

Baidu, Inc.
Form 20-F
March 28, 2014
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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

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

For the fiscal year ended December 31, 2013.

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)

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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.

27,492,452 Class A ordinary shares and 7,537,921 Class B ordinary shares, par value US\$0.00005 per share, as of December 31, 2013.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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

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 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 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 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 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

(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

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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 describing our 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 measuring 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 statements of a forward-looking nature. 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 words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, is/are likely to, future or other similar expressions. We have based our 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;

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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 talents;

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

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.

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We would like to caution you not to place undue reliance on 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 risk factors 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.

Table of Contents**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, 2011, 2012 and 2013 and the consolidated balance sheets data as of December 31, 2012 and 2013 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, 2009 and 2010 and the selected consolidated balance sheets data as of December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements for the years ended December 31, 2009, 2010 and 2011, 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.

	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	US\$
	For the Years Ended December 31, (In thousands except per share and per ADS data)					
Consolidated Statements of Comprehensive Income Data						
Revenues:						
Online marketing services	4,445,310	7,912,869	14,489,767	22,245,643	31,802,219	5,253,352
Other services	2,466	2,205	11,019	60,383	141,705	23,408
Total revenues	4,447,776	7,915,074	14,500,786	22,306,026	31,943,924	5,276,760
Operating costs and expenses:						
Cost of revenues	(1,616,236)	(2,149,288)	(3,896,883)	(6,448,545)	(11,471,839)	(1,895,013)
Selling, general and administrative	(803,988)	(1,088,980)	(1,692,810)	(2,501,336)	(5,173,533)	(854,607)
Research and development	(422,615)	(718,038)	(1,334,434)	(2,304,825)	(4,106,832)	(678,400)
Total operating costs and expenses	(2,842,839)	(3,956,306)	(6,924,127)	(11,254,706)	(20,752,204)	(3,428,020)
Operating profit	1,604,937	3,958,768	7,576,659	11,051,320	11,191,720	1,848,740
Interest income	44,818	103,096	418,201	866,465	1,308,542	216,156
Interest expense	(12,157)	(35,975)	(82,551)	(107,857)	(447,084)	(73,853)
Loss from equity method investments	(229)	(8,965)	(179,408)	(294,229)	(5,806)	(959)
Other income, net, including exchange gains or losses	45,752	44,239	76,278	449,738	137,644	22,737
Income before income taxes	1,683,121	4,061,163	7,809,179	11,965,437	12,185,016	2,012,821

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Taxation	(198,017)	(535,995)	(1,188,861)	(1,574,159)	(1,828,930)	(302,118)
Net income	1,485,104	3,525,168	6,620,318	10,391,278	10,356,086	1,710,703
Less: Net loss attributable to noncontrolling interests			(18,319)	(64,750)	(162,880)	(26,906)
Net income attributable to Baidu, Inc.	1,485,104	3,525,168	6,638,637	10,456,028	10,518,966	1,737,609

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	For the Years Ended December 31,					US\$
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
(In thousands except per share and per ADS data)						
Net income attributable to Baidu, Inc. per Class A ordinary share, per Class B ordinary share⁽¹⁾						
Basic	42.96	101.28	190.27	298.62	299.75	49.52
Diluted	42.70	100.96	189.88	298.29	299.32	49.44
Net income attributable to Baidu, Inc. per ADS						
Basic	4.30	10.13	19.03	29.86	29.98	4.95
Diluted	4.27	10.10	18.99	29.83	29.93	4.94

- (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.

	As of December 31,					US\$
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
(In thousands)						
Consolidated Balance Sheets Data:						
Cash and cash equivalents	4,180,376	7,781,976	4,127,482	11,880,632	9,691,797	1,600,971
Restricted cash	19,513	38,278	483,387	395,029	259,533	42,872
Short-term investments	381,149	376,492	10,051,578	20,604,223	28,734,761	4,746,644
Total assets	6,156,975	11,048,439	23,340,541	45,668,890	70,985,788	11,726,016
Total liabilities	1,403,874	2,642,847	7,015,028	18,453,765	30,320,538	5,008,596
Total Baidu, Inc. shareholders equity	4,753,101	8,405,592	15,291,716	26,055,229	38,424,915	6,347,343
Total equity	4,753,101	8,405,592	15,389,535	26,181,842	40,665,250	6,717,420

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 RMB6.0537 to US\$1.00, the noon buying rate in effect as of December 31, 2013. 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 21, 2014, the noon buying rate was RMB6.2248 to US\$1.00.

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

Period	Period-End	Noon Buying Rate		
		Average ⁽¹⁾	Low	High
(RMB per U.S. Dollar)				
2009	6.8259	6.8295	6.8470	6.8176
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
September	6.1200	6.1198	6.1213	6.1178
October	6.0943	6.1032	6.1209	6.0815
November	6.0922	6.0929	6.0993	6.0903
December	6.0537	6.0738	6.0927	6.0537
2014				
January	6.0590	6.0509	6.0600	6.0402
February	6.1448	6.0816	6.1448	6.0591
March (through March 21, 2014)	6.2248	6.1590	6.2273	6.1183

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.

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 our online marketing services from time to time. We may lose customers who decide not to pay 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.

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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;

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 Sogou,

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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. 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 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 address the new challenges and compete effectively against the existing leading players in the new businesses, we may not be able to develop a sufficiently large customer and user base, 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 modify our products and services on a timely basis, 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

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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, 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, 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 September 2013, the service of our Baidu Post Bar was inaccessible to many users for over four hours due to a failure of the internet infrastructure in Beijing.

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.

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.

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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 WenKu and Baidu Post Bar, allow our users to upload written materials and pictures to our servers, or share, link to or otherwise provide access to audio, video and other 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 all of our 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.

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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 or the results in our paid search listings.

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. We have been and may continue to be subject to claims for defamation, negligence or other legal theories based on the content found on our websites, 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 contains information that government authorities find objectionable, our websites 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 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

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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.

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

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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;

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;

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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;

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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.

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

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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 63.7% and 63.1%, respectively, from 2009 to 2013. 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, 2013, we had an aggregate of US\$2.9 billion of outstanding indebtedness that will mature between 2014 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;

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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 cyclical and seasonality of our business. As we continue to grow, we expect that the cyclical 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 financial markets experienced significant disruptions since 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and is facing new challenges, including the escalation of the European sovereign debt crisis since 2011 and the slowdown of the Chinese economy in 2012. It is unclear whether the Chinese economy will resume its high growth rate. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have also been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets. There have also been concerns about the territorial disputes involving China in Asia and the economic effects. 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.

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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 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 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

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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.

If we fail to detect fraudulent click-throughs, we could lose the confidence of our customers 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.

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 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.

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.

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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 September 2013, the service of our Baidu Post Bar was inaccessible to many users for over four hours due to a failure of the internet infrastructure in Beijing. 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.

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 August 2011, China's Supreme People's Court and Supreme People's Procuratorate issued judicial interpretations regarding hacking and other internet crimes. 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 new 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.

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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, 2013. 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, 2013. 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.

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, 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

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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 2011, 2012 and 2013, we derived approximately 29%, 29% and 28% 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 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.

Table of Contents***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.

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.

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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. Although we believe 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.

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 nominee 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 RMB935.1 million (US\$154.5 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.

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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, Beijing Perusal Technology Co., Ltd., or Beijing Perusal, and 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 certain of our newly acquired or established consolidated affiliated entities. 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.

While China's economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. Since 2012, growth of the Chinese economy has slowed. 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.

