

# Huawei Investment & Holding Co., Ltd.

## 2012 Annual Report



## A Message from the CEO

### Might from a Small Hole, Benefits from One Source



The New Year Message, “Focus on Strategy, Simplify Management, Increase Efficiency”, from our Rotating and Acting CEO, clearly presents our objectives for the new year. We must focus on our strengths, fully leverage the capabilities of our organization, tap into the self-motivation and creativity of our staff members along the fairway, and produce greater results.

As we know, water and air are among the most gentle stuff in the world. That’s why water and breeze often carry praise. We also know that this same gentle air can send rockets into space. The high-speed exhaust that results from the burning of rocket fuel can generate tremendous thrust through a small hole in a device called a de Laval nozzle; the air expanding out of the nozzle can propel mankind into space. Water is as soft as a beauty, yet it can cut through steel plates once highly pressurized and forced through a small hole. This is “might from a small hole”. Huawei is an ordinary company and our employees are ordinary people. In the past, our appraisal system focused on commonalities rather than individualities, and therefore failed to appropriately widen the gap between employees with respect to compensation and benefits. This practice frustrated some employees who had striven to create value. As a result, many excellent employees left Huawei. We ordinary ones stayed behind. Over 25 years, we have focused only

on one goal and remained dedicated. We have never wavered. Now we have 150,000 employees. Just as water jetting from one hole, our efforts have achieved something amazing. This is “might from a small hole”. We focus on our strategy to sharpen our global edge in a particular field. A sharp competitive edge proves that we do not need to have background to establish ourselves among the global leaders.

In addition, we adhere to the principle of “obtaining benefits from one source”. Our EMT declaration has made it clear that all income of our most senior executives and key employees is confined to such items as salaries, incentives, and bonuses offered by Huawei. No income from outside Huawei is allowed. We have established organizations and systems which prevent anyone at Huawei, from the most senior officers down to the execution level, from gaining benefits by devouring collective interests through affiliate transactions. Over the past 20 years, our benefits have basically been derived from one source, thus creating a climate of united dedication among our 150,000 employees. We are aware that there are still many areas for improvement in our management; we are endeavoring to improve them. I believe our human resource policies will become more and more scientific if we adhere to the principle of “obtaining benefits from one source”. Consequently, our employees will be more and more passionate about their work. Then there will be nothing we cannot conquer.

If we can adhere to the principles of “gaining might from a small hole and obtaining benefits from one source”, Huawei will not be the next to fall. However, if we diverge from these principles, Huawei will probably be the next to fall. History tells us that if large companies miss a turning point and start to decline, few of them can reverse the situation by restructuring themselves. Naturally, we would hate to fall; so we must restrain ourselves, observe rules, and stay united and dedicated.

With lofty aspirations and esprit de corps, we are striding across the Pacific Ocean.

A handwritten signature in black ink, consisting of stylized Chinese characters. The signature is written vertically and is positioned above the name and title of the CEO.

**Ren Zhengfei**  
Chief Executive Officer

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## Letter from the Rotating and Acting CEO

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*By focusing on the pipe business and effectively improving operations quality, Huawei achieved CNY220.2 billion (US\$35.35 billion) in sales revenue and CNY15.38 billion (US\$2.47 billion) in net profit in fiscal year 2012, steadily increasing operating performance.*

The ubiquity of broadband networks and services, the massive number of applications that result in instantaneousness and fragmentation of information, and the demand of device users for a personalized experience combine to present a series of challenges and opportunities to the Information and Communications Technology (ICT) industry. By focusing on the pipe business and effectively improving operations quality, Huawei achieved CNY220.2 billion (US\$35.35 billion) in sales revenue and CNY15.38 billion (US\$2.47 billion) in net profit in fiscal year 2012, steadily increasing operating performance.

Our Carrier Network Business Group (BG) further consolidated its position in the industry: Our wireless business maintained steady growth. Our fixed network products and solutions have been deployed by most carriers worldwide. Our routers continued to hold an advantage in the carrier market. Additionally, our optical transport and optical access products further established their leadership positions. We launched SoftCOM, the industry's first software-defined networking (SDN) technology architecture in end-to-end carrier

networks. Our carrier software business continued to grow rapidly. Our SmartCare service redefined industry standards for customer experience management (CEM) and comprehensively enhanced user-experience-driven solution capabilities.

Our Enterprise BG launched competitive data center switches, storage products, panoramic telepresence, and other solutions. Our Consumer BG built a solid foundation on product design, quality, and cost. In the fourth quarter of 2012, we entered the list of the world's top three smartphone makers for the first time. At present, our products serve more than three billion people around the globe.

As communications become an integral part of life, we believe that demand for communications is not closely related to economic cycles and is only moderately impacted by the financial crisis. The reason is that communications services are characterized by small-money consumptions and the communications market is fully competitive. As pipes carry heavy traffic, we deploy products and solutions by focusing on information transmission,

forwarding, storage, processing, acquisition, and presentation. Providing user experience characterized by high bandwidths, multiple services, and zero wait time is our mission and responsibility. We will continue to increase strategic investments in the pipe business. Our aim is to make information pipes “wider, faster, and larger” and develop Huawei into one of the great companies that lead the ICT industry.

As we seek effective business growth, we expect that Huawei, a company with 150,000 employees, will continue to be the preferred partner of our customers. “Gaining might from a small hole” is a principle which affirms our customer-centricity and guides us to always focus on external customers for our growth. “Obtaining benefits from one source” is a principle which places focus on high-performing employees, and guides us to adjust internal relationships and determine who we count on for corporate development. By attempting to invert our performance appraisal mechanism in 2012, we delegated the decision-making authority to customer-facing roles and field offices, and allowed them to obtain and share benefits based on their performance, instead of granting benefits top-down. In 2013, we will further simplify management, and encourage outstanding managers and teams to assume greater responsibilities; accordingly, we will provide them with more opportunities and enable them to earn more rewards. In addition, we will continue to reduce internal operating cost and strive to further improve operational efficiency.

Outstanding corporate performance is built on extraordinary leadership and the ability to develop an excellent management team. One of the significant challenges we face is to develop globalization capabilities that are aligned with our global business growth while having the capacity to supervise operations in regional markets. We need more managers who have a global vision, regardless of their nationality or background. To that end, we must establish systems that can identify and deploy talent worldwide. Narrowing

the scope of our strategy and focusing on the pipe business will help improve our global competitiveness.

We fully assume our responsibility globally as a corporate citizen while proactively responding to concerns and needs of all stakeholders, including customers and governments. In 2012, we released *Huawei Cyber Security White Paper*, which inspires thought and discussion about the nature of cyber security. We will strive to ensure the stable and secure operations of customer networks and businesses. We will further increase openness and transparency, and actively communicate with others. We will integrate more proactively into the local communities in which we operate, create more jobs, and contribute more taxes. All these efforts will help boost the competitiveness, economy, and prosperity of local communities.

The responsibility of our management team is to maintain the health and vitality of our company. In the past year, we encountered many challenges. Our good performance would have been impossible if not for the trust and support from our customers and partners as well as the wisdom and courage of our staff. I would like to express my sincere gratitude to all of them. Looking ahead, we are confident in the prospects of the ICT industry despite much uncertainty in the macroeconomic environment and increasingly intense competition in the industry. We will continue to focus on the information pipe business, simplify internal management, and continuously improve efficiency and performance. In 2013, we will continue to maintain our business growth momentum and create a bright future with our customers and partners around the world!



**Guo Ping**  
Rotating and Acting CEO

## Business Highlights in 2012

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### Continuously promoting globalized operations

In 2012, Huawei stepped up its investments in Europe. We invested more in the UK, established a new R&D center in Finland, and set up local boards of directors (BODs) and advisory boards in France and the UK.

### Being open and cooperative and innovating continuously

Huawei established the 2012 Laboratories with a focus on making continuous investments in key ICT fields. We are dedicated to providing broader, smarter, and more energy-efficient pipes while working closely with partners from the industry, academia, and research institutes. Our goal is to take the lead in research, innovation, and implementation of future networks.

### Focusing on sustainable development

To proactively promote sustainable social and economic development, Huawei focused on implementing four strategies: bridging the digital divide; safeguarding the stable and secure operations of customer networks; promoting environmental protection; and achieving win-win developments.

### Laying the foundation for future ultra-broadband transmission with 400G

Huawei unveiled the industry's first 400G dense wavelength division multiplexing (DWDM) optical transport system, setting a new record for WDM transmission capacity. Huawei also launched its 480G line card that has the industry's largest capacity in the IP field.

### Leading transformations in the cloud era

Huawei partnered with customers in 33 countries in cloud computing and built the world's largest desktop cloud, which is used by approximately 70,000 employees for work every day. Of the 260 data centers Huawei has delivered, 35 are cloud-based. In addition, Huawei's storage solutions serve more than 2,000 customers across all industries worldwide.

### Delivering the inspired experience in smart devices

Huawei further sharpened its competitive edge in smart devices. In 2012, the sales of Huawei's middle-range and high-end flagship smartphones, such as the Ascend P1, Ascend D1 Quad, and Honor, soared in developed countries. The company successfully shifted from its role as an original design manufacturer (ODM) to its own brand.

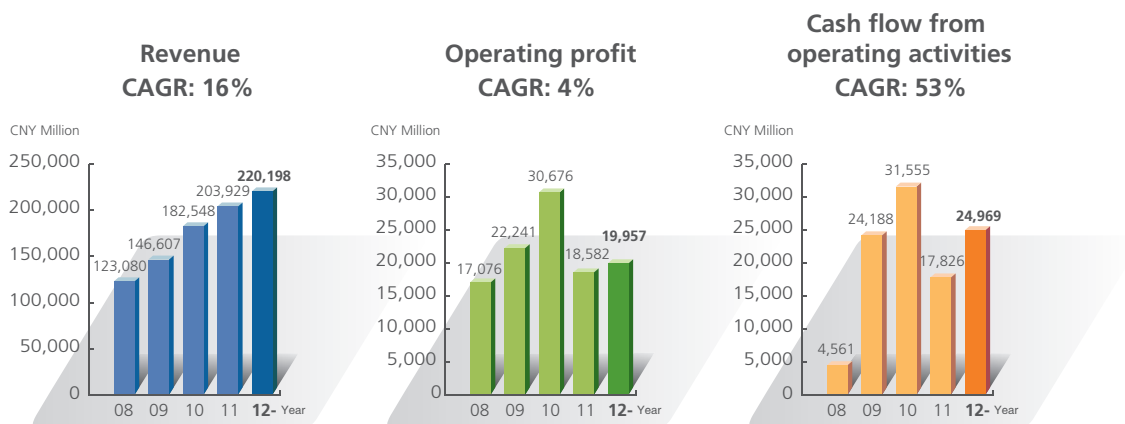
### Building service value

Huawei continued to strengthen the competitiveness of its service solutions. Over the past seven years, the compound annual growth rate (CAGR) of Huawei's managed services exceeded 70%, making Huawei the fastest-growing managed services provider in the world. In the customer experience management (CEM) field, the HUAWEI SmartCare CEM solution was extended from Per Service Per User (PSPU) Service Quality Management (SQM) to holistic customer experience management and continued to strengthen its leadership in the industry.

## Five-Year Financial Highlights

CNY Million	2012 (USD Million)*	2012	2011	2010	2009	2008
Revenue	<b>35,353</b>	<b>220,198</b>	203,929	182,548	146,607	123,080
Operating profit	<b>3,204</b>	<b>19,957</b>	18,582	30,676	22,241	17,076
Operating margin	<b>9.1%</b>	<b>9.1%</b>	9.1%	16.8%	15.2%	13.9%
Net profit	<b>2,469</b>	<b>15,380</b>	11,647	24,716	19,001	7,891
Cash flow from operating activities	<b>4,009</b>	<b>24,969</b>	17,826	31,555	24,188	4,561
Cash and short term investments	<b>11,503</b>	<b>71,649</b>	62,342	55,458	38,214	24,133
Working capital	<b>10,155</b>	<b>63,251</b>	56,728	60,899	43,286	25,921
Total assets	<b>33,717</b>	<b>210,006</b>	193,849	178,984	148,968	119,286
Total borrowings	<b>3,332</b>	<b>20,754</b>	20,327	12,959	16,115	17,148
Owner's equity	<b>12,045</b>	<b>75,024</b>	66,228	69,400	52,741	37,886
Liability Ratio	<b>64.3%</b>	<b>64.3%</b>	65.8%	61.2%	64.6%	68.2%

\* Translated into US dollars using the closing rate as at December 31, 2012 of US\$1.00 = CNY6.2285



## Letter from the Chairwoman

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*The ICT industry is still innovating rapidly. New trends such as mobility, cloud computing, Big Data, and social networking are guiding this industry towards a new landscape. In addition, significant digitalization changes are taking place in the real world. The Internet of Things, e-Commerce, and digital media among others are driving the upgrading and restructuring of traditional industries.*

The world today is experiencing an unprecedented rate of change. Network connection and information acquisition have become integral to our life and work. The ICT industry is still innovating rapidly. New trends such as mobility, cloud computing, Big Data, and social networking are guiding this industry towards a new landscape. In addition, significant digitalization changes are taking place in the real world. The Internet of Things, e-Commerce, and digital media among others are driving the upgrading and restructuring of traditional industries. Consequently, the deep integration of the data world represented by the ICT industry with the physical world represented by traditional industries is not only energizing global economic development; it has also significantly changed the ways we live and work. A digital society comprised of digital citizens and digital enterprises is taking shape. These trends will surely lead both ICT and social transformations.

Based on our insights into future trends, Huawei is committed to helping customers build an increasingly efficient and integrated information logistics system to connect people to people, people to things, and things to things, thus enabling people to communicate and share ideas freely. Through solid connections between people and things, ideas flourish; we constantly inject vitality into our vision, inspire innovations, promote the continued evolution of scientific technologies, the industry, and the ways people interact with each other, and thus we create a better world.

We know that networks have made it possible for people in different regions to have fair opportunities for development. However, the world has long been dogged by network operations stability and security challenges. All network equipment providers have the ultimate social responsibility of responding quickly to



ensure stable network operations, particularly when disasters such as earthquakes, tsunamis, plagues, radioactive contamination, or military conflicts strike. This is the commitment we have extended to our customers over the years. In 2012, we released *Huawei Cyber Security White Paper* globally, calling on all stakeholders, including governments and industries, to become aware that cyber security is a global issue and needs to be addressed through risk-based approaches, best practices, and enhanced international cooperation.

As a responsible corporate citizen, we have been cooperating closely with stakeholders. We proactively contribute to sustainable socio-economic development through four initiatives: bridging the digital divide, safeguarding stable and secure network operations, promoting environmental protection, and achieving win-win development. Of particular significance, we continue to strengthen localized operations to help boost local employment and economic development.

Huawei is always open and cooperative, and enthusiastically contributes to industry development. We now hold over 180 positions in more than 150 standards organizations. We respect the intellectual property rights of others while accumulating intellectual property of our own. Every year, we pay about US\$300 million in patent royalties to other companies in the industry in exchange for the use of their patented technologies.

In the past year, our Board of Directors (BOD) and its committees reviewed and approved the company's medium-to-long-term business plan,

the annual business plan and budget, quarterly operational performance reports, corporate governance structure and organization building, business ecosystem building, appointments and compensation policies for senior management, and other major HR and financial policies and activities. In addition, the company fully implemented the rotating CEO system under the leadership of the BOD. As the corporate officer ultimately responsible for operations and crisis management during their tenure, the rotating and acting CEO primarily focuses on the company's survival, operations, and development. Through a management mechanism covering everything from strategy formulation to strategy execution, the rotating CEO system manages and monitors the company's business operations. Gradually, the company will shift its focus from the annual business plan to the medium-to-long-term strategic plan.

In closing, I would like to extend my gratitude to all staff members and their loved ones, customers, partners, and industry organizations worldwide. As we move forward, let's join hands to create a world with infinite opportunities and possibilities.



**Sun Yafang**  
Chairwoman of the Board

## Brand Promise and Brand Attributes

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### Our Enduring Brand Promise

Enriching life and improving efficiency through a better connected world.

### Our Brand Attributes

#### Customer-centric

We keep an unwavering focus on our customers, partnering with them and committing ourselves to meet their goals and needs. We rely on deep customer insights and continuous feedback to guide our priorities and influence the way we work.

#### Dedicated

We are passionate about the success of our customers, making every effort to meet our commitments. We measure our work against how much value we bring to customers. We strive to continuously improve ourselves, building our capabilities, our knowledge base, and our expertise.

#### Innovative

We proactively anticipate future trends and customer needs. Continuous innovation puts us directly on the cutting edge of technology. We generate new value through smart design and the integration of our products, services, and experiences.

#### Global

We operate on the world stage so that we can provide the best locally. We are actively engaged in communities; we learn from local cultures, recruit and develop local talent, partner with local suppliers, and customize our offerings for local tastes and needs.

#### Open

We are active listeners and contributors internally and externally. We always bring a unique point of view, listen to others' suggestions for how we can improve, and share knowledge and insights to help the industry and key stakeholders evolve and grow.

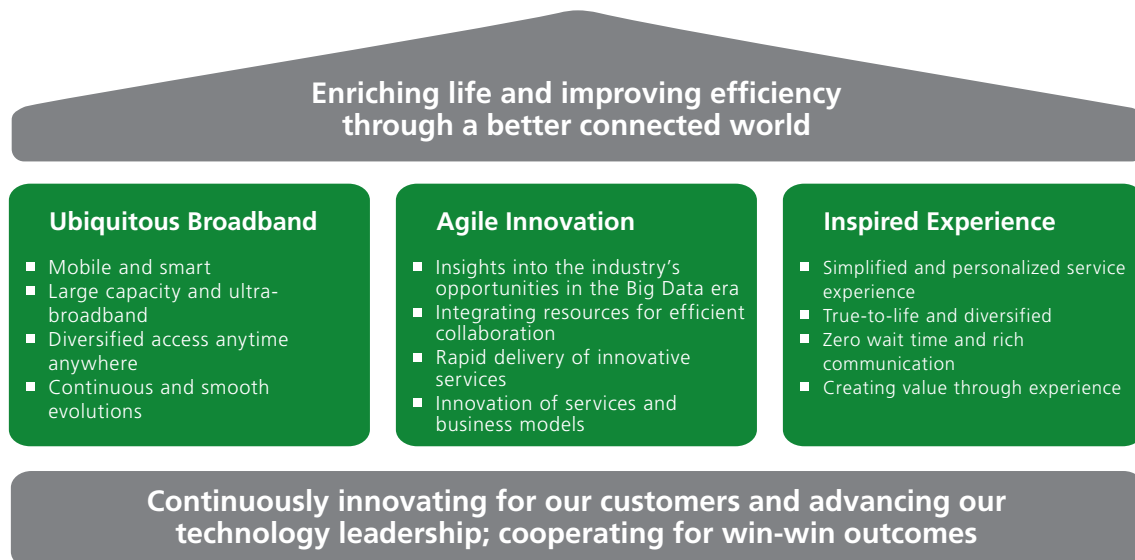
#### Trusted

We say what we do and do what we say, delivering on the promises we make to our customers and partners. We respect fair business practices and maintain the highest standards of information integrity and security. As a responsible corporate citizen, we actively promote the sustainable development of society, the economy, and the environment.

## Management Discussion and Analysis

### Our Value Propositions

Resonating with the revolutionary changes taking place in the information industry, Huawei continuously innovates to meet customer needs and advance our technology leadership; we openly cooperate with industry partners, focus on building future-proof “Smart Information Pipes”, and continuously create value for our customers and society at large. Based on these value propositions, Huawei is dedicated to enriching life and improving efficiency through a better connected world. In addition, we strive to be the first choice and best partner of telecom carriers and enterprise customers while also becoming a brand of choice among consumers.



### Ubiquitous Broadband

From laptops, smartphones, and smart tablets, to a wide variety of new and innovative gadgets that will keep cropping up, devices will become increasingly diversified.

People want to go online anytime, anywhere, and via any device. Against this backdrop, reliability and security have become essential requirements. To address the challenges brought about by the upcoming digital floods, networks should become broader and smarter to ensure smooth multimedia interaction and to provide better services and applications.

Huawei is dedicated to expanding network capacity, enhancing network enablement, and optimizing network management. We continuously innovate new architectures (such as SoftCOM), Single platforms, and new technologies. By delivering products and solutions that feature leading technologies and smooth evolution, we help customers build simplified yet highly efficient network infrastructures that provide ubiquitous broadband to consumers.

### Agile Innovation

The ICT industry is still innovating rapidly. New trends such as mobility, cloud computing, Big Data, and social networking are guiding this industry towards a new landscape. In addition, significant digitalization changes are taking place in the real world. The Internet of Things, e-Commerce, and digital media among others are driving the upgrading and restructuring of traditional industries.

Enterprises in various industries need to strengthen their information analysis capabilities, rapidly gain an insight into opportunities, continuously enhance organizational collaboration, and launch new products and services into the marketplace in a better and faster way.

Huawei provides data center infrastructure solutions based on cloud computing to help customers improve the utilization of their storage and computing resources and provides unified communications and Bring Your Own Device (BYOD) solutions to help customers improve work efficiency and reduce operating costs, thereby achieving operational excellence and continuously making business and service innovations.

### Inspired Experience

To learn, work, entertain, and live more conveniently, people expect services to be simple, easy to use, and true to life, with zero wait time.

Huawei will strengthen its research in such areas as video, audio, touch control, image processing, and emotional experience algorithms, promote user centric design (UCD), and provide users with a collaborative and consistent experience across screens. In addition, we will provide high-quality and easy-to-maintain products as well as personalized business support systems (BSSs) and operation support systems (OSSs). We will also build a supply chain that is visible to customers, and enable user-friendly and convenient transaction and delivery processes.

The innovative technologies Huawei introduces allow people around the world to communicate and share more freely, reap the benefits of technological progress, and enjoy the inspired experience.

## Business Review 2012



In 2012, Huawei's well-balanced presence worldwide helped the company achieve rapid and healthy growth in the carrier network, enterprise, and consumer businesses. Annual sales revenue totaled CNY220,198 million, an 8.0% increase over the previous year.

Sales from the Chinese market totaled CNY73,579 million, an increase of 12.2% year-on-year. The Carrier Network BG continued to maintain modest growth, while the Enterprise BG and the Consumer BG began to gather momentum. Of particular note, sales of the Consumer BG grew by more than 30%.

Thanks to the continuous expansion of professional services as well as the rapid growth of infrastructure networks in West Europe, Nigeria, Saudi Arabia,

and other countries and regions, Huawei earned CNY77,414 million from Europe, the Middle East, and Africa (EMEA), which marks an increase of 6.1% year-on-year. By maintaining sound growth momentum in Japan, Indonesia, Thailand, Australia, and other markets in the Asia Pacific region, Huawei increased its sales revenue by 7.2% year-on-year to CNY37,359 million. In the American region, Huawei experienced robust growth in infrastructure networks across Latin America, and enjoyed prosperity in the consumer business in North America. The successes in the American region helped Huawei generate CNY31,846 million in sales revenue, an increase of 4.3% year-on-year.

Over the next three to five years, the CAGR of Huawei's sales revenue is estimated to stand at approximately 10%.

CNY Million	2012	2011	YOY (%)
China	<b>73,579</b>	65,565	12.2%
EMEA	<b>77,414</b>	72,956	6.1%
Asia Pacific	<b>37,359</b>	34,862	7.2%
America	<b>31,846</b>	30,546	4.3%
Total	<b>220,198</b>	203,929	8.0%

CNY Million	2012	2011	YOY (%)
Carrier Network Business	<b>160,093</b>	149,975	6.7%
Enterprise Business	<b>11,530</b>	9,164	25.8%
Consumer Business	<b>48,376</b>	44,620	8.4%
Others	<b>199</b>	170	17.1%
Total	<b>220,198</b>	203,929	8.0%

### Carrier Network Business

Over the past year, the telecom industry has experienced numerous challenges. Despite these challenges, Huawei maintained its leading market position in the carrier network field, with CNY160,093 million in sales revenue, an increase of 6.7% year-on-year.

Huawei's share in the wireless network market experienced steady growth, with over 500 carriers worldwide deploying its wireless products. Huawei provides a full portfolio of GSM, UMTS, CDMA, TD-SCDMA, and LTE solutions, and has deployed 170 SingleRAN commercial networks worldwide, all of which support the evolution towards LTE. 139 carriers have launched or will soon launch LTE services into commercial use. In the fixed network field, technological and commercial innovations are being implemented in unison. By unveiling the industry's first 480G line card for backbone routers, Huawei led the development of routing technologies. Huawei also maintained its leading position in offering broadband network gateway (BNG), LTE, and IP mobile backhaul solutions for multi-service support over metropolitan area networks (MANs). In the transport field, Huawei was awarded more than fifty 100G commercial contracts. Huawei's market share in the carrier software and core network business has continued to rise. More than 150 mobile broadband (MBB) carriers around the world have adopted Huawei's Value Growth Solution (VGS). Our BSS solution has been deployed by customers such as Vodafone, H3G in the UK, Telenor, and KPN. Services are heavily emphasized by Huawei in its cooperation with carriers. Huawei's professional service solutions have been used by 45 of the world's top 50 carriers and are deployed in more than 140 countries, serving one-third of the world's population. In the European market, Huawei provides managed services for carriers in the UK, Spain, Germany, Italy, and Switzerland.

The industry constantly strives to reduce equipment and network deployment costs while offering a rich array of new services on a timely basis and innovating profit models. To meet the new requirements and challenges for ICT convergence and transformation, Huawei proposed the SoftCOM strategy geared towards future network architectures. Based on the concepts of network-level cloudization, equipment-level cloudization, Internet-oriented operations, and Network as a Service (NaaS), this strategy incorporates cloud computing and software defined networking (SDN) into telecom networks. From the architecture perspective, our strategy also makes it possible to effectively control costs, rapidly deliver new services, and enable a smooth evolution, thereby ushering in the ICT convergence era.

#### Wireless Networks

Sales revenue from our wireless network equipment totaled CNY49,837 million in 2012.

People's lives continue to significantly benefit from the rapid development of mobile communications technologies. Looking at recent trends, Huawei sees that smart device penetration growth is continuing unabated, the diversity of innovative mobile applications is rapidly increasing, and industrywide development towards a thriving machine-to-machine (M2M) ecosystem is helping realize truly ubiquitous global connectivity amid explosive growth in data traffic. Huawei believes the total mobile market will reach US\$2 trillion by 2020—more than double the total market in 2012. This is made possible by advances in ultra-broadband technologies that support on-demand customer innovations.

Huawei was the first to propose evolution from distributed base stations to the SingleRAN platform, which is now an industry standard and helps carriers deploy new network technologies

that significantly reduce total cost of ownership (TCO) while supporting on-demand network expansion. Originally, Huawei focused only on reducing TCO, but now with SoftMobile, the focus has shifted to improving total value of ownership (TVO) while reducing TCO.

SoftMobile is an end-to-end MBB business solution based on the commercially successful SingleRAN platform and provides future mobile networks with three key features: Broadband, Orchestration, and On-Demand. SoftMobile delivers new and innovative business opportunities for mobile network carriers amid the exponential growth of smart devices. This is made possible by providing carriers with the ability to expand broadband capacity, improve multi-Radio Access Technology (RAT), multi-band and multi-layer coordination, and improve user experience while maintaining the relation between cost and revenue.

