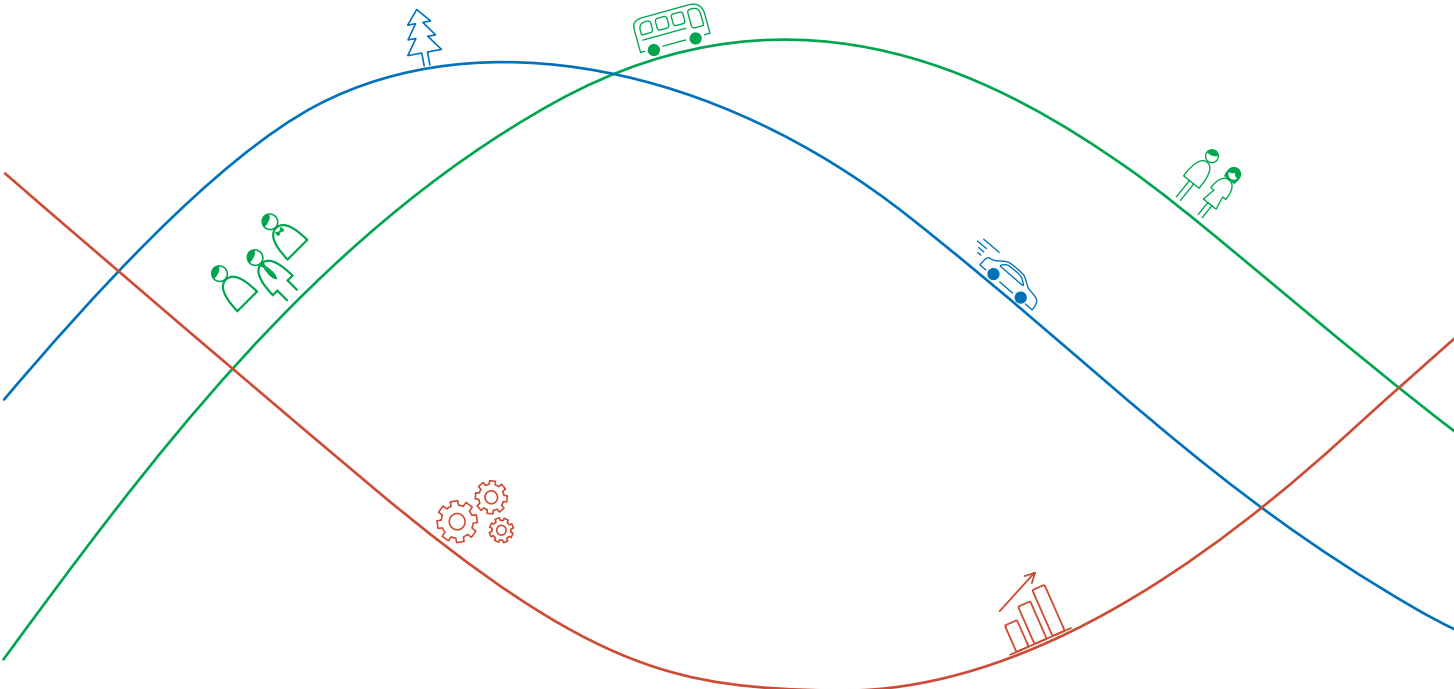




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## Message from the Rotating and Acting CEO



The future fully-connected world will have a far-reaching impact on every individual, organization, and industry. To stay connected, humanity has always sought to overcome the limits of time and space. This eternal drive is deeply-rooted in our need for emotional engagement, and has developed through the pursuit of greater efficiency.

We are lucky to be at the forefront of this enduring human drive. We have already helped most people on this planet to connect with each other. We will enable broader connections between people and things in the future. In these changing times, being the enabler of this Better Connected World is the ideal role for Huawei.

### Creating value for global progress

Rapid and continuous developments in ICT are dramatically changing how we live and work. Together with our customers and partners, we are committed to building a Better Connected World with our innovative ICT products, services, and solutions, thus creating value for global progress.

As we can see, ICT is driving the tremendous advancement of society. Today, ICT is not only an important tool helping people overcome the limits of time and space to stay connected, but it is also a powerful driver for technological innovation, management transformation, and business restructuring. More importantly, ICT plays a crucial role in helping nations worldwide develop their economies, seize the strategic high ground in the coming industrial revolution, and enhance their overall national competitiveness.

Huawei strives to become the global leader of the ICT industry. To achieve this, we must act as a responsible corporate citizen, an innovative enabler for the information society, and a collaborative industry contributor. We will work more openly with top global partners to create a simplified, standardized, and easy-to-use network based on our concepts and blueprints for a Better Connected World. Through this process, we will also be able to build a larger pool of ICT talent.

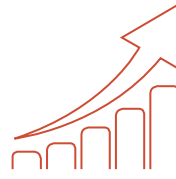
With the help of ultra-broadband, cloud computing, IoT, and other cutting-edge ICT technologies, we look forward to working with more like-minded partners to improve work and life for all, and ultimately contribute to global progress.

### Achieving effective growth in 2014

In 2014, the ICT industry grew tremendously as 4G was rolled out worldwide. Technological innovations accelerated in the areas of cloud computing, Big Data, and IoT, with smart devices connecting the lives of more people. Having seized these opportunities, we continued to focus on our pipe strategy, streamlined management, and maintained effective growth. As a result, our sales revenue reached CNY288,197 million in 2014, an increase of over 20% year-on-year.

We implemented an extensive organizational transformation in 2014. To adapt to the increasing convergence of IT and CT technologies, we established the Products & Solutions organization to maintain our edge in innovation through an integrated ICT portfolio. Based on the business patterns and operational characteristics of our Carrier, Enterprise, and Consumer segments, we restructured three BGs to deliver innovative, differentiated, and leading solutions. We optimized our regional organizations and accelerated the pace of delegating authority to field units.

In this past year, we continued to consolidate SoftCOM, our future-oriented telecom network architecture, by deeply integrating the concepts of cloud computing, SDN, and NFV. We have developed



Our sales revenue reached CNY **288,197 million** in 2014, an increase of over **20%** year-on-year.

solutions that will reshape telecom networks in four areas: services, operations, network functions, and network architecture. We have helped carriers with comprehensive business transformation and network evolution.

We have also launched SD-DC<sup>2</sup>, our Service-driven Distributed Cloud Data Center solution; the OceanStor converged storage system, the first of its kind in the industry; the AR511, our IoT-oriented agile gateway; and our Cloud Fabric Data Center Network and Agile Branch solutions, just to name a few. Each of these offerings will help our customers build a technological foundation for their business innovation in the cloud era. We are committed to establishing an open and innovative industry ecosystem amid ICT convergence to integrate value across the industry chain.

In our carrier business, our 4G equipment was widely deployed, and we constructed 186 commercial networks globally using our 400G core routers in 2014. We have worked with 20 leading carriers around the world on joint innovation for NFV/SDN integration services. More carriers now recognize Huawei as a trusted strategic partner for their business transformation.

In our enterprise business, we have continued to implement our strategy of "being integrated" through open collaboration. We have worked with strategic partners including SAP and Accenture on joint innovation for cloud computing and Big Data. We have built over 480 data centers around the world, including 160 cloud data centers, while our agile networks and S12700 series agile switches now serve hundreds of top-tier industry customers.

In our consumer business, we have developed the Huawei and Honor brands. We strive to make the best phones under our premium product strategy. Our smartphones have become market leaders in multiple countries. The market share of Huawei's flagship smartphones has increased significantly, with over 4 million Ascend P7 units shipped to well over 100 countries and regions. The Ascend Mate7 has been the talk of the high-end market, with demand exceeding supply. More than 20 million smartphones under the Honor brand have been sold through online channels worldwide, an amazing increase of nearly 30-fold in just one year.

### **Continuing to improve in 2015 and becoming customers' best partner in the era of ICT convergence**

Standing on the threshold of 2015, we can almost touch the future. ICT technologies, notably broadband, cloud computing, Big Data, and IoT, are becoming the engine that drives transformations in many industries.

Industry 4.0, smart transportation, telemedicine, online education, and smart cities are all examples of how traditional industries are relying on ICT for their next round of evolution. ICT infrastructure has shifted from a support system that helps improve efficiency to a production system that drives value creation, and has become a new factor of production, alongside land, labor, and capital.

We predict that by 2025, there will be more than 100 billion connections worldwide, creating a market of unprecedented scale. How to store and process, transmit and distribute, acquire and present this massive amount of data presents enormous challenges as well as strategic opportunities for Huawei. We must seize these opportunities and face these challenges head on.

**Changing our operational model from "issuing orders" to "delegating authority"**

We will delegate responsibility and authority to field units to achieve the operational model where we can respond to customer needs more flexibly and promptly, while maintaining a forward-looking view.

**Shifting from function-centered to project-centered business management**

Customer projects and product projects will constitute our primary business operations in the future. Improving project operations and management capabilities will be the major way we boost efficiency and profitability over the next few years.

In 2015, we will continue to promote project-centered operations, and begin piloting pre-sales and post-sales alignment at the project level. Our goal is to change from a weak, "function first, project second" matrix structure to a strong, "project first, function second" matrix structure.

By building up organizations such as tiger teams, the Special Project Dept, and the Project Mgmt Resource Pool, we will promote experience sharing and enhance organization, talent, technology, and management capabilities. These initiatives will help ensure that field

offices will be given both responsibility and authority, and that back offices will provide enablement and oversight.

**Continuing process transformations to increase operational efficiency**

To become the leader of the ICT industry, we should not only maintain technological leadership, but also learn from other companies and integrate their best practices with our existing advantages. This will help us develop powerful organizational capabilities and a strong management system.

Therefore, we must focus on the two major business streams, market-oriented innovation and customer engagement, and strive to integrate transformation projects across different functions, processes, and departments at representative offices. These projects include LTC; ISD; country planning, coordinating, and scheduling; and CIAG.

We will extend our integrated transformation pilot project to other selected countries. The target of our management transformation is to achieve "complete integration within two years" in the ICT infrastructure network business, and to lay the foundation for achieving CIAG within three years and the "Five Ones" within five years.

### **Placing cyber security and user privacy protection above Huawei's business interests**

Network coverage is now higher than ever. Customers not only require secure and reliable networks, but also secure data storage. Therefore, protecting customers' information assets and user privacy is absolutely critical. No matter what the challenges might be, we must adopt every possible means to provide higher levels of assurance to ensure the secure and stable operations of customer networks.

We must make a solemn commitment to the public, governments, and customers regarding cyber security and user privacy protection, and honor this commitment as part of our corporate social responsibility. We will take all necessary measures to boost user privacy protection in accordance with local laws and regulations.

### **Promoting "glocalized" operations**

As an African saying goes, "If you want to walk fast, walk alone. If you want to walk far, walk together." Globalization and localization are the two sides of the same coin. Successful business practices should

effectively combine the two. Globalization means more than just global operations and investment. It also requires new business philosophies.

As a global company that operates in over 170 countries and regions, we will fully integrate the best resources from around the world to build a global value chain. Then, the value produced by each node of the value chain can be shared with customers around the world.

Our localized operations enable us to contribute to socioeconomic development by creating jobs and paying taxes in the countries and regions in which we operate. Working jointly with local industry leaders, we will be able to fully combine the advantages of our global value chain with local innovation capabilities, enabling local innovations to reach the global market.

Our operations must comply with all local laws and regulations. We will strengthen communication with external stakeholders, including governments and the media. We are committed to acting as a responsible corporate citizen, an innovative enabler for the information society, and a collaborative industry contributor.



Developing Huawei into an attractive career platform for outstanding talent to create and share value

In 2014, to encourage our employees to strive for excellence, we raised salaries and incentives for field units and high-performers. We fully implemented the "Contribute and Share" bonus mechanism. Regarding long-term incentives, we rolled out the TUP globally so that all outstanding employees, especially those at the junior and middle levels, could share in more of the benefits of the company's long-term development.

In 2015, we will continue to incentivize performance. We will step up efforts to provide more differentiated and targeted incentives to better motivate employees. While increasing monetary incentives, we will further extend the range of our non-monetary incentives, including awards such as "Whiz Kids" and "Future Stars".

We must provide high-performing employees with access to fast-track promotions, with regard to both positions and job levels so that they will have more development opportunities and rewards.

### Embracing the future and building a Better Connected World

A Better Connected World is awaiting us. This fully-connected world will have a far-reaching impact on every individual, organization, and industry. To stay connected, humanity has always sought to overcome the limits of time and space. This eternal drive is deeply-rooted in our need for emotional engagement, and has developed through the pursuit of greater efficiency.

We are lucky to be at the forefront of this enduring human drive. We have already helped most people on this planet to connect with each other. We will enable broader connections between people and things in the future. In these changing times, being the enabler of this Better Connected World is the ideal role for Huawei.

The wind is rising and our sails are full. We will work with our partners to undertake this historic mission. We will leverage industry development opportunities to fully unleash the potential of ICT. Our goal is to promote industry innovation and transformation, and build a Better Connected World.



**Hu Houkun**

Rotating and Acting CEO

## Business Highlights in 2014

### Enabling broader connectivity



With the accelerated rollout of 4G mobile ultra-broadband networks, we commercially deployed 174 LTE networks and 132 EPC networks worldwide. These networks reinforced our presence in Rio de Janeiro in Brazil, Bengaluru in India, and Stockholm in Sweden. In China, we built up a business presence in every provincial capital. We constructed 186 commercial networks worldwide powered by our 400G core routers to help customers across the globe take up the challenges presented by massive data traffic.

### Advancing commercial use of NFV/SDN

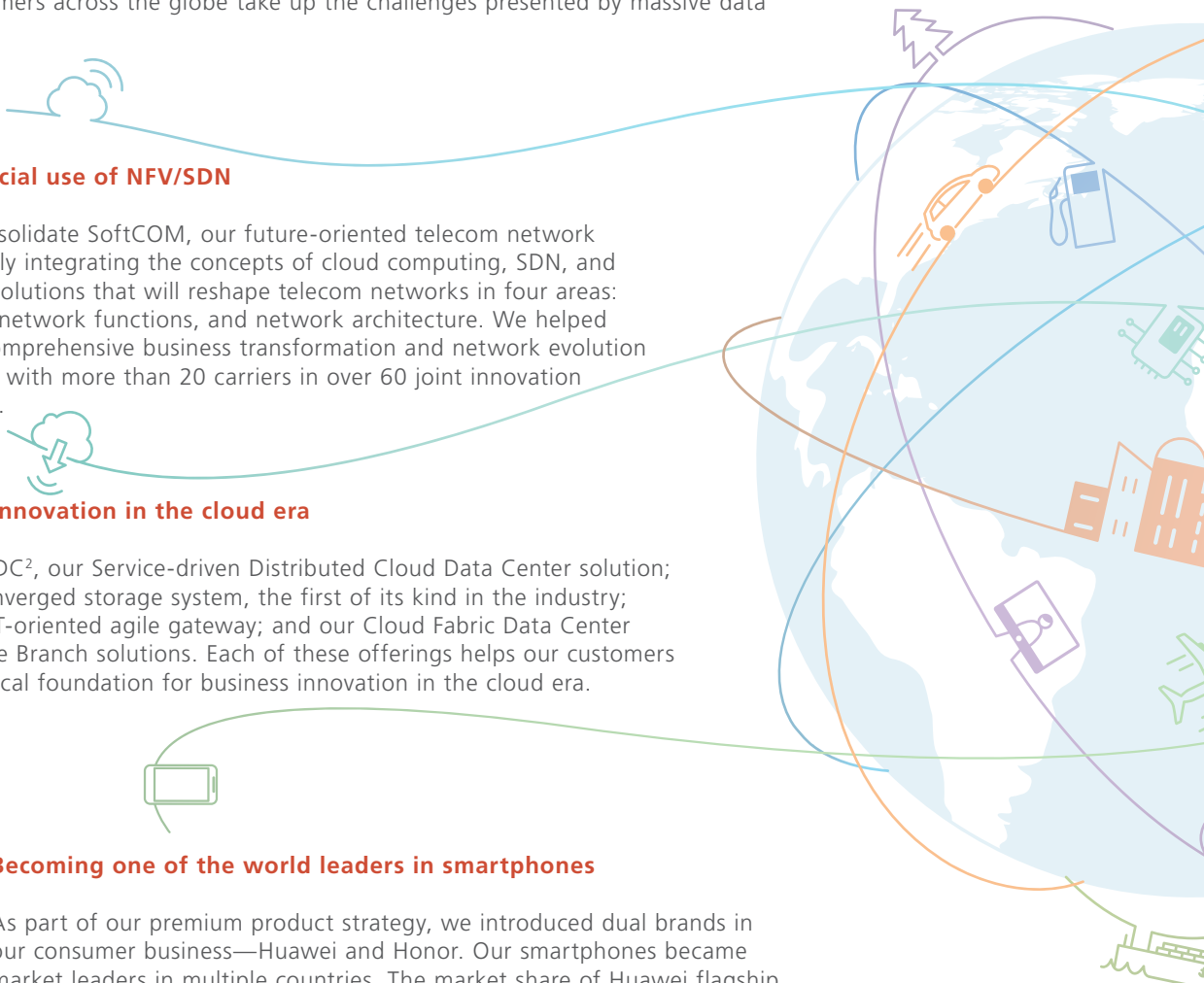
We continued to consolidate SoftCOM, our future-oriented telecom network architecture, by deeply integrating the concepts of cloud computing, SDN, and NFV. We developed solutions that will reshape telecom networks in four areas: services, operations, network functions, and network architecture. We helped carriers fulfill their comprehensive business transformation and network evolution agendas. We worked with more than 20 carriers in over 60 joint innovation projects on NFV/SDN.