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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 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 telecommunication 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 SARFT (which was consolidated with the General Administration of Press and Publication, or GAPP, and is currently known as the State Administration of Press Publication, Radio, Film and Television, or SAPPRFT), an Internet Publication License, which is issued by the GAPP (which was consolidated with the SARFT and is currently known as SAPPRFT), a Surveying and Mapping Qualification Certificate for internet map services, which is issued by the State Bureau of Surveying and Mapping, a Payment Service Permit, which is issued by the People's

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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. 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 Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications 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 telecommunications 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 telecommunication 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 consolidated affiliated entities. In September 2009, the GAPP (currently known as 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 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

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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 telecommunications business operating license for online data processing and transaction processing businesses as provided in the Catalog of Telecommunications Businesses promulgated by the MIIT. 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.

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 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

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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 objectionable, they may require us to 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, we cannot assure you that the plaintiffs will not appeal this decision and our reputation may be adversely affected among users and investors outside of China.

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

In August 2009, the PRC 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.

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.

Some of our principal PRC subsidiaries and consolidated affiliated entities, including Baidu Online Network Technology (Beijing) Co., Ltd., or Baidu Online, Baidu.com Times Technology (Beijing) Co., Ltd., or Baidu Times, Baidu Netcom and Baidu (China) Co., Ltd., or Baidu China, and certain other PRC subsidiaries and consolidated affiliated entities, 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, in April 2013, Baidu Online obtained the

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certificate of Key Software Enterprise jointly issued by the National Development and Reform Commission, MIIT, Ministry of Commerce and State Administration of Taxation, which entitled it to enjoy a preferential income tax rate of 10% for 2011 and 2012. In December 2013, Baidu Online has obtained the certificate of Key Software Enterprise status for 2013 and 2014 from the relevant government authorities. There is no assurance that Baidu Online will continue to maintain 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.

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. In July 2011, the State Administration of Taxation issued additional rules to provide more guidance on the implementation of SAT Circular 82. See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxation PRC Enterprise Income Tax. Although the SAT Circular 82 and the additional guidance 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

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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 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 PRC 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

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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 or 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 PRC 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 PRC 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.

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. Furthermore, SAFE promulgated a SAFE Circular No. 59 in November 2010, which requires that the government authorities closely examine the authenticity of settlement of net proceeds from offshore offerings and the net proceeds be settled in the manner described in the offering documents. 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 or 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.

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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.

SAFE Circular No. 75 effective from November 2005 and a series of implementation rules and guidance issued by SAFE, including the most recent 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. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in an SPV are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an SPV is required to update the previously filed registration with the local branch of SAFE, with respect to that SPV, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. Moreover, the PRC subsidiaries of that SPV are required to urge the PRC resident shareholders to update their SAFE registration with the local branch of SAFE when such updates are required under applicable SAFE regulations. If any PRC shareholder fails to make the required SAFE registration or update the previously filed registration, the PRC subsidiaries of that SPV may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their SPV parent, and the SPV may also be prohibited from injecting additional capital into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result 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. 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 reflect recent changes as a result of certain acquisitions. 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,

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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 PRC 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 PRC Ministry of Commerce, and prohibit any activities attempting to bypass such security review, 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 PRC 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 PRC 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 PRC 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 CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC 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

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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.

We may be adversely affected by the outcome of the administrative proceedings brought by the SEC against the Big 4 PRC-based accounting firms.

In December 2012, the SEC brought administrative proceedings against the Big 4 accounting firms in China, including our independent registered public accounting firm, alleging that these accounting firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' audit papers and other documents related to certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, the Administrative Law Judge presiding over the matter reached an initial decision that the firms had each violated the SEC's rules of practice by failing to produce the audit work papers and related documents directly to the SEC. The initial decision further determined that each of the firms should be censured and barred from practicing before the SEC for a period of six months. The Big 4 PRC-based accounting firms recently appealed the initial administrative law decision to the SEC. The initial administrative law decision will not become effective until and unless it is endorsed by the full SEC. The accounting firms can then further appeal the final decision of the SEC through the federal appellate courts. We were not and are not subject to any SEC investigations, nor are we involved in the proceedings brought by the SEC against the accounting firms. However, the independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC is one of the four accounting firms subject to the six month suspension from practicing before the SEC in the initial administrative law decision. We may therefore be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms.

While we cannot predict the outcome of the SEC's review, nor that of any subsequent appeal process, if the Big 4 PRC-based accounting firms, including our independent registered public accounting firm, are ultimately temporarily barred from practicing 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 to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such a determination could ultimately lead to our delisting from NASDAQ 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

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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.

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, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the non-resident enterprise investor should report such indirect transfer to the relevant tax authority of the PRC resident enterprise. The PRC tax authority will examine the true nature of the indirect transfer, and if the tax authority considers that the non-resident enterprise investor has adopted an abusive arrangement without a reasonable commercial purpose in order to reduce, avoid or defer PRC tax, they will disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the indirect transfer. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at the rate of up to 10%. In addition, the PRC resident enterprise may be required to provide necessary assistance to support the enforcement of Circular 698.

There is some uncertainty as to the application of Circular 698. For example, the term "indirect transfer" is not clearly defined, and the relevant governmental authority has not yet promulgated any formal interpretations or declarations as to the process and format for reporting an indirect transfer to the competent tax authority, or on how to calculate the effective tax rates in a foreign tax jurisdiction or whether a non-resident enterprise investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Although it appears that Circular 698 was not intended to apply to share transfers of publicly traded companies, there is uncertainty as to the application of Circular 698 to other indirect transfer of our PRC resident entities. As a result, we may have the risk of being subject to the reporting obligations or PRC tax under Circular 698 and may be required to expend resources to comply with Circular 698 or to establish that we should not be taxed under Circular 698, 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;

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;

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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 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

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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 depository. However, the depository 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 depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository 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 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.

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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.

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, 2013, and we do not expect to be a PFIC for our taxable year ending December 31, 2014 or for the foreseeable future. A non-U.S. corporation 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

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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 currently trade 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.

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

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B. Business Overview

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

Our *Baidu.com* website was 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, 2013, according to Alexa.com, an internet analytics firm. We are the most used internet search provider in China, capturing 81.6% of internet search traffic in China in 2013, according to iResearch Consulting Group, a market research firm. Our Baidu brand received the highest ranking for an internet brand in China in BrandZ Top 50 Most Valuable Chinese Brands 2013, a study published by Millward Brown Optimor, a brand strategy research firm.

We conduct our operations primarily in China, and our revenues generated from international operations are insignificant. Revenues generated from our operations in China accounted for approximately 99.6%, 99.5% and 99.8% of our total revenues in 2011, 2012 and 2013, 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 offer several international products and services in local languages to users in several other countries.

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 technologies such as deep learning and semantic intelligence.

We also offer a broad range of mobile products, including Baidu Mobile Search, Baidu Mobile Maps, Baidu Mobile Assistant, 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 2013, we had approximately 753,000 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, education, software and online games, tourism and ticketing, machinery, construction and decoration, franchising, electronic commerce, electronic products, business services, transportation, financial services, information technology services, electronic components and household appliances. Customers in our top five industries contributed approximately 54% of our total online marketing revenues in 2013. 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 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.

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To enable our customers to effectively 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. In May 2013, we introduced an integrated bidding system to better streamline the bidding experience on PC and mobile channels for our customers. Mobile Revenue exceeded 20% of our total revenues for the fourth quarter of 2013.

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. The number of Baidu Union members that contributed revenues to us decreased by approximately 14.4% in 2013. The decrease in Baidu Union members reflected our continuous efforts to optimize our quality of traffic, which caused the cessation of cooperation with some 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 using Chinese language search queries. Our web search also incorporates some of Bing's English search results, which are presented to our users conducting searches using English language search queries. Through our proprietary search technology, we build and continuously refine a large database of Chinese synonyms and closely associated phrases, which is essential for accurate and efficient execution of Chinese language searches. The *Baidu.com* home page features a search box prominently, which is designed not only to load quickly but also to be user-friendly. After entering a search query, users are generally presented with a list of search results, which may include our customers' links marked as sponsored links. Users can then access the desired websites by clicking on the hypertext links displayed in the search results.