By the end of 2012: Huawei had deployed more than 500 wireless networks, serving more than two billion subscribers worldwide; Huawei had won 139 LTE and 80 EPC commercial contracts, of which 73 LTE and 59 EPC networks had been commercially launched; Huawei LTE/EPC networks had been deployed in 68 capital cities worldwide; Huawei had deployed a total of 270 commercial UMTS networks, and 39 of the total 270 UMTS networks have been upgraded to support Dual-Carrier HSPA+ for peak data rates of 42 Mb/s; Huawei had deployed 170 commercial SingleRAN networks worldwide, all of which support evolution towards LTE.

Huawei has been awarded the most LTE and LTE-Advanced standard patents. Huawei has contributed 20% of all approved standards applications for 3GPP LTE Core Specifications (RAN1-RAN3). As of Q4 2012, Huawei had

submitted more than 10,884 LTE/EPC standards applications to 3GPP. Huawei holds chairperson, vice chairperson, director, and work group leader positions for more than 150 standards organizations.

Huawei remains committed to the spirit of innovation, which has driven the development of cutting-edge solutions, SoftMobile being the most recent example. Huawei will continue to invest in forward-looking technologies and standards that support on-demand, orchestrated, and ocean-like MBB networks; our aim is to grow and develop an open, harmonious, and flourishing mobile ecosystem with our industry chain partners.

#### Fixed Networks

Sales revenue from our fixed network equipment totaled CNY48,452 million in 2012.

With rapid developments in cloud computing and OTT video services, applications are migrating to the cloud, per capita bandwidth consumption is swinging upwards, and digital floods are starting to form huge swells. Huawei advocates a digital lifestyle characterized by “broadband inclusion for all” and is dedicated to providing consistent customer experience on services that require zero wait time and are available anytime, anywhere. In addition, Huawei adheres to the Pipe Strategy and strives to build ubiquitous ultra-broadband networks as wide as the Pacific Ocean, thereby enabling connectivity possibilities for the entire society and considerably enriching life through communication.

In the next-generation network technology field, Huawei was the first to propose the E2E Carrier SDN architecture, for which it has already unveiled prototypes. These prototypes included

the industry's first broad network controller to control hybrid SDN networking, the industry's first SDN-based BNG, the industry's first optical line terminal (OLT) integrated with an SDN controller, and the industry's first transport network SDN controller. With the Carrier SDN architecture, carriers are equipped with a simple, agile, resilient, and value-added network.

In the carrier IP network field, Huawei unveiled the industry's first 480G line card for backbone routers, demonstrating that the company is already at the forefront of the IP field in terms of core routing technologies. In addition, Huawei launched the world's first 10GE LTE base station routers that help carriers successfully deploy LTE networks and efficiently transport mobile data services. In the field of optical transport networks (OTNs), Huawei was the first to release 400G and 2T WDM prototypes, gearing up for ultra-broadband transmission in the future. The Petabit Packet Cross Connect (PPXC), an all-optical switch prototype Huawei demonstrated at the Optical Fiber Communication (OFC) Conference and Exposition 2012, was applauded as the most innovative and outstanding prototype in the industry. In the microwave field, Huawei's second-generation E-Band technology for carrier LTE bearer networks leads the IP microwave industry in terms of concept, technology, market testing, and commercial use. In the FTTx access network field, Huawei continued to promote the maturity of 40G TWDM PON and G.fast standards and lead the way into the GE era. Large-scale commercial use of Vectoring technology became a reality. In the optical distribution network (ODN) field, Huawei established the intelligent optical distribution network (iODN) industry and developed the L.64 industry standards on iODN. These standards were approved at the

Telecommunication Standardization Sector of the International Telecommunication Union (ITU-T). In the OSS and service field, Huawei set up the Global Network Evolution and Experience Center (GNEEC). The center focuses on ensuring the smooth evolution of customer networks and showcases Huawei's world-leading service experience and expertise. The recently launched Huawei uTraffic, a network traffic analysis system, leveraged innovative technologies and leading platforms to support traffic and bandwidth operations. This traffic analysis system is well positioned to help carriers provide efficient services, increase revenue, and improve their profitability.

By the end of 2012, Huawei's fixed network products and solutions had been deployed by 45 of the world's top 50 carriers. Our routers were used by more than 20 mainstream carriers in Europe, maintaining a leading market share. We deployed more than 830 SingleMetro commercial networks and 240 mobile bearer networks worldwide. In the transport field, we were awarded more than fifty 100G commercial contracts and constructed 100G WDM networks totaling more than 100,000 km. Huawei was the only vendor granted the Best Optical Equipment Product – OTN award of the Next Generation Optical Awards from the Institute for International Research (IIR). Huawei was the first to put second-generation E-Band microwave technology into commercial use in Europe. In the access network field, mainstream European carriers put Huawei's Vectoring solution into extensive commercial use. This solution received the Best Broadband Access Award – Fixed award from InfoVision at the Broadband World Forum 2012. The ODN solution effectively addresses the difficulties in optical fiber deployment and O&M. We have deployed more than 60 iODN commercial networks worldwide.



In the future, the fixed broadband (FBB) network business faces both opportunities and challenges. On the one hand, the wide popularity of services and applications creates higher requirements for network bandwidth. Broadband networks will become the infrastructure that drives national economic development. Therefore, investments in the bearer networks that support FBB and MBB will remain stable. On the other hand, diversified services and the rapid growth of bandwidth and traffic require that broadband networks be smarter, more flexible, and more cost-effective. The Internet industry is also striving to improve network efficiency by constantly creating innovative solutions. In the fixed network business field, Huawei will be dedicated to providing carriers with value-added, resilient, agile, and ubiquitous ultra-broadband network solutions that are easy to operate and maintain and become a strategic partner that carriers can rely on.

#### Global Services

In 2012, our revenue from Global Services amounted to CNY42,913 million.

Today, the ubiquity of MBB networks and services, the all-IP network evolution, the massive number of services and applications that result in instantaneousness and fragmentation of information, and the demand of device users for a personalized service experience combine to present a series of challenges and opportunities to the ICT industry.

Services are heavily emphasized by Huawei in its collaboration with carriers. Over the past several years, we have continuously strengthened the competitiveness of our service solutions and helped customers transform from developing its network-centric construction & maintenance capability to developing the integration and

management capability that centers on end-users experience. Huawei recorded large-scale growth in Europe and Asia Pacific among other markets in its managed services. Huawei was awarded more than 330 managed service contracts. The networks managed by Huawei serve more than 310 million subscribers, making Huawei the fastest-growing managed services provider in the world. Of particular note, we made large-scale breakthroughs in developed markets in Europe by providing managed services to carriers in the UK, Spain, Germany, Italy, and Switzerland. In the CEM field, we established joint innovation projects with Vodafone and Canada-based TELUS for our SmartCare CEM service. In the service quality management and assessment system, service modeling, and service quality optimization fields, we worked with STC on CEM services and helped it achieve market success. In the consulting and system integration field, Huawei had built 19,000 indoor sites for 114 carriers in 63 countries, served 78 carriers in 45 countries, completed more than 260 data center projects, and provided green energy services for more than 18,000 sites of 310 carriers in more than 150 countries by the end of 2012.

In the network construction and maintenance field, in 2012, Huawei delivered wireless products to 430,000 sites, fixed network products to 790,000 sites, and microwave products to 74,000 sites. During the same year, Huawei completed the planning and design of 81 key projects and successfully provided network assurance services to 41 key events, including the London Olympics and Hajj.

Huawei also continued to strengthen its development of global service capabilities to globalize, centralize, and localize service delivery. Huawei has set up a Global Service Center (GSC) in Romania, a Global

Network Operation Center (GNOC) in India, Romania, and Mexico (under construction), and a Service Operation Center (SOC) in Indonesia. We also have three centers of expertise (COEs) on managed services in Germany, India, and China. In addition, Huawei has established a Global Network Evolution & Experience Center (GNEEC) in Beijing.

In the consulting and system integration field, Huawei kept abreast of technology, network, and service developments and continuously enriched its service portfolios in collaborative indoor and outdoor planning and optimization, TDD/FDD collaborative planning, multi-vendor/multi-frequency/multi-mode indoor coverage co-building and sharing, intra-frequency macro and micro hybrid networks, and GSM/LTE non-standard bandwidth refarming. All of these initiatives helped improve Huawei's competitiveness.

In the managed services field, Huawei invested in developing E-iNOC (a cross-territory, multi-network, and multi-vendor OSS management platform), the Workforce Management (WFM) system (a field O&M management system that allows converged O&M of fixed and mobile networks), a management and troubleshooting system for home networks and the Last Mile, the Managed Services Unified Platform (MSUP) based on Process KPIs, and the Site Intelligent Management System (SIMS). These systems deliver superior next-generation managed services with the optimal Total Value of Ownership (TVO).

In the CEM field, the HUAWEI SmartCare CEM service solution was further optimized in terms of customer experience management and consulting, service modeling, service quality management process development, E2E demarcation of service quality, and network optimization capability that focuses on end users. This move enabled the

overall solution to transform from Per Service Per User (PSPU) Service Quality Management (SQM) to holistic customer experience management.

Peering into 2013, the evolution of new technologies and new network architectures, management of new services and customer experience, and innovation in O&M and business models will bring more profound and dramatic changes to the entire industry. Huawei Global Services will focus on telecom carriers and their vertical customers in specific industries, provide more valuable and competitive service solutions, and continuously create value.

#### Carrier Software & Core Networks

Sales revenue in Huawei's carrier software and core network business totaled CNY18,891 million in 2012.

We focused on strategic transformation towards "service + product" solutions and were committed to such fields as BSS, fixed mobile convergence (FMC), consumers and households, industry-specific solutions, and data center solutions. Huawei collaborates extensively with its carrier customers by addressing different types of challenges they are facing, such as fluxes in user behavior, changes in operating environments, and changes to the competitive landscape. Huawei takes this collaborative approach to help carriers transform their business operations, ICT infrastructure resources, operations support, and business enablement.

In the BSS field, we officially launched the Convergent Billing System Release 5 (CBS R5), which quickly dominated the market and has been used by such global leading carriers as Vodafone, KPN, and Telenor. With its mobile

payment solution, Huawei has now become Vodafone's strategic partner in the mobile money field for its future platforms. Our managed services and next-generation business support system (NGBSS) solutions continued to deepen the IT transformation and have become the benchmark for the industrialization of the global telecom IT industry.

In the consumer and household field, we constructed large-granular solutions on platforms, service, and the ecosystem, continuously promoted revenue growth from value-added services (VAS), and supported the business transformation of carriers. Our solution helped XL, an Indonesian carrier, increase its monthly revenue by 15%. According to statistics from Gartner, Huawei's service delivery platform (SDP) maintained its leading market share globally for the third consecutive year and was honored with the National Science and Technology Progress Award, the top award in China's science and technology arena. In the hybrid video field, Huawei maintained its leading market share and was granted the Best Multiscreen TV Solution award at the IP&TV World Forum 2012.

In the converged communications field, Huawei Mobile Softswitch served 3 billion subscribers globally. Huawei has successfully deployed 143 IMS networks, making it one of the leading players in this field. Huawei's SmartPCC has been deployed by 23 of the world's top 30 carriers, positioning Huawei among the top market share players in the industry. In addition, Huawei won two prestigious awards at the IMS 2.0 World Forum 2012: Best

New VoLTE Product Launch and Best Innovative New Service Launch Enabled by IMS.

In the data center solutions field, we launched telecom private cloud and public cloud solutions and released high-end storage HVS servers that helped telecom carriers build rapidly growing next-generation data centers. The market share of our telecom cloud computing products grew by more than 200%, and we started to work in this area with multiple mainstream carriers worldwide. In recognition of Huawei's excellent performance in this field, we won the Global Excellent Telecom Cloud Solution Provider of the Year award from Frost & Sullivan.

In 2012, we ventured into MBB traffic operations and leveraged our E2E solution advantages to create more than 100 sales opportunities on traffic operations and break into many high-value markets. Our MBB VGS won the Solution Excellence Award from the TM Forum and the Best Use of Traffic Management for Improving Customer Experience award from the Broadband Traffic Management (BBTM) Congress.

#### Network Energy

Relying on its penetrating insights into the ICT industry, Huawei's power supply solutions are more suitable for ICT scenarios. These solutions have been deployed by more than 300 carriers across 140 countries worldwide. By adhering to a 4S (Saving, Simple, Smart, and Scalable) concept, Huawei is dedicated to in-depth research in the fields of site energy and data center energy. By

doing so, Huawei aims to achieve the following targets: maximum conversion efficiency, optimal ICT power supply, and security & reliability, guaranteeing the secure and reliable operation of ICT services.

In the site field, Huawei's full portfolio of efficient power solutions meet customer needs for power supply to main equipment rooms; modernizing energy systems of indoor sites; transformation of indoor to outdoor sites, and provisioning of complex power supplies in multiple outdoor scenarios. Huawei has deployed a total of 1.2 million site power systems worldwide and achieved volume sales with mainstream carriers such as British Telecom (BT), Telefonica, America Movil (AM), MTN, SingTel, and CUCC. In 2012, Huawei won Certificate of Merit in "Best in Class Site Design" Beauty Contest organized by Deutsche Telekom and Green Technology Award at CommunicAsia 2012, as a result of recognition from customers and the industry. Huawei also unveiled the industry's first high-efficiency and high-density large-capacity power system.

In the hybrid power field, Huawei fully understands concerns of carriers in terms of the shortage and instability of power supplies in emerging markets. With this understanding, Huawei launched a series of power supply solutions including diesel, grid, and solar hybrid, which help to optimize and conserve of green energy. By doing so, we ensure optimal TCO and a reduction of the operating expenditure (OPEX) by 30% to 50% and fulfill our corporate social responsibility in energy conservation and emissions reduction by cutting down or even eliminating the use of fuel. Our new energy-conserving products have been deployed by a large number of customers, such as Airtel, MTN, Etisalat, Ethiopia Telecom, Ufone, Mobilink,

and CMpak, which have helped them save billions of dollars on energy consumption.

In the data center energy solutions field, Huawei launched the modular data center and container data center energy solutions, which can be deployed in multiple indoor and outdoor data center scenarios. These solutions feature "smart and unified management, efficient and reliable operation, and quick and easy expansion". Their design features have placed us among the pioneers in the next-generation modular data center industry. In 2012, Huawei won the Data Center Blueprints award from Datacenter Dynamics (known as the Oscars of the data center industry) for the Desktop Cloud Container Data Center project.

In the uninterruptible power system (UPS) field, Huawei built next-generation secure, stable, and energy-saving UPS series, including the UPS8000, the UPS5000, and the UPS2000, to meet customer needs for small, middle, and large capacity power supply scenarios. In 2012, Huawei was among the first companies globally to be given the UPS "Energy Star" certification, laying a solid foundation for further market development.

### **Enterprise Business**

In 2012, Huawei's enterprise business experienced stable growth, with its sales revenue reaching CNY11,530 million, a year-on-year increase of 25.8%. Against the backdrop of a new market environment and the sluggish global economy, revenue from the China Region increased steadily. In addition, we actively developed markets outside China and made breakthroughs in high-value regions. The channel business in regions outside China has taken shape.

The influence of innovative ICT technologies, including cloud computing, Big Data, BYOD mobile office, SDN, and broadband and wireless LTE, continues to expand. By taking advantage of these technologies, enterprises will inevitably revamp their value creation and business models.

In 2012, Huawei focused on ICT infrastructure and high-value customers/industries. We adopted an open and cooperative approach. By adhering to a strategy of cooperation and integration with partners, we worked with partners to provide products, solutions, and services to customers. Our main products and solutions gained competitiveness and made breakthroughs in high-value countries and markets.

In the enterprise networking field, Huawei released multiple industry-leading flagship products: CloudEngine 12800 series data center switches that have the industry's largest switching capacity and highest performance, the world's first enterprise-grade WLAN access point (AP) prototype that complies with the IEEE 802.11ac standard, brand-new S9700 series high-end switches, the next-generation aggregation router NE20E-S, the enterprise cloud gateway AR G3, and a 10GE campus solution. By developing professional WLAN planning, testing, and network optimization tools, Huawei further enhanced the unified network management capability of eSight, its unified O&M management system for enterprise ICT. Huawei's enterprise networking products have been deployed by large customers in multiple industries around the world, including the State Grid Corporation of China, China National Petroleum Corporation, Sochi 2014 Winter Olympics, and BovenIJ Hospital in the Netherlands.

In the unified communications and collaboration (UC&C) field, with a design philosophy of "R&D

driven by experience-oriented design", Huawei provides customers with UC&C products and integrated solutions that feature mobility, converged video, and cloud collaboration. In 2012, Huawei launched such new UC&C products as unified communications (UC) 2.0, contact center (CC) 2.0, and the world's first panoramic telepresence system (a high-definition videoconferencing system). Our IP phones were honored with the Germany iF Industrial Design award, known as the "Oscars" of the product design field. Huawei also joined international industry standards organizations in the UC&C field and has become a member of more than 10 industry organizations, such as the Unified Communication Interoperability Forum (UCIF) and the Open Visual Communications Consortium (OVCC). In addition, we completed cross-product interoperability testing with 85 vendors in the industry. Our core products have been deployed by numerous customers in various industries globally, including Banco do Nordeste do Brasil (BNB), Pemex, and the Industrial and Commercial Bank of China. These core products have also been fully applied in large cross-territory enterprises to help customers communicate and collaborate more efficiently.

In Gartner's Magic Quadrant 2012, our networking, UC, and CC products rose to the Challengers quadrant.

In the IT field, by adhering to the concept of "Make IT Simple, Make Business Agile", Huawei launched innovative IT infrastructure and data center solutions. These launches included FusionCube (a converged infrastructure appliance), the OceanStor HVS series (industry-leading, high-end enterprise-grade storage products), an OceanStor UDS mass storage system that can be expanded to the EB level, and other offerings

to help customers simplify their IT systems and improve business agility. Huawei has built more than 260 data centers for customers around the globe – 35 of them cloud-based. Huawei provided storage solutions to more than 2,000 customers across 80 countries, became a partner of the European Organization for Nuclear Research (CERN) on storage products, helped build the China Mobile International Information Port (the largest data center in the world), and deployed the world's largest desktop cloud system at Huawei. Approximately 70,000 employees use this cloud system for work every day. Huawei has consolidated its leading position in the media information and Internet industries, deepened its cooperation with such media outlets as China Central Television, and provided green and efficient IT infrastructures for Tencent and Baidu. In 2012, Huawei also made all-around breakthroughs in the finance and healthcare industries.

In the enterprise wireless broadband field, Huawei was awarded 12 contracts for network construction projects, including eWBB LTE commercial networks and contracts, and our solutions were widely applied in the transportation, government, and energy industries. The eWBB LTE wireless broadband communications network Huawei deployed for China Southern Power Grid marked the first application of LTE solutions in the electric power industry. The eWBB LTE broadband cluster has also been widely used in the Safe City, transportation, and many other sectors. Huawei's GSM-R solutions cover up to 13,000 km of railways and have been deployed by EKB in Turkey, North-South Railway of Turkmenistan, and many other customers.

In keeping with booming expansion of mobile office technology and based on Huawei's own experience in deploying mobile applications,

the company launched the Huawei Enterprise BYOD Solution. This solution delivers the perfect combination of security, efficiency, and experience for mobile workstyles and helps enterprises improve their work efficiency.

In vertical industries, Huawei recorded multiple achievements. We provided e-government, public security, digital education, and digital healthcare services in 89 countries and regions. Our GSM-R solution improved operations on the Harbin-Dalian High-Speed Railway, the world's first high-speed railway in areas of deep freeze. We successfully constructed a flexible and efficient campus network for Hong Kong Stock Exchange and offered a productive office collaboration solution for Saudi Aramco. Phoenix Television adopted Huawei's full series of products, including modular equipment rooms, core switches, storage devices, and telepresence offerings. Our smart hotel solution helped the Tengchong Resort & Villas in Yunnan Province upgrade into a super five-star modern resort.

Following a strategy of openness and cooperation, Huawei worked with system integrators (SIs), Independent Software Vendors (ISVs), and other partners to bring innovation to products and solutions. With approximately 1,000 partners, we leveraged our respective advantages, kept abreast of customer needs, and provided innovative services and user experience for all industries.

The channel policy and business processes of Huawei's Enterprise BG continued to improve, and channel partner development is on the right track. By the end of 2012, Huawei's Enterprise BG had more than 2,800 channel partners worldwide. Additionally, Huawei actively promoted the "Fly Easy" program in markets outside China and carried out the Channel Partner Enablement 360

Program to enhance the vitality of channel partners and increase the quality and quantity of channel partners.

In 2012, we established a regional service channel partner network and ecosystem supported by six centers around the world. These centers include technical assistance center (TAC), spare parts, training & certification, project management, channel partner service operations, and authorized repair centers – fully covering 38 countries. The network and ecosystem provide better service support and experience to partners and customers and accelerate customer business success.

In the information age, enterprise ICT systems become more than just tools and support systems; they will be absolutely essential and intrinsic to nearly every enterprise activity. E2E real-time systems will be built for enterprises, and the digital enterprise model will become an organization norm. The ICT infrastructure is the core driving force behind enterprise innovation, transformation, and competitiveness improvement. Huawei will proactively embrace the opportunities and challenges in the ICT development era, stay abreast of technological development trends, and remain steadfastly customer-centric. In addition, we will jointly innovate with customers and partners, focus on competitive enterprise ICT products and solutions, and continuously create value for the business success of customers.

By adhering to the transparency, stability, cooperation, and win-win strategies, we will continue to stay focused, open, and cooperative, and provide products for the integration of partners. We will work with our customers and partners to jointly embrace ICT transformations,

build an industry ecosystem that fosters cooperation and win-win results, promote the sound development of the ICT industry, and contribute to the ICT development of enterprises and industries.

### Consumer Business

With the rapid development of network information technologies, consumers demand network access “anytime and anywhere”. Ubiquitous access to network services requires closer connections between smart devices and networks. Leveraging its expertise accumulated in communications technologies over the past two decades, coupled with in-depth insights into customer needs, network technologies, and future trends, Huawei is building a powerful brand image centered on product experience. Huawei is committed to becoming a leading global brand in smart devices, offering products and services that deliver the inspired experience to consumers everywhere.

In 2012, with the rapidly growing popularity of smart devices, Huawei’s consumer business increased steadily, earning global sales revenue of CNY48,376 million – an increase of 8.4% year-on-year. Annual shipments totaled 127 million units, including 32 million smartphones – an increase of 60% year-on-year.

In 2012, Huawei launched the Ascend lineup of smartphones and marketed multiple models for the brand, which marked Huawei’s shift from the traditional business-to-business (B2B) model to the business-to-customer (B2C) model; from its role as an ODM to its own brand; and from a focus on feature phones to smartphones. Our

product scope extended from low-end products to middle-range and high-end products. Thanks to these transformations, Huawei's Consumer BG achieved effective growth.

The Huawei Ascend is made for people of action who are idealists – challengers who have vision, initiative, and belief that dreams can be realized through hard work. Huawei Device strives to bring the latest technology to consumers so that everyone can benefit from new technologies. In product development, Huawei Device adheres to its quality strategy, attaching the utmost importance to improving consumer experience. We strive to break through technical limitations to provide innovations tailored to consumer requirements. By doing so, we enable more people from around the world to reap the benefits of technological progress and realize their dreams. The Ascend product lineup includes the D series with the ultimate technology; the P series with the ultimate fashion; the G series that offers the best blend of performance and cost; and the Y series for ultimate accessibility. Simply put, Huawei tasks itself with providing consumers with the best devices in the world.

In 2012, Huawei significantly improved the competitiveness of its mobile phones. We released the Ascend P1, the slimmest smartphone in the world, and the Ascend D1 Quad, the fastest smartphone in the world. In addition, we launched the Huawei Emotion User Interface (UI) into commercial use. Our device cloud service has also taken shape. Currently, the Ascend P1 is available in more than 40 countries. The Ascend D1 Quad has also won high acclaim and was applauded by Engadget, a well-known science and

technology media outlet, which asserted that the phone “performs exactly the way you’d expect a phone with four CPU cores to, and it’s Huawei’s best phone to date”. Keeping pace with market requirements, Huawei launched LTE-capable devices in developed markets. In the US, Huawei partnered with MetroPCS to launch the M920, an entry-level LTE-capable phone. In Western Europe, Huawei and a UK carrier jointly launched the Ascend P1 LTE. In Japan, the Ascend D1 LTE from Huawei and NTT Docomo was also launched during a grand ceremony held in November 2012.

Throughout the year, Huawei maintained its leading role in the MBB field. In the traditional wireless data access field, Huawei continuously innovated product technology, improved appearance, and delivered enhanced user experience. Huawei also launched the world’s first full series of LTE Cat4 data devices (including data cards, Mobile Wi-Fi, and customer premises equipment [CPE]). The company achieved rapid growth in the consumer electronics (CE) field and became a mainstream supplier to HP, Acer, Sony, and other world-known electronics manufacturers. In the M2M field, Huawei provided customized solutions for the automobile, electric power, and other industries, and tapped into the new Blue Ocean markets.

In the home device field, Huawei strengthened its investments in connected home solutions that concentrate on access center, media center, automation center, open service cloud, and efficient management cloud. Huawei added to its momentum in this field with improved understanding of consumer needs and a series of connected home devices.



Carriers in the US began to extensively use our innovative fixed wireless stations, helping them quickly attract new users and reduce O&M costs. In addition, Huawei's innovative series of home routers also won wide acclaim. The MediaPad 10 FHD, the fastest quad-core 10-inch tablet in the world, was launched at the beginning of the year and instantly became a hit in Russia, China, and the Asia-Pacific region among other markets. The recently unveiled Media Q breaks through performance limitations in individual device products and enables multi-screen interaction among mobile phones, tablets, TVs, and home computers (AirSharing™). This device brings families closer together, allowing every family member to connect and share using their favorite media. In the converged Set Top Box (STB) field, Huawei has entered the UK and other high-end markets, providing more sources of TV programs, enhancing interaction, and bringing unprecedented home entertainment experience.

While continuously delivering product innovations and breakthroughs, Huawei Device centered on consumers and stepped up its branding campaigns. We sponsored the Atletico Madrid Football Club and the Ski Jumping World Cup in Poland. In addition, the Ascend P1 was advertised on Eurosport during the London Olympics. At the end of 2012, Huawei Device launched sizeable Christmas and New Year promotional activities themed "Ascend to New Heights" in 45 countries worldwide. According to the *Global Brand Survey Report* released by IPSOS, the global brand

awareness of Huawei's mobile phones rose to 25% in 2012.

In 2012, Huawei further accelerated its development of device channels. While expanding carrier channels, Huawei Device also fully developed other channels, including social and e-commerce channels. We established partnerships with more than 600 channel partners around the world. Our total sales in the open market grew by 23% year-on-year. In China, Huawei established strategic partnerships with such distributors as Chinatelling and Aisidi as well as retailers, including Gome, Suning and Dixintong. In Russia, Huawei carried out in-depth cooperation with core retailers and our sales revenue in the open market grew by 500% year-on-year in 2012. In Germany, the UK, and Australia, Huawei established partnerships with local mainstream distributors to promote the sales of our products through social channels.

