interest. Baidu Online has sole discretion to decide when to exercise the option, whether in part or in full. Any and all dividends and other capital distributions from Baidu Netcom to the nominee shareholders shall be paid to Baidu Online in full. Baidu Online shall provide unlimited financial support to Baidu Netcom, if Baidu Netcom shall become in need of any form of reasonable financial support in the normal operation of business. If Baidu Netcom were to incur any loss and as a result cannot repay any loans from Baidu Online, Baidu Online shall unconditionally forgive any such loans to Baidu Netcom given that Baidu Netcom provides sufficient proof for its loss and incapacity to repay. The agreement shall terminate upon the nominee shareholders of Baidu Netcom have transferred all their equity interests in Baidu Netcom to Baidu Online or its designated person or upon expiration of the term of business of Baidu Online or Baidu Netcom.

The exclusive equity purchase and transfer option agreement by and among Baidu Online, each of Beijing Perusal and BaiduPay and the respective nominee shareholders contains the same terms as those described above. Each of the agreements shall terminate upon the nominee shareholders of Beijing Perusal or BaiduPay have transferred all their equity interests in Beijing Perusal or BaiduPay, as the case may be, to Baidu Online or its designated person or upon expiration of the term of business of Baidu Online or the relevant consolidated affiliated entity.

Loan Agreements

Pursuant to loan agreements between Baidu Online and the nominee shareholders of Baidu Netcom, Baidu Online provided interest-free loans with an aggregate amount of RMB100.0 million (US$16.1 million) to the nominee 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 sale of the nominee shareholders equity interest in Baidu Netcom to Baidu Online or its designated person. The term of each loan is ten years from the date of the agreement and can be extended with the written consent of both parties before expiration. With some of the loan agreements amended and renewed, the earliest will expire on February 9, 2016.

The loan agreements between Baidu Online and the nominee shareholders of Beijing Perusal and BaiduPay contain the same terms as those described above, except that the amount of loans extended to the nominee shareholders is

RMB1.0 billion (US$164.4 million) and RMB31.5 million (US$5.1 million), respectively. The term of the loans will expire on January 19, 2025 and September 15, 2024, respectively, and can be extended with the written consent of both parties before expiration.

Table of Contents

Proxy Agreement/Power of Attorney

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

Each of the proxy agreements and powers of attorney between Baidu Online and the nominee shareholders of Beijing Perusal and BaiduPay contains the same terms as those described above. Each of the proxy agreements shall be in effect for an unlimited term unless terminated in writing by Baidu Online. Each of the powers of attorney shall be in effect for as long as the relevant nominee shareholder of Beijing Perusal or BaiduPay holds any equity interests in Beijing Perusal or BaiduPay, as the case may be.

Equity Pledge Agreement

Pursuant to the equity pledge agreement between Baidu Online and the nominee shareholders of Baidu Netcom, the nominee shareholders of Baidu Netcom have pledged all of their equity interests in Baidu Netcom to Baidu Online to guarantee their obligations under the loan agreement and Baidu Netcom s performance of its obligations under the exclusive technology consulting and service agreement. If Baidu Netcom or the nominee 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 nominee shareholders of Baidu Netcom agree 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 of or the fulfillment by Baidu Netcom and the nominee shareholders of their respective obligations under the exclusive technology consulting and service agreement and the loan agreement.

Each of the equity pledge agreements between Baidu Online and the nominee shareholders of Beijing Perusal and BaiduPay contains the same terms as those described above.

The equity pledges of Baidu Netcom and BaiduPay described above have been perfected by registration with the relevant local administration for industry and commerce as required for a property right under the PRC Property Rights Law, while the equity pledge registration of Beijing Perusal is in process.

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

We have also entered into contractual arrangements with several other affiliated entities and their respective nominee shareholders through our subsidiaries other than Baidu Online, which results in these subsidiaries being the primary beneficiary of the relevant affiliated entities. As a result of these contractual arrangements, there exists a parent-subsidiary relationship between us and the relevant affiliated entities, and we consolidate these affiliated entities through subsidiaries besides Baidu Online.

Table of Contents

D. Property, Plant and Equipment

Baidu Campus, our corporate headquarters, is located in Shangdi, an area designated by the Beijing municipal government as the center of the city s information technology industry. We also lease some offices in Beijing, Tokyo (Japan), California (USA), Thailand, Brazil, Egypt, Indonesia and many other cities in China.

We host our servers in China at the internet data centers of China Telecom, China Unicom and China Mobile in nine selected cities in China, and we also have content delivery network locations in various cities across China. We expect to use two additional data centers in 2015. We also have a data center of our own in Shanxi.

In December 2011, we commenced construction of an office building in Shenzhen, which will serve as our international center in Southern China. We have paid RMB129.5 million (US$20.9 million) for the land use right. Our capital expenditure in connection with the construction of this office building in Shenzhen was RMB159.1 million (US$25.6 million) in 2014. We currently expect to complete the planned construction in 2017.

In August 2012, we commenced construction of another office building, Baidu Science Park, in Beijing. We have paid in advance RMB464.0 million (US$74.8 million) for the land use right. Our capital expenditures in connection with the construction of Baidu Science Park was RMB556.2 million (US$89.6 million) in 2014. We expect to complete the planned construction in 2015.

In September 2012, we commenced construction of Shanxi Cloud Computing Center, which will serve as one of our internet data centers in China. We have paid RMB71.5 million (US$11.5 million) for the land use right. Our capital expenditure in connection with the construction of Shanxi Cloud Computing Center was RMB441.5 million (US$71.2 million) in 2014. We expect to fully complete the planned construction in 2017.

In April 2014, we commenced construction of part of Beijing Cloud Computing Center, which will serve as our internet data center and office building in Beijing. We have paid RMB220.9 million (US$35.6 million) for the right to use three pieces of land in Beijing, where we plan to build our Beijing Cloud Computing Center. Our capital expenditure in connection with the construction of Beijing Cloud Computing Center was RMB37.0 million (US$6.0 million) in 2014. We expect to complete the internet data center in 2018. We are in the process of planning the construction work for the office building, and the completion date is not determinable at this stage.

We currently plan to fund these expenditures with our cash, cash equivalents, short-term investments and anticipated cash flow generated from our operating activities.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See Forward-Looking Information. In evaluating our business, you should carefully consider the information provided under the caption Item 3.D. Key Information Risk Factors in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

75

Table of Contents

A. Operating Results

Overview

Our operations are primarily based in China, where we derive almost all of our revenues. Total revenues in 2014 were RMB49.1 billion (US$7.9 billion), a 53.6% increase over 2013. Operating profit in 2014 was RMB12.8 billion (US$2.1 billion), a 14.4% increase over 2013. Net income attributable to Baidu, Inc. in 2014 was RMB13.2 billion (US$2.1 billion), a 25.4% increase over 2013. Mobile revenues accounted for 36.5% of our total revenues for 2014.

Our total assets as of December 31, 2014 were RMB99.7 billion (US$16.1 billion), of which cash and cash equivalent amounted to RMB13.9 billion (US$2.2 billion). Our total liabilities as of December 31, 2014 were RMB45.2 billion (US$7.3 billion), accounting for 45.3% of total liabilities and equity. As of December 31, 2014, our retained earnings accumulated to RMB47.7 billion (US$7.7 billion).

In November 2012, we obtained the controlling interest in Qiyi.com, Inc., a prior equity method investee, and have since then consolidated its financial results into our consolidated financial statements. In May 2013, we acquired the online video business of PPStream Inc. and have merged it with iQiyi and have since then consolidated its financial results into our consolidated financial statements.

We are in the process of disposing of all our equity interest in Youa.com, Inc. We own 100% of the ordinary shares in Youa.com, Inc., but do not consolidate its financial results in our financial statements under the U.S. GAAP because of our lack of control over the board of directors of Youa.com, Inc. and certain substantive participating rights provided to the preferred shareholders of Youa.com, Inc.

In October 2013, we acquired 100% equity interest of 91 Wireless from NetDragon and the other shareholders of 91 Wireless, and have since then consolidated its financial results into our consolidated financial statements.

The major factors affecting our results of operations and financial condition are discussed below.

Revenues

Revenue Generation

We derive almost all of our revenues from online marketing services, which accounted for approximately 99.7%, 99.6% and 98.9% of our total revenues in 2012, 2013 and 2014, respectively. A majority of our revenues from online marketing services were derived from our P4P services. Our P4P platform is an online marketplace that introduces internet search users to customers who pay us a fee based on click-throughs for priority placement of their links in the search results. We recognize P4P revenues when a user clicks on a customer s link in the search results, based on the amount that the customer has agreed to pay for each click-through.

We also provide to our customers other performance-based online marketing services and time-based online advertising services. For other performance-based online marketing services, our customers pay us based on performance criteria other than click-throughs, such as the number of telephone calls brought to our customers, the successful booking of air tickets or hotel rooms, the number of users registered with our customers, or the number of minimum click-throughs. For time-based online advertising services, our customers pay us based on the duration of the advertisement placed on our Baidu s properties and Baidu Union members properties.

The most significant factors that directly or indirectly affect our online marketing revenues are:

the number of our users and online marketing customers;

the number of searches initiated on our websites and our Baidu Union members properties;

the rate at which users click on paid search results;

Table of Contents

- the competitiveness of bidding for keywords by P4P customers;
- the total online marketing budgets of our customers; and
- the total number of sponsored links and advertisements displayed on our websites and Baidu Union members properties and the bidding price for each click-through.

Our P4P services revenues have primarily been driven by the increase in the number of page views, the increase in the number of P4P customers, and our success in optimizing the display of sponsored links. We believe that an increase in the number of active P4P customers generally leads to an increase in the number of sponsored links and a higher average price per click-through for selected keywords. Our P4P customer growth has primarily been driven by the adoption of our P4P services by SMEs and, to a lesser extent, large enterprises.

Our online marketing services have historically been driven by the general increase in our customers online marketing budgets. We expect the number of our online marketing customers to grow and our customer mix may change. However, we expect our online marketing customer base to remain diverse for the foreseeable future. Any prolonged economic slowdown in China may cause our customers to decrease or delay their online marketing spending, hamper our efforts to grow our customer base, or result in fewer clicks by our users on sponsored links or advertisements displayed on our or Baidu Union members properties. Any of these consequences could negatively affect our online marketing revenues.

Our online marketing customers are increasingly seeking marketing solutions with measurable results in order to maximize their ROI. To meet our customers needs, we will continue to evaluate the effectiveness of our various products and services and adjust the mix of our service offerings to optimize our customers ROI. We expect that we will continue to earn a substantial majority of our revenues from our online marketing services. As a result, we plan to continue focusing most of our resources on expanding our online marketing services.

Revenue Collection

We collect payments for our P4P services both from our customers directly and through our distributors. We require our P4P customers to pay a deposit before using our P4P services and remind them by an automated notice to replenish the accounts after their account balance falls below a designated amount. We deduct the amount due to us from the deposit paid by a customer when a user clicks on the customer s link in the search results.

We offer payment terms to some of our customers based on their historical marketing placements and credibility. We also offer longer payment terms to certain qualified distributors, consistent with industry practice.

As of December 31, 2014, we had accounts receivable of RMB3.7 billion (US$590.6 million), net of allowance of RMB93.9 million (US$15.1 million), mainly due from customers of other performance-based online marketing services and time-based online advertising services.

Operating Costs and Expenses

Our operating costs and expenses consist of cost of revenues, selling, general and administrative expenses, and research and development expenses. Share-based compensation expenses are allocated among the above three categories of operating costs and expenses, based on the nature of the work of the employees who have received share-based compensation. Our total operating costs and expenses increased significantly from 2012 to 2014 due to

the growth of our business.

Table of Contents

Cost of Revenues

The following table sets forth the components of our cost of revenues both in absolute amount and as a percentage of total revenues for the periods indicated.

	For the Years Ended December 31,						
	2012		2013		2014		
	RMB	%	RMB	%	RMB	US$	%
	(In thousands, except percentages)						
Total revenues	22,306,026	100.0	31,943,924	100.0	49,052,318	7,905,799	100.0
Cost of revenues:							
Sales tax and surcharges	(1,572,420)	(7.0)	(2,329,558)	(7.3)	(3,597,763)	(579,854)	(7.3)
Traffic acquisition costs	(1,929,966)	(8.7)	(3,704,146)	(11.6)	(6,328,155)	(1,019,913)	(12.9)
Bandwidth costs	(1,069,306)	(4.8)	(1,938,520)	(6.1)	(2,847,770)	(458,977)	(5.8)
Depreciation of servers and other equipment	(1,062,060)	(4.8)	(1,469,646)	(4.6)	(1,958,754)	(315,694)	(4.0)
Operational costs	(589,555)	(2.6)	(1,175,624)	(3.6)	(2,246,491)	(362,069)	(4.6)
Content costs	(215,133)	(1.0)	(830,369)	(2.6)	(1,871,906)	(301,696)	(3.8)
Share-based compensation expenses	(10,105)	(0.0)	(23,976)	(0.1)	(34,611)	(5,578)	(0.1)
Total cost of revenues	(6,448,545)	(28.9)	(11,471,839)	(35.9)	(18,885,450)	3,043,781	(38.5)

Traffic Acquisition Costs. Traffic acquisition costs typically represent the portion of our online marketing revenues that we share with our Baidu Union members. We typically pay a Baidu Union member, based on a pre-agreed arrangement, a portion of the online marketing revenues generated from valid click-throughs by users of that member s properties.

Bandwidth Costs. Bandwidth costs are the fees we pay to telecommunications carriers such as China Telecom and China Unicom for telecommunications services and for hosting our servers at their internet data centers. We expect our bandwidth costs, as variable costs, to increase with the increasing number of racks of servers and the increasing traffic on our websites. Our bandwidth costs could also increase if the telecommunications carriers increase their service charges.

Depreciation of Servers and Other Equipment. We include in our cost of revenues depreciation expenses of servers and other computer hardware that are directly related to our business operations and technical support.

Operational Costs. Operational costs include primarily salary and benefit expenses, intangible assets amortization, payment platform charges, travel and other expenses incurred by our operating and technical support personnel. Salary and benefit expenses include wages, bonuses, medical insurance, unemployment insurance, pension benefits, employee housing fund and other welfare benefits.

Content Costs. Content costs consist primarily of the fees we paid for the licensed content from copyright owners or content distributors, and the amortization of the licensed copyrights for video content.

78

Table of Contents

Operating Expenses

The following table sets forth the components of our operating expenses both in absolute amount and as a percentage of total revenues for the periods indicated.

	For the Years Ended December 31,						
	2012		2013		2014		
	RMB	%	RMB	%	RMB	US$	%
	(In thousands, except percentages)						
Total revenues	22,306,026	100.0	31,943,924	100.0	49,052,318	7,905,799	100.0
Cost of revenues	(6,448,545)	(28.9)	(11,471,839)	(35.9)	(18,885,450)	(3,043,781)	(38.5)
Operating expenses:							
Selling, general and administrative	(2,501,336)	(11.3)	(5,173,533)	(16.2)	(10,382,142)	(1,673,298)	(21.2)
Selling and marketing	(1,841,590)	(8.3)	(4,012,709)	(12.6)	(8,298,558)	(1,337,485)	(16.9)
General and administrative	(659,746)	(3.0)	(1,160,824)	(3.6)	(2,083,584)	(335,813)	(4.3)
Research and development	(2,304,825)	(10.3)	(4,106,832)	(12.9)	(6,980,962)	(1,125,127)	(14.2)
Total costs and operating expenses	(11,254,706)	(50.5)	(20,752,204)	(65.0)	(36,248,554)	(5,842,206)	(73.9)

Selling, General and Administrative Expenses

Our selling and marketing expenses primarily consist of promotional and marketing expenses and compensation for our sales and marketing personnel. We expect to incur higher selling and marketing expenses as a result of efforts on our diversified mobile and PC applications distribution and operation, increased compensation for our sales and marketing personnel and our intensified marketing and brand promotion efforts.

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

Research and Development Expenses

Research and development expenses primarily consist of salaries and benefits for research and development personnel. We expense research and development costs as they are incurred, except for capitalized software development costs that fulfill the capitalization criteria under Accounting Standards Codification, or ASC, subtopic 350-40, *Intangibles-Goodwill and Other: Internal-Use Software.*

Share-based Compensation Expenses

Baidu, Inc. grants options and restricted shares to our employees, directors and consultants as share-based compensation awards. As of December 31, 2014, there was RMB273.4 million (US$44.1 million) unrecognized share-based compensation cost related to options of Baidu, Inc., which is expected to be recognized over a weighted-average vesting period of 2.4 years. As of December 31, 2014, there was RMB1.4 billion (US$217.8 million) 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 our original estimate, actual share-based compensation cost related to these awards may be different from our expectation.

Qunar grants options to its employees, directors and consultants as share-based compensation awards. As of December 31, 2014, there were RMB448.2 million (US$72.3 million) of unrecognized share-based compensation

Table of Contents

costs related to Qunar s equity awards that are expected to be recognized over a weighted-average vesting period of 2.7 years. Total unrecognized compensation costs may be adjusted for future changes in estimated forfeitures.

Other subsidiaries also have equity incentive plans granting share-based awards. Total share-based compensation expenses recognized and unrecognized were insignificant, both individually and in the aggregate.

The following table sets forth the allocation of our share-based compensation expenses both in absolute amount and as a percentage of total share-based compensation expenses among our employees based on the nature of work which they were assigned to perform.

	For the Year Ended December 31,						
	2012		2013		2014		
	RMB	%	RMB	%	RMB	US$	%
	(In thousands, except percentages)						
Allocation of Share-based Compensation Expenses							
Cost of revenues	10,105	4.8	23,976	4.7	34,611	5,578	3.6
Selling, general and administrative	54,512	25.6	164,704	32.0	426,052	68,667	44.3
Research and development	147,692	69.6	326,047	63.3	502,077	80,921	52.1
Total share-based compensation expenses	212,309	100.0	514,727	100.0	962,740	155,166	100.0

Taxation

Cayman Islands and BVI

We are not subject to income or capital gain tax under the current laws of the Cayman Islands and the British Virgin Islands. Additionally, none of these jurisdictions impose a withholding tax on dividends.

Hong Kong

Our subsidiaries in Hong Kong are subject to the uniform tax rate of 16.5%. Under Hong Kong tax law, our subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there is no withholding tax in Hong Kong on remittance of dividends.

Japan

Our subsidiaries in Japan with paid-in capital in excess of JPY100.00 million (US$0.8 million) are subject to national income tax at the rate of 30%. They are also subject to inhabitant tax and per capita tax. In addition, our subsidiaries in Japan are subject to an enterprise tax on a pro forma basis, based on the taxable profit subject to the corporate tax, the added-value components (such as labor costs, net interest and rental payments, income/loss for current year) and the capital component.

PRC Enterprise Income Tax

Enterprise Income Tax. The current EIT Law, which became effective on January 1, 2008, imposes a uniform EIT rate of 25% on all PRC resident enterprises, including foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions. Pursuant to a Caishui (2008) No. 1 Notice promulgated jointly by the Ministry of Finance and the State Administration of Taxation in February 2008, all preferential EIT treatments granted prior to January 1, 2008 are eliminated, except for those specified under the EIT Law and certain other tax regulations.

An enterprise may benefit from a preferential tax rate of 15% under the EIT Law if it qualifies as a High and New Technology Enterprise strongly supported by the state. Pursuant to the Administrative Measures on the

Table of Contents

Recognition of High and New Technology Enterprises, the provincial counterparts of the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation shall jointly determine whether an enterprise is qualified as a High and New Technology Enterprise under the EIT Law. In making such determination, these government agencies shall consider, among other factors, ownership of core technology, whether the products or services fall within the scope of high and new technology strongly supported by the state as specified in the measures, the ratios of technical personnel and research and development personnel to total personnel, the ratio of research and development expenditures to annual sales revenues, the ratio of revenues attributed to high and new technology products or services to total revenues, and other measures set forth in relevant guidance. All enterprises that had been granted the High and New Technology Enterprise status before the effectiveness of the EIT Law are required to be re-examined in accordance with the measures mentioned above before they can be entitled to the preferential tax rate. A High and New Technology Enterprise certificate is effective for a period of three years and could be renewed for another three years. After that, an entity needs to re-apply for the High and New Technology Enterprise status in order to be able to enjoy the preferential tax rate of 15%. A number of our PRC subsidiaries and consolidated affiliated entities, such as Baidu Online and Baidu Netcom, obtained the High and New Technology Enterprise certificate. The related tax holiday under such High and New Technology Enterprise certificates of these entities has expired or will expire on January 1, 2015, 2016 or 2017.

An enterprise may benefit from a preferential tax rate of 10% under the EIT law if it qualifies as a Key Software Enterprise designated jointly by the National Development and Reform Commission, the MIIT, the Ministry of Commerce, the Ministry of Finance and the State Administration of Taxation. A Key Software Enterprise certificate is effective for a period of two years. After that, an entity needs to re-apply for the Key Software Enterprise status in order to be able to enjoy the preferential tax rate of 10%. Baidu Online obtained the Key Software Enterprise certificate and the related tax holiday expired on January 1, 2015. Baidu Online is in preparation of re-applying for the Key Software Enterprise status for years 2015 and 2016.

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

If our PRC subsidiaries or consolidated affiliated entities that have enjoyed preferential tax treatment no longer qualify for the treatment, we will consider available options under applicable law that would enable us to qualify for alternative preferential tax treatment. To the extent we are unable to offset the impact of the expiration of existing preferential tax treatment with new tax exemptions, tax incentives or other tax benefits, the expiration of existing preferential tax treatment may cause our effective tax rate to increase. The amount of income tax payable by our PRC subsidiaries and consolidated affiliated entities in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the statutory tax rate applicable to, each of the entities. Our effective tax rate depends partially on the extent of the relative contribution of each of our subsidiaries and consolidated affiliated entities to our consolidated taxable income. In 2012, 2013 and 2014, our consolidated effective tax rate was 13.16%, 15.01% and 15.41%, respectively.

Withholding Tax

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

tax. The Caishui (2008) No. 1 Notice clarifies that undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 will be exempted from any withholding tax.

Table of Contents

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

Hong Kong, where Baidu (Hong Kong) Limited, our wholly owned subsidiary and the sole shareholder of certain of our PRC subsidiaries such as Baidu Times and Baidu China, was incorporated, has a tax arrangement with China that provides for a lower withholding tax rate of 5% on dividends subject to certain conditions and requirements, such as the requirement that the Hong Kong resident enterprise own at least 25% of the PRC enterprise distributing the dividend at all times within the 12-month period immediately preceding the distribution of dividends and be a beneficial owner of the dividends. However, pursuant to a SAT Circular 81 issued by the State Administration of Taxation in February 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from the reduced withholding tax rate on dividends due to a structure or arrangement designed for the primary purpose of obtaining favorable tax treatment, the PRC tax authorities may adjust the preferential tax treatment. Moreover, pursuant to a SAT Circular 601 issued by the State Administration of Taxation in October 2009, a resident of a contracting state will not qualify for the benefits under the tax treaties or arrangements, if it is not the beneficial owner with respect to dividend, interest and royalty income. According to SAT Circular 601, a beneficial owner shall have ownership and right to dispose of the income or the rights and properties giving rise to the income, and generally engages in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. A conduit company normally refers to a company that is set up primarily for the purpose of evading or reducing taxes or transferring or accumulating profits.

If our PRC subsidiaries declare and distribute profits earned after January 1, 2008 to us in the future, the dividend payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company.

Tax Residence

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

Pursuant to SAT Circular 82 issued by the State Administration of Taxation in April 2009, an overseas registered enterprise controlled by a PRC company or a PRC company group will be classified as a resident enterprise with its de facto management body located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in the PRC; and (iv) no less than half of the enterprise s directors or senior management with voting rights reside in the PRC. The State Administration of Taxation issued additional rules to provide more guidance on the implementation of SAT Circular 82 in July 2011, and issued an amendment to SAT Circular 82 delegating the authority to its provincial branches to determine whether a Chinese-controlled overseas-incorporated enterprise should be considered a PRC resident enterprise, in January 2014. Although the SAT Circular 82, the additional guidance and its amendment only apply to overseas registered enterprises controlled by PRC enterprises and not those controlled by PRC individuals or foreigners, the determining criteria set forth in the circular may reflect the State Administration of Taxation s general position on how the de facto management body test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

If we are deemed a PRC resident enterprise, we may be subject to the EIT at the rate of 25% on our global income, except that the dividends we receive from our PRC subsidiaries may be exempt from the EIT to the

Table of Contents

extent such dividends are deemed dividends among qualified resident enterprises. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

PRC Business Tax and VAT

In November 2011, the Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot VAT reform program, which change the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai, and was expanded to eight additional regions, including, among others, Beijing and Guangdong province, in 2012. In August 2013, the program was further expanded nationwide.

With respect to all of our PRC entities for the period immediately prior to the implementation of the pilot VAT reform program, revenues from our P4P services, online advertising services and other services are subject to a 5% PRC business tax. Revenues from our online advertising services are subject to an additional 3% cultural business construction fee.

Our entities located in Shanghai, Beijing and Guangdong Province fall within the scope of the pilot program and have been recognized as the VAT general taxpayers since January 1, 2012, September 1, 2012 and November 1, 2012, respectively, the effective time of the pilot program in each of the regions. Our entities located outside of Shanghai, Beijing and Guangdong Province have been subject to VAT since August 1, 2013. From the applicable effective time onwards, these entities are required to pay VAT instead of business tax for P4P services, online advertising services and other services that are deemed by the relevant tax authorities to be within the pilot industries at a rate of 6%. In addition, cultural business construction fee is imposed at the rate of 3% on revenues derived from our online advertising services.

PRC Urban Maintenance and Construction Tax and Education Surcharge

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

Table of Contents

Results of Operations

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

	For the Years Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US$
	(In thousands)			
Consolidated Statements of Comprehensive Income Data				
Revenues:				
Online marketing services	22,245,643	31,802,219	48,495,215	7,816,010
Others	60,383	141,705	557,103	89,789
Total revenues	22,306,026	31,943,924	49,052,318	7,905,799
Operating costs and expenses:[(1)]				
Cost of revenues	(6,448,545)	(11,471,839)	(18,885,450)	(3,043,781)
Selling, general and administrative	(2,501,336)	(5,173,533)	(10,382,142)	(1,673,298)
Research and development	(2,304,825)	(4,106,832)	(6,980,962)	(1,125,127)
Total operating costs and expenses	(11,254,706)	(20,752,204)	(36,248,554)	(5,842,206)
Operating profit	11,051,320	11,191,720	12,803,764	2,063,593
Interest income	866,465	1,308,542	1,992,818	321,184
Interest expense	(107,857)	(447,084)	(628,571)	(101,307)
Other income, net, including exchange gains or losses	449,738	137,644	333,484	53,748
Loss from equity method investments	(294,229)	(5,806)	(26,952)	(4,344)
Taxation	(1,574,159)	(1,828,930)	(2,231,172)	(359,599)
Net income	10,391,278	10,356,086	12,243,371	1,973,275
Less: Net loss attributable to noncontrolling interests	(64,750)	(162,880)	(943,698)	(152,097)
Net income attributable to Baidu, Inc.	10,456,028	10,518,966	13,187,069	2,125,372
(1) Share-based compensation expenses:				
Cost of revenues	*(10,105)*	*(23,976)*	*(34,611)*	*(5,578)*
Selling, general and administrative	*(54,512)*	*(164,704)*	*(426,052)*	*(68,667)*
Research and development	*(147,692)*	*(326,047)*	*(502,077)*	*(80,921)*

(212,309)	*(514,727)*	*(962,740)*	*(155,166)*

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenues. Our total revenues increased by 53.6% from RMB31.9 billion in 2013 to RMB49.1 billion (US$7.9 billion) in 2014. This increase was due to a substantial increase in our revenues from online marketing services. Our online marketing revenues increased by 52.5% from RMB31.8 billion in 2013 to RMB48.5 billion (US$7.8 billion) in 2014. This increase was mainly attributable to the increase in the number of our active online marketing customers from approximately 753,000 in 2013 to approximately 813,000 in 2014, and the increase in the average revenue per customer from approximately RMB42,200 in 2013 to approximately RMB59,400 (US$9,574) in 2014. The increase in our active online marketing customers was mainly due to our effective distribution network and our expanded direct sales. The increase in the average revenue per customer was primarily attributable to the increase in the number of paid clicks and the higher price per click as more

Table of Contents

customers participated in our P4P auction platform. Consistent with previously reported numbers, the number of active online marketing customers and average revenue per customer exclude those for our group-buying related businesses. The number of paid clicks increased by approximately 40.2% from 2013 to 2014.