### Driving service innovation in the cloud era

We launched SD-DC<sup>2</sup>, our Service-driven Distributed Cloud Data Center solution; the OceanStor converged storage system, the first of its kind in the industry; the AR511, our IoT-oriented agile gateway; and our Cloud Fabric Data Center Network and Agile Branch solutions. Each of these offerings helps our customers build a technological foundation for business innovation in the cloud era.

### Becoming one of the world leaders in smartphones

As part of our premium product strategy, we introduced dual brands in our consumer business—Huawei and Honor. Our smartphones became market leaders in multiple countries. The market share of Huawei flagship smartphones increased significantly, with over 4 million Ascend P7 units shipped to well over 100 countries and regions. The Ascend Mate7 was the talk of the high-end market, and demand exceeded supply. More than 20 million smartphones under the Honor brand were sold through online channels worldwide in the first year alone.





### Building leading advantages in services

Huawei continued to build service competitiveness in the ICT domain, and helped achieve agile and efficient transformation in the area of ICT operations. Our HUAWEI SmartCare® CEM solution, Quality Brand MBB service, and managed services continued to lead the industry. Our ICT consulting and system integration services experienced rapid development, and we enabled key breakthroughs in data center integration, NFV/SDN integration, OSS integration, and IT managed services. We built NFV/SDN Open Labs and SPO Lab to promote open cooperation and jointly develop the industry ecosystem.



### Defining 5G with industry players

We continued to increase investment in 5G and worked with various industries—especially those likely to use public networks in the IoT era—to define 5G standards. These include raising spectrum efficiency, increasing peak rates, enabling massive numbers of connections, and achieving one-millisecond latency. In doing so, we helped to push the sustainable development of the mobile industry. In late 2014, Huawei worked with industry partners to build the world's first 5G testbed in the UK to accelerate 5G research.



### Building a favorable industry environment

In the spirit of openness, cooperation, and mutual benefits, Huawei established strategic alliances and global partnerships with world-leading vendors such as SAP, Accenture, Intel, and Infosys. Through these partnerships, we integrated high-grade resources and capabilities to help build a favorable industry environment.

## Five-Year Financial Highlights

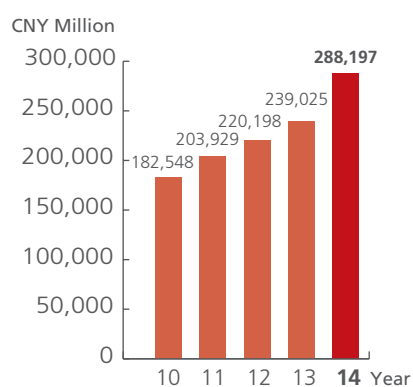
CNY Million	2014 (USD Million)	2014	2013	2012	2011	2010
Revenue	<b>46,515</b>	<b>288,197</b>	239,025	220,198	203,929	182,548
Operating profit	<b>5,521</b>	<b>34,205</b>	29,128	20,658	18,796	31,806
Operating margin	<b>11.9%</b>	<b>11.9%</b>	12.2%	9.4%	9.2%	17.4%
Net profit	<b>4,498</b>	<b>27,866</b>	21,003	15,624	11,655	25,630
Cash flow from operating activities	<b>6,739</b>	<b>41,755</b>	22,554	24,969	17,826	31,555
Cash and short-term investments	<b>17,114</b>	<b>106,036</b>	81,944	71,649	62,342	55,458
Working capital	<b>12,681</b>	<b>78,566</b>	75,180	63,837	56,996	60,899
Total assets	<b>49,997</b>	<b>309,773</b>	244,091	223,348	193,849	178,984
Total borrowings	<b>4,537</b>	<b>28,108</b>	23,033	20,754	20,327	12,959
Owner's equity	<b>16,138</b>	<b>99,985</b>	86,266	75,024	66,228	69,400
Liability ratio	<b>67.7%</b>	<b>67.7%</b>	64.7%	66.4%	65.8%	61.2%

Note: 1. Translated into United States dollar ("USD") using the closing rate as at December 31, 2014 of USD1.00 = CNY6.1958.

2. To present data consistently, certain comparative figures have been restated.

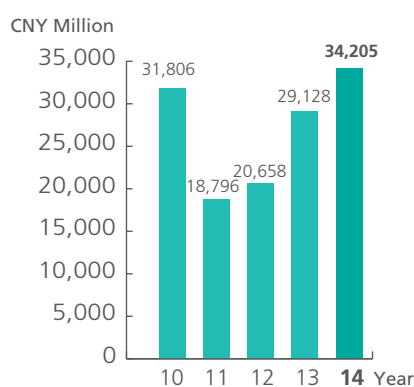
### Revenue

**CAGR: 12%**



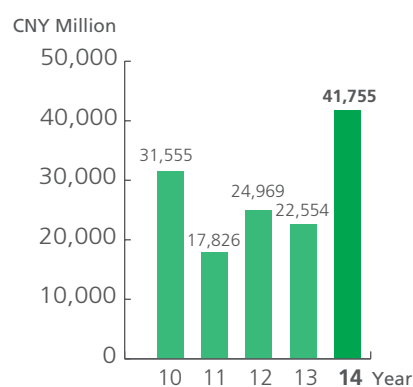
### Operating profit

**CAGR: 2%**



### Cash flow from operating activities

**CAGR: 7%**



## Message from the Chairwoman



We have remained focused on our goal: providing ubiquitous broadband connectivity, enabling agile innovations everywhere, and bringing a superior experience to everyone at an affordable price. With advanced ICT technologies and ideas, we will be able to promote social progress and build a world that connects all people and all things in cooperation with our partners in the industry.

Younger generations have been a powerful creative force throughout history. This is equally true today. As more than one billion digital natives have grown up and begin to play a more active role in society, their digital needs and creativity will drive the world forward.

A digital existence that connects everything has already become the new norm. Rapid developments in ICT – broadband, cloud computing, Big Data, the IoT, to name just a few – have provided a strong impetus for innovation that stimulates the development of individuals, businesses, industries, and nations.

### Accelerating global digitalization

Nowadays, digital connectivity is viewed as an important indicator of a country's competitiveness. Indeed, most nations have seen ICT investment and development as a mandate of national strategic importance. More than 130 countries have currently placed broadband infrastructure construction on their national agendas. They have developed strategic measures and planned ICT programs at the national level to fully unleash the potential of ICT and drive industry innovation and development. The Europe 2020 strategy has placed the Innovation Union on the top of its seven flagship initiatives for realizing Europe's 10-year development goals, which will fuel digitalization across Europe.

Huawei is playing an active role in this global wave of digitalization. In both developed and developing nations, we have established broad strategic dialogues with visionary leaders in the area of developing a digital economy over the past year. Decades of successful experience enables us to leverage our talent, technology, and business advantages to help various nations develop their ICT industries and promote socioeconomic and environmental sustainability.

Huawei has also shared its ICT expertise with local communities in many countries, helped them build effective education systems with ICT technologies, and nurtured local ICT talent. In fact, we have launched our Seeds for the Future program for this very purpose. This program, which has been introduced in more than 30 countries, has benefited more than 10,000 students from 100 plus universities.

### **Building an industry ecosystem**

As the physical and digital worlds continue to merge, companies operating in isolation will find it hard to satisfy all customer needs. Rather, forging partnerships with an open mind and pooling the best resources and capabilities are necessary to help customers succeed and industries develop.

We are working with various industries – especially those likely to use public networks in the IoT era – to define 5G standards. These include raising spectrum efficiency, increasing peak rates, enabling massive numbers of connections, and achieving one-millisecond latency. In doing so, we are helping to push the sustainable development of the mobile industry. In late 2014, Huawei worked with industry partners to build the world's first 5G testbed in the UK, which will greatly accelerate 5G research.

In the spirit of openness and win-win cooperation, Huawei has formed strategic alliances and global partnerships with leading companies such as SAP, Accenture, Intel, and Infosys to pool the best resources and capabilities and build a sound industry ecosystem.

### **Enhancing cyber security**

Ubiquitous networks are changing the way we work and live. While this presents many opportunities, it also poses new challenges to global security. Faced with such complex needs and risks, it is imperative that we make the correct choices.

On December 3, 2014, we released the third annual white paper on cyber security in Berlin: *Cyber Security Perspectives: 100 requirements when considering end-to-end cyber security with your technology vendors*. This is a positive step Huawei is taking to establish cyber security policies and standards. At the same time, we hope to inspire more businesses, policy advisers, suppliers, and buyers to think about and act on cyber security policies and standards.

Huawei will also make a commitment to the public, governments, and customers to protect user privacy, just as we have done on cyber security. We will honor this commitment as a responsible corporate citizen.

We are well aware that ensuring secure and stable network operations is our most important mission and corporate social responsibility. At critical moments, network failures could affect rescue efforts and delay the reporting of disasters, which in turn may cause significant losses to life and property. When a crisis occurs, you will find Huawei employees heading towards it or at its center while others are fleeing. This has always been the case, for example, during the Fukushima nuclear disaster, the 2010 Chilean earthquake, the current Ebola outbreak in Sierra Leone, and in war-torn countries and regions.

### Improving corporate governance

Driven by our core values of customer-centricity and dedication, we have improved our corporate governance system to maintain long-term effective growth.

In 2014, we gradually adjusted our business structure to focus on three dimensions – customers, products, and regions – and delegated more authority to the field. Accordingly, we enhanced the operations and capabilities of the BODs in our major subsidiaries to better supervise compliance with local laws, regulations, and business practices, thereby improving subsidiary governance.

At the corporate level, our BOD has clarified our strategic goal of becoming the leader in the ICT industry and building a Better Connected World, and decided on the major initiatives to achieve this goal. We have discussed how to improve the corporate governance system and its operating mechanisms. We have also regularly evaluated the performance of BOD members and provided them with training. These efforts will enable our BOD to provide better guidance for corporate strategy execution and business operations.

### Building a Better Connected World

During all our transitions – from telephone exchanges to broadband networks, from fixed networks to mobile networks, from voice services to video services, and from devices to clouds – we have remained focused on our goal: providing ubiquitous broadband connectivity, enabling agile innovations everywhere, and bringing a superior experience to everyone at an affordable price. With advanced ICT technologies and ideas, we will be able to promote social progress and build a world that connects all people and all things in cooperation with our partners in the industry.

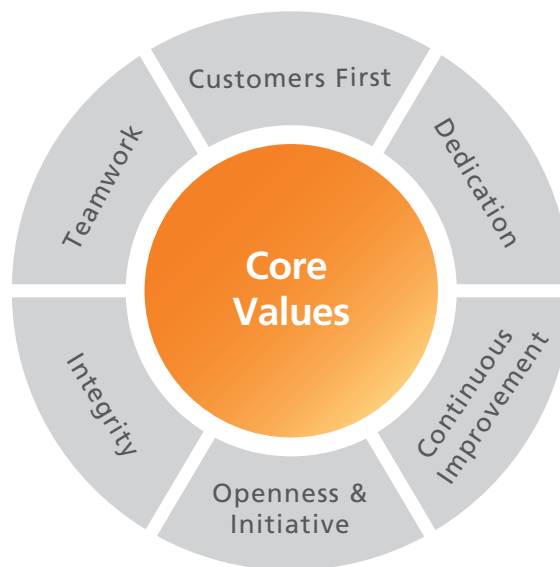
Finally, I would like to thank all Huawei employees and their families, our customers and partners, as well as industry organizations around the world. Let's work together to build a Better Connected World.



**Sun Yafang**

Chairwoman of the Board

## Core Values



### Customers First

Huawei exists to serve customers, whose demands are the driving forces behind our development. We continuously create long-term value for customers by being responsive to their needs and requirements. We measure our work against how much value we bring to customers, because we can only succeed through our customers' success.

### Continuous Improvement

Continuous improvement is required for us to become better partners for our customers, improve our company and grow as individuals. This process requires that we actively listen and learn in order to improve.

### Integrity

Integrity is our most valuable asset. It drives us to behave honestly and keep our promises, ultimately winning our customers' trust and respect.

### Dedication

We win customers' respect and trust primarily through dedication. This includes every effort we make to create value for customers and to improve our capabilities. We value employees' contributions and reward them accordingly.

### Openness & Initiative

Driven by customer needs, we passionately pursue customer-centric innovations in an open manner. We believe that business success is the ultimate measure of the value of any technology, product, solution or process improvement.

### Teamwork

We can only succeed through teamwork. By working closely in both good times and bad, we lay the foundation for successful cross-cultural collaboration, streamlined inter-departmental cooperation and efficient processes.



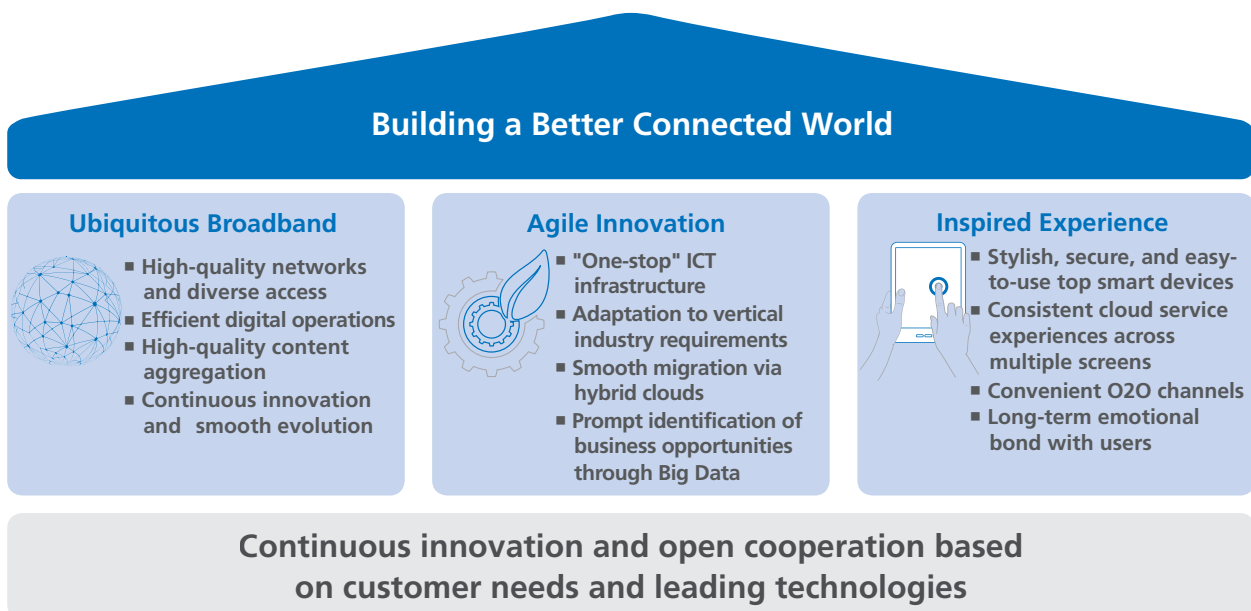
## Management Discussion and Analysis



In 2014, Huawei's well-balanced, worldwide presence helped the company achieve stable and healthy growth in the carrier, enterprise, and consumer businesses. Annual sales revenues totaled CNY288,197 million, a 20.6% increase over the previous year.

## Our Value Propositions

ICT technologies are converging at an accelerated speed. IT technologies, particularly cloud computing, are becoming key enablers for ICT innovation and development. New technological innovations are not only reshaping the CT industry, but also creating enormous business opportunities through convergence of the IT and CT industries. In response to these revolutionary changes, Huawei has continuously innovated to meet customer needs and maintain its technological leadership. Through open partnerships, Huawei focuses on providing future-oriented information pipes to build a Better Connected World and continuously create value for our customers and society. Huawei aims to become a strategic partner for carriers in their future transformation, a leader in providing enterprise ICT infrastructure, and a top smart device brand preferred and trusted by consumers.



### Ubiquitous Broadband

The Internet makes it easier to disseminate and obtain information, which in turn stimulates the desire to go online anytime, anywhere, on any device. This level of connectivity enables users to access more high-quality content and applications and enjoy the convenience of mobile offices. Enterprises are migrating their IT systems to data centers and clouds, placing higher requirements on networks. Harnessing future data surges requires networks with greater capacity, coverage, and agility. Huawei aims to bring the benefits of networks to more people.

Human desire for network connectivity, bandwidth, reliability, and security is far from being satisfied. In this context, Huawei is committed to helping carriers increase network capacity, optimize network management, and enable Internetized operations. Huawei has thus continuously innovated new architectures (such as SoftCOM), new platforms (such as Single), and new technologies. By delivering cutting-edge products and solutions that enable seamless evolution, we help our customers build highly efficient networks. To deliver on-demand services and high-quality content to subscribers,

carriers have to leverage IT technologies to reconstruct their telecom networks and realize Internetized operations. In this context, Huawei will join hands with carriers to meet challenges head on. We aim to help carriers integrate IT systems and transform networks with NFV and SDN technologies; aggregate high-quality content to increase their revenue; and achieve digital operations to deliver the ROADS experience (Real-time, On-demand, All-online, DIY, and Social) and make ubiquitous broadband readily accessible for all.

### **Agile Innovation**

The ICT industry will continue to advance rapidly well into the future. New trends such as mobility, cloud computing, Big Data, and social networking are driving the industry onto new frontiers. Significant digital changes are taking place in the real world, with the Internet driving the modernization of traditional industries.

Enterprises in all industries need to rapidly identify business opportunities and continuously enhance IT-enabled organizational collaboration in order to launch new products and services to markets better and faster. IT is evolving from a support system to a production system, and has become a core competency of enterprises.

Huawei aims to provide innovative "one-stop ICT infrastructure". As part of this drive, we deliver cloud data center infrastructure and digital infrastructure solutions to help customers maximize resource utilization (e.g., storage, computing, and network resources). As a result, business systems can be quickly deployed, easily operated and maintained, and efficiently managed. Huawei also provides mobile office solutions to boost customers' work efficiency. Our intelligent data

analysis system leverages Big Data technologies to help customers identify business opportunities and make agile business innovations. Through cooperation and innovation, we integrate our ICT products into our partners' industry solutions to meet the specific requirements of various industries.