With the rapid development of mobile Internet, smart devices will become the most important portal through which consumers access the Internet. This development will give Huawei's consumer business even more room for growth. Along with ICT convergence, smart mobility will help enhance Huawei's competitive edge. By relying on a proven track record in radio-frequency technology, low power consumption, high-quality photography, high-end audio, rapid sharing, and other core technologies, Huawei will consistently deliver the inspired experience in smart devices for consumers worldwide.

## Results of Operations

CNY Million	2012	2011	YOY (%)
Revenue	<b>220,198</b>	203,929	8.0%
Gross profit	<b>87,577</b>	76,448	14.6%
– Gross margin	<b>39.8%</b>	37.5%	2.3%
Total operating expenses and other income	<b>67,620</b>	57,866	16.9%
– as % of revenue	<b>30.7%</b>	28.4%	2.3%
Operating profit	<b>19,957</b>	18,582	7.4%
– Operating margin	<b>9.1%</b>	9.1%	0.0%
Net finance expense	<b>1,629</b>	5,897	-72.4%
Income tax expense	<b>2,711</b>	810	234.7%
Net profit	<b>15,380</b>	11,647	32.1%

Sales revenue in 2012 amounted to CNY220,198 million, which represents an increase of 8.0% year-on-year. Net profit grew by 32.1% year-on-year to CNY15,380 million.

### Total Operating Expenses and Other Income

CNY Million	2012	2011	YOY (%)
Research and development expenses	<b>30,090</b>	23,696	27.0%
– as % of revenue	<b>13.7%</b>	11.6%	2.1%
Selling and administrative expenses	<b>38,916</b>	33,770	15.2%
– as % of revenue	<b>17.7%</b>	16.6%	1.1%
Other (income)/operating expenses	<b>-1,386</b>	400	-446.5%
– as % of revenue	<b>-0.6%</b>	0.2%	-0.8%
Total operating expenses and other income	<b>67,620</b>	57,866	16.9%
– as % of revenue	<b>30.7%</b>	28.4%	2.3%

In 2012, the company's total expense ratio grew 2.3% year-on-year. This increase was attributable to a 2.1% rise in the R&D expense ratio due to increased R&D investment to drive the company's future growth and a 1.1% rise in the selling and administrative expense ratio due to higher bad debt provisions, of which, the administrative expense ratio declined. The ratio of other operating expenses (as percentage of revenue) declined by 0.8%.

### Net Finance Expense

CNY Million	2012	2011	YOY (%)
Exchange loss	1,085	4,876	-77.7%
Other net finance expense	544	1,021	-46.7%
Total net finance expense	1,629	5,897	-72.4%

Net finance expense in 2012 amounted to CNY1,629 million, a decrease of CNY4,268 million from 2011. This was attributable to a decrease of CNY3,791 million year-on-year in exchange loss and a decrease of CNY477 million year-on-year in other net finance expenses.

### Financial Position

CNY Million	2012	2011	YOY (%)
Non-current assets	40,538	33,671	20.4%
Current assets	169,468	160,178	5.8%
Total assets	210,006	193,849	8.3%
Among which: Cash and short term investments	71,649	62,342	14.9%
Trade receivables	55,101	49,884	10.5%
Inventory	22,237	26,436	-15.9%
Non-current liabilities	28,765	24,171	19.0%
Among which: Long-term borrowings	16,077	13,270	21.2%
Current liabilities	106,217	103,450	2.7%
Among which: Short-term borrowings	4,677	7,057	-33.7%
Trade payables	33,536	29,364	14.2%
Owner's equity	75,024	66,228	13.3%
Total liabilities and equity	210,006	193,849	8.3%

Cash and short-term investment balances as of December 31, 2012 rose by 14.9% year-on-year to CNY71,649 million.

Trade receivable balances increased by 10.5% year-on-year. As sales revenue grew steadily, the company continuously refined the management and structure of trade receivables. Huawei's days sales outstanding (DSO) as of December 31, 2012 was 90 days, two days more than that of 2011.

Inventory balances decreased by 15.9% year-on-year. The inventory turnover (ITO) of 60 days represented a 15-day improvement from 75 days in 2011. This progress was due to lower inventory balances driven by initiatives to improve contract quality, better integrate project delivery plans, and increase operating efficiency.

Trade payables balances increased by 14.2% year-on-year. Huawei's days payable outstanding (DPO) as of December 31, 2012 was 91 days, eight days more than that of 2011.

Total short-term and long-term borrowing as of December 31, 2012 amounted to CNY20,754 million, an increase of 2.1% year-on-year.

### Cash Flow from Operating Activities

CNY Million	2012	2011	YOY (%)
Net profit	15,380	11,647	32.1%
Adjustment for depreciation, amortization, and non-operating loss/(income)	3,164	7,900	-59.9%
Cash flow before change in operating assets and liabilities	18,544	19,547	-5.1%
Change in operating assets and liabilities	6,425	-1,721	-473.3%
Cash flow from operating activities	24,969	17,826	40.1%

Cash flow from operating activities in 2012 increased by 40.1% year-on-year to CNY24,969 million. This increase was attributable to:

- Net profit growth of 32.1% year-on-year due to revenue growth and improved gross margin.
- Impact of depreciation, amortization, and non-operating loss or income: The cash flow from operating activities in 2012 was CNY4,736 million less than that of 2011.
- Improvements to the efficiency of working capital in 2012 contributed CNY6,425 million to the cash flow from operating activities.

### Financial Risk Management

In 2012, Huawei continuously amended and improved its financial risk management policies and processes to further enhance the company's capability to withstand financial risks and better support its business development.

## Liquidity Risk

Huawei has established a well-functioning system for cash flow planning, budgeting, and forecasting to assess its short-term and medium to long-term liquidity needs. The company has implemented a variety of prudent financial measures to fulfill its overall liquidity needs, including centralizing cash management, maintaining a reasonable level of funds, and gaining access to adequate and committed credit facilities. In 2012, cash and short-term investments increased by 14.9% year-on-year to CNY71,649 million, representing 34.1% of the total assets. An adequate capital reserve and a stable cash flow from operating activities enabled Huawei to manage its liquidity and borrowing risks, thus ensuring financial stability for the company.

## Liquidity Trends

CNY Million	2012	2011	YOY (%)
Cash flow from operating activities	24,969	17,826	40.1%
Cash and short term investments	71,649	62,342	14.9%
Total borrowings	20,754	20,327	2.1%

In addition to maintaining liquidity, Huawei also optimized the debt maturity structure to a more reasonable level.

CNY Million	1 year or below	Above 1 year
Total borrowings	4,677	16,077

## Foreign Exchange Risk

The Group's functional currency is CNY and has foreign currency exposures related to buying,

selling, and financing in currencies other than CNY and the functional currencies of its operations. According to the foreign exchange policy guidelines of the Group, material foreign exchange exposures are hedged unless hedging would be uneconomical due to market liquidity and/or hedging cost. The Group uses value at risk models (VaR) to measure its foreign currency exposures, and uses the following techniques to mitigate such risks:

- Natural hedging: The Group continuously structures their operations to match its receivables and payables in a foreign currency, to the extent possible.
- Financial hedging: For certain currencies where natural hedging does not fully offset the foreign currency position, the Group hedges using a combination of short and long-term foreign currency loans.

Assuming all other risk variables remained constant, if the U.S. dollar exchange rate fluctuates by 5%, the impact on the Group's net profit would be CNY1,009 million (2011: CNY536 million).

## Interest Rate Risk

Huawei's interest rate risk arises from its short- and long-term investments and interest-bearing liabilities. Through the analysis of its interest rate exposures, the company uses a combination of fixed-rate and variable-rate bank loans to mitigate interest rate risks. At the end of 2012, the company's interest-bearing liabilities at fixed interest rates accounted for 30.0% of its total interest-bearing liabilities.

## Credit Risk

The company has established and implemented globally consistent credit management policies and practices, processes, IT systems, and credit risk assessment tools. In addition, dedicated credit management organizations have been established across all regions and business units. The company has used risk assessment models to determine customer credit ratings and credit limits. It has also implemented risk control points over key processes along the end-to-end sales cycle to manage credit risks in a closed-loop manner. Huawei's Credit Management Dept regularly assesses global credit risk exposures, estimates potential losses, and determines bad debt provisions as appropriate. In the event that a credit risk for a specific customer or outstanding trade receivable becomes inappropriately high, a special handling process is initiated to mitigate the risk.

## Sales Financing

With global coverage, Huawei's sales financing team maintains close contact with customers to understand their financing needs and taps into diversified financing resources around the world. As a bridge for communication and cooperation between financial institutions and customers, the sales financing team provides customers with professional financing solutions that continuously contribute to customer success. Third-party financial institutions engage with Huawei in export credit, leasing, and factoring activities to obtain benefits and they bear the associated risks. Huawei has established systematic financing policies and project approval processes to strictly control financing risk exposures.

## Research and Development

Huawei has over 70,000 product and solution R&D employees, comprising more than 45% of our total workforce worldwide. We have set up 16 R&D centers in countries that include Germany, Sweden, the US, France, Italy, Russia, India, and China.

To gain a distinct competitive edge in the future, we have set up the 2012 Laboratories, which functions as the innovation, research, and platform technology development arm of the company. We focus on making continuous investments in key technologies, architectures, and standards in the ICT field and are dedicated to providing broader, smarter, and more energy-efficient pipes that require zero wait time, thereby creating a better experience for users. We work closely with partners from the industry, academia, and research institutes. Our goal is to take the lead in research, innovation, and implementation of future networks. Huawei has also set up 28 joint innovation centers with leading carriers to translate leading technologies into a competitive edge and business success for customers.

As of December 31, 2012, Huawei had filed 41,948 patent applications in China, 12,453 under the Patent Cooperation Treaty (PCT), and 14,494 outside China. Among these applications, 30,240 patents have been granted.

As an important contributor to the ICT industry, Huawei applies standards to the industry in key standards organizations and key standards projects, participates in and supports mainstream international standards, and makes a variety of positive contributions. At the ITU, for example,

Huawei took the initiative to facilitate the establishment of an organization to research Carrier SDN. Huawei is a founding member of the oneM2M global partnership project. By the end of 2012, Huawei had joined more than 150 industry standards organizations, including the 3GPP, IETF, IEEE, ITU, BBF, ETSI, ATIS, TMF, WFA, CCSA, and OMA. In 2012, Huawei submitted more than 5,000 proposals to these standards organizations and served as a board member for ETSI, ATIS, OMA, CCSA, WFA, and numerous other organizations. The company holds more than 180 positions in international standards organizations.

Huawei's R&D expenses totaled CNY30,090 million in 2012, accounting for 13.7% of the company's annual revenue. Of the total R&D expenses, CNY1,300 million was invested in research. Huawei has cumulatively spent more than CNY130,000 million on R&D over the last decade.

### Cyber Security

As a responsible ICT provider, we take our responsibilities to maintain the availability of our technologies seriously while protecting them from any form of damage, including cyber security. In this context, we believe that such threats will never cease. As such, we will never let up in our endeavors to design, develop, and support technology and solutions that significantly limit the possibility that our technology could be used for purposes for which it was never intended.

In 2012, we released a cyber security white paper titled *Cyber Security Perspective: 21st Century Technology and Security – A Difficult Marriage*. As we point out in this paper, open networks have encouraged information flow and sharing, lowered the costs of innovation, and helped improve the world's capabilities in producing technological innovations. The development of

networks has enabled people in different parts of the world, and within their own countries, to have a fair opportunity of development, to promote equal communications among different cultures, and drive the advancement of civilization. Technology is fundamentally improving the health, wealth, and prospects of humanity. However, with these enormous benefits brought about by the networked world, we are also facing increasing cyber security challenges.

Cyber security is a shared global challenge which is not limited to a particular geographical region, culture, language, or technology provider. All stakeholders, including government and industry, must collaborate to mitigate these risks and reduce the chances that technology deployment is reduced due to the fear of cyber crime. To this end, Huawei is dedicated to closely collaborating, innovating, and establishing international standards with other global organizations and governments to ensure that the integrity and security of the networked solutions and services we provide meet or exceed the needs of our customers and provide the assurance and confidence required by their own customers.

The Global Cyber Security Committee (GCSC) is the highest level cyber security management body at Huawei. John Suffolk is Huawei's Global Cyber Security Officer. Mr. Suffolk is tasked with formulating strategies for the cyber security assurance system as well as managing and overseeing the implementation of the system. He reports directly to the CEO. In 2012, following the strategies and objectives set out in the *Statement on Establishing a Global Cyber Security Assurance System*, we have continuously incorporated cyber security elements into our core business processes (including R&D, supply chain, service delivery, HR management, supplier management, and so on) to roll out an end-to-end global cyber

security assurance system. We have also conducted effective coordination in an open and transparent manner with external parties through multiple platforms, organizations, and channels.

In 2012, we continued to improve the security management, technical workforce, and organization building for all teams at different levels. We carried out systematic cyber security awareness education for all Huawei staff and contractors according to laws and regulations on cyber security and privacy protection. We strengthened our vulnerability management and disclosure policies and procedures to match best practices and adapt to new business requirements. Our responsible disclosure process was adopted to coordinate with suppliers, computer emergency response team (CERT) organizations, and security researchers in resolving product vulnerabilities. We participated in and passed supply chain security management system certification, such as ISO28000. In addition, we improved supplier security system qualification and worked together with our suppliers to effectively reduce potential risks and security threats and ensure the security of products and services delivered by Huawei.

In Canada, Spain, and other countries, we continued to cooperate with third-party testing organizations to conduct independent security audits and certifications, such as Common Criteria, on Huawei products. In the United Kingdom, we have continued to enhance the capabilities of our UK Cyber Security Evaluation Centre (CSEC) to undertake independent security evaluation of Huawei products. The knowledge and expertise we learn from those tests and evaluations are used to optimize all processes, standards and policies of Huawei to continuously improve quality and security across all products in all countries. In addition, we enthusiastically shared our understanding and experience in cyber

security with the industry during events such as the Budapest Conference on Cyberspace, the Worldwide Cybersecurity Summit in New Delhi, and other international cyber security forums.

We believe our holistic approach to cyber security, our open and transparent approach, and our passion for independent testing and verification is a clear indication to our customers that we will never stop in our endeavors to ensure that the greatest level of risk mitigation is applied to our products and their customers.

### Critical Accounting Estimates

The consolidated financial statements, on which this Management Discussion and Analysis was based, have been prepared in compliance with International Financial Reporting Standards (IFRSs). For details, see note 1(a) to the consolidated financial statements summary.

The application of IFRSs requires the company to make judgments, estimates and assumptions that will directly affect the company's reporting of its financial position and operating results. The accounting estimates and assumptions discussed in this section are those that the management considers to be the most critical to the company's consolidated financial statements.

### Revenue Recognition

The application of accounting principles related to the measurement and recognition of revenue requires the company to make significant judgments and estimates. Even for the same product, the company often has to determine the appropriate accounting treatment after analyzing the contract terms and conditions. When installation, training, and other services are rendered and sold together with a product, the company determines whether



the deliverables should be treated as separate units of accounting and recognizes the revenue accordingly. When there are multiple transactions with the same customer, the company applies significant judgments to determine whether separate contracts are considered as part of one arrangement based on contracts terms and conditions. When an equipment that requires installation is delivered and accepted by a customer at different stages, the company determines whether to recognize revenue by stages based on assessment of whether the completed project is able to be used by the customer, and whether the obtained certificate of acceptance would support payment collections.

Revenue recognition is also impacted by various factors, including the creditworthiness of the customer. The company regularly reviews estimates of these factors to assess its adequacy. If these estimates were to change, revenue will be impacted accordingly.

For a construction contract, revenue is recognized using the percentage of completion (POC) method, measured according to the percentage of contract costs incurred to date to the estimated total costs for the contract. If at any time these estimates indicate the POC contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately as a cost.

#### **Allowance for Doubtful Accounts**

The company's gross accounts receivable balances were CNY58,592 million and CNY53,432 million as of December 31, 2012 and December 31, 2011, respectively. The allowances for doubtful accounts were CNY3,491 million, or 6.0% of the gross accounts receivable balance as of December 31, 2012, and CNY3,548 million, or 6.6% of the gross accounts receivable balance as of December

31, 2011. The allowances are recorded based on the collectability of accounts receivable from customers. The company regularly reviews the allowances for doubtful accounts by considering factors such as historical experiences, customer creditworthiness, the age of accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

The company's provisions for doubtful accounts charged to the income statement were CNY3,416 million and CNY1,481 million for fiscal years ended December 31, 2012 and December 31, 2011, respectively. If key customers' creditworthiness deteriorates, or if the default risk is higher than the historical trend, or if other circumstances arise, the estimates of the recoverability of amounts due to the company could be overstated, and additional allowances could be required, which could have an adverse impact on the company's profit.

#### **Inventories Write-down**

The company's inventory balances were CNY22,237 million and CNY26,436 million as of December 31, 2012 and December 31, 2011, respectively. Inventories are measured at the lower of cost or net realizable value. The difference between the cost of the inventory and the net realizable value is recorded as inventory provision. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The following factors are considered for the recognition of net realizable value: purposes of the inventories held, inventory aging, percentage of inventory utilization, inventory categories and conditions, and subsequent events with material influences on inventory value. The company reviews the inventory provisions periodically to ensure its accuracy and reasonableness.

The company's inventory provisions charged to the income statement were CNY17 million and CNY509 million for fiscal years ended December 31, 2012 and December 31, 2011, respectively.

#### Provision for Warranties

When recognizing revenue, the company estimates the possible future liabilities that it may incur under its product warranty obligations and records a warranty provision. The warranty provision balances were CNY2,407 million and CNY1,962 million as of December 31, 2012 and December 31, 2011, respectively. The company's products are generally covered by a warranty period of 12 months. The company accrues for warranty costs as part of cost of sales based on historical expenditure on material costs, technical support labor costs, and associated overheads.

The warranty provisions accrued for fiscal years ended December 31, 2012 and December 31, 2011 were CNY2,844 million and CNY2,449 million, respectively.

Increases in warranty claims or higher cost of warranty services will lead to actual warranty expenses exceeding the accrued warranty provisions, and will in turn adversely affect the company's gross margin.

#### Income Tax

The company is subject to income taxes in China and numerous foreign jurisdictions. Significant judgment is required in determining the consolidated provision for income taxes.

During the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. The company recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will eventually be due. The company adequately accrues for tax liabilities for all open audit years based on its assessment of many factors, including past experiences and interpretations of tax law. Deferred tax assets are recognized to the extent that future taxable profits will be available against which the assets can be utilized.

Assessment of tax exposures and recognition relies on estimates and assumptions and may involve a series of complex judgments about future events. Where the final tax outcome of these future events is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions for the period in which such decision is made.

## Market Trends

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### Beyond ICT: Embracing the next digital revolution

The history of human social development is, to some extent, the history of human scientific and technological progress. Humanity achieves scientific and technological progress by pushing its physical and mental limits and breaking away from the restrictions of time and space. This has been true in times both ancient and modern. Our ancestors built beacon towers and invented the wheel, while we have ubiquitous Internet connection and vehicles capable of reaching outer space. In the course of our scientific and technological development, two epoch-making inventions have been the steam engine and the computer. The steam engine ushered in the industrial age by providing far more power than what manual labor and beasts of burden could generate. The computer brought us into the information age through data processing capabilities that far outperform the human brain.

The past century has witnessed several waves of progress made possible by information technologies, including those used for communications (telegraphy, telephony, and broadcasting), home entertainment (radio, TV), computing, and the Internet. Information technologies drive economic growth worldwide and reshape the way people live and work. At present, we are evolving from a “society on wheels” to a “society on the network.” However, information systems are still regarded as aid tools and support systems, keeping the digital and physical worlds somewhat parallel and compartmentalized. Now, as the digital and physical worlds begin to merge, the development of the Internet of Things has proven to be an effective catalyst of information-based developments and is sure to bring groundbreaking changes to all of humanity.

### Beyond information and communications, the increasing integration of the digital and physical worlds will lead to a new digital revolution

British philosopher Karl R. Popper divides human society into three parts: the physical world, the

mental/psychological world, and the world of products of the human mind (also known as the world of objective knowledge). In the future, the physical world will be married with the digital world to form a new world. This integration will bring tremendous changes to the way we live and work, the way businesses operate, and the way society functions — a new age of digital citizens, digital enterprises, and digital society.

### Heavy reliance on networks will usher in an age of digital citizenry.

Nowadays, the ways in which people communicate, acquire information, study, have fun, shop, make friends, and pair-bond are quite different from what we saw just two decades ago. People not only have more means to stay connected and obtain information, but have exceeded the constraints of their physical location or time zone. With the developments in this short time span, rather than waiting days or even months for letters to arrive, people now contact others in real time via email, instant messaging, and social networking. Likewise, people can read the news online anytime, anywhere, rather than clinging to their TVs or radios. Wikipedia and other interactive platforms allow people to easily find answers to their questions, without having to wade through voluminous encyclopedias or wait for office hour-working librarians. Internet users exceeded 2.4 billion in 2012, over 34% of the world’s population, with this figure growing roughly 8% each year. There are also as many as 1.1 billion smartphone subscribers right now, an increase of 42% over 2011. However, this is just the beginning. As digital lifestyles are adopted, digital citizenry will shape the behaviors of next-gen consumers, changing the way people live, and shaking up numerous industries. For example, traditional video sales and rental stores are disappearing, and the 244-year old Encyclopedia Britannica is no longer printed. It is very likely that in the next few decades, children will ask why the word *newspaper* contains the word paper in much the same way as our children today ask why the media is still referred to as *the press*.

**The age of digital business is drawing near, as seen by our commercial dependence on networks for production and operations.**

Network developments have significant influence on business activities. Which business today can even continue to operate if its network fails? E-commerce is booming and extending its reach into every consumer buying decision, whether involving digital content (e-books and digital music), cars, or home appliances, or even small items like snacks and slippers. In 2012 alone, electronic retail sales worldwide totaled US\$1.1 trillion. Information technologies will be further applied to enterprise production and operations. Rather than being tools or support components, ICT will become integral to production, decision-making, customer relationship management, service provisioning, marketing, and logistics. ICT will be employed in the building of end-to-end systems that work in real time, playing a role in each and every link, from idea generation to product conceptualization to precision marketing to efficient operations to on-time delivery. In other words, digitization will become a key characteristic of the future enterprise.

**A borderless Internet gives rise to a digital society.**

Thanks to the boundary-free nature of the Internet, a large number of borderless virtual communities and societies have come into being. A plethora of these communities will combine to form a digital society that transcends borders, cultures, and races. Facebook is home to over one billion users (or netizens), making it the third largest “citizenry” in the world. This type of digital society, which mirrors while extending beyond the physical world, will undoubtedly impact many aspects of social administration and transformation, including politics, economy, law, culture, news & media, security, and ethics, among others.

As a communications tool and support system, information technologies have significantly

changed the way in which people live and work over the past few decades. They also spawn new economies and industries while reshuffling traditional ones. No doubt, the increasing integration of the physical and digital worlds will have a more tremendous impact on society. Such integration will direct ICT development in a way that can better serve society.

**Smart infrastructure presents opportunities for further ICT development**

Technologically-speaking, ICT innovations mainly fall into five groups: mobility, broadband interconnectivity, social networking, cloud computing, and big data processing. The objective of these innovations is to transform the physical world into a smart world underpinned by smart ICT infrastructure, making the latter key to advancing information-based development.

**From big data to “big” wisdom, the IT systems of carriers and enterprises are evolving from post-processing support systems to real-time business systems. This transition marks a fundamental change in how IT functions.**

We are living in what may be the “big bang” of information. In 2012, up to 2.4 zettabytes of data (that’s 2.4 billion terabytes) was generated globally; it would take as many as three trillion DVDs to store all this data. By 2020, the amount of data generated is expected to grow sixteen-fold. This data will have two major sources. The first is from the huge amount of transactions between enterprises and between enterprises and consumers. The second is from countless interactions on the Internet, social networks, enterprise service networks, and the Internet of Things. Social networking will be particularly pervasive; it will be emblematic of all applications, not just for social networking utilities like Facebook. Typically, big data has four characteristics: variety, volume, velocity, and value. Velocity and value are most important.

By combining the analytical capabilities of the human brain to determine behavioral patterns and the data processing capabilities of computers, we can quickly analyze big data and leverage digital assets to develop valuable diagrams that show relationships, intentions, consumption patterns, interests, and mobility. From big data to “big” wisdom, IT systems will be capable of understanding not only the present preferences of customers but also their future tendencies. This will make social administration, corporate decision-making, and individual lifestyles smarter and more logical. Therefore, IT systems for both enterprises and carriers shall no longer function as post-processing support systems. Rather, they will become real-time business systems that facilitate business operations, a transition that marks a fundamental change in IT.

**As traditional IT enterprise architecture is no longer capable of processing the huge volumes of data being encountered, an Internet-oriented cloud computing architecture is needed. The rebuilding of data centers will prove the basis of supporting big data.**

Over the past two decades, most enterprises have applied client-server architecture for their IT. Although these systems were constantly upgraded, their technical architecture was not, making each upgrade repetitive and not transformative. With client-server, the server primarily stores small volumes of enterprise transaction data, leaving most data scattered across employee PCs (clients). As Internet technologies have continued to develop, data has begun its migration from the PC to the cloud, causing a sharp spike in data volume for the latter. The need to store such vast volumes is exactly what is driving innovations in computing and storage architectures, and giving rise to the emergence of cloud computing architectures that feature virtualization, parallel computing, distributed storage, and automation, making for a dramatic change over the traditional architectures. In fact, this new push is considered the third major wave of IT transformation

after those related to the mainframe and client/server architecture. Presently, traditional enterprise IT architectures are no longer capable of processing the voluminous amounts of data that they take in. To answer this need, an Internet-oriented cloud computing architecture is required. This architecture will form the basis of both big data and “big” wisdom.

**Low-bandwidth networks are hindering information-based development and user experience improvement. A ubiquitous Gigabit network is a prerequisite for any digital society. To lay the foundation for a Terabit-network society, next-gen research is needed.**

As public and private clouds develop, the amount of data they carry is sure to mushroom, as the analysis of data is more effective when its storage is centralized. To drive this migration, ubiquitous networking with greater bandwidth is required to support data upload and data usage. Ubiquitous broadband makes cloud computing accessible. Devices across the entire industry chain, including content creation devices (video cameras), cloud computing devices that process information, and terminals where information is generated and consumed (PCs, tablets, etc.) all now support high-definition video, even smartphones that cost only US\$150. However, the global network, which has an average bandwidth of only 3.1Mbps, is still unable to support high-definition video, leading to the aforementioned hindrances to user experience. Therefore, we must accelerate the construction of Gigabit networks to enable seamless ultra-broadband access, the basis for building a digital society. We must also intensify our research into and innovation efforts for technologies such as next-generation mobile access, next-generation digital subscriber line (DSL) access, passive optical network (PON) access, next-generation Internet, and all-optical networking (AON). This focus on future networks will lay a solid foundation for building a Terabit-network society.