Operating Costs and Expenses. Our total operating costs and expenses increased by 74.7% from RMB20.8 billion in 2013 to RMB36.2 billion (US$5.8 billion) in 2014. This increase was primarily due to the expansion of our business, and in particular the expansion of our mobile platform.

Cost of Revenues. Our cost of revenues increased by 64.6% from RMB11.5 billion in 2013 to RMB18.9 billion (US$3.0 billion) in 2014. This increase was primarily due to the following factors:

Traffic Acquisition Costs. Our traffic acquisition costs increased by 70.8% from RMB3.7 billion in 2013 to RMB6.3 billion (US$1.0 billion) in 2014. Traffic acquisition costs represent 12.9% of total revenues in 2014, compared to 11.6% in 2013. The increase in our traffic acquisition costs mainly reflected the increased contribution of contextual ads, Baidu Union promotion and Hao123 promotions through our network.

Bandwidth Costs and Depreciation Expenses. Our bandwidth costs increased by 46.9% from RMB1.9 billion in 2013 to RMB2.8 billion (US$459.0 million) in 2014. Our depreciation expenses of servers and other equipment increased by 33.3% from RMB1.5 billion in 2013 to RMB2.0 billion (US$315.7 million) in 2014. The increases in these costs were mainly due to our investment in increasing our network infrastructure capacity.

Sales Tax and Surcharges. Our sales tax and surcharges increased by 54.4% from RMB2.3 billion in 2013 to RMB3.6 billion (US$579.9 million) in 2014, in line with the increase in revenues.

Operational Costs. Our operational costs increased by 91.1% from RMB1.2 billion in 2013 to RMB2.2 billion (US$362.1 million) in 2014, primarily due to the increase of amortization of acquired intangible assets, staff-related costs and payment platform charges.

Content Costs. Our content costs increased by 125.4% from RMB830.4 million in 2013 to RMB1.9 billion (US$301.7 million) in 2014, primarily due to the increase in video content cost of iQiyi, one of our subsidiaries.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 100.7% from RMB5.2 billion in 2013 to RMB10.4 billion (US$1.7 billion) in 2014. This increase was primarily due to the following factors:

Total salaries and benefits and staff-related expenses increased by 71.7% from RMB1.9 billion in 2013 to RMB3.3 billion (US$524.4 million) in 2014, primarily due to the increased headcount to support our expanded online marketing services;

Marketing and promotion expenses increased by 133.4% from RMB2.1 billion in 2013 to RMB4.9 billion (US$797.1 million) in 2014, primarily due to the increased marketing and promotion activities relating to our mobile products.

Total office operating expenses increased by 86.9% from RMB281.9 million in 2013 to RMB527.0 million (US$84.9 million) in 2014, primarily as a result of increase and expansion of our offices;

Total traveling, communication and business development expenses increased by 63.6% from RMB169.0 million in 2013 to RMB276.5 million (US$44.6 million) in 2014, primarily due to the increased headcount and activities to support our expanded online marketing services;

Share-based compensation expenses allocated to selling, general and administrative expenses increased by 158.7% from RMB164.7 million in 2013 to RMB426.1 million (US$68.7 million) in 2014.

Table of Contents

Research and Development Expenses. Our research and development expenses increased by 70.0% from RMB4.1 billion in 2013 to RMB7.0 billion (US$1.1 billion) in 2014, primarily due to an increase in the number of research and development staff.

Operating Profit. As a result of the foregoing, we generated an operating profit of RMB12.8 billion (US$2.1 billion) in 2014, a 14.4% increase from RMB11.2 billion in 2013.

Other income, net, including exchange gains or losses. Our other income, net, including exchange gains or losses was RMB333.5 million (US$53.7 million) in 2014, compared to RMB137.6 million in 2013. The other income, net, including exchange gains or losses in 2014 was primarily attributable to government subsidies with non-operating nature.

Loss from equity method investments. Our loss from equity method investments increased from RMB5.8 million in 2013 to RMB27.0 million (US$4.3 million) in 2014.

Taxation. Our income tax expenses increased by 22.0% from RMB1.8 billion in 2013 to RMB2.2 billion (US$359.6 million) in 2014, primarily due to the increase in profit before tax in 2014.

Net income attributable to Baidu, Inc. As a result of the foregoing, net income attributable to Baidu, Inc. increased from RMB10.5 billion in 2013 to RMB13.2 billion (US$2.1 billion) in 2014.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues. Our total revenues increased by 43.2% from RMB22.3 billion in 2012 to RMB31.9 billion in 2013. This increase was due to a substantial increase in our revenues from online marketing services. Our online marketing revenues increased by 43.0% from RMB22.2 billion in 2012 to RMB31.8 billion in 2013. This increase was mainly attributable to the increase in the number of our active online marketing customers from approximately 596,000 in 2012 to 753,000 in 2013, and the increase in the average revenue per customer from approximately RMB37,300 in 2012 to approximately RMB42,200 in 2013. The increase in our active online marketing customers was mainly due to our effective distribution network and our expanded direct sales. The increase in the average revenue per customer was primarily attributable to the increase in the number of paid clicks and the higher price per click as more customers participated in our P4P auction platform. The number of paid clicks increased by approximately 32.7% from 2012 to 2013.

Operating Costs and Expenses. Our total operating costs and expenses increased by 84.4% from RMB11.3 billion in 2012 to RMB20.8 billion in 2013. This increase was primarily due to the expansion of our business.

Cost of Revenues. Our cost of revenues increased by 77.9% from RMB6.4 billion in 2012 to RMB11.5 billion in 2013. This increase was primarily due to the following factors:

Traffic Acquisition Costs. Our traffic acquisition costs increased by 91.9% from RMB1.9 billion in 2012 to RMB3.7 billion in 2013. Traffic acquisition costs represent 11.6% of total revenues in 2013, compared to 8.7% in 2012. The increase in our traffic acquisition costs as a percentage of total revenues reflects an increased revenue contribution from our Baidu Union members, primarily the increased contribution of contextual ads and hao123 promotions from our Baidu Union members.

Bandwidth Costs and Depreciation Expenses. Our bandwidth costs increased by 81.3% from RMB1.1 billion in 2012 to RMB1.9 billion in 2013. Our depreciation expenses of servers and other equipment increased by 38.4% from RMB1.1 billion in 2012 to RMB1.5 billion in 2013. The absolute increases in these costs were mainly due to our investment in increasing our network infrastructure capacity and iQiyi.

Table of Contents

Sales Tax and Surcharges. Our sales tax and surcharges increased by 48.2% from RMB1.6 billion in 2012 to RMB2.3 billion in 2013, in line with the increase in revenues.

Operational Costs. Our operational costs increased by 99.4% from RMB589.6 million in 2012 to RMB1.2 billion in 2013, primarily due to the increase of amortization of acquired intangible assets related to the acquired companies and staff-related costs.

Content Costs. Our content costs increased by 286.0% from RMB215.1 million in 2012 to RMB830.4 million in 2013, primarily due to the increase in video content cost of iQiyi, which has been consolidated into our financial statements since November 2012.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 106.8% from RMB2.5 billion in 2012 to RMB5.2 billion in 2013. This increase was primarily due to the following factors:

Total salaries and benefits and staff-related expenses increased by 57.0% from RMB1.2 billion in 2012 to RMB1.9 billion in 2013, primarily due to the increased headcount to support our expanded online marketing services and the increase of sales commission;

Total office operating expenses increased by 51.2% from RMB186.5 million in 2012 to RMB281.9 million in 2013, primarily as a result of increase and expansion of our offices;

Total traveling, communication and business development expenses increased by 66.9% from RMB101.3 million in 2012 to RMB169.0 million in 2013, primarily due to the increased headcount and activities to support our expanded online marketing services;

Marketing and promotion expenses increased by 226.6% from RMB648.7 million in 2012 to RMB2.1 billion in 2013, primarily due to the increased marketing and promotion activities relating to our mobile products.

Share-based compensation expenses allocated to selling, general and administrative expenses increased by 202.1% from RMB54.5 million in 2012 to RMB164.7 million in 2013.

Research and Development Expenses. Our research and development expenses increased by 78.2% from RMB2.3 billion in 2012 to RMB4.1 billion in 2013, primarily due to an increase in the number of research and development staff.

Operating Profit. As a result of the foregoing, we generated an operating profit of RMB11.2 billion in 2013, a 1.3% increase from RMB11.1 billion in 2012.

Other income, net, including exchange gains or losses. Our other income, net, including exchange gains or losses was RMB137.6 million in 2013, compared to RMB449.7 million in 2012. The other income, net, including exchange gains or losses in 2012 was primarily attributable to gains arising from re-measurement of some existing equity method investments immediately before the acquisition of these investees in 2012, whereas we had no such transaction in 2013.

Loss from equity method investments. Our loss from equity method investments decreased from RMB294.2 million in 2012 to RMB5.8 million in 2013. The loss in 2012 primarily related to the recognized accumulated losses of Youa.com Inc. and Qiyi.com, Inc., whereas such loss from in 2013 was not significant as Qiyi.com Inc. has been consolidated into our financial statements since November 2012 and the carrying amount of long-term investment in Youa.com Inc. has been reduced to zero.

Taxation. Our income tax expenses increased by 16.2% from RMB1.6 billion in 2012 to RMB1.8 billion in 2013, primarily due to the increase in profit before tax in 2013.

Net income attributable to Baidu, Inc. As a result of the foregoing, net income attributable to Baidu, Inc. increased slightly from RMB10.46 billion in 2012 to RMB10.52 billion in 2013.

Table of Contents

Inflation

Inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2012, 2013 and 2014 were 2.6%, 2.6% and 2.0%, respectively. The year-over-year percent changes in the consumer price index for January 2013, 2014 and 2015 were increases of 2.0%, 2.5% and 0.8%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

Foreign Currency

The average exchange rate between U.S. dollar and RMB has declined from RMB8.2264 per U.S. dollar in July 2005 to RMB6.1886 per U.S. dollar in December 2014. As of December 31, 2014, we recorded RMB302.6 million (US$48.8 million) of net foreign currency translation gain in accumulated other comprehensive income as a component of shareholders equity. We have not hedged exposures to exchange fluctuations using any hedging instruments. See also Item 3.D. Key Information Risk Factors Risks Related to Doing Business in China Fluctuation in the value of the RMB may have a material and adverse effect on your investment. and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk.

Critical Accounting Policies

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

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

Consolidation of Affiliated Entities

In order to comply with PRC laws and regulations limiting foreign ownership of or imposing conditions on internet, online advertising, online audio and video services and mobile application distribution businesses, we operate our websites and conduct our online advertising, online audio and video services and mobile application distribution businesses through our affiliated entities in China by means of contractual arrangements. We have entered into certain exclusive agreements with the affiliated entities through our subsidiaries, which obligate them to absorb a majority of the risk of loss and receive a majority of the residual returns from the affiliated entities activities. In addition, we have

entered into certain agreements with the affiliated entities and the

Table of Contents

nominee shareholders of affiliated entities through our subsidiaries, which enable us to direct the activities that most significantly affect the economic performance of the affiliated entities. Based on these contractual arrangements, we consolidate the affiliated entities as required by SEC Regulation SX-3A-02 and ASC topic 810, *Consolidation*, because we hold all the variable interests of the affiliated entities through the subsidiaries, which are the primary beneficiaries of the affiliated entities. We will reconsider the initial determination of whether a legal entity is a consolidated affiliated entity upon certain events listed in ASC 810-10-35-4 occurred. We will also continuously reconsider whether we are the primary beneficiaries of our affiliated entities as facts and circumstances change. See Item 3.D. Risk Factors Risks Related to Our Corporate Structure.

Revenue Recognition

We recognize revenues based on the following principles:

(1) Performance-based online marketing services

Cost-per-click. Our auction-based P4P platform enables a customer to place its website link and related description on our search result list on the website which could be accessed through personal computers or mobile devices. The customers make bids on keywords based on how much they are willing to pay for each click to their listings in the search results listed on our website and the relevance between the keywords and the customer s businesses. Internet users search of the keyword will trigger the display of the listings. The ranking of the customer s listing depends on both the bidding price and the listing s relevance to the keyword searched. Customer pays us only when a user clicks on one of its website links. Other than the auction-based P4P platform, we have certain vertical platforms from which we generate revenue through pre-determined prices per click. Revenue is recognized when a user clicks on one of the customer-sponsored website links, as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC topic 605, or ASC 605, *Revenue Recognition*.

For certain customers engaged through direct sales, we may provide certain value-added consultative support services to help its customers to better utilize its online marketing system. Fees for such services are recognized as revenue on a pro-rata basis over the contracted service period.

Other performance-based online marketing services. To the extent we provide online marketing services based on performance criteria other than cost-per-click, such as the number of successful reservation of hotels or issuance of air tickets, the number of downloads (and user registrations) of mobile applications, the number of incremental end users and the total incremental revenue generated, revenue is recognized when the specified performance criteria are met together with satisfaction of other applicable revenue recognition criteria as prescribed by ASC 605.

(2) Display-based online advertising services

For displayed-based online advertising services such as text links, banners, icons or other forms of graphical advertisements on the websites or mobile applications, we recognize revenue, in accordance with ASC 605, on a pro-rata basis over the contractual term for cost per time advertising arrangements commencing on the date the customer s advertisement is displayed on a specified webpage or mobile applications, or on the number of times that the advertisement has been displayed for cost per thousand impressions advertising arrangements. For certain display-based contractual agreements, we may also provide certain performance guarantees, in which cases revenue is recognized at the later of the completion of the time commitment or performance guarantee.

(3) Online game services and other revenue sharing services

We operate an online game platform, on which registered users can access games provided by third-party game developers. We also operates mobile platforms on which users can access smartphone related products

Table of Contents

such as themes, wallpapers and e-books developed and owned by third-party content providers. The rights and obligations of each party to the arrangement indicate that we are acting as an agent whereas the game developer or the content provider is the principal as a result of being the primary obligor in the arrangement in accordance with ASC subtopic 605-45, or ASC 605-45, *Revenue Recognition: Principal Agent Consideration.*

We recognize the shared revenue from these online promotional services, on a net basis, based on the ratios pre-determined with the game developers or content providers when all the revenue recognition criteria set forth in ASC 605 are met, which is generally when the user purchases virtual currencies issued by the game developers or purchases contents developed by the content providers.

(4) Group buying services

We generate revenue from group buying services as a marketing agent by offering goods and services provided by third-party merchant partners at a discount through the website or mobile application that connects merchants to consumers. We present revenue on a net basis, representing the amount billed to registered users less the amount paid to merchants, in accordance with ASC 605-45. We act as an agent rather than as the principal in the delivery of the products or services as it does not assume the risks and rewards of ownership of products nor is it responsible for the actual fulfillment of services. Both of these are the responsibilities of the merchants. We recognize revenue when all of the criteria prescribed in ASC 605 are met, which is generally when the merchants provide the services or when the products are delivered to the customers. Since our paying users have the ability to request for full refund before redemption for the products or services offered by the merchants, the underlying sale from which we earn the related commission revenue as an agent is not culminated until our paying users actually redeem.

(5) Online marketing services involving Baidu Union

Baidu Union is the program through which we expand distribution of our customers sponsored links or advertisements by leveraging traffic of the Baidu Union members internet properties. We make payments to Baidu Union members for acquisition of traffic. We recognize gross revenue for the amount of fees we receive from our customers. Payments made to Baidu Union members are included in cost of revenues as traffic acquisition costs.

(6) Barter transactions

We engage in barter transactions from time to time and in such situations follow the guidance set forth in ASC topic 845, *Nonmonetary Transactions*. While nonmonetary transactions are generally recorded at fair value, if such value is not determinable within reasonable limits, or the transaction lacks commercial substance, or the transaction is an exchange of product or property held for sale in the ordinary course of business for product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange, the transaction is recognized based on the carrying value of the products or services provided. We also engage in certain advertising barter transactions and follow the guidance set forth in ASC subtopic 605-20, or ASC 605-20, *Revenue Recognition: Services*. The advertising barter transactions generally are recorded at fair value. If the fair value of the advertising surrendered in the barter transaction is not determinable within required limits, the barter transaction is recorded based on the carrying amount of the advertising surrendered, which is likely to be zero. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented.

(7) Other revenue recognition related policies

In accordance with ASC subtopic 605-25, or ASC 605-25, *Revenue Recognition: Multiple-Deliverable Revenue Arrangements*, for arrangements that include multiple deliverables, primarily for advertisements to be displayed in different spots, placed under different forms and occur at different time, we allocate the total

Table of Contents

consideration of the arrangements based on their relative selling price, with the selling price of each deliverable determined using vendor-specific objective evidence of selling price, or VSOE, third-party evidence or TPE of selling price, or management s best estimate of the selling price, or BESP. We consider all reasonably available information in determining the BESP, including both market and entity-specific factors.

We deliver some of our online marketing services to end customers through engaging third party distributors. In this context, we may provide cash incentives to distributors. The cash incentives are accounted for as reduction of revenue in accordance with ASC subtopic 605-50, or ASC 605-50, *Revenue Recognition: Customer Payments and Incentives*.

We provide sales incentives to customers to entitle customers to receive reductions in the price of the online marketing services by meeting certain cumulative consumption requirements. We account for these award credits granted to members in conjunction with a current sale of products or services as a multiple-element arrangement by analogizing to ASC 605-25. The consideration allocated to the award credits, as deferred revenue, is based on an assumption that the customer will purchase the minimum amount of future service necessary to obtain the maximum award credits available. The deferred revenue is recognized as revenue proportionately as the future services are delivered to the customer or when the award credits expire.

Cash received in advance from customers is recorded as customer advances and deposits. The unused cash balances remaining in customers accounts are included as liabilities of us. Deferred revenue is recorded when services are provided before the other revenue recognition criteria set forth in ASC 605 are fulfilled.

Share-based Compensation

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

Forfeitures have been 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, or the modification awards. The compensation costs associated with the modification awards are recognized if either the original vesting condition or the new vesting condition has been achieved. Such compensation costs will not be less than the grant-date fair value of the original award. 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 modification awards, we recognize share-based compensation over the vesting periods of the new options, 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 original award, using either the original term or the new term, whichever results in higher expenses for each reporting period.

We account for share awards issued to non-employees in accordance with the provisions of ASC subtopic 505-50, or ASC 505-50, *Equity: Equity-based Payments to Non-Employees*. We use the Black-Scholes-Merton option pricing model method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation. ASC 718 also requires share-based compensation to be presented in the same manner as cash compensation rather than as a separate line item.

Income Taxes

We recognize income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in

Table of Contents

which the differences are expected to reverse. We record a valuation allowance against the amount of deferred tax assets that we determine is not more likely than not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date. For reconciliation of tax computed by applying the respective statutory income tax rate to pre-tax income, please see Income taxes under Note 12 to our audited consolidated financial statements.

We comply with the provisions of ASC topic 740, or ASC 740, *Income Taxes,* in accounting for uncertainty in income taxes. ASC 740 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. We have elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2012, 2013 and 2014, the amounts of unrecognized tax benefits as well as interest and penalties associated with uncertainty in income taxes were insignificant.

Allowance for Doubtful Accounts

Accounts receivable are recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. We generally do not require collateral from our customers.

We maintain allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. We review the accounts receivable on a periodic basis and make general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, the customer s payment history, its current credit-worthiness and current economic trends.

Impairment of Long-Lived Assets Other Than Goodwill

We evaluate long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, 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, or ASC 360, *Property, Plant and Equipment*. When such events occur, we assess the recoverability of the assets group based on the undiscounted future cash flow the assets group is expected to generate and recognize an impairment loss when estimated undiscounted future cash flow expected to result from the use of the assets group plus net proceeds expected from disposition of the assets group, if any, is less than the carrying value of the assets group. If we identify an impairment, we reduce the carrying amount of the assets group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. We use estimates and judgments in our 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 balance sheet. The impairment charges of long-lived assets are nil, RMB6.7 million and RMB1.6 million (US$0.3 million) for 2012, 2013 and 2014, respectively.

Impairment of Goodwill

We assess goodwill for impairment in accordance with ASC subtopic 350-20, or ASC 350-20, *Intangibles Goodwill and Other: Goodwill*, which requires that goodwill 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.

Subsequent to the acquisitions in 2011 and thereafter, there were segment managers who regularly review the operating results of certain acquired entities and the rest of our group, which constituted three separate reporting units as of December 31, 2012 and 2013 and 2014.

Table of Contents

We have the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test in accordance with ASU No. 2011-08, or ASU 2011-08, *Testing Goodwill for Impairment*. If we believe, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, we consider primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit compared to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

In 2014, we performed a qualitative assessment for the reporting unit other than the certain acquired entities. Based on the requirements of ASU 2011-08, we evaluated all relevant factors, 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 the thirds reporting unit, and further impairment testing on goodwill was unnecessary as of December 31, 2014. We elected to assess goodwill for impairment test for goodwill at the two reporting units, representing aforementioned acquired entities, using the two-step process. The fair value of these two reporting units exceeded their respective carrying amount, and therefore goodwill related to the two reporting units were not impaired and we were not required to perform further testing.

The impairment charges of goodwill are nil for 2012, 2013 and 2014.

Impairment of Long-term Investments

Our long-term investments mainly consist of cost method investments and equity method investments in privately held companies, held-to-maturity investments with original and remaining maturities of greater than 12 months, and available-for-sale investments.

We periodically review our cost method investments and equity method investments for impairment. If we conclude that any of such investments is impaired, we will assess whether such impairment is other-than-temporary. Factors we consider to make such determination include the performance and financial position of the investee as well as other evidence of market value. Such evaluation includes but is not limited to, reviewing the investee s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

For long-term held-to-maturity investments, we evaluate whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with our policy and ASC topic 320, or ASC 320, *Investments Debt and Equity Securities*. When we intend to sell an impaired debt security or it is more-likely-than-not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the

assessment is made. When we do not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, we must determine whether or not it will recover its amortized cost basis. If we conclude that it will not, an other-

Table of Contents

than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income.

As available-for-sale investment is reported at fair value, an impairment loss on the long-term available-for-sale securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

The fair value determination, particularly for investments in privately-held companies, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and the determination of whether any identified impairment is other-than-temporary. If impairment is considered other-than-temporary, we will write down the asset to its fair value and take the corresponding charge to the consolidated financial statements. The impairment charges of long-term investments are RMB169.2 million, RMB17.5 million and RMB93.4 million (US$15.1 million) for 2012, 2013 and 2014, respectively.

Business Combination

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

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

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

B. Liquidity and Capital Resources

As of December 31, 2014, our principal sources of liquidity was RMB57.7 billion (US$9.3 billion) of cash, cash equivalents and short-term investments. Our cash and cash equivalents consist of cash on hand and investments in interest bearing demand deposit accounts, time deposits, money market funds and other liquid investments which have

original maturities of three months or less. The short-term investments primarily consist of fixed-rate and adjustable-rate debt investments with original maturity of less than one year. We believe that our current cash, cash equivalents, short-term investments and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital

Table of Contents

expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from banks.

Furthermore, cash transfers from our PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See Risk Factors Risks Related to Doing Business in China Governmental control of currency conversion may affect the value of your investment. As of December 31, 2014, our PRC subsidiaries and consolidated affiliated entities held RMB49.4 billion (US$8.0 billion) of cash, cash equivalents and short-term investments, RMB1.1 billion (US$183.9 million) of which were in the form of foreign currencies.

In September 2012, we entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), whereby we are entitled to borrow an unsecured loan of AU$105.0 million (US$108.0 million) for general working capital purposes. We drew down AU$55.0 million (settled by US$56.8 million) in October 2012 under the loan commitment, with a term of two years and a fixed annual interest rate of 2.75%. The remaining commitment of AU$50.0 million was cancelled by both parties. The loan was fully repaid in October 2014 when it became due.

In July 2013, we entered into a loan agreement with Sumitomo Mitsui Banking Corporation, whereby we are entitled to borrow an unsecured loan of US$150.0 million for general working capital purposes. We drew down US$150.0 million in July 2013 under the loan commitment, with a term of two years and a fixed annual interest rate of 1.17%. As of December 31, 2014, we had an outstanding balance of US$150.0 million, which will be due in July 2015.

In August 2013, we entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), whereby we are entitled to borrow an unsecured loan of AU$235.0 million (US$200.0 million) for general working capital purposes. We drew down AU$235.0 million (US$200.0 million) in August 2013 under the loan commitment, with a term of two years and a fixed annual interest rate of 1.65%. As of December 31, 2014, we had an outstanding balance of AU$235.0 million (US$200.0 million), which will be due in August 2015.

In May 2014, one of our subsidiaries, 91 Wireless, entered into a banking facility agreement with Hong Kong and Shanghai Banking Corporation Limited (Hong Kong branch), or HSBC, pursuant to which 91 Wireless is entitled to borrow a US$ denominated loan of US$20.0 million with an interest rate of 0.8% per annum plus 1, 3 or 6 months LIBOR. The banking facility is subject to HSBC s overriding right of repayment on demand and the loan under this facility is intended for the general working capital of 91 Wireless. In May 2014, 91 Wireless drew down US$7.0 million with a fixed interest rate of 1.12% under the loan commitment, and in September 2014, 91 Wireless drew down another US$8.0 million with a fixed interest rate of 1.13% under the loan commitment, both of which were secured by cash collateral of a subsidiary of 91 Wireless. As of December 31, 2014, 91 Wireless had an outstanding balance of US$15.0 million.

In December 2014, we entered into two loan agreements with Bank of China (Los Angeles Branch), pursuant to which we borrowed a two-year unsecured loan of US$150.0 million and a three-year unsecured loan of US$150.0 million. Both loans are intended for our general working capital and with a floating interest rate. In connection with the loan agreements, we entered into two interest swap agreements, pursuant to which the loans will be settled in a fixed annual interest rate of 2.31% and 2.45%, respectively, during the respective term of the loans.

In November 2012, we issued an aggregate of US$1.5 billion senior unsecured notes in two equal tranches, due in 2017 and 2022, with stated annual interest rates of 2.25% and 3.50%, respectively. The net proceeds from

Table of Contents

the sale of the notes were used for general corporate purposes. As of December 31, 2014, the total carrying value and estimated fair value of these notes were US$1.5 billion and US$1.5 billion. The estimated fair value was based on quoted prices for our publicly-traded debt as of December 31, 2014. We are not subject to any financial covenants or other significant restrictions under the notes. During 2014, we paid an aggregate of US$43.1 million in interest payments related to these notes.

In August 2013, we issued an aggregate of US$1.0 billion senior unsecured notes due in 2018, with stated annual interest rate of 3.25%. The net proceeds from the sale of the notes were used for general corporate purposes, including merger and acquisition activities. As of December 31, 2014, the total carrying value and estimated fair value of these notes were US$1.0 billion and US$1.0 billion, respectively. The estimated fair value was based on quoted prices for our publicly-traded debt as of December 31, 2014. We are not subject to any financial covenants or other significant restrictions under the notes. During 2014, we paid an aggregate of US$32.5 million in interest payments related to these notes.

In June 2014, we issued an aggregate of US$1.0 billion senior unsecured notes due in 2019, with stated annual interest rate of 2.75 %. The net proceeds from the sale of the notes were used for general corporate purposes. As of December 31, 2014, the total carrying value and estimated fair value of these notes were US$1.0 billion and US$1.0 billion, respectively. The estimated fair value was based on quoted prices for our publicly-traded debt as of December 31, 2014. We are not subject to any financial covenants or other significant restrictions under the notes. During 2014, we paid an aggregate of US$13.8 million in interest payments related to these notes.