In addition to providing access to approximately thirty billion indexed Chinese language web pages, we have integrated additional features into our web search, which help users find information more easily. The Baidu web search includes features such as:

Related Search provides alternative search terms based on the original queries to help users find relevant web pages quickly.

Search in Results enables users to conduct additional searches within the initial search results.

Search Term Suggestion displays a list of suggested search terms as the user inputs words into the search box.

Search by Chinese Phonetics (Pinyin) enables users to conduct quick searches by entering Chinese phonetics with letters of the English alphabet instead of Chinese characters.

Spell Checker suggests alternative search terms when a search appears to contain misspellings or typing errors.

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Advanced Search enables users to create more focused queries by employing techniques such as narrowing results to specified words or phrases, document formats, geographic regions, time frames or websites.

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

Third-party rich content microblog integrates and displays third-party rich content. For example, users can search for and view directly in our search results microblog contents from SINA Weibo and Tencent Weibo.

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.

Layout design adopts a layout design that matches users' interest for the topic to enable quick search, and offers customized recommendation links and knowledge that derive from both of our web knowledge graph and the aggregated user search history and preference, at right side of search result.

Baidu personalized homepage offers a customizable landing page providing registered 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 their homepage layout. Users can also view updates of their interested persons in Baidu Post Bar and Baidu Space.

New devices provide customized search experience for new devices. For example, we offer optimized display and interaction on iPad.

Knowledge graph Baidu Knowledge graph aggregates the contents from multiple sources and classifies them into different knowledge entities, where each knowledge entity is of well-defined structure, consisting of various attributes and operations. The Knowledge graph can display the content of knowledge entity in one card and render the card in the search result page. The card contains the various attributes of the entity, sorted with relevancy and popularity. With the Knowledge graph, we can answer some queries directly through displaying accurate answers on the search result page. Given a query, the Knowledge graph can find not only the directly related knowledge entity but also some loosely related knowledge entities. Our search engine renders those loosely related entities in the right panel of the search result page, so as to motivate the user to search more. With the Knowledge graph, we reinforce the conversation between users and our search engine in order to better understand the need of users.

In addition, Baidu Web Search allows users to launch some applications directly, which feature is powered by Baidu Open Platform and Baidu Open Cloud where content providers and developers can submit their contents and applications.

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.

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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 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.

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

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

Qunar. Qunar is the leading search-based commerce platform for the travel industry in China. Qunar enables travelers to find travel deals by aggregating and processing highly fragmented travel product information from tens of thousands of travel service providers into an organized and user-friendly display through its proprietary technology.

Nuomi. We acquired a majority equity interest in Nuomi Holdings Inc., or Nuomi, a previously 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.

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 Space. Baidu Space allows registered users to create personalized homepages in a query-based searchable community. Registered users can post their blogs, photo album and certain personal information on their homepages and establish their own communities of friends who are also registered 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 post specific questions for other users to respond. 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.

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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. Any users of our *Baidu.com* website can also search, read and browse all terms and content contributed by registered users of Baidu Encyclopedia.

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.

Location-based Products and Services

Baidu Maps. Baidu Maps integrate 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) has increasingly served as a gateway for users to conduct local searches. It has an open application programming interface and integrates services and information from numerous partners.

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 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 Group Buy Directory. Baidu Group Buy Directory is a navigation site through which users can view group buy items by categories provided by third-party group buy websites and click through links to these group buy websites for more information.

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 site searching, positioning, driving route planning and driving guidance service. Baidu Navigation also supports site searching and navigation launching through voice commands.

Baidu Travel. We run a beta version of Baidu Travel, which aims to provide users with flights, hotels and other travel-related information for domestic and international destinations, covering top attractions, transportation, accommodation, shopping and cultural highlights, and allow registered users to share their travel experience by posting their own travel journals and comments.

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 phones 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 was the largest online video platform in China as of December 2013, in terms of number of mobile users, according to iResearch.

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Baidu Music. Baidu Music is a digital music service that gives users access to millions of songs. We have been partnering with many content providers, including well-known international labels such as Universal Music, Warner Music, Sony Music and EMI Music, to provide licensed music for users in geographic locations within the license scope to stream and download from our platform. 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 get their personal playlist synchronized between multiple devices. Baidu Music can also be played on iPhone and Android-based mobile phones, through which mobile phone users can get access to Baidu Music easily.

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 DuoKu mobile games platform collaborates with licensed content providers inside and outside China 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, refuse removal and other features. Baidu Mobile Guardian ranked No. 1 in January 2014 by AV-Test, 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.

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.

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.

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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 Android.

Baidu Yun. Through Baidu Yun, we offer personal cloud computing services to users. Baidu Yun 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 makes them accessible across different terminals including tablets, smartphones and desktops. Users can also share these data in many friend circles.

Baidu PhotoWonder. Baidu PhotoWonder is an application for users of smartphones based on 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 Video, Baidu Post Bar, Baidu Knows, Baidu Encyclopedia, Baidu WenKu, Baidu Album and Baidu News. These applications are tailored for mobile device users and also offer some particular functions.

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 developers in 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.

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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.

LBS Open Platform. Location based services (LBS) open platform provides Web, Android or iOS-based third-party application developers with free services, including location, maps, data on local merchants, cloud storage and cloud computing of LBS data. Based on these basic services, developers can develop their own LBS applications. We also provide automobile manufacturers, 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 Ads Manager. Baidu Ads Manager is a technology platform which helps publishers manage their advertisement inventory more effectively.

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 aiming at 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 effect 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.

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Baidu Share. Baidu Share is a tool, shown as a list of buttons, that can be embedded into other websites by website owners, and allows users of such other websites to share contents among many social networking sites and communities. By clicking the buttons embedded next to certain contents, links of the contents will be posted in the target social networking sites and communities. Contents shared using Baidu Share and the number of times these contents being shared can also be presented in our search results.

Other Products and Services

Baidu Wallet. Baidu Wallet, formerly branded as BaiduPay, provides online and mobile payment services. Baidu Wallet not only supports Baidu products and services, such as search, vertical search, application distribution, mobile search, various mobile products and other products and services that require payment from users, but also provides payment services to third-party e-commerce companies and mobile games. Baidu Wallet is a product that offers users both payment and wealth management functions. Baifa, one of the new functions of Baidu Wallet, provides certain services to users in connection with wealth management services offered by third-party funds and other companies to our users. After registering on Baifa platform, users can invest in wealth management products provided by fund companies. Baidu Wallet provides account services to help users manage their wealth.

Baidu Data Research Center. Baidu Data Research Center is an online channel providing research reports, news and other content relating to more than 10 industry sectors such as automobiles, online games, telecommunications, financial services, retail, and education. These industry-specific research reports are developed primarily by mining search queries data generated on our websites. Users registered with Baidu Data Research Center can download these reports for market research purpose.

Baidu Translation. Baidu Translation is a free online translation service that provides instant translation of texts and web pages between ten different languages, including Chinese, English, Japanese, Korean, Russian, French, Spanish, Thai, Arabic and Portuguese. Baidu Translation supports functions such as dictionary, search and translation services in one interface, and provides open translation API to translate texts and localize web pages for users' convenience. The Baidu Translation mobile app enables offline and online, voice activated translation, optical character recognition and image recognition.