To support evolution from a “hard” pipe to a “soft” pipe, we should develop programmable, scalable, application-agile, automatic, and open intelligent networks. Software-defined networking (SDN) will lead to the development of next-gen network architectures.

Technologies are enablers of network development. In the past two decades, driven by advancements of technologies from time-division multiplexing (TDM) towards all-IP, networks have undergone three different revolutions: analog to digital, fixed to mobile, and narrowband to broadband. At present, All-IP networks are undeniably the mainstay for telco and enterprise networks. However, as networks grow, with information flowing in and out in uncertain directions and technologies being upgraded rapidly, it is important that networks be flexible, intelligent, scalable, and automated. Equally important is a change in how we think about network architectural design. The core concepts for cloud computing development, such as virtualization, software decoupling from hardware, centralized resource pool scheduling, automatic deployment, high scalability, and on-demand service provisioning, provide valuable references for network development. Introduction of these concepts into the design of network architectures and products can form the concepts of SDN, including forwarding and control element separation (FORces) to centralize network control and resource scheduling, software decoupling from hardware to virtualize network functions, network function development of cloud-based architecture to realize automatic deployment and high scalability, and application-aware network development to improve network capabilities, among others. By adopting these concepts, we can lead the developments of next-generation product architectures and network architectures, establish an intelligent application-aware network that can intelligently schedule traffic, improve user experience and network utilization, support traffic-based operations, and generate new revenue streams.

Intelligent terminals will not just be tools for communications; they will become extensions of our own senses. Terminals of the future will be context-aware and have intelligent sensory capabilities.

What makes a terminal intelligent is far more than just its CPUs and operating system – It also relates to its sensory capabilities. By using various sensors (compasses, accelerators, gyroscopes, barometers, global positioning systems, light sensors, microphones, cameras, touch screens, temperature sensors, and infrared instruments), we can extend the human sensory and nervous systems in the form of intelligent terminals, bringing us one-step away from true brain-machine interaction. These intelligent terminals will be context-aware, and able to both sense and predict behavior through features such as auto-completion. By combining cloud-based big data analysis capabilities with context-aware terminals, we can provide personalized and intelligent services that realize true human-machine interaction, enabling a dramatic improvement in the user experience.

To respond to the ICT transformation being driven by the integration of the physical world and digital worlds, Huawei has developed a pipe strategy that covers cloud-based data center infrastructure (used for information storage and processing), infrastructure networks (used for information transmission and delivery), and intelligent terminals (used for information creation and consumption). Huawei has also set up its 2012 Laboratories, dedicated to researching next-generation technologies, while developing a SoftCOM (*Software Defined Network + teleCOM*) network architecture development strategy. Huawei will openly partner with industry peers to raise our information society to a new level.

## Independent Auditor's Report

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### Independent auditor's report on the consolidated financial statements summary to the Board of Directors of Huawei Investment & Holding Co., Ltd.

We are the auditor of Huawei Investment & Holding Co., Ltd. and its subsidiaries (the "Group"). We have audited the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards (the "audited consolidated financial statements") for the financial year ended December 31, 2012. We have issued an unqualified audit report dated March 15, 2013 on the audited consolidated financial statements of the Group for the financial year ended December 31, 2012.

Huawei Investment & Holding Co., Ltd. is not a public company and is not required to publish its audited consolidated financial statements under the Company Law of the People's Republic of China.

The Group publishes a consolidated financial statements summary set out on pages 37 to 79 comprising the consolidated balance sheet as at December 31, 2012, the consolidated income statement, the consolidated statement of cash flow for the year then ended, and an accounting policy summary and other explanatory notes, which is derived from the audited consolidated financial statements of the Group. The audited consolidated financial statements and the consolidated financial statements summary do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

The consolidated financial statements summary does not contain all the disclosures required by International Financial Reporting Standards in the preparation of the audited consolidated financial statements of the Group, and that reading the consolidated financial statements summary is not a substitute for reading the audited consolidated financial statements of the Group.

#### Management's responsibility for the consolidated financial statements summary

Management is responsible for the preparation of a consolidated financial statements summary on the basis described in Note 1(a).

#### Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements summary based on our procedures, which were conducted in accordance with International Standard on Auditing 810, "Engagements to Report on Summary Financial Statements". Our work included examining, on a test basis, evidence supporting the consistency of the amounts and disclosures in the consolidated financial statements summary to the audited consolidated financial statements of the Group. We have not performed an audit on the consolidated financial statements summary, accordingly, we do not express an audit opinion.

#### Opinion

In our opinion, the consolidated financial statements summary derived from the audited consolidated financial statements of the Group for the year ended December 31, 2012 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note 1(a).

KPMG Huazhen (Special General Partnership)  
Certified Public Accountants  
9th Floor, China Resources Building  
5001 Shennan East Road  
Shenzhen 518001, China  
March 27, 2013

## Consolidated Financial Statements Summary and Notes

### Consolidated Income Statement

		2012	2011
	Note	CNY'million	CNY'million
Revenue	2	220,198	203,929
Cost of sales		132,621	127,481
<b>Gross profit</b>		<b>87,577</b>	76,448
Research and development expenses		30,090	23,696
Selling and administrative expenses		38,916	33,770
Other (income)/operating expenses, net	3	(1,386)	400
<b>Operating profit before financing costs</b>		<b>19,957</b>	18,582
Net finance expenses	5	1,629	5,897
Share of losses of associates/jointly controlled entities		237	228
<b>Profit before income tax</b>		<b>18,091</b>	12,457
Income tax	6	2,711	810
<b>Profit for the year</b>		<b>15,380</b>	11,647
<b>Attributable to:</b>			
Equity holders of the Company		15,365	11,736
Non-controlling interests		15	(89)
<b>Profit for the year</b>		<b>15,380</b>	11,647



**Consolidated Balance Sheet**

		2012	2011
	Note	CNY'million	CNY'million
<b>Assets</b>			
Property, plant and equipment	8	20,366	18,631
Intangible assets and goodwill	9	5,078	1,381
Trade receivables	14	497	29
Other receivables	15	407	17
Investments in associates and jointly controlled entities	10	493	683
Other investments	11	549	454
Deferred tax assets	12	9,805	9,095
Other non-current assets		3,343	3,381
<b>Non-current assets</b>		<b>40,538</b>	33,671
Other Investments	11	4,469	5,150
Inventories	13	22,237	26,436
Trade receivables	14	54,604	49,855
Bills receivable		5,225	5,475
Other receivables	15	15,407	16,070
Cash and cash equivalents	16	67,180	57,192
Assets held for sale	17	346	–
<b>Current assets</b>		<b>169,468</b>	160,178
<b>Total assets</b>		<b>210,006</b>	193,849
<b>Equity</b>			
Equity attributable to equity holders of the Company		75,048	66,274
Non-controlling interests		(24)	(46)
<b>Total equity</b>		<b>75,024</b>	66,228
<b>Liabilities</b>			
Borrowings	18	16,077	13,270
Defined benefit post-employment obligations		9,686	8,392
Deferred government grants		2,218	1,857
Deferred tax liabilities	12	784	652
<b>Non-current liabilities</b>		<b>28,765</b>	24,171
Borrowings	18	4,677	7,057
Income tax payable		1,653	2,323
Trade payables	19	33,536	29,364
Bills payable		6,737	8,685
Other payables	20	57,207	54,059
Provision for warranties	22(a)	2,407	1,962
<b>Current liabilities</b>		<b>106,217</b>	103,450
<b>Total liabilities</b>		<b>134,982</b>	127,621
<b>Total equity and liabilities</b>		<b>210,006</b>	193,849

**Consolidated Statement of Cash Flow**

		<b>2012</b>	2011
	Note	CNY'million	CNY'million
<b>Cash flows from operating activities</b>			
Cash receipts from customers		<b>258,332</b>	253,847
Cash paid to suppliers and employees		<b>(230,991)</b>	(233,092)
Other operating cash flows		<b>(2,372)</b>	(2,929)
<b>Net cash from operating activities</b>		<b>24,969</b>	17,826
<b>Net cash (used in)/generated from investing activities</b>		<b>(5,426)</b>	3,421
<b>Net cash used in financing activities</b>		<b>(9,180)</b>	(4,774)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at January 1	16	<b>57,192</b>	41,501
Effect of foreign exchange rate changes		<b>(375)</b>	(782)
<b>Cash and cash equivalents at December 31</b>	16	<b>67,180</b>	57,192

## Notes to the Consolidated Financial Statements Summary

### 1. Basis of preparation of consolidated financial statements summary and significant accounting policies of the Group

#### (a) Basis of preparation

Huawei Investment & Holding Co., Ltd. (the "Company") and its subsidiaries (the "Group") have prepared a full set of consolidated financial statements ("consolidated financial statements") for the year ended December 31, 2012 in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements summary have been prepared and presented based on the audited consolidated financial statements for the year ended December 31, 2012 in order to disclose material financial and operational information. The intended users of the consolidated financial statements summary can obtain access to the audited consolidated financial statements for the year ended December 31, 2012 upon consent of the Group's Management through the email address, [information@huawei.com](mailto:information@huawei.com).

#### (b) Functional and presentation currency

All financial information in the consolidated financial statements summary is presented in Chinese Yuan ("CNY"), which is the Company's functional currency. All financial information presented in CNY has been rounded to the nearest million.

#### (c) Translation of foreign currencies

##### i) Foreign currency transactions

Transactions in foreign currency during the year are translated to the respective functional currencies of group entities at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rates at that date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

##### ii) Foreign operations

The results of foreign operations, except for foreign operations in hyperinflationary economies, are translated into CNY at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into CNY at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest.

The results of foreign operations in hyperinflationary economies are translated to CNY at the exchange rate ruling at the balance sheet date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current year are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the balance sheet date.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

#### (d) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its

activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, such as finder's fee, legal fees, due diligence fees, and other professional and consulting fees, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

**(e) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 1(f)).

**(f) Associates and jointly controlled entities**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to Nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method

together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

#### **(g) Investment properties**

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated balance sheet at cost less depreciation and impairment losses (see note 1(k)). Rental income from investment properties is accounted for as described in note 1(u)(iv).

Depreciation is calculated to write off the cost of buildings, less their estimated residual value (5%), using the straight line method over their estimated useful life of 20 years.

#### (h) Other property, plant and equipment

##### i) Recognition and measurement

Items of property, plant and equipment are measured in the consolidated balance sheet at cost less accumulated depreciation (see below) and accumulated impairment losses (see note 1(k)). Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress is transferred to other property, plant and equipment when it is ready for its intended use. No depreciation is provided against construction in progress.

##### ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives	Estimated rate of residual value
Freehold land is not depreciated		
Buildings	20 years	5%
Machinery, electronic equipment and other equipment	3 – 10 years	5%
Motor vehicles	5 years	5%
Decoration and leasehold improvements	2 – 5 years	Nil

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an item of property, plant and equipment and its residual value, if any, are reviewed annually.

**(i) Intangible assets****i) Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see note 1(d).

Goodwill is subsequently measured at cost less accumulated impairment losses (see note 1(k)). In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

**ii) Research and development**

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as assets are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in profit or loss in the period in which they are incurred.

**iii) Other intangible assets**

Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and accumulated impairment losses (see note 1(k)).

**iv) Amortisation**

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	3 years
Patents	3 – 22 years
Trademark	10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above. The Group has no intangible assets with indefinite useful life.

**(j) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a



determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

- i) Classification of assets leased to the Group  
Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(k) Impairment of assets**

- i) Impairment of investments in debt and equity securities and others receivables  
Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or

are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and jointly controlled entities recognised using the equity method (see note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss. Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment

is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and

subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- long-term leasehold prepayments;
- other long term deferred assets; and
- intangible assets and goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

▪ Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows

independently (i.e. a cash-generating unit). Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

▪ Recognition of impairment loss

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

▪ Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed. For other assets, a reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(l) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the standard cost method with periodical adjustments of cost variance to arrive at the actual cost, which approximates actual cost on a first-in first-out basis. The cost of inventories includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(m) Construction contracts**

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(u)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the consolidated balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated balance sheet as the "gross amount due from third-party customers for contract work" (as an asset) or the "gross amount due to third-party customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the consolidated balance sheet under "other receivables". Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as "other payables".

**(n) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

**(o) Interest-bearing borrowings and corporate bond**

Interest-bearing borrowings and corporate bond are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings and corporate bond are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings or bond, together with any interest and fees payable, using the effective interest method.

**(p) Trade and other payables**

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(q) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand and call deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

**(r) Employee benefits**

- i) Short term employee benefits and contributions to defined contribution retirement plans  
Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- ii) Defined benefit plan obligations  
The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by management using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, any actuarial gain or loss is recognised in profit or loss immediately.

#### (s) Provisions and contingent liabilities

##### i) Provision for warranties

The Group provides warranty on its products for a period typically covers 12 to 24 months. The warranty generally includes parts, labour and service centre support. The Group estimates the costs that may be incurred under its warranty obligations and records a liability in the amount of such costs at the time revenue is recognised. Factors that affect the Group's warranty liability include the number of installed units, historical and anticipated rates of warranty claims. The Group periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

##### ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present

value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to a business combination or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts

of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(u) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

## i) Sales of goods and services rendered

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer. Revenue from provision of services is recognised at the time when the services are provided. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

## ii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

## iii) Government grants

Government grants are recognised in the consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently are effectively recognised in profit or loss on a systematic basis over the useful life of the asset.

## iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

**(v) Finance income and expenses**

Finance income comprises dividend and interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial assets held for trading. Interest income is recognised as it accrues using the



effective interest method. Dividend income from listed and unlisted investments is recognised when the equity holder's right to receive payment is established; dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Foreign currency gains and losses are reported on a net basis.

#### **(w) Factoring without recourse**

Factoring without recourse constitutes transfer of trade receivables. The Group transfers its trade receivables to banks

or financial institutions; the bank or the financial institutions fully bears the collection risk without the right to receive payments from the Group in the event a loss occurs due to the non-collectibility of the receivables transferred. The Group's customers make payments of the receivables transferred directly to the bank or the financial institutions.

In a factoring without recourse, trade receivables transferred are derecognised from the consolidated balance sheet. Excess of carrying amount of trade receivables over cash received from the banks or financial institutions arising from factoring without recourse is included in the "other operating expenses" of the consolidated income statement.

#### **(x) Non-current assets held for sale**

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held-for-sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Thereafter, on initial classification as held for sale until

disposal, the non-current assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories (see note 1(l)), financial assets (other than investments in subsidiaries, associates and joint ventures), deferred tax assets, assets arising from employee benefits or investment properties, which continue to be measured in accordance with the Group's other accounting policies.

Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

#### (y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's geographical locations and various product lines.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2. Revenue

	2012	2011
	CNY'million	CNY'million
Sales of goods and services	220,084	203,732
Rental income	114	197
	<b>220,198</b>	203,929

### 3. Other (income)/operating expenses, net

	2012	2011
	CNY'million	CNY'million
Expense on factoring without recourse	762	1,657
Government grants	(750)	(1,170)
Net (gain)/loss on disposal of property, plant and equipment, and intangible assets	(719)	30
Others	(679)	(117)
	<b>(1,386)</b>	400

#### Government grants

During the year, the Group received unconditional government grants of CNY587,375,000 in respect of its contributions to the development of research and innovation in the People's Republic of China (the "PRC") (2011: CNY1,097,720,000). These grants were directly recognised as other income.

For the year ended December 31, 2012, the Group received grants of CNY523,296,000 (2011: CNY575,649,000) which were conditional upon completion of certain research and development projects. These grants were initially recognised in the consolidated balance sheet as deferred government grants and amortised through the consolidated income statement on a systematic basis in the same periods in which the related research and development expenses were incurred. During 2012, CNY162,355,000 of conditional government grants were recognised in profit or loss (2011: CNY72,396,000).

### 4. Personnel expenses

	2012	2011
	CNY'million	CNY'million
Expenses recognised in respect of defined benefit plan	2,240	2,426
Contributions to defined contribution plans	5,865	4,322
Total post-employment plan cost	8,105	6,748
Salaries, wages and other benefits	39,979	32,619
	<b>48,084</b>	39,367

## 5. Net finance expenses

	2012	2011
	CNY'million	CNY'million
Interest income	(844)	(376)
Net gain on disposal of wealth management products	(785)	(391)
Interest expense	1,758	1,398
Net foreign exchange loss	1,085	4,876
Others	415	390
	<b>1,629</b>	<b>5,897</b>

## 6. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	2012	2011
	CNY'million	CNY'million
<b>Current tax</b>		
PRC enterprise income tax		
– current year	1,115	1,984
– under/(over)-provision in respect of prior years	37	(522)
Overseas enterprise income tax		
– current year	2,147	1,490
– under/(over)-provision in respect of prior years	71	(113)
	<b>3,370</b>	<b>2,839</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(659)	(2,029)
	<b>2,711</b>	<b>810</b>

## 7. Segment reporting

The Group divides its business into three operating segments in accordance with the types of products and services provided:

- **Carrier Network**  
Develops and manufactures a wide range of wireless networks, fixed networks, carrier software and core networks, as well as services solutions to telecommunications operators.
- **Enterprise Business**  
Develops integratable information and communications technology (“ICT”) products and solutions including enterprise network infrastructure, cloud-based green data centers, enterprise information security and unified communication & collaboration, and delivers these solutions to vertical industries such as governments, public utilities, enterprises, energy, power, transportation and finance.
- **Consumer Business**  
Develops and manufactures mobile broadband devices, home devices, smartphones, as well as the applications on these devices, and delivers them to consumers and businesses.

The reportable segments are determined based on the Group’s organization structure, management requirement and reporting system.

Each reportable segment is managed separately because each requires different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group’s management to make decisions about resources to be allocated to the segment and assess its performance.

### Revenue information in respect of business segments

	2012	2011
	CNY'million	CNY'million
Carrier Network	160,093	149,975
Enterprise Business	11,530	9,164
Consumer Business	48,376	44,620
Others	199	170
<b>Total</b>	<b>220,198</b>	<b>203,929</b>

### Revenue information in respect of geographical segments

	2012	2011
	CNY'million	CNY'million
China	73,579	65,565
Europe, Middle East, and Africa (EMEA)	77,414	72,956
Asia Pacific	37,359	34,862
America	31,846	30,546
<b>Total</b>	<b>220,198</b>	<b>203,929</b>

## 8. Property, plant and equipment

	Freehold land and buildings	Machinery, electronic equipment and other equipment	Motor vehicles	Construction in progress	Investment properties	Decoration and leasehold improvements	Total
	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million
<b>Cost:</b>							
At January 1, 2011	7,426	12,716	474	2,624	567	4,056	27,863
Exchange adjustment	(26)	(257)	(18)	(18)	–	(42)	(361)
Additions	7	2,699	72	2,744	–	259	5,781
Transfer from construction in progress	–	21	–	(46)	–	25	–
Disposals	–	(767)	(44)	–	–	(26)	(837)
At December 31, 2011	7,407	14,412	484	5,304	567	4,272	32,446
At January 1, 2012	7,407	14,412	484	5,304	567	4,272	32,446
Exchange adjustment	(3)	(14)	(3)	(17)	–	(8)	(45)
Additions	3	2,693	92	2,730	–	810	6,328
Transfer from construction in progress	1,969	1,131	–	(4,253)	–	1,153	–
Disposals	(634)	(588)	(33)	–	(133)	(515)	(1,903)
At December 31, 2012	8,742	17,634	540	3,764	434	5,712	36,826
<b>Depreciation:</b>							
At January 1, 2011	1,488	7,495	281	–	260	2,331	11,855
Exchange adjustment	(1)	(133)	(11)	–	–	(28)	(173)
Depreciation charge for the year	358	1,717	72	–	29	522	2,698
Disposals	–	(511)	(39)	–	–	(15)	(565)
At December 31, 2011	1,845	8,568	303	–	289	2,810	13,815
At January 1, 2012	1,845	8,568	303	–	289	2,810	13,815
Exchange adjustment	(1)	(25)	(1)	–	–	(5)	(32)
Depreciation charge for the year	442	2,131	79	–	23	1,131	3,806
Disposals	(120)	(517)	(28)	–	(27)	(437)	(1,129)
At December 31, 2012	2,166	10,157	353	–	285	3,499	16,460
<b>Carrying amounts:</b>							
At December 31, 2011	5,562	5,844	181	5,304	278	1,462	18,631
At December 31, 2012	6,576	7,477	187	3,764	149	2,213	20,366

### Investment properties

The Group is engaged in the manufacturing, sales and marketing of telecommunications equipment and the provision of related services. The Group leased certain buildings to an ex-subsiidiary, an ex-associate and other third parties. Such buildings are classified as investment properties.

The carrying value of investment properties as of December 31, 2012 is CNY149,274,000 (2011: CNY278,153,000). The fair value of investment properties as of December 31, 2012 is estimated

by the directors to be CNY273,496,000 (2011: CNY478,684,000). The fair value is calculated by management based on the discounted cash flow analysis.

The fair value of investment property is determined by the Group internally by reference to market conditions and discounted cash flow forecasts. The Group's current lease agreements, which were entered into on an arm's-length basis, were taken into account.

## 9. Intangible assets and goodwill

	Goodwill	Software	Patents	Trademark	Total
	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million
<b>Cost:</b>					
At January 1, 2011	–	980	753	25	1,758
Additions	221	443	223	52	939
Disposals	–	(14)	–	–	(14)
Exchange adjustment	(3)	–	–	–	(3)
At December 31, 2011 (restated)	218	1,409	976	77	2,680
At January 1, 2012 (restated)	218	1,409	976	77	2,680
Additions	3,419	309	707	5	4,440
Disposals	–	(31)	(8)	–	(39)
Exchange adjustment	(28)	–	–	–	(28)
At December 31, 2012	3,609	1,687	1,675	82	7,053
<b>Amortisation and impairment loss:</b>					
At January 1, 2011	–	586	431	22	1,039
Amortisation for the year	–	232	37	2	271
Disposals	–	(11)	–	–	(11)
At December 31, 2011	–	807	468	24	1,299
At January 1, 2012	–	807	468	24	1,299
Amortisation for the year	–	238	167	7	412
Disposals	–	(17)	(1)	–	(18)
Impairment loss	216	52	–	9	277
Exchange adjustment	4	1	–	–	5
At December 31, 2012	220	1,081	634	40	1,975
<b>Carrying amounts:</b>					
At December 31, 2011 (restated)	218	602	508	53	1,381
At December 31, 2012	3,389	606	1,041	42	5,078



### Amortisation and impairment loss

The amortisation of software, patents and trademark is included in the “research and development expenses” and “administrative expenses”. The impairment loss is included in “other operating expenses” in the consolidated income statement.

### Impairment testing for cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group’s cash-generating unit (“CGU”), which is either an operating segment or at a level not larger than an operating segment, as follows:

Cash-generating unit	2012			2011		
	Amount of goodwill allocated	Discount rate	Terminal value growth rate	Amount of goodwill allocated	Discount rate	Terminal value growth rate
	CNY'million	%	%	CNY'million	%	%
Enterprise business group	3,229	14.5	10.0	–	–	–
International Turnkey Systems Technologies W.L.L. (“ITS Bahrain”)	220	36.4	4.0	218	38.0	4.0
Beijing Huawei Longshine Information Technology Company Limited (“Beijing Huawei Longshine”)	154	19.1	3.0	–	–	–
	3,603			218		
Others	6	–	–	–	–	–
	3,609			218		

Goodwill is allocated to the Group’s CGUs expected to benefit from the synergies of the acquisitions. For annual impairment assessment purposes, the recoverable amount of the CGUs is based on their value-in-use calculations. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial budgets approved by management. The key assumptions for the computation of value-in-use include the discount rates and growth rates applied. The discount rates used are pre-tax rates

and reflect specific risks relating to the respective CGU. Cash flow projections are based on five-year, eight-year and six-year financial budgets approved by management for Enterprise business group, ITS Bahrain and Beijing Huawei Longshine, respectively based on their industry expertise. Cash flows beyond the previous-mentioned approved financial budget’s periods are extrapolated using an estimated growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

During the year, an impairment loss of CNY219,792,000 (2011: Nil) related to ITS Bahrain was recognised and its carrying amount was reduced to Nil (2011: CNY217,759,000). The impairment loss is recognised in the consolidated income statement as "other operating expenses".

## 10. Investments in associates and jointly controlled entities

The Group has the following significant investment in associates:

Name of associate	Form of business structure	Country/region	Ownership percentage		Principal activity
			2012	2011	
TD Tech Holding Limited ("TD Tech")	Incorporated	Hong Kong, PRC	49%	49%	Research and development, production and sale of TD-SCDMA telecommunication products
Tianwen Digital Media Technology (Beijing) Co., Ltd.	Incorporated	Beijing, PRC	49%	49%	Development, publication and operation of digital media related services

The Group's unrecognised share of losses for the year ended December 31, 2012 and cumulative post-acquisition losses as at that date in the above associates were Nil (2011: CNY4,765,000) and Nil (2011: Nil), respectively.

Summary financial information on associates:

		Assets	Liabilities	Equity	Revenues	Profit/(Loss)
		CNY'million	CNY'million	CNY'million	CNY'million	CNY'million
<b>2012</b>	<b>100%</b>	<b>2,033</b>	<b>1,506</b>	<b>527</b>	<b>3,283</b>	<b>-</b>
2011	100%	1,221	857	364	1,355	(404)

Details of the Group's interests in significant jointly controlled entities are as follows:

Name of jointly controlled entity	Form of business structure	Country/region	Ownership percentage		Principal activity
			2012	2011	
Huawei Marine Systems Co., Ltd. ("Huawei Marine")	Incorporated	Hong Kong, PRC	51%	51%	Construction and operation of submarine fibres
Chengdu Huawei Investment Co., Ltd. ("CD Investment")	Incorporated	Chengdu, PRC	49%	49%	Investment, lease of property and machinery, developments of high technology products and provision of related services, sales of telecommunication and electronic products

In March 2012, the Group acquired additional 49% and 48% equity interests in Huawei Digital Technologies (Hong Kong) Co., Limited ("Huawei Digital HK") (formerly "Huawei Symantec Technologies Co., Ltd.") and Beijing Huawei

Longshine respectively. Subsequent to the acquisition, Huawei Digital HK and Beijing Huawei Longshine became wholly-owned subsidiaries of the Group (see Note 25 (c)).

Summary financial information on jointly controlled entities – Group's effective interest:

	2012	2011
	CNY'million	CNY'million
Non-current assets	804	532
Current assets	294	1,419
Non-current liabilities	(525)	(241)
Current liabilities	(323)	(1,196)
Net assets	250	514
Income	321	2,429
Expenses	(358)	(2,406)
(Loss)/Profit for the year	(37)	23

**11. Other investments**

	2012	2011
	CNY'million	CNY'million
<b>Non-current assets</b>		
Equity securities – available-for-sale:		
– unlisted stated at cost	472	429
– listed stated at fair value	76	25
Debt securities – available-for-sale	1	–
	<b>549</b>	454
<b>Current assets</b>		
Equity securities – held for trading	13	26
Investment in wealth management products – available-for-sale	4,456	5,124
	<b>4,469</b>	5,150
Cost of individually impaired available-for-sale equity securities	37	44

As at December 31, 2012 and 2011, the Group's available-for-sale equity and debt securities were individually determined to be impaired on the basis of a material decline and adverse changes in the market in which these investees operated which

indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in the consolidated income statement in accordance with the policy set out in note 1(k).