We may use the net proceeds from our issuance and sale of the notes to fund the operations of our PRC subsidiaries by making additional capital contribution to our existing PRC subsidiaries, injecting capital to establish new PRC subsidiaries and/or providing loans to our PRC subsidiaries. Such transfer of funds from Baidu, Inc. or any of our offshore subsidiaries to our PRC subsidiaries is subject to the PRC regulatory restrictions and procedures: (i) capital increase of the existing PRC subsidiaries and establishment of new PRC subsidiaries must be approved by the Ministry of Commerce or its local counterpart and registered with SAFE or its local counterpart; and (ii) loans to any of our PRC subsidiaries must not exceed the statutory limit, which is the difference between the amount of total investment as approved by the Ministry of Commerce or its local counterpart and the amount of registered capital of the PRC subsidiary, and must be registered with the local counterpart of SAFE. See Item 3.D. Key Information Risk Factors Risks Related to Doing Business in China PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries or consolidated affiliated entities, or making additional capital contributions to our PRC subsidiaries, which could adversely affect our ability to fund and expand our business.

As of December 31, 2014, we had RMB25.7 billion (US$4.1 billion) in long-term loans and notes payables (including current portion of RMB2.2 billion (US$349.3 million)) and had RMB93.0 million (US$15.0 million) in short-term loans.

Cash Flows and Working Capital

As of December 31, 2012, 2013 and 2014, we had RMB32.5 billion, RMB38.4 billion and RMB57.7 billion (US$9.3 billion) in cash, cash equivalents and short-term investments.

Table of Contents

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

	For the Years Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US$
	(In thousands)			
Net cash generated from operating activities	11,995,994	13,792,971	17,937,175	2,890,949
Net cash used in investing activities	(13,749,080)	(23,062,940)	(22,467,774)	(3,621,147)
Net cash generated from financing activities	9,517,865	7,281,682	8,611,960	1,387,994
Effect of exchange rate changes on cash	(11,629)	(200,548)	79,567	12,824
Net increase (decrease) in cash and cash equivalents	7,753,150	(2,188,835)	4,160,928	670,620
Cash and cash equivalents at beginning of the period	4,127,482	11,880,632	9,691,797	1,562,034
Cash and cash equivalents at end of the period	11,880,632	9,691,797	13,852,725	2,232,654

Operating Activities

Net cash generated from operating activities increased to RMB17.9 billion (US$2.9 billion) in 2014 from RMB13.8 billion in 2013. This increase was primarily due to the integrated effect of growth in net income, as adjusted for non-cash items and the effects of changes in working capital and other activities.

Net cash generated from operating activities increased to RMB13.8 billion in 2013 from RMB12.0 billion in 2012. This increase was mainly attributable to the adding-back to net income of increased depreciation and amortization expenses, which increased to RMB2.7 billion in 2013 from RMB1.5 billion in 2012.

Investing Activities

Net cash used in investing activities decreased to RMB22.5 billion (US$3.6 billion) in 2014 from RMB23.1 billion in 2013. This decrease was primarily due to fewer acquisitions of businesses accomplished in 2014 compared to 2013, which was offset partially by the increased purchasing of short-term, long-term investments and fixed assets.

Net cash used in investing activities was about RMB13.8 billion and RMB23.1 billion in 2012 and 2013, respectively. The increase is primarily due to more acquisitions of businesses accomplished in 2013.

Financing Activities

Net cash generated from financing activities was RMB8.6 billion (US$1.4 billion) in 2014, compared to net cash of RMB7.3 billion generated from financing activities in 2013. The increase is primarily due to the proceeds from the long-term loans issued in December 2014, partially offset by our settlement with non-controlling shareholders for acquiring the remaining minority equity interest of subsidiaries.

Net cash generated from financing activities was RMB7.3 billion in 2013, compared to net cash of RMB9.5 billion generated from financing activities in 2012. The decrease is primarily due to less long-term notes issued in 2013.

Capital Expenditures

We made capital expenditures of RMB2.3 billion, RMB2.8 billion and RMB4.8 billion (US$778.0 million) in 2012, 2013 and 2014, representing 10.4%, 8.6% and 9.8% of our total revenues, respectively. In 2014, our capital expenditures were primarily attributable to the purchase of servers, network equipment and other computer hardware to increase our network infrastructure capacity. We funded our capital expenditures primarily with net cash flow generated from operating activities.

Table of Contents

We commenced construction of Baidu Science Park in Beijing in August 2012, an office building in Shenzhen in December 2011, Shanxi Cloud Computing Center in September 2012, and the internet data center of Beijing Cloud Computing Center in April 2014, and we expect to complete the planned construction of these projects in 2015, 2017, 2017 and 2018, respectively. See Item 4.D. Property, Plant and Equipment for more details of our capital expenditures associated with these projects.

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

Holding Company Structure

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

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

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

Under PRC laws and regulations, our PRC subsidiaries and consolidated affiliated entities are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. The amounts restricted include the paid up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of our consolidated affiliated entities in which we have no legal ownership, totaling approximately RMB2.8 billion, RMB3.7 billion and RMB7.5 billion (US$1.2 billion) as of December 31, 2012, 2013 and 2014, respectively.

C. Research and Development

We have a team of experienced engineers who are mostly based at our headquarters in Beijing. We recruit most of our engineers locally and have established various recruiting and training programs with leading universities in China. We have also recruited experienced engineers from overseas. We compete aggressively for engineering talent to help us

address challenges such as Chinese language processing, information retrieval and high performance computing.

Table of Contents

In the three years ended December 31, 2012, 2013 and 2014, our research and development expenditures, including share-based compensation expenses for research and development staff, were RMB2.3 billion, RMB4.1 billion and RMB7.0 billion (US$1.1 billion), representing 10.3%, 12.9% and 14.2% of our total revenues for 2012, 2013 and 2014, respectively. Our research and development expenses consist primarily of personnel-related costs. We have expensed substantially all of the development costs for the research and development of products and new functionality as incurred, except for certain internal-use software.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2014 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any off-balance sheet derivative instruments. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F. Contractual Obligations

The following table sets forth our contractual obligations by specified categories as of December 31, 2014.

		Payment Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
		(In RMB thousands)			
Long-Term Debt Obligations[1]	29,077,225	2,880,009	7,862,623	13,192,531	5,142,062
Capital Lease Obligations [2]	103,471	57,320	46,151		
Operating Lease Obligations[3]	5,381,448	2,418,879	1,908,382	884,179	170,008
Purchase Obligations[4]	3,283,717	3,064,765	199,107	17,100	2,745
Total	37,845,861	8,420,973	10,016,263	14,093,810	5,314,815

(1) The long-term debt obligations represent (i) a two-year loan from Sumitomo Mitsui Banking Corporation, (ii) a two-year loan from Australia and New Zealand Banking Group Limited (Hong Kong Branch), (iii) a two-year loan and a three-year loan from Bank of China (Los Angeles Branch), (iv) senior unsecured notes due in 2017 and 2022, (v) senior unsecured notes due in 2018, and (vi) senior unsecured notes due in 2019. The total interest

to be paid for these loans is RMB8.1 million (US$1.3 million), RMB15.5 million (US$2.5 million), RMB113.0 million (US$18.2 million), RMB1.6 billion (US$260.6 million), RMB806.6 million (US$130.0 million) and RMB767.8 million (US$123.8 million), respectively. Please see Loans Payable under Note 10 and Notes payable under Note 11 to our audited consolidated financial statements.

(2) Capital lease obligations represent our obligations for leasing servers, and the total amount of interest to be paid is RMB6.3 million (US$1.0 million).

(3) Operating lease obligations represent our obligations for leasing premises and bandwidth.

(4) Purchase obligations consist primarily of expenditures in connection with the expansion and improvement of network infrastructure, our plan to build or acquire additional office buildings and cloud computing-based data centers, and expenditures for video content.

Table of Contents

Other than the contractual obligations set forth above, we do not have any contractual obligations that are long-term debt obligations, capital (finance) lease obligations, purchase obligations or other long-term liabilities reflected on our balance sheet.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

Directors and

Executive Officers	Age	Position/Title
Robin Yanhong Li	46	Chairman and Chief Executive Officer
Jennifer Xinzhe Li	47	Chief Financial Officer
Ya-Qin Zhang	49	President
Jing Wang	50	Senior Vice President
Hailong Xiang	37	Senior Vice President
Mingyuan Li	31	Vice President
William Decker	68	Independent Director
James Ding	49	Independent Director
Nobuyuki Idei	77	Independent Director
Greg Penner	45	Independent Director
Dejian Liu	43	Director

Robin Yanhong Li is co-founder, chairman and chief executive officer of our company, and oversees our overall strategy and business operations. Mr. Li has been serving as the chairman of our board of directors since our inception in January 2000 and as our chief executive officer since January 2004. Mr. Li served as our president from February 2000 to December 2003. Prior to founding our company, Mr. Li worked as a staff engineer for Infoseek, a pioneer in the internet search engine industry, from July 1997 to December 1999. Mr. Li was a senior consultant for IDD Information Services from May 1994 to June 1997. Mr. Li currently serves as an independent director and chairman of the compensation committee of New Oriental Education & Technology Group Inc., a NYSE-listed company that provides private educational services in China. Mr. Li also acts as the vice chairman of the Internet Society of China (ISC). Mr. Li has also been a vice chairman of All-China Federation of Industry & Commerce since December 2012. Mr. Li received a bachelor s degree in information science from Peking University in China and a master s degree in computer science from the State University of New York at Buffalo.

Jennifer Xinzhe Li has served as our chief financial officer since March 2008. Ms. Li is in charge of our finance and accounting. Ms. Li has extensive experience in U.S. GAAP reporting and in developing and leading finance and accounting teams before she joined us. Prior to joining our company, Ms. Li served as controller of General Motors Acceptance Corporation (GMAC) s North American Operations from 2005 to 2008. Prior to that, Ms. Li worked at General Motors China, where she was responsible for overseeing finance functions of General Motors wholly owned and joint venture businesses in China from 2001 to 2004, with the last post as its chief financial officer. From 1994 to 2001, she held several other finance positions at General Motors in Canada, the United States and Singapore. Ms. Li

has been serving as a director of Philip Morris International, Inc. since May 2010. Ms. Li holds an M.B.A. degree from the University of British Columbia in Vancouver, B.C., Canada and a bachelor of arts degree from Tsinghua University in China.

Ya-Qin Zhang joined us in September 2014 as president, and is in charge of new business. Prior to joining us, Dr. Zhang was Microsoft Corporation s corporate vice president and the chairman of Microsoft Asia-Pacific R&D Group for a decade, leading Microsoft s overall research and development efforts in the Asia-Pacific region. Before joining Microsoft in 1999, Mr. Zhang was a director for the Multimedia Technology Laboratory at Sarnoff Corp. Dr. Zhang serves as an independent director and chairman of the compensation committee of

Table of Contents

Tarena International, Inc., a NASDAQ-listed company, and an independent director of ChinaCache International Holdings Ltd., a NASDAQ-listed company. Dr. Zhang received his bachelor s and master s degrees in electrical engineering from the University of Science and Technology of China, and a Ph.D. in electrical engineering from George Washington University.

Jing Wang has served as our senior vice president since December 2013, and is in charge of commercial products and technology. Mr. Wang is also the chairman of our Technical Strategy Committee. From April 2010 to December 2013, Mr. Wang served as our vice president of engineering. Prior to joining us, Mr. Wang served as senior technical director for Alibaba from 2000 to 2001, and later as the chief technology officer of eBay China from 2003 to 2004, general manager of eBay China s Development Center from 2004 to 2006, and deputy managing director of Google China s R&D Institute from 2006 to 2010. From 1991 to 2000, Mr. Wang held various managerial and technical positions in silicon valley companies including Oracle, Informix, and E-Loan. Mr. Wang received a bachelor s degree from the University of Science and Technology of China and a master s degree in computer science from the University of Chinese Academy of Sciences. He later obtained his second master s degree in computer science from University of Florida.

Hailong Xiang has served as our senior vice president since October 2014, and is in charge of our business products and sales force management. Mr. Xiang joined us in February 2005 following our acquisition of Shanghai Qilang, an internet services firm established by Mr. Xiang in 2000. Since joining us, Mr. Xiang has led the reorganization of our direct sales force, and significantly improved the efficiency of the business process and expedited the monetization of our main services and products. Mr. Xiang received his bachelor s degree in computer science from East China Normal University.

Mingyuan Li has served as our vice president since July 2013, and is in charge of our mobile products and operations. Mr. Li first joined us in 2004. He was responsible for the early Content Management System for our social content, and built and managed our user product marketing operations system. From August 2010 to November 2011, Mr. Li served as vice president of product at UCWeb. Mr. Li returned to our company in November 2011. Mr. Li received his bachelor s degree from Communication University of China, and an Executive M.B.A. from the China Europe International Business School.

William Decker has served as our independent director and chairman of the audit committee since October 2005. Mr. Decker is a retired partner at PricewaterhouseCoopers LLP. Prior to his retirement in July 2005, Mr. Decker was the partner in charge of PricewaterhouseCoopers LLP s Global Capital Markets Group. He led a team of more than 300 professionals in 25 countries that provided technical support to non-U.S. companies on SEC regulations, U.S. GAAP reporting and assistance with Sarbanes-Oxley Act compliance work. Mr. Decker received a bachelor of science degree in accounting from Fairleigh Dickinson University in New Jersey.

James Ding has served as our independent director since our initial public offering in August 2005. Mr. Ding served as a co-chairman of the board of directors of AsiaInfo-Linkage Inc., a former NASDAQ-listed company, from July 2010 to January 2014. Prior to that, Mr. Ding served as the chairman of the board of AsiaInfo from April 2003 to July 2010, and a member of the board since AsiaInfo s inception in 1993. Mr. Ding served as the chief executive officer and president of AsiaInfo from 1999 to 2003 and as senior vice president and chief technology officer of AsiaInfo from 1993 to 1999. Mr. Ding is currently a general partner and managing director of GSR Ventures, an early stage venture fund focusing on semiconductor, internet, wireless, new media and green technology investment in China. Mr. Ding also serves as an independent director of Huayi Brothers Media Corporation, a ChiNext Shenzhen-listed company. Mr. Ding received a master s degree in information science from the University of California, Los Angeles and a bachelor s degree in chemistry from Peking University in China.

Nobuyuki Idei has served as our independent director since June 2007. Mr. Idei currently also serves as a director of FreeBit Co, Ltd., a Tokyo Stock Exchange-listed company, a director of Lenovo Group, a Hong Kong Stock Exchange-listed company, and a director of Monex Group, Inc., a Tokyo Stock Exchange-listed company.

Table of Contents

Mr. Idei is also a member of Tsinghua University SEM Advisory Board and chairman of the National Conference on Fostering Beautiful Forests in Japan. Mr. Idei is founder and CEO of Quantum Leaps, an executive advisory company he established in September 2006. Quantum Leaps aims to enhance Japan s competitiveness by supporting corporate transformation and by creating an open platform to nurture technology-driven venture companies. Mr. Idei is also founder and chairman of the board of Asia Innovators Initiative, a private non-profit organization that he established in 2011 to serve as a catalyst for social innovation in Asia by bringing together a diverse range of individuals and promoting knowledge sharing. For more than a decade from 1995, Mr. Idei was a member of top management at Sony, as president and COO, and chairman and CEO. He later served as chairman of the advisory board from 2007 to 2012. Prior to that, Mr. Idei held a range of leadership positions at Sony including general manager of the audio division, and the computer division, and senior general manager of the home video group. Mr. Idei has also served in a number of other advisory positions including as counselor to the Bank of Japan, member of Japan s national IT Strategy Council, and vice chairman of Nippon Keidanren. Mr. Idei received a bachelor s degree in economics and politics from Waseda University in Tokyo.

Greg Penner has served as our director since July 2004. Mr. Penner is a general partner at Madrone Capital Partners, an investment management firm based in Menlo Park, California. From 2002 to 2004, Mr. Penner was the senior vice president and chief financial officer of Wal-Mart Japan. From 2000 to 2002, Mr. Penner was senior vice president of finance and strategy for Walmart.com. From 1997 to 2000, Mr. Penner was a general partner at Peninsula Capital, an early stage venture capital fund. Previously, Mr. Penner worked in strategic planning at Wal-Mart Stores, Inc. and corporate finance at Goldman, Sachs & Co. Mr. Penner is the vice chairman of the board of Wal-Mart Stores, Inc. and is also a director of Teach for America. Mr. Penner received an M.B.A. degree from the Stanford Graduate School of Business and a bachelor s degree in international economics from the School of Foreign Service at Georgetown University.

Dejian Liu has served as our director since October 2013. Mr. Liu is the founder, chairman and executive director of NetDragon, a China-based developer and operator of online games and mobile internet platforms listed on the Hong Kong Stock Exchange. Since founding NetDragon in 1999, he has led it to become a leading player in China s online gaming and mobile internet industries. Mr. Liu is responsible for NetDragon s overall strategic development and is the chief designer in its game development team. Mr. Liu also served as chairman and non-executive director of 91 Wireless, which was a former subsidiary of NetDragon and acquired by us in October 2013. Mr. Liu was vice president of Beso Biological Research Center, Inc. from 1995 to 2005. He was also vice president of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. from 1995 to 2000 before being promoted to president of that organization in 2001. Mr. Liu received a bachelor s degree in Chemistry from the University of Kansas.

B. Compensation

In 2014, we paid an aggregate of approximately RMB29.3 million (US$4.7 million) in cash compensation and granted options to purchase an aggregate of 15,603 Class A ordinary shares and 9,647 restricted Class A ordinary shares to our executive officers as a group. We also paid an aggregate of approximately RMB0.5 million (US$79,750) in cash compensation and granted options to purchase an aggregate of 998 restricted Class A ordinary shares to our non-executive directors as a group. Our PRC subsidiaries and consolidated affiliated entities are required by law to make contributions equal to certain percentages of each employee s salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned statutory contributions mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company except as required under applicable PRC law.

Our board of directors and shareholders approved the issuance of up to 5,040,000 ordinary shares upon exercise of awards granted under our 2000 option plan. Our 2000 option plan terminated in January 2010 upon the expiration of its ten-year term. At the annual general meeting held on December 16, 2008, our shareholders

Table of Contents

approved a 2008 share incentive plan, which has reserved an additional 3,428,777 Class A ordinary shares for awards to be granted pursuant to its terms. As of December 31, 2014, options to purchase an aggregate of 264,934 Class A ordinary shares and an aggregate of 331,338 restricted Class A ordinary shares had been granted under the 2008 share incentive plan.

The following table summarizes, as of December 31, 2014, the outstanding options and restricted Class A ordinary shares that we granted to our current directors and executive officers and to other individuals as a group under our 2000 option plan and 2008 share incentive plan. Each Class A ordinary share is represented by 10 ADSs.

Name	Ordinary Shares Underlying Outstanding Options	Exercise Price (US$/Share)	Grant Date	Expiration Date
Robin Yanhong Li	6,500	133.86	February 11, 2009	February 11, 2019
	4,515	1,418.30	February 16, 2012	February 16, 2022
	4,247	1,058.90	January 25, 2011	January 25, 2021
	10,598	1,083.00	January 31, 2013	January 31, 2023
	2,415	1,725.30	February 24, 2014	February 24, 2024
	886[1]		February 24, 2014	N/A
Jennifer Xinzhe Li	*	1,058.90	January 25, 2011	January 25, 2021
	*	1,418.30	February 16, 2012	February 16, 2022
	*	1,083.00	January 31, 2013	January 31, 2023
	*	1,725.30	February 24, 2014	February 24, 2024
	*[1]		February 24, 2014	N/A
Ya-Qin Zhang	*[1]		October 29, 2014	N/A
	*	2,245.50	October 29, 2014	October 29, 2024
Jing Wang	*	648.96	April 15, 2010	April 15, 2020
	*	1,418.30	February 16, 2012	February 16, 2022
	*	1,083.00	January 31, 2013	January 31, 2023
	*[1]		February 24, 2014	N/A
	*	1,725.30	February 24, 2014	February 24, 2024
	*[1]		April 23, 2014	N/A
Hailong Xiang	*	1,501.70	July 21, 2011	July 21, 2021
	*	1,418.30	February 16, 2012	February 16, 2022
	*	1,083.00	January 31, 2013	January 31, 2023
	*[1]		July 18, 2013	N/A
	*	1,112.00	July 18, 2013	July 18, 2023
	*[1]		February 24, 2014	N/A
	*	1,725.30	February 24, 2014	February 24, 2024
	*[1]		October 29, 2014	N/A
	*	2,245.50	October 29, 2014	October 29, 2024
Mingyuan Li	*[1]		February 16, 2012	N/A
	*	1,067.00	November 1, 2012	November 1, 2022
	*[1]		January 31, 2013	N/A
	*[1]		October 23, 2013	N/A
	*[1]		February 24, 2014	N/A
	*[1]		April 23, 2014	N/A

	*(1)	July 15, 2014	N/A
William Decker	*(1)	February 24, 2014	N/A
James Ding	*(1)	February 24, 2014	N/A
Nobuyuki Idei	*(1)	February 24, 2014	N/A
Greg Penner	*(1)	February 24, 2014	N/A
Dejian Liu	*(1)	October 23, 2013	N/A
Other individuals as a group	332,466		

* The options and restricted shares in aggregate held by each of these directors and officers represent less than 1% of our total outstanding shares.

(1) Restricted shares.

Table of Contents

The following paragraphs summarize the key terms of our 2008 share incentive plan adopted on December 16, 2008.

2008 Share Incentive Plan

Types of Awards. We may grant the following types of awards under our 2008 share incentive plan:

options;

restricted shares;

restricted share units; and

any other form of award granted to a participant pursuant to the 2008 plan.

Plan Administration. The compensation committee of our board of directors administers our 2008 share incentive plan, but may delegate to a committee of one or more members of our board of directors the authority to grant or amend awards to participants other than independent directors and executive officers. The compensation committee will determine the provisions and terms and conditions of each award grant, including, but not limited to, the exercise price, the grant price or purchase price, any restrictions or limitations on the award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an award, based in each case on such considerations as the committee in its sole discretion determines. The compensation committee has the sole power and discretion to cancel, forfeit or surrender an outstanding award (whether or not in exchange for another award or combination or awards).

Award Agreement. Awards granted under our 2008 share incentive plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the participant s employment or service ends, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

Eligibility. We may grant awards to employees, directors and consultants of our company or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant ISOs only to our employees and employees of our majority-owned subsidiaries.

Acceleration of Awards upon Corporate Transactions. The outstanding awards will accelerate (i) upon occurrence of a change-of-control corporate transaction where any person acquires at least 50% of the total combined voting power of our outstanding securities or the incumbent board members no longer constitute at least 50% of our board, or (ii) upon occurrence of any other change-of-control corporate transaction in which the successor entity does not assume our outstanding awards under our 2008 share incentive plan, provided that the plan participant remains an employee, consultant or member of our board of directors on the effective date of the corporate transaction. In such event, each outstanding award will become fully exercisable and all forfeiture restrictions on such award will lapse immediately prior to the specified effective date of the corporate transaction.

If the successor entity assumes our outstanding awards and later terminates the grantee s employment or service without cause within 12 months of the corporate transaction, or if the grantee resigns voluntarily with good reason, the outstanding awards automatically will become fully vested and exercisable. The compensation committee may also, in its sole discretion, upon or in anticipation of a corporate transaction, accelerate awards, purchase the awards from the plan participants, replace the awards, or provide for the payment of the awards in cash.

Exercise Price and Term of Awards. The exercise price per share subject to an option may be amended or adjusted in the absolute discretion of the compensation committee, the determination of which shall be final,

Table of Contents

binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices of options mentioned in the preceding sentence shall be effective without the approval of our shareholders or the approval of the affected grantees. If we grant 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 our share capital, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. The compensation committee will determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting. The term 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 our share capital.

Restricted Shares and Restricted Share Unites. The compensation committee is also authorized to make awards of restricted shares and restricted share units. Except as otherwise determined by the compensation committee at the time of the grant of an award or thereafter, upon termination of employment or service during the applicable restriction period, restricted shares that are at the time subject to restrictions shall be forfeited or repurchased in accordance with the respective award agreements.

Vesting Schedule. The compensation committee determines, and the award agreement specifies, the vesting schedule of options and other awards granted. The compensation committee determines the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting, and also determines any conditions that must be satisfied before all or part of an option may be exercised. At the time of grant for restricted share units, the compensation committee specifies the date on which the restricted share units become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate.

Amendment and Termination. With the approval of our board of directors, the compensation committee may at any time amend, suspend or terminate our 2008 share incentive plan. Amendments to our 2008 share incentive plan are subject to shareholder approval, to the extent required by law, or by stock exchange rules or regulations. Any amendment, suspension or termination of our 2008 share incentive plan must not adversely affect in any material way awards already granted without written consent of the recipient of such awards. Unless terminated earlier, our 2008 share incentive plan shall continue in effect for a term of ten years from the date of adoption.

C. Board Practices

Board of Directors

Our board of directors has six directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money, mortgage its undertakings, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. The remuneration to be paid to the directors is determined by the board of directors. There is no age limit requirement for directors.

Committees of the Board of Directors

We have three committees under the board of directors: an audit committee, a compensation committee and a corporate governance and nominating committee. We have adopted a charter for each of the three committees.

Audit Committee

Our audit committee consists of William Decker, James Ding and Greg Penner, all of whom satisfy the independence requirements of Rule 5605(a)(2) of the NASDAQ Stock Market Rules and Rule 10A-3 under the Exchange Act. Our board of directors has determined that Mr. Decker is an audit committee financial expert as defined in the instructions to Item 16A of the Form 20-F. The audit committee oversees our accounting and

Table of Contents

financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing, retaining and overseeing the work of the independent auditors, including resolving disagreements between the management and the independent auditors relating to financial reporting;
- pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing annually the independence and quality control procedures of the independent auditors;
- reviewing and approving all proposed related party transactions;
- discussing the annual audited financial statements with the management;
- meeting separately with the independent auditors to discuss critical accounting policies, management letters, recommendations on internal controls, the auditor s engagement letter and independence letter and other material written communications between the independent auditors and the management; and
- attending to such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

In 2014, our audit committee held meetings or passed resolutions by unanimous written consent six times.

Compensation Committee

Our compensation committee consists of James Ding and Greg Penner, both of whom satisfy the independence requirements of Rule 5605(a)(2) of the NASDAQ Stock Market Rules. The compensation committee assists the board in reviewing and approving our compensation structure, including all forms of compensation relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting while his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;

reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and

selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person s independence from management.

In 2014, our compensation committee held meetings or passed resolutions by unanimous written consent six times.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of James Ding and Greg Penner, both of whom satisfy the independence requirements of Rule 5605(a) (2) of the NASDAQ Stock Market Rules. The corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

recommending to the board nominees for election or re-election to the board or for appointments to fill any vacancies;

Table of Contents

reviewing annually the performance of each incumbent director in determining whether to recommend such director for an additional term;

overseeing the board in the board s annual review of its own performance and the performance of the management; and

considering, preparing and recommending to the board such policies and procedures with respect to corporate governance matters as may be required or required to be disclosed under the applicable laws or otherwise considered to be material.

In 2014, our corporate governance and nominating committee passed resolutions by unanimous written consent once.

Terms of Directors and Executive Officers

All directors hold office until their successors have been duly elected and qualified. None of our directors is subject to a fixed term of office. In addition, the service agreements between us and the directors do not provide benefits upon termination of their services. Director nomination is subject to the approval of our corporate governance and nominating committee. Our shareholders may remove any director by ordinary resolution and may in like manner appoint another person in his stead. A valid ordinary resolution requires a majority of the votes cast at a shareholder meeting that is duly constituted and meets the quorum requirement. Officers are elected by and serve at the discretion of the board of directors.

D. Employees

We had 20,877, 31,676 and 46,391 employees as of December 31, 2012, 2013 and 2014, respectively. As of December 31, 2014, we had 2,481 employees in management and administration, 19,532 employees in research and development, 3,463 employees in operation and service, and 20,915 employees in sales and marketing. As of December 31, 2014, we had 27,235 employees in Beijing, 18,600 employees outside of Beijing but within China, and 556 employees outside of China. We also hire temporary employees and contractors from time to time. Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be generally good. However, as our operations and employee base further expand, we cannot assure you that we will always be able to maintain good relations with all of our employees. See Item 3.D. Key Information Risk Factors Risks Related to Our Business We may not be able to manage our expanding operations effectively.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our shares as of February 28, 2015 by:

each of our current directors and executive officers; and

each person known to us to own beneficially more than 5% of our shares.