The next 30 years will witness a gradual process of replacing traditional data centers with hybrid cloud data centers. In response to this trend, Huawei will deliver hybrid cloud solutions by incorporating technologies for public cloud services. As a result, our solutions will meet the diverse needs of enterprise customers, and also help carriers deploy public clouds to seize the tremendous opportunities offered by cloud services.

### **Inspired Experience**

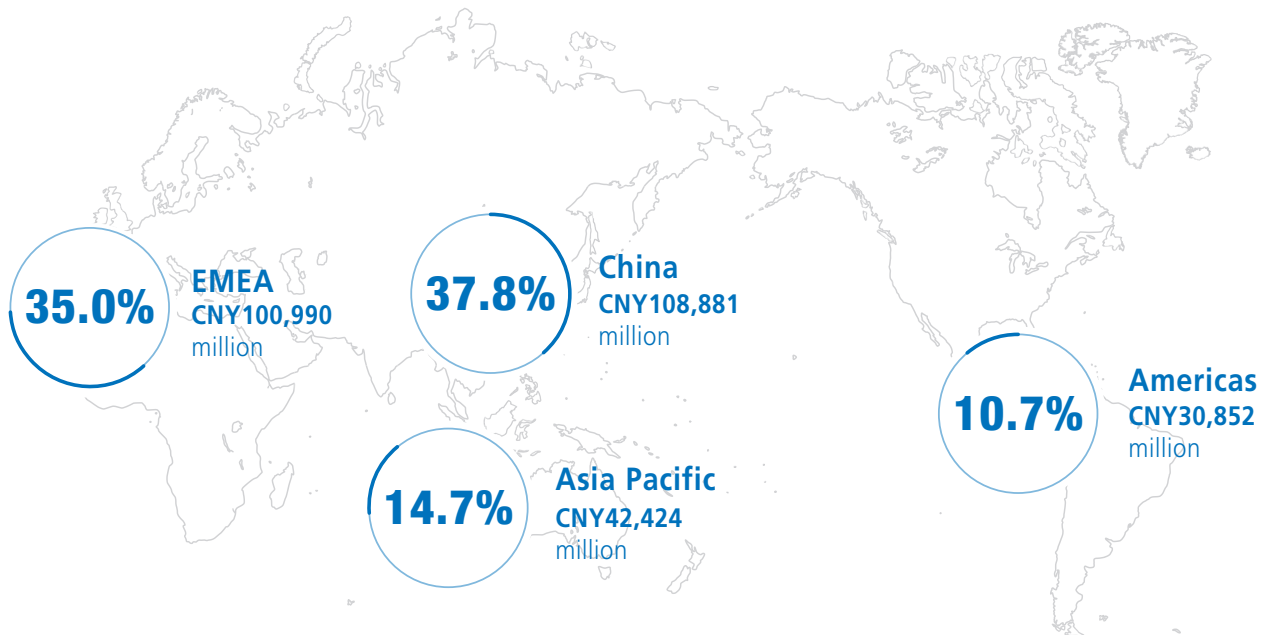
In the future, smart devices will be better at identifying user needs and developing situational and emotional awareness, and become an integral part of people's lives.

At Huawei, we constantly innovate industrial designs and key technologies to deliver top products that are stylish, secure, and easy-to-use. By building robust application and service ecosystems, Huawei delivers consistent cloud services across multiple screens (e.g., mobile phones, tablets, smartphones, smart watches, and home devices) in various scenarios (e.g., health, lifestyle, work, family, and outdoor settings). Our superior cloud services create a long-term emotional bond between Huawei and our users. In addition, we strive to provide global users worldwide with convenient O2O purchase experience and services, taking user experience to the next level.

## Business Review 2014

In 2014, Huawei's well-balanced, worldwide presence helped the company achieve stable and healthy growth in the carrier, enterprise, and consumer businesses. Annual sales revenues totaled CNY288,197 million, a 20.6% increase over the previous year.

CNY Million	2014	2013	YoY	CNY Million	2014	2013	YoY
Carrier Business	<b>192,073</b>	164,947	16.4%	China	<b>108,881</b>	82,785	31.5%
Enterprise Business	<b>19,391</b>	15,238	27.3%	EMEA	<b>100,990</b>	84,006	20.2%
Consumer Business	<b>75,100</b>	56,618	32.6%	Asia Pacific	<b>42,424</b>	38,691	9.6%
Others	<b>1,633</b>	2,222	(26.5%)	Americas	<b>30,852</b>	29,346	5.1%
Total	<b>288,197</b>	239,025	20.6%	Others	<b>5,050</b>	4,197	20.3%
				Total	<b>288,197</b>	239,025	20.6%



- Sales from the Chinese market totaled CNY108,881 million, up 31.5% year-on-year. Thanks to TDD network construction, the carrier business enjoyed an increase of 22% in sales revenue over the previous year. The enterprise and consumer businesses continued to grow rapidly, both increasing by over 35%.
- The growth of infrastructure networks, professional services, and smartphones yielded CNY100,990 million for Huawei in EMEA, marking an increase of 20.2% in sales revenue year-on-year.
- Due in large part to the development of markets such as South Korea, Thailand, and India, Huawei maintained its growth momentum in the Asia Pacific Region to achieve CNY42,424 million in sales revenue, up 9.6% year-on-year.
- Huawei's infrastructure network business grew robustly and the consumer business enjoyed continued growth in Latin American countries. However, due to the slowdown in North America, Huawei earned CNY30,852 million in sale revenue in the Americas, up 5.1% year-on-year.

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

## Carrier Business

With the rapid development of the ICT industry, the digital and physical worlds are deeply integrating. A Better Connected World full of unlimited possibilities is just around the corner.

Over the past 20-plus years, the ICT industry has created many growth miracles. ICT infrastructure and networks play a pivotal role in enhancing national and industrial prosperity and competitiveness. ICT is becoming a key enabler for the technological and business transformations of various industries, as well as an engine that drives sustainable global development. ICT has profoundly changed the way people work and live.

In a Better Connected World, carriers face pressure from more devices, content, and application scenarios. To help carriers face these challenges, Huawei focuses on information transmission, processing, storage, and presentation. We provide integrated products, services, and business solutions to help carriers build networks capable of delivering an optimal experience and cope with the challenges presented by ICT transformation.

It is Huawei's general strategy to help carriers build ubiquitous broadband networks that deliver an optimal experience, operate efficiently, and enable agile business innovation. To implement this strategy, Huawei has empowered carriers to develop the key capabilities required for ICT transformation. They include building efficient infrastructure, enabling smart pipes, aggregating digital content, opening up networks, exploring vertical industries, and conducting ICT-oriented architecture transformation. We aim to help carriers bring more value to end users in a Better Connected World in the future.

### Focusing on serving carriers' data traffic hubs and continuously improving solution and service capabilities

In the mobile broadband domain, we continued to provide the best user experience to carriers with our leading products and solutions:

- Served nine data traffic hubs worldwide.
- Supported 35 VoLTE networks outside of China, and helped the South Korean carrier LG Uplus construct an LTE-A network, which has become the best practice in the industry.
- Helped China Mobile, China Telecom, and China Unicom with LTE construction in all provincial capitals, and launched the world's largest eMBMS network for trial commercial use during the 2014 Youth Olympic Games.
- Worked closely with world-leading carriers on future-oriented 5G technologies. For example, we signed an MOU with Etisalat to provide 5G network assurances for the pavilions during the World Expo 2020.

In the fixed broadband domain, we:

- Constructed 186 commercial networks worldwide powered by our 400G core routers in 2014. The projects involved constructing a new round of ultra-broadband bearer networks to facilitate 4K video, LTE-A, and cloud services.
- Commercially deployed the world's first 1T router line card through joint innovation with customers, setting a new record in the industry.
- Worked with BT to pass the testing for 3 Tbit/s transmission on live networks.
- Proposed G.fast technology, which has been made an industry standard, and released SuperVector technology, which increased the speed of existing copper wires threefold and steered speed acceleration for ultra-broadband copper networks.

- Launched the SmartAX MA5800, the industry's first smart OLT with distributed architecture at the Broadband World Forum 2014. This product supports non-blocking access for 100G-PON.
- Developed high-order modulation microwave technology, which supports a backhaul bandwidth of 4 Gbps.
- Worked with SK Telecom in South Korea to construct the industry's first microwave borne CPRI network.

We continued to build our leading advantages in professional services:

- Became the industry leader in managed services by covering more than 150 networks and helping carriers achieve operational excellence.
- Maintained the leadership position of the HUAWEI SmartCare® CEM solution and constructed more than 20 SOC's globally, helping carriers increase revenue by enhancing the service experience of end users.
- Helped carriers significantly boost their rankings in network quality, service quality, and branding with our Quality Brand MBB solution.
- Provided assurances for more than 150 major global events such as Hajj and the 2014 World Cup in Brazil in 2014. We successfully provided assurances for all these events.

#### **Unveiling ICT transformation and drawing a blueprint for another 10-billion-dollar industry**

- In 2014, Huawei and Telefonica signed an MOU on strategic cooperation that targets ICT transformation. Huawei passed all verification tests, and commercially deployed the industry's first cloud-based value-added service in the UK. In the future, we will deploy B2B public cloud, video, and security/storage cloud services on a new cloud architecture.
- Rapid growth was seen in our data center integration services at L1/L2. Breakthroughs were made at L2 for world-leading carriers. In the OSS integration domain, we collaborated with various carriers, including Telefonica, on integration services.

- We provided IT managed services to more than 20 carriers across the globe, and our capabilities in this domain were rapidly acknowledged across the industry.

- We worked with carriers to jointly explore and identify real-world application scenarios, viable business models, and technical solutions for Big Data to help carriers capitalize on its potential. We also developed unified Big Data solutions.

- We established partnerships with more carriers in the area of video. For example, we helped China Telecom Sichuan achieve its business goal of increasing its video subscribers and optical fiber subscribers by two million each, and become the first provider of commercial 4K TV services in China. We also entered strategic cooperation with Deutsche Telekom on NGTV. We teamed up with industry partners to expand the video industry for mutually beneficial results.

#### **Investing in the SoftCOM strategy; integrating the concepts of cloud computing, NFV, and SDN; and developing solutions that will reshape telecom networks in four areas: services, operations, network functions, and network architecture**

- According to a recent survey conducted by the consulting firm Current Analysis, world-leading telecom carriers (with a revenue of over US\$50 billion) rated Huawei as the top supplier for SDN and NFV solutions for the second consecutive year. Huawei ranked first in vendor perception across tier-1 telecom carriers globally. A total of 76% respondents chose Huawei as the top vendor for providing NFV/SDN solutions. In the future, Huawei will continue to work closely with carriers around the world, and provide them with cutting-edge NFV/SDN solutions to facilitate ICT-oriented future network evolution and business transformation.

- Huawei deployed the world's first Cloud IMS commercial network based on NFV architecture in Europe, and provided cloud-based IMS/VoLTE services for multiple world-leading carriers. Huawei received the award for Most Innovative Virtualised IMS Solution at the 2014 IMS World Forum, and became the preferred partner for major carriers in this domain.
- Huawei continued its partnerships with leading carriers such as Vodafone, Deutsche Telekom, NTT DoCoMo, and China Telecom in NFV/SDN. We worked with China Telecom to complete the world's first commercial deployment of carrier SDN and T-SDN. We partnered with leading carriers such as Telefonica to jointly drive the application of SDN in multiple scenarios such as mobile bearer networks, data centers, backbone networks, and smart pipes for MANs. While helping carriers across the globe complete commercial deployment, we steadily improved the competitiveness of our NFV/SDN solutions.
- In the NFV/SDN integration domain, we carried out joint innovation with more than 20 leading carriers worldwide. Our NFV/SDN Open Labs in Xi'an, China are now operational.

#### Building a mutually beneficial ICT industry chain

Huawei worked with carriers and business partners to jointly explore innovative ICT solutions, products, and services that cater to the current and future development needs of the telecom industry. In 2014, Huawei hosted a series of high-level forums to discuss key industry topics in-depth with stakeholders from around the world. They included representatives from leading telecom carriers, industry organizations, industry partners, vertical industries, telecom regulators, standards organizations, chip makers, content providers, and Internet service providers. The forums effectively promoted the integration of upstream and downstream activities in the industry chain, helped shape the future of the telecom industry, and contributed to building a Better Connected World.

In 2014, Huawei focused on helping carriers with their ICT transformation by looking at things from their perspective. We provided integrated products, services, and business solutions, and helped build networks that deliver an optimal experience. As a result, Huawei became carriers' most trusted partner. In 2014, sales revenues from our carrier business totaled CNY192,073 million, an increase of 16.4% year-on-year.



*In February 2014, Huawei attended the Mobile World Congress 2014 held in Barcelona and presented itself under the theme—"Mobile Changes the World". At the congress, Huawei discussed its innovative mobile ICT solutions, products, and services with customers, aiming to facilitate the current and future development of the mobile industry. We fully showcased our capabilities to help customers build ubiquitous mobile broadband networks, deliver an inspired service experience, and promote agile innovation for a Better Connected World.*

## Wireless Networks

The construction of carrier-operated mobile broadband networks really took off in 2014, enabling us to consolidate our presence in the global wireless network market. With our thorough knowledge of technologies, the forward-looking analysis of network trends, and precise user behavior analysis, we continued to meet customer needs, enlarge the industry "pie", and steer industry development.

With large-scale worldwide LTE deployment, we steadily expanded our presence in the global LTE market, having also commercially deployed 174 LTE networks and 132 EPC networks for carriers. LTE networks constructed by Huawei now serve approximately half of all LTE subscribers around the world. In China, we have become the most important strategic partner of China Mobile, China Telecom, and China Unicom in the area of LTE construction.

We maintained our leadership position in the UMTS/HSPA+ market and deployed a total of 304 commercial UMTS networks worldwide, accounting for 53% of the world's total. Out of these, 123 were upgraded to 42 Mbit/s Dual Carrier HSPA+ networks. During the development of 700 MHz, 450 MHz, and 3.5 GHz, Huawei partnered with carriers, device and chip makers, and research institutes to establish industry alliances that promote the healthy and sustainable development of the entire mobile industry. Huawei proposed the first 4.5G solution for smooth LTE evolution, which raised network speed and connections and shortened latency. The solution is expected to be commercially deployed in 2016.



*In November 2014, Huawei successfully held its Global Mobile Broadband Forum in Shanghai. More than 600 representatives from major carriers, industry organizations, industry partners, and Internet service providers from around the world gathered in Shanghai. They discussed a number of topics ranging from the construction and operation of the best LTE networks and 5G definitions to new business opportunities and IoT, and explored how to create the future of MBB.*

According to statistics from 3GPP, we have submitted 665 accepted proposals to 3GPP LTE core standards since 2010, accounting for 25% of the world's total, making Huawei the industry leader in this field. We currently hold key positions ranging from chairperson and deputy chairperson to board member and workgroup leader in over 100 standards organizations (such as 3GPP, ESTI, IEEE, and ITU-T).

Mobile connectivity has shattered the limits of time and space and is changing the way people work and live. New operating models have been created for traditional industries. Mobile office, mobile shopping, and mobile payments have become part of everyday life. Mobile IoT will be the next step in the evolution of mobile broadband. 5G is not just the next-generation mobile communications standard after 4G; it also represents the basic framework for the future digital world. Huawei has developed global partnerships with multiple research institutes, universities, and carriers, and plans to start to deploy commercial 5G networks in 2020.



## Fixed Networks

With the development of cloud computing, IoT, and 4K video industry chains, the fixed broadband industry has entered a new round of rapid development. Carriers have put full-service operations, 4K ultra-HD video, and SDN at the core of their business strategies. Globally, fixed broadband has become a focal point for investment in the ICT industry.

In the construction of ultra-broadband networks, full-service operations featuring FMC have become a business strategy for many carriers and end users seek an inspired experience. Users' continued pursuit of a better experience calls for the vertical integration of network infrastructure and Internet content. In 2014, Huawei upgraded FMC to FMC2.0—which incorporates FBB, MBB, and content—to help carriers build full-service networks that deliver an optimal service experience. As a result, carriers have not only improved their competitiveness and customer loyalty, but also achieved sustainable and profitable growth through content control.

In the face of future trends, we achieved the following in the SDN field:

- Led commercial SDN application efforts. For example, we partnered with China Telecom to complete the world's first commercial deployment of carrier SDN in Beijing and T-SDN in Fujian. We also worked with leading carriers such as Telefonica to jointly drive the application of SDN in multiple scenarios such as mobile bearer networks, data centers, backbone networks, and smart pipes for MANs.
- Won the award for Best Virtualization Innovation for Huawei's virtual Data Center (vDC) solution at the Broadband InfoVision Awards, which was part of the World Broadband Forum 2014.
- Rated as the top supplier for SDN and NFV solutions for the second consecutive year by world-leading carriers in a 2014 survey conducted by the consulting firm Current Analysis, and selected as the Best T-SDN Solution Supplier in 2014.



*In September 2014, Huawei hosted the Ultra-Broadband Forum 2014 in London, bringing together top carriers and business partners to jointly redefine ultra-broadband connectivity and promote the integration of upstream and downstream activities in the industry chain. At the forum, Huawei launched ACE-Band architecture to facilitate 4K ultra-HD video and cloud services. By combining applications, cloud, and experience, this ACE-Band architecture offers users a better experience with faster speeds and lower latency, and promotes continued industry cooperation and innovation.*

In 2014, our innovative fixed network products and solutions as well as outstanding services gained recognition from more customers from around the world, as evidenced by the following:

- Constructed 186 commercial networks powered by our 400G core routers, becoming the world's largest supplier for commercial 400G core routers.
- Helped BT build the industry's first 100G and 200G flexrate WDM OTN network. This network has doubled the service bandwidth for BT without incurring extra hardware costs, and reduced its network investment.
- Worked with Eircom to successfully deploy the Vectoring broadband access equipment, and offered ultra-broadband copper line access with a rate of up to 100 Mbit/s to more than 700,000 homes and enterprises in Ireland. This has become the world's largest commercial Vectoring network.