**12. Deferred tax assets and liabilities**

	2012	2011
	CNY'million	CNY'million
Accrual and provision	4,745	4,563
Property, plant and equipment	321	259
Impairment	1,088	538
Unrealised profit	2,487	3,136
Tax losses	236	170
Undistributed profits of subsidiaries	(468)	(369)
Other deductible differences	928	429
Other taxable differences	(224)	(233)
Fair value adjustments on business combinations	(92)	(50)
Total	9,021	8,443

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

	2012	2011
	CNY'million	CNY'million
Deductible temporary differences	857	545
Tax losses	3,092	2,666
	3,949	3,211

The tax losses are not expected to be utilised before they expire. Management did not recognise any deferred tax assets in this regard.

Deferred tax assets have not been recognised in respect of certain inventory provision, bad debt

provision for accounts receivable, impairment loss on intangible assets and other provisions because management believes that these provisions are unlikely to be allowed for tax deduction by the tax authorities.

**13. Inventories**

	<b>2012</b>	2011
	CNY'million	CNY'million
Raw materials	<b>6,313</b>	5,896
Work in progress	<b>2,462</b>	2,664
Finished goods	<b>5,734</b>	6,700
Goods delivered but not completely installed	<b>7,728</b>	11,176
	<b>22,237</b>	26,436

The analysis of amount of inventories recognised as an expense and included in the consolidated income statement is as follows:

	<b>2012</b>	2011
	CNY'million	CNY'million
Carrying amount of inventories sold	<b>96,551</b>	99,013
Write down of inventories	<b>17</b>	509
	<b>96,568</b>	99,522

**14. Trade receivables**

	<b>2012</b>	2011
	CNY'million	CNY'million
Trade receivables due from related parties	<b>525</b>	613
Trade receivables due from third parties	<b>54,576</b>	49,271
	<b>55,101</b>	49,884
Non-current	<b>497</b>	29
Current	<b>54,604</b>	49,855
	<b>55,101</b>	49,884

**(a) Ageing analysis**

The ageing analysis of trade receivables due from third parties at the balance sheet date is:

	<b>2012</b>	2011
	<b>CNY'million</b>	CNY'million
Not past due	<b>37,430</b>	33,937
Less than 90 days past due	<b>11,964</b>	10,386
90 days to 1 year past due	<b>6,983</b>	5,703
1 year and above past due	<b>1,690</b>	2,793
	<b>58,067</b>	52,819
Less: Impairment loss	<b>(3,491)</b>	(3,548)
<b>Total</b>	<b>54,576</b>	49,271

**(b) Impairment of trade receivables due from third parties**

Impairment losses in respect of trade receivables due from third parties are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against the trade receivables directly (see note 1(k)).

The movement in the allowance for impairment in respect of trade receivables due from third parties during the year is as follows:

	<b>2012</b>	2011
	<b>CNY'million</b>	CNY'million
At January 1	<b>3,548</b>	4,147
Impairment loss recognised	<b>3,416</b>	1,481
Uncollectible amounts written off	<b>(3,477)</b>	(2,080)
Acquisition of subsidiaries	<b>4</b>	–
<b>At December 31</b>	<b>3,491</b>	3,548

**15. Other receivables**

	<b>2012</b>	2011
	CNY'million	CNY'million
Advance payments to suppliers	<b>2,388</b>	2,065
Indirect taxes	<b>4,797</b>	4,397
Pledged deposits	<b>1,832</b>	1,347
Gross amount due from third-party customers for contract work	<b>1,340</b>	3,075
Others	<b>5,457</b>	5,203
	<b>15,814</b>	16,087
Non-current	<b>407</b>	17
Current	<b>15,407</b>	16,070
	<b>15,814</b>	16,087

**16. Cash and cash equivalents**

	<b>2012</b>	2011
	CNY'million	CNY'million
Fixed deposits with banks	<b>18,223</b>	2,671
Cash and bank balances	<b>48,957</b>	54,521
Cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement	<b>67,180</b>	57,192



**17. Assets held for sale**

	2012	2011
	CNY'million	CNY'million
Non-current assets held for sale		
– property, plant and equipment	346	–

**Property, plant and equipment**

The property, plant and equipment classified as held for sale is a result of the commitment of the Group's management, in June 2012, to sell part of its investment properties. Efforts to sell the investment properties have commenced and the transaction is expected to be completed by the end of March 2013.

Neither a gain nor a loss was recognised on reclassifying the non-current assets as held for sale during the year.

**18. Borrowings**

	2012	2011
	CNY'million	CNY'million
<b>Non-current liabilities</b>		
Unsecured bank loans	786	1,047
Intra-group guaranteed bank loans	14,306	12,223
Corporate bond	985	–
	<b>16,077</b>	13,270
<b>Current liabilities</b>		
Unsecured short-term bank loans	1,991	253
Intra-group guaranteed bank loans	2,266	1,978
Current portion of unsecured long-term bank loans	262	262
Current portion of intra-group guaranteed long-term bank loans	158	4,564
	<b>4,677</b>	7,057

## Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Total	1 year or less	1 to 5 years
	CNY'million	CNY'million	CNY'million
<b>Intra-group guaranteed bank loans:</b>			
CNY – variable at 6.35%	735	158	577
EUR – variable at 1.41% ~ 1.92%	2,492	124	2,368
INR – fixed at 10.20% ~ 12.50%	1,601	1,601	–
JPY – variable at 1.06%	290	290	–
JPY – fixed at 1.33%	251	251	–
USD – variable at 1.68% ~ 2.71%	8,558	–	8,558
USD – fixed at 4.33%	2,803	–	2,803
	16,730	2,424	14,306
<b>Unsecured bank loans:</b>			
BDT – variable at 13.75% ~ 14.5%	134	134	–
CNY – variable at 3.00% ~ 5.90%	1,856	1,070	786
CNY – fixed at 5.90%	262	262	–
DZD – fixed at 5.00%	58	58	–
EUR – variable at 1.22% ~ 1.62%	453	453	–
EUR – fixed at 2.01%	247	247	–
VEF – fixed at 20.00%	29	29	–
ZAR – fixed at 0.00%	–	–	–
	3,039	2,253	786
<b>Corporate bond:</b>			
CNY – fixed at 5.30%	985	–	985
	20,754	4,677	16,077

The carrying amount of the above loans and borrowings approximates to their fair value.

All of the Group's bank facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending agreements with banks. If the Group were to breach the covenants, the draw down facilities would become payable on demand. As at December 31, 2012, none of the covenants relating to draw down facilities had been breached (2011: Nil).

### Corporate bond

On May 11, 2012, Proven Honour Capital Limited, a wholly-owned subsidiary of the Company had issued a principal amount of CNY1,000,000,000 corporate bond with three years maturity at an annual interest rate of 5.30%. This corporate bond is fully guaranteed by the Company.

### 19. Trade payables

	2012	2011
	CNY'million	CNY'million
Trade payables due to related parties	840	894
Trade payables due to third parties	32,696	28,470
	<b>33,536</b>	29,364

All of the trade payables are expected to be settled within one year or are repayable on demand.

### 20. Other payables

	2012	2011
	CNY'million	CNY'million
Interest payable	1,174	1,807
Advances received	8,661	8,611
Accrued expenses	26,264	20,698
Gross amount due to third-party customers for contract work	2,331	2,325
Others	18,777	20,618
	<b>57,207</b>	54,059

### 21. Construction contracts

The aggregate amount of costs incurred plus recognised profits less recognised losses to date for the Group, included in the gross amount due from/to third-party customers for contract work at December 31, 2012, is CNY26,722,664,000 (2011: CNY27,053,171,000).

## 22. Provision and contingencies

### (a) Provision for warranties

	2012	2011
	CNY'million	CNY'million
Balance at January 1	1,962	1,556
Provisions made during the year	2,844	2,449
Provisions utilised during the year	(2,399)	(2,043)
Balance at December 31	2,407	1,962

The provision for warranties relates primarily to equipment sold during the year. The provision is determined based on estimates made from historical warranty data associated with similar products and services and anticipated rates of warranty claims for its products. The Group expects to settle majority of the liability within the next twelve months.

### (b) Litigation

i) In July 2011, InterDigital Corporation ("IDC") filed a complaint with the United States International Trade Commission (the "USITC" or "Commission") and the United States District Court for the District of Delaware against Huawei Technologies Co., Ltd. ("Huawei Tech") and Futurewei Technologies Inc. ("Futurewei"), both wholly-owned subsidiaries of the Company. The complaint alleged that the sales of imported 3G wireless devices by the said subsidiaries within the United States had infringed IDC's 3G wireless patents and requested for issuance of exclusion order and cease and desist order against the accused 3G wireless devices ("the first complaint").

In December 2011, Huawei Tech filed a complaint against IDC in the PRC for violation of the fair, reasonable, and non-discriminatory ("FRAND") policies and the PRC's Anti-Monopoly Law. In June 2012, Huawei Tech filed another complaint with the European Commission (the "EC") to request

an investigation against the licensing fees requested by IDC, which is deemed exploitative, discriminatory, and in violation of the FRAND policies as well as the EC's antitrust law. As of December 31, 2012, the EC has yet to initiate investigation into Huawei Tech's complaint.

On January 2, 2013, IDC filed another two complaints with the USITC and the United States District Court for the District of Delaware against Huawei Tech, Futurewei, and Huawei Device USA Inc., another wholly-owned subsidiary of the Company. The complaints further alleged that the sales of certain 3G and 4G wireless devices sold by the said subsidiaries within the United States had infringed three other IDC's patents.

On February 4, 2013, the Shenzhen Intermediate People's Court ruled that IDC had violated the PRC's Anti-Monopoly Law and ordered IDC to compensate the Group for damages of CNY20 million. The Court also ruled that the

royalty rate licensed to Huawei Tech for IDC's Chinese essential standard patents in wireless communication should not exceed 0.019% of the actual sales prices of Huawei Tech's wireless devices.

The hearing of the first complaint filed by IDC with the USITC was scheduled for mid-February 2013 and the initial determination and final determination are expected to be available in June 2013 and October 2013, respectively. This ruling will have an impact on the Group's exportation and sales of certain 3G wireless devices in the United States.

At this stage, the Group is unable to predict the outcome of this case, or reasonably estimate a range of possible loss, if any, given the current status of the litigation.

- ii) On July 24, 2012, Technology Properties Limited LLC ("TPL") filed a complaint with the USITC, requesting the Commission to commence an investigation under Section 337 of the Tariff Act of 1930 to certain wireless consumer electronics devices and components manufactured by thirteen alleged companies and their affiliates by reason of patent infringement and requested for issuance of exclusion order and cease and desist order against the accused electronic

products. Huawei Tech has been named as one of the thirteen respondents. On August 21, 2012, the USITC decided to institute Section 337 investigation against the accused electronic products. The USITC investigation is currently on-going. TPL filed another complaint before the United States District Court for the Northern District of California for the same reason. The Group believes the claim by TPL is without merit and will defend this action in accordance with the provisions of law to safeguard the legitimate rights and interests of the Group.

- iii) On February 22, 2012, Creative Technology Ltd. and its subsidiary, Qmax Communications Pte. Ltd. ("Creative"), filed a lawsuit against Huawei International Pte. Ltd., a wholly-owned subsidiary of the Company and asserted a claim for misrepresentation and breach of contract for approximately CNY120 million. In March 2012, the Group filed a counter lawsuit against Creative and demanded a claim of approximately CNY50 million for breach of contract as well as unreasonable and unilateral termination of contract. This case is currently at the preliminary stage of exchanging documents and pre-trial conference. The Group believes the claim by Creative is without merit and will defend this action vigorously.

## 23. Operating leases

### (a) Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
	CNY'million	CNY'million
Less than one year	472	364
Between one and five years	577	410
Above five years	58	-
	<b>1,107</b>	774

The Group leases a number of warehouses, factory facilities, office premises and staff apartments under operating leases. The leases typically run for an initial period of between one and five years. None of the leases includes contingent rentals.

During the year ended December 31, 2012, CNY2,334,125,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2011: CNY2,052,028,000).

#### (b) Leases as lessor

The Group leases out certain of its properties under operating leases (see note 2). Non-cancellable operating lease rentals are receivable as follows:

	2012	2011
	CNY'million	CNY'million
Less than one year	100	46
Between one and five years	9	47
	<b>109</b>	93

During the year ended December 31, 2012, CNY114,044,000 was recognised as rental income in the consolidated income statement (2011: CNY196,819,000).

## 24. Capital commitments

#### (a) Acquisition and construction of buildings

Capital commitments of the Group in respect of acquisition and construction of buildings are summarised as follows:

	2012	2011
	CNY'million	CNY'million
Contracted for	2,094	2,152
Authorised but not contracted for	4,376	5,257
	<b>6,470</b>	7,409

**(b) Other capital commitments**

Other capital commitments contracted by the Group are summarised as follows:

	2012	2011
	CNY'million	CNY'million
Acquisition of joint venture interests	–	3,336
Establishment of an associate	25	40
Purchase of equity investments	–	462
	<b>25</b>	<b>3,838</b>

**25. Group enterprises****(a) Control of the Group**

The Group's ultimate controlling party is the Union of Huawei Investment & Holding Co., Ltd. (the "Union").

**(b) Major subsidiaries**

Subsidiaries	Place of incorporation	Ownership interests	
		2012	2011
Huawei Technologies Co., Ltd.	PRC	100%	100%
Shanghai Huawei Technologies Co., Ltd.	PRC	100%	100%
Beijing Huawei Digital Technologies Co., Ltd. (formerly "Huawei Digital Technologies Co., Ltd.")	PRC	100%	100%
Shenzhen Huawei Technologies Software Co., Ltd.	PRC	100%	100%
HUAWEI TECHNICAL SERVICE CO., LTD.	PRC	100%	100%
Huawei Machine Co., Ltd. (formerly "Imfocus Technologies Co., Ltd.")	PRC	100%	100%
HiSilicon Technologies Co., Limited	PRC	100%	100%
Huawei Device Co., Ltd.	PRC	100%	100%
Huawei Software Technologies Co., Ltd.	PRC	100%	100%
Huawei Tech. Investment Co., Limited	Hong Kong	100%	100%
Huawei Device (Hong Kong) Co., Limited	Hong Kong	100%	100%
Huawei Technologies Coöperatief U.A.	Netherlands	100%	100%
HUAWEI INTERNATIONAL PTE. LTD.	Singapore	100%	100%
PT. Huawei Tech Investment	Indonesia	100%	100%
HUAWEI DO BRASIL TELECOMUNICACOES LTDA	Brazil	100%	99.36%

**(c) Acquisition of subsidiaries**

i) On March 30, 2012, Huawei Tech. Investment Co., Limited ("Huawei Tech Investment"), a wholly-owned subsidiary of the Company, acquired the remaining 49% stake in Huawei Digital Technologies (Hong Kong) Co., Limited (formerly "Huawei Symantec Technologies Co., Ltd.") ("Huawei Digital HK") from Symantec Hardware Holding LLC ("Symantec Hardware") for a consideration of USD530,000,000 (equivalent to CNY3,336,767,000). As a result of this acquisition, the Group's equity interest in Huawei Digital HK increased from 51% to 100% and Huawei Digital HK became a wholly-owned subsidiary of Huawei Tech Investment, which in turn is a wholly-owned subsidiary of the Company.

Huawei Digital HK is a Hong Kong-based joint venture established by Huawei Tech Investment and Symantec Hardware in 2008. Huawei Digital HK is principally engaged in research and development, production and sale of network storage and security products.

In the post acquisition date to December 31, 2012, Huawei Digital HK contributed revenue of CNY3,224,747,000 and loss of CNY68,801,000 to the Group's results. If the acquisition had occurred on January 1, 2012, Management estimates that consolidated revenue would have been CNY4,289,369,000, and consolidated loss for the year would have been CNY375,091,000. In determining these amounts, Management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2012.

ii) On March 31, 2012, Huawei Software Technologies Co., Ltd. ("Huawei Software Tech"), a wholly-owned subsidiary of the Company, acquired the remaining 48% stake in Beijing Huawei Longshine Information Technology Company Limited ("Beijing Huawei Longshine") from Longshine Information Technology Company

Limited ("Longshine Information") for a consideration of CNY115,966,000. As a result of this acquisition, the Group equity interest in Beijing Huawei Longshine increased from 52% to 100% and Beijing Huawei Longshine became a wholly-owned subsidiary of the Company.

Beijing Huawei Longshine is a China-based company established in 1996. Beijing Huawei Longshine is principally engaged in production and sale of network communications products, computer hardware and software and provision of related services.

In the post acquisition date to December 31, 2012, Beijing Huawei Longshine contributed revenue of CNY130,140,000 and profit of CNY12,577,000 to the Group's results. If the acquisition had occurred on January 1, 2012, Management estimates that consolidated revenue would have been CNY130,288,000, and consolidated loss for the year would have been CNY9,487,000. In determining these amounts, Management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2012.

iii) On October 30, 2011, Huawei Technologies Coöperatief U.A., a wholly-owned subsidiary of the Company, acquired 100% equity interest in International Turnkey Systems Technologies W.L.L. ("ITS Bahrain") for a cash consideration of USD81,031,000 (equivalent to CNY472,237,000). The cash consideration has been determined on a provisional basis in the initial accounting due to the working capital of ITS Bahrain does not meet the conditions stipulated in the Sales and Purchase Agreement ("SPA") which is USD10,000,000.

The consideration was finalised and determined at USD72,262,000 (equivalent to CNY419,492,000) subsequent to the issue of 2011 consolidated



financial statements but before the end of the measurement period on October 17, 2012. As a result of this measurement period adjustment, the comparative information presented in the 2012 consolidated financial statements had been restated.

ITS Bahrain is a company incorporated in Bahrain and principally engaged in providing integrated information technology solutions and software services.

The above acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Recognised values on acquisition		
	2012		2011
	Huawei Digital HK	Beijing Huawei Longshine	ITS Bahrain
	CNY'million	CNY'million	CNY'million (restated)
	Note 25(c)(i)	Note 25(c)(ii)	Note 25(c)(iii)
Property, plant and equipment	88	2	7
Available-for-sale investments	26	–	–
Intangible assets	375	92	251
Trade and other receivables	509	62	65
Inventories	543	16	–
Cash and cash equivalents	1,025	33	31
Trade and other payables	(1,629)	(24)	(103)
Interest-bearing loans	(170)	(63)	–
Defined benefit post-employment plans	(313)	–	–
Deferred tax liabilities	(61)	(14)	(53)
<b>Total net identifiable assets</b>	<b>393</b>	<b>104</b>	198
Acquisition-related costs	28	–	4
Consideration, satisfied by cash	3,337	116	419
Cash acquired	(1,025)	(33)	(30)
<b>Net cash outflow</b>	<b>2,312</b>	<b>83</b>	389

The trade and other receivables comprise gross contractual amounts due of CNY576,364,000 (2011: CNY64,912,000), of which CNY4,584,000 (2011: Nil) was expected to be uncollectible at the acquisition date.

## Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	Recognised values on acquisition		
	2012		2011
	Huawei Digital HK	Beijing Huawei Longshine	ITS Bahrain
	CNY'million	CNY'million	CNY'million (restated)
	Note 25(c)(i)	Note 25(c)(ii)	Note 25(c)(iii)
Total consideration paid	<b>3,337</b>	<b>116</b>	419
Fair value of pre-existing interest	<b>315</b>	<b>142</b>	–
Fair value of identifiable net assets	<b>(393)</b>	<b>(104)</b>	(198)
	<b>3,259</b>	<b>154</b>	221

### Huawei Digital HK

The remeasurement to fair value of the Group's existing 51% interest in Huawei Digital HK resulted in a gain of CNY269,107,000, which has been included in "other income" in the consolidated income statement.

The goodwill is attributable mainly to the skills and technical talent of Huawei Digital HK's work force, and the synergies expected to be achieved from integrating the company into the Group's existing security and storage technology business. None of the goodwill recognised is expected to be deductible for tax purposes.

### Beijing Huawei Longshine

The remeasurement to fair value of the Group's existing 52% interest in Beijing Huawei Longshine resulted in a loss of CNY24,152,000, which has been included in "other operating expenses" in the consolidated income statement.

The goodwill is attributable mainly to the skills and technical talent of Beijing Huawei Longshine's work force, and the synergies expected to be achieved from integrating Beijing Huawei Longshine into the Group's existing software business. None of the goodwill recognised is expected to be deductible for tax purposes.

### Other business combination

Other business combination during the financial year which does not have any material effect on the financial position and results of the Group is not shown above.

## Company Information

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### Corporate Profile

Huawei is a leading global ICT solutions provider. Through our dedication to customer-centric innovation and strong partnerships, we have established end-to-end capabilities and strengths across the carrier network, enterprise, consumer, and cloud computing fields. We are committed to creating maximum value for telecom carriers, enterprises and consumers by providing competitive ICT solutions and services. Our products and solutions have been deployed in over 140 countries, serving more than one third of the world's population.

Huawei's vision is to enrich life through communication. By leveraging our experience and expertise in the ICT sector, we help bridge the digital divide by providing opportunities to enjoy broadband services, regardless of geographic locations. Contributing to the sustainable development of society, the economy, and the environment, Huawei creates green solutions that enable customers to reduce power consumption, carbon emissions, and resource costs.

### Awards and Honors

- On December 12, 2012, Huawei won the Data Center Blueprints award from Datacenter Dynamics (known as the Oscars of the data center industry) for the Desktop Cloud Container Data Center project at the first Datacenter Dynamics Greater China Awards.
- On November 21, 2012, Huawei won the Best Use of Traffic Management for Improving Customer Experience award for our VGS at the 2012 annual summit of the BBTM Congress. This is the second such prestigious award for Huawei after the company was presented with the Award for Most Innovative Service Launch Enabled by Traffic Management in 2011 along with MegaFon, the second largest carrier in Russia.
- On November 13, 2012, Huawei received the Global Excellent Telecom Cloud Solution Provider of the Year award from Frost & Sullivan at the Global Community of Growth, Innovation, and Leadership 2012. This is the only award in the global telecom cloud market.

- On October 19, 2012, Huawei was honored at the Broadband World Forum 2012 with the Best Broadband Access Award – Fixed from InfoVision for our Vectoring solution, which boasts the world’s highest capacity.
- On September 26, 2012, Huawei won the Best Cloud Contact Center Solution award at the 2012 China Best Customer Contact Center and CRM Awards. This honor demonstrates the industry’s recognition of Huawei’s efforts to boost the development of the contact center and customer service industries.
- On September 21, 2012, Huawei was granted the Best Unified Communications and Collaboration Solutions Provider award at the 2012 China Enterprise Networking & Communications Conference and the China Enterprise Networking and Communications Awards (CENA).
- On July 18, 2012, Huawei was presented with the Green Technology Award for its integrated green and energy-conserving outdoor site solution for network energy at CommunicAsia 2012. As a barometer of the communications industry in Asia Pacific, this award demonstrates the industry’s recognition of Huawei’s green energy solutions.
- On June 21, 2012, Huawei was the only vendor granted the Best Optical Equipment Product – OTN award of the Next Generation Optical Awards from the Institute for International Research (IIR) at the WDM and Next Generation Optical Networking Forum in Monaco. This is another top industry innovation award for the Huawei OTN solution after winning the InfoVision award, 2009 Top Picks award from Light Reading (an authoritative international communications media agency), and R&D 100 Award (known as the Oscar for scientific and technological innovation).
- On June 14, 2012, Huawei received a prestigious award for the Best Cloud Platform for Africa for our Galax Cloud Platform at the awards dinner of the Cloud Africa Summit hosted by Informa Telecom.
- On May 23, 2012, Huawei won the Best LTE Commercial Performance and Best LTE Core Network Element awards at the 2012 LTE World Summit. This is the third consecutive year for Huawei to win these awards.
- On May 22, 2012, Huawei was granted the Solution Excellence Award from TMF for our VGS solution. This is the second time Huawei has won this award.
- On May 1, 2012, acknowledging the company’s exceptional commitment to the Middle East technology landscape, Huawei was distinguished as Managed Services Provider of the Year in Telecoms during the Network World Middle East Awards 2012.
- On April 10, 2012, Huawei won Certificate of Merit for excellent site solution designs in “Best in Class Site Design” Beauty Contest organized by Deutsche Telekom.
- On January 30, 2012, Huawei won the Best Backhaul Solution for Africa award for our outstanding contributions to the construction of IP backhaul networks in South Africa, which raised Africa’s communications technology level to international standards.

## Risk Factors

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All risk factors mentioned in this *Annual Report*, particularly those outlined in this section, refer to key future uncertainties that could have a material effect on the company's business objectives. They were identified from the company's strategic planning, business model, external environment, and financial system. Major risk factors are events that will significantly impact the company's competition landscape, reputation, financial conditions, operating results, and long-term prospects within the next 18 months. Hereinafter, all risk factors refer to major risk factors.

### Huawei's Risk Management System

Based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and in line with our organizational structure and operating model, Huawei designed and implemented an enterprise risk management (ERM) system with a corresponding ERM policy. The ERM system consists of three major organizations/roles and an operational mechanism:

- The Finance Committee (FC) makes routine decisions on corporate risk management.
- All business executives are responsible for risk management of their assigned domains.
- The Enterprise Risk Mgmt Dept assists the FC and all business executives in controlling corporate-level risks.

Huawei has incorporated risk management factors into its strategic planning and business planning

processes. Through strategic planning, all domains systematically identify and assess their risks. In the 2012 business plan, all domains developed countermeasures against key risks, thereby giving priority to risk monitoring and reporting in daily operations. The company ensures the continuity of business operations by taking risks into account during strategic decision making and planning, while also preemptively controlling risks in business plans and execution.

### Strategic Risks

**Intense competition:** The markets in which Huawei operates are highly competitive in terms of price, functionality, and service quality, as well as the timing of new product and service development. In certain geographical markets, our main competitors may offer more attractive prices, products, services, or other incentives. The rapid development of science and technology, and changes in alternative technologies or industry standards will lead to shorter product lifecycles and may attract more new entrants into the markets in which we operate.

In this market context, the ability to fully understand and satisfy customer needs is a prerequisite as technologies change rapidly and competition intensifies. To stay competitive and secure our expected operating results, we must constantly introduce new products and functionalities into the market while reducing the total costs for our customers.

### External Risks

**Economic environment:** The global economic downturn could cause telecom carriers to postpone investments or initiate other cost-cutting measures to improve their financial conditions. These factors could result in reduced demand for network infrastructures and services, which would in turn affect Huawei's operating results.

**Country-specific risks:** Huawei conducts business in more than 140 countries. Operating in these countries involves certain risks, such as civil unrest, economic and political instability, imposition of exchange controls, nationalization of private assets, and debts. All these risks require Huawei to have a high aptitude for risk management. In addition, there may be uncertainties in the legal environment in certain regions. Although we strive to comply with all such laws and regulations, unintentional violations could have material adverse effects on our business.