107

Table of Contents

See B. Compensation for more details on options and restricted shares granted to our directors and executive officers.

	Shares Beneficially Owned	
	Number[1]	%[2]
Directors and Executive Officers:		
Robin Yanhong Li[3]	5,570,815	15.9%
Jennifer Xinzhe Li	*	*
Ya-Qin Zhang	*	*
Jing Wang	*	*
Hailong Xiang	*	*
Mingyuan Li	*	*
William Decker[4]	*	*
James Ding[5]	*	*
Nobuyuki Idei[6]	*	*
Greg Penner[7]	*	*
Dejian Liu[8]		
All Directors and Executive Officers as a Group[9]	5,838,897	16.6%
Principal Shareholders:		
Handsome Reward Limited[10]	5,490,000	15.6%
Baillie Gifford & Co (Scottish partnership)[11]	2,256,661	6.4%
T. Rowe Price Associates, Inc.[12]	1,953,701	5.6%

* Less than 1% of our total outstanding Class A ordinary shares and Class B ordinary shares.

** Except for our non-executive directors, the business address of our directors and executive officers is c/o Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.

(1) The number of shares beneficially owned by each named director and executive officer includes the shares beneficially owned by such person, the shares underlying all options held by such person that have vested or will vest within 60 days after February 28, 2015, and restricted shares held by such person that will vest within 60 days after February 28, 2015. The options and restricted shares were granted under our 2008 share incentive plan.

(2) Percentage of beneficial ownership of each named director and executive officer is based on 35,119,651 ordinary shares (consisting of 27,626,730 Class A ordinary shares and 7,492,921 Class B ordinary shares) of our company outstanding as of February 28, 2015, the number of ordinary shares underlying options that have vested or will vest within 60 days after February 28, 2015, and the number of restricted shares that will vest within 60 days after February 28, 2015, each as held by such person as of that date.

(3) Includes (i) 37,665 Class A Ordinary Shares directly held by Mr. Li on record; (ii) 20,460 Class A ordinary shares in the form of ADSs held in the brokerage account of the administrator of the issuer s employee stock option program; (iii) 2,466 restricted Class A Ordinary Shares that have vested as of February 28, 2015; (iv) 20,224 Class A Ordinary Shares issuable upon exercise of options within 60 days after the date of February 28, 2015; and (v) 5,490,000 Class B Ordinary Shares held by Handsome Reward Limited, a British Virgin Islands company wholly owned and controlled by Mr. Li, and excludes 25,000 Class A Ordinary Shares, 1,576,667 Class B Ordinary Shares and 35,000 Class A Ordinary Shares in the form of ADSs in her brokerage account, held by Melissa Ma, Mr. Li s wife, of which Mr. Li disclaims beneficial ownership.

(4) The address of Mr. Decker is 24 Nordic Way, Saranac Lake, New York 12983, U.S.A.

(5)

The business address of Mr. Ding is 56/F, China World Tower 3, No. 1 Jianguomenwai Street, Chaoyang District, Beijing 100004, PRC.

(6) The business address of Mr. Idei is Parkside 6 #502, 9-5-12 Akasaka Minato-ku, Tokyo 107-0052 Japan.

(7) The business address of Mr. Penner is 3000 Sand Hill Road, Building 1, Suite 150, Menlo Park, California 94025, U.S.A.

(8) The business address of Mr. Liu is 58 Hot Spring Branch Road, Fuzhou, Fujian 350001, PRC.

Table of Contents

(9) Includes ordinary shares, ordinary shares issuable upon exercise of options and restricted shares, held by all of our directors and executive officers as a group.

(10) Represents 5,490,000 Class B ordinary shares held by Handsome Reward Limited, a British Virgin Island company wholly owned and controlled by Mr. Robin Yanhong Li. The business address of Handsome Reward Limited is c/o Robin Yanhong Li, Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.

(11) Represents 2,256,661 Class A ordinary shares in the form of ADSs held by Baillie Gifford & Co (Scottish partnership), as reported on Schedule 13G filed by Baillie Gifford & Co (Scottish partnership) on January 21, 2015. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of February 28, 2015. The address of Baillie Gifford & Co (Scottish partnership) is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, UK.

(12) Represents 1,953,701 Class A ordinary shares in the form of ADSs held by T. Rowe Price Associates, Inc., as reported on Schedule 13G filed by T. Rowe Price Associates, Inc. on February 13, 2015. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of February 28, 2015. The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202, U.S.A.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering in 2005. Holders of our Class B ordinary shares may choose to convert their Class B ordinary shares into the same number of Class A ordinary shares at any time. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See Item 3.D. Key Information Risk Factors Risks Related to Our ADSs Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

As of February 28, 2015, 35,119,651 of our ordinary shares were issued and outstanding. To our knowledge, approximately 79.7% of our total outstanding ordinary shares were held by four record shareholders in the United States, including approximately 78.5% held by The Bank of New York Mellon, the depositary of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Please refer to Item 6.E. Directors, Senior Management and Employees Share Ownership.

B. Related Party Transactions

See Item 4.C. Information on the Company Organizational Structure Contractual Arrangements with Our Consolidated Affiliated Entities and the Nominee Shareholders.

Our subsidiaries, consolidated affiliated entities, and the subsidiaries of the consolidated affiliated entities have engaged, during the ordinary course of business, in a number of customary transactions with each other. All of these inter-company balances have been eliminated in consolidation.

As of December 31, 2013 and 2014, we had RMB371.0 million and RMB50.1 thousand (US$8.1 thousand), respectively, due from related parties. The decrease of the balance was primarily due to the borrowings provided by us to one noncontrolling shareholder of an acquired subsidiary, which was settled in 2014. The amount outstanding as of March 27, 2015 was RMB50.1 thousand (US$8.1 thousand).

Table of Contents

As of December 31, 2013 and 2014, we had RMB373.6 million and RMB8.4 million (US$1.4 million), respectively, due to related parties. The decrease of the balance was primarily due to the settlement of unsecured and interest free loans provided by a noncontrolling shareholder of an acquired subsidiary, partially offset by the payable to Mr. Robin Yanhong Li for reimbursement of his use of an aircraft beneficially owned by his spouse for our business purposes. The amount outstanding as of March 27, 2015 was RMB1.4 million (US$0.2 million).

In 2014, our board of directors approved Mr. Robin Yanhong Li s use of an aircraft beneficially owned by his spouse for our business purposes. The board also approved our reimbursements to Mr. Li in connection with his use of the aircraft for business travel based on the following principal terms: (i) a pre-set fixed rate per operating hour for use of the aircraft, as such rate may be adjusted, subject to the board approval, and (ii) the amount of fees and out-of-pocket expenses incurred that are directly related to the flight for business travel. The hourly rate for use of the aircraft was determined based on an analysis of market rates for the charter of comparable aircrafts.

In 2014, we also had certain transactions with one of our executive officers, Hailong Xiang. Pursuant to the agreements between us, certain of our subsidiaries rent an office building owned by the family members of Hailong Xiang. The amount of related rental expenses was RMB8.6 million (US$1.4 million) in 2014. All of related balances had been settled as of December, 31, 2014.

Share Options and Restricted Shares Grants

Please refer to Item 6.B. Directors, Senior Management and Employees Compensation.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we have been involved in litigation or other disputes regarding, among other things, copyright and trademark infringement, defamation, unfair competition and labor disputes. Our search results provide links to materials, and our Baidu WenKu, Baidu Post Bar, Baidu Media Player, Baidu Video Search, iQiyi and certain other products or services may contain materials, in which others may allege to own copyrights, trademarks or image rights or which others may claim to be defamatory or objectionable. We have received notice letters from third parties asserting copyright infringement, unfair competition, defamation, breach of contract and labor-related claims against us.

In September 2011, three Chinese writers filed 16 complaints against us before the Haidian District People s Court in Beijing, alleging that our Baidu WenKu had infringed upon their copyrights to certain literary works. In December 2011, the plaintiffs withdrew their complaints. However, in January 2012, the writers re-filed their complaints for the

same claims with the Haidian District People s Court in Beijing, seeking compensation in an aggregate amount of RMB1.9 million (US$0.3 million). The Haidian District People s Court in Beijing issued rulings for these cases in September 2012. The court held in seven of these cases that we should have known the files uploaded by users to Baidu WenKu infringed upon the plaintiffs copyrights and failed to take necessary actions to remove the infringing content immediately despite the plaintiffs notification of the infringement and request to remove the infringing content, and ordered us to pay for the plaintiffs damages in an aggregate amount of approximately RMB0.2 million (US$28 thousand). The court held in these seven cases that we would

Table of Contents

have been exempted from liabilities if we had removed the infringing content immediately upon the receipt of the warning and removal request from the copyright holders. The court dismissed all plaintiffs claims in the other cases. None of the parties has filed any appeals.

In 2013, 125 complaints were filed against Baidu Netcom before various courts in China alleging that our Baidu Video Search had infringed various copyrights. The aggregate amount of the damages sought in these 125 complaints totals approximately RMB16.9 million (US$2.7 million). All of these cases are closed, and the aggregate amount of compensation awarded by the courts to the plaintiffs in our lost cases is approximately RMB0.2 million (US$39 thousand).

As of December 31, 2014, we were involved in 330 cases pending in various PRC and U.S. courts. The aggregate amount of damages sought under these cases is approximately RMB1.0 billion (US$163.8 million).

For many of these legal proceedings, we are currently unable to estimate the reasonably possible loss or a range of reasonably possible loss as the proceedings are in the early stages, 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 proceedings, 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 loss cannot be made. With respect to the limited number of proceedings for which we are able to estimate the reasonably possible loss or the range of reasonably possible loss, such estimates are immaterial. However, we believe that such proceedings, individually and in the aggregate, when finally resolved, are not reasonably likely to have a material and adverse effect on our results of operations, financial position and cash flows.

Dividend Policy

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

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

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offering and Listing Details

Our ADSs have been listed on The NASDAQ Global Market since August 5, 2005. Our ADSs currently trade on The NASDAQ Global Select Market under the symbol BIDU. Prior to May 12, 2010, one ADS represented one Class A ordinary share. On May 12, 2010, we effected a change of the ADS to Class A ordinary share ratio from 1 ADS representing 1 Class A ordinary share to 10 ADSs representing 1 Class A ordinary share. The ratio change has the same effect as a 10-for-1 ADS split.

Table of Contents

The following table provides the high and low trading prices for our ADSs on NASDAQ for (i) the years 2010, 2011, 2012. 2013 and 2014, (ii) each of the four quarters of 2013 and 2014, and (iii) each of the past six full months. For ease of comparison, the ADS prices before May 12, 2010 have been retroactively adjusted to reflect the ADS to Class A ordinary share ratio change that took effect on May 12, 2010.

	Trading Price	
	High	Low
Annual Highs and Lows		
2010	115.04	38.47
2011	165.96	97.58
2012	154.15	85.96
2013	181.25	82.98
2014	251.99	140.66
Quarterly Highs and Lows		
First Quarter 2013	114.88	83.31
Second Quarter 2013	103.61	82.98
Third Quarter 2013	155.80	88.89
Fourth Quarter 2013	181.25	141.52
First Quarter 2014	189.34	144.16
Second Quarter 2014	188.66	140.66
Third Quarter 2014	231.41	176.69
Fourth Quarter 2014	251.99	194.31
Monthly Highs and Lows		
September 2014	231.41	208.35
October 2014	242.62	194.31
November 2014	251.99	233.00
December 2014	242.00	217.50
January 2015	234.67	212.82
February 2015	220.83	199.70
March 2015 (through March 26, 2015)	218.56	202.20

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed on NASDAQ since August 5, 2005 under the symbol BIDU.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Table of Contents

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our third amended and restated memorandum and articles of association, as well as the Companies Law (2013 Revision) insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

The Registered Office of our company is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2013 Revision), as amended from time to time, or any other law of the Cayman Islands.

Board of Directors

See Item 6.C. Board Practices Board of Directors.

Ordinary Shares

General. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder (as defined in our articles of incorporation), such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. In addition, if at any time our chairman and chief executive officer, Robin Yanhong Li, and his affiliates collectively own less than 5% of the total number of the issued and outstanding Class B ordinary shares, each issued and outstanding Class B ordinary share shall be automatically and immediately converted into one share of Class A ordinary share, and we shall not issue any Class B ordinary shares thereafter.

Voting Rights. All of our shareholders have the right to receive notice of shareholders meetings and to attend, speak and vote at such meetings. In respect of matters requiring shareholders vote, each Class A ordinary share is entitled to

one vote, and each Class B ordinary share is entitled to 10 votes. A shareholder may participate at a shareholders meeting in person, by proxy or by telephone conference or other communications equipment by means of which all the shareholders participating in the meeting can communicate with each other. At any shareholders meeting, a resolution put to the vote of the meeting shall be decided on a poll conducted by the chairman of the meeting.

Table of Contents

A quorum for a shareholders meeting consists of one or more shareholders holding at least one third of the paid up voting share capital present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. We shall, if required by the Companies Law, hold a general meeting of shareholders as our annual general meeting and shall specify the meeting as such in the notices calling it. Our board of directors may call extraordinary general meetings, and they must on shareholders requisition convene an extraordinary general meeting. A shareholder requisition is a requisition of shareholders holding at the date of deposit of the requisition not less than a majority of the voting power represented by the issued shares of our company as at that date carries the right of voting at general meetings of our company. Advance notice of at least five days is required for the convening of our annual general meeting and other shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares cast in a general meeting. A special resolution is required for matters such as a change of name. Holders of the ordinary shares may effect certain changes by ordinary resolution, including consolidating and dividing all or any of our share capital into shares of larger amount than our existing share capital and canceling any shares.

Transfer of Shares. Subject to the restrictions of our memorandum and articles of association, as applicable, any of our shareholders may transfer any or all of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in their absolute discretion (except with respect to a transfer from a shareholder to its affiliate(s)), decline to register any transfer of shares without assigning any reason thereof. If our board of directors refuses to register a transfer they shall notify the transferee within two months of such refusal. Notwithstanding the foregoing, if a transfer complies with the holder s transfer obligations and restrictions set forth under applicable law (including but not limited to U.S. securities law provisions related to insider trading) and our articles of association, our board of directors shall promptly register such transfer. Further, any director is authorized to confirm in writing addressed to the registered office to authorize a share transfer and to instruct that the register of members be updated accordingly, provided that the transfer complies with the holder s transfer obligations and restrictions set forth under applicable law and our articles of association and such holder is not the director who authorizes the transfer or an entity affiliated with such director. Any director is authorized to execute a share certificate in respect of such shares for and on behalf of our company.

The registration of transfers may be suspended at such time and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended for more than 45 days in any year.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares may be distributed among the holders of the ordinary shares as determined by the liquidator, subject to sanction of a special resolution of our company. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by such shareholders respectively.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

Redemption of Shares. Subject to the provisions of the Companies Law and our articles of association, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as our board of directors may determine.

Table of Contents

Repurchase of Shares. Subject to the provisions of the Companies Law and our articles of association, our board of directors may authorize repurchase of our shares in accordance with the manner of purchase specified in our articles of association without seeking shareholder approval.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

Inspection of Books and Records. No holders of our ordinary shares who is not a director shall have any right of inspecting any of our accounts, books or documents except as conferred by the Companies Law or authorized by the directors or by us in general meeting. However, we will make this annual report, which contains our audited financial statements, available to shareholders and ADS holders. See Item 10.H. Additional Information Documents on Display.

Preferred Shares

Our board of directors has the authority, without shareholder approval, to issue up to a total of 10,000,000 shares of preferred shares in one or more series. Our board of directors may establish the number of shares to be included in each such series and may set the designations, preferences, powers and other rights of the shares of a series of preferred shares. While the issuance of preferred shares provides us with flexibility in connection with possible acquisitions or other corporate purposes, it could, among other things, have the effect of delaying, deferring or preventing a change of control transaction and could adversely affect the market price of our ADSs. We have no current plan to issue any preferred shares.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. Information on the Company or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See Item 4.B. Information on the Company Business Overview Regulation Regulations on Foreign Exchange.

E. Taxation

The following summary of the material Cayman Islands, People s Republic of China and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

According to Maples and Calder, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of

inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Table of Contents

People s Republic of China Taxation

If we are considered a PRC resident enterprise under the EIT Law, our shareholders and ADS holders who are deemed non-resident enterprises may be subject to the 10% EIT on the dividends payable by us or any gains realized from the transfer of our shares or ADSs, if such income is deemed derived from China, provided that (i) such foreign enterprise investor has no establishment or premises in China, or (ii) it has establishment or premises in China but its income derived from China has no real connection with such establishment or premises. Furthermore, if we are considered a PRC resident enterprise and relevant PRC tax authorities consider the dividends we pay with respect to our shares or ADSs and the gains realized from the transfer of our shares or ADSs to be income derived from sources within the PRC, it is also possible that such dividends and gains earned by non-resident individuals may be subject to the 20% PRC individual income tax. It is uncertain whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of tax treaties or arrangements entered into between China and other jurisdictions.

If we are required under the PRC tax law to withhold PRC income tax on our dividends payable to our non-PRC resident shareholders and ADS holders, or if any gains realized from the transfer of our shares or ADSs by our non-PRC resident shareholders and ADS holders are subject to the EIT or the individual income tax, your investment in our shares or ADSs could be materially and adversely affected.

United States Federal Income Taxation

The following discussion describes certain U.S. federal income tax considerations under present law of the ownership and disposition of the ADSs or ordinary shares. This summary applies only to investors that are U.S. Holders (as defined below) and that hold the ADSs or ordinary shares as capital assets. This discussion is based on the tax laws of the United States as in effect on the date of this annual report on Form 20-F and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report on Form 20-F, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax considerations described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

banks;

financial institutions;

insurance companies;

broker dealers;

persons that elect to mark their securities to market;

tax-exempt entities;

persons liable for the alternative minimum tax;

regulated investment companies;

certain expatriates or former long-term residents of the United States;

governments or agencies or instrumentalities thereof;

persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;

persons that actually or constructively own 10% or more of our voting shares;

persons whose functional currency is other than the U.S. dollar; or

persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as consideration.

Table of Contents

U.S. Holders are urged to consult their tax advisors about the application of the U.S. federal tax rules to their particular circumstances as well as the state, local and foreign tax consequences to them of the purchase, ownership and disposition of ADSs or ordinary shares.

The discussion below of the U.S. federal income tax consequences will apply if you are a U.S. Holder. You are a U.S. Holder if you are the beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- a citizen or individual resident of the United States;
- a corporation (or other entity subject to tax as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (i) is subject to the supervision of a court within the United States and the control of one or more United States persons or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

This discussion does not consider the tax treatment of partnerships or other pass-through entities that hold the ADSs or ordinary shares, or of persons who hold the ADSs or ordinary shares through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of the ADSs or ordinary shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, you will be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws. We have not sought, and will not seek, a ruling from the Internal Revenue Service (the IRS), or an opinion as to any U.S. federal income tax consequence described herein. The IRS may disagree with the discussion herein, and its determination may be upheld by a court.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions to you with respect to the ADSs or ordinary shares will be included in your gross income as dividend income on the date of receipt by the depositary, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (computed under U.S. federal income tax principles). Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution paid will generally be treated as a dividend for U.S. federal income tax purposes. Dividends paid by us will not be eligible for the dividends-received deduction allowed to corporations in respect of

dividends received from U.S. corporations.

With respect to non-corporate U.S. Holders (including individual U.S. Holders), dividends may be taxed at the lower applicable capital gains rate provided that (i) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefit of the income tax treaty between the United States and the PRC, (ii) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or for the preceding taxable year, (iii) certain holding period requirements are met, and (iv) such non-corporate U.S. Holders are not under an obligation to make related payments with respect to positions in substantially similar or related property. For this purpose, ADSs listed on the NASDAQ Global Select Market will generally be considered to be readily tradable on an established securities market in the United States. You should consult your tax advisor regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

Table of Contents

For U.S. foreign tax credit purposes, dividends paid on the ADSs or ordinary shares generally will be treated as income from foreign sources and generally will constitute passive category income. If PRC withholding taxes apply to dividends paid to you with respect to the ADSs or ordinary shares, you may be able to obtain a reduced rate of PRC withholding taxes under the income tax treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. If you do not elect to claim a foreign tax credit, you may instead claim a deduction for U.S. federal income tax purposes in respect of such withholding, but only for a year in which you elect to do so for all creditable foreign income taxes. You should consult your tax advisor regarding the creditability of any PRC tax.

Sale, Exchange or Other Disposition of the ADSs or ordinary shares

Subject to the passive foreign investment company rules discussed below, you will recognize gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and your tax basis in the ADS or ordinary share. The gain or loss will generally be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits. However, in the event we are deemed to be a PRC resident enterprise under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat such gain as PRC source income. U.S. Holders should consult their tax advisors regarding the creditability of any PRC tax.

Passive Foreign Investment Company

Based on the market price of our ADSs and ordinary shares, the value of our assets, and the composition of our assets and income, we believe that we were not a passive foreign investment company, or PFIC, for our taxable year ended December 31, 2014 and we do not expect to be a PFIC for our taxable year ending December 31, 2015 or for the foreseeable future. However, our PFIC status for the current taxable year ending December 31, 2015 will not be determinable until the close of the taxable year, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year (or any future taxable year). A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (the income test), or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the asset test).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the shares.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because the total value of our assets for purposes of the asset test will generally be calculated

using the market price of the ADSs and ordinary shares, our PFIC status will depend in large part on the market price of the ADSs and ordinary shares, which may fluctuate considerably. Accordingly, fluctuations in the market price of the ADSs and ordinary shares may result in our being a PFIC for any year. If we are a PFIC for any year during which you hold the ADS or ordinary shares, we will generally continue to be treated as a PFIC for all succeeding years during which you hold such ADS or ordinary shares. However, if we cease to be a PFIC, provided that you have not made a mark-to-market election, as described below, you may avoid some of

Table of Contents

the adverse effects of the PFIC regime by making a deemed sale election with respect to the ADSs or ordinary shares, as applicable.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a mark-to-market election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for you for such year and would be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each such other taxable year.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

Alternatively, a U.S. Holder of marketable stock (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. If you make a valid mark-to-market election for the ADSs or ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. Such deductions, however, are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make such a mark-to-market election, tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us (except that the lower applicable capital gains rate would not apply).

The mark-to-market election is available only for marketable stock, which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter, or regularly traded, on a qualified exchange or other market, as defined in applicable Treasury regulations. We expect that the ADSs will continue to be listed on the NASDAQ Global Select Market, which is a qualified exchange for these purposes, and, consequently, assuming that the ADSs are regularly traded, if you are a holder of ADSs, it is expected that the mark-to-market election would be

available to you were we to become a PFIC.

Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the general PFIC rules described above with respect to such U.S. Holder s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

Table of Contents

Alternatively, a U.S. Holder may avoid the PFIC tax consequences described above in respect to its ADSs and ordinary shares by making a timely qualified electing fund, or QEF, election. To comply with the requirements of a QEF election, a U.S. Holder must receive certain information from us. Because we do not intend to provide such information, however, such election will not be available to you with respect to the ADSs or ordinary shares.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file an annual information report containing such information as the U.S. Treasury may require.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

Medicare Tax

An additional 3.8% tax is imposed on a portion or all of the net investment income of certain individuals with a modified adjusted gross income of over $200,000 (or $250,000 in the case of joint filers or $125,000 in the case of married individuals filing separately) and on the undistributed net investment income of certain estates and trusts. For these purposes, net investment income generally includes interest, dividends (including dividends paid with respect to the ADSs or ordinary shares), annuities, royalties, rents, net gain attributable to the disposition of property not held in a trade or business (including net gain from the sale, exchange or other taxable disposition of an ADS or ordinary share) and certain other income, reduced by any deductions properly allocable to such income or net gain. U.S. Holders are urged to consult their tax advisors regarding the applicability of this tax to their income and gains in respect of an investment in the ADSs or ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply to you, however, if you furnish a correct taxpayer identification number and make any other required certification or that are otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on IRS Form W-9. You should consult your tax advisor regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding can be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Individual U.S. Holders and certain entities may be required to submit to the IRS certain information with respect to his or her beneficial ownership of the ADSs or ordinary shares, if such ADSs or ordinary shares are not held on his or her behalf by a financial institution. This law also imposes penalties if an individual U.S. Holder is required to submit such information to the IRS and fails to do so.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

Table of Contents

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1, as amended and prospectus under the Securities Act of 1933, with respect to our ordinary shares. We have also previously filed with the SEC our registration statement on Form F-3 with respect to the sale of debt securities by our company on a continuous basis, a prospectus under the Securities Act with respect to our issuance of US$1.5 billion senior unsecured notes in two equal tranches, due in 2017 and 2022 with stated interest rates of 2.25% and 3.50%, respectively, a prospectus under the Securities Act with respect to our issuance of US$1.0 billion senior unsecured notes due in 2018 with stated interest rate of 3.25% and a prospectus under the Securities Act with respect to our issuance of US$1.0 billion senior unsecured notes due in 2019 with stated interest rate of 2.75%.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish The Bank of New York Mellon, the depositary of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders meeting received by the depositary from us.

In accordance with NASDAQ Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at http://ir.baidu.com. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to excess cash invested in short-term instruments with original maturities of less than a year and long-term held-to-maturity securities with maturities of greater than a year. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future

investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we have to sell securities which have declined in market value due to changes in interest rates. We have not been, and do not expect to be, exposed to material interest rate risks, and therefore have not used any derivative financial instruments to manage our interest risk exposure.

Table of Contents

We had RMB545.9 million (US$88.0 million) in long-term held-to-maturity investments as of December 31, 2014, with a weighted average duration of approximately 1.43 years. A hypothetical one percentage point (100 basis-point) increase in interest rates would have resulted in a decrease of approximately RMB7.5 million (US$1.2 million) in the fair value of these long-term held-to-maturity investments as of December 31, 2014.

Foreign Exchange Risk

Most of our revenues and costs are denominated in RMB, while a portion of our cash and cash equivalents, short-term financial assets, long-term loans payable and notes payable are denominated in U.S. dollars. Our exposure to foreign exchange risk primarily relates to those financial assets and financial liabilities denominated in U.S. dollars. Any significant revaluation of RMB against the U.S. dollar may materially affect our earnings and financial position, and the value of, and any dividends payable on, our ADS in U.S. dollars. See Item 3.D. Key Information Risk Factors Risks Related to Doing Business in China Fluctuation in the value of the RMB may have a material and adverse effect on your investment. In addition, we commenced operation in Japan in late 2007. To the extent we need to make capital injections into our Japan operation by converting U.S. dollars into Japanese Yen, we will be exposed to the fluctuations in the exchange rate between the U.S. dollar and the Japanese Yen. We have not hedged exposures denominated in foreign currencies using any derivative financial instruments.

The RMB depreciated by 2.43% against the U.S. dollar in 2014. A hypothetical 10% increase in the exchange rate of the U.S. dollar against the RMB would have resulted in an increase of RMB2.6 billion (US$413.8 million) in the value of our U.S. dollar-denominated long-term loans payable and notes payable at December 31, 2014.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

The Bank of New York Mellon, the depositary of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those

fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid. The depositary s corporate trust office at which the ADSs will be administered is located at 101 Barclay Street,

Table of Contents

New York, New York 10286. The depositary s principal executive office is located at One Wall Street, New York, New York 10286.

Persons depositing or withdrawing shares must pay:	For:
US$5.00 (or less) per 1,000 ADSs (or portion of 1,000 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US$0.02 (or less) per ADS	Any cash distribution to registered ADS holders
A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to registered ADS holders
US$0.02 (or less) per ADS per calendar year (if the depositary has not collected any cash distribution fee during that year)	Depositary services
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
	Converting foreign currency to U.S. dollars
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs and any other program related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. In 2015, we received approximately US$4.0 million (after tax) reimbursement from the depositary for our expenses incurred in connection with investor relationship programs related to the ADS facility and the travel expense of our key personnel in connection with such programs.