People's demands for display and screen experience are far from satisfied. 4K ultra-HD video technology is becoming mature and will be applied on a large scale over the next two years. Against this backdrop, carriers will need to optimize their networks to support high-quality 4K/8K video. SDN brings business value to carriers in terms of open innovation, efficient operations, and simplified O&M. Its value has been verified in commercial use, and SDN will be deployed commercially in the future. Enterprises need hybrid cloud in the cloud era. Cloud connectivity will present carriers with strategic opportunities in the cloud service market. In the FMC2.0 era where carriers will converge FBB, MBB, and content, networks will be optimized in terms of applications, cloud, and experience. We will continue to adopt an open and innovative attitude, provide more competitive solutions to facilitate industry development, and become a trusted strategic partner of our global customers.

## Global Services

Huawei continued to increase investment in developing its capabilities in service solutions and platforms. We established complete local service delivery organizations and platforms around the world. To meet carriers' ICT transformation requirements, we carried out joint innovation and cooperated openly with world-leading carriers to build the ecosystem. We also increased investment in competence and innovation centers, including our NFV/SDN Open Labs in Xi'an, China; more than 20 SOC's across the globe; GNOCs in India and Romania; GNEEC in Beijing, China; our CETC in Shenzhen, China; SPO Lab in Europe; and our Performance and Experience Analysis Center in Xi'an, China.

The HUAWEI SmartCare® CEM solution delivered verifiable business value to carriers in the areas of service quality management and customer experience analysis. We actively participated in setting industry standards for CEM. Specifically, we were involved in developing 531 KQIs relating to customer experience at the TM Forum, and in setting the baseline value for indicators at the QuEST Forum. In 2014, Huawei's CETC won the award for CEM Innovation of the Year from Telecom Asia.

In the managed services domain, we were committed to maximizing network efficiency for customers. We increased investment in the MSUP and GNOCs, and expanded the delivery scope of centralized and standardized services. While continuing to improve our global O&M efficiency and quality, we helped carriers achieve operational excellence.

Huawei's Quality Brand MBB solution continuously improves capabilities in precise planning and optimization. It does so by providing accurate forecasts on

massive traffic and implementing geographically-based fine-grained network management. In 2014, our Quality Brand MBB solution helped more than 100 networks worldwide significantly boost their rankings in network quality, service quality, and branding. By the end of 2014, we had provided mobile network planning and design services for more than 500 carriers worldwide with our mobile network integration services. For our IBS integration services, we had constructed more than 32,000 hotspots for 117 carriers in 65 countries. A total of 45 of the world's top 50 carriers have adopted our site integration services.

With the rapid development of video services, the bandwidth requirements of fixed networks are expected to increase by eight to ten times over the next five years, which means tremendous opportunities for the development of our fixed network integration services. In 2014, Huawei's fixed network integration services covered 186 400G networks around the world.



*In September 2014, Huawei successfully held the first Global Professional Services Forum that targeted the operations domain. The forum provided guidance for ICT transformation. Attendees shared insights and discussed topics such as Quality Brand MBB, NFV/SDN integration and evolution as well as open digital operations. Huawei demonstrated its strategic and investment emphases in the area of consulting and system integration, to build up industry leadership in ICT professional services.*

With our customer support services, we provided secure, reliable, and efficient network assurances to customers in more than 170 countries, serving one-third of the world's population. In 2014, Huawei provided assurances for more than 150 major global events such as Hajj and the 2014 World Cup in Brazil. Moreover, we offered carriers in 149 countries training services to help them boost their capabilities.

In 2014, Huawei experienced rapid growth in IT consulting and system integration services:

- Utilized our data center integration services to help customers across the globe construct more than 480 data centers, and provided data center consolidation and service migration services, enabling us to achieve rapid growth in data center integration services.
- Provided IT managed services to more than 20 carriers across the globe, widely demonstrating our capabilities in this domain industry-wide.
- Won a framework contract from Telefonica for OSS services; became a major partner of the TM Forum for developing OSS standards for the ZOOM project; and named the Asia Pacific BSS/OSS Vendor of the Year in 2014 by Frost & Sullivan.
- Collaborated deeply with industry organizations in the NFV/SDN integration domain to build up multi-vendor integration and network evolution capabilities and help develop a sound industry ecosystem. In 2014, we successfully helped a world-leading carrier construct the industry's first commercial VoLTE office, acting as the prime NFV integrator for the project.

Looking ahead, we will continue to increase investment in services and constantly improve carriers' network efficiency, service quality, and customer experience in areas such as managed services, Quality Brand MBB, and CEM. In addition, we will build capabilities in end-to-end consulting and system integration oriented towards ICT transformation in an effort to become carriers' preferred ICT system integrator.

### Carrier Software

As the telecom industry continues to develop and carriers' transformation becomes a matter of urgency, we centered on the management of carriers' customer assets and two business domains: digital services and operations support. We developed integrated solutions including VGS, M2M, Universe, and CVM to create value for customers by leveraging the market opportunities arising from carriers' digital transformation.

In the digital service domain, the Huawei Digital inCloud solution provided a unified Partner Alliance Program and an open platform to help carriers build a digital ecosystem, accelerate the transformation of their digital services, and support our partners' business success. In 2014, our SDP solution helped carriers achieve business success in areas like communications, charging, Big Data, and traffic trading. Our digital home services focused on video, and improved our core competences in multi-screen experience, video distribution, and devices. They were widely adopted in the high-end markets in Europe and Latin America. Our VAS Cloud solution helped carriers transform their service networks and develop NFV architecture. The solution was widely deployed by top carriers on their high-value subsidiaries. We became the industry leader in integrating service networks and opening up communications capabilities. As the cornerstone of transforming carriers' traffic

monetization strategy, VGS-SCG continued to improve user experience and network efficiency and support traffic monetization.

In the BSS domain, we built up digital operation transformation capabilities and the next-generation operation enabling platform. By opening up telecom operation capabilities and monetizing data assets, we expanded our operation ecosystem and customer base, and offered the ROADS customer experience (Real-time, On-demand, All-online, DIY, and Social). Our BSS solution increased its global market share. Our CBS served 1.5 billion subscribers globally, with 320 million subscribers migrated in 18 months. Huawei's next-generation CBS R5 won 34 commercial contracts, maintaining its leadership position in the industry. The Huawei Customer Care & CRM system served 800 million subscribers in the global telecom market and 15 new commercial contracts were signed in 2014, which consolidated Huawei's leading position in the market. Our NGBSS solution contributed to operational transformations, helping carriers achieve business success in BSS network modernization.

In 2014, we fully utilized our advantages in coordinating pipes with the two areas of the carrier software domain: digital services and operations support. Moreover, we developed integrated solutions for customer asset management. Our MBB VGS spearheaded the monetization of the mobile broadband traffic, serving carriers in West Europe, the Southern Pacific, China, and Latin America through new business models. We also worked with carriers across the globe to effectively explore and develop—among other areas—Big Data, M2M, and CVM. The Universe Big Data analytics platform was commercially deployed in over 10 sites worldwide. It won the award for Most Innovative Tool for Driving Real-Time Intelligence at the Broadband

Traffic Management & Telco Big Data Summit. Our M2M platform solution was commercially verified at multiple sites. It helps carriers rapidly expand their M2M subscriber base.

In the years to come, we will continue to focus on the vision of "Accelerate Digitalizing" in the carrier software domain and innovate and implement new business models. We will build the world's leading digital service enabler, digital operation enabler, and business enabling suite. Ultimately, we will become a leader in the Business as a Service and our customers' most reliable business partner.

### Core Networks

As the telecom industry enters the ultra-broadband and fully-connected era, users have an ever higher demand for an inspired communications experience. Traditional voice and message experience and human-to-human communications can no longer meet users' comprehensive and personalized requirements. HD voice, video services, fully-connected communications, and fully-virtualized services will be the foundation of the future Better Connected World. In the face of a new wave of transformation in the ICT industry, Huawei's efforts in the core network domain focus on evolution towards 4G converged communications, NFV, and convergent data to meet carriers' fundamental needs. By improving users' communications experience, opening up communications capabilities, and moving network infrastructure to the cloud, we help carriers with their transformation towards future networks.

In the IMS & CS domain, we:

- Pioneered in the areas of VoLTE/VoWiFi, NFV, IMS-based fixed network modernization, and network capability exposure.
- Delivered a complete set of solutions ranging from network technology to integration services.

- Provided support for 35 VoLTE networks across the globe, and became the strategic partner of many world-leading carriers in 2014.
- Enabled Hong Kong's PCCW-HKT to become the first carrier to commercially deploy VoLTE with the eSRVCC solution.
- Received the award for Best VoLTE Product at the 2014 IMS World Forum.
- Received recognition as the Top-Notch SBC for our SE2900 by Miercom—a global leader in performance and security product testing in the US.
- Provided the world's only convergent signaling solution that supports DRA/STP/SSR with our SPS. This solution helps carriers construct stable and reliable 4G signaling networks and ensures smooth evolution of traditional signaling networks.

Besides supporting the development of mobile networks, Huawei's core networks also played an important role in modernizing fixed networks. With our leading IMS-based Fixed Network Modernization solution, we provided carriers' fixed networks with equipment upgrade and reconstruction services, helping them reduce operating costs, improve network efficiency, transform towards future network architecture, and increase revenue. We opened up network capabilities to help carriers tap into the Blue Ocean of the government and enterprise markets. Leveraging the government and enterprise business enabling platform, carriers can build alliances with third-party developers to carry out joint business innovation and design new business models that benefit multiple parties. In this way, we have successfully opened a path to help carriers monetize their network assets and unlock the huge potential of the government and enterprise markets.

In the NFV domain, we continued to play an important role in standards and open source organizations. We worked with world-leading carriers and partners to keep driving industry development. In addition, we worked

to build cloud-aware architectures to help carriers reduce operating costs, accelerate service launch, speed up business innovation, and jointly create a favorable ecosystem. Huawei deployed the world's first Cloud IMS commercial network based on NFV architecture in Europe, and provided cloud-based IMS/VoLTE services for multiple world-leading carriers. Huawei received the award for Most Innovative Virtualised IMS Solution at the 2014 IMS World Forum, and became the preferred partner for major carriers in this domain.

In the convergent data domain, we:

- Became the industry leader in user data management and unified policy control solutions, and steered industry development and built the digital ecosystem in the areas of Big Data and IoT connectivity.
- Delivered 3.9 billion lines of our SingleSDB solution by the end of 2014, providing secure and stable services for one-third of the world's population, and worked with world-leading carriers to innovate in the area of SDM.
- Achieved rapid growth with our SmartPCC solution in 2014. According to a survey by Infonetics, Huawei's PCRF solution was carriers' top choice. The SmartPCC solution retained the highest market share globally according to Infonetics, and ranked first in terms of technology influence according to Current Analysis.
- Continued to spearhead industry development in FMC unified policy control and NFV.
- Worked on opening up and adding value to carriers' data assets with our DaaS solution, a key component of Huawei's Big Data portfolio. With Open Data Bus, this solution gains insights into User Profile, ensures data openness management and security, and protects privacy, helping customers reduce operating risks and significantly increase revenue. The solution has been successfully deployed in the Big Data project of China Unicom Shanghai. We also jointly innovated with Telkomsel in Indonesia to promote the mature commercial application of Big Data technologies.
- Helped over 300 carriers worldwide with our convergent data solutions, and developed converged user data solutions in the fully-connected era. These efforts aim to help carriers monetize user data by fully converging databases, adopting unified control policies, and ensuring data security and openness, to satisfy user expectations on an inspired experience.

Looking ahead, Huawei will continue to optimize network connectivity control centers to achieve fully-connected communications. We will focus on NFV to provide customers with customized cloud solutions that support rapid deployment; build an open, collaborative, and mutually beneficial communications ecosystem; and keep promoting the innovation of business models to consolidate our strategic partnerships with customers.

## IT

As OTT development and ICT convergence bring about opportunities and challenges, carriers urgently need to make breakthroughs in ICT transformation. With convergence as our IT strategy and cloud computing as a strong catalyst for IT and CT restructuring and convergence, we focus on cloud data center solutions to help carriers reshape their ICT business and operating models.

We have greatly improved our IT products and solutions, which have been extensively adopted by carriers from around the world. Our innovative, differentiated, and leading IT products and solutions are increasingly recognized by our customers. By December 2014, Huawei had helped customers across the globe build more than 480 data centers, including 160 cloud data centers. Gartner raised its rating of Huawei's data center solutions from "promising" in 2013 to "positive" in 2014. Our active-active data center solution won the 2014 Technology Leadership Award in Datacenter Solutions from Frost & Sullivan.

We released our unique IT and CT convergence solutions in the following areas: cloud-based development of telecom services, public cloud, and cloud data center integration. These solutions successfully helped the world's top 50 carriers achieve ICT transformation using cloud data centers. Based on Huawei's distributed cloud data center architecture, China Telecom, through its international public cloud project, built a resource pool that covered more than 20 countries and regions, and realized centralized management on its global resources. Huawei and Telefonica jointly initiated the most innovative next-generation architecture for ICT transformation in the telecom industry. Huawei helped Telefonica's UK subsidiary successfully deepen ICT transformation through the VAS Cloud project. Spanning six Latin American countries (Spain, Chile, Peru, Colombia, Argentina, and Ecuador), Telefonica's IT transformation project migrated services over a distance of more than 8,000 km for the first time and moved 80% telecom services to the cloud.

Huawei worked with more partners in promoting the healthy development of the industry chain. We:

- Cooperated with Red Hat to develop OpenStack-based cloud solutions to meet carriers' requirements for NFV.
- Actively promoted OpenStack's global development based on our position as a gold member and strong supporter of the organization.
- Conducted cooperation with the IT hosting leader LeaseWeb, focusing on joint server innovation.
- Helped expand the membership of the Huawei-initiated FusionSphere user alliance to 150, bringing together strong players from the cloud computing industry chain.

In the future, we will focus on cloud computing and Big Data technologies. Through continuous innovation and mutually beneficial partnerships, we will work with carrier customers to embrace the trend of Internetization and market challenges from OTT, comprehensively optimize and restructure telecom services, and transform towards digital services.

### **Network Energy**

MBB/FBB and cloud computing have resulted in network traffic surges, a dramatic increase in data volume, and the need to conserve energy and reduce emissions. By keeping pace with these trends, we leveraged our advantages in ICT and network energy, and integrated IT with electricity and electronics technologies. Acting on the innovative concepts of digitalization, interconnection, and intelligence, we focused our energy solutions on telecom energy, data center energy, and smart PV plants to develop simple, efficient, and reliable intelligent network energy solutions.

With the rapid development of MBB/FBB, we launched the MTS new-generation intelligent telecom energy solution to meet carriers' requirements for easy site acquisition, minimal maintenance, high energy efficiency, and easy management. With software-defined power and modular designs, this solution supports integrated deployment, site-level efficiency, and intelligent management of telecom sites. Huawei deployed more than 1.6 million telecom energy systems in 170 countries and regions, and enjoyed the largest share in the global incremental market.

We entered the US, Australian, Japanese, and South Korean markets. All of our products are highly energy efficient; for example, our rectifier module has an efficiency of up to 98%, ranking top in the industry. In 2014, we won the 2014 Frost & Sullivan Global Product Leadership Award for the Direct Current (DC) Power Systems Market.

In the area of energy consumption, we established partnerships with leading carriers such as China Mobile, China Telecom, China Unicom, China Towercom, Telefonica, Vodafone, BT, KPN, KDDI, STC, and Etisalat. By improving energy and operating efficiency, we helped minimize customers' end-to-end operating costs. Telefonica named us exclusively as their Best Energy Partner.

The explosive growth of Internet applications and cloud computing has brought data centers into a new round of development, requiring shorter construction periods and lower power consumption. Huawei had many achievements with data centers in 2014:

- Our Intelligent DC solution addressed difficulties in the planning, construction, and O&M of data centers, and maximized ROI and operating efficiency.
- We partnered with world-leading carriers to deploy data centers on a large scale to meet the increasing requirements of the ISP industry for IDC.
- Our Intelligent DC solution won multiple awards, including the award for Outstanding Data Center Solutions.
- The Huawei Container Data Center ranked first globally in terms of shipments in 2014, and won the award for Data Center Innovation of the Year from Telecom Asia.
- We delivered a container data center for Telenor in Myanmar, which became the world's first large outdoor data center.

We also provided a full range of efficient high-frequency modular UPS products to meet the needs for uninterruptible small-, medium- and large-capacity power supply. In 2014, we won the largest share in China Mobile's centralized procurement of UPS products. Our UPS product penetrated high-end industries across the globe on a large scale, including the transportation, finance, and government sectors.

We launched our Smart PV Plant solution by integrating information, Internet, and photovoltaic technologies to address customer needs. This solution ensures efficient power generation, smart O&M, security, and reliability in PV plants full-lifecycle. In 2014, we achieved the following:

- Our Smart PV Plant solution was deployed on a large scale globally, steering industry development.
- Our commercial products led the industry in terms of both efficiency and power generation capacity.
- We were the first vendor in the world to pass undervoltage ride through tests at power plants.
- We teamed up with Yellow River Upper Reach Hydropower Development, a subsidiary of China Power Investment Corporation, and constructed the world's largest cutting-edge smart PV plant with a capacity of 130 MW.
- We established partnerships with China's top 50 PV plants and made inroads into European and Japanese markets.

Our efforts have provided strong support for customers' business success and the large-scale adoption of clean energy.