**Trade barriers:** Today, the complex international economic and financial conditions along with increasingly fierce industry competition may challenge Huawei with different types of trade barriers in the countries it operates. Measures resulting in trade barriers have become more complicated and include trade investigations, the imposing of large amounts of anti-dumping and anti-subsidy duties, and setting special product quality and technical specifications and requirements. All of these measures may impact the import of Huawei products. Although we proactively respond to mitigate risks from such trade barriers, these barriers may still adversely affect Huawei's operating results.

**Natural disasters:** Earthquakes, floods, and other natural disasters may impact the company's supply chain operations, and slow down or even prevent delivery in a certain region or even all regions.

### Operational Risks

**Business continuity:** Although Huawei strives to avoid single-source supplier solutions, it is not always possible. Finding an alternative supplier or redesigning products may be time-consuming. As such, supply and delivery of our products to our customers could be disrupted if any of our single-source suppliers were to meet with difficulties. To mitigate this risk, we periodically assess and conduct audits on our suppliers, and initiate product replacements or redesign.

**Rising labor costs:** Increasing labor costs in China may offset the company's efforts to improve efficiency and ultimately affect our profitability.

**Information security:** While Huawei has judiciously adopted information security measures to protect our intellectual property rights, they may not be adequate to prevent infringement or improper use of our information, patents, or licenses. Misappropriations of this nature will cause losses to Huawei even though we may be protected to some extent by intellectual property law.

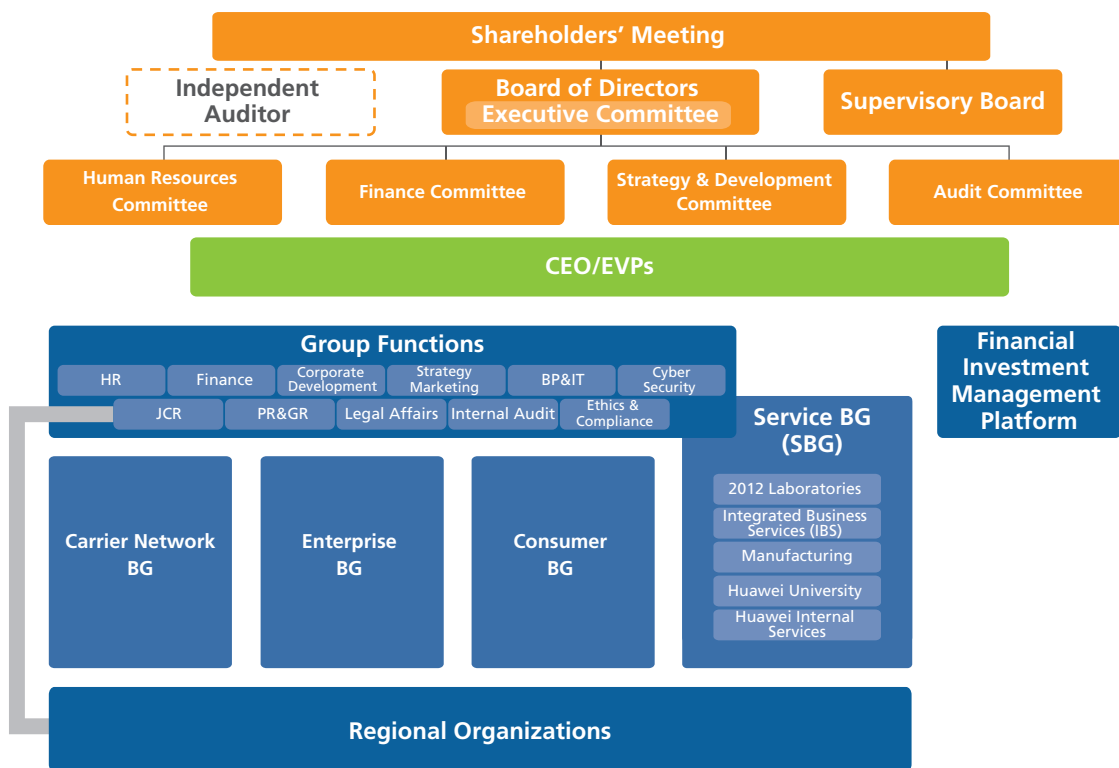
### Financial Risks

For further information on financial risks, see "Financial Risk Management" on pages 25 to 27 of this *Annual Report*.

## Corporate Governance Report

### Corporate Governance Structure

Adhering to “customers as our focus and dedicated employees as our foundation” from our core values, we continue to improve our corporate governance structure, organizations, processes, and appraisal systems to achieve long-term effective growth.



### Shareholders

Huawei Investment & Holding Co., Ltd. (the “company” or “Huawei”) is a private company wholly owned by its employees. Shareholders of Huawei are the Union of Huawei Investment & Holding Co., Ltd. (the “Union”) and Mr. Ren Zhengfei. The Union contributed 98.82% of the company’s total share capital.

Through the Union, the company implements an Employee Shareholding Scheme (the “Scheme”), which involved 74,253 employees as of December 31, 2012. They are represented by and exercise their rights through the elected representatives (the “Representatives”). The Scheme effectively aligns employee contributions with the company’s long-term development, fostering Huawei’s continued success.

As of December 31, 2012, Mr. Ren Zhengfei contributed 1.18% of the company’s total share capital as the individual shareholder, and his participation in the Scheme accounts for 0.21% of the company’s total share capital. As such, Mr. Ren’s investment in the company accounts for nearly 1.4% in total.

### Board of Directors and Committees

The Board of Directors (BOD) is the decision-making body for corporate strategy and management. The BOD guides and oversees the overall business operations and makes decisions on significant strategic issues. The BOD has established the Human Resources Committee, the Finance Committee, the Strategy & Development Committee, and the Audit Committee to assist and support BOD operations.

The key roles and responsibilities of the BOD include:

- Deciding on the company's strategic directions; approving its medium-to-long-term business plan; monitoring the execution of the plan.
- Providing advice and guidance to management regarding significant issues, including major risks and market changes.
- Reviewing the company's business operations, organization, and processes; approving major organizational restructurings, business transformations, and process transformations.
- Approving the company's major financial policies, financial arrangements, and business transactions.
- Approving the company's operational and financial results; approving the company's financial statements.
- Establishing the company's monitoring mechanisms and overseeing their execution.
- Establishing the company's governance structure and organizing its optimization and deployment.
- Deciding on the selection, appraisal, and compensation of the Chief Executive Officer; approving the appointment and compensation of other members of senior management.
- Approving the corporate-level HR planning and major HR policies.

In 2012, the BOD held 12 meetings. Throughout the year, the BOD reviewed and approved the company's medium-to-long-term business plan, the annual business plan and budget, quarterly operational performance reports, corporate governance structure and organization building, business ecosystem building, appointments and compensation policies for senior management, and other major HR and financial policies and activities.

The BOD is comprised of 13 members, who were elected by all the Representatives. The members of the BOD are Chairwoman Ms. Sun Yafang; Deputy Chairmen Mr. Guo Ping, Mr. Xu Zhijun, Mr. Hu Houkun, and Mr. Ren Zhengfei; Executive Directors Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, and Ms. Meng Wanzhou; and Directors Ms. Chen Lifang, Mr. Wan Biao, Mr. Zhang Ping'an, and Mr. Yu Chengdong.

In 2012, the attendance record for each Director is as follows:

Director	Meetings Attended
Ms. Sun Yafang	11
Mr. Guo Ping	12
Mr. Xu Zhijun	12
Mr. Hu Houkun	12
Mr. Ren Zhengfei	12
Mr. Xu Wenwei	12
Mr. Li Jie	12
Mr. Ding Yun	12
Ms. Meng Wanzhou	12
Ms. Chen Lifang	12
Mr. Wan Biao	12
Mr. Zhang Ping'an	12
Mr. Yu Chengdong	12



The BOD has established the Executive Committee, which acts as the executive body of the BOD while the BOD is adjourned. Members of the Executive Committee include Mr. Guo Ping, Mr. Xu Zhijun, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, and Ms. Meng Wanzhou. In 2012, the Executive Committee of the BOD held 18 meetings.

#### Human Resources Committee

The Human Resources Committee manages and improves organizational capabilities such as organization, talent, and culture. This committee establishes key HR management policies under the authorization of the BOD and oversees the execution of these policies. To support the company's business development, the committee ensures that HR policies reflect the company's HR management philosophy while also considering the business characteristics and management models of regions, BGs, and functional departments.

The key roles and responsibilities of the Human Resources Committee include:

- Managing the succession plans, allocation schemes, and matters related to managerial appointments or removals, performance appraisals, compensation, and incentives for key managers and talent under the authorization of the BOD.
- Managing overall incentive policies, policies related to social security benefits, the compensation structure, and job matching.
- Managing policies for organizational development and optimization; managing the HR budget and headcount planning for each budgetary unit.
- Managing the policies and providing guidance for employee learning and development at all levels.
- Setting policies related to employee compliance with internal regulatory requirements and managing disciplinary actions against major violations.
- Providing routine guidance on policies related to the occupational health and safety of employees.
- Managing the strategic HR plans and key HR transformation activities.

The Human Resources Committee meets on a monthly basis and convenes special sessions whenever needed. At the invitation of the committee, business executives and field-specific experts may attend the meetings as non-voting participants. The Human Resources Committee held 12 meetings in 2012 to meet the requests of the BOD and globalized business development needs of multiple business groups. The subjects discussed included but were not limited to the following: HR strategy planning which focused on talent, organization, incentive, culture, and other managerial elements; selection and development of staff members for key managerial and professional positions; optimization of the company's compensation and incentive structure; review and approval of organizational restructuring proposals; development of a governance mechanism for flexible headcount budgeting; employee discipline and compliance management; development of HR policy frameworks and policies; key implementation decisions; supervision of policy implementation.

The Human Resources Committee is comprised of 19 members, including BOD members, senior business executives, and senior HR experts. The Chairman of the committee is Mr. Hu Houkun. The members include Mr. Guo Ping, Mr. Xu Zhijun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Li Jian, Mr. Zha Jun, Ms. He Tingbo, Mr. Zhang Ping'an, Mr. Yu Chengdong, Mr. Liang Hua, Mr. Peng Zhiping, Mr. Li Yingtao, Mr. Wan Biao, Mr. Tian Feng, Mr. Li Shanlin, and Mr. Peng Bo.

#### Finance Committee

The Finance Committee is positioned as the overall enterprise value integrator of the company. Under the authorization of the BOD, the Finance Committee exercises macro-control over the company's business operations, investment activities, and enterprise risks, helping to strike a dynamic balance between opportunities and resources. This facilitates the company's effective growth.

The key roles and responsibilities of the Finance Committee include:

- Aligning resources with business needs based on the company's resources and resource acquisition capabilities.
- Setting financial objectives for the growth and investment projects of the company and responsibility centers; determining the standards, structure, and pace for resource investments.
- Measuring the monetary value of key strategies, conducting forward-looking forecasts and analysis, and submitting proposals to the BOD.

- Reviewing the company's annual budgeting plan, approving the annual budget for each responsibility center, and ensuring closed-loop management of the corporate-level plan, budget, accounting, and performance appraisals.
- Reviewing the capital structure plan; making proposals for major financing activities, the asset structure, and profit distribution.
- Reviewing the company's key financial policies, annual financial statements, and issues related to information disclosure.
- Reviewing capital operations and strategic cooperation projects, submitting proposals to the BOD, and periodically assessing the execution of such projects.
- Reviewing the company's risk management framework, advising on trade compliance issues, and establishing a business continuity management system.

The Finance Committee meets on a monthly basis and convenes special sessions whenever needed. Based on business needs and requests of the BOD, the Finance Committee held 12 meetings in 2012. At the meetings, the committee reviewed such items as the company's medium-to-long-term business plan, annual budgeting plan, operational management, capital operations projects, the capital structure, enterprise risk management, and subsidiary and joint venture management. The Finance Committee discussed and established relevant financial policies and systems, reviewed and decided on relevant activities, and monitored the execution of these activities.

The Finance Committee is comprised of 20 members, including BOD members and financial experts. The Chairman of the committee is Mr. Guo Ping. The members include Mr. Xu Zhijun, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Liang Hua, Mr. Wan Biao, Mr. Peng Zhiping, Mr. Tian Feng, Mr. Fang Weiyi, Mr. Song Liuping, Mr. Yao Fuhai, Mr. Jiang Xisheng, Mr. Li Jin'ge, Mr. Peng Qiu'en, Mr. Yi Xiang, Mr. Yang Yuefeng, and Mr. Qiao Nengdong.

#### Strategy & Development Committee

The Strategy & Development Committee (SDC) considers, sets, and executes the company's strategic directions. The SDC gains insight into major trends concerning the industry, technologies, and customer needs; and identifies opportunities and paths for the company's development. Through macro-management of industrial investments, technologies, business models, and transformations, the SDC ensures that the company continues to achieve effective growth through concerted efforts.

The key roles and responsibilities of the SDC include:

- Managing the company's medium-to-long-term strategic plan, significant annual targets, and the top priorities of the year.
- Managing the company's brand strategy, architecture, and characteristics, as well as the publicity strategy and direction of the company.

- Managing the company's strategy for strategic partnerships and alliances, as well as the selection of strategic partners and allies.
- Managing the company's business portfolios and scope.
- Managing the company's pricing policies, commercial authorization principles, and actual pricing of key strategic products.
- Managing the company's medium-to-long-term technology development plan, standards and patent strategy, and major technology investments.
- Managing the company's medium-to-long-term business transformation strategy, process and management system structure, and quality policies.
- Reviewing the company's business portfolios frequently to ensure investments are made in the strategic domains.

The SDC held 12 meetings in 2012 and a four-day strategy and development workshop in September. In accordance with the positioning and responsibility determined by the BOD, the SDC focuses on the company's strategy formulation and direction. By setting the business positioning and directions of related industries, the SDC has enabled the company's core business to be focused on the targeted carrier, enterprise, and consumer customers so that BGs can develop and operate based on the characteristics of their specific customers and industries. Through strategy planning and execution, the SDC established a closed-loop strategy management system to help the company achieve business objectives.

The SDC is comprised of 23 members, including BOD members, senior business executives, and field-specific senior experts. The Chairman of the committee is Mr. Xu Zhijun. The members include Mr. Guo Ping, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Hou Jinlong, Mr. Zhang Ping'an, Mr. Li Yingtao, Mr. He Gang, Mr. Zha Jun, Mr. Tang Qibing, Mr. Zhang Xinyu, Mr. Peng Bo, Mr. Deng Biao, Mr. Yu Chengdong, Mr. Wang Tao, Mr. Liang Hua, Mr. Zheng Yelai, Mr. Wu Qinming, Ms. He Tingbo, and Mr. Peng Zhongyang.

#### Audit Committee

The Audit Committee oversees internal controls under the authorization of the BOD. The oversight responsibilities include monitoring the internal control system, internal and external audits, and corporate processes, as well as compliance with laws and regulations and the *Business Conduct Guidelines (BCG)*.

The key roles and responsibilities of the Audit Committee include:

- Approving the internal audit plan of the year; reviewing the scope of the internal audit plan, resources required for its execution, and the results of the execution.
- Approving corporate policies related to internal control management; approving the company's internal control development plan and key milestones; regularly assessing the company's overall internal control posture.
- Overseeing the effectiveness of the ethics and compliance function, and the company's compliance with legal and regulatory requirements as well as corporate policies.

- Reviewing the selection of external auditors; reporting the change of external auditors to the BOD for approval, and approving all related fees; assessing the effectiveness of external auditors' performance.
- Supervising the integrity, completeness, and legal compliance of the company's financial statements; reviewing accounting policy compliance and application as well as disclosure of financial statements.
- The Audit Committee approves the control KPIs at the beginning of each year, and has the right to summon Global Process Owners (GPOs) and business executives to report their control work.

The Audit Committee meets on a quarterly basis and convenes special sessions whenever needed. At the invitation of the Audit Committee, business executives and field-specific experts may attend the meetings as non-voting participants. The Audit Committee held four meetings in 2012. Focusing on topics such as risk management and internal control construction, the Audit Committee reviewed and approved the annual internal audit planning and the updated three-year roadmap for global process control construction, and listened to the internal control maturity trend reports, the Semi-Annual Control Assessment (SACA) reports, and the control improvement work reports presented by GPOs. The Audit Committee also improved employee compliance with Huawei's BCG by publicizing major audit findings and non-compliance cases. In addition, the Audit Committee discussed the management improvement proposal with the external auditor.

The Audit Committee is comprised of 9 members, including members of the Supervisory Board, BOD members, and field-specific experts. The Chairman of the committee is Mr. Liang Hua. The members include Mr. Peng Zhiping, Mr. Ren Shulu, Mr. Tian Feng, Mr. Li Jie, Mr. Chen Zhaohui, Mr. Peng Zhijun, Mr. Hui Chun, and Mr. Zhou Daiqi.

### Supervisory Board

Pursuant to the requirements of the *Company Law of the People's Republic of China*, Huawei has established a Supervisory Board. The key roles and responsibilities of the Supervisory Board include overseeing the company's financial and operational performance, monitoring the responsibility fulfillment of BOD members and senior management, as well as the standardization of BOD operations. Members of the Supervisory Board attend BOD meetings as non-voting participants.

In 2012, the Supervisory Board held one meeting, reviewing and assessing the financial performance of the company, and conducting training sessions and workshops regarding its roles and responsibilities for financial supervision. Throughout the year, members of the Supervisory Board attended 12 meetings of the BOD as non-voting participants, monitoring the financial performance of the company, the responsibility fulfillment of BOD members and senior management, and the standardization of BOD operations.

The Supervisory Board is comprised of 5 members, who were elected by all the Representatives. The members of the Supervisory Board are Chairman Mr. Liang Hua, and members Mr. Peng Zhiping, Mr. Ren Shulu, Mr. Tian Feng, and Mr. Deng Biao.

### Rotating CEOs

Huawei implements the rotating CEO system under the leadership of the BOD. Acting as the primary person of the company's operations and crisis management during his tenure, the rotating and acting CEO is responsible for the company's survival and development.

The rotating and acting CEO is responsible for convening and chairing the meetings of the Executive Committee of the BOD. During routine management decision making, the rotating and acting CEO appraises members of the BOD and the Supervisory Board of his responsibility fulfillment in a timely manner.

Three Deputy Chairmen take turns to act as the rotating and acting CEO for a tenure of six months. In 2012, the acting tenures for the three rotating CEOs are as follows:

- Mr. Hu Houkun: October 1, 2011 – March 31, 2012
- Mr. Xu Zhijun: April 1, 2012 – September 30, 2012
- Mr. Guo Ping: October 1, 2012 – March 31, 2013

**Members of the Board of Directors, the Supervisory Board, and the BOD Committees**



**Members of the Board of Directors**

From the left in the first row: Mr. Hu Houkun, Ms. Sun Yafang, Mr. Guo Ping, Ms. Chen Lifang, Mr. Xu Wenwei

From the left in the second row: Mr. Zhang Ping'an, Mr. Yu Chengdong, Mr. Xu Zhijun, Mr. Ren Zhengfei, Mr. Ding Yun,  
Ms. Meng Wanzhou, Mr. Li Jie, Mr. Wan Biao

## Director Biographies

### Ms. Sun Yafang

Ms. Sun joined Huawei in 1989, and had served as an engineer of the Marketing & Sales Dept, Director of the Training Center, President of the Procurement Dept, General Manager of Wuhan Office, President of the Marketing & Sales Dept, Chair of the Human Resources Committee, Chair of the Business Transformation Executive Steering Committee (BT-ESC), Chair of the Strategy and Customer Standing Committee, and President of Huawei University. Since 1999, Ms. Sun has been the Chairwoman of the Board.

Prior to joining Huawei, Ms. Sun worked as a technician at the state-owned Xinxiang Liaoyuan Radio Factory in 1982, a teacher at China Research Institute of Radio Wave Propagation in 1983, and an engineer at Beijing Research Institute of Information Technology in 1985.

Ms. Sun was born in 1955, and graduated in 1982 with a bachelor's degree from Chengdu University of Electronic Science and Technology.

### Mr. Guo Ping

Born in 1966, Mr. Guo holds a master's degree from Huazhong University of Science and Technology. Mr. Guo joined Huawei in 1988 and has served as an R&D project manager, General Manager of Supply Chain, Director of Huawei Executive Office, Chief Legal Officer, President of the Business Process & IT Mgmt Dept, President of the Corporate Development Dept, Chairman and President of Huawei Device, Corporate EVP, and Chairman of the Finance Committee.

### Mr. Xu Zhijun (Eric Xu)

Born in 1967, Mr. Xu holds a doctorate degree from Nanjing University of Science & Technology. Mr. Xu joined Huawei in 1993 and has served as President of the Wireless Product Line, Chief Strategy & Marketing Officer, Chief Products & Solutions Officer, Chairman of the Investment

Review Board, Corporate EVP, and Chairman of the SDC.

### Mr. Hu Houkun (Ken Hu)

Born in 1967, Mr. Hu holds a bachelor's degree from Huazhong University of Science and Technology. Mr. Hu joined Huawei in 1990 and has served as President of the Marketing & Sales Dept in China, President of the Latin America Region, President of the Global Sales Dept, Chief Sales & Service Officer, Chief Strategy & Marketing Officer, Chairman of the Corporate Global Cyber Security Committee, Chairman of the BOD of Huawei USA, Corporate EVP, and Chairman of the Human Resources Committee.

### Mr. Ren Zhengfei

Born on October 25, 1944 into a rural family where both parents were school teachers, Mr. Ren Zhengfei spent his primary and middle school years in a remote mountainous town in Guizhou Province. In 1963, he studied at the Chongqing Institute of Civil Engineering and Architecture. After graduation, he was employed in the civil engineering industry until 1974 when he joined the military's Engineering Corps as a soldier tasked to establish the Liao Yang Chemical Fiber Factory. Subsequently, Mr. Ren had taken positions as a Technician, an Engineer, and was lastly promoted as a Deputy Director, which was a professional role equivalent to a Deputy Regimental Chief, but without military rank. Because of his outstanding performance, Mr. Ren was invited to attend the National Science Conference in 1978 and the 12th National Congress of the Communist Party of China in 1982. Mr. Ren retired from the army in 1983 when the Chinese government disbanded the entire Engineering Corps. He then worked in the logistics service base of the Shenzhen South Sea Oil Corporation. As he was dissatisfied with his job, he decided to establish Huawei with a capital of CNY21000 in 1987. He became the CEO of Huawei in 1988 and has held the title ever since.

**Mr. Xu Wenwei (William Xu)**

Born in 1963, Mr. Xu holds a master's degree from Southeast University. Mr. Xu joined Huawei in 1991 and has served as President of the International Technical Sales & Marketing Dept, President of the European Area, Chief Strategy & Marketing Officer, Chief Sales & Service Officer, President of the Joint Committee of Regions, and CEO of the Enterprise BG.

**Mr. Li Jie (Jason Li)**

Born in 1967, Mr. Li holds a master's degree from Xi'an Jiaotong University. Mr. Li joined Huawei in 1992 and has served as Regional President, President of the Global Technical Service Dept, President of the Human Resource Mgmt Dept, and President of the Joint Committee of Regions.

**Mr. Ding Yun (Ryan Ding)**

Born in 1969, Mr. Ding holds a master's degree from Southeast University. Mr. Ding joined Huawei in 1996 and has served as Product Line President, President of the Global Solution Sales Dept, President of the Global Marketing Dept, Chief Products & Solutions Officer, and CEO of the Carrier Network BG.

**Ms. Meng Wanzhou (Cathy Meng)**

Born in 1972, Ms. Meng holds a master's degree from Huazhong University of Science and Technology. Ms. Meng joined Huawei in 1993. She obtained her M.A. in 1998. Ms. Meng has served as Director of the International Accounting Dept, CFO of Huawei Hong Kong, President of the Accounting Mgmt Dept, President of the Sales Financing & Treasury Mgmt Dept, and currently, CFO of Huawei.

**Ms. Chen Lifang**

Born in 1971, Ms. Chen graduated from Northwest University in China. Ms. Chen joined Huawei in 1995 and has served as Chief Representative of the Beijing Representative Office, Vice President of the International Marketing Dept, Deputy Director of the Domestic Marketing Management Office, President of the Public Affairs and Communications Dept, and Corporate Senior Vice President.

**Mr. Wan Biao**

Born in 1972, Mr. Wan holds a bachelor's degree from the University of Science and Technology of China. Mr. Wan joined Huawei in 1996 and has served as Director for the UMTS RAN System, President of the UMTS Product Line, President of the Wireless Product Line, and CEO of Huawei Device.

**Mr. Zhang Ping'an (Alex Zhang)**

Born in 1972, Mr. Zhang holds a master's degree from Zhejiang University. Mr. Zhang joined Huawei in 1996 and has served as Product Line President, Senior Vice President, Vice President of Strategy & Marketing, Regional Vice President, Vice President of the Global Technical Service Dept, CEO of Huawei Symantec, COO of the Enterprise BG, and President of the Carrier Software & Core Network Business Unit.

**Mr. Yu Chengdong (Richard Yu)**

Born in 1969, Mr. Yu holds a master's degree from Tsinghua University. Mr. Yu joined Huawei in 1993 and has served as 3G Product Director, Vice President of the Wireless Technical Sales Dept, President of the Wireless Product Line, President of the European Area, Chief Strategy & Marketing Officer, Chairman of Huawei Device, and CEO of the Consumer BG.





#### Members of the Supervisory Board

From the left: Mr. Deng Biao, Mr. Ren Shulu, Mr. Liang Hua, Mr. Tian Feng, Mr. Peng Zhiping

#### Supervisory Board Member Biographies

##### Mr. Liang Hua (Howard Liang)

Born in 1964, Mr. Liang holds a doctorate degree from Wuhan University of Technology. Mr. Liang joined Huawei in 1995 and has served as President of Supply Chain, CFO of Huawei, President of the Business Process & IT Mgmt Dept, President of the Global Technical Service Dept, and Chairman of the Audit Committee.

##### Mr. Peng Zhiping (Benjamin Peng)

Born in 1967, Mr. Peng holds a master's degree from Fudan University. Mr. Peng joined Huawei in 1996 and has served as President of the Terminal Product Line, President of the Optical Network Product Line, President of the Supply Chain Mgmt Dept, President of the Procurement Qualification Mgmt Dept, Chief Operations & Delivery Officer, President of the Integrated Business Services (IBS), and Chief Supply Chain Officer.

##### Mr. Ren Shulu (Steven Ren)

Born in 1956, Mr. Ren holds a bachelor's degree from Yunnan University. Mr. Ren joined Huawei in 1992 and has served as President of Shenzhen Smartcom Business Co., Limited, Chairman of

the Capital Construction Investment Management Committee, and currently, President of the Internal Service Mgmt Dept.

##### Mr. Tian Feng

Born in 1969, Mr. Tian holds a bachelor's degree from Xidian University. Mr. Tian joined Huawei in 1995 and has served as EVP of the Middle East and Northern Africa Area, President of the Middle East Region, President of the China Region, CEO of Huawei Agissson, Vice President (acting) of the Human Resource Mgmt Dept, EVP of Huawei University, Director of the Institute of Education of Huawei University, and Director of the Disciplinary and Supervisory Sub-committee of the Human Resources Committee.