Table of Contents

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2014, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2014.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our independent registered public accounting firm, Ernst & Young Hua Ming LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2014, as stated in its report, which appears on page F-3 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. William Decker, an independent director (under the standards set forth in NASDAQ Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

Table of Contents

Item 16B. Code of Ethics

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers, employees and advisors in July 2005. We have posted a copy of our code of business conduct and ethics on our website at http://ir.baidu.com.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our principal external auditors, for the periods indicated.

	2013	2014
Audit fees[1]	US$ 3,444,858	US$ 3,720,586
Tax fees[2]	US$ 46,146	US$ 112,187
All other fees[3]	US$ 2,153	US$ 2,128

(1) Audit fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements and assistance with and review of documents filed with the SEC. In 2013 and 2014, the audit refers to financial audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Tax fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance, tax advice, and tax planning. In 2013 and 2014, the tax fees refer to fees paid to our principal auditors for reviewing the compliance of our tax documentation and providing tax advices.

(3) All other fees means the aggregate fees billed in 2013 and 2014 for our subscription of certain U.S. GAAP reading materials from our principal auditors.

All audit and non-audit services provided by our independent auditors must be pre-approved by our audit committee. Our audit committee has adopted a combination of two approaches in pre-approving proposed services: general pre-approval and specific pre-approval. With general approval, proposed services are pre-approved without consideration of specific case-by-case services; with specific approval, proposed services require the specific pre-approval of the audit committee. Unless a type of service has received general pre-approval, it will require specific pre-approval by our audit committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by our audit committee.

All requests or applications for services to be provided by our independent auditors that do not require specific approval by our audit committee will be submitted to our chief financial officer and must include a detailed description of the services to be rendered. The chief financial officer will determine whether such services are included within the list of services that have received the general pre-approval of the audit committee. The audit committee will be informed on a timely basis of any such services. Requests or applications to provide services that require specific approval by our audit committee will be submitted to the audit committee by both our independent auditors and our chief financial officer and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC s rules on auditor independence.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Table of Contents

Item 16F. Change in Registrant s Certifying Accountant
Not applicable.

Item 16G. Corporate Governance
NASDAQ Stock Market Rule 5620 requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer s fiscal year-end. However, NASDAQ Stock Market Rule 5615(a)(3) permits foreign private issuers like us to follow home country practice in certain corporate governance matters. Maples and Calder, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings every year. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2014. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders approvals.

Other than the annual meeting practice described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under NASDAQ Stock Market Rules.

Item 16H. Mine Safety Disclosure
Not applicable.

PART III

Item 17. Financial Statements
We have elected to provide financial statements pursuant to Item 18.

Item 18. Financial Statements
The consolidated financial statements of Baidu, Inc., its subsidiaries and its consolidated affiliated entities are included at the end of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Document
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 99.2 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
2.1	Registrant s Specimen American Depositary Receipt (incorporated by reference to Exhibit 1 of the prospectus filed with the Securities and Exchange Commission on January 5, 2009 pursuant to

Rule 424(b)(3) under the Securities Act)

2.2 Registrant s Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 of Amendment No. 5 to our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on August 2, 2005)

2.3 Form of Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)

Table of Contents

Exhibit Number	Description of Document
2.4	Indenture, dated November 28, 2012 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.5	First Supplemental Indenture dated November 28, 2012 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.6	Form of 2.250% Notes due 2017 (incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.7	Form of 3.500% Notes due 2022 (incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.8	Second Supplemental Indenture dated August 6, 2013 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.5 to Form 6-K furnished with the Securities and Exchange Commission on August 6, 2013)
2.9	Form of 3.250% Notes due 2018 (incorporated by reference to Exhibit 4.5 to Form 6-K furnished with the Securities and Exchange Commission on August 6, 2013)
2.10	Third Supplemental Indenture dated June 9, 2014 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.5 to Form 6-K furnished with the Securities and Exchange Commission on June 9, 2014)
2.11	Form of 2.750% Notes due 2019 (incorporated by reference to Exhibit 4.5 to Form 6-K furnished with the Securities and Exchange Commission on June 9, 2014)
4.1	2000 Option Plan (amended and restated effective December 16, 2008) (incorporated by reference to Exhibit 99.3 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
4.2	2008 Share Incentive Plan (incorporated by reference to Exhibit 99.4 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
4.3	Form of Indemnification Agreement between the Registrant and the Registrant s directors (incorporated by reference to Exhibit 10.3 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.4	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.4 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.5	Translation of Exclusive Technology Consulting and Services Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.6 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.6	Translation of Operating Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 99.4 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.7	

Translation of Software License Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 99.5 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)

Table of Contents

Exhibit Number	Description of Document
4.8	Translation of Web Layout Copyright License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 99.8 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.9	Translation of Proxy Agreement dated August 9, 2004 among Baidu Online, Baidu Netcom, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.9 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.10	Translation of Equity Pledge Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.10 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.11	Translation of Exclusive Equity Purchase and Transfer Option Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.11 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.12	Translation of Loan Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.12 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005) and the Supplementary Agreement among Baidu Online, Baidu Netcom, Robin Yanhong Li, Eric Yong Xu and Haoyu Shen dated January 11, 2011 (incorporated by reference to Exhibit 4.16 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.13	Translation of Form of Irrevocable Powers of Attorney issued by the shareholders of Baidu Netcom (incorporated by reference to Exhibit 99.13 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.14	Translation of the form of Technology Consulting and Services Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.19 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.15	Translation of the form of Operating Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.20 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.16	Translation of the form of Web Layout Copyright License Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.21 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.17	Translation of the form of Proxy Agreement among Baidu Online, a consolidated affiliated PRC entity and the shareholders of the consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.22 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.18	Translation of the form of Equity Pledge Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.23 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)

128

Table of Contents

Exhibit Number	Description of Document
4.19	Translation of the form of Exclusive Equity Purchase and Transfer Option Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.24 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.20	Translation of the form of Loan Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.25 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.21	Translation of the Supplementary Agreement to Exclusive Technology Consulting and Services Agreement dated June 23, 2006 between Baidu Online and Beijing Perusal, dated as of April 22, 2010 (incorporated by reference to Exhibit 4.25 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.22	Translation of the Operating Agreement dated June 23, 2006 between Baidu Online, Beijing Perusal, Jiping Liu and Yazhu Zhang and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.26 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.23	Translation of the Web Layout Copyright License Agreement dated June 23, 2006 between Baidu Online and Beijing Perusal (incorporated by reference to Exhibit 4.27 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.24	Translation of the Proxy Agreement dated June 23, 2006 among Jiping Liu, Yazhu Zhang and Baidu Online (incorporated by reference to Exhibit 4.28 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.25*	Translation of the Amended and Restated Equity Pledge Agreements between Baidu Online and Yazhu Zhang, and between Baidu Online and Jiping Liu, both dated January 20, 2015
4.26*	Translation of the Amended and Restated Exclusive Equity Purchase and Transfer Option Agreements between Baidu Online, Jiping Liu and Beijing Perusal, and between Baidu Online, Yazhu Zhang and Beijing Perusal, both dated January 20, 2015
4.27	Translation of Irrevocable Powers of Attorney issued by Jiping Liu and Yazhu Zhang, the shareholders of Beijing Perusal, both dated June 23, 2006 (incorporated by reference to Exhibit 4.31 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.28*	Translation of the Amended and Restated Loan Agreements between Baidu Online and Jiping Liu and between Baidu Online and Yazhu Zhang, both dated January 20, 2015
4.29	Translation of the Technology Consulting and Services Agreement dated February 28, 2008 between Baidu Online and BaiduPay and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.33 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.30	Translation of the Operating Agreement dated February 28, 2008 between Baidu Online, BaiduPay, Jun Yu and Baidu Netcom and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.34 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.31	

Translation of the Web Layout Copyright License Agreement dated February 28, 2008 between Baidu Online and BaiduPay (incorporated by reference to Exhibit 4.35 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)

Table of Contents

Exhibit Number	Description of Document
4.32	Translation of the Proxy Agreement between Zhixiang Liang and Baidu Online, dated April 23, 2012 (incorporated by reference to Exhibit 4.33 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.33*	Translation of the Amended and Restated Equity Pledge Agreement between Baidu Online and Zhixiang Liang, dated September 16, 2014
4.34*	Translation of the Amended and Restated Exclusive Equity Purchase and Transfer Option Agreement between Baidu Online, Zhixiang Liang and BaiduPay, dated September 16, 2014
4.35	Translation of Irrevocable Power of Attorney issued by Zhixiang Liang, the individual shareholder of BaiduPay, dated April 23, 2012 (incorporated by reference to Exhibit 4.36 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.36*	Translation of the Amended and Restated Loan Agreement between Baidu Online and Zhixiang Liang, dated September 16, 2014
4.37	Translation of the supplementary agreements, dated March 11, 2010 and April 22, 2010 to the Software License Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 4.48 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.38	Translation of the supplementary agreement dated March 1, 2010 to the Web Layout Copyright License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 4.50 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.39	Translation of the supplementary agreement dated April 22, 2010 to the Operating Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 4.51 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.40	Translations of the supplementary agreement dated April 22, 2010 to the Exclusive Equity Purchase and Transfer Option Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 4.53 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.41	Translation of the supplementary agreement by and among Baidu Online, Beijing Perusal, Jiping Liu and Yazhu Zhang dated September 6, 2011 (incorporated by reference to Exhibit 4.55 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.42	Translation of Loan Agreement dated February 10, 2006 between Baidu Online and Robin Yanhong Li (incorporated by reference to Exhibit 4.63 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.43	Translation of Loan Agreement dated March 6, 2008 between Baidu Online and Robin Yanhong Li (incorporated by reference to Exhibit 4.64 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.44	Translation of the supplementary agreement to the Loan Agreement by and among Robin Yanhong Li, Baidu Netcom and Baidu Online dated September 6, 2011 (incorporated by reference to Exhibit 4.65 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29,

2012)

Table of Contents

Exhibit Number	Description of Document
4.45	Translation of the supplementary agreement to the Software License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011 (incorporated by reference to Exhibit 4.68 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.46	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011 (incorporated by reference to Exhibit 4.69 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.47	Translation of the Supplementary Agreement to the Amended and Restated Loan Agreement by and among Baidu Online, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.72 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.48	Translation of the Supplementary Agreement to the Amended and Restated Equity Pledge Agreement by and among Baidu Online, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.73 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.49	Translation of the Equity Pledge Agreement between Baidu Online and Robin Yanhong Li dated December 1, 2011 (incorporated by reference to Exhibit 4.74 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.50	Translation of the Supplementary Agreement by and among Baidu Online, Baidu Netcom, Robin Yanhong Li and Zhan Wang dated September 6, 2011 (incorporated by reference to Exhibit 4.75 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.51	Translation of the Supplementary Agreement to the Amended and Restated Equity Purchase and Transfer Option Agreement and its Supplementary Agreement among Baidu Online, Robin Yanhong Li, Haoyu Shen, Baidu Netcom and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.76 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.52	Translation of the Supplementary Agreement to the Operating Agreement and its Supplementary Agreement among Baidu Online, Baidu Netcom, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.77 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.53	Translation of the Proxy Agreement among Robin Yanhong Li, Zhan Wang and Baidu Online dated August 26, 2011 (incorporated by reference to Exhibit 4.78 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.54	Translation of Supplementary Agreement among Baidu Online, BaiduPay, Baidu Netcom and Hu Cai dated September 6, 2011 (incorporated by reference to Exhibit 4.79 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.55	Translation of the Supplementary Agreement to Exclusive Technology Consulting and Services Agreement between Baidu Online and BaiduPay dated September 6, 2011 (incorporated by reference to Exhibit 4.80 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)

4.56	Translation of the Supplementary Agreement to Web Layout Copyright License Agreement between Baidu Online and BaiduPay dated September 6, 2011 (incorporated by reference to Exhibit 4.74 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)

Table of Contents

Exhibit Number	Description of Document
4.57	Translation of Domain Name License Termination Agreement between Baidu Online and Baidu Netcom dated December 31, 2012 (incorporated by reference to Exhibit 4.78 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.58	Translation of Domain Name License Termination Confirmation between Baidu Online and Beijing Perusal dated December 31, 2012 (incorporated by reference to Exhibit 4.79 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.59	Translation of Trademark License Termination Agreement between Baidu Online and Baidu Netcom dated February 1, 2013 (incorporated by reference to Exhibit 4.80 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.60	Translation of Trademark License Termination Agreement between Baidu Online and Beijing Perusal dated February 1, 2013 (incorporated by reference to Exhibit 4.81 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.61	Translation of Trademark License Termination Agreement between Baidu Online and BaiduPay dated February 1, 2013 (incorporated by reference to Exhibit 4.82 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.62	Translation of Domain Name License Termination Agreement between Baidu Online and BaiduPay dated December 31, 2012 (incorporated by reference to Exhibit 4.83 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.63	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and Baidu Netcom dated August 15, 2013 (incorporated by reference to Exhibit 4.64 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.64	Translation of the supplementary agreement to the Software License Agreement between Baidu Online and Baidu Netcom dated August 15, 2013 (incorporated by reference to Exhibit 4.65 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.65	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and Beijing Perusal dated August 15, 2013 (incorporated by reference to Exhibit 4.66 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.66	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and BaiduPay dated August 15, 2013 (incorporated by reference to Exhibit 4.67 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.67	Translation of the supplementary agreement to the Amended and Restated Loan Agreement between Baidu Online and Robin Yanhong Li and Zhan Wang dated March 1, 2014 (incorporated by reference to Exhibit 4.68 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.68	Transaction Framework Agreement, dated May 7, 2013, by and among PPStream Inc., Qiyi.com, Inc. and other parties thereto (incorporated by reference to Exhibit 4.69 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.69	

Agreement and Plan of Merger, dated August 14, 2013, between Baidu (Hong Kong) Limited, Baidu (Hong Kong) Sub Limited and 91 Wireless Websoft Limited (incorporated by reference to Exhibit 4.70 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)

Table of Contents

Exhibit Number	Description of Document
4.70	Term Loan Facility Agreement between Baidu, Inc. and Sumitomo Mitsui Banking Corporation dated July 24, 2013 (incorporated by reference to Exhibit 4.71 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.71	Term Loan Facility Agreement between Baidu, Inc. and Australia and New Zealand Banking Group Limited (Hong Kong Branch) dated August 13, 2013 (incorporated by reference to Exhibit 4.72 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 28, 2014)
4.72*	Loan Agreement between Baidu, Inc. and Bank of China, Los Angeles Branch dated December 9, 2014
4.73*	Loan Agreement between Baidu, Inc. and Bank of China, Los Angeles Branch dated December 9, 2014
8.1*	List of Principal Subsidiaries and Consolidated Affiliated Entities
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.14 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Maples and Calder
15.2*	Consent of Han Kun Law Offices
15.3*	Consent of Ernst & Young Hua Ming LLP
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith
** Furnished herewith

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Baidu, Inc.

By: /s/ Robin Yanhong Li
Name: Robin Yanhong Li

Title: Chairman and Chief Executive Officer

Date: March 27, 2015

Table of Contents

BAIDU, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page(s)
Reports of Independent Registered Public Accounting Firm	F-2 F-3
Consolidated Balance Sheets as of December 31, 2013 and 2014	F-4
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2013 and 2014	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2013 and 2014	F-6 F-7
Consolidated Statements of Shareholders Equity for the Years Ended December 31, 2012, 2013 and 2014	F-8
Notes to the Consolidated Financial Statements	F-9 F-58

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Baidu, Inc.

We have audited the accompanying consolidated balance sheets of Baidu, Inc. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baidu, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Baidu, Inc. s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, The People s Republic of China

March 27, 2015

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Baidu, Inc.

We have audited Baidu, Inc. s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Baidu, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Baidu, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Baidu, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2014 of Baidu, Inc., and our report dated March 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, The People s Republic of China

March 27, 2015

Table of Contents

BAIDU, INC.

CONSOLIDATED BALANCE SHEETS

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

	Notes	December 31, 2013 RMB	2014 RMB	2014 US$
ASSETS				
Current assets:				
Cash and cash equivalents		9,691,797	13,852,725	2,232,654
Restricted cash		259,533	413,010	66,565
Short-term investments	4	28,734,761	43,818,037	7,062,186
Accounts receivable, net of allowance of RMB43,814 and RMB93,877 (US$15,130) for 2013 and 2014, respectively	5	2,220,846	3,664,447	590,602
Deferred tax assets, net	12	286,844	684,952	110,394
Amounts due from related parties	19	104	50	8
Other current assets, net	6	1,835,265	3,407,427	549,177
Total current assets		**43,029,150**	**65,840,648**	**10,611,586**
Non-current assets:				
Fixed assets, net	7	5,370,268	8,705,364	1,403,050
Intangible assets, net	8	3,630,315	3,574,359	576,082
Goodwill	8	16,864,350	17,418,895	2,807,416
Long-term investments, net	4	634,777	2,878,922	463,998
Deferred tax assets, net	12	97,940	259,127	41,764
Amounts due from related parties	19	370,916		
Other non-current assets		988,072	984,193	158,622
Total non-current assets		**27,956,638**	**33,820,860**	**5,450,932**
Total assets		**70,985,788**	**99,661,508**	**16,062,518**
LIABILITIES AND EQUITY				
Current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB4,031,176 and RMB9,813,366 (US$1,581,628) as of December 31, 2013 and 2014, respectively):	1			
Short-term loans	10		93,000	14,989
Accounts payable and accrued liabilities	9	7,362,138	12,964,893	2,089,562
Customer advances and deposits		2,977,872	4,296,440	692,460
Deferred revenue		226,599	164,809	26,562
Deferred income		77,287	518,543	83,574

Long-term loans, current portion	10	343,625	2,167,405	349,322
Amounts due to related parties	19	398	8,385	1,351
Capital lease obligation		44,907	57,346	9,242
Total current liabilities		**11,032,826**	**20,270,821**	**3,267,062**
Non-current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB975,793 and RMB781,835 (US$126,009) as of December 31, 2013 and 2014, respectively):	1			
Deferred income		376,491	39,626	6,387
Long-term loans	10	2,112,359	1,860,000	299,778
Notes payable	11	15,116,990	21,647,023	3,488,867
Deferred tax liabilities	12	1,200,270	1,143,821	184,350
Amounts due to related parties	19	373,227	8	1
Capital lease obligation		40,999	50,079	8,071
Other non-current liabilities		67,376	144,542	23,296
Total non-current liabilities		**19,287,712**	**24,885,099**	**4,010,750**
Total liabilities		**30,320,538**	**45,155,920**	**7,277,812**
Commitments and contingencies	14			
Redeemable noncontrolling interests	15		**1,894,502**	**305,338**
Equity				
Class A ordinary shares, par value US$0.00005 per share, 825,000,000 shares authorized, and 27,492,452 shares and 27,613,315 shares issued and outstanding as at December 31, 2013 and 2014, respectively	16	12	12	2
Class B ordinary shares, par value US$0.00005 per share, 35,400,000 shares authorized, and 7,537,921 shares and 7,492,921 shares issued and outstanding as at December 31, 2013 and 2014, respectively	16	3	3	
Additional paid-in capital		3,056,418	3,633,919	585,682
Retained earnings	16	34,525,386	47,659,772	7,681,361
Accumulated other comprehensive income	16	843,096	231,923	37,379
Total Baidu, Inc. shareholders equity		**38,424,915**	**51,525,629**	**8,304,424**
Noncontrolling interests		**2,240,335**	**1,085,457**	**174,944**
Total equity		**40,665,250**	**52,611,086**	**8,479,368**
Total liabilities, redeemable noncontrolling interests and equity		**70,985,788**	**99,661,508**	**16,062,518**

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

BAIDU, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Notes	For the Years Ended December 31, 2012 RMB	2013 RMB	2014 RMB	2014 US$
Revenues:					
Online marketing services		22,245,643	31,802,219	48,495,215	7,816,010
Others		60,383	141,705	557,103	89,789
Total revenues		**22,306,026**	**31,943,924**	**49,052,318**	**7,905,799**
Operating costs and expenses:					
Cost of revenues		(6,448,545)	(11,471,839)	(18,885,450)	(3,043,781)
Selling, general and administrative		(2,501,336)	(5,173,533)	(10,382,142)	(1,673,298)
Research and development		(2,304,825)	(4,106,832)	(6,980,962)	(1,125,127)
Total operating costs and expenses		**(11,254,706)**	**(20,752,204)**	**(36,248,554)**	**(5,842,206)**
Operating profit		**11,051,320**	**11,191,720**	**12,803,764**	**2,063,593**
Other income:					
Interest income		866,465	1,308,542	1,992,818	321,184
Interest expense		(107,857)	(447,084)	(628,571)	(101,307)
Foreign exchange (loss) income, net		(4,533)	(48,379)	75,780	12,214
Loss from equity method investments		(294,229)	(5,806)	(26,952)	(4,344)
Others, net		454,271	186,023	257,704	41,534
Total other income, net		**914,117**	**993,296**	**1,670,779**	**269,281**
Income before income taxes		**11,965,437**	**12,185,016**	**14,474,543**	**2,332,874**
Income taxes	12	(1,574,159)	(1,828,930)	(2,231,172)	(359,599)
Net income		**10,391,278**	**10,356,086**	**12,243,371**	**1,973,275**
Net loss attributable to noncontrolling interests		64,750	162,880	943,698	152,097
Net income attributable to Baidu, Inc.		**10,456,028**	**10,518,966**	**13,187,069**	**2,125,372**

Earnings per share for Class A and Class B ordinary shares:					
Basic		298.62	299.75	374.60	60.37
Diluted		298.29	299.32	373.15	60.14
Earnings per ADS (1 Class A ordinary share equals 10 ADSs):	17				
Basic		29.86	29.98	37.46	6.04
Diluted		29.83	29.93	37.32	6.01
Weighted average number of Class A and Class B ordinary shares outstanding					
Basic		34,939,838	34,986,228	35,062,466	35,062,466
Diluted		34,979,459	35,036,346	35,198,474	35,198,474
Other comprehensive income (loss):	16				
Foreign currency translation adjustment		(6,100)	190,322	(445,710)	(71,835)
Unrealized gains (losses) on available-for-sale investments, net of reclassification		11,391	668,372	(145,310)	(23,420)
Other comprehensive income (loss), net of tax		**5,291**	**858,694**	**(591,020)**	**(95,255)**
Comprehensive income		**10,396,569**	**11,214,780**	**11,652,351**	**1,878,020**
Comprehensive loss attributable to noncontrolling interests		65,584	225,560	923,545	148,848
Comprehensive income attributable to Baidu, Inc.		**10,462,153**	**11,440,340**	**12,575,896**	**2,026,868**

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	For the Years Ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
Cash flows from operating activities:				
Net income	10,391,278	10,356,086	12,243,371	1,973,275
Adjustments to reconcile net income to net cash generated from operating activities:				
Depreciation of fixed assets and computer parts	1,281,336	1,702,140	2,223,907	358,429
Gain on disposal of fixed assets	(2,783)	(16,051)	(24,395)	(3,932)
Amortization of intangible assets and licensed copyrights	234,001	949,850	1,748,387	281,789
Deferred income tax, net	(59,030)	330,636	(693,448)	(111,764)
Share-based compensation	212,309	514,727	962,740	155,166
(Reversal of) provision for doubtful accounts	(847)	39,137	77,472	12,486
Investment income	(745,526)	(1,100,054)	(1,929,192)	(310,930)
Net gain from step-acquisition and settlement of pre-existing relationship	(486,339)		(75,229)	(12,125)
Assets impairment	169,180	24,197	95,049	15,319
Loss from equity method investments	294,229	5,806	26,952	4,344
Gain on disposal of a subsidiary	(15,238)			
Other noncash (income) expense	(57,544)	19,186	32,435	5,228
Changes in operating assets and liabilities, net of effects of acquisitions:				
Restricted cash	85,429	(151,435)	(51,077)	(8,232)
Accounts receivable	(338,602)	(773,787)	(1,462,086)	(235,645)
Other assets	(10,664)	(1,303,334)	(1,628,737)	(262,505)
Amounts due from related parties	(794,508)	(54)	370,970	59,790
Customer advances and deposits	489,769	866,620	1,313,806	211,747
Accounts payable and accrued liabilities	778,003	2,005,559	5,028,890	810,509
Deferred revenue	31,416	122,347	(61,790)	(9,959)
Deferred income	199,785	199,272	104,391	16,825
Amounts due to related parties	340,340	2,123	(365,241)	(58,866)
Net cash generated from operating activities	**11,995,994**	**13,792,971**	**17,937,175**	**2,890,949**
Cash flows from investing activities:				
Acquisition of fixed assets	(2,310,860)	(2,756,629)	(4,827,163)	(777,997)
Acquisition of computer parts	(28,901)	(12,194)	(4,302)	(693)
Proceeds from disposal of fixed assets	6,785	18,476	20,422	3,291
	(820,526)	(13,201,126)	(328,891)	(53,008)

Acquisition of businesses, net of cash acquired (Note 3)				
Acquisition of intangible assets	(190,303)	(909,717)	(1,563,746)	(252,030)
Capitalization of software costs	(36,315)	(2,448)		
Purchases of held-to-maturity investments	(26,368,017)	(30,441,279)	(55,356,781)	(8,921,893)
Sales and maturities of held-to-maturity investments	19,351,949	29,562,045	37,449,747	6,035,804
Purchases of available-for-sale investments	(6,774,500)	(53,921,661)	(78,033,523)	(12,576,721)
Sales and maturities of available-for-sale investments	3,477,463	48,947,811	81,931,252	13,204,921
Purchases of other long-term investments	(58,666)	(350,361)	(1,777,331)	(286,454)
Sales of long-term investments			22,362	3,604
Cash distribution of long-term investments	2,811	4,143	180	29
Net cash used in investing activities	**(13,749,080)**	**(23,062,940)**	**(22,467,774)**	**(3,621,147)**

Table of Contents

BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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

	For the Years Ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
Cash flows from financing activities:				
Restricted cash			(102,400)	(16,504)
Proceeds from issuance of subsidiaries shares	100,460	1,397,283	1,846,819	297,653
Payments to acquire subsidiaries shares from noncontrolling interests	(1,020)	(259,879)	(622,961)	(100,403)
Proceeds from short-term loans			92,432	14,897
Repayment of short-term loans	(124,602)	(47,200)		
Proceeds from long-term loans	355,499	2,144,450	1,807,646	291,339
Repayment of long-term loans	(140,000)	(2,144,450)	(347,659)	(56,033)
Payment of dividends by a subsidiary			(337,964)	(54,470)
Proceeds from issuance of notes payable	9,334,777	6,111,200	6,188,232	997,362
Payment of capital lease obligation	(27,124)	(36,629)	(72,817)	(11,736)
Payment of debt issuance costs	(37,099)	(39,400)	(32,216)	(5,192)
Proceeds from exercise of share options	56,974	156,307	192,848	31,081
Net cash generated from financing activities	**9,517,865**	**7,281,682**	**8,611,960**	**1,387,994**
Effect of exchange rate changes on cash and cash equivalents	(11,629)	(200,548)	79,567	12,824
Net increase (decrease) in cash and cash equivalents	**7,753,150**	**(2,188,835)**	**4,160,928**	**670,620**
Cash and cash equivalents at beginning of the year	4,127,482	11,880,632	9,691,797	1,562,034
Cash and cash equivalents at end of the year	11,880,632	9,691,797	13,852,725	2,232,654
Supplemental disclosures:				
Interests paid	38,027	302,055	592,759	95,535
Income taxes paid	1,641,853	1,656,513	2,798,040	450,962
Non-cash investing and financing activities:				
Capital lease obligation	56,220	45,554	94,336	15,204
Acquisition of fixed assets included in accounts payable and accrued liabilities	332,473	787,154	1,131,870	182,424
Acquisition of other non-current assets included in accounts payable and accrued liabilities	39,165	40,303	39,437	6,356
Non-cash acquisitions of investments	705,281		75,229	12,125

Non-cash acquisitions of subsidiaries	338,447

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

BAIDU, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in thousands of Renminbi (RMB), and in thousands of U.S. Dollars (US$), except for number of shares)

	Attributable to Baidu, Inc.						
	Ordinary shares				Accumulated other comprehensive		Total
	Number of shares	Amount RMB	Additional paid-in capital RMB	Retained earnings RMB	income (loss) RMB	Noncontrolling interests RMB	shareholders equity RMB
Balances at December 31, 2011	**34,914,117**	**15**	**1,771,770**	**13,604,334**	**(84,403)**	**97,819**	**15,389,535**
Net income				10,456,028		(8,946)	10,447,082
Other comprehensive income (loss)					6,125	(144)	5,981
Business combination						32,507	32,507
Change of a subsidiary s noncontrolling interests						(1,259)	(1,259)
Acquisition of a subsidiary s shares from noncontrolling shareholders			(1,499)			478	(1,021)
Disposal of a subsidiary						5,253	5,253
Accretion of redeemable noncontrolling interests				(22,143)			(22,143)
Exercise of share-based awards	51,593		54,171				54,171
Share-based compensation			196,360			905	197,265
Issuance of subsidiary shares			74,471				74,471
Balances at December 31, 2012	**34,965,710**	**15**	**2,095,273**	**24,038,219**	**(78,278)**	**126,613**	**26,181,842**
Net income				10,518,966		(101,023)	10,417,943
Other comprehensive income (loss)					921,374	(7,260)	914,114
Business combination						427,813	427,813
Acquisition of subsidiaries redeemable shares from noncontrolling shareholders			(138,439)				(138,439)

Accretion of redeemable noncontrolling interests				(31,799)			(31,799)
Reclassification of redeemable noncontrolling interests						888,934	888,934
Exercise of share-based awards	64,663		165,403			850	166,253
Share-based compensation			485,185			20,468	505,653
Issuance of subsidiary shares			448,996			883,940	1,332,936
Balances at December 31, 2013	**35,030,373**	**15**	**3,056,418**	**34,525,386**	**843,096**	**2,240,335**	**40,665,250**
Net income				13,187,069		(943,698)	12,243,371
Other comprehensive income (loss)					(611,173)	20,153	(591,020)
Business combination						150,000	150,000
Acquisition of subsidiaries shares from noncontrolling shareholders			(406,285)			(216,676)	(622,961)
Dividends distribution by a subsidiary						(337,964)	(337,964)
Exercise of share-based awards	75,863		184,815			8,033	192,848
Share-based compensation			798,971			160,274	959,245
Accretion of redeemable noncontrolling interests				(52,683)			(52,683)
Issuance of subsidiary shares						5,000	5,000
Balances at December 31, 2014	**35,106,236**	**15**	**3,633,919**	**47,659,772**	**231,923**	**1,085,457**	**52,611,086**
Balances at December 31, 2014, in US$		**2**	**585,682**	**7,681,361**	**37,379**	**174,944**	**8,479,368**

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS

Baidu, Inc. (Baidu or the Company) was incorporated under the laws of the Cayman Islands on January 18, 2000.