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 pre-added links of selected popular websites and applications including games. Users can remove these links from their landing pages of Baidu Browser. They can also search for their favorite websites and applications from a collection of websites and applications, most of which are from outside developers, and add them to their Baidu Browser landing pages. We added three important features, namely, Cloud Storage, Drag Search and Cloud Reader, on Baidu Browser in 2012. Cloud Storage allows users to backup all files. Drag Search can monitor users' drag operations and then return the query results that users want immediately, such as Map, Translation and Encyclopedia.

Baidu Toolbar and Baidu Companion. Baidu Toolbar and Baidu Companion are free, downloadable software which, once installed, show up on a browser's tool bar and make our search function and some specific search capabilities readily available on every web page that a user browses.

Baidu Patent Search. Baidu Patent Search is operated in cooperation with the China Patent Information Center under the PRC State Intellectual Property Office. Baidu Patent Search enables users to search for specific Chinese patents and provides basic patent information in the search results, including the patent name, application number, filing date, issue date, inventor information and brief description of the patent.

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Baidu Search for Visually Impaired. Baidu Search for Visually Impaired is designed to assist visually impaired users to conduct a more effective search by removing certain advertisement, images and other content that may interrupt with the functioning of viewing software used by visually impaired users.

Baidu Senior Citizen Search. Baidu Senior Citizen Search is web search specifically designed for senior citizen users. Supported by Hanvon, Baidu Senior Citizen Search allows users to handwritten search terms in Chinese by moving around the mouse and produce search results more tailored to senior users' interests and experiences. It also selects websites that may be of interest to senior users and organizes these into categories and subjects.

Baidu Missing Person Search Site. We launched this missing person search site in support of those looking for missing persons. Families can upload to the site photos of the missing persons with the date they went missing and a range of other personal information that can be tracked by local law enforcement. Internet users who have come across missing persons or those suspected to be the victims of human-trafficking can upload photos and details of the encounter. Deep learning technology has been applied to match the similar faces and return the corresponding information.

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 China Real Estate Information Corporation, or CRIC. Baidu Leju is designed to provide Chinese internet users with comprehensive, timely information relating to the real estate markets throughout China. CRIC 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, input method editor for PC and mobile users, as well as directory navigation product in other countries or regions currently.

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, contextuials, audience attributes, display placements 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 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.

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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 have recently launched commercial Knowledge graph, whereby we customize search results by vertical. The commercial Knowledge graph initiative enhances our users' search experience and our customers' ROI. Beyond the search function, commercial Knowledge graph allows users to purchase or acquire the products or services offered by our customers in the search results, and provide comments on the products or services after consumption. The search results of commercial Knowledge graph consist of a card and a landing page, both of which can display promotion information for customers. In order to meet users' demand for different industries, we are developing commercial Knowledge graph targeting at different verticals, including medical care, education, online gaming, ecommerce, finance, automobile and travel.

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) 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.

In 2013, we launched an integration project to help customers better manage their marketing placement on mobile internet. As part of our efforts to help customers build mobile sites, 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. Meanwhile, we have further improved our anti-cheating capability in order to protect customers' interests and enhance their confidence. Moreover, we have developed a new marketing product based on Phoenix Nest, referred to as Product & Service Ads (). Products & Services Ads is an advanced solution that allows customers with sizable products and services inventory to automatically create and manage customized and targeted marketing placements. Products & Services Ads include rich product (or service) information, such as description, image, price, location and discount.

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.

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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. 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.

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 others. 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 of Display Placements

Online marketing services of display placements allow our customers to display links insensitive to search queries at a designated location on Baidu's properties or Baidu Union members' properties. We have extended our display ads network to mobile applications, helping mobile application developers monetize their mobile applications. Our customers mainly pay us, among other less common forms of payments, based on the duration of the placement on Baidu's properties or on a cost per action basis, for example, number of registered users, on Baidu Union members' properties.

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 groupbuy services through *nuomi.com*.

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.

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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.

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, and we invested significant resources on the promotion activities for our mobile products in last two years. For example, we have purchased advertising time on several television channels in China, cooperated with mobile device producers for our mobile products promotion, conducted cross-marketing activities with a number of leading consumer brands, conducted marketing activities targeted at specific types of users like students, launched localized marketing initiatives tailored to potential customers in various regions with the assistance of our distributors, organized and sponsored seminars and discussion forums targeted at existing and potential customers, conducted marketing activities aiming at keeping close relationships with website owners which are or may become Baidu Union members and educated new customers with tailored online or offline search engine marketing trainings to strengthen their search engine marketing abilities in 2012. In 2013, we successfully hosted the second annual Baidu Moments Marketing Ceremony, introducing the branding moments marketing theory, and also worked with Millward Brown ACSR, a market survey institution, to release the Brand Digital Asset , which evaluated the performance of brands in the digital field. In the meanwhile, we continued to implement a number of marketing initiatives designed to promote awareness of mobile marketing and Light App-based new marketing methods.

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

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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 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.

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, targetization and large-scale systems. Our established infrastructure serves as the backbone for both our PC and mobile platforms.

In January 2013, we established the Baidu Institute of Deep Learning. Deep learning is an emerging computer science field that seeks to mimic the human brain with hardware and software. This technology 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 technology applies a combination of techniques to determine the importance of a web page independent of any particular search query and the relevance of that page to a particular search query.

Link Analysis Techniques. Link analysis is a technique that determines the relevance between a user query and 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 relevance. We compare search queries with the content of web pages to help determine relevance. Our text-based scoring techniques do more than just counting the number of times a search term appears on a web page. 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. By combining link analysis with our information extraction techniques, we are able to deliver relevant search results.

Information Extraction Techniques. We extract information from a web page using high performance algorithms and information extraction techniques. Our techniques enable us to understand web page content,

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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 Techniques. 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.

Our Project Aladdin, an ongoing research and development project, aims at uncovering 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 webpages.

Natural Language Processing Techniques. 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. For example, we can identify Chinese names on a web page. When a user searches for a person based on the person's Chinese name, we can display the web pages that are specifically related to that person. We also mine user behavior and search interests from our large search query logs. We provide additional web search features such as advanced search, spelling check and search by Chinese phonetics (Pinyin).

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. In 2013, we launched our 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. In order to improve search relevance and user experience on mobile devices, we made big progress on mobilizing standard web pages. Through mobilizing standard web pages technology we analyze the content and features of web pages for PCs, and automatically convert such pages 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 have also adopted the web app technology of LightApp for mobile searches, which technology allows us to crawl the information and services that regular crawlers cannot get, and present them in a way suitable for mobile devices.

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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.

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 neural 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.

Targetization Technology

Our Targetization 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

We generally develop custom software for our products or services that are running on clusters of commodity hardware. Our investment in large-scale system infrastructure produces several key benefits: reduction in cost of storing and processing large amounts of data, simplification of deployment and operation of large-scale products and services, and automation of administration tasks of large-scale clusters of computers. Moreover, our infrastructure can be easily scaled to deal with traffic growth and data volume increase.

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Our large-scale system infrastructure uses distributed software and high performance parallel computing technologies. It provides high-quality web search services and web page collections using cost-effective servers running linux operating system. We have management information systems that enable us to perform tasks such as service operations, administration, and trouble-shooting very efficiently. In addition, we have developed framework that can help us conduct live effect test of new ideas without affecting major live services.

Our infrastructure significantly improves the relevance between a user query and marketing results by using advanced search and information retrieval algorithms that are computationally intensive. Our infrastructure also shortens our product development life cycle and allows us to innovate more quickly and cost-effectively. We constantly evaluate new hardware alternatives and software techniques to further reduce our infrastructure cost.

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 154 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 trademark and the related logo, we have applied for registration of additional trademarks and logos, including Hi and . We also have registered certain trademarks in Hong Kong, including and our company logo, in the United States, including 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, the business operations of our consolidated affiliated entities, as described herein, comply with current PRC laws and regulations in all material respects.