## Enterprise Business

The impact of innovative ICT on industries is increasing, with technologies such as cloud computing, Big Data, IoT, and mobility prompting enterprises to transform their value creation and business models. ICT has become a key driver of enterprises' business transformation and innovation, making a Better Connected World a viable reality in the near term. With a focus on ICT infrastructure, Huawei has proposed the Business-Driven ICT Infrastructure (BDII) strategy in response to today's business needs. We have continuously innovated based on customer needs and collaborated with partners to innovate technology, hardware, software, and services. To help our customers achieve business success, we have implemented the "being integrated" strategy and provided them with innovative, differentiated, and leading products and solutions.

In 2014, we focused our efforts on government, transportation, energy, and finance customers. We managed to achieve strong and steady growth as a result of vigorous expansion in the global market. Our sales revenue from the enterprise business reached CNY19,391 million, an increase of approximately 27.3% year-on-year.

- In the smart city domain, we worked with multiple partners and developed the Safe City Solution using our next-generation eLTE mobile broadband trunking system and visual command platform. The solution had been deployed in more than 100 cities globally. Our Government Cloud Solution helped China's Chengdu municipal government create an innovative service model, and provided cloud disaster recovery, cloud management, and cloud security services for enterprises.
- In the transportation domain, our Digital Railway Solution served a total track length of 87,000 km, the equivalent of twice the earth's circumference. In China, we helped Shuo Huang Railway operate 25,000-ton heavy-haul trains, a project that pioneered the development of heavy-haul railways. Outside of China, we helped Bombardier construct Africa's first ERTMS Regional railway in Zambia, and worked with Alstom to complete live testing on the LTE-powered CBTC system.
- In the energy domain, Huawei served 14 of the world's 20 largest energy companies, covering more than 100,000 substations and 38,000 km of oil and gas pipelines. The Huawei Better Connected Smart Grid solution helped Thailand's Provincial Electricity Authority build a secure high-speed production network, powering the rapid development of smart grids. CNPC used Huawei's Data Center Network Solution to build the largest enterprise cloud data center in the Asia Pacific region and meet the requirements for data disaster recovery and redundancy backup of "three data centers in two cities" at the group level.
- In the finance domain, our Omni-Channel Banking Solution was commercially deployed in more than 300 financial services institutions around the world, including Standard Chartered Bank, Hong Kong's Hang Seng Bank, and Sberbank—Russia's largest commercial bank. Our enterprise networking, server, and storage products were deployed on a large scale by the Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China, Bank of China, and China Construction Bank. Moreover, China Merchants Bank and ICBC began using our Big Data solutions to carry out precision marketing in line with the Internet era.

- In the Internet domain, Huawei constructed an efficient and secure cloud platform for Qwant, France's top search engine company, and built a cost-effective hosting platform for LeaseWeb in the Netherlands. Huawei's products and solutions were deployed by more than 90 Internet companies and data center cloud service providers.
- In the education domain, Huawei's Elastic Education Cloud Solution was applied in more than 20 countries and regions. Our Smart Campus Solution helped more than 50 universities—including Tsinghua University—apply innovative ICT to teaching and research. Additionally, our Agile Education WAN Solution significantly increased the speed of the China Education and Research Network.
- In the media and entertainment domain, approximately 200 media institutions from 15 countries, including China, France, and Italy, deployed Huawei's Omnimedia Solution. We partnered with Sobey Digital Technology to deploy the industry's first service-defined omnimedia cloud solution in the converged press center of Shenzhen Media Group, helping the group achieve its strategic transformation towards omnimedia. Our HD Program Production Solution—which was built on Big Data storage and Agile Network technologies—was extensively used on a commercial basis by leading media groups such as China Central Television, Phoenix TV, Hong Kong's TVB, and Hunan Broadcasting System.
- Huawei also partnered with more than 20 leading global carriers, including Vodafone Global Enterprise, Deutsche Telekom, and BT Global Services, to provide ICT services for enterprise customers.

Based on its BDII strategy, Huawei invested heavily in R&D. We made notable progress in the following domains: enterprise networking, data centers, office collaboration, cloud computing, and high-end storage.

To increase network agility for services, we released our Agile Branch and Cloud Fabric Data Center Network solutions, and optimized our Agile Network Solution. Approximately 500 enterprises worldwide have deployed these solutions. Our Cloud Fabric Data Center Network Solution, Agile Campus Solution with wired and wireless hybrid networks, and enterprise network security products were all positively rated in many reports, including Gartner's magic quadrants. According to 2014 Q2 statistics from IDC, we ranked third globally in the Ethernet switch market and the second with our data center switches, low-end access products, and routers. Huawei's S12700 series agile switches received the 2014 Interop Tokyo Enterprise Networking Special Prize and the SDN Solution award from the US-based IT website *Network World*. Huawei's unified communications and collaboration, videoconferencing, and contact center solutions have been extensively deployed on a commercial basis in more than 60 countries and regions, and entered developed markets including Europe and North America.

By following the concept of "Make IT Simple, Make Business Agile", our IT products became more competitive in the marketplace:

- More than 700,000 virtual machines were running on Huawei's virtualization products by the end of 2014.
- Revenue growth from our storage products ranked first in the world for five consecutive quarters, earning a position in Gartner's Challengers quadrant. Notably, our high-end storage products were included in the Major Players quadrant.



In September 2014, the Huawei Cloud Congress (HCC) 2014 was held at the Shanghai World Expo Exhibition & Convention Center, bringing together more than 60 mainstream enterprises in the industry. During this year's HCC, more than 300 speeches were delivered at 28 forums, attracting more than 11,000 people from over 80 countries and regions to the conference and an online audience of 13,000. HCC has become a new big IT event of global influence. By launching a series of innovative IT solutions covering multiple domains such as data centers, converged storage, cloud OS, and Big Data analytics platforms, Huawei added a new dimension to the concept of "Make IT Simple, Make Business Agile". In total, 66 Huawei partners—including SAP, Seagate, and Intel—gathered to share insights on key topics such as cloud computing, Big Data, and cloud data centers.

- Our FusionSphere cloud operating system was listed in Gartner's magic quadrant for server virtualization infrastructure. Our FusionCube cloud platform was listed in Gartner's magic quadrant for all-in-one appliances.
- Our server shipments were the fourth largest globally for six consecutive quarters.
- Gartner rated our data center solution as "positive".

Committed to building an open and innovative ICT ecosystem, we have cooperated with our partners such as SAP, Accenture, Intel, and Telefonica in the areas of cloud computing and Big Data. Huawei has become a major player in the open source organization OpenStack, with our contribution growing the fastest.

Our channel policies, processes, and IT support systems have matured considerably. By the end of 2014, we had more than 6,000 channel partners and 300 solution partners in the enterprise business.

Huawei provides enterprise customers with converged ICT service solutions. We also offer our channel partners service certification, authorization, enablement, incentives, and all-around service support. By the end of 2014, we had collaborated with more than 1,200 certified and authorized service partners. Approximately 20,000 individuals had received a Huawei-issued certificate. The number of Huawei Certified Internetwork Experts (HCIEs), the highest technical certification offered by Huawei, stood at nearly 500.

Innovative ICT will change enterprises' production systems, and not just their office systems. Industry transformation is gathering momentum, which will place unprecedented challenges and requirements on ICT infrastructure. Huawei will embrace these historic opportunities, face all challenges head on, and work with partners along the industry chain. By keeping up with the industry trends and fully understanding customer needs, we will continuously innovate, better facilitate enterprises' transformation, and continue to create value for customers' business success.

## Consumer Business

### Crossing the 10-billion-dollar mark and enhancing the competitiveness of core products

In 2014, our consumer business generated total sales revenues of CNY75,100 million, an increase of approximately 32.6% year-on-year. With a continued rise in profitability, we exceeded our profit targets. Among our revenues, 52% came from markets outside of China. The market share of our handsets exceeded 5% in 11 key countries. Our shipments grew by 7.8% to a total of 138 million units in 2014. Of the total shipments, 75 million were smartphones, an increase of 45% year-on-year.

After three years of growth, our consumer business achieved several historic milestones:

- In 2011, we moved away from manufacturing white-label, low-end customized phones to developing our own brand of mid-range and high-end handsets.
- In 2012, we transformed our brand, products, and channels, and implemented the premium product strategy by launching flagship phones, including the D and P series.
- In 2013, we built up our capabilities in the global open market.
- In 2014, the rapid development of 4G LTE and our core patent advantages in 4G LTE presented our consumer business with unprecedented opportunities, yielding a bumper harvest of revenue and profits.

We have made remarkable achievements in user engagement and channel development. In 2014, we strove to develop open channels and retail outlets. This resulted in a significant growth in revenue contributions

from open channels (including e-commerce), which accounted for 41% of the total revenue of the Consumer BG. By the end of 2014, Huawei's Consumer BG established 630 branded stores globally, greatly expanding retail access and enhancing consumer experience. We developed relationships with users through the Huafan Club, and greatly improved the usability and consistency of Emotion UI 3.0.

### Consolidating the position of flagship phones in the mid-range and high-end market and successfully differentiating them from rival products

We continued to focus on the premium product strategy. Our mid-range and high-end smartphones accounted for 18% of our total smartphone shipments, a significant increase, while 4G-enabled smartphones exceeded 29% of the total smartphone shipments. In the short space of just six months since their launches, we shipped 4 million units of the Ascend P7 and 3 million of the Honor 6, two of Huawei's 2014 premium flagship products. The Ascend Mate7 was a major hit with business people in all markets, with over 2 million units shipped within three months of its launch.

Over the past three years, our Consumer BG has taken solid steps to develop its business and applied the latest technological achievements to continuously build on its advantages in style, industrial design, and architecture. We have teamed up with partners across the supply chain in innovation, and outpaced our competitors by fully developing core competences for the long term. Huawei's flagship phones have differentiated themselves from the competition. Core competences such as outstanding cameras, long battery life, strong connectivity, and the great user experience offered by the Emotion UI have been well received by consumers.

### Maintaining the lead in the areas of MBB and home devices and generating preliminary results in B2C transformation

By leveraging Huawei's advantages in MBB connectivity, we centered our efforts in the MBB & home device domain to tap into the opportunities offered by the IoV and IoT. Coupled with our expertise in Big Data and cloud technologies, we developed the "hardware + software + service" business model to provide better services for people, vehicles, and the home so consumers can lead a "smart life".

In 2014, we leveraged our distinct advantages in LTE-enabled devices and achieved the following:

- Shipped 19 million LTE-enabled devices.
- Strategically invested in the smart wearables and smart home domains, and globally launched our first wearable TalkBand B1, which quickly gained recognition with its unique design.
- Achieved impressive sales with our Honor X1 phablet, MediaQ M310, and Honor Cube models.
- Applied MBB in the automotive aftermarket domain with our innovative product CarFi—the

first-of-its-kind in-car Wi-Fi product—to enable carriers, governments, and enterprises to tap into the IoV market.

- Cooperated with Audi, who applied our IoV products to its high-end cars after Mercedes Benz, and developed partnerships with vehicle manufacturers inside and outside of China on strategic IoV products, establishing a global strategic landscape for our IoV business.

### Ensuring business growth with the dual Huawei and Honor brand strategy

The dual Huawei and Honor brand strategy has proven highly successful, creating synergy that has raised brand awareness and market share for Huawei's Consumer BG. The Huawei brand targets people of action who are idealists—those who are confident, open to new things, and have the courage to realize their dreams, such as business executives, civil servants, and white-collar workers. Honor, on the other hand, is an Internet-based mobile phone brand under Huawei. It targets young people for whom the Internet has become part of life, such as digital natives, those at the start of their careers, young blue-collar workers, and students.



On December 17, 2014, Huawei's first annual Huafan conference was held in Beijing, attracting more than 1,000 Huafans from inside and outside of China. The Huafan Club, with a base of more than 10 million people, is an important platform for Huawei to communicate with consumers.



On September 4, 2014, over 500 journalists and analysts from more than 40 countries witnessed Huawei launch the 4G-enabled large-screen flagship smartphone, the Ascend Mate7, in Berlin, Germany. The phone has been well received by business people, and over two million units were shipped within three months of its launch. The Ascend Mate7 has won four prestigious awards from global technology media, including Best of IFA 2014: Best Smartphone.

The growing popularity of our mid-range and high-end smartphones among consumers, coupled with our football sponsorship deals around the world, has greatly increased awareness of the Huawei brand. According to a consumer survey of 32 countries conducted by the market research firm Ipsos, awareness of the Huawei brand rose from 52% in 2013 to 65% in 2014. In other words, nearly two-thirds of consumers worldwide had heard of Huawei. Moreover, in the Chinese market, the awareness of the Huawei and Honor brands had risen to 90% and 54%, respectively.

Launched just a year ago, Honor performed so well in 2014 that it became a new engine enabling us to outpace our competitors. Over 20 million Honor units were shipped, including 8 million Honor 3C, 4 million Honor 3X, and 3 million Honor 6. By the end of 2014, the Honor brand had established a presence in more than 60 countries and regions.

According to the latest survey by Ipsos, Huawei's Net Promoter Score (consumers who recommend Huawei handsets to others) rose to 43%, placing it in the top three brands. This testifies to the much better brand experience Huawei now brings to consumers. Huawei has stood out and become one of the top three brands in terms of brand momentum. We became the first mainland Chinese company to enter Interbrand's 2014 Top 100 Best Global Brands list.

### **Focusing on investing in markets outside of China and sustaining momentum in 2015**

In 2015, Huawei's Consumer BG will focus on markets outside of China. We will consolidate our position in the mid-range and high-end smartphone market with a 2015 shipment target of 100 million smartphones. As for the Huawei brand, we will focus on marketing flagship smartphones, and establish our brand image as a symbol of innovation and high quality through our high-end products. For the Honor brand, we will focus on the Internet business, replicate our successful online business model in China in other markets, conduct online marketing outside of China, and establish exemplary markets to focus on.

2015 will be a crucial year for strategic deployment by Huawei's Consumer BG. In 2015, we will fully develop our all-around capabilities to usher in a bright future. We will exploit the historic opportunities offered by the mobile Internet, IoT, and IoV to build core competences in the software, Big Data, and cloud service era. By making breakthroughs in various business areas including products, branding, marketing, channels, and e-commerce, we will continue to enhance our brand competitiveness, inspire creativity, create extraordinary brand experiences for consumers all over the world, and become a leading global brand for smart devices.

## Results of Operations

CNY Million	2014	2013	YoY
Revenue	<b>288,197</b>	239,025	20.6%
Gross profit	<b>127,451</b>	98,020	30.0%
– Gross margin	<b>44.2%</b>	41.0%	3.2%
Total operating expenses	<b>(93,246)</b>	(68,892)	35.4%
– as % of revenue	<b>32.4%</b>	28.8%	3.6%
Operating profit	<b>34,205</b>	29,128	17.4%
– Operating margin	<b>11.9%</b>	12.2%	(0.3%)
Net finance expenses	<b>(1,455)</b>	(3,942)	(63.1%)
Income tax expenses	<b>(5,187)</b>	(4,159)	24.7%
Net profit	<b>27,866</b>	21,003	32.7%

Sales revenue in 2014 totaled CNY288,197 million, representing an increase of 20.6% year-on-year. Net profit grew by 32.7% year-on-year to CNY27,866 million. This increase is mainly attributable to the rapid growth in scale, reduction in foreign exchange loss, and improvement in funds utilization, which combined to reduce net finance expenses. Larger scale, higher efficiency, lower costs, higher brand awareness of the consumer business, and improved product structure helped increase gross margin by 3.2 percentage points year-on-year.

### Total Operating Expenses

CNY Million	2014	2013 Restated	YoY
Research and development expenses	<b>40,845</b>	31,563	29.4%
– as % of revenue	<b>14.2%</b>	13.2%	1.0%
Selling and administrative expenses	<b>47,468</b>	38,052	24.7%
– as % of revenue	<b>16.5%</b>	15.9%	0.6%
Other expenses/income, net	<b>4,933</b>	(723)	(782.3%)
– as % of revenue	<b>1.7%</b>	(0.3%)	2.0%
Total operating expenses	<b>93,246</b>	68,892	35.4%
– as % of revenue	<b>32.4%</b>	28.8%	3.6%

In 2014, Huawei maintained robust operations and increased investments in future technologies, brand marketing, transformation, and incentives. As a result, the company's total operating expense ratio increased by 3.6 percentage points. Specifically, the R&D expense ratio rose by 1.0 percentage point, the selling and administrative expense ratio increased by 0.6 percentage point, and, primarily due to the provision of goodwill impairment, the ratio of other expenses/income, net was up 2.0 percentage points.

### Net Finance Expenses

CNY Million	2014	2013	YoY
Net foreign exchange loss	2,135	3,686	(42.1%)
Other net finance gains/losses	(680)	256	(365.6%)
Total net finance expenses	1,455	3,942	(63.1%)

Net finance expenses in 2014 amounted to CNY1,455 million, a decrease of CNY2,487 million from 2013. This was attributable to a decline of CNY1,551 million year-on-year in exchange loss coupled with a decrease of CNY936 million year-on-year in other net finance gains/losses.

### Financial Position

CNY Million	December 31, 2014	December 31, 2013 Restated	YoY
Non-current assets	52,668	44,688	17.9%
Current assets	257,105	199,403	28.9%
Total assets	309,773	244,091	26.9%
Among which: Cash and short-term investments	106,036	81,944	29.4%
Trade receivables	75,845	72,351	4.8%
Inventory	46,576	24,929	86.8%
Non-current liabilities	31,249	33,602	(7.0%)
Among which: Long-term borrowings	17,578	19,990	(12.1%)
Current liabilities	178,539	124,223	43.7%
Among which: Short-term borrowings*	10,530	3,043	246.0%
Trade payables	45,144	31,290	44.3%
Owner's equity	99,985	86,266	15.9%
Total liabilities and owner's equity	309,773	244,091	26.9%

\* Long-term borrowings that will mature within one year amount to CNY8,639 million.