##### Mr. Deng Biao (Alex Deng)

Born in 1971, Mr. Deng holds a bachelor's degree from Jiangxi University. Mr. Deng joined Huawei in 1996 and has served as President of the Access Network Product Line, President of the Network Product Line, President of the Carrier Software & Core Network Business Unit, and President of the Business Process & IT Mgmt Dept.

## Committee Member Biographies

Only the biographies of committee members not listed in “Director Biographies” or “Supervisory Board Member Biographies” are included in this section. (The order in which the biographies are provided is based on the number of strokes needed to complete the Chinese character that corresponds to the member’s surname.)

### Mr. Fang Weiyi

Born in 1965, Mr. Fang holds a master’s degree from the Aeronautics Computing Technique Research Institute. Mr. Fang joined Huawei in 1995 and has served as an engineer, Director of the Intelligent Network Product Line, Director of the Strategy and Planning Dept, President of the Finance Mgmt Dept, President of the Sales & Delivery Finance Mgmt Dept, and currently, CFO of the Carrier Network BG and member of the Finance Committee.

### Mr. Jiang Xisheng

Born in 1966, Mr. Jiang holds a bachelor’s degree from Xidian University. Mr. Jiang joined Huawei in 1989 and has served as Vice President of the Marketing & Sales Dept, General Manager of the General Procurement Dept, Vice President and CFO of Huawei Electric, Director of the Investment Mgmt Dept, Vice President of the Finance Dept, Chief Secretary of the BOD, and member of the Finance Committee.

### Mr. Tang Qibing

Born in 1970, Mr. Tang holds a master’s degree from the University of Electronic Science and Technology of China. Mr. Tang joined Huawei in 1996 and has served as Vice President of the Global Technical Sales Dept, Vice President of the Middle East and Northern Africa Area, General Manager of the Turkey Representative Office, President of the Central Asia Region, President of the Global Sales Dept under the Enterprise BG, and member of the SDC.

### Mr. Li Jian (James Lee)

Born in 1973, Mr. Li holds a master’s degree from Xidian University. Mr. Li joined Huawei in 2001 and has served as General Manager of the Nigeria Representative Office, President of the Western Africa Region, Special Assistant to Chief Sales & Service Officer, President of the Accounts and Regions Business Mgmt Dept, President of the CEE & Nordic Region, President of the Latin America Area, Vice President of the Joint Committee of Regions, and member of the Human Resources Committee.

### Mr. Li Shanlin

Born in 1968, Mr. Li holds a master’s degree from Beijing University of Aeronautics and Astronautics. Mr. Li joined Huawei in 1996 and has served as an R&D project manager, Department Manager at Huawei Technologies India Private Limited, Deputy Chief of the Beijing Research Center, Director of the R&D Dept of the Data Communications Product Line, Deputy Director of the HR Branch of Products & Solutions, Vice President of the Human Resource Mgmt Dept, and member of the Human Resources Committee.

### Mr. Li Jin’ge

Born in 1968, Mr. Li holds a bachelor’s degree from Beijing University of Posts and Telecommunications. Mr. Li joined Huawei in 1992 and has served as Regional Vice President, Regional President, President of the Global Technical Sales Dept, President of the Sub-Sahara Area, member of the Joint Committee of Regions, and member of the Finance Committee.

**Mr. Li Yingtao**

Born in 1969, Mr. Li holds a doctorate degree from Harbin Institute of Technology. Mr. Li joined Huawei in 1997 and has served as Chief of the Sweden Research Center, Director of the Product Mgmt Dept of Wireless Marketing, Director of the Research Dept of Products & Solutions, Director of the General Technology Office of Products & Solutions, President of the Central Research & Development Unit, President of the 2012 Laboratories, Director of the Integrated Technology Management Team, member of the Human Resources Committee, and member of the SDC.

**Mr. Yang Yuefeng**

Born in 1971, Mr. Yang holds a master's degree from Huazhong University of Science and Technology. Mr. Yang joined Huawei in 1996 and has served as an engineer in the Hardware Dept, Director of the Multimedia Product Line, President of the Fixed Terminal Product Line, Vice President & CFO of Huawei Device, and member of the Finance Committee.

**Mr. Wu Qinming**

Born in 1972, Mr. Wu holds a bachelor's degree from Peking University. Mr. Wu joined Huawei in 1996 and has served as General Manager of the Router Product Line, General Manager of the Software Dept at the Beijing Research Center, Director of the Enterprise Product Line, Deputy Director of the Marketing Dept of the Optical Network Product Line, Director of the Strategic Development Dept, and currently, President of the Investment Mgmt Dept, Vice President of the Corporate Development Dept, and member of the SDC.

**Mr. He Gang**

Born in 1973, Mr. He holds a master's degree from Xidian University. Mr. He joined Huawei in 1998 and has served as a GSM hardware engineer,

President of the GSM Product Line, President of the GSM&UMTS Product Line, Director of the Global Wireless Solution Sales Dept, President of the Handset Product Line of Huawei Device, and member of the SDC.

**Ms. He Tingbo (Teresa He)**

Born in 1969, Ms. He holds a master's degree from Beijing University of Posts and Telecommunications. She joined Huawei in 1996 and has since served as ASIC engineer/senior engineer/chief engineer, R&D Director of HiSilicon, President of HiSilicon, Vice President of the 2012 Laboratories, member of the Human Resources Committee, and member of the SDC.

**Mr. Wang Tao (David Wang)**

Born in 1972, Mr. Wang holds a master's degree from Xi'an Jiaotong University. Mr. Wang joined Huawei in 1997 and has served as PDT Manager of the PS Core Network Product Line, Chief Engineer in the UMTS Technical Sales Dept, Director of the Wireless Product Line in the European Area, Director of the Technical Sales Dept in the European Area, General Manager of the subsidiaries in Italy/Switzerland, President of the Wireless Network Business Dept, and member of the SDC.

**Mr. Song Liuping**

Born in 1966, Mr. Song completed his postdoctoral research at Beijing Institute of Technology. Mr. Song joined Huawei in 1996 and has served as Manager of the Product Strategy Planning Office, Director of the Intellectual Property Rights Dept, Director of the External Cooperation Dept, President of the Legal Affairs Dept, Chief Legal Officer, ST member of Products & Solutions, AT Deputy Director of the Standard & Patent Dept under the Research Dept, Chairman of the Patent Review Board, and member of the Finance Committee.

**Mr. Zhang Xinyu (Bill Zhang)**

Born in 1972, Mr. Zhang holds a master's degree from Nanjing University. Mr. Zhang joined Huawei in 1997 and has served as Director of the Marketing Dept under the Core Network Product Line, Director of the Marketing Dept in the Asia-Pacific Region, Vice President of the Northern Latin America Region, Vice President of the Carrier Network BG, and member of the SDC.

**Mr. Chen Zhaohui (Edward Chen)**

Born in 1967, Mr. Chen holds a master's degree at China Institute of Atomic Energy in Beijing. Mr. Chen joined Huawei in 1994 and has served as General Manager of the UK Representative Office, President of Huawei Device, Chairman of the CSR Committee, Vice President of the Business Process & IT Mgmt Dept, and member of the Audit Committee.

**Mr. Yi Xiang (Steven Yi)**

Born in 1975, Mr. Yi holds a bachelor's degree from Wuhan University. Mr. Yi joined Huawei in 1998 and has served as Director of the Sales Mgmt Dept in the Asia-Pacific Area, General Manager of the Pakistan Representative Office, President of the Middle East Region, President of the Sales & Delivery Finance Mgmt Dept, and member of the Finance Committee.

**Mr. Zhou Daiqi**

Born in 1947, Mr. Zhou graduated from Xidian University. Mr. Zhou joined Huawei in 1994 and has served as an ATM product manager, Chief Engineer and General Manager at the Multimedia Dept, Director of the Hardware Dept, Chief of the Xi'an Research Center, Director of the HR Branch of Products & Solutions, and currently, Director of the Corporate Committee of Ethics and Compliance, and member of the Audit Committee.

**Mr. Zheng Yelai (Leif Zheng)**

Born in 1973, Mr. Zheng holds a master's degree from Northwestern Polytechnical University. Mr. Zheng joined Huawei in 1999 and has served as Product Manager of the Wireless Product Line, OM SPDT Director of the Wireless Product Line, President of the Wireless OSS&Service Product Line, President of the IT Product Line, and member of the SDC.

**Mr. Zha Jun**

Born in 1971, Mr. Zha holds a master's degree from Zhejiang University. Mr. Zha joined Huawei in 1997 and has served as an R&D product manager, Director of the IMS Product Line, President of the Router and Network Security Product Line, President of the Network Product Line, President of the Fixed Network Business Unit, member of the Human Resources Committee, and member of the SDC.

**Mr. Hou Jinlong**

Born in 1970, Mr. Hou holds a bachelor's degree from Shanghai Jiaotong University. Mr. Hou joined Huawei in 1996 and has served as an R&D project manager, Director of the Wireless Technical Sales Dept, Vice President of the Marketing Dept, Director of the Wireless Marketing Dept, CEO of TD Tech Ltd., President of the Energy & Infrastructure Product Line, President of the Network Energy Product Line, and member of the SDC.

**Mr. Yao Fuhai**

Born in 1968, Mr. Yao holds a bachelor's degree from the University of Electronic Science and Technology of China. Mr. Yao joined Huawei in 1997 and has served as Director of the Pricing Center, Vice President of the Business Process & IT Mgmt Dept, Vice President of the Strategy Cooperation Dept, Vice President of the Global Technical Sales Dept, President of the Global Technical Service Dept, President of the Procurement Qualification Mgmt Dept, and member of the Finance Committee.

**Mr. Peng Bo (Vincent Peng)**

Born in 1976, Mr. Peng holds a bachelor's degree from Harbin Institute of Technology. Mr. Peng joined Huawei in 1999 and has served as an account manager of the Customer Relationship Mgmt Dept, an account manager of the Hong Kong Office, Director of the Vodafone Account Dept, Vice President of the Western European Region, President of the Global Sales and Key Accounts Dept, President of the Global Sales Dept of the Carrier Network BG, member of the EMT for the Carrier Network BG, member of the Human Resources Committee, and member of the SDC.

**Mr. Peng Zhongyang**

Born in 1968, Mr. Peng holds a bachelor's degree from Huazhong University of Science and Technology. Mr. Peng joined Huawei in 1997 and has served as a transmission product engineer in the Technical Service Dept in the South China Area, Transmission Product Project Manager and a business expansion engineer at the Russia Representative Office, Transmission Product Project Manager at the Yemen Representative Office, Account Manager at the Yemen Representative Office, General Manager of the Yemen Representative Office, President of the North Africa Region, and President of the China Region.

**Mr. Peng Zhijun (Peter Peng)**

Born in 1969, Mr. Peng holds a master's degree from Shanghai University of Finance and Economics. Mr. Peng joined Huawei in 1997 and has served as Director of the Investment Mgmt Dept, CFO of the Latin America Area, Director of

the Tax Mgmt Dept, Vice President of the Finance Mgmt Dept, Deputy Director of the Business Control and Enterprise Risk Mgmt Dept, and currently, Chief Risk Review Officer, and member of the Audit Committee.

**Mr. Peng Qiu'en (Ted Peng)**

Born in 1971, Mr. Peng holds a master's degree from Zhongnan University of Economics and Law. Mr. Peng joined Huawei in 1997 and has served as Director of the Budget & Cost Mgmt Dept, Director of the Financial Planning & Analysis Dept, Vice President of the Sales & Delivery Finance Mgmt Dept, CFO of the India Region, President of the Finance Mgmt Dept, and member of the Finance Committee.

**Mr. Hui Chun (Clark Hui)**

Born in 1963, Mr. Hui holds a master's degree from Huazhong University of Science and Technology. Mr. Hui joined Huawei in 1989 and has served as President of the Procurement Qualification Mgmt Dept, Vice President of Finance & President of the Business Control Dept, Vice President of the Business Process & IT Mgmt Dept, and currently, Director of the Engineering Inspection Dept and member of the Audit Committee.

**Mr. Qiao Nengdong (Joe Qiao)**

Born in 1973, Mr. Qiao holds a master's degree from Nankai University. Mr. Qiao joined Huawei in 1998 and has served as Vice President of the Accounting Mgmt Dept, CFO of the Northern Africa Region, CFO of the Enterprise BG, and member of the Finance Committee.

### Independent Auditor

An independent auditor is responsible for auditing a company's annual financial statements. In accordance with applicable accounting standards and audit procedures, the independent auditor expresses an opinion as to whether the financial statements are true and fair.

The scope of the financial audit and the annual audit results are subject to review by the Audit Committee. Any relationship or service that may potentially affect the objectivity and independence of the independent auditor can be discussed with the Audit Committee. The independent auditor may discuss any issues identified or any difficulties encountered during the course of the financial audits with the Audit Committee.

KPMG has been Huawei's independent auditor since 2000.

### Business Structure

The company has established three BGs: the Carrier Network BG, the Enterprise BG, and the Consumer BG. Each BG is a responsibility center for the end-to-end operations in a particular customer domain. BGs are the main driving force behind Huawei's operations. Each BG is responsible for ensuring effective growth and improving efficiency for the company as well as achieving business objectives and ensuring customer satisfaction for its business domain.

Each BG has established an executive management team (EMT) to manage its operations. The CEO of each BG is also the head of that BG's EMT.

- The CEO of the Carrier Network BG is Mr. Ding Yun.

- The CEO of the Enterprise BG is Mr. Xu Wenwei.
- The CEO of the Consumer BG is Mr. Yu Chengdong.

Service BGs (SBGs) are responsibility centers that provide end-to-end support and services for BGs. SBGs shall continuously increase efficiency and reduce operating costs. Huawei has established five SBGs: the 2012 Laboratories, Integrated Business Services (IBS), Manufacturing, Huawei University, and Huawei Internal Services. The President of the 2012 Laboratories is Mr. Li Yingtao; the President of IBS is Mr. Peng Zhiping; the President of Manufacturing is Mr. Li Jianguo; the President of Huawei Internal Services is Mr. Ren Shulu.

The Group Functions provide BGs with support, services, and supervision. They are positioned to offer accurate, timely, and effective services to field offices and strengthen supervision while delegating sufficient authority to field offices. Acting as the company's special commissioner, the Joint Committee of Regions (JCR), under the Group Functions, coordinates and monitors authority, and manages managers on behalf of the Company. The JCR organizes the development of the company's regional strategies worldwide and supervises their execution. The JCR also manages regional platform building and organizational operations. The President of the JCR is Mr. Li Jie.

The Financial Investment Management Platform is responsible for the profits and losses of financial investments. This platform oversees finance and business operations.

### Continuous Improvement of Management Systems

Huawei established global management systems to promote and pass down our corporate culture

while achieving effective business management. The aim is to:

- Advocate customer centricity and further enable customer success.
- Ensure risks are controlled and business continuity is guaranteed.
- Shoulder corporate social responsibilities (CSR) to promote sustainable social development.

Huawei's management systems are based on ISO9001 (an international standard for quality management systems) and TL9000 (an international standard for quality management systems of the telecom industry). Through continuous evolutions, Huawei has developed the capabilities of making frequent self-assessments and improvements to continuously meet the requirements and expectations of customers and other stakeholders.

We fulfilled the requirements of our management systems in accordance with our corporate strategy and strengthened the building of customer-centric and process-based management systems to effectively support business development and continuous improvement. In order to streamline processes end-to-end, Huawei incorporated requirements associated with quality, internal controls, Environment, Health, and Safety (EHS), cyber security, and CSR into marketing, R&D, supply chain, procurement, delivery, service, and other business domains. Huawei also promoted continuous improvements through quality measurement in accordance with best practices of the industry.

To ensure that the products and services we provide to our customers are effective and reliable, we had our systems certified by multiple independent third parties. Additionally, Huawei obtained certification in ISO9001/TL9000 (quality), ISO14001 (environment), OHSAS18001 (health

and safety), and ISO27001 (information security). Huawei also obtained certification in SA8000 (CSR) in the device domain.

Huawei has also successfully passed the comprehensive audits, regular assessments, and stringent reviews conducted by 22 of the world's top 50 carriers. The items covered include financial stability, quality management, delivery, supply chain management, knowledge management, project management, information and cyber security, risk management, EHS, CSR, and business continuity. We enjoy wide recognition from our customers in these key domains, as evidenced by their choice of Huawei as a strategic partner.

#### Strategy to Execution

Huawei launched its "Develop Strategy to Execute (DSTE)" closed-loop management system to gradually shift to the business operating model in which business planning, budgeting, and performance appraisal are driven by strategy. This action aims to ensure that the medium-to-long-term strategic objectives of the company and each business unit are taken into account in the annual plan and budgets, thus helping ensure that business units are well coordinated. This action also aims to establish stable and sustainable business systems and assist the company in achieving its strategic and business objectives.

During the annual business planning and budgeting, Huawei utilizes balanced scorecards to measure its organizational performance. Corporate strategic objectives are broken down into organizational performance objectives at all levels. At Huawei, work reports are conducted level-by-level, personal business commitments (PBCs) are managed for employees, and the applications of organizational and individual performance results are strengthened. These approaches ensure

that organizational and individual objectives are aligned with the company's objectives and that the company's strategy is effectively understood and implemented across the organization.

### Management Transformations

In 2012, Huawei made further management improvements and implemented a variety of transformation programs to improve customer satisfaction and internal operational efficiency and reduce operating risks. These transformations included:

- Customer Relationship Management (CRM) Transformation: Huawei developed customer-centric marketing, sales, and service strategies to ensure that we remain focused on customer expectations/requirements, improve efficiency, and reduce costs while creating maximum value for customers to enable their success and eventually Huawei's success. Huawei developed the Develop and Manage Customer Relationship Plan, Manage Customer Expectation and Satisfaction, and Lead to Cash (LTC) processes, and constructed and deployed the IT system that supports the LTC process.
- Customer Issue Management Transformation: This transformation aims to ensure that issues raised by customers are resolved in accordance with contracts in a timely and effective manner to protect service continuity and cyber security of customer equipment and networks. This initiative also drives the company to improve its products and management to ensure customer satisfaction. Through the release and use of the Issue to Resolution (ITR) process system, issues raised by customers are handled effectively and managed in a closed loop.
- Continuous Integrated Financial Services (IFS) Transformation: Huawei is building a global financial management system to facilitate the company's sustainable and profitable growth through data-based management. To date, Huawei has nearly finished streamlining financial and business processes and data at the transaction level. Currently, Huawei is developing and enhancing comprehensive financial capabilities related to operations and decision making.
- Continuous Optimization of the Integrated Product Development (IPD) Process: Huawei continues to optimize the structured processes, heavyweight teams, governance systems, and IT enablers in the IPD domain to constantly improve IPD operational efficiency and product competitiveness. Huawei also develops products designed for marketing, manufacturing, procurement, servicing, and other purposes to boost end-to-end operational efficiency. Additionally, Huawei is transforming its service IPD process to meet the requirements of new industries, a move instrumental to the development and transformation of the service industry.
- Project Management and Knowledge Management Transformations: Huawei is building a management culture focused on project operations. The aim is to change related processes, organizations, resource allocation mechanisms, and appraisal mechanisms so that projects are treated as independent operating units. To improve organizational efficiency, Huawei also deploys a resource buy-and-sell mechanism that enables project teams to buy resources from Group Functions. In addition, Huawei deploys knowledge and document management, and establishes knowledge communities to enhance knowledge and experience sharing, thus improving employees' efficiency.



## Organizational Capabilities

Business departments widely adopt the shared service model to consolidate global resources. Huawei has established 12 Centers of Expertise (COEs) and 22 Shared Service Centers (SSCs) across 13 countries to support the company's globalization strategy and operational excellence. Huawei is operating and improving its COEs and SSCs in terms of finance, service resource delivery, and procurement fulfillment worldwide. Huawei has also established HR, IT, and bidding SSCs to better provide quality and efficient services for BGs and regional organizations, enabling them to focus more on customers. While reasonably allocating resources around the globe, Huawei created 3,500 jobs in the countries (excluding China) in which the COEs and SSCs are located, boosting employment and economic development in local communities.

## Establishment of the Internal Control System

Huawei has designed and implemented an internal control system based on its organizational structure and operational model. The internal control framework and its related management system apply to all business and financial processes of the company and its subsidiaries and business units. This internal control system is based on COSO model, which consists of five components: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. The internal control system also includes internal controls for financial statements to ensure that the financial statements are true, complete, and accurate.

### Control Environment

A control environment is the foundation for an internal control system. Huawei is dedicated to maintaining a corporate culture of integrity,

placing a high value on business ethics, and strictly complying with laws and regulations. Huawei has established its *BCG* to define the company's standards for acceptable conduct. Huawei also provides training programs, requires all employees to acknowledge their understanding of and commitment to complying with the *BCG*, and asks all employees to sign the *BCG* on a regular basis.

Huawei has a well-established governance structure with clear authorizations and accountabilities. The governance structure is comprised of the BOD, its committees, Group Functions, and multi-level administrative teams. Huawei has clearly defined roles and responsibilities for its teams to ensure checks and balances. The CFO of Huawei is in charge of internal control management. The Business Control Dept identifies areas for improvement and reports improvements made in terms of internal controls to the CFO and assists the CFO in building the internal control environment. The Internal Audit Dept independently monitors and assesses the effectiveness of internal controls for all operational activities.

### Risk Assessment

Huawei has established a dedicated risk management department to regularly assess risks related to all business processes around the globe. This department identifies, manages, and monitors the significant risks, forecasts potential risks caused by changes in both the internal and external environments, and submits risk management strategies along with mitigating measures for decision making.

All process owners are responsible for identifying, assessing, and managing different types of risks and related internal control measures. The assessment factors include the likelihood of negative events and potential impact.

### Control Activities

Huawei has established the Global Process Management System (GPMS) and the Business Transformation Management System (BTMS), released the global Business Process Architecture (BPA), and appointed Global Process Owners (GPOs) based on the BPA. As the role responsible for process and internal control building, GPOs identify Key Control Points (KCPs) and the Separation of Duties Matrix for each process and apply them to all regions, subsidiaries, and business units. GPOs organize monthly compliance tests on the KCPs to continuously monitor the effectiveness of internal controls and publish test reports. GPOs optimize processes and internal controls based on business pain points to improve operational efficiency and help achieve business objectives. In addition, GPOs perform SACAs to assess the effectiveness of the overall process design and executional effectiveness of each business unit and then report the results to the Audit Committee.

### Information & Communication

The company has established information and communication channels to ensure timely acquisition of information related to customers and suppliers, as well as other information. Huawei has established an online forum that provides a channel for employees to communicate with each other.

Corporate management holds regular meetings with departments at all levels to help them with operational issues and ensure that management decisions are effectively implemented. All business policies and processes are available on the company's intranet. Managers and process owners regularly organize training programs on

business processes and internal controls to ensure that all the up-to-date information is available to all employees. The company has established a mechanism for process owners at all levels to regularly communicate with one another, review the executional effectiveness of internal controls, and follow up on resolving internal control issues.

### Monitoring

The company has established an internal complaint channel, an investigation mechanism, and an accountability system. We have clearly defined guidelines in the *Agreement on Honesty and Integrity*, which stipulates that, suppliers can report any improper conduct concerning Huawei employees through the channels provided in the agreement.

The Internal Audit Dept independently assesses the internal control effectiveness of the company and investigates any suspected violations of the BCG. The Internal Audit Dept reports the audit and investigation results to the Audit Committee and senior management.

Huawei has established an internal control appraisal and accountability system for GPOs and regional managers. The Audit Committee regularly reviews the internal control effectiveness of the company and considers reports on action plans for internal controls and the progress of plan execution. The Audit Committee has the right to request that the GPOs or top management of each business unit provide explanations for identified internal control issues and, if necessary, take corrective actions. The Audit Committee may also suggest that the Human Resources Committee take disciplinary action when necessary.

## Sustainable Development

In line with our actual business operations and stakeholder requirements, Huawei achieved an all-around transition from a corporate social responsibility strategy to a sustainability strategy in 2012. Huawei promotes sustainable development by focusing on the following four strategic initiatives:

- Bridge the digital divide by providing everyone with access to information and communications services, facilitating ICT knowledge transfers, and boosting efficiency.
- Safeguard stable and secure network operations, and prioritize network stability and security over Huawei's commercial interests.
- Promote environmental protection by providing energy-efficient green ICT solutions that reduce carbon emissions and drive cyclical economic growth.
- Seek win-win development by caring for employees, operating with integrity and in compliance with applicable laws and regulations, contributing to society, and playing a leading role in assuring harmonious development across the industry chain.

### Bridging the Digital Divide

#### Connectivity

- To provide people across all geographic areas with ease-of-access to voice communications services
- To enable ubiquitous broadband availability for all
- To cultivate ICT professionals and transfer ICT knowledge in local communities where Huawei operates
- To leverage leading ICT solutions to help different industries boost efficiency and information-based development, thereby driving social progress

As part of Huawei's sustainability strategy, our Bridging the Digital Divide initiative is fully aligned with our core corporate strategy: the Pipe Strategy. The "pipe" refers to an information system that focuses on technology and industry perspectives. The system carries information from its generation, aggregation, transmission, and switching, all the way into the "information Pacific". As digital floods approach, we are committed to enhancing pipe capacity, increasing pipe capabilities, and optimizing pipe management to deliver ever wider pipes that enable ubiquitous broadband availability. It is through these efforts that we enrich life through communication and improve work efficiency.

**Case: Huawei's 2T WDM prototype supports voice calls for two billion people at the same time.**

In July 2012, Huawei launched the world's first 2T Wavelength Division Multiplexing (WDM) prototype with a capacity as high as 56 Tbit/s. Compared to the 100 Gbit/s per channel data rate offered by industry peers' commercial systems, our prototype increases the rate by twenty-fold to 2 Tbit/s and expands the fiber capacity to 56 Tbit/s, which means it is possible for two billion people to communicate simultaneously through just one pair of fibers.

**Case: Huawei connects the blue planet using 100G WDM networks with a total length longer than the circumference of the Earth.**

As of September 2012, Huawei deployed top-of-the-class 100G networks for more than 40 customers in over 30 countries and regions, including Europe, the Middle East, Latin America, and the Asia Pacific. Spanning over 50,000 kilometers – longer than the circumference of the Earth – these 100G networks connect people at high speeds.



**Case: Telecom Seeds for the Future Program**

As a key Huawei ICT talent development project, the Telecom Seeds for the Future Program aims to cultivate ICT talent for local communities, transfer knowledge, develop people's understanding of and interest in the telecom industry, and encourage local countries and regions to play a part in building digital communities. To date, the program has granted scholarships to thousands of students from 50 universities across 14 countries.