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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.

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 telecommunications businesses in the PRC as either basic or value-added. Internet content services, or ICP services, are classified as value-added telecommunications 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, webpage 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 Telecommunications 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;

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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.

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 services 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 telecommunications 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 services providers from leasing, transferring or selling telecommunications 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 telecommunications 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 telecommunication 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 Telecommunications 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,

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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 Telecommunications Business Operating License for online data processing and transaction processing businesses as provided in the Catalog of Telecommunications Businesses promulgated by the MIIT, although in practice many companies conducting such business do not apply for such license.

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 another entity in our group that has 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 recently in November 2013. Beijing Perusal and some other entities in our group were also granted an Internet Culture Business Permit.

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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 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. Baidu Netcom is in the process of applying for the Internet Publication License. We have an entity in our group that holds an Internet Publication License, which is valid from November 2011 to November 2016. Another entity in our group is also in the process of applying for the Internet Publication License.

Regulation on Broadcasting Audio/Video Programs through the Internet

In July 2004, the State Administration of Radio Film and Television 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 State Administration of Radio Film and Television 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 State Administration of Radio Film and Television 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 State Administration of Radio Film and Television. 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 State Administration of Radio Film and Television's website in February 2008, officials from the State Administration of Radio Film and Television 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 is valid from July 2012 to July 2015, iQiyi has an Online Audio/Video Program Transmission License valid from October 2012 to October 2015, and another entity in our group has an Online Audio/Video Program Transmission License valid from March 2011 to March 2014.

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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.

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. Baidu Netcom is still in the process of applying for the Internet Publication License. We have an entity in our group that holds an Internet Publication License, and another entity also 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 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

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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 our 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.

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

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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 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

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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.

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 trademark and the related logo, we have applied for registration of additional trademarks and logos, including Hi and .

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

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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.

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

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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.

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 most recent 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. Such PRC residents are also required to amend their registration or filing with the local branches of SAFE for the injection of equity interests or assets of an onshore enterprise into the offshore company, or the overseas funds raised by such offshore company or any other material change involving a change in the capital of the offshore company. PRC residents who are shareholders of SPVs that were established and which have completed their inbound investment before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. We have notified holders of ordinary shares of our

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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 reflect recent changes as a result of certain acquisitions. 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. Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

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.

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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

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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 is in the process of being liquidated and dissolved.
- (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.

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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 2011, 2012 and 2013, we derived approximately 29%, 29% and 28% 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 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.

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The amount of service fees Baidu Netcom paid to Baidu Online was 89%, 88% and 89% of its net income before income taxes and the service fees were charged for 2011, 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 has been paid as service fees to Baidu Online. The amount of service fees Beijing Perusal paid to Baidu Online was over 100% and over 100% of its net income before income taxes and the service fees were charged for 2011 and 2012. In 2013, Baidu Perusal did not pay any service fees to Baidu Online due to its decreasing business scale and 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 entered into a software license agreement, a web layout copyright license agreement and a trademark 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, a web layout copyright license and a trademark 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 recently 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. After Baidu Online transferred its trademarks (including pending trademark applications) to Baidu Netcom, the trademark license agreement was terminated in February 2013.

Baidu Online entered into a trademark license agreement and a web layout copyright license agreement with Beijing Perusal. Each of the license agreements between Baidu Online and Beijing Perusal contains the same terms as those between Baidu Online and Baidu Netcom described above. The initial term of each agreement is five years from the date of execution, i.e., June 23, 2006, and can be extended for one year automatically at the expiration of the initial term or each extension thereof unless Baidu Online provides prior written notice not to extend the agreements. After Baidu Online transferred its pending trademark applications to Beijing Perusal, the trademark license agreement was terminated in February 2013. The web layout copyright license agreement has been renewed recently and 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.

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Baidu Online entered into a trademark license agreement and a web layout copyright license agreement with BaiduPay. Each of the license agreements between Baidu Online and BaiduPay contains the same terms as those between Baidu Online and Baidu Netcom described above. The initial term of each agreement is five years from the date of execution, i.e., February 28, 2008, and shall be extended for one year automatically at the expiration of the initial term or each extension thereof unless Baidu Online provides prior written notice not to extend the agreements. After the transfers of certain trademarks (including pending trademark applications) from Baidu Online to BaiduPay, the trademark license agreement was terminated in February 2013. The web layout copyright license agreement has been renewed recently and 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 entered into a domain name license agreement with each of Baidu Netcom, Beijing Perusal and BaiduPay previously. After the transfers of the relevant domain names from Baidu Online to the relevant entity, the relevant domain name license agreement was terminated. As of December 31, 2013, no domain license agreement was 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\$16.5 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 agreement 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 recently, the earliest will expire on February 9, 2016.

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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 RMB10.0 million (US\$1.7 million) and RMB9.0 million (US\$1.5 million), respectively. The term of the loan agreements will expire on January 15, 2022 and April 22, 2022, respectively, and can be extended with the written consent of both parties before expiration.

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 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.

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.

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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.

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, from unrelated third parties.

We host our servers in China at the internet data centers of China Telecom, China Unicom and China Mobile in seven selected cities in China, and we also have content delivery network locations in various cities across China. We expect to use five additional data centers in 2014. We also have a data center of our own in Beijing.

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\$21.4 million) for the land use right. Our capital expenditure in connection with the construction of this office building in Shenzhen was RMB109.5 million (US\$18.1 million) in 2013. We expect to complete the planned construction at the end of 2016.

In August 2012, we commenced construction of another office building, Baidu Science Park, in Beijing. We have paid in advance RMB444.0 million (US\$73.3 million) for the land use right. Our capital expenditures in connection with the construction of Baidu Science Park was RMB173.8 million (US\$28.7 million) in 2013. We expect to complete the planned construction in 2015.

In September 2012, we commenced construction of Shanxi Cloud Computing Center, which will serve as our internet data centers in northern China. We have paid RMB71.5 million (US\$11.8 million) for the land use right. Our capital expenditure in connection with the construction of Shanxi Cloud computing Center was RMB331.9 million (US\$54.8 million) in 2013. We expect to fully complete the planned construction in 2017.

We have paid RMB220.9 million (US\$36.5 million) for the right to use three pieces of land in Beijing, where we plan to build our Beijing Cloud Computing Center. We are in the process of planning the construction work, 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.

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A. Operating Results

Overview

Our operations are primarily based in China, where we derive almost all of our revenues. Total revenues in 2013 were RMB31.9 billion (US\$5.3 billion), a 43.2% increase over 2012. Operating profit in 2013 was RMB11.2 billion (US\$1.8 billion), a slight increase over 2012. Net income attributable to Baidu, Inc. in 2013 was RMB10.5 billion (US\$1.7 billion), a slight increase over 2012.

Our total assets as of December 31, 2013 were RMB71.0 billion (US\$11.7 billion), of which cash and cash equivalent amounted to RMB9.7 billion (US\$1.6 billion). Our total liabilities as of December 31, 2013 were RMB30.3 billion (US\$5.0 billion), accounting for 42.7% of total liabilities and equity. As of December 31, 2013, our retained earnings accumulated to RMB34.5 billion (US\$5.7 billion).

In July 2011, we completed our acquisition of a majority stake in Qunar 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 purchased all of the series A and series B preferred shares of Qiyi.com, Inc. held by Providence Equity Partners, which allowed us to control Qiyi.com, Inc., and have since then consolidated the financial results of Qiyi.com, Inc. in 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 Websoft Inc. 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 99.9%, 99.7% and 99.6% of our total revenues in 2011, 2012 and 2013, 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.