As of December 31, 2014, the cash and short-term investment balance reached CNY106,036 million, up 29.4% year-on-year.



In 2014, Huawei's days of sales outstanding (DSO) was 95 days, 14 days fewer than the 109 days in 2013; its inventory turnover days (ITO) increased by 40 days to 104 days compared with the 64 days in 2013. The company's days of payables outstanding (DPO) was 101 days, 21 days longer than the 80 days in 2013. To respond to massive 4G network roll-out, the balance of inventory and trade payables in 2014 increased over the previous year.

As of December 31, 2014, total short-term and long-term borrowings amounted to CNY28,108 million, an increase of 22.0% year-on-year from CNY23,033 million in 2013.

### Cash Flow from Operating Activities

CNY Million	2014	2013	YoY
Net profit	<b>27,866</b>	21,003	32.7%
Adjustment for depreciation, amortization, and non-operating loss, net	<b>10,193</b>	5,550	83.7%
Actuarial losses on defined benefit obligations	<b>(166)</b>	(618)	(73.1%)
Cash flow before change in operating assets and liabilities	<b>37,893</b>	25,935	46.1%
Change in operating assets and liabilities	<b>3,862</b>	(3,381)	(214.2%)
Cash flow from operating activities	<b>41,755</b>	22,554	85.1%

Cash flow from operating activities in 2014 increased by 85.1% year-on-year to CNY41,755 million. This increase was attributable to:

- A net profit growth of 32.7% year-on-year due to the rapid growth in scale and reduction in net finance expenses.
- Adjustment for depreciation, amortization, and non-operating loss, net contributed another CNY4,643 million to cash flow from operating activities compared with that in 2013.
- Reduction in the capital tied up in operating assets and liabilities in 2014 contributed CNY3,862 million to the cash flow from operating activities.

## Financial Risk Management

In 2014, Huawei 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 continuously refined its system for cash flow planning, budgeting, and forecasting to better 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. As of December 31, 2014, cash and short-term investments increased by 29.4% year-on-year to CNY106,036 million. 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.

CNY Million	2014	2013	YOY
Cash flow from operating activities	41,755	22,554	85.1%
Cash and short-term investments	106,036	81,944	29.4%
Short-term and long-term borrowings	28,108	23,033	22.0%

### Foreign Exchange Risk

The Group's functional currency is CNY. Huawei has foreign currency exposures related to buying, selling, and financing in currencies other than CNY, mainly USD and EUR. According to the Group's foreign exchange policy, material foreign exchange exposures are hedged unless hedging is uneconomical due to market liquidity and/or hedging costs. The Group has developed a full set of foreign exchange management policies, processes, and instructions. These include:

- Natural hedging: The Group structures its operations to match 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.

In countries where local currencies depreciated sharply or those with strict foreign exchange controls, the Group managed foreign exchange exposures by, for example, pricing in USD, accelerating payment collection, and promptly transferring payments collected out of these countries.

With other conditions unchanged, exchange rate fluctuations will impact the Group's net profit as follows:

	<b>Impact on net profit CNY million</b>
<b>2014</b>	
<b>CNY appreciates 5% against USD</b>	<b>(578)</b>
<b>CNY appreciates 5% against EUR</b>	<b>(173)</b>
<b>2013</b>	
CNY appreciates 5% against USD	(1,147)
CNY appreciates 5% against EUR	(172)

### Interest Rate Risk

Interest rate risks arise from Huawei's long-term borrowings and long-term receivables. By analyzing its interest rate exposures, the company uses a combination of fixed-rate and floating-rate bank loans to mitigate interest rate risks.

a) Interest-bearing long-term financial instruments held by the Group as of December 31, 2014

	<b>2014</b>		<b>2013</b>	
	<b>Effective Interest Rate %</b>	<b>Amount CNY Million</b>	<b>Effective Interest Rate %</b>	<b>Amount CNY Million</b>
<b>Fixed-rate long-term financial instruments</b>				
– Long-term borrowings	<b>8.50</b>	<b>62</b>	4.34	2,731
– Bonds payable	<b>4.96</b>	<b>1,583</b>	5.94	991
Total		<b>1,645</b>		3,722
<b>Floating-rate long-term financial instruments</b>				
– Long-term receivables	<b>0.80</b>	<b>(2,631)</b>	–	–
– Long-term borrowings	<b>2.33</b>	<b>15,933</b>	2.41	16,268
Total		<b>13,302</b>		16,268

## b) Sensitivity Analysis

As of December 31, 2014, assume that the interest rate fluctuates by 50 basis points and other variables are unchanged, the Group's net profit and owner's equity will increase or decrease by CNY66 million (in 2013, the amount was CNY81 million).

For the financial instruments that are held on the balance sheet date and expose the Group to fair value change risks due to interest rate fluctuations, the impacts on net profit and owner's equity in the preceding sensitivity analysis are a re-measurement of the financial instruments based on the new interest rate, assuming that the interest rate changes on the balance sheet date. For the floating-rate and non-derivative financial instruments that are held on the balance sheet date and expose the Group to cash flow change risks due to interest rate fluctuations, the impacts on net profit and owner's equity in the preceding sensitivity analysis are impacts on interest expense or income estimated on an annual basis due to interest rate fluctuations. The analysis of the previous year is based on the same assumptions and methods.

## Credit Risk

The company has established and implemented globally consistent credit management policies and practices, processes, IT systems, and credit risk assessment tools. It has established dedicated credit management organizations across all regions and business units, and set up centers of expertise specializing in credit management in Europe and Asia Pacific. The company uses risk assessment models to determine customer credit ratings and credit limits. It has also implemented risk control points over key processes throughout the end-to-end sales cycle to manage credit risks in a closed loop. Huawei's Credit Mgmt Dept regularly assesses global credit risk exposures and develops IT tools to help field offices monitor risk status, estimate potential losses, and determine bad debt provisions as appropriate. To minimize risks, a special process is followed if a customer misses a payment or poses an unacceptably high credit risk.

## Sales Financing

With global coverage, Huawei's sales financing team maintains close contact with customers to understand their financing needs and tap into various 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 contribute to ongoing customer success. Third-party financial institutions work with Huawei in export credit, leasing, and factoring activities to share the benefits and bear linked risks. Huawei has established systematic financing policies and project approval processes to strictly control financing risk exposures. Huawei shares risks with financial institutions on certain projects only, and makes provisions for risk contingencies to control business risks.

## Research and Development

Focusing on the ICT pipe strategy, we have increased our investment in future-proof basic research and innovation, particularly in key technologies, basic engineering capabilities, architectures, standards, and product development. We aim to create a better user experience by providing broader, smarter, and more reliable pipes with higher performance and zero wait time. Huawei is committed to translating leading technologies into greater competitiveness and business success for customers.

In the wireless domain, Huawei has:

- Continued to lead 4G innovation. We launched CA technology for multiple base stations over IP RANs for simplified deployment, and also applied interference coordination technology to significantly enhance network performance and user experience.
- Became the first company in the industry to propose the concept and definition of 4.5G, and introduced LTE to the world of IoT.
- Emerged as a pioneer of 5G innovation. We proposed SCMA, a key technology for 5G air interfaces that significantly increases the number of connections in wireless systems. This technology has been accepted by the EU's FP7 METIS 2020 project, and is well-known throughout the industry.
- Released a high-frequency wireless 115G prototype, which verifies the limits of high-frequency communications.
- Partnered with mainstream automobile manufacturers in Europe to research 5G technologies for IoV and define the requirements of future self-driving technologies on 5G communications networks; verified 5G IoT devices with ultra-low power consumption.

- Pioneered research into next-generation Wi-Fi. We became the first company to propose the concept of 10GiFi, and launched the industry's first 10GiFi prototype with next-generation architecture, drawing an enthusiastic response from the industry.

In the fixed network domain, Huawei has:

- Continued to lead innovation in core router, high-speed transport, and ultra-broadband access technologies.
- Passed the test for the industry's first core router 1T line card at EANTC, made a breakthrough in 400G clustering technology, and facilitated the large-scale commercial application of 400G clusters.
- Released the industry's first commercial 1T WDM card, and worked with carriers to pass the testing for 3 Tbit/s WDM cards on live networks. The rate is equivalent to transmitting 100 uncompressed HD movies per second.
- Became the first vendor to begin researching G.fast, developed the industry's first G.fast prototype, and released SuperVector technology, which increased the speed of existing copper wires threefold.
- Launched the SmartAX MA5800, the industry's first smart OLT with distributed architecture at the Broadband World Forum 2014. This product supports non-blocking access for 100G-PON and provides 100 Mbit/s non-blocking bandwidth to 32,000 homes, allowing users to seamlessly enjoy 4K videos.
- Developed the industry's first microwave borne CPRI network based on high-order modulation microwave technology, which supports a backhaul bandwidth of 4 Gbps.

In the enterprise networking domain, Huawei has:

- Used SDN technology to launch innovative Agile Network architecture that supports full network programmability, dynamic network quality awareness, and smooth evolution to SDN.
- Converged different CPU architectures into a single architecture for enterprise branch networks; used SDN and NFV technologies to deeply integrate IT and CT capabilities in gateways, and enable the local integration of ICT applications through an open virtualization platform.
- Launched an open Cloud Fabric Data Center Network architecture that supports seamless interconnections with mainstream cloud platforms and is compatible with multiple virtual and physical networks.

In the core network domain, Huawei has:

- Become one of the first enterprises to complete the POC for virtualized IMS in line with ETSI NFV ISG requirements, and established NFV/SDN open labs for joint innovation with carriers and NFV ecosystem partners.
- Launched real-time video experience enhancement technology that automatically adapts to challenging network environments. This industry-leading technology has been embedded in core chipsets and is now one of Huawei's core competences.
- Released the industry's first xVCC (including eSRVCC) handover enhancement technology for live networks, enabling carriers to deliver consistent and seamless service experience in different access modes.

In the IT domain, Huawei has made many achievements in innovation, and proposed SD-DC<sup>2</sup>, a future-oriented Service-driven Distributed Cloud Data Center architecture.

In the cloud computing field, Huawei has:

- Released FusionSphere 5.0 (an OpenStack-based cloud OS).
- Launched the first-of-its-kind distributed OpenStack cascading architecture that supports multiple data centers. The architecture supports multi-data-center resource consolidation and distributed scheduling and management of 100 data centers and 1 million virtual hosts. It has won extensive support from mainstream carriers in Europe.
- Launched the industry's first enterprise-level distributed software-defined storage system FusionStorage. With up to 256 servers in one resource pool, the system has a throughput of 600 Gbit/s and reduces the fault recovery time of a 2 TB hard disk to 5 minutes, 100 times faster than traditional SAN storage. When running the clustered SAP HANA in-memory database, the FusionStorage system reduces latency to 169  $\mu$ s, the fastest in the industry.

In the Big Data field, Huawei has:

- Launched the industry-leading Big Data solution FusionInsight, which is based on open technologies such as Hadoop, Spark, and Storm.
- Launched a full-lifecycle Big Data solution for the finance industry based on cutting-edge NoSQL clustering, application server pooling, and stream processing technologies. This solution helps customers expand the online retrieval scope of historical data from 1 year to 15 years, and shortens the service processing period for credit investigations in relation to issuing credit cards from about two weeks to a few seconds.

In the storage field, Huawei launched the industry's first converged storage operating system, OceanStor OS. The system supports the following five features:

- Convergence of SAN and NAS, increasing O&M efficiency by 50%.
- Convergence of multi-vendor heterogeneous storage devices, supporting a smooth takeover of the management of devices on live networks and maximizing customers' ROI.
- Convergence of performance and capacity, allowing flexible allocation of SSD and HDD media on demand.
- Convergence of entry-level, mid-range, and high-end storage products, maximizing data value.
- Convergence of primary and backup storage, realizing backup in seconds, and agile, efficient data lifecycle management.

Huawei's high-end storage products provide a high-availability active-active data center solution that delivers an RTO and RPO of 0 at an inter-center distance of up to 300 km, the longest in the industry.

In the future data center field, Huawei has:

- Released the Data Center 3.0 white paper at the International Symposium on Computer Architecture (ISCA 2014) and defined the next-generation data center DC3.0, which features software-defined disaggregation architecture, all-optical interconnections, and automatic resource pooling. This architecture improves data processing capabilities by 1,000 times and boosts resource utilization to more than 90%.
- Developed the industry's first operational computer prototype with all-optical interconnections.
- Launched the industry's first framework for CPU+GPU integrated clustering resource scheduling based on YARN and emerged as the industry leader

in the area of parallel computing based on HUAWEI HiGraph.

- Developed the large-scale memory pool architecture and the industry's first NVM with single-tier storage architecture.

Huawei focuses on the directions, trends, and revolutionary innovations of ICT technologies. We have cooperated with global innovators through our 16 R&D centers and 28 Joint Innovation Centers around the world. We have promoted technology progress towards a Better Connected World by sharing insights into ICT advances, and working with top-level institutions in the industry and academia to jointly embrace major technology challenges. In 2014, we:

- Publicized the Huawei Innovation Research Program (HIRP) online, embracing global quality resources and their innovative ideas.
- Carried out in-depth cooperation with global renowned universities, covering areas like 400G core routers, 400G/1T optical transmission systems, and G.fast/NG-PON access systems. We achieved broadband home access at a rate of 1 Gbit/s, and 16T for one node and 32T for one direction in backbone transmission.
- Collaborated with universities, Internet companies, software and hardware vendors, carriers, and open source organizations to jointly build the SDN ecosystem and advance the SDN industry.
- Conducted technological cooperation with multiple renowned universities around the world, covering broad technology areas such as high-performance distributed storage, parallel computing, and Big Data.
- Jointly innovated with leading customers and helped them succeed in network optimization, installed base operations, and precision marketing.



*Huawei established a 5G Innovation Centre (5GIC) together with the University of Surrey in the UK, multiple well-known companies, and world-renowned carriers. We jointly announced the world's first 5G testbed in London in November 2014, confirming our position at the forefront of global 5G research.*

As an important contributor to ICT standards and the ICT industry, we have been actively involved in and promoted the development and implementation of mainstream international standards. We have partnered with stakeholders to build a mutually beneficial industry chain and ecosystem. We have helped create major opportunities for industry development such as 5G, IoT, and NFV and thereby steer the direction of the industry. We have striven to establish a series of industry alliances; for example, ETSI ISG mWT, SDN, eLTE, APT700, 3.5G, disaster recovery technology, and data centers.

In Europe, Huawei was elected to the Board of 5G Infrastructure Association under the 5G PPP and participated in the EU Framework Programme for Research and Innovation under the Horizon 2020 programme. We helped initiate the 802.11ax TG for next-generation Wi-Fi, and created a new Next Generation 60 GHz (NG60) Study Group (SG). Huawei's

FlexOTN architecture has become a core solution in next-generation OTN evolution, leading 400G OTN standards. We drove the release of G.fast standards, and increased the speed of copper wires to more than 1 Gbit/s, making copper wires as important as FTTH. We initiated and led efforts to standardize K-V interfaces for massive storage and redefine the Storage Management Initiative Specification (SMI-S) at the Storage Networking Industry Association (SNIA), spearheading the technological trend of IP-based and simplified storage management.

By December 31, 2014, Huawei was a member of 177 standards and open source organizations and held 183 key positions. We served as a board member of IEEE-SA, ETSI, WFA, TMF, OneM2M, OMA, OASIS, and CCSA, among many others. We were actively involved in 3GPP and IETF, holding several leadership positions, and played a major role in initiating key projects. Huawei submitted more than 4,800 standards proposals in 2014.

By the end of 2014, we had filed 48,719 patent applications in China and 23,917 outside of China, with 38,825 granted. In 2014, Huawei made it onto the Top 100 Global Innovators list<sup>1</sup>.

Huawei has consistently invested over 10% of its sales revenue in R&D every year. In 2014, we employed approximately 76,000 R&D employees, comprising 45% of our total workforce. Huawei's R&D expenditure totaled CNY40,845 million in 2014, accounting for 14.2% of the company's total revenue. We cumulatively spent more than CNY190,000 million on R&D over the last decade.

<sup>1</sup> The Top 100 Global Innovators list is released by the Intellectual Property & Science division of Thomson Reuters. The selection is mainly based on four metrics: volume of patents, success rate, global reach, and influence.



## Cyber Security

Building and implementing a global, end-to-end cyber security assurance system is a key corporate strategy at Huawei. We are fully aware that threats will never cease and that cyber security is a global challenge—one we must all face together. At Huawei, cyber security is a top priority and we place cyber security assurance above our commercial interests.

Huawei is passionate about being open and transparent. We are more than happy to share our cyber security management practices with all stakeholders, including customers, industry players, governments, and the media. These practices include our end-to-end cyber security assurance system, our management approach that is oriented towards built-in processes, and our "Assume nothing, Believe nobody, Check everything" philosophy. We also provide documents, white papers, and methods to customers to satisfy their cyber security requirements. In 2014, we presented a stronger voice on a variety of platforms around the world to communicate Huawei's position and views on cyber security.