As of December 31, 2014, 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, 2014, the Company also effectively controls a number of variable interest entities (VIE) through the Primary Beneficiaries, as defined below. The VIEs include:

Beijing Baidu Netcom Science Technology Co., Ltd. (Baidu Netcom), controlled through Baidu Online Network Technology (Beijing) Co., Ltd. (Baidu Online), one of the Company s wholly-owned subsidiaries;

Beijing Perusal Technology Co., Ltd. (Beijing Perusal), controlled through Baidu Online; and

Beijing BaiduPay Science and Technology Co., Ltd. (BaiduPay), controlled through Baidu Online; and

Other VIEs controlled through Primary Beneficiaries other than Baidu Online.

The Company, its subsidiaries, VIEs and subsidiaries of the VIEs are hereinafter collectively referred to as the Group . The Group offers internet search solutions and online marketing solutions, operates an online payment platform which enables users to make payments online, develops and markets scalable web/mobile application software and provides related services, conducts online advertising business in connection with online video contents broadcasting, provides mobile application distribution services, offers online game services and provides group buying 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, advertising, and audio and video services. 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 Group through loans extended to the authorized individuals who were the shareholders of the VIEs. The Group has entered into proxy agreements or power of attorney and exclusive equity purchase option agreement with the VIEs and nominee shareholders of the VIEs through the Group s 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 a majority of the risk of loss from the VIEs activities and entitle the Primary Beneficiaries to receive a majority of their residual returns. In addition, the

Group has entered into certain agreements with the shareholders of the VIEs through the Primary Beneficiaries or their wholly-owned subsidiaries in the PRC, including loan agreements for the paid-in capital of the VIEs and share pledge agreements for the equity interests in the VIEs held by the shareholders of the VIEs.

Despite the lack of technical 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

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

operating agreements, technology consulting and services agreements 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 substantially all of the profits and all of the expected losses of 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 SEC Regulation S-X Rule 3A-02 and Accounting Standards Codification (ASC) topic 810 (ASC 810), *Consolidation*, because the Company holds all the variable interests of the VIEs through the Primary Beneficiaries.

The principal terms of the agreements entered into amongst the VIEs, their respective shareholders and the Primary Beneficiaries are further described below.

Loan Agreements

Pursuant to loan agreements amongst the shareholders of Baidu Netcom and Baidu Online, Baidu Online provided interest-free loans with an aggregate amount of RMB100.0 million 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 sale of the shareholders equity interest in Baidu Netcom to Baidu Online or its designated person. The terms of the loan agreements will expire on February 9, 2016 at the earliest and can be extended with the written consent of both parties before its expiration.

Each of the loan agreements amongst Baidu Online and the respective shareholders of Beijing Perusal and BaiduPay contains the same terms as those described above, except that the amount of the loans extended to the respective shareholders is RMB20.0 million and RMB31.5 million, respectively. The term of the loan agreements will expire on July 31, 2024 and September 15, 2024, respectively, and can be extended with the written consent of both parties before its expiration.

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 from Baidu Netcom to its shareholders should be paid 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 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 Baidu Online and Beijing Perusal, BaiduPay and their respective shareholders contains the same terms as those described above. Each of the agreements will terminate upon the shareholders of Beijing Perusal or BaiduPay have transferred all their equity interests in Beijing Perusal or BaiduPay, as the case may be, to Baidu Online or its designated person(s) or upon expiration of the term of business of Baidu Online, Beijing Perusal or BaiduPay.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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 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 earlier. 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 amongst Baidu Online and the shareholders of Beijing Perusal and BaiduPay contains 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. Each of the powers of attorney will be in effect for as long as the shareholder of Beijing Perusal or BaiduPay holds any equity interests in Beijing Perusal or BaiduPay, as the case may be.

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.

Each of the operating agreements amongst Baidu Online and Beijing Perusal, BaiduPay and their respective shareholders contains the same terms as those described above. Each of the agreements will be in effect for an unlimited term, until the term of business of Baidu Online, Beijing Perusal or BaiduPay expires and extension is denied by the relevant approval authorities.

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 to Baidu Netcom technology consulting and services related to, among other things, the maintenance of servers, software development, design of advertisements, and e-commerce technical

services. Baidu Online owns the intellectual property rights resulting from the performance of this agreement. Baidu Netcom pays a monthly service fee to Baidu Online based upon a pre-agreed formula as defined in the agreement. 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 and Beijing Perusal and between Baidu Online and BaiduPay contains the same terms as those described above, except for the

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

formula calculating the service fees. Baidu Netcom and Beijing Perusal should pay Baidu Online a monthly service fee equal to the product of the standard monthly fee for page view per thousand times multiplied by the actual times of page view for the month divided by 1,000; and the agreement between Baidu Online and BaiduPay does not provide a formula to calculate the quarterly fee, as BaiduPay has yet to achieve profitability. Each of the agreements 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.

License Agreements

Baidu Online and Baidu Netcom entered into a software license agreement, a trademark license agreement, a domain name 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, a web layout copyright license, a trademark license and a domain name. 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. The domain name license agreement was terminated in 2012 as Baidu Online transferred the relevant domain names to Baidu Netcom. The trademark license agreement was terminated in February 2013 after Baidu Online transferred its trademarks (including pending trademark applications) to Baidu Netcom.

Baidu Online entered into a trademark license agreement, a domain name license agreement and a web layout copyright license agreement with both Beijing Perusal and BaiduPay. Each of the license agreements between Baidu Online and Beijing Perusal and between Baidu Online and BaiduPay contains the same terms as those described above. Each of the web layout copyright license agreements was renewed since 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. Each of the domain name license agreement was terminated in 2012 as Baidu Online transferred the relevant domain names to Beijing Perusal and BaiduPay. Each of the trademark license agreement was terminated in February 2013 after Baidu Online transferred its trademarks (including pending trademark applications) to Beijing Perusal and BaiduPay.

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 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 and the respective shareholders of Beijing Perusal and BaiduPay contains the same terms, including term period, as those described above.

Each equity pledge is perfected by registration with relevant local administration for industry and commerce which is required for a property right under the PRC Property Rights Law.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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 a majority of the expected losses from the VIEs activities through providing unlimited financial support to the VIEs and is entitled to receive a majority of residual returns from 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.

There are similar agreements entered into by Primary Beneficiaries besides Baidu Online with their VIEs and the respective shareholders, which resulted in a parent-subsidiary relationship between the Company and these VIEs.

In the opinion of the Company s legal counsel, (i) the ownership structure of the Company and its VIEs is in compliance with existing PRC laws and regulations; (ii) the contractual arrangements with the VIEs and their shareholders are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Group s business operations are in compliance with existing PRC laws and regulations in all material respects.

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 act in contrary to the 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 law, 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.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The following tables set forth the assets, liabilities and results of operations of the VIEs and their subsidiaries included in the Company s consolidated balance sheets and statements of comprehensive income:

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
		(In thousands)	
Assets			
Current			
Cash and cash equivalents	1,510,320	2,250,298	362,682
Accounts receivable, net	1,373,443	2,744,793	442,380
Others	1,607,462	3,665,314	590,741
	4,491,225	8,660,405	1,395,803
Non-current			
Fixed assets, net	1,350,852	1,796,162	289,489
Others	1,301,383	2,157,922	347,794
	2,652,235	3,954,084	637,283
Total	7,143,460	12,614,489	2,033,086
Third-party liabilities			
Current			
Accounts payable and accrued liabilities	2,944,821	6,073,083	978,803
Customer advances and deposits	801,626	802,362	129,317
Others	284,729	2,937,921	473,508
	4,031,176	9,813,366	1,581,628
Non-current	975,793	781,835	126,009
Total	5,006,969	10,595,201	1,707,637
Inter-company liabilities			
Inter-company payable to subsidiaries for technology consulting and service fees	1,578,759	1,479,423	238,440
Others	510,821	889,530	143,366

Total	2,089,580	2,368,953	381,806

	For the years ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
	(In thousands)			
Total revenues	6,429,099	9,040,058	13,166,712	2,122,089
Net income (loss)	143,626	(248,664)	(352,125)	(56,752)
Net cash provided by operating activities	1,399,892	1,354,802	1,392,039	224,356
Net cash used in investing activities	(1,033,164)	(1,303,612)	(2,430,505)	(391,726)
Net cash (used in) provided by financing activities	(88,971)	595,132	1,778,444	286,633

As of December 31, 2014, there was no pledge or collateralization of the VIEs assets. The amount of the net liabilities of the VIEs was RMB349.67 million (US$56.36 million) as of December 31, 2014. The creditors of the VIEs third-party liabilities did not have recourse to the general credit of the Primary Beneficiaries in normal

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP).

Principles of Consolidation

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 has included the results of operations of acquired businesses from the respective dates of acquisition.

Use of Estimates

The preparation of 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 accounts receivable allowances, fair values of options to purchase the Company s or its subsidiaries ordinary shares, fair values of certain debt and equity investments, amortization of certain licensed copyright, impairment of long-lived assets, long-term investments and goodwill, the purchase price allocation and fair value of noncontrolling interests with respect to business combinations, and deferred tax valuation allowance, 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.

Comparative Information

Certain items in the consolidated financial statements have been reclassified to conform to the current year s presentation to facilitate comparison.

Currency Translation for Financial Statements Presentation

Translations of amounts from RMB into US$ for the convenience of the reader have been calculated at the exchange rate of RMB6.2046 per US$1.00 on December 31, 2014, the last business day in fiscal year 2014, as published on the website of the United States Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at such rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (ASC 830), *Foreign Currency Matters*. The Company uses the RMB as its reporting currency. The Company uses the average exchange rate for

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

the year and the exchange rate at the balance sheet date to translate its operating results and financial position, respectively. Any translation gains (losses) are recorded in other comprehensive income (loss). Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated 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.

Segment Reporting

In accordance with ASC topic 280 (ASC 280), *Segment Reporting*, the Company s chief operating decision makers rely upon consolidated results of operations when making decisions about allocating resources and assessing performance of the Company; hence, the Company has only one single operating segment. The Company does not distinguish between markets or segments for the purpose of internal reporting.

Business Combinations

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC topic 805 (ASC 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 and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

In a business combination achieved in stages, 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 earnings.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and noncontrolling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, 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. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

Cash and Cash Equivalents

Cash and cash equivalents

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

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Restricted cash

Restricted cash mainly consists of the cash reserved in escrow accounts for the remaining payments in relation to compensation for postcombination services, cash collateral for repayment of short-term loans (Note 10), as well as the cash balances deposited by users or customers of the Group that were held for designated purposes.

The cash balances deposited by users or customers of the Group for certain businesses are considered restricted because they cannot be used for the operations of the Group or any other purposes not designated by the users or customers. The deposited balance is included in the Group s bank accounts until being used for the designated purposes or withdrawn by the users or customers.

Accounts Receivable

Accounts receivable are recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. The Company generally does not require collateral from its customers.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, the customer s payment history, its current credit-worthiness and current economic trends.

Receivables from Online Payment Agencies

Receivables from online payment agencies are cash due from the third-party online payment service providers for clearing transactions. The cash was paid or deposited by customers or users through these online payment agencies for services provided by the Company. The Company carefully considers and monitors the credit worthiness of the third-party payment service providers used. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Receivable balances are written off after all collection efforts have been exhausted. As of December 31, 2013 and 2014, no allowance for doubtful accounts was provided for the receivables from online payment agencies.

Investments

Short-term investments

All highly liquid investments with original maturities of greater than three months, but less than 12 months, are classified as short-term investments. Investments that are expected to be realized in cash during the next 12 months are also included in short-term investments. The Company accounts for short-term investments in accordance with

ASC topic 320 (ASC 320), *Investments Debt and Equity Securities.* The Company classifies the short-term investments in debt and equity securities 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.

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company s policy and ASC 320. When the Company intends to sell an impaired debt security or it is more-likely-than-not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Company does not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, the Company must determine whether or not it will recover its amortized cost basis. If the Company concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income.

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale investment is reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Realized gains or losses are included in earnings during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

Long-term investments

The Company s long-term investments consist of cost method investments, equity method investments, held-to-maturity investments with original and remaining maturities of greater than 12 months, and available-for-sale investments.

In accordance with ASC subtopic 325-20 (ASC 325-20), *Investments-Other: Cost Method Investments*, for investments in an investee over which the Company does not have significant influence and which do not have readily determinable fair value, the Company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed the Company s share of earnings since its investment. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

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 (ASC 323), *Investments-Equity Method and Joint Ventures*. Under the equity method, the Company initially records its investment at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investment on the consolidated balance sheets. The Company subsequently adjusts the carrying amount of the investment to recognize the Company s proportionate share of each equity investee s net income or loss into earnings after the date of investment. The Company will discontinue applying the equity

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

method if an investment (and additional financial supports to the investee, if any) has been reduced to zero. Under the conditions that the Company is not required to advance additional funds to an investee and the equity-method investment in ordinary shares is reduced to zero, if further investments are made that have a higher liquidation preference than ordinary shares, the Company would recognize the loss based on its percentage of the investment with the same liquidation preference, and the loss would be applied to those investments of a lower liquidation preference first before being further applied to the investments of a higher liquidation preference. The Company evaluates the equity method investments for impairment under ASC 323. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

Long-term held-to-maturity investments and available-for-sale investments are measured in the same manner as short-term held-to-maturity investments.

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, accounts payable and accrued liabilities, customer advances and deposits, derivative instruments, capital lease obligation, notes payable and long-term loans. The carrying amounts of these financial instruments, except for long-term cost method investments, long-term equity method investments, long-term available-for-sale investments, long-term held-to-maturity investments, derivative instruments, notes payable and long-term loans, approximate their fair values because of their generally short maturities. Available-for-sale investments and derivative instruments were adjusted to fair value at each reporting date. The carrying amounts of long-term held-to-maturity investments and long-term loans approximate their fair values due to the fact that the related interest rates approximate the rates currently offered by financial institutions for similar debt instruments of comparable maturities. Based on the quoted market price as of December 31, 2014, the fair value of the notes payable was RMB21.81 billion (US$3.52 billion) (Note 21).

Research, Development and Computer Software

Capitalization of software developed for internal use

The Company has capitalized certain internal use software development costs in accordance with ASC subtopic 350-40 (ASC 350-40), *Intangibles-Goodwill and Other: Internal-Use Software*, amounting to RMB38.13 million, RMB2.68 million and nil for the years ended December 31, 2012, 2013 and 2014, respectively. The Company capitalizes certain costs relating to software acquired, developed, or modified solely to meet the Company s internal requirements and for which there are no substantive plans to market the software. These costs mainly include payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software projects during the application development stage. Capitalized internal-use software costs are included in intangible assets, net . The amortization expense for capitalized software costs amounted to RMB19.72 million, RMB31.65 million and RMB28.24 million (US$4.55 million) for the years ended December 31, 2012, 2013 and 2014, respectively. The unamortized amount of capitalized internal use software development costs was RMB41.48 million

and RMB13.24 million (US$2.13 million) as of December 31, 2013 and 2014, respectively.

Research and development expenses

Research and development expenses consist primarily of personnel-related costs. The Company has expensed substantially all development costs incurred in the research and development of new products and new functionality added to the existing products except for certain internal use software development costs.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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	45 years
Office building related facility, machinery and equipment	15 years
Computer equipment	3 or 5 years
Office equipment	3 or 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 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, 2012, 2013 and 2014 were insignificant.

Licensed copyrights of video content

The current and non-current portions of licensed copyrights of video content are recorded in Other current assets, net or Intangible assets, net , respectively, at the lower of amortized cost or net realizable value. In accordance with ASC topic 920 (ASC 920), *Entertainment-Broadcasters*, costs incurred in purchased copyrights of video content are capitalized and amortized over the shorter of the license period or projected useful life of the video content. Any licensed copyrights that do not meet the criteria to be recorded are included in the commitments disclosure. The Company amortizes the licensed copyrights in Cost of revenues on an accelerated or on a straight line basis, as

appropriate. If expectations of the usefulness of a video content are revised downward, the unamortized cost is written down to the estimated net realizable value. A write-down from unamortized cost to a lower estimated net realizable value establishes a new cost basis.

Goodwill and Intangible Assets

Goodwill

The Company assesses goodwill for impairment in accordance with ASC subtopic 350-20 (ASC 350-20), *Intangibles Goodwill and Other: Goodwill*, 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.

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Subsequent to the acquisitions in 2011 and thereafter, there were segment managers who regularly review operating results of certain acquired entities and the rest of the Group, which constitute three separate reporting units as of December 31, 2013 and 2014.

The Company has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test in accordance with Accounting Standards Update (ASU) No. 2011-08 (ASU 2011-08), *Testing Goodwill for Impairment*. 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 two-step quantitative impairment test described above is required. Otherwise, no further testing is required. 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. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

In 2014, the Company performed a qualitative assessment for the reporting unit other than the certain acquired entities. Based on the requirements of ASU 2011-08, the Company evaluated all relevant factors, 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 the this reporting unit, and further impairment testing on goodwill was unnecessary as of December 31, 2014. The Company elected to assess goodwill for impairment using the two-step process at two reporting units, representing the aforementioned acquired entities. The fair value of the two reporting units exceeded their respective carrying amount, and therefore goodwill related to these two reporting units were not impaired and the Company was not required to perform further testing.

Intangible assets

Intangible assets with finite lives are carried at cost less accumulated amortization. Land use rights are amortized using a straight-line method over the shorter of their estimated economic lives or the terms of related land use right contracts. All other intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives.

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

Land use rights	50 years
Customer relationships	5.5 years
Software	4.2 years
Trademarks	9.8 years
User list	3.4 years
Licensed copyrights of video contents	3.4 years
Others	5.9 years

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Intangible assets with an 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 (ASC 350-30), *Intangibles-Goodwill and Other: General Intangibles Other than Goodwill*.

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, 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 (ASC 360), *Property, Plant and Equipment*. When such events occur, the Company assesses the recoverability of the assets group based on the undiscounted future cash flow the assets group is expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the assets group plus net proceeds expected from disposition of the assets group, if any, is less than the carrying value of the assets group. If the Company identifies an impairment, the Company reduces the carrying amount of the assets group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. 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.

Revenue Recognition

The Company recognizes revenue based on the following principles:

Performance-based online marketing services

Cost-per-click

The Company s auction-based pay-for-performance (P4P) platform enables a customer to place its website link and related description on the Company s search result list on the website which could be accessed through personal computer or mobile devices. Customers make bids on keywords based on how much they are willing to pay for each click to their listings in the search results listed on the Company s website and the relevance between the keywords and the customer s businesses. Internet users search of the keyword will trigger the display of the listings. The ranking of the customer s listing depends on both the bidding price and the listing s relevance to the keyword searched. Customer pays the Company only when a user clicks on one of its website links. Other than the auction-based P4P platform, the Company has certain vertical platforms from which it generates revenue through pre-determined prices per click. Revenue is recognized when a user clicks on one of the customer-sponsored website links, as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC topic 605 (ASC 605), *Revenue Recognition*.

For certain customers engaged through direct sales, the Company may provide certain value-added consultative support services to help its customers to better utilize its online marketing system. Fees for such services are recognized as revenue on a pro-rata basis over the contracted service period.

Other performance-based online marketing services

To the extent the Company provides online marketing services based on performance criteria other than cost-per-lick, such as the number of successful reservation of hotels or issuance of air tickets, the number of downloads

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

(and user registration) of mobile applications, the number of incremental end users and the total incremental revenue generated, revenue is recognized when the specified performance criteria are met together with satisfaction of other applicable revenue recognition criteria as prescribed by ASC 605.

Display-based online advertising services

For display-based online advertising services such as text links, banners, icons or other forms of graphical advertisements in the websites or mobile applications, the Company recognizes revenue in accordance with ASC 605, on a pro-rata basis over the contractual term for cost per time advertising arrangements commencing on the date the customer s advertisement is displayed on a specified webpage or mobile applications, or on the number of times that the advertisement has been displayed for cost per thousand impressions advertising arrangements. For certain display-based contractual agreements, the Company may also provide certain performance guarantees, in which cases revenue is recognized at the later of the completion of the time commitment or performance guarantee.

Online game services and other revenue sharing services

The Company operates online game platforms on which registered users can access games provided by third-party game developers. The Company also operates mobile platforms on which users can access smartphone related products such as themes, wallpapers and e-books developed and owned by third-party content providers. The rights and obligations of each party to the arrangement indicate that the Company is acting as an agent whereas the game developer or the content provider is the principal as a result of being the primary obligor in the arrangement in accordance with ASC subtopic 605-45 (ASC 605-45), *Revenue Recognition: Principal Agent Consideration*. The Company recognizes the shared revenue from these online promotional services, on a net basis, based on the ratios pre-determined with the online game developers or content providers when all the revenue recognition criteria set forth in ASC 605 are met, which is generally when the user purchases virtual currencies issued by the game developers or purchases contents developed by the content providers.

Group buying services

The Company generates revenue from group buying services as a marketing agent by offering goods and services provided by third-party merchant partners at a discount through the website or mobile application that connects merchants to consumers. The Company presents revenue on a net basis, representing the amount billed to registered users less the amount paid to merchants, in accordance with ASC 605-45. The Company acts as an agent rather than as the principal in the delivery of the products or services as it does not assume the risks and rewards of ownership of products nor is it responsible for the actual fulfillment of services. Both of these are the responsibilities of the merchants. The Company recognizes revenue when all of the criteria prescribed in ASC 605 are met, which is generally when the merchants provide the services or when the products are delivered to the customers. Since the Company s paying users have the ability to request for full refund before redemption for the products or services offered by the merchants, the underlying sale from which the Company earns the related commission revenue as an agent is not culminated until its paying users actually redeem.

Online marketing services involving Baidu Union

Baidu Union is the program through which the Company expands distribution of its customers sponsored links or advertisements by leveraging traffic of the Baidu Union members internet properties. The Company makes payments to Baidu Union members for acquisition of traffic. The Company recognizes gross revenue for the amount of fees it receives from its customers. Payments made to Baidu Union members are included in cost of revenues as traffic acquisition costs.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Barter transactions

The Company engages in barter transactions from time to time and in such situations follows the guidance set forth in ASC topic 845 (ASC 845), *Nonmonetary Transactions*. While nonmonetary transactions are generally recorded at fair value, if such value is not determinable within reasonable limits, or the transaction lacks commercial substance, or the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange, the transaction is recognized based on the carrying value of the product or services provided. The Company also engages in certain advertising barter transactions and follows the guidance set forth in ASC subtopic 605-20 (ASC 605-20), *Revenue Recognition: Services*. The advertising barter transactions generally are recorded at fair value. If the fair value of the advertising surrendered in the barter transaction is not determinable within required limits, the barter transaction is recorded based on the carrying amount of the advertising surrendered, which likely to be zero. The amount of revenues recognized for barter transactions was insignificant for each of the years presented.

Other revenue recognition related policies

In accordance with ASC subtopic 605-25 (ASC 605-25), *Revenue Recognition: Multiple-Deliverable Revenue Arrangements*, for arrangements that include multiple deliverables, primarily for advertisements to be displayed in different spots, placed under different forms and occur at different time, the Company allocates the total consideration of the arrangements based on their relative selling price, with the selling price of each deliverable determined using vendor-specific objective evidence (VSOE) of selling price, third-party evidence (TPE) of selling price, or management s best estimate of the selling price (BESP). The Company considers all reasonably available information in determining the BESP, including both market and entity-specific factors.

The Company delivers some of its online marketing services to end customers through engaging third-party distributors. In this context, the Company may provide cash incentives to distributors. The cash incentives are accounted for as reduction of revenue in accordance with ASC subtopic 605-50 (ASC 605-50), *Revenue Recognition: Customer Payments and Incentives*.

The Company provides sales incentives to customers to entitle customers to receive reductions in the price of the online marketing services by meeting certain cumulative consumption requirements. The Company accounts for these award credits granted to members in conjunction with a current sale of products or services as a multiple-element arrangement by analogy to ASC 605-25. The consideration allocated to the award credits, as deferred revenue, is based on an assumption that the customer will purchase the minimum amount of future service necessary to obtain the maximum award credits available. The deferred revenue is recognized as revenue proportionately as the future services are delivered to the customer or when the award credits expire.

Cash received in advance from customers is recorded as customer advances and deposits. The unused cash balances remaining in the customers accounts are included as liabilities of the Company. Deferred revenue is recorded when services are provided before the other revenue recognition criteria set forth in ASC 605 are fulfilled.

Cost of Revenues

Cost of revenues consists primarily of sales taxes (including business tax and output value-added tax) and surcharges, traffic acquisition costs, bandwidth costs, depreciation, content costs, payroll and related costs of operations.

The Company incurs sales taxes and surcharges in connection with the provision of online marketing services, technical and consultative service fees charged by its subsidiaries to VIEs and other taxable services in the PRC.

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

In accordance with ASC 605-45, the Company includes the sales tax and surcharges incurred on its online marketing revenues in cost of revenues. The sales tax and surcharges in cost of revenues for the years ended December 31, 2012, 2013 and 2014 were RMB1.57 billion, RMB2.33 billion and RMB3.60 billion (US$579.85 million), respectively. Traffic acquisition costs represent the amounts paid or payable to Baidu Union members 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 members and other business partners a percentage of the fees it earns from its online marketing customers.

Advertising Expenses

Advertising expenses, primarily advertisements through various forms of media, are included in Selling, general and administrative expense in the consolidated statements of comprehensive income and are expensed when incurred. Advertising expenses for the years ended December 31, 2012, 2013 and 2014 were RMB326.83 million, RMB191.61 million and RMB385.06 million (US$62.06 million), respectively.

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. 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. For the government subsidies with non-operating nature and with no further conditions to be met, the amounts are recorded as non-operating income in Other income, net when received; whereas for the government subsidies with certain operating conditions, the amounts are recorded as liabilities when received and will be recorded as operating income when the conditions are met.