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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;

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 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, 2013, we had accounts receivable of RMB2.2 billion (US\$366.9 million), net of allowance of RMB43.8 million (US\$7.2 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 2011 to 2013 due to the growth of our business.

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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.

	2011		For the Years Ended December 31,			2013	
	RMB	%	2012 RMB	%	RMB (In thousands, except percentages)	US\$	%
Total revenues	14,500,786	100.0	22,306,026	100.0	31,943,924	5,276,760	100.0
Cost of revenues:							
Sales tax and surcharges	(1,024,858)	(7.1)	(1,572,420)	(7.0)	(2,329,558)	(384,816)	(7.3)
Traffic acquisition costs	(1,155,546)	(8.0)	(1,929,966)	(8.7)	(3,704,146)	(611,881)	(11.6)
Bandwidth costs	(626,444)	(4.3)	(1,069,306)	(4.8)	(1,938,520)	(320,221)	(6.1)
Depreciation of servers and other equipment	(657,845)	(4.5)	(1,062,060)	(4.8)	(1,469,646)	(242,768)	(4.6)
Operational costs	(358,169)	(2.5)	(589,555)	(2.6)	(1,175,624)	(194,199)	(3.6)
Content costs	(66,494)	(0.4)	(215,133)	(1.0)	(830,369)	(137,167)	(2.6)
Share-based compensation expenses	(7,527)	(0.1)	(10,105)	(0.0)	(23,976)	(3,961)	(0.1)
Total cost of revenues	(3,896,883)	(26.9)	(6,448,545)	(28.9)	(11,471,839)	(1,895,013)	(35.9)

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, 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.

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.

	2011		For the Years Ended December 31, 2012			2013	
	RMB	%	RMB	%	RMB	US\$	%
	(In thousands, except percentages)						
Total revenues	14,500,786	100.0	22,306,026	100.0	31,943,924	5,276,760	100.0
Cost of revenues	(3,896,883)	(26.9)	(6,448,545)	(28.9)	(11,471,839)	(1,895,013)	(35.9)
Operating expenses:							
Selling, general and administrative	(1,692,810)	(11.7)	(2,501,336)	(11.3)	(5,173,533)	(854,607)	(16.2)
Selling and marketing	(1,216,718)	(8.4)	(1,841,590)	(8.3)	(4,012,709)	(662,853)	(12.6)
General and administrative	(476,092)	(3.3)	(659,746)	(3.0)	(1,160,824)	(191,754)	(3.6)
Research and development	(1,334,434)	(9.2)	(2,304,825)	(10.3)	(4,106,832)	(678,400)	(12.9)
Total costs and operating expenses	(6,924,127)	(47.8)	(11,254,706)	(50.5)	(20,752,204)	(3,428,020)	(65.0)

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 as share-based compensation awards. As of December 31, 2013, there was RMB357.3 million (US\$59.0 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 2.9 years. As of December 31, 2013, there was RMB652.9 million (US\$107.9 million) unrecognized share-based compensation cost related to restricted shares, which is expected to be recognized over a weighted-average vesting period of 2.8 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.

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

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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.

	2011		For the Year Ended December 31, 2012			2013	
	RMB	%	RMB	%	RMB	US\$	%
Allocation of Share-based Compensation Expenses							
Cost of revenues	7,527	4.9	10,105	4.8	23,976	3,961	4.7
Selling, general and administrative	50,012	32.9	54,512	25.6	164,704	27,207	32.0
Research and development	94,489	62.2	147,692	69.6	326,047	53,859	63.3
Total share-based compensation expenses	152,028	100.0	212,309	100.0	514,727	85,027	100.0

Taxation

We are not subject to income or capital gain tax under the current laws of the Cayman Islands and the British Virgin Islands. Under the current laws of Hong Kong, our subsidiaries incorporated in Hong Kong are exempted from income tax on their foreign-derived income. Additionally, none of these jurisdictions impose a withholding tax on dividends.

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 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 PRC subsidiaries and consolidated affiliated entities, such as Baidu Online and Baidu Netcom, obtained the High and New Technology Enterprise certificate. The High and New Technology Enterprise certificates of these entities will expire on January 1, 2014, 2015 or 2016.

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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, MIIT, Ministry of Commerce and 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 certificate and the related tax holiday will expire on January 1, 2015.

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 2011, 2012 and 2013, our consolidated effective tax rate was 15.22%, 13.16% and 15.01%, 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.

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

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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. In July 2011, the State Administration of Taxation issued additional rules to provide more guidance on the implementation of SAT Circular 82. Although the SAT Circular 82 and the additional guidance 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 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 PRC 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

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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.

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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,			
	2011 RMB	2012 RMB	2013 RMB	US\$
(In thousands)				
Consolidated Statements of Comprehensive Income Data				
Revenues:				
Online marketing services	14,489,767	22,245,643	31,802,219	5,253,352
Other services	11,019	60,383	141,705	23,408
Total revenues	14,500,786	22,306,026	31,943,924	5,276,760
Operating costs and expenses: ⁽¹⁾				
Cost of revenues	(3,896,883)	(6,448,545)	(11,471,839)	(1,895,013)
Selling, general and administrative	(1,692,810)	(2,501,336)	(5,173,533)	(854,607)
Research and development	(1,334,434)	(2,304,825)	(4,106,832)	(678,400)
Total operating costs and expenses	(6,924,127)	(11,254,706)	(20,752,204)	(3,428,020)
Operating profit	7,576,659	11,051,320	11,191,720	1,848,740
Interest income	418,201	866,465	1,308,542	216,156
Interest expense	(82,551)	(107,857)	(447,084)	(73,853)
Other income, net, including exchange gains or losses	76,278	449,738	137,644	22,737
Loss from equity method investments	(179,408)	(294,229)	(5,806)	(959)
Taxation	(1,188,861)	(1,574,159)	(1,828,930)	(302,118)
Net income	6,620,318	10,391,278	10,356,086	1,710,703
Less: Net loss attributable to noncontrolling interests	(18,319)	(64,750)	(162,880)	(26,906)
Net income attributable to Baidu, Inc.	6,638,637	10,456,028	10,518,966	1,737,609
<i>(1) Share-based compensation expenses:</i>				
Cost of revenues	(7,527)	(10,105)	(23,976)	(3,961)
Selling, general and administrative	(50,012)	(54,512)	(164,704)	(27,207)
Research and development	(94,489)	(147,692)	(326,047)	(53,859)
	(152,028)	(212,309)	(514,727)	(85,027)

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 (US\$5.3 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 (US\$5.3 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 (US\$6,971) in

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2013. The increase in our active online marketing customers was mainly due to our effective distribution network and 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 active online marketing customers and average revenue per customer exclude our group-buying related businesses, consistent with previous reporting. 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 (US\$3.4 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 (US\$1.9 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 (US\$611.9 million) in 2013. Traffic acquisition costs represent 11.6% of total revenues in 2013, compared to 8.7% in 2012. The increase in 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 (US\$320.2 million) in 2013. Our depreciation expenses of servers and other equipment increased by 38.4% from RMB1.1 billion in 2012 to RMB1.5 billion (US\$242.8 million) in 2013. The absolute increases in these costs were mainly due to an increase in network infrastructure capacity and iQiyi.

Sales Tax and Surcharges. Our sales tax and surcharges increased by 48.2% from RMB1.6 billion in 2012 to RMB2.3 billion (US\$384.8 million) in 2013, primarily as a result of the increase in our online marketing revenues.

Operational Costs. Our operational costs increased by 99.4% from RMB589.6 million in 2012 to RMB1.2 billion (US\$194.2 million) in 2013, primarily due to amortization of acquired intangible assets related to the acquired companies and higher personnel related expenses.