- We actively participated in international workshops and action projects in the industry and forums organized by think tanks.
  - ▲ In January and February, Huawei attended the RSA Conference USA, Munich Security Conference, and ETIS's annual information security conference and cyber security workshop, where we delivered our cyber security policies and position characterized by transparency and visibility.
  - ▲ In April, Huawei delivered the following speech at the Information Security Forum in Russia: *Open Innovation, A Necessity for Cyber Security Solutions and Regional Development*.
- ▲ In September, Huawei attended the third Information Security Conference in Budapest and the 19th European Symposium on Research in Computer Security in Warsaw. We introduced our cyber security perspectives and practices, and looked for opportunities in technical research and cooperation projects for our 2012 Laboratories.
- ▲ In November, Huawei shared its practices in cyber security incident response at the 25th Information Security Forum (ISF) Annual World Congress. At the Global Mobile Broadband Forum 2014, Huawei convened its first cyber security workshop and discussed MBB security solutions at length with customers.
- We boosted stakeholder trust by communicating our cyber security strategies, approaches, and end-to-end assurance system with governments and customers in countries such as the UK, France, Germany, Canada, Denmark, and New Zealand. In mid-November, CyberSecurity Malaysia honored Huawei with the award for Cyber Security Organization of the Year.
- In December, we attended the global cyber security summit held by EastWest Institute (EWI) in Berlin, and released our third cyber security white paper, *Cyber Security Perspectives—100 requirements when considering end-to-end cyber security with your technology vendors*. This white paper documents the top 100 things our customers talk to us about in relation to cyber security. When we developed this white paper, we studied the existing legal requirements and best practices to help technology buyers systematically analyze vendor cyber security capabilities and jointly raise the security levels of all technologies. With the EWI platform, this Top 100 will continue to evolve and improve.



*On December 3, 2014, Huawei released its third cyber security white paper in Berlin, Germany, to promote the development of cyber security policies and standards. John Suffolk, Huawei Global Cyber Security Officer, delivered a keynote speech at the conference.*

Huawei has established an auditable, sustainable, and reliable cyber security assurance system by integrating security requirements into internal business processes. We use what we call the ABC model, "Assume nothing, Believe nobody, Check everything." We apply this approach in every part of our processes, with visibility into the progress and measurement of each part.

- We have continued to improve employees' cyber security awareness and capabilities through cyber security awareness education, the BCGs, and human resource policies and processes. We have incorporated human factors into security management, and implemented security measures to minimize the risk of both intentional and unintentional compromise.
- We have embedded cyber security activities into our IPD process to ensure that security is an integral part of everyone's work when we design and develop products and services. Based on the security activities defined in processes, we work to improve

the security capabilities of our R&D employees, and promote threat modeling and secure coding. These approaches aim to enhance product security quality and ensure our processes deliver products with security built in, rather than bolted on.

- We take a "many hands and many eyes" approach to mitigate risks during product testing and evaluation. We have established a multi-layered cyber security evaluation process with different test teams performing high-quality and independent testing. These include tests by Huawei's Internal Cyber Security Lab and UK-based Cyber Security Evaluation Centre (UK CSEC), evaluations by customers such as Telefonica, and audits and evaluations by third parties.
- We require our suppliers to implement the same security mechanisms as we do; constantly improve their compliance with supplier security agreements and delivery quality standards defined in procurement processes; and promptly provide solutions, patches, and fixes for software vulnerabilities. We believe we are the sole vendor to have signed security agreements with suppliers to improve the security of components they provide.
- We have continued to enhance our security capabilities in supply and manufacturing by validating our production and shipment activities. These improvements eliminate loopholes and prevent them from moving down the production line. We have improved structured item and tracing management on third-party software packages, and provide world-leading traceability in software development and manufacturing to protect the integrity of hardware and software.

- We have improved the compliance levels and delivery quality of our cyber security activities in the service delivery (SD) process, and re-evaluated and enhanced our managed services and GNOCs. We have also validated all tools in use and improved customer data management to ensure security in all delivery activities.
- We closely coupled our vulnerability management process with our core R&D process to ensure prompt and effective responses to security vulnerabilities. We have connected our PSIRT to the CERTs of multiple major customers, and established regular communication and emergency response channels to boost mutual trust regarding security.
- Our internal audit teams have provided additional security assurances by auditing all business areas to ensure that corporate cyber security policies, processes, and standards are implemented and suited to Huawei's cyber security practices.

The world in which we live is seeing unprecedented ICT coverage that will one day fully connect the whole planet. In addition to demanding secure and reliable networks, customers also need secure storage for all types of data on all network equipment. User privacy protection is an increasing concern of the public, governments, and customers. The Global Cyber Security Committee, chaired by Huawei's Deputy Chairman Ken Hu, has increased its focus on user data privacy and protection. This will help ensure Huawei's approach stands up to the most rigorous scrutiny in this complex world. We must make a solemn commitment to the public, governments, and customers to protect user privacy, just as we have done on cyber security. We

will honor this commitment as a responsible corporate citizen, and continue to use every means possible to protect user privacy in compliance with applicable laws and regulations.

Technology is fundamentally changing our lives for the better, making the world a much smaller place. In the future Better Connected World, we will position cyber security and user privacy assurance as a core corporate strategy, making cyber security part of our corporate DNA. We will continue to advocate, develop, and implement unified, international cyber security standards to strengthen cyber security and user privacy protection for everyone. At Huawei, we believe international collaboration will be instrumental to ensuring cyber security in the future. Together, we can improve the quality of security considerations in products and services, and from this we can collectively do more to enrich life through ICT.

### 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 contract 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.

### Allowance for Doubtful Accounts

The company's gross accounts receivable balances were CNY80,929 million and CNY76,691 million as of December 31, 2014 and December 31, 2013, respectively. The allowances for doubtful accounts

were CNY5,084 million, or 6.3% of the gross accounts receivable balance as of December 31, 2014, and CNY4,340 million, or 5.7% of the gross accounts receivable balance as of December 31, 2013. 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 statement of profit or loss were CNY89 million and CNY1,075 million for fiscal years ended December 31, 2014 and December 31, 2013, 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 CNY46,576 million and CNY24,929 million as of December 31, 2014 and December 31, 2013, 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 statement of profit or loss were CNY2,120 million and CNY1,231 million for fiscal years ended December 31, 2014 and December 31, 2013, 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 CNY3,662 million and CNY2,963 million as of December 31, 2014 and December 31, 2013, 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, 2014 and December 31, 2013 were CNY3,892 million and CNY3,491 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.

## Industry Trends



EMBRACING THE REVOLUTION:  
SUCCESS IN A BETTER  
CONNECTED WORLD

In his 1995 masterpiece *Being Digital*, Professor Nicholas Negroponte painted a grand blueprint of the digital era, vividly depicting a huge shift from the physical world to the digital world. Today, most of the exciting changes in his book – both to work and life – have come true thanks to digital and network technologies.

However, this is certainly not the end. It's a new beginning. With the physical and digital realms continuing to converge, we are embarking on a new journey to a new industrial revolution and a Better Connected World where everything will become smart. Against this backdrop, which direction will humanity take? What rules will govern how technology evolves? What new trends will redefine the business landscape? This revolution will be a journey into the unknown. We must embrace change as it happens, and our insights must be accurate, if we are to adapt and flourish in this new era.

#### **A lifestyle revolution: Digital natives are leading the way.**

Over the last 20 years, the first generation to grow up with the Internet has come of age. They are known as the "connected generation" or "digital natives". The ways in which they communicate, socialize, have fun, consume, and learn are vastly different from what came before. For example, instead of relying solely on audio or video services, digital natives now prefer scenario-specific immersive communications. Learning has changed from a unidirectional knowledge transfer to an explorative experience. The word "Phubbing" has been coined to define this new generation. The new way they live can be summarized as "ROADS" – Real-time, On-demand, All-online, DIY, and Social. The ROADS experience creates new consumption patterns in the Internet era.

The connected generation is also influencing the behavior of their parents and grandparents by teaching them how to use digital devices and apps. If those who were born in the 1980s and 1990s are digital natives, their parents and grandparents are "digital refugees" who are trying to straddle the digital divide. They are now becoming "digital immigrants" by learning how to shop, chat, and find entertainment online, and how to call taxis using a phone app.

#### **A new technological revolution: Interdisciplinary integration and innovation, especially the integration of IT with other technologies, is driving change.**

A new technological revolution, powered by interdisciplinary integration and innovation, is underway.

In materials science, great advancements have been made in graphene and nanotechnology. These nascent materials are very likely to catalyze new game-changing technologies, just as silicon did in the past.

In the network and computing domain, wireless technologies like 5G will greatly enhance spectrum efficiency and bandwidth capacity in the short term. There have been great advances in quantum computing and quantum communications.

In the energy domain, renewable energy and energy storage technologies, as core disruptive technologies, will become our fundamental source of power.

In genetics and digital biology, the continuing infusion of biotechnology and computer technology will power the storage, analysis, and interpretation of the genetic code. Genome sequencing, genetic medicine, disease prediction, diagnosis, and treatment will remake healthcare.

In robotics, enhanced computing capabilities coupled with new sensors and software development tools will make robots smarter, more affordable, and better able to recognize human faces, gestures, and voices. Robots will possess acute situational awareness or even emotional awareness.

Artificial intelligence (AI), if combined with cloud computing and Big Data technologies, will match or even exceed human intelligence in certain areas. This integration allows for the automation of knowledge work in such professions as medical diagnosis.

In manufacturing, 3D printing will advance dramatically, making "factories in a box" a reality and using nano materials as the raw materials.

None of these quantum leaps will take place in a vacuum. They will depend on interdisciplinary integration and innovation, particularly the integration of information technology with other technologies, most notably communications technology. In fact, information technology is becoming the basis for innovation in almost every field.

**Information technology is driving a new industrial revolution and creating a new industry ecosystem and business landscape. ICT has become a part of the national strategy and the national competitiveness.**

In the two centuries since the first Industrial Revolution, society has gone through three transformations, including mechanization, electrification, and automation. Today, we are at a new starting point. Information technology is profoundly integrating with the technologies of other industries. ICT is digitally transforming traditional industries, forcing them to upgrade and move to a new state of evolution. This is a new industrial revolution. People define this new

revolution in different ways, calling it the Industrial Internet, the Internet of Things (IoT), Machine to Machine (M2M), integration of the Internet and industry, or Industry 4.0.

In any field, whether electricity, transportation, manufacturing, or healthcare, the crux of this new revolution lies in the smart functionality of ubiquitous networks, smart devices, smart applications based on Big Data, and other core systems. These will change how industries produce and redefine how we live. Indeed, this new industrial revolution will create a new industry ecosystem and business landscape in the information era. For example, the integration of advanced manufacturing technology and IT can make manufacturing much more efficient, while also allowing for a level of personalization previously seen only in artisan studios. This is a revolutionary change. Equally evident is the fact that ICT has become part of the national strategy and the national competitiveness.

In the context of the information society and the new industrial revolution, the information industry has now become the foundation and enabler for all industries, and will embrace new growth opportunities. That said, the information industry is not immune to the transformative effects of IT advancements. Information technology will not only transform traditional industries, but also reshape the information industry.

▪ **New smart devices: "Smart Everything" is the prerequisite for a Better Connected World and a new industrial revolution.**

"Smart hardware" is a new technological concept that has emerged in the wake of the smartphone. Through the integration of software and hardware, we can modernize legacy equipment by adding smart functions. After becoming smart, hardware can connect with each other, and with the cloud to



create a typical "cloud +device" architecture, thus forming the building blocks of a Better Connected World where everything is smart.

Smart hardware may come in the form of electronic devices like watches, TVs, refrigerators, or air conditioners. It can also be in the form of appliances which were not previously electronic, such as door locks, tea cups, automobiles, and even houses. It may also take the form of industrial equipment like lathes, robots, and medical equipment. Smart hardware has extended from smartphones to smart TVs and wearables and further to smart homes, smart cars, smart healthcare, smart toys, and robots. "Smart Everything" is the basis for a Better Connected World.

- **New user experience: Video will become a basic Internet service that will redefine the Internet and the video service industry.**

Video has become a basic form of media after print, images, and animation. It is now the dominant form of content on the Internet, accounting for 70% of all traffic (soon to exceed 90%). A 30-minute 4K video consumes the same amount of data that a 3G subscriber uses in an entire year.

At the same time, our way of acquiring videos will change considerably. Instead of using broadcast services, we may prefer a video experience on demand, and often bidirectional, thus making video a medium as opposed to mere content. This two-way, on-demand approach will soon extend to new forms of human-machine interaction.

Demand for 4K videos and new user experience will drive end-to-end network modernization. Yet, the road to transformation is never smooth because it presents many challenges: accelerating access

speeds, flattening network architectures, reducing latency and packet loss, and slashing costs. Solving these challenges requires new solutions. Content and applications are the ultimate objective of "connecting" for users. As such, video is no longer merely an additional revenue source. Rather, it is an essential service that helps maintain user loyalty.

Mainstream carriers will have to shift from the decade-old FMC1.0 to FMC2.0. That means carriers will no longer just acquire networks, expand connectivity, and make money from the demographic dividend. Instead, they will have to create new value by acquiring content, improving user loyalty, and profiting from the traffic boom. Carriers' network advantages will become their core competency in the 4K video industry. In particular, as the video experience continues to transition from the broadcast to on-demand model, carriers will have a strong position in a trillion-dollar video industry.

- **New business models: Cloud services are in full swing and will shake up the IT industry.**

Cloud computing is much more than just a technological change; it also transforms business models. With cloud becoming the new normal in IT, and with broadband networks extending towards every corner of the earth, services are overtaking products. Thanks to the business model revolution being fueled by cloud services, a huge strategic opportunity has presented itself for the telecom industry. Enterprise customers are adopting public cloud as part of their ICT efforts, allowing carriers to move beyond their traditional connectivity roles to create a new market worth trillions.

The transition from private IT infrastructure to public cloud will be slow. This makes hybrid cloud a normal enterprise demand in the foreseeable

future. While the ability to provide hybrid cloud is important, delivering networks and local services is vital, especially if a superior user experience is to be ensured.

The IT industry is being reshaped by new business models. The Internet, IT, and telecom industries are all looking to shake up the market landscape in order to seize the strategic high ground. The success of these efforts will rely on dual transformation: technological revolution and business model transformation. Cloud services, which play a decisive role in the information industry, are the must-haves in a Better Connected World.

- **New network technologies: 5G will power the Internet of Things and lay a foundation for the new industrial revolution.**

The Internet of Things and Big Data intelligence are the foundation of the new industrial revolution. However, it's important to realize that what industries need from networks is vastly different from what consumers need.

The first obvious difference is the number of required connections. The gap might be exponential: Machine-to-machine connections may be hundreds or even thousands of times greater than people-to-people connections.

The second difference lies in latency. In industry scenarios, the demands on real-time data are much higher than the needs of individual consumers. Many applications, from industrial control to automated driving, will require much lower latencies than that are generally available today.

5G is the answer for these problems, and its development path must be considered in relation to both the information era and the new industrial

revolution. The goals and features of 5G networks must be defined in line with our vision for the future. Specifically, 5G must possess the following core features: 100 billion connections, ultra-low latency (1ms), and a 10 Gbit/s access speed. Achieving these features will require innovative new technologies, such as new cloud-based architectures, new air interfaces with novel modulation techniques, massive multiple-input multiple-output (MIMO) antennas, and once-marginalized high-frequency and unlicensed spectra. We will have to face the needs of the connected world square on if we are to create the building block for the new industrial revolution.

- **New network architectures: Cloud data centers will be at the core of software-defined network architectures.**

Software-defined networking (SDN) and network functions virtualization (NFV) are reshaping CT networks with IT technology to create smart, flexible network and product architectures.

SDN separates the control and forwarding planes and abstracts network resources to enhance centralized network management and offer a global view. The result is the optimum configurations of network resources, higher efficiency, and simplified software upgrades.

NFV decouples hardware from software and achieves software-defined anything. Thanks to NFV, the performance of network equipment will no longer depend on individual pieces of hardware. Network elements will share a unified hardware platform and form a shared cloud resource pool, in which resources can be flexibly shared. Networks may automate and scale up operations based on service volume, while systems can achieve autonomous fault isolation and recovery.

Applying IT technologies to networks requires placing cloud data centers at the heart of the network architecture. As a result, data centers will become the core of ICT infrastructure, in effect serving as the "telephone switch" in the digital age. How a data center is laid out and planned will determine the future network architecture and competitiveness.

- **New operating models: The Internet-based operating models will reshape next-gen operations systems.**

The Internet allows users to be connected anytime and anywhere to enjoy a zero-distance experience. Moreover, it has changed user behavior, requiring the ROADS experience. As such, all businesses, carriers or not, must respond by reassessing the value and positioning of their operations systems. A mere support system or online marketing interface will no longer do; a value-creation system is what is needed, one that connects ecosystems, carriers, customers, and partners with networks, applications, and content.

Specifically, the new operations systems should possess the following major characteristics. First, they will allow users to access customized online services on demand. Second, they will deliver smarter customer services through Big Data analytics, which makes customer insight and precision marketing possible. Third, the new operations systems will integrate industry innovations through a social network platform to offer a wider array of services. The Internet-based operating model shifts the focus of operations systems from internal governance to external customer service, and is a new design concept for next-gen operations systems.

- **New service models: The DevOps-based "Broadened Service" model will redefine the customer-supplier relationship.**

DevOps (Development and Operations) has emerged as a software development methodology that facilitates communication and collaboration between software development, technological operations, and quality assurance departments. The DevOps methodology supports fivefold to tenfold improvements in both efficiency and time to market (TTM).

Over time, DevOps has gone beyond its original function as an R&D model to become a new business model. Many industries will embrace the DevOps model. For example, equipment manufacturers may sell manufacturing services instead of manufactured equipment, and cloud customers may buy more services than products. More recently, a business model has taken shape which has a basis in DevOps. We dub this model "Broadened Service", which we believe will redefine the customer-supplier relationship.

We are now in an era of revolution. Industries are integrating. User behavior, best practices, technologies, and business models are all undergoing significant changes. These changes have taken humanity from the industrial era to the information era so far, and now we are moving towards a Better Connected World in which everything will become smart. Success in this world can only happen by embracing change. Huawei, as an enabler of the information age, is doing just that, having pledged massive investment in future-oriented technologies, solutions, and business models. Alongside our partners, we are committed to building this Better Connected World – a brighter world with prosperity and happiness for all.

## Independent Auditor's Report



### 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 year ended December 31, 2014. We have issued an unqualified audit report dated March 12, 2015 on the audited consolidated financial statements of the Group for the year ended December 31, 2014.