Leases

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as capital leases as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

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.

The Company applies the provisions of ASC topic 740 (ASC 740), *Income Taxes*, in accounting for uncertainty in income taxes. ASC 740 clarified 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. As of and for the years ended December 31, 2012, 2013 and 2014, the amounts of unrecognized tax benefits as well as interest and penalties associated with uncertainty in income taxes were insignificant.

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Share-based Compensation

The Company accounts for share-based compensation in accordance with ASC topic 718 (ASC 718), *Compensation-Stock Compensation.* 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 have been 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 (modification awards). The compensation costs associated with the modification awards are recognized if either the original vesting condition or the new vesting condition has been achieved. Such compensation costs will not be less than the grant-date fair value of the original award. 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 modification awards, the Company recognizes share-based compensation over the vesting periods of the new options, 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 original award, using either the original term or the new term, whichever results in higher expenses for each reporting period.

The Company accounts for share awards issued to non-employees in accordance with the provisions of ASC subtopic 505-50 (ASC 505-50), *Equity: Equity-based payments to Non-Employees*. The Company uses the Black-Scholes-Merton option pricing model method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation. ASC 718 requires share-based compensation to be presented in the same manner as cash compensation rather than as a separate line item.

Earnings Per Share (EPS)

The Company computes earnings per Class A and Class B ordinary shares in accordance with ASC topic 260 (ASC 260), *Earnings Per Share*, using the two-class method. Under the provisions of ASC 260, basic net income 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 accounts 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.

Diluted net income 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 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 net income per share of Class A ordinary shares assumes the conversion of Class B ordinary shares, while the diluted net income per share of Class B ordinary shares does not assume the conversion of such shares.

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

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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 net income per share of Class A ordinary shares, 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.

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, if such estimate can be made and material, or states that such estimate is immaterial if it can be estimated but immaterial, or discloses that an estimate cannot be made. The assessments of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involve 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.

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, short-term investments, accounts receivable, amounts due from related parties and long-term held-to-maturity investments. As of December 31, 2014, the Company has RMB58.63 billion (US$9.45 billion) in cash and cash equivalents, restricted cash, short-term investments and long-term held-to-maturity investments, 86.37% and 13.63% 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, short-term investments and long-term held-to-maturity investments held at China Merchants Bank and Bank of China

exceeded 10%, representing 31.26% and 17.54% of the Company s total cash and cash equivalents, restricted cash, short-term investments and long-term held-to-maturity investments as of December 31, 2014, 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 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

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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 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.

Amounts due from related parties are typically unsecured, interest-free and repayable on demand. In evaluating the collectability of the amounts due from related parties balance, the Company considers many factors, including the related parties repayment history and their credit-worthiness. An allowance for doubtful accounts is made when collection of the full amount is no longer probable.

Business and economic risks

The Company participates in a dynamic 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 or cash flows: changes in the overall demand for services and products; changes in business offerings; competitive pressures due to 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; and risks associated with the Company s ability to attract and retain employees necessary to support its growth.

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

The Company s operations could be adversely affected by significant political, economic and social uncertainties 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 the 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. Approval of foreign currency payments by the People s Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers invoices, shipping documents and signed contracts.

Foreign currency exchange rate risk

The functional currency and the reporting currency of the Company are the US$ and RMB, respectively. The Company s exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents, short-term investments and notes payable denominated in the US$. On June 19, 2010, the People s Bank of China

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

announced the end of the RMB s de facto peg to the US$, a policy which was instituted in late 2008 in the face of the global financial crisis, to further reform the RMB exchange rate regime and to enhance the RMB s exchange rate flexibility. On March 15, 2014, the People s Bank of China announced the widening of the daily trading band for RMB against US$. The appreciation of the US$ against RMB was approximately 2.49% in 2014. Most of revenues and costs of the Company are denominated in RMB, while a portion of cash and cash equivalents and short-term financial assets are denominated in U.S. dollars. Any significant revaluation of RMB may materially and adversely affect the Company s cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, the ADS in US$.

Derivative Instruments

ASC topic 815 (ASC 815), *Derivatives and Hedging*, 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 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. The estimated fair values of derivative instruments are determined at discrete points in time based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques. The fair value of the derivative instruments held by the Company was insignificant for all years presented.

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers.* ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the consolidated financial statements.

3. BUSINESS COMBINATIONS

Business Combinations in 2014:

During the year ended December 31, 2014, the Company completed several business combinations, which the Company expects to complement its existing businesses and achieve significant synergies. The acquired entities were considered insignificant, both individually and in aggregate. The results of the acquired entities operations have been included in the Company s consolidated financial statements since their respective dates of acquisition.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the fair value of noncontrolling interests, resulting from which the amount of goodwill was determined and recognized as of the respective acquisition dates. The following table summarizes the estimated aggregate fair values of the assets acquired, liabilities assumed and the noncontrolling interests as of the respective dates of acquisition:

	RMB	US$
	(In thousands)	
Purchase consideration	398,410	64,212
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	(95,961)	(15,466)
Intangible assets, net	249,452	40,204
Deferred tax liabilities, noncurrent	(67,945)	(10,951)
Pre-existing equity interests	(91,677)	(14,776)
Noncontrolling interests	(150,000)	(24,175)
Goodwill	554,541	89,376

Goodwill, which is not tax deductible, 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.

The valuations used in the purchase price allocation described above were determined by the Company with the assistance of independent third party valuation firms. 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 method investments or noncontrolling interests are based on significant inputs that market participants would consider, which mainly include (a) discount rates, (b) a projected terminal values based on EBITDA, (c) financial multiples of companies in the same industries and (d) adjustments for lack of control or lack of marketability.

Business Combinations in 2013:

Acquisition of 91 Wireless

On October 1, 2013, the Company acquired 100% of the outstanding ordinary shares of 91 Wireless Websoft Limited (91 Wireless), a leading Chinese mobile application marketplaces and mobile games operator, with which the Company expects to enhance its ability and market share in mobile online marketing business. The results of 91 Wireless s operations have been included in the Company s consolidated financial statements since October 1, 2013.

Among the total purchase consideration, US$1.83 billion was paid upon the consummation of the acquisition and US$10.00 million was deposited in an escrow account in case of any breach of the representations and warranties made upon the acquisition or indemnifiable loss incurred, if any, such as claims, damages or penalties. The escrowed amount will be released and transferred to the original shareholders after a period of 18 months from the acquisition date. The remaining of the consideration represents the settlement of the pre-existing relationships between the Company and 91 Wireless, which was insignificant.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of October 1, 2013, the date of acquisition:

	RMB (In thousands)
Purchase consideration	11,196,235
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	483,341
Intangible assets, net	1,146,300
Deferred tax liabilities, noncurrent	(278,346)
Goodwill	9,844,940

Goodwill, which is not tax deductible, is primarily attributable to synergies expected to be achieved from the acquisition. The synergies are mainly attributable to the enhancement of the Company s leading position on the rapidly emerging mobile area, especially the distribution of applications for mobile devices, which could better promote the Company s products, reduce costs and expenses by sharing the infrastructure, distribution channel and common research and development results, and further foster an ecosystem with better user experience for mobile products, stronger user loyalty, and greater value for both customers and developers that enhance the Company s monetization ability on the emerging mobile markets.

Other acquisitions

The Company also completed other business combinations during 2013, which the Company expects to complement its existing businesses and achieve significant synergies. The results of the acquired entities operations have been included in the Company s consolidated financial statements since their respective dates of acquisition.

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the fair value of noncontrolling interests, resulting from which the amount of goodwill was determined and recognized as of the respective acquisition dates. The following table summarizes the estimated aggregate fair values of the assets acquired, liabilities assumed and the noncontrolling interests as of the respective dates of acquisition:

	RMB (In thousands)
Purchase consideration	3,865,378
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	467,159

Intangible assets, net	796,415
Deferred tax liabilities, noncurrent	(112,233)
Noncontrolling interests	(427,813)
Goodwill	3,141,850

Goodwill, which is not tax deductible, is primarily attributable to the synergies expected to be achieved from the acquisitions.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Business Combinations in 2012:

During the year ended December 31, 2012, the Company completed several business combinations, which the Company expects to complement its existing businesses and achieve significant synergies. The acquired entities were considered insignificant, both individually and in aggregate. The results of the acquired entities operations have been included in the Company s consolidated financial statements since their respective dates of acquisition.

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the fair value of noncontrolling interests, resulting from which the amount of goodwill was determined and recognized as of the respective acquisition dates. The following table summarizes the estimated aggregate fair values of the assets acquired, liabilities assumed and the noncontrolling interests as of the respective date of acquisition:

	RMB (In thousands)
Purchase consideration	1,190,717
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	91,095
Intangible assets, net	664,380
Deferred tax liabilities, noncurrent	(72,222)
Noncontrolling interests	(32,507)
Redeemable noncontrolling interests	(100,101)
Pre-existing equity method investments	(817,951)
Goodwill	1,458,023

The aggregate purchase price allocation included the acquisitions of Qiyi.com, Inc (Qiyi) and certain other acquirees. Qiyi and one of the other acquirees were equity method investees of the Company prior to their respective acquisitions. 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 not tax deductible, is primarily attributable to the synergies expected to be achieved from the acquisitions.

4. INVESTMENTS

Short-term Investments

As of December 31, 2014, all of the held-to-maturity investments were time deposits in commercial banks with a maturity of less than one year. The available-for-sale investments are debt securities with a maturity of less than one year purchased from commercial banks and other financial institutions as well as equity securities in listed entities.

During the years ended December 31, 2012, 2013 and 2014, the Company recorded interest income from its short-term investments of RMB726.40 million, RMB1.07 billion and RMB1.81 billion (US$291.59 million) in the consolidated statements of comprehensive income, respectively.

Long-term Investments

The Company s long-term investments consist of cost method investments, equity method investments, held-to-maturity investments with original and remaining maturities of greater than 12 months and available-for-sale investments.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Cost method investments

The carrying amount of cost method investments was RMB415.20 million and RMB1.72 billion (US$277.95 million) as of December 31, 2013 and 2014, respectively. The increase is primarily due to additional investments in 2014.

Equity method investments

As of December 31, 2013 and 2014, the Company holds several equity investments through its subsidiaries or VIEs, all of which were accounted for under the equity method since the Company can exercise significant influence but does not own a majority equity interest in or control them. These investments were not significant either individually or in aggregate. The carrying amount of equity method investments was RMB219.58 million and RMB219.84 million (US$35.43 million) as of December 31, 2013 and 2014, respectively.

Long-term held-to-maturity investments were time deposits in commercial banks with original and remaining maturities of greater than one year. The held-to-maturity investments are stated at amortized cost. Long-term available-for-sale equity investment represents investment in the equity securities of a publicly listed company. As the Company does not have significant influence over the investee, the investment was classified as available-for-sale and reported at fair value. Long-term available-for-sale debt investment represents investment in the redeemable preferred shares of a private company. As the preferred shares are redeemable at the option of the Company, the investment was classified as available-for-sale and measured at fair value.

The methodology used in the determination of fair values for held-to-maturity investments and available-for-sale investments were summarized in Note 21.

The total impairment charges on long-term investments were RMB169.18 million, RMB17.52 million and RMB93.42 million (US$15.06 million) for the years ended December 31, 2012, 2013 and 2014, respectively.

The short-term held-to-maturity debt investments as well as the short-term available-for-sale debt investments will mature within one year; whereas the long-term held-to-maturity debt investments as well as the long-term available-for-sale debt investments will mature after one year through five years.

	As of December 31, 2013			
Amortized cost RMB	Gross unrecognized holding gains RMB	Gross unrecognized holding losses RMB	Gross unrealized gains RMB	Fair value RMB
		(In thousands)		

Short-term investments					
Held-to-maturity investments					
Fixed-rate investments	19,339,250	51,897	(21,080)		19,370,067
Available-for-sale investments					
Fixed-rate debt investments	7,603,087			24,871	7,627,958
Adjustable-rate debt investments	514,433				514,433
Equity investments	604,878			648,242	1,253,120

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

	As of December 31, 2014					
	Amortized cost RMB	Gross unrecognized holding gains RMB	Gross unrecognized holding losses RMB	Gross unrealized gains(losses) RMB	Fair value RMB	Fair value US$
			(In thousands)			
Short-term investments						
Held-to-maturity investments						
Fixed-rate investments	38,159,394	104,718	(15,389)		38,248,723	6,164,575
Adjustable-rate investments	60,290		(771)		59,519	9,593
Available-for-sale investments						
Fixed-rate debt investments	2,854,682			10,414	2,865,096	461,770
Adjustable-rate debt investments	1,568,812			(269)	1,568,543	252,803
Equity investments	630,919			533,795	1,164,714	187,718
Long-term investments:						
Held-to-maturity investments						
Fixed-rate investments	545,930		(14,612)		531,318	85,633
Available-for-sale investments						
Debt investment	272,680				272,680	43,948
Equity investment	124,000			(8,079)	115,921	18,683

5. ACCOUNTS RECEIVABLE

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
		(In thousands)	
Accounts receivable	2,264,660	3,758,324	605,732
Allowance for doubtful accounts	(43,814)	(93,877)	(15,130)
	2,220,846	3,664,447	590,602

The movements in the allowance for doubtful accounts were as follows:

	2012 RMB	2013 RMB	2014 RMB	2014 US$
		(In thousands)		
Balance as of January 1	5,806	5,768	43,814	7,062
Amounts (credited against) charged to expenses	(38)	38,046	50,063	8,068
Balance as of December 31	5,768	43,814	93,877	15,130

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

6. OTHER CURRENT ASSETS

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
		(In thousands)	
Prepaid expenses	217,918	420,227	67,728
Advances to suppliers	539,608	1,225,972	197,591
Tax prepayments	266,630	323,618	52,158
Receivable from online payment agencies	501,813	689,025	111,051
Others	309,296	748,585	120,649
	1,835,265	3,407,427	549,177

7. FIXED ASSETS

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
		(In thousands)	
Computer equipment	6,562,127	9,764,297	1,573,719
Office building	911,482	1,776,651	286,344
Office building related facility, machinery and equipment	158,174	577,178	93,024
Vehicles	14,996	29,363	4,732
Office equipment	242,065	342,452	55,193
Leasehold improvements	234,180	311,076	50,136
Construction in progress	1,199,086	1,783,641	287,471
	9,322,110	14,584,658	2,350,619
Accumulated depreciation	(3,951,842)	(5,879,294)	(947,569)
	5,370,268	8,705,364	1,403,050

The Company obtained certain computer servers and equipment by entering into capital leases. The gross amount and the accumulated depreciation of these servers and equipment are RMB149.67 million and RMB59.46 million, respectively, as of December 31, 2013 and RMB224.03 million (US$36.11 million) and RMB122.43 million

(US$19.73 million), respectively, as of December 31, 2014. Future minimum lease payments of RMB103.48 million are payable in the amounts of RMB57.32 million, RMB39.39 million, RMB6.77million, nil and nil in 2015, 2016, 2017, 2018 and 2019, respectively.

Depreciation expense of the fixed assets, including assets under capital leases, was RMB1.20 billion, RMB1.64 billion and RMB2.19 billion (US$353.77 million) for the years ended December 31, 2012, 2013 and 2014, respectively. The Company recognized impairment loss on fixed assets of nil, RMB2.06 million and nil for the years ended December 31, 2012, 2013 and 2014, respectively.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill were as follows:

	2012 RMB	2013 RMB	2014 RMB	2014 US$
		(In thousands)		
Balance as of January 1	2,419,542	3,877,564	16,864,350	2,718,040
Goodwill acquired	1,458,023	12,986,790	554,541	89,376
Foreign currency translation adjustment	(1)	(4)	4	
Balance as of December 31	3,877,564	16,864,350	17,418,895	2,807,416

Intangible Assets

Finite-lived intangible assets

	As of December 31, 2013		
	Gross carrying value RMB	Accumulated amortization RMB	Net carrying value RMB
		(In thousands)	
Land use right	519,474	(26,968)	492,506
Customer relationships	682,715	(144,451)	538,264
Software	478,909	(152,711)	326,198
Trademarks	821,338	(97,122)	724,216
User list	789,975	(219,377)	570,598
Licensed copyrights of video contents	1,012,534	(469,787)	542,747
Others	496,439	(71,063)	425,376
	4,801,384	(1,181,479)	3,619,905

	As of December 31, 2014			
	Gross carrying value RMB	Accumulated amortization RMB	Net carrying value RMB	Net carrying value US$
	(In thousands)			
Land use right	519,474	(37,357)	482,117	77,703
Customer relationships	693,712	(304,208)	389,504	62,777
Software	519,239	(274,818)	244,421	39,394
Trademarks	916,735	(189,588)	727,147	117,195
User list	854,467	(452,730)	401,737	64,748
Licensed copyrights of video contents	1,768,141	(935,238)	832,903	134,239
Others	695,562	(213,929)	481,633	77,625
	5,967,330	(2,407,868)	3,559,462	573,681

The Company recognized impairment loss on intangible assets of nil, RMB4.62 million and RMB1.63 million (US$0.26 million) for the years ended December 31, 2012, 2013 and 2014, respectively. Amortization expense of intangible assets for the years ended December 31, 2012, 2013 and 2014 was RMB234.00 million, RMB949.85

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

million and RMB1.59 billion (US$255.48 million), respectively. Estimated amortization expense relating to the existing intangible assets with finite lives for each of the next five years is as follows:

	RMB	US$
	(In thousands)	
For the years ending December 31,		
2015	1,234,976	199,042
2016	798,198	128,646
2017	340,619	54,898
2018	233,781	37,679
2019	159,471	25,702

Indefinite-lived intangible assets

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
	(In thousands)		
Domain names	9,360	9,360	1,509
Trademarks	1,050	5,537	892
	10,410	14,897	2,401

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
	(In thousands)		
Accrued payroll and welfare	759,952	1,703,029	274,478
Accrued operating expenses	2,279,812	3,694,869	595,505
Tax payable	428,801	624,781	100,696
Interest payable	108,554	121,907	19,648
Distributors deposits	76,925	171,791	27,688
Purchase of fixed assets and spare parts	966,585	1,314,841	211,914

Traffic acquisition costs	640,643	1,159,362	186,855
Bandwidth costs	433,647	748,072	120,567
Content acquisition costs	481,461	718,072	115,732
Fund collected on behalf of service providers	438,211	1,563,564	252,001
Payable to group-buying merchants	229,693	359,190	57,891
Others	517,854	785,415	126,587
	7,362,138	12,964,893	2,089,562

10. LOANS PAYABLE

Short-term Loans

On May 13, 2014, 91 Wireless entered into a banking facility agreement with Hong Kong and Shanghai Banking Corporation Limited (Hong Kong branch) (HSBC), pursuant to which 91 Wireless is entitled to borrow a US$ denominated loan of RMB124.09 million (US$20.00 million) with an interest rate of 0.8% per annum over 1, 3

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

or 6 months LIBOR. The banking facility is subject to HSBC s overriding right of repayment on demand and the loan under this facility is intended for the general working capital of 91 Wireless. On May 23, 2014, 91 Wireless drew down RMB43.40 million (US$7.00 million) with a fixed interest rate of 1.12% under the loan commitment, and on September 25, 2014, 91 Wireless drew down another RMB49.60 million (US$8.00 million) with a fixed interest rate of 1.13% under the loan commitment, both of which were secured by cash collateral of a subsidiary of 91 Wireless.

Long-term Loans

On September 18, 2012, the Company entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), pursuant to which the Company is entitled to borrow an unsecured Australian Dollars (AU$) denominated loan with a floating interest rate. The loan commitment amounting to RMB532.46 million (AU$105.00 million) is intended for the general working capital of the Company. On October 17, 2012, the Company drew down RMB278.91 million (AU$55.00 million) with a term of two years under the loan commitment and the remaining commitment of AU$50.00 million was cancelled by both parties. In connection with the drawn down of the loan commitment, the Company entered into a currency swap agreement, pursuant to which the loan will be settled in a fixed US$ amount of US$56.76 million with a fixed annual interest rate of 2.75% during the term of the loan. The loan was fully repaid on October 16, 2014 when it became due.

On July 24, 2013, the Company entered into a loan agreement with Sumitomo Mitsui Banking Corporation, pursuant to which the Company is entitled to borrow an unsecured US$ denominated loan of RMB930.69 million (US$150.00 million) with a floating interest rate. The loan is intended for the general working capital of the Company. On July 29, 2013, the Company drew down RMB930.69 million (US$150.00 million) with a term of two years under the facility commitment. In connection with the loan agreement, the Company entered into an interest swap agreement, pursuant to which the loan will be settled with a fixed annual interest rate of 1.17% during the term of the loan.

On August 13, 2013, the Company entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), pursuant to which the Company is entitled to borrow an unsecured AU$ denominated loan of RMB1.19 billion (AU$235.00 million) with a floating interest rate. The loan is intended for the general working capital of the Company. On August 19, 2013, the Company drew down RMB1.19 billion (AU$235.00 million) with a term of two years under the facility commitment. In connection with the loan agreement, the Company entered into a currency swap agreement, pursuant to which the loan will be settled in a fixed US$ amount of US$200.00 million with a fixed annual interest rate of 1.65% during the term of the loan.

On December 9, 2014, the Company entered into two loan agreements with Bank of China (Los Angeles Branch), pursuant to which the Company borrowed two unsecured US denominated loans of RMB930.69 million (US$150.00 million) with a term of two years and RMB930.69 million (US$150.00 million) with a term of three years. Both loans are intended for the general working capital of the Company and have a floating interest rate. In connection with the loan agreements, the Company entered into two interest swap agreements, pursuant to which the loans will be settled with a fixed annual interest rate of 2.31% and 2.45%, respectively, during the respective term of the loans.

The interest swap agreement and currency swap agreements met the definition of a derivative in accordance with ASC 815. The fair value of the derivatives related to the interest swap agreement and currency swap agreements was insignificant for the years ended December 31, 2013 and 2014.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

11. NOTES PAYABLE

On November 28, 2012, the Company issued and sold publicly two tranches of unsecured senior notes: (i) an aggregate principal amount of US$750.00 million which will mature on November 28, 2017 (the 2017 Notes), and (ii) an aggregate principal amount of US$750.00 million which will mature on November 28, 2022 (the 2022 Notes). On August 6, 2013, the Company issued and sold publicly another tranche of unsecured senior notes with an aggregate principal amount of US$1.00 billion which will mature on August 6, 2018 (the 2018 Notes). On June 9, 2014, the Company issued and sold publicly the fourth tranche of unsecured senior notes with an aggregate principal amount of US$1.00 billion which will mature on June 9, 2019 (the 2019 Notes). The 2017 Notes, 2018 Notes, 2019 Notes and 2022 Notes are collectively referred to as the Notes .

The 2017 Notes bear interest at the rate of 2.25% per annum and the 2022 Notes bear interest at the rate of 3.50% per annum. Interests are 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. Interests are payable semi-annually in arrears on and of each year, beginning on February 6, 2014. The 2019 Notes bear interest at the rate of 2.75% per annum. Interests are payable semi-annually in arrears on and of each year, beginning on December 9, 2014. At maturity, the Notes are payable at their principal amount plus accrued and unpaid interest thereon.

The net proceeds from the Notes, which will be used for general corporate purposes, were RMB9.33 billion, RMB6.11 billion and RMB6.19 billion (US$0.99 billion) for the years ended December 31, 2012, 2013 and 2014, respectively.

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 principal amount plus any unpaid interest. As of December 31, 2014, the Company does not intend to redeem any portion of the Notes prior to the stated maturity dates. The Company has the obligation to redeem the Notes if a change in control occurs as defined in the indenture of the Notes.

The Notes were issued at a discount amounting to RMB62.84 million (US$10.13 million). The issuance costs of RMB109.63 million (US$17.67 million) were capitalized in other non-current assets 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. The effective interest rate was 2.36%, 3.39%, 3.00% and 3.59% for the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2022 Notes, respectively.

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 10), in the succeeding five years and thereafter:

	RMB	US$
	(In thousands)	
For the years ending December 31,		
2015	2,171,610	350,000
2016	930,690	150,000
2017	5,584,140	900,000
2018	6,204,600	1,000,000
2019	6,204,600	1,000,000
Thereafter	4,653,450	750,000

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

12. 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 payments of dividends by the Company to its shareholders, neither Cayman Islands nor BVI withholding tax will be imposed.

Hong Kong

Under the Hong Kong tax laws, subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

Japan

Under the Japan tax laws, a company with paid-in capital in excess of JPY100.00 million is subject to national income tax of 30%. Japan subsidiaries of the Company are also subject to inhabitant tax, assessed by both prefectures and municipalities. Inhabitant tax is computed as a percentage of national income tax. The per capita tax is based on the Company s capitalization and the number of employees. In addition, the Japan subsidiaries are subject to a corporate enterprise tax on a pro forma basis based on the amount of taxable profit subject to the corporate tax, added-value components, (e.g., labor costs, net interest and rental payments, income/loss for current year) and a capital component.

China

Under the 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 tax holidays. Tax holidays mainly include preferential EIT rate for the PRC subsidiaries and VIEs which were recognized as a qualified High and New Technology Enterprise (HNTE) or Key Software Enterprise (KSE).

The HNTE certificate is effective for a period of 3 years, during which the entity is entitled to a preferential tax rate of 15%. The KSE certificate is effective for a period of 2 years, during which the entity is entitled to a preferential tax rate of 10%. Baidu Online obtained the KSE certificate and the related tax holiday will expire on January 1, 2015; certain other PRC subsidiaries and VIEs, including Baidu Netcom, obtained the HNTE certificate which will expire on January 1, 2015, 2016 and 2017. An entity could re-apply for the HNTE or KSE 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 paid by an FIE to any of its foreign non-resident enterprise investors are subject to a 10% withholding tax. Thus, the dividends, if and when payable by the Company s PRC subsidiaries to their offshore parent entities, would be subject to 10% withholding tax. A lower tax rate will be applied if such foreign non-resident enterprise investor s jurisdiction of incorporation has signed a tax treaty or arrangement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income with China.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

There is such a tax arrangement between PRC and Hong Kong. Thus, the dividends, if and when payable by the Company s PRC subsidiaries to the offshore parent entities located in Hong Kong, would be subject to 5% withholding tax rather than statutory rate of 10% provided that the offshore entities located in Hong Kong meet the requirements stipulated by relevant PRC tax regulations. Furthermore, pursuant to the applicable circular and interpretations of the current EIT Law, dividends from earnings created prior to 2008 but distributed after 2008 are not subject to withholding income tax.

Moreover, the current EIT Law treats enterprises established outside of China with effective management and control located in China as PRC resident enterprises for tax purposes. The term effective management and control is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC Enterprise Income Tax at the rate of 25% on its worldwide income for the period after January 1, 2008. As of December 31, 2014, the Company has not accrued for PRC tax on such basis. The Company will continue to monitor its tax status.

The Company had minimal operations in jurisdictions other than the PRC. Income (loss) before income taxes consists of:

	For the years ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
	(In thousands)			
PRC	12,537,331	13,815,469	17,783,174	2,866,128
Non-PRC	(571,894)	(1,630,453)	(3,308,631)	(533,254)
	11,965,437	12,185,016	14,474,543	2,332,874

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,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
	(In thousands)			

Current income tax	1,888,378	2,006,980	2,942,173	474,192
Income tax refund due to reduced tax rate	(255,189)	(508,686)	(17,553)	(2,829)
Adjustments of deferred tax assets due to reduced tax rates		21,573	28,146	4,536
Deferred income tax (benefit) expense	(59,030)	309,063	(721,594)	(116,300)
	1,574,159	1,828,930	2,231,172	359,599

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The reconciliation of the effective income tax provision 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,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
	(In thousands, except for per share data)			
Expected taxation at PRC EIT statutory rate	2,991,359	3,046,254	3,587,693	578,231
Effect of differing tax rates in different jurisdictions	138,931	312,938	676,663	109,058
Permanent differences non-taxable income	(58,157)	(69,673)	(12,504)	(2,015)
Permanent differences non-deductible expenses	58,201	168,735	123,245	19,864
Tax incentives relating to research and development expenditures	(154,977)	(318,652)	(538,305)	(86,759)
Effect of preferential tax rates inside the PRC	(1,489,331)	(2,152,806)	(1,897,184)	(305,771)
Effect of tax rate changes on deferred taxes		21,573	28,146	4,536
Over-accrued EIT for previous years	(15,084)	(32,982)	(153,121)	(24,679)
Withholding tax on PRC subsidiaries undistributed earnings		560,243		
Addition to valuation allowance	103,217	293,300	416,539	67,134
Taxation for the year	1,574,159	1,828,930	2,231,172	359,599
Effective tax rate	13.16%	15.01%	15.41%	15.41%
Effect of preferential tax rates inside the PRC on basic earnings per Class A and Class B ordinary share	42.63	61.53	53.61	8.64

The Company s effective tax rate increased slightly in year 2014 as compared with year 2013 which was primarily due to more taxable earnings in subsidiaries without preferential tax rates.