Content Costs. Our content costs increased by 286.0% from RMB215.1 million in 2012 to RMB830.4 million (US\$137.2 million) in 2013, primarily due to the increase of 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 (US\$854.6 million) 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 (US\$313.1 million) 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 (US\$46.6 million) in 2013, primarily as a result of increase and expansion of our offices;

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total traveling, communication and business development expenses increased by 66.9% from RMB101.3 million in 2012 to RMB169.0 million (US\$27.9 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 (US\$350.0 million) in 2013, primarily due to the increased marketing and promotion activities in connection with the distribution and operations of our mobile application products.

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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 (US\$27.2 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 (US\$678.4 million) 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 (US\$1.8 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 (US\$22.7 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 (US\$1.0 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 (US\$302.1 million) 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 (US\$1.7 billion) in 2013.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues. Our total revenues increased by 53.8% from RMB14.5 billion in 2011 to RMB22.3 billion in 2012. This increase was due to a substantial increase in our revenues from online marketing services. Our online marketing revenues increased by 53.5% from RMB14.5 billion in 2011 to RMB22.2 billion in 2012. This increase was mainly attributable to the increase in the number of our active online marketing customers from approximately 488,000 in 2011 to over 596,000 in 2012, and the increase in the average revenue per customer from approximately RMB29,700 in 2011 to approximately RMB37,300 in 2012. The increase in our online marketing customers was mainly due to our effective distribution network and our expanded direct sales, especially in Beijing, Shanghai, Guangzhou, Shenzhen and Dongguan. 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 26.9% from 2011 to 2012.

Operating Costs and Expenses. Our total operating costs and expenses increased by 62.5% from RMB6.9 billion in 2011 to RMB11.3 billion in 2012. This increase was primarily due to the expansion of our business.

Cost of Revenues. Our cost of revenues increased by 65.5% from RMB3.9 billion in 2011 to RMB6.4 billion in 2012. This increase was primarily due to the following factors:

Traffic Acquisition Costs. Our traffic acquisition costs increased by 67.0% from RMB1.2 billion in 2011 to RMB1.9 billion in 2012. Traffic acquisition costs represent 8.7% of total revenues in 2012, compared to 8.0% in 2011. The increase in traffic acquisition costs as a percentage of total revenues reflects an increased revenue contribution from our Baidu Union members, such as expanded contextual ads revenue contribution from our Baidu Union members.

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Bandwidth Costs and Depreciation Expenses. Our bandwidth costs increased by 70.7% from RMB626.4 million in 2011 to RMB1.1 billion in 2012. Our depreciation expenses of servers and other equipment increased by 61.4% from RMB657.8 million in 2011 to RMB1.1 billion in 2012. The absolute increases in these costs were due to an increase in network infrastructure capacity.

Sales Tax and Surcharges. Our sales tax and surcharges increased by 53.4% from RMB1.0 billion in 2011 to RMB1.6 billion in 2012, primarily as a result of the increase in our online marketing revenues.

Operational Costs. Our operational costs increased by 64.6% from RMB358.2 million in 2011 to RMB589.6 million in 2012, primarily due to higher compensation paid to our operation and technical support staff and amortization of acquired intangible assets related to the Qunar acquisition.

Content Costs. Our content costs increased by 223.5% from RMB66.5 million in 2011 to RMB215.1 million in 2012, primarily due to the video content cost of iQiyi, which was consolidated into our financial statements in 2012, and higher music and flight information content cost due to the expansion of our business.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 47.8% from RMB1.7 billion in 2011 to RMB2.5 billion in 2012. This increase was primarily due to the following factors:

total salaries and benefits and staff-related expenses increased by 40.5% from RMB859.0 million in 2011 to RMB1.2 billion in 2012, primarily due to the increased direct sales commission and headcount to support our expanded online marketing services;

total office operating expenses increased by 27.4% from RMB146.4 million in 2011 to RMB186.5 million in 2012, primarily as a result of increase and expansion of our offices;

total traveling, communication and business development expenses increased by 60.7% from RMB63.0 million in 2011 to RMB101.3 million in 2012, primarily due to the increased headcount and activities to support our expanded online marketing services;

marketing and promotion expenses increased by 72.1% from RMB376.8 million in 2011 to RMB648.7 million in 2012, primarily due to the increased marketing and promotion activities in connection with the distribution and operations of our mobile application products.

share-based compensation expenses allocated to selling, general and administrative expenses increased by 9.0% from RMB50.0 million in 2011 to RMB54.5 million in 2012.

Research and Development Expenses. Our research and development expenses increased by 72.7% from RMB1.3 billion in 2011 to RMB2.3 billion in 2012, 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 RMB11.1 billion in 2012, a 45.9% increase from RMB7.6 billion in 2011.

Other income, net, including exchange gains or losses. Our other income, net, including exchange gains or losses was RMB449.7 million in 2012, compared to RMB76.3 million in 2011, primarily due to gains arising from re-measurement of some existing equity method investments

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immediately before the acquisition of these investees in 2012.

Loss from equity method investments: Our loss from equity method investments increased from RMB179.4 million in 2011 to RMB294.2 million in 2012, primarily due to the recognized accumulated losses of Youa.com Inc. and Qiyi.com, Inc.

Taxation. Our income tax expenses increased by 32.4% from RMB1.2 billion in 2011 to RMB1.6 billion in 2012, primarily due to the significant increase in profit before tax in 2012.

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Net income attributable to Baidu, Inc. As a result of the foregoing, net income attributable to Baidu, Inc. increased by 57.5% from RMB6.6 billion in 2011 to RMB10.5 billion in 2012.

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 2011, 2012 and 2013 were increases of 5.4%, 2.6% and 2.6%, respectively. The year-over-year percent changes in the consumer price index for January 2012, 2013 and 2014 were increases of 4.5%, 2.0% and 2.5%, 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 RMB6.0738 per U.S. dollar in December 2013. As of December 31, 2013, we recorded RMB163.3 million (US\$27.0 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

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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 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) Click-through based online marketing services

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.

(2) Other performance-based online marketing services

To the extent we provide online marketing services based on performance criteria other than click-throughs, such as the number of telephone calls brought to our customers, the number of users registered with our customers, the number of minimum click-throughs, 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.

(3) Time-based online advertising services

For time-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 commencing on the date the customer's advertisement is displayed on a specified web page or mobile applications. For certain time-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.

Table of Contents***(4) 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 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 (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.

(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) 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, or upon the end of redemption period. 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.

(7) 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, 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.

In certain instances, we are granted equity instruments in exchange for services and account for such transactions in accordance with ASC 845, *Nonmonetary Transactions*. With respect to the measurement date, in accordance with ASC subtopic 505-50, or ASC 505-50, *Equity: Equity-based Payments to Non-Employees*, we measure the fair value of those equity instruments for revenue recognition purposes as of the earlier of either of the following dates:

The date the parties come to a mutual understanding of the terms of the equity-based compensation arrangement and a commitment for performance by us to earn the equity instruments is reached;

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The date when our performance necessary to earn the equity instruments is completed.

If, as of the measurement date, the fair value of the equity instruments received is not determinable within reasonable limits, the transaction is recognized based on the fair value of the services provided. If the fair value of both the equity instruments received and the services provided cannot be determined, no revenue is recognized for the services provided and the equity instrument received is recorded at zero carrying value. The amount of revenues recognized for such transactions was insignificant for each of the years presented.

(8) Other revenue recognition related policies

In accordance with ASC subtopic 605-25, or ASC 605-25, *Multiple-Deliverable Revenue Arrangements*, for deliverables in multiple-element arrangements, the total consideration of the arrangements is allocated 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, *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: Overall*. 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.