**Case: Huawei's education cloud solution ensures balanced development in education in urban and rural areas under the jurisdiction of Guangzhou City.**

Huawei's education cloud solution provides an education cloud platform for the Guangzhou Bureau of Education, enabling educational resource sharing among all schools across the city. After connecting to the metropolitan area network (MAN) of Guangzhou Digital Education

Town, schools in both urban and rural areas can access the same educational resource platform, realizing broader sharing of quality resources for students in outlying areas. Moreover, replacing traditional personal computers with thin clients (TCs) means a sharp reduction in device costs. In addition, TCs provide different users with wider access to teaching resources, such as basic office automation, multimedia, 3D, high definition video, and mobile utilities. With all these advantages, our education cloud solution helps overcome some of the longest standing hurdles to making computers widely available in rural areas.

### Safeguarding Stable and Secure Network Operations

#### Responsibility

- To develop capabilities and mechanisms for ensuring network and business stability
- To establish hierarchical emergency assurance organizations and operation mechanisms to ensure smooth communications
- To enhance product robustness and resistance to attacks, and provide internationally recognized security assurance approaches
- To maintain openness and transparency by proactively communicating and cooperating with stakeholders; comply with applicable security standards, laws, and regulations; and protect product security and the rights and interests of customers

As a leading global ICT solutions provider, Huawei attaches the highest priority to the stability and security of customer networks and business activities, particularly when earthquakes, tsunamis, and other natural disasters and emergencies strike. We keep on challenging ourselves and innovating continuously to fully support the stability and security of network equipment in a variety of severe conditions and honour our commitment of collaborating with customers.

### Network Stability

Huawei is committed to safeguarding the stability of customer networks and business activities. To that end, we have established a comprehensive assurance system supported by product designs, solutions, and network assurance systems. We have also developed efficient emergency response mechanisms capable of quickly restoring customer networks to normal operations and smooth communications at critical moments (e.g., earthquakes, tsunamis, upheavals, wars, and cyber attacks). Thanks to these measures, we can provide stable communications services necessary to safeguard people's lives and assets.

### Huawei's Comprehensive Customer Network Assurance System

Huawei's goal is to promptly and efficiently respond to network assurance needs of customers around the globe on a 24-hour basis. To that end, Huawei has gone all out to establish a comprehensive customer network assurance system that considers numerous factors, including organizational structures, designated personnel, processes, and IT tools.

Huawei invests heavily in network assurance to ensure everyone is able to communicate, and acquire and share information anywhere, anytime. In 2012, Huawei safeguarded communications security for one third of the world's population and supported the stable operations of 1,521 networks for more than 600 customers in over 140 countries and regions. Huawei spared no effort in guaranteeing network availability during 41 critical events (e.g., conflict in Nigeria), natural disasters (e.g., earthquakes in Chile), and special occasions (e.g., the London Olympics and Hajj). Our more than 3,000 engineers worldwide provide services around the clock.

### Case: Huawei maintained network stability in the aftermath of a typhoon in the Philippines.

On the evening of December 4, 2012, Typhoon Bopha suddenly hit Mindanao Island in the Philippines, pulling down a large number of buildings and drastically ruining infrastructures. This Category 5 super typhoon was the strongest ever to sweep southern Mindanao Island, with a speed of 260 km/h upon touchdown. This catastrophe killed 1,500 people and left 310,000 homeless. As mobile services were disrupted by the disaster, victims were unable to contact their relatives or rescuers, acquire the latest information, or seek help. Within just three days after the disaster, a team consisting of Huawei, Vodafone Foundation, Smart Communications, and Télécoms Sans Frontières worked together to build an instant network in the coordination center located in Baganga Town. This super GSM network has been researched and developed by Huawei and Vodafone at the Mobile Innovation Center in Madrid. The instant network is a self-contained portable system weighing 100 kg that can be packed into three suitcases and taken anywhere in any commercial flight. Furthermore, the instant network can be deployed within 40 minutes. In emergencies, the instant network played a critical role in establishing and restoring communications for the local community. During the 17-day deployment period, the network supported 296,926 calls and 578,994 text messages, thereby effectively facilitating disaster relief and post-disaster recovery efforts.



### Cyber Security

Huawei fully understands the significance of cyber security and adopts viable measures targeting improvements to product and service security, in order to help customers mitigate security risks and win the trust of our stakeholders. To ensure cyber security, Huawei has formulated cyber security policies and processes, set up organizations specializing in matters related to cyber security, and established and implemented an end-to-end global cyber security assurance system.

### Integration of Cyber Security into Business Processes

Huawei integrates security assurance activities into all business processes relating to R&D, supply chain, market & sales, project delivery, and technical services. Such integration, as the fundamental requirement of the quality management system, is implemented under the guidance of management regulations and technical specifications. Furthermore, Huawei oversees and optimizes business processes by conducting internal audits and undergoing security assessments and audits performed by governmental security agencies and independent third parties. Huawei's security management system has obtained BS7799-2 and ISO27001 certifications since 2004.

### Huawei's Global Cyber Security Platform for Information Sharing and Mutual Assistance

As a global company, Huawei is committed to cooperating closely with stakeholders and building a platform for sharing and mutual assistance. Based on this platform, Huawei pursues continuous innovations and sets standards together with industry peers. In so doing, we ensure that the integrity and security of our network solutions and services reach or exceed customer needs, and help customers build confidence in serving their own clients.

Huawei continuously plays an active role in setting security standards in conjunction with the ITU Telecommunication Standardization Sector (ITU-T), the 3rd Generation Partnership Project (3GPP), the Internet Engineering Task Force (IETF), and other international telecom standards organizations. Huawei has joined security organizations, such as the Forum for Incident Response and Security Teams (FIRST), in addition to collaborating with mainstream security companies. Through these initiatives, we aim to contribute to a more robust industry and effectively ensure cyber security for our customers worldwide.

### Promoting Environmental Protection

#### Green

- To prioritize environmental protection requirements during production, service, and business activities
- To minimize negative environmental impacts throughout product lifecycles
- To drive low-carbon and cyclical economic growth
- To push forward green initiatives with partners, and increase positive influence on the industry chain

Huawei prioritizes environmental protection requirements during production, service, and business activities. In this regard, we integrate carbon reduction and environmental protection ideas into products lifecycles and continuously innovate technologies to boost the energy efficiency of our products and solutions. As part of our drive to reduce waste and greenhouse gas emissions, we continue to improve resource utilization in our operations. While adopting green initiatives on our own, we assist other industries in transitioning into a low-carbon economy. We aim to fuel social sustainability and achieve the goals of "Green Communications", "Green Huawei", and "Green World".

#### Green Communications

Huawei is committed to providing leading green ICT solutions.

#### Green Huawei

Huawei promotes energy conservation, emission reduction, and clean production initiatives.

#### Green World

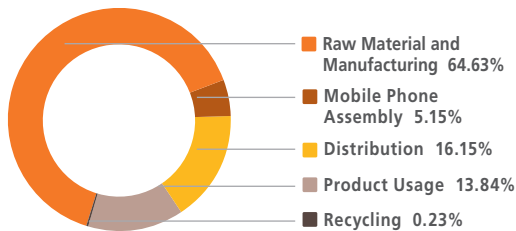
Huawei contributes to a green world.

### Case: Huawei's high-efficiency power supply equipment facilitated China Telecom's Hubei Branch in upgrading power supply.

Huawei's Network Energy Product Line provided China Telecom Hubei Branch with a solution of TP-series high-efficiency switching power supply equipment for its subsidiary sites in Wuhan, Huangshi, Jingzhou, and Yichang in Hubei Province. This marks the first occasion the Hubei Branch has adopted new-generation high-efficiency power supply systems on such a large scale. This event also marks the beginning of the widespread application of high-efficiency power supply products in China. As a result, Huawei's energy-saving solution helped the customer reduce equipment energy consumption by as much as 60%.

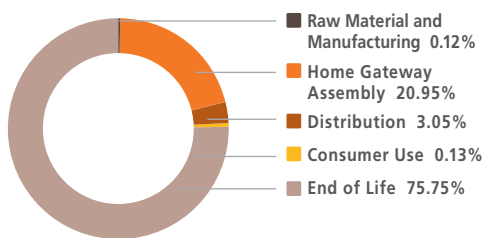
Case: Huawei assessed product carbon footprint.

1. In 2012, our S5700 Ethernet switch was the first switch product in China with a carbon footprint certificate from a third-party certification institute.
2. Through cooperation with professional institutes in 2012, Huawei referred to industry standards and regulations to comprehensively develop capabilities in carbon footprint analysis of our device products. We are able to release carbon footprint data for all of our device products. In addition, we have optimized methods for assessing the carbon footprint of such devices as mobile phones, mobile broadband products, and home devices. We have released assessment reports for the carbon footprint of ten select products.



Total greenhouse gas emissions: 42.98kg CO<sub>2</sub>e

Analysis of carbon emission by Huawei U8652 mobile phone



Total greenhouse gas emissions: 118.87kg CO<sub>2</sub>e

Analysis of carbon emission by Huawei Home Hub 3 gateway

Seeking Win-Win Development

Win-Win

- To care for employees and offer varied career paths that help realize their individual value
- To proactively make social contributions to countries and communities in which Huawei operates
- To operate with integrity and in compliance with applicable laws and regulations
- To focus on managing Huawei's own risks
- To cooperate closely with suppliers and play a leading role in assuring harmonious development across the industry chain

Maintaining value chain sustainability is a shared responsibility of all players in the value chain, including Huawei. Huawei's growth hinges on social progress. We believe that closely cooperating with players upstream and downstream is essential to building our unique competitive edge. It is through cooperation that we can achieve win-win results and contribute to sustainable social development.

Caring for Employees

The individual value each employee has to offer comprises the total value Huawei has to offer. Holding to the principle of "dedicated employees as the foundation", Huawei encourages all employees to give full play to their expertise and provides varied career paths to help them realize their individual value. We hope that every employee is proud of being Huawei people.

Workforce Diversification

At the end of 2012, Huawei had approximately 150,000 employees from 156 countries and regions across six continents. Our non-Chinese



employees numbered approximately 30,000, which have increased each year from 2010 to 2012. On China's mainland, as many as 4,000 employees represent 36 out of China's 56 minority ethnic groups. Our diversification strategy brings together a diversified workforce, inclusive of all ethnicities, languages, and belief systems.

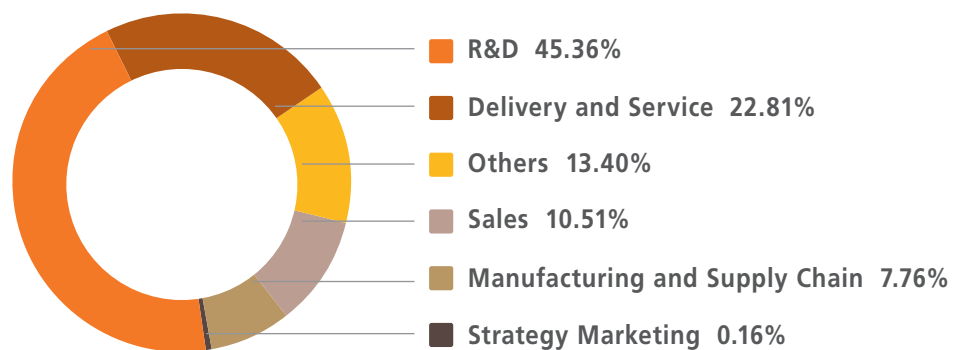
#### Employee Benefits Worldwide

Huawei has established a comprehensive employee benefits system. In addition to providing mandatory insurance, Huawei offers a series of commercial insurance plans for employees, including personal accident insurance, critical illness insurance, life insurance, medical insurance, and business travel insurance.

Investment in global employee benefits in 2012: CNY5.81 billion

#### Case: Huawei helped ease employee stress.

Huawei treats employees as our most valuable assets and strives to help them achieve a work-life balance. To that end, Huawei utilizes a variety of means to ease the stress of employees. For example, Huawei organized several self-check activities to measure stress, attracting approximately 70,000 participants as of the end of December 2012. While promoting these activities, we handed out brochures with useful physical and mental tips, inspiring employees to take care of themselves and others. We also encouraged employees to carry out our "3+1" campaign (make a friend, join in a sports activity, take up a hobby, and read a thought-provoking book), which proved good for their physical and mental health.



Workforce Allocations to Each Operational Area

## Contributing to Society

We believe that communications connect people and allow them to acquire information across economic, societal, and geographic boundaries. We recognize the need for individuals to play a role in protecting the world’s environment and resources. We believe that education is critical to creating opportunities for continuity and fairness in development. Therefore, we contribute to local charity, health care, and disaster relief efforts in countries and regions in which we operate.

### An Overview of Huawei’s Major Social Charitable Activities in 2012

#### US

1. Volunteered at schools in Santa Clara
2. Sponsored K to College, an NGO

#### UK

1. Continued efforts in the Huawei Undergraduate Work Experience Program
2. Supported The Prince’s Trust Foundation

#### Germany

Donated laptops to Labdoo, a non-profit organization which supports child education in developing countries

#### France

1. Continued efforts in the Huawei Undergraduate Work Experience Program
2. Organized the first technical conference at ESIEE Engineering School

#### Italy

Signed an MOU for launching the Huawei Undergraduate Work Experience Program

#### Spain

1. Donated instant network equipment to the Red Cross to quickly restore communications services in case of disasters
2. Signed an MOU for launching the Huawei Undergraduate Work Experience Program

#### Poland

Supported the School with Class 2.0 Program in education

#### Hungary

Continued support for the Innovative Leaders of Tomorrow Scholarship

#### Turkey

Supported disaster relief efforts following an earthquake in Van Province

#### Mexico

Supported an ICT innovation contest among youngsters

#### Bolivia

Carried out volunteer activities aiming to raise educational awareness

#### Zambia

Upgraded equipment at the University Teaching Hospital

#### Tanzania

Implemented the Huawei ICT Star Program for Tanzania Education, which improves ICT education

#### Angola

Supported the E-Net Project that provides free Internet access to youngsters

#### Tunisia

Sponsored the Chinese Bridge Competition to promote cultural exchanges

#### Nigeria

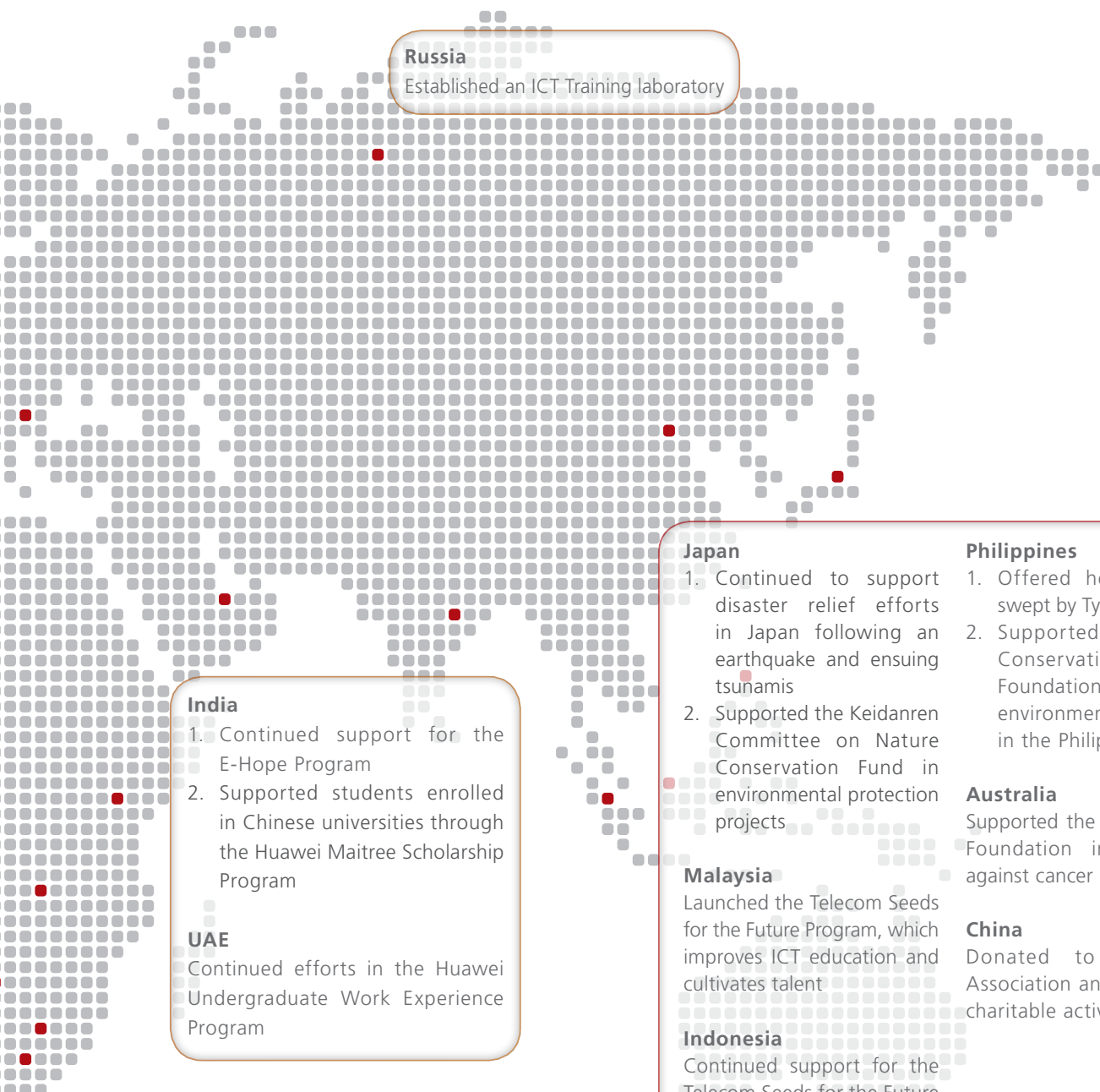
1. Granted scholarships to ICT students at the University of Lagos
2. Supported the Nungtso Charity Foundation

#### South Africa

Supported anti-child-abuse campaigns

#### Morocco

Continued efforts in the Telecom Seeds for the Future Program



## Operations in Compliance with Applicable Laws and Regulations

Huawei abides by ethical business practices, conforms to international conventions as well as laws of local countries, and operates with integrity. We adhere to the *Huawei Business Conduct Guidelines*, implement “transparent procurement” and “transparent sales”, and oppose bribery and corruption. In addition, we advocate fair competition and obey antidumping and antitrust laws and regulations defined by local countries, thereby creating a harmonious business ecosystem.

We have incorporated compliance management into every business scenario. Our Legal Affairs Dept provides legal guidance in export control, cyber security, trade competition, human resource management, and anti-bribery and anti-corruption tasks. The department also identifies, assesses, and warns internal and external legal risks, and assists other business departments in ensuring legal compliance during operations. To mitigate risks related to intellectual property rights (IPR), the department protects our own IPR while respecting the rights of other intellectual property holders and ensures that Huawei complies with international IPR regulations.

### Export Control

Huawei strictly abides by all applicable export control laws and regulations enforced by Chinese and international authorities. We effectively fulfill our export control responsibilities and obligations, and prioritize these obligations over Huawei’s commercial interests.

To better honour our commitment to trade compliance, Huawei has set up the Trade Compliance & Customs Compliance Committee and the Trade Compliance Office led by the Chief Legal Affairs Officer. These organizations approve and oversee the implementation of Huawei’s trade compliance policies and ensure legal compliance to the greatest extent possible in terms of policies, organizations, and processes. Regarding projects involving export control, we have established a standard export control process in which we carry out many export control measures, including customer reviews, checks on ultimate purposes, and investigations into risky factors. Through these measures, we ensure our Internal Control Program (ICP) is effectively implemented across the company.

### Huawei’s Trade Compliance Office

The Trade Compliance Office is tasked with formulating and revising Huawei’s export control policies; establishing the standard operations procedures for export control; archiving documents and information concerning export control; carrying out publicity and training activities regarding export control regulations and systems; performing internal and external audits; and supervising and guiding other business departments to meet export control requirements in their business activities.

### Focus on Managing Huawei’s Own Risks

Huawei has established a sustainability management system to manage sustainability risks in a more standard way. Through systematic assessments

and by studying stakeholder concerns, we have identified several types of sustainability risks and developed appropriate control measures. For example, Huawei has always attached great importance to employee health and safety management. With increasing investments in employee health and safety, we develop processes and guides and adopt improved measures to prevent safety incidents. We also spare no efforts to provide secure products to customers and consumers. Centered on customer needs, we remain committed to providing quality products and services while lowering operating costs. In addition, we insist on ensuring that product and service sustainability is integrated into every routine task across the company, thereby protecting consumer rights and improving customer satisfaction.

#### **Case: Prevention of Electromagnetic Radiation.**

Huawei has many R&D departments and professional laboratories engaged in researching, testing, and assessing electromagnetic radiation technologies for a variety of products, such as mobile phones, data cards, tablets, fixed stations, wireless access points (APs), wireless routers, and wireless base stations. These departments partner with product security certification organizations in key countries and regions around the world to ensure that our products meet all laws and regulations related to health and safety in each locale.

1. We developed the first LTE TDD mobile phone of the industry, for which testing standards are not in place yet. To gain market entry for this product, we communicated with supervisory agencies in the US, namely, the Federal Communications Commission (FCC) and the Telecommunication Certification Body (TCB). After multiple rounds of rigorous reviews, we were granted FCC certification, thereby signifying a product entry permission issued by the country with the most stringent electromagnetic radiation controls in the world.
2. With its power-reducing technology for hot spots, our LTE TDD mobile phone can automatically adjust the radiant power of its Wi-Fi transmitter or 3G transmitter based on application scenarios. This feature allows this mobile phone to meet the FCC's multiple legal requirements on usage of a mobile phone as a wireless router.
3. The wireless APs, wireless routers, and other equipment we launched for the enterprise market were tested in the most severe conditions to measure the electromagnetic radiation emitted by the built-in Wi-Fi transmitters. The testing results verified that the electromagnetic radiation emitted by such devices is well within safe ranges provided the equipment is used as intended.
4. We developed a hearing-aid compatibility (HAC) assessment mechanism for devices used by those with hearing impediments. With this mechanism, users can safely and conveniently use mobile phones.

## Supply Chain Management

We believe that the success of a supplier will benefit the supplier itself, Huawei, and Huawei's customers. Therefore, apart from managing our own sustainability and proactively fulfilling our social responsibilities, we require our suppliers to incorporate a comprehensive sustainability strategy into their core operations and routine business activities. This requirement is essential to ensuring supply chain sustainability, establishing Huawei as a role model in supply chain sustainability, and building up the confidence of customers around the globe.

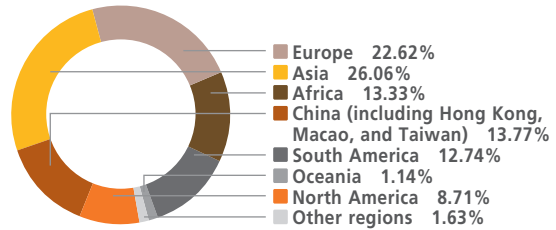
The United Nations Global Compact China Network granted the "2012 CSR Best Practice" award to Huawei in recognition of our management initiatives in supply chain sustainability.



## Supplier Localization

As a global company, Huawei gives preference to suppliers from the local communities in which we operate. Our choice aims to support local companies in the supply chain and contribute to local social-economic and environmental development.

Proportions of suppliers in key regions in 2012



## Case: 2012 Huawei Global Supplier Sustainability Conference

On October 18, 2012, Huawei hosted the 2012 Global Supplier Sustainability Conference, which attracted more than 360 attendees, including international CSR experts, NGO members, and representatives from 170 suppliers and five carrier customers (British Telecom, Deutsche Telekom, Vodafone, France Telecom, and China Mobile).

The conference was themed "Climate Change: Important for Us and for Future Generations". Topics included cyclical economies, energy efficiency, innovative solutions, and other sustainability-related items.



For details, please see *Huawei 2012 Corporate Sustainability Report*.

## Abbreviations, Financial Terminology, and Exchange Rates

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### Abbreviations

Abbreviations	Full name
ATIS	The Alliance for Telecommunications Industry Solutions
ATM	Asynchronous Transfer Mode
BG	Business Group
BNG	Broadband Network Gateway
BP	Business Plan
BPO	Business Process Owner
BSS	Business Support System
BYOD	Bring Your Own Device
CAGR	Compound Annual Growth Rate
CDMA	Code Division Multiple Access
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
DSL	Digital Subscriber Line
DSTE	Development Strategy to Execution
DWDM	Dense Wavelength Division Multiplexing
EHS	Environment, Health and Safety
EMT	Executive Management Team
EPC	Evolved Packet Core
ETSI	European Telecommunications Standards Institute
FBB	Fixed Broadband
FMC	Fixed Mobile Convergence
FTTH	Fiber To The Home
GPS	Global Position System
GSM	Global System for Mobile communications
HSPA	High-Speed Packet Access
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICP	Internal Control Program
ICT	Information and Communications Technology
IDC	Internet Data Center
IEEE	Institute of Electrical and Electronics Engineers
IFRS	International Financial Reporting Standard
IFS	Integrated Financial Services

Abbreviations	Full name
IMS	IP Multimedia Subsystem
IP	Internet Protocol
IPD	Integrated Product Development
IT	Information Technology
ITR	Issue To Resolution
ITU	International Telecommunication Union
LTE	Long Term Evolution
MBB	Mobile Broad Band
NOC	Network Operation Center
ODN	Optical Distribution Network
OMA	Open Mobile Alliance
OSS	Operations Support System
OTN	Optical Transport Network
OTT	Optical Transmission Technology
PCT	Patent Cooperation Treaty
POC	Percentage of Completion
R&D	Research and Development
RAN	Radio Access Network
RCS	Rich Communication Suite Service
SBG	Service Business Group
SDB	Service Database
SDN	Software Defined Networking
SDP	Service Delivery Platforms
SP	Strategic Plan
TCO	Total Cost of Ownership
TDM	Time Division Multiplexing
TD-SCDMA	Time Division-Spatial Code Division Multiple Access
TVO	Total Value of Ownership
UCD	User Centric Design
UGC	User Generated Content
UMTS	Universal Mobile Telecommunication System
VGS	Value Growth Solution
WCDMA	Wideband Code Division Multiple Access
WiMAX	Worldwide Interoperability for Microwave Access



## Financial Terminology

### Operating profit

Gross profit less research and development expenses, selling, general and administrative expenses, plus other operating income, less other operating expenses

### Cash and short term investments

Cash and cash equivalents plus other current investments

### Working capital

Current assets less current liabilities

### Liability ratio

Liability expressed as a percentage of total assets

### Days of sales outstanding (DSO)

Trade receivables at the end of the year divided by revenue, and multiplied by 360 days

### Inventory turnover days (ITO)

Inventories at the end of the year divided by cost of sales, and multiplied by 360 days

### Days of payables outstanding (DPO)

Trade payables at the end of the year divided by cost of sales, and multiplied by 360 days

### Cash flow before change in operating assets and liabilities

Net profit plus depreciation, amortization, unrealized exchange loss, interest expense, loss on disposal of fixed and intangible assets, and other non-operating expense, less unrealized exchange gain, interest income, investment income, gain on disposal of fixed and intangible assets, and other non-operating income.

### Exchange rates

Exchange rates used in consolidation of financial statements:

CNY/USD	2012	2011
Average rate	<b>6.3049</b>	6.4487
Closing rate	<b>6.2285</b>	6.2949

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