The tax effects of temporary differences that give rise to the deferred tax balances at December 31, 2013 and 2014 are as follows:

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$

		(In thousands)	
Deferred tax assets, current:			
Provision for doubtful receivables	10,670	23,179	3,736
Net operating loss carry-forward		24,666	3,975
Accrued expenses, payroll and others	316,092	777,478	125,307
Less: valuation allowance	(39,918)	(140,371)	(22,624)
Current deferred tax assets, net	286,844	684,952	110,394
Deferred tax assets, non-current:			
Fixed assets depreciation	28,755	38,157	6,150
Net operating loss carry-forward	580,963	905,790	145,987
Advertising expenses and others	163,591	306,635	49,420
Less: valuation allowance	(675,369)	(991,455)	(159,793)
Non-current deferred tax assets, net	97,940	259,127	41,764

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
		(In thousands)	
Long-lived assets arising from acquisitions	619,550	549,485	88,561
Withholding tax on PRC subsidiaries undistributed earnings	580,720	594,336	95,789
Deferred tax liabilities	1,200,270	1,143,821	184,350

As of December 31, 2014, the Company had net operating losses of approximately RMB5.22 billion (US$842.09 million) deriving from entities in the PRC, Hong Kong and Japan, which can be carried forward after certain reconciliation per tax regulation to offset future net profit for income tax purposes. The Japan net operating loss will expire beginning January 1, 2015; the PRC net operating loss will expire beginning January 1, 2017; and the Hong Kong net operating loss can be carried forward without an expiration date.

For those entities that were in an accumulated loss position, the Company does not believe there exists sufficient objective positive evidence that the recoverability of their net deferred tax assets is more-likely-than-not to be realized. Consequently, the Company has provided full valuation allowances on the related net deferred tax assets.

The Company has 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 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. As of and for the years ended December 31, 2013 and 2014, there was no significant tax uncertainty impact on the Company s financial position and result of operations.

The Company accrued withholding tax of RMB580.72 million for the potential remittance of earnings from the PRC subsidiaries to their offshore parent companies in the form of dividend distribution as of December 31, 2013, because the Company believes that the underlying dividends will be distributed in the future considering future 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 in 2014 on the basis of its intent to permanently reinvest foreign subsidiaries earnings. If these foreign earnings were to be repatriated in the future, the related tax liability may be reduced by any foreign income taxes previously paid on these earnings. As of December 31 2014, the total amount of undistributed earnings from the PRC subsidiaries for which no withholding tax has been accrued was RMB49.44 billion (US$7.97 billion). Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. In the case of its VIEs, undistributed earnings were insignificant as of each of the balance sheet dates.

In general, the PRC and Japanese tax authorities have up to five and seven years, respectively, to conduct examinations of the Company s tax filings. Accordingly, the PRC subsidiaries tax years 2010 through 2014 and the

Japanese subsidiary s tax years 2008 through 2014 remain open to examination by the respective taxing jurisdictions.

13. 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

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Group make contributions to the government for these benefits based on certain percentages of the employees salaries. The Company has no legal obligation for the benefits beyond the contributions. The total amounts for such employee benefits, which were expensed as incurred, were RMB631.25 million, RMB1.05 billion and RMB1.64 billion (US$263.86 million) for the years ended December 31, 2012, 2013 and 2014, respectively.

14. COMMITMENTS AND CONTINGENCIES

Capital Commitments

The Company 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 RMB1.13 billion (US$182.12 million) as of December 31, 2014. All of the commitments relating to the network infrastructure are to be fulfilled in 2015 and the commitments relating to the office building and cloud computing based data centers will be settled in installments as various stages of the construction plan are completed in the next four to six years.

Operating Lease Commitments

The Company leases facilities in the PRC under non-cancelable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. Total rental expense for offices was RMB196.59 million, RMB284.58 million and RMB525.31 million (US$84.66 million) for the years ended December 31, 2012, 2013 and 2014, respectively. Total operating lease expense for Internet Data Centre (IDC) facilities was RMB1.07 billion, RMB1.94 billion and RMB2.85 billion (US$459.34 million) for the years ended December 31, 2012, 2013 and 2014, respectively.

Future minimum payments under non-cancelable operating leases with initial terms of one-year or more consist of the following as of December 31, 2014:

	RMB	US$
	(In thousands)	
2015	2,418,879	389,853
2016	1,160,152	186,983
2017	748,230	120,593
2018	593,102	95,591
2019	291,077	46,913
Thereafter	170,008	27,400

	5,381,448	867,333

The Group s lease arrangements have no renewal options, rent escalation clauses, restriction or contingent rents and are all conducted with third parties.

Commitments for Licensed Copyrights

The Company enters into non-cancelable licensing agreements with third-party vendors to acquire licensed copyrights of video contents for its online video platform. Payments for licensed copyrights of video contents are recorded in Other current assets, net/Intangible assets, net on the consolidated balance sheets.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Future minimum payments under non-cancelable licensing agreements consist of the following as of December 31, 2014:

	RMB	US$
	(In thousands)	
2015	2,154,666	347,269
2016 and thereafter		
	2,154,666	347,269

Guarantees

The Company accounts for guarantees in accordance with ASC topic 460 (ASC 460), *Guarantees.* 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, 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 has 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 is nil on the consolidated balance sheets as of December 31, 2013 and 2014.

Litigation

The Group was involved in certain cases pending in various PRC and U.S. courts and arbitration as of December 31, 2014. 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.

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

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

15. REDEEMABLE NONCONTROLLING INTERESTS

	2012	2013	2014	
	RMB	RMB	RMB	US$
		(In thousands)		
Balance as of January 1	935,978	1,033,283		
Business combination	100,101			
Net losses	(55,804)	(61,857)		
Other comprehensive losses	(690)	(55,420)		
Exercise of share-based awards		464		
Share-based compensation	5,566	11,259		
Issuance of subsidiary shares (1)	25,989	51,368	1,841,819	296,845
Accretion of redeemable noncontrolling interests (1)	22,143	31,799	52,683	8,493
Acquisition of subsidiaries redeemable shares from noncontrolling shareholders		(121,962)		
Reclassification of redeemable noncontrolling interests		(888,934)		
Balance as of December 31	1,033,283		1,894,502	305,338

(1) On November 14, 2014, Qiyi completed a round of preferred shares financing. The new preferred shareholders acquired 13.42% of the then outstanding equity interest of Qiyi for a total consideration of US$300 million. The newly issued preferred shares could be redeemed by such shareholders upon the occurrence of certain events that are not solely within the control of Qiyi and are accounted for as redeemable noncontrolling interests. The Company accounts for the accrete changes in the redemption value in accordance with ASC topic 480 (ASC 480), *Distinguishing Liabilities from Equity.* The Company elects to use the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interest.

16. SHAREHOLDERS EQUITY

Ordinary Shares

The authorized share capital consisted of 870,400,000 ordinary shares at a par value of US$0.00005 per share, 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. 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 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 the 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. There were 40,000, 225,079 and 45,000 Class B ordinary shares transferred to Class A ordinary shares in the years ended December 31, 2012, 2013 and 2014, respectively.

As of December 31, 2014, there were 27,613,315 and 7,492,921 Class A and Class B ordinary shares outstanding, respectively. As of December 31, 2013 and 2014, there were no preferred shares issued and outstanding.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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 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 terms of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation.

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
		(In thousands)	
PRC statutory reserve funds	321,206	375,193	60,470
Unreserved retained earnings	34,204,180	47,284,579	7,620,891
Total retained earnings	34,525,386	47,659,772	7,681,361

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 RMB3.72 billion and RMB7.54 billion (US$1.22 billion) as of December 31, 2013 and 2014, 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.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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 RMB	Unrealized gains on available-for-sale investments RMB	Total RMB
		(In thousands)	
Balance at December 31, 2012	(89,714)	11,436	(78,278)
Other comprehensive income before reclassification	190,322	730,504	920,826
Amounts reclassified from accumulated other comprehensive income		(62,132)	(62,132)
Net current-period other comprehensive income	190,322	668,372	858,694
Other comprehensive income attribute to noncontrolling interests	62,680		62,680
Balance at December 31, 2013	163,288	679,808	843,096
Other comprehensive loss before reclassification	(445,710)	(100,285)	(545,995)
Amounts reclassified from accumulated other comprehensive income		(45,025)	(45,025)
Net current-period other comprehensive loss	(445,710)	(145,310)	(591,020)
Other comprehensive income attribute to noncontrolling interests	(20,153)		(20,153)
Balance at December 31, 2014	(302,575)	534,498	231,923
Balance at December 31, 2014, in US$	(48,766)	86,145	37,379

The amounts reclassified out of accumulated other comprehensive income represent realized gains on the available-for-sale investments upon their sales, which were then recorded in Other income, net in the consolidated statements of comprehensive income.

The following table sets forth the tax effect allocated to each component of other comprehensive income for the years ended December 31, 2013 and 2014:

		Tax effect	
	2013 RMB	2014 RMB	2014 US$
	(In thousands)		
Unrealized gains on available-for-sale investments			
Unrealized holding gains during the year	(1,157)	1,680	271
Reclassified for gains realized			
Net unrealized gains	(1,157)	1,680	271
Foreign currency translation adjustment			
Other comprehensive income (loss)	(1,157)	1,680	271

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

17. EARNINGS PER SHARE (EPS)

A reconciliation of net income attributable to Baidu, Inc. in the consolidated statements of comprehensive income to the numerator for the computation of basic and diluted per share for the years ended December 31, 2012, 2013 and 2014 is as follows:

	For the years ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
	(In thousands)			
Net income attributable to Baidu, Inc.	10,456,028	10,518,966	13,187,069	2,125,372
Accretion of the redeemable noncontrolling interests	(22,143)	(31,799)	(52,683)	(8,493)
Numerator for EPS computation	10,433,885	10,487,167	13,134,386	2,116,879

The following table sets forth the computation of basic and diluted net income attributable to Baidu, Inc. per share for Class A and Class B ordinary shares.

	For the years ended December 31,							
	2012		2013		2014			
	Class A RMB	Class B RMB	Class A RMB	Class B RMB	Class A RMB	Class A US$	Class B RMB	Class B US$
	(In thousands, except for number of shares, per share and per ADS data)							
Earnings per share basic:								
Numerator								
Allocation of net income attributable to Baidu, Inc.	8,106,219	2,327,666	8,175,647	2,311,520	10,320,767	1,663,406	2,813,619	453,473
Denominator								
Weighted average ordinary shares outstanding	27,145,208	7,794,630	27,274,769	7,711,459	27,551,463	27,551,463	7,511,003	7,511,003

Denominator used for earnings per share	27,145,208	7,794,630	27,274,769	7,711,459	27,551,463	27,551,463	7,511,003	7,511,003
Earnings per share basic	298.62	298.62	299.75	299.75	374.60	60.37	374.60	60.37
Earnings per share diluted:								
Numerator								
Allocation of net income attributable to Baidu, Inc. for diluted computation	8,108,856	2,325,029	8,178,954	2,308,213	10,331,639	1,665,158	2,802,747	451,721
Reallocation of net income attributable to Baidu, Inc. as a result of conversion of Class B to Class A shares	2,325,029		2,308,213		2,802,747	451,721		
Allocation of net income attributable to Baidu, Inc.	10,433,885	2,325,029	10,487,167	2,308,213	13,134,386	2,116,879	2,802,747	451,721
Denominator								
Weighted average ordinary shares outstanding	27,145,208	7,794,630	27,274,769	7,711,459	27,551,463	27,551,463	7,511,003	7,511,003
Conversion of Class B to Class A ordinary shares	7,794,630		7,711,459		7,511,003	7,511,003		
Share-based awards	39,621		50,118		136,008	136,008		
Denominator used for earnings per share	34,979,459	7,794,630	35,036,346	7,711,459	35,198,474	35,198,474	7,511,003	7,511,003
	298.29	298.29	299.32	299.32	373.15	60.14	373.15	60.14

Earnings per share diluted				
Earnings per ADS:				
Denominator used for earnings per ADS basic	271,452,080	272,747,690	275,514,630	275,514,630
Denominator used for earnings per ADS diluted	349,794,590	350,363,460	351,984,740	351,984,740
Earnings per ADS basic	29.86	29.98	37.46	6.04
Earnings per ADS diluted	29.83	29.93	37.32	6.01

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The Company did not include certain stock options and restricted shares in the computation of diluted earnings per share for the years ended December 31, 2012, 2013 and 2014 because those stock options and restricted shares were anti-dilutive for earnings per share for the respective years.

18. SHARE-BASED AWARDS PLAN

Baidu, Inc.

Incentive compensation plans

In December 2008, the Company adopted a share incentive plan (the 2008 Plan), which provides for the granting of share incentives, including incentive share option (ISO), restricted shares and any other form of award pursuant to the 2008 Plan, to members of the board, employees and consultants of the Company. However, the Company may grant ISOs only to its employees. The Company has reserved 3,428,777 ordinary shares for issuance under the 2008 Plan, which will expire in the year 2018. The vesting schedule, time and condition to exercise options will be determined by the 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, share options are subject to vesting schedules varying from two years to four years, 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.

Starting from February 15, 2006, the Company granted restricted Class A ordinary shares of the Company (Restricted Shares). Terms for the Restricted Shares are the same as share options except that Restricted Shares do not require exercise and have a two to four years vesting term.

Share options

The following table summarizes the option activity for the year ended December 31, 2014:

	Number of shares	Weighted average exercise	Weighted average remaining	Aggregate intrinsic value (US$ in

		price (US$)	contractual life (Years)	thousands)
Share options				
Outstanding, December 31, 2013	232,572	1,042.90	8.62	171,156
Granted	19,477	1,916.10		
Exercised	(30,819)	942.10		
Forfeited/Cancelled	(22,838)	1,071.40		
Outstanding, December 31, 2014	198,392	1,141.00	7.83	225,915
Vested and expected to vest at December 31, 2014	171,597	1,139.30	7.80	195,684
Exercisable at December 31, 2014	66,993	1,003.30	7.14	85,509

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The aggregate intrinsic value in the table above represents the difference between the Company s closing stock price on the last trading day in 2014 and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2012, 2013 and 2014 was RMB200.91 million, RMB114.21 million and RMB224.80 million (US$36.23 million), respectively. The total fair value of options vested during the years ended December 31, 2012, 2013 and 2014 was RMB53.56 million, RMB123.44 million and RMB149.22 million (US$24.05 million), respectively.

As of December 31, 2014, there was RMB273.44 million (US$44.07 million) unrecognized share-based compensation cost related to share options. That deferred cost is expected to be recognized over a weighted-average vesting period of 2.35 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 implied volatility and historical volatility of the Company s share price applying the guidance provided by ASC 718. The Company begins to estimate the volatility assumption solely based on its historical information since year 2009. 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:

	2012	2013	2014
Risk-free interest rate	0.35%~0.43%	0.40%~1.35%	1.52%~1.77%
Dividend yield			
Expected volatility range	43.60%~44.72%	42.33%~44.17%	40.96%~41.59%
Weighted average expected volatility	43.75%	43.33%	41.36%
Expected life (in years)	2.67~3.08	3.08~4.57	4.57

In addition, the Company recognizes share-based compensation expense net of an estimated forfeiture rate and therefore only recognizes compensation cost for those shares expected to vest over the service period of the award. The estimation of the forfeiture rate is primarily based on historical experience of employee turnover. To the extent the Company revises this estimate in the future, the share-based payments 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 2012, 2013 and 2014 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 2012, 2013, and 2014 was US$323.00, US$419.80, and US$755.00, respectively.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Restricted shares

Restricted shares activity for the year ended December 31, 2014 was as follows:

	Number of shares	Weighted average grant date fair value (US$)
Restricted shares		
Unvested, December 31, 2013	146,510	1,151.40
Granted	152,852	1,815.60
Vested	(45,161)	1,157.70
Forfeited	(34,797)	1,346.10
Unvested, December 31, 2014	219,404	1,582.60

The total fair value of the restricted shares vested during the years ended December 31, 2012, 2013 and 2014 was RMB128.70 million, RMB247.24 million, RMB324.41 million (US$52.28 million), respectively. The weighted-average grant-date fair value of the restricted shares granted during the years 2012, 2013, and 2014 was US$1,152.10, US$1,137.00, and US$1,815.60, respectively.

As of December 31, 2014, there was RMB1.35 billion (US$217.84 million) unrecognized share-based compensation cost related to restricted shares. That deferred cost will be recognized over a weighted-average vesting period of 3.02 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.

Subsidiaries Qunar Cayman Islands Limited

In November 2007, shareholders of Qunar Cayman Islands Limited (Qunar) approved the 2007 Share Incentive Plan (the 2007 Plan), which is administered by Qunar s Board of Directors (Qunar s BOD) or any of its committees. Unde the 2007 Plan, Qunar s BOD may grant options to its employees, directors and consultants to purchase Qunar s ordinary shares. The aggregate number of shares under the 2007 Plan was increased to 26,060,000 shares on December 29, 2011 with Qunar BOD s approval. On August 10, 2012, Qunar BOD s approved that starting from January 1, 2013, the number of shares available for issuance under the 2007 Plan would increase annually by 1.5% of the total outstanding ordinary and redeemable ordinary shares as of January 1 of that respective calendar year. On September 22, 2013, Qunar s BOD approved an increase in the number of shares available for issuance under the 2007 Plan by 6,066,896 shares. These options granted have a contractual term of ten years and generally vest over a four year period, with 25% of the awards vesting one year after the date of grant and 1/16 of the remaining grants vesting on a quarterly basis thereafter.

Under the 2007 Plan, Qunar granted 4,765,068, 10,988,106 and 9,993,411 share options to its employees during the years ended December 31, 2012, 2013 and 2014, respectively. Included in the grants, nil, 1,671,867 and 7,929,555 shares options granted during the years ended December 31, 2012, 2013 and 2014, respectively, have performance condition on their exercisability.

On January 13, 2013, Qunar s BOD approved a business unit incentive plan (the BU incentive plan), which is governed under the aforementioned 2007 Plan. Under the BU incentive plan, Qunar s BOD may grant options to its employees of specific business units to purchase an aggregate of no more than 10,800,000 Class B ordinary shares of Qunar. On November 25, 2014, Qunar s BOD approved an extension of the BU incentive plan to cover employees of additional business units. The total number of Class B ordinary shares of Qunar to be issued under

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

the BU incentive plan was increased to 18,000,000. The options will be granted at an exercise price of US$0.01 if the business units meet their respective certain long-term performance conditions. Upon grant, the options have a vesting term of three months. There have been no grants under the BU incentive plan up to December 31, 2014. Qunar also concluded that there was no service inception preceding the grant date as there has been no authorization from Qunar s BOD based on its accounting policies up to December 31, 2014.

The following table summarizes Qunar s option activity for the year ended December 31, 2014:

	Number of shares	Weighted average exercise price (US$)	Weighted average remaining contractual life (Years)	Aggregate intrinsic value (US$ in thousands)
Qunar s share options				
Outstanding, December 31, 2013	25,192,696	1.40	7.39	184,355
Granted	9,993,411	0.01		
Exercised	(8,907,408)	0.27		
Forfeited/Cancelled	(1,115,256)	0.02		
Outstanding, December 31, 2014	25,163,443	1.30	7.89	201,417
Vested and expected to vest at December 31, 2014	21,880,749	1.43	7.75	176,072
Exercisable at December 31, 2014	9,685,685	1.72	6.62	75,118

The aggregate intrinsic value in the table above represents the difference between the fair value of Qunar s ordinary share as at the balance sheet date and the exercise price. Total intrinsic value of options exercised for the three years ended December 31, 2012, 2013 and 2014 was RMB31.11 million, RMB88.92 million and RMB508.52 million (US$82.02 million), respectively. The total fair value of the options vested during the years ended December 31, 2012, 2013 and 2014 were RMB23.78 million, RMB88.87 million and RMB220.80 million (US$35.61 million), respectively.

As of December 31, 2014, there were RMB448.16 million (US$72.28 million) of unrecognized share-based compensation costs, net of estimated forfeitures, related to equity awards that are expected to be recognized over a weighted-average vesting period of 2.71 years. Total unrecognized compensation costs may be adjusted for future changes in estimated forfeitures.

The fair value of each option award was estimated on the grant date using the Black-Scholes-Merton option-pricing model, with the assistance from an independent third-party appraiser. Qunar is ultimately responsible for the determination of all amounts related to share-based compensation recorded in the financial statements. The risk-free interest rate for periods within the contractual life of the share option is based on the U.S. Treasury yield curve in

effect at the time of grant for a term consistent with the expected term of the awards. The expected term of stock options granted is developed giving consideration to the vesting period and contractual term. Qunar did not expect to declare any dividends on its ordinary shares on the respective grant dates. Expected volatility is estimated based on the historical volatility ordinary shares of several comparable companies in the same industry.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

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

	2012	2013	2014
Risk-free interest rate	1.70%~2.28%	1.91%~2.71%	1.91%~2.07%
Dividend yield			
Expected volatility range	48.03%~49.84%	46.68%~47.66%	45.78%~46.58%
Expected life (in years)	10	10	6.11

The total weighted average grant-date fair value of the equity awards granted during the years ended December 31, 2012, 2013 and 2014 were RMB12.54, RMB16.59 and RMB58.59 (US$9.45) per option, respectively.

The total compensation cost recognized by Qunar was RMB27.21 million, RMB63.71 million and RMB266.37 million (US$42.93 million) for the years ended December 31, 2012, 2013 and 2014, respectively.

Subsidiaries Others

Other subsidiaries apart from Qunar also have equity incentive plans granting share-based awards. Total share-based compensation expenses recognized and unrecognized were insignificant, both individually and in aggregate, for all years presented.

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

	For the years ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
	(In thousands)			
Expensed as cost of revenues	10,105	23,976	34,611	5,578
Expensed as selling, general and administrative	54,512	164,704	426,052	68,667
Expensed as research and development	147,692	326,047	502,077	80,921
Capitalized as part of internal-used software	1,944	229		

19. RELATED PARTY TRANSACTIONS

The current portion of amounts due from related parties mainly represents amounts in connection with services provided by the Group to its equity method investees, which arose in the ordinary course of business.

The current portion of amounts due to related parties mainly represents amounts of the reimbursements to Mr. Robin Yanhong Li s use of an aircraft beneficially owned by his spouse for the Company s business purposes.

The balances of non-current portion of amounts due from/to related parties as of December 31, 2013 were settled during the year ended December 31, 2014.

20. SEGMENT REPORTING

The Company has only one single operating segment. Substantially all of the Company s revenue and long-lived assets are derived from and located in the PRC. The Company has only minimal operations in Japan and other countries.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The following table sets forth revenues by geographic area:

	For the years ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US$
	(In thousands)			
Revenues:				
PRC	22,198,685	31,875,202	48,793,898	7,864,149
Non-PRC	107,341	68,722	258,420	41,650

The following table sets forth long-lived assets by geographic area:

	As of December 31,		
	2013 RMB	2014 RMB	2014 US$
	(In thousands)		
Long-lived assets:			
PRC	5,355,157	9,466,458	1,525,716
Non-PRC	56,143	84,949	13,691

21. FAIR VALUE MEASUREMENT

ASC topic 820 (ASC 820), *Fair Value Measurements and Disclosures,* 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 other inputs that are directly or indirectly observable in the marketplace

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

In accordance with ASC 820, the Company measures available-for-sale investments at fair value on a recurring basis. The fair values of the Company s held-to-maturity 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 long-term available-for-sale debt investment is measured using the market approach. The fair values of the Company s available-for-sale equity investments in the equity securities of publicly listed companies are measured using quoted market prices.

The Company measures certain financial assets, including equity method investments and cost method investments, at fair value on a nonrecurring basis only if an impairment charge were to be recognized. The Company s non-financial assets, such as intangible assets, goodwill and fixed assets, would be measured at fair value only if they were determined to be impaired on an other-than-temporary basis.

The fair value of the long-term notes payable is disclosed using quoted market price.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

Assets and liabilities measured or disclosed at fair value are summarized below:

		Fair value measurement or disclosure at December 31, 2013 using			
	Total fair value at December 31, 2013 RMB	**Quoted prices in active markets for identical assets (Level 1) RMB**	**Significant other observable inputs (Level 2) RMB**	**Significant unobservable inputs (Level 3) RMB**	**Total losses RMB**
			(In thousands)		
Fair value disclosure (Notes 2 and 4)					
Cash equivalents					
Time deposits	2,955,924		2,955,924		
Money market fund	689,254	689,254			
Short-term investments					
Held-to-maturity investments					
Fixed-rate investments	19,370,067		19,370,067		
Long-term notes payable	14,797,937	14,797,937			
Fair value measurement					
Recurring					
Short-term investments					
Available-for-sale investments					
Fixed-rate debt investments	7,627,958		7,627,958		
Adjustable-rate debt investments	514,433		514,433		
Equity investment	1,253,120	1,253,120			
Non-recurring					
Long-term investments					(17,521)
Fixed assets					(2,057)
Intangible assets					(4,619)
Total assets measured at fair value	9,395,511	1,253,120	8,142,391		(24,197)

The Company has no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2013.

As of December 31, 2013, certain fixed assets (Note 7), intangible assets (Note 8), cost method investments (Note 4) and equity method investments (Note 4) were measured using significant unobservable inputs (Level 3) and written down from their respective carrying value to fair value of nil, with impairment charges incurred and recorded in earnings for the year then ended.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

	Total fair value at December 31, 2014		Fair value measurement or disclosure at December 31, 2014 using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total losses	
	RMB	US$	RMB	RMB	RMB	RMB	US$
			(In thousands)				
Fair value disclosure (Notes 2 and 4)							
Cash equivalents							
Time deposits	1,746,888	281,547		1,746,888			
Money market fund	755,095	121,699	755,095				
Short-term investments							
Held-to-maturity investments							
Fixed-rate investments	38,248,723	6,164,575		38,248,723			
Adjustable-rate investments	59,519	9,593		59,519			
Long-term investments							
Held-to-maturity investments							
Fixed-rate investments	531,318	85,633		531,318			
Long-term notes payable	21,811,666	3,515,403	21,811,666				
Fair value measurement							
Recurring							
Short-term investments							
Available-for-sale investments							
Fixed-rate debt investments	2,865,096	461,770		2,865,096			
Adjustable-rate debt investments	1,568,543	252,803		1,568,543			
Equity investments	1,164,714	187,718	1,164,714				

Long-term investments Available-for-sale investments							
Debt investment	272,680	43,948			272,680		
Equity investment	115,921	18,683	115,921				
Non-recurring							
Long-term investments						(93,424)	(15,057)
Intangible assets						(1,625)	(262)
Total assets measured at fair value	5,986,954	964,922	1,280,635	4,433,639	272,680	(95,049)	(15,319)

As of December 31, 2014, long-term available-for-sale debt investment was measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

As of December 31, 2014, certain intangible assets (Note 8) and equity method investments (Note 4) were measured using significant unobservable inputs (Level 3) and written down from their respective carrying value to fair value of nil, with impairment charges incurred and recorded in earnings for the year then ended.

Table of Contents

BAIDU, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 and 2014

The following table presents a reconciliation of long-term available-for-sale debt investment at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Long-term available-for-sale debt investment	
	RMB	US$
	(In thousands)	
Balance as of January 1, 2014		
Recognized during the period	272,680	43,948
Realized or unrealized gain (loss)		
Settlement		
Balance as of December 31, 2014	272,680	43,948