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We account for share awards issued to non-employees in accordance with the provisions of ASC 505-50. 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 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, 2011, 2012 and 2013, 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 RMB8.0 million, nil and RMB6.7 million (US\$1.1 million) for 2011, 2012 and 2013, respectively.

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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.

Prior to 2011, we had one reporting unit because no discrete financial information was available below the consolidation level. 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 two, three and three separate reporting units as of December 31, 2011 and 2012 and 2013, respectively.

Goodwill was tested for impairment in the annual impairment tests on December 31 in each year using the two-step process required by ASC 350-20. First, we compared 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 accordance with ASU No. 2011-08, or ASU 2011-08, *Testing Goodwill for Impairment*, we have the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test. If we believe, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

In 2013, we elected to assess goodwill for impairment test for goodwill at the two reporting units, representing 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. We performed a qualitative assessment for the remaining reporting unit. Based on the requirements of ASU 2011-08, we evaluated all relevant factors, weighed all factors in their totality and concluded that it was not more-likely-than-not the fair value was less than the carrying amount of the third reporting unit, and further impairment testing on goodwill was unnecessary as of December 31, 2013.

The impairment charges of goodwill are RMB113.0 million, nil and nil for 2011, 2012 and 2013, respectively.

Impairment of Long-term Investments

Our long-term investments mainly consist of cost method investments and equity method investments in privately held companies.

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.

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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 RMB47.9 million, RMB169.2 million and RMB17.5 million (US\$2.9 million) for 2011, 2012 and 2013, respectively.

Business Combination

We account for business combinations using the purchase method of accounting in accordance with 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, 2013, our principal sources of liquidity was RMB38.4 billion (US\$6.3 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 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

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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, 2013, our PRC subsidiaries and consolidated affiliated entities held RMB33.6 billion (US\$5.5 billion) of cash, cash equivalents and short-term investments, RMB730.6 million (US\$120.7 million) of which were in the form of foreign currencies.

In July 2011, we entered into a two-year unsecured loan arrangement with Goldman Sachs Lending Partners LLC of US\$350.0 million, at an annual interest rate of 1.3%. The loan was used to acquire Qunar's ordinary shares. We repaid the loan and all accrued interest in July 2013 upon maturity, and there was no outstanding balance as of December 31, 2013.

In September 2012, we entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), whereby we committed 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. As of December 31, 2013, we had an outstanding balance of AU\$55.0 million (US\$56.8 million), which will be due in October 2014.

In July 2013, we entered into a loan agreement with Sumitomo Mitsui Banking Corporation, whereby we committed 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, 2013, 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 committed 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, 2013, we had an outstanding balance of AU\$235.0 million (US\$200.0 million), which will be due in August 2015.

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 the sale of the notes were used for general corporate purposes. As of December 31, 2013, the total carrying value and estimated fair value of these notes were US\$1.5 billion and US\$1.4 billion. The estimated fair value was based on quoted prices for our publicly-traded debt as of December 31, 2013. We are not subject to any financial covenants or other significant restrictions under the notes. During 2013, 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, 2013, 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, 2013. We are not subject to any financial covenants or other significant restrictions under the notes. No interest were due in year 2013 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

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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 PRC 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 PRC 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 or additional capital contributions to our PRC subsidiaries, which could adversely affect our ability to fund and expand our business.

As of December 31, 2013, we had RMB17.6 billion (US\$2.9 billion) in long-term loans and notes payables (including current portion of RMB343.6 million (US\$56.8 million)) and had no short-term loans.

Cash Flows and Working Capital

As of December 31, 2011, 2012 and 2013, we had RMB14.2 billion, RMB32.5 billion and RMB38.4 billion (US\$6.3 billion) in cash, cash equivalents and short-term investments.

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

	2011 RMB	For the Years Ended December 31,		US\$
		2012 RMB	2013 RMB	
		(In thousands)		
Net cash generated from operating activities	8,178,819	11,995,994	13,792,971	2,278,438
Net cash used in investing activities	(14,250,529)	(13,750,100)	(23,322,819)	(3,852,657)
Net cash generated from financing activities	2,425,810	9,518,885	7,541,561	1,245,777
Effect of exchange rate changes on cash	(8,594)	(11,629)	(200,548)	(33,128)
Net increase (decrease) in cash and cash equivalents	(3,654,494)	7,753,150	(2,188,835)	(361,570)
Cash and cash equivalents at beginning of the period	7,781,976	4,127,482	11,880,632	1,962,541
Cash and cash equivalents at end of the period	4,127,482	11,880,632	9,691,797	1,600,971

Operating Activities

Net cash generated from operating activities increased to RMB13.8 billion (US\$2.3 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 (US\$438.1 million) in 2013 from RMB1.5 billion in 2012.

Net cash generated from operating activities increased to RMB12.0 billion in 2012 from RMB8.2 billion in 2011. This increase was mainly attributable to the substantial increase in net income to RMB10.4 billion in 2012 from RMB6.6 billion in 2011.

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Investing Activities

Net cash used in investing activities was about RMB13.8 billion and RMB23.3 billion (US\$3.9 billion) in 2012 and 2013, respectively. The increase is primarily due to more acquisitions of businesses accomplished in 2013.

Net cash used in investing activities was about RMB14.3 billion and RMB13.8 billion in 2011 and 2012, respectively. Compared to 2011, our investment of short-term investments increased, while our acquisitions of business decreased in 2012.

Financing Activities

Net cash flow generated from financing activities was RMB7.5 billion (US\$1.2 billion) in 2013, compared to a net cash flow of RMB9.5 billion generated from financing activities in 2012. The decrease is primarily due to less long-term notes issued in 2013.

Net cash flow generated from financing activities was RMB9.5 billion (US\$1.5 billion) in 2012, compared to a net cash flow of RMB2.4 billion generated from financing activities in 2011, primarily due to the proceeds from the long-term notes issued in 2012.

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 RMB1.2 billion, RMB2.8 billion and RMB3.7 billion (US\$613.8 million) as of December 31, 2011, 2012 and 2013, respectively.

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Capital Expenditures

We made capital expenditures of RMB1.8 billion, RMB2.3 billion and RMB2.8 billion (US\$455.4 million) in 2011, 2012 and 2013, representing 12.2%, 10.4% and 8.6% of our total revenues, respectively. In 2013, our capital expenditures were used primarily for the purchase of servers, network equipment, other computer hardware for our business and construction of our office buildings. We funded our capital expenditures primarily with net cash flow generated from operating activities.

We commenced construction of an office building in Shenzhen in December 2011, Baidu Science Park in Beijing in August 2012, and Shanxi Cloud Computing Center in September 2012, and we expect to complete the planned construction of these buildings by the end of 2016, in 2015 and 2017 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 substantially in the future as our business continues to grow, in connection with the expansion and improvement of our network infrastructure, and our plan to build 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.

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.

In the three years ended December 31, 2011, 2012 and 2013, our research and development expenditures, including share-based compensation expenses for research and development staff, were RMB1.3 billion, RMB2.3 billion and RMB4.1 billion (US\$678.4 million), representing 9.2%, 10.3% and 12.9% of our total revenues for 2011, 2012 and 2013, 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, 2013 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.

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The following table sets forth our contractual obligations by specified categories as of December 31, 2013.

	Total	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
		(In RMB thousands)			
Long-Term Debt Obligations ⁽¹⁾	20,482,857	842,026	3,057,476	11,407,441	5,175,914
Capital Lease Obligations ⁽²⁾	92,058	49,160	42,863	35	
Operating Lease Obligations ⁽³⁾	4,982,082	2,208,713	1,810,314	777,783	185,272
Purchase Obligations ⁽⁴⁾	2,091,027	1,555,102	498,652	35,949	1,324
Total	27,648,024	4,655,001	5,409,305	12,221,208	5,362,510