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 59 to 102 comprising the consolidated statement of financial position as at December 31, 2014, the consolidated statement of profit or loss, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, 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 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, 2014 is 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 25, 2015

# Consolidated Financial Statements Summary and Notes

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## Consolidated Financial Statements Summary

### Consolidated Statement of Profit or Loss

	Note	2014 CNY million	2013 CNY million Restated
Revenue	3	288,197	239,025
Cost of sales		(160,746)	(141,005)
<b>Gross profit</b>		<b>127,451</b>	98,020
Research and development expenses		(40,845)	(31,563)
Selling and administrative expenses		(47,468)	(38,052)
Other (expenses)/income, net	4	(4,933)	723
<b>Operating profit before financing costs</b>		<b>34,205</b>	29,128
Net finance expenses	6	(1,455)	(3,942)
Shares of associates' results		332	4
Share of joint ventures' results		(29)	(28)
<b>Profit before taxation</b>		<b>33,053</b>	25,162
Income tax	7	(5,187)	(4,159)
<b>Profit for the year</b>		<b>27,866</b>	21,003
<b>Attributable to:</b>			
Equity holders of the Company		27,851	20,919
Non-controlling interests		15	84
<b>Profit for the year</b>		<b>27,866</b>	21,003

The notes on pages 63 to 102 form part of this consolidated financial statements summary.

**Consolidated Statement of Financial Position**

	Note	December 31, 2014 CNY million	December 31, 2013 CNY million Restated
<b>Assets</b>			
Goodwill	9	307	3,343
Intangible assets	10	2,290	2,410
Property, plant and equipment	11	27,248	22,209
Long-term leasehold prepayments	12	3,349	2,761
Interest in associates	13	548	270
Interest in joint ventures	14	107	211
Other investments	15	540	584
Deferred tax assets	16	14,916	11,577
Trade receivables	18	446	335
Other non-current assets	19	2,917	988
<b>Non-current assets</b>		<b>52,668</b>	44,688
Inventories	17	46,576	24,929
Trade and bills receivable	18	79,580	78,005
Other current assets	19	24,913	14,525
Short-term investments	20	27,988	8,545
Cash and cash equivalents	21	78,048	73,399
<b>Current assets</b>		<b>257,105</b>	199,403
<b>Total assets</b>		<b>309,773</b>	244,091
<b>Equity</b>			
Equity attributable to equity holders of the Company		99,940	86,207
Non-controlling interests		45	59
<b>Total equity</b>		<b>99,985</b>	86,266
<b>Liabilities</b>			
Borrowings	22	17,578	19,990
Long-term employee benefits		9,731	9,608
Deferred government grants		2,656	2,746
Deferred tax liabilities	16	320	476
Provisions	25(a)	964	782
<b>Non-current liabilities</b>		<b>31,249</b>	33,602
Borrowings	22	10,530	3,043
Income tax payable		5,947	4,034
Trade and bills payable	23	45,899	31,980
Other payables	24	108,818	80,448
Provisions	25(a)	7,345	4,718
<b>Current liabilities</b>		<b>178,539</b>	124,223
<b>Total liabilities</b>		<b>209,788</b>	157,825
<b>Total equity and liabilities</b>		<b>309,773</b>	244,091

The notes on pages 63 to 102 form part of this consolidated financial statements summary.

**Consolidated Statement of Cash Flows**

	Note	2014 CNY million	2013 CNY million
<b>Cash flows from operating activities</b>			
Cash receipts from customers		367,827	293,317
Cash paid to suppliers and employees		(321,201)	(269,598)
Other operating cash flows		(4,871)	(1,165)
<b>Net cash from operating activities</b>		<b>41,755</b>	22,554
<b>Net cash used in investing activities</b>			
		(26,209)	(8,037)
<b>Net cash used in financing activities</b>			
		(10,406)	(7,126)
<b>Net increase in cash and cash equivalents</b>		<b>5,140</b>	7,391
Cash and cash equivalents at January 1	21	73,399	67,180
Effect of foreign exchange rate changes		(491)	(1,172)
<b>Cash and cash equivalents at December 31</b>	21	<b>78,048</b>	73,399

The notes on pages 63 to 102 form part of this consolidated financial statements summary.



## Notes to the Consolidated Financial Statements Summary

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

#### (a) Basis of preparation

Huawei Investment & Holding Co., Ltd. (the "Company") and its subsidiaries (together referred to as the "Group") have prepared a full set of consolidated financial statements ("consolidated financial statements") for the year ended December 31, 2014 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 has been prepared and presented based on the audited consolidated financial statements for the year ended December 31, 2014 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, 2014 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 amounts have been rounded to the nearest million unless otherwise specified.

#### (c) Translation of foreign currencies

##### i) Foreign currency transactions

Foreign currency transactions 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 are translated to the functional currency at the foreign exchange rates ruling at the end of the reporting period. 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 measured.

##### 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. Statement of financial position items are translated into CNY at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. If the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the exchange difference is allocated to the non-controlling interests.

The results of foreign operations in hyperinflationary economies are translated to CNY at the exchange rates ruling at the end of the reporting period. 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 currencies. The restatement is based on relevant price indices at the end of the reporting period.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange 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 a 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 and goodwill

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 1(e)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Transaction costs are expensed as incurred.

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

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.

Goodwill arising on a business combination represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the recognised amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets acquired and liabilities assumed as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see note 1(l)). Goodwill is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

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

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flows 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 the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position 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 statement of profit or loss and the consolidated statement of profit or loss and other 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 (see note 1(n)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(f)).

#### **(f) Associates and joint ventures**

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 joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements using 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(l)). 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 statement of profit or loss, 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 profit or loss and other comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, 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 joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, 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 (see note 1(n)).

#### **(g) Investment property**

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less accumulated depreciation (see note 1(h)(iii)) and impairment losses (see note 1(l)). Depreciation is calculated to write off the cost of items of investment property, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Rental income from investment properties is accounted for as described in note 1(s)(ii).

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

##### **i) Recognition and measurement**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)). 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(u)).

Construction in progress is transferred to other property, plant and equipment when it is ready for its intended use.

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.

##### **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:

	<b>Estimated useful lives</b>
Freehold land and construction in progress that are not depreciated	
Buildings	30 years
Machinery, electronic equipment and other equipment	3 to 10 years
Motor vehicles	5 years
Decoration and leasehold improvements	2 to 5 years

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) Long-term leasehold prepayments

Long-term leasehold prepayments represent land premium, resettlement fees and related expenses in obtaining the relevant land use rights. Long-term leasehold prepayments are stated at cost, less accumulated amortisation and impairment losses (see note 1(l)).

Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over the period of the land use rights which is generally not exceeding 50 years.

(j) Intangible assets

i) 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.

ii) Other intangible assets

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

iii) 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 to 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.

#### (k) 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.

#### (l) Impairment of assets

i) Impairment of investments in debt and equity securities and other 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 the end of each reporting period 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 joint ventures accounted for under the equity method (see note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(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(l)(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 the 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 carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' 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 these financial assets 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.

- 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 recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and bills receivable, 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 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 the end of each reporting period to identify indications that the following assets may

be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use 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 of disposal 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 the 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).

- 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 of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

In respect of assets other than goodwill, 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.

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.

## (m) 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 to a weighted average cost formula. The cost of inventories includes expenditures incurred in acquiring the inventories and bringing them to their present 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.

#### (n) Financial instruments

Financial assets of the Group comprise financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial liabilities of the Group comprise interest-bearing loans and borrowings, and other financial liabilities.

##### i) Recognition and derecognition

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, which is usually the transaction price.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

##### ii) Measurement

###### ■ Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(u).

###### ■ Loans and receivables

Loans and receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(l)), 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 allowance for impairment of doubtful debts.

The Group purchases wealth management products from commercial banks with maturity less than one year. Wealth management products with guaranteed principals and earnings are classified as loans and receivables; while those with principals

and earnings not guaranteed are classified as available-for-sale financial assets.

From time to time, the Group transfers its trade receivables to banks or financial institutions; the bank or the financial institution 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 institution. In such case, trade receivables transferred are derecognised from the consolidated statement of financial position. The excess of the carrying amount of trade receivables over cash received from the banks or financial institutions is included in "other (expenses)/income, net" in the consolidated statement of profit or loss.

- Available-for-sale financial assets  
Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, available-for-sale financial assets that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses (see note 1(l)). Dividend income is

recognised in profit or loss in accordance with the policy set out in note 1(u) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(u).

When these assets are derecognised or impaired (see note 1(l)), the cumulative gain or loss is reclassified from equity to profit or loss.

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

#### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in

value, having been within three months of maturity at acquisition. 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 statement of cash flows.

**(p) Employee benefits**

- i) Short term employee benefits, contributions to defined contribution retirement plans and other long-term employee benefits

Salaries, profit sharing and bonus payment, 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 obligations

The Group's 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. The calculation is performed by management using the projected unit credit method.

Service cost and interest cost on the defined benefit obligations are recognised in profit or loss. Current service cost is measured as the increase in the present value of the defined benefit obligations resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier

of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Interest cost on defined benefit obligations for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the defined benefit obligations. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit plans are recognised immediately in other comprehensive income and shall not be reclassified to profit or loss in a subsequent period. However, the remeasurement amounts recognised in other comprehensive income may be transferred within equity. Remeasurements include actuarial gains and losses.

**(q) Provisions and contingent liabilities**

- i) Provision for warranties

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

- ii) Provision for onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under

the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

- iii) 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.

#### (r) 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 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 end of the reporting period, 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.

Apart from certain limited exceptions, 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 limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition

of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

#### (s) 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) Sale of goods and provision of services  
Revenue from sale 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) 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.

#### (t) Government grants

Government grants are recognised in the consolidated statement of financial position only 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 other income 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.

#### (u) 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 and held-for-trading financial assets, and changes in the fair value of held-for-trading financial assets. Interest income is recognised as it accrues using the effective interest method. Dividend income from 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 expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on available-for-sale financial assets. Borrowing costs that are directly attributable to the acquisition, construction or production of an 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 exchange gains and losses are included under finance income or expenses on a net basis.

#### (v) 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 various lines of business and geographical locations.

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. Changes in accounting policies

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group.

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

### **Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities***

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the consolidated financial statements as the Company does not qualify to be an investment entity.

### **Amendments to IAS 32, *Offsetting financial assets and financial liabilities***

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have a significant impact on the consolidated financial statements as they are consistent with the policies already adopted by the Group.

### **Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets***

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal. The adoption of the amendments does not have an impact on the consolidated financial statements because the Group does not have an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal during the periods presented.

### **Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting***

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the consolidated financial statements as the Group has not novated any of its derivatives.

### **IFRIC 21, *Levies***

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the consolidated financial statements as the guidance is consistent with the Group's existing accounting policies.

### 3. Revenue

	2014 CNY million	2013 CNY million
Sale of goods and provision of services	288,116	238,948
Rental income	81	77
	<b>288,197</b>	239,025

### 4. Other (expenses)/income, net

	2014 CNY million	2013 CNY million
Expense on factoring	(841)	(550)
Government grants	1,033	465
Impairment loss on intangible assets and goodwill	(3,445)	–
Net (loss)/gain on disposal of property, plant and equipment, and intangible assets	(55)	985
Others	(1,625)	(177)
	<b>(4,933)</b>	723

#### Government grants

During the year ended December 31, 2014, the Group received unconditional government grants of CNY422 million (2013: CNY307 million) in respect of its contributions to the development of research and innovation in the People's Republic of China (the "PRC"). These grants were directly recognised as other income.

During the year ended December 31, 2014, the Group received government grants of CNY521 million (2013: CNY686 million) which were conditional upon completion of certain research and development projects. These grants were initially recognised in the consolidated statement of financial position as deferred government grants and are amortised through the consolidated statement of profit or loss on a systematic basis in the same periods in which the related research and development expenses are incurred. During the year ended December 31, 2014, conditional government grants of CNY611 million (2013: CNY158 million) were recognised in profit or loss.

### 5. Personnel expenses

	2014 CNY million	2013 CNY million
Expenses recognised in respect of defined benefit plan	1,918	1,338
Contributions to defined contribution retirement plans	7,387	6,497
Total costs on post-employment plans	9,305	7,835
Expenses recognised in respect of time-based unit plan ("TUP")	963	25
Salaries, wages and other benefits	61,540	44,590
	<b>71,808</b>	52,450



### Defined contribution retirement plans

Pursuant to the relevant laws and regulations, the Group contributes to defined contribution retirement plans for the respective group entities' employees. The plans are managed either by the government organisation at the location of the respective group entities or by independent trustees. The amount of contributions made to the retirement schemes is calculated using the method compliant with the respective laws and regulations concerned.

### TUP

TUP is a profit-sharing and bonus plan based on employee performance for all eligible employees ("recipients") in the Group. Under TUP, time-based units ("TBUs") are granted to the recipients, which entitle the recipients to receive cash incentive calculated based on the annual profit-sharing amount and the cumulative end-of-term gain amount. Both of the annual profit-sharing and the end-of-term gain amount are determined at the discretion of the Group. The TBUs will have an exercise period of five years, and after the first, second and third anniversary of the date of grant, each one third of the TBUs will become exercisable and recipients will receive the annual profit-sharing amount accordingly. The end-of-term gain amount will be paid to the recipients upon the expiry of the TBUs or at the date the recipients resign or are dismissed. As at December 31, 2014, the valid TBUs granted were 1,051,400,894 units; liability and the corresponding personnel expenses have been recognised in respect of 385,160,827 units of the valid TBUs.

## 6. Net finance expenses

	2014 CNY million	2013 CNY million
Interest income	2,402	839
Net gain on disposal of available-for-sale wealth management products and securities stated at fair value	821	1,056
Interest expense	(1,659)	(1,358)
Net foreign exchange loss	(2,135)	(3,686)
Interest cost on defined benefit obligations	(458)	(469)
Others	(426)	(324)
	<b>(1,455)</b>	<b>(3,942)</b>

## 7. Income tax

Taxation in the consolidated statement of profit or loss represents:

	2014 CNY million	2013 CNY million
<b>Current tax</b>		
Provision for the year	8,314	6,384
Under/(over)-provision in respect of prior years	543	(78)
	<b>8,857</b>	<b>6,306</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(3,670)	(2,147)
	<b>5,187</b>	<b>4,159</b>

## 8. Segment reporting

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

### ■ Carrier Business

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 organisation 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 most senior executive management for the purpose of resource allocation and performance assessment.

### Revenue information in respect of business segments

	2014 CNY million	2013 CNY million
Carrier Business	<b>192,073</b>	164,947
Enterprise Business	<b>19,391</b>	15,238
Consumer Business	<b>75,100</b>	56,618
Others	<b>1,633</b>	2,222
<b>Total</b>	<b>288,197</b>	239,025

### Revenue information in respect of geographical segments

	2014 CNY million	2013 CNY million
China	<b>108,881</b>	82,785
Europe, the Middle East and Africa (EMEA)	<b>100,990</b>	84,006
Asia Pacific	<b>42,424</b>	38,691
Americas	<b>30,852</b>	29,346
Others	<b>5,050</b>	4,197
<b>Total</b>	<b>288,197</b>	239,025

## 9. Goodwill

	Note	2014 CNY million	2013 CNY million
<b>Cost:</b>			
At January 1		3,566	3,609
Exchange adjustment		44	(87)
Acquisitions through business combinations	28(c)	108	44
At December 31		3,718	3,566
<b>Accumulated impairment losses:</b>			
At January 1		223	220
Exchange adjustment		(35)	3
Impairment loss		3,223	–
At December 31		3,411	223
<b>Carrying amount:</b>			
At December 31		307	3,343

### Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") or group of CGUs, which is either an operating segment or at a level not larger than an operating segment, as follows:

	2014 CNY million	2013 CNY million
Sectors under Enterprise business group	–	3,139
Beijing Huawei Longshine Information Technology Company Limited ("Beijing Huawei Longshine")	154	154
Others	153	50
	307	3,343

Goodwill is allocated to the Group's CGUs expected to benefit from the synergies of the acquisitions. For impairment assessment purposes, the recoverable amount of the CGUs are 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 covering a five-year period, based on their industry expertise.

The key assumptions for the calculation of value-in-use include the discount rates and growth rates applied. Discount rates used are pre-tax rates and reflect specific risks relating to respective CGU or group of CGUs. Cash flows beyond the aforementioned approved financial budget's periods are extrapolated using an estimated growth rate applied. The growth rate does not exceed the long-term average growth rate for the business in which the CGU or group of CGUs operates. Discount rates and growth rates applied for the computation of value-in-use are as follows:

	As at December 31	
	2014 %	2013 %
<b>Sectors under Enterprise business group</b>		
– Discount rate	<b>16.4</b>	17.0
– Terminal value growth rate	<b>3.0</b>	5.0
<b>Beijing Huawei Longshine</b>		
– Discount rate	<b>15.5</b>	17.9
– Terminal value growth rate	<b>3.0</b>	3.0

Due to technology development and market change, the Group's expectation for the future growth and profitability of the acquired sectors under Enterprise business group are lower than previous estimates. Therefore, the acquired sectors under Enterprise business group were determined to be impaired. During the year, based on the abovementioned impairment test, impairment loss of CNY3,223 million and CNY222 million was recognized respectively for the goodwill allocated to and the intangible assets of the acquired sectors under Enterprise business group; and the goodwill relating to CGU was reduced to nil. The impairment loss is recognized in the consolidated statement of profit or loss as "other (expenses)/income, net".

**10. Intangible assets**

	Software CNY million	Patents CNY million	Trademark CNY million	Total CNY million
<b>Cost:</b>				
At January 1, 2013	1,687	1,675	82	3,444
Exchange adjustment	(26)	(2)	1	(27)
Additions	615	606	4	1,225
Disposals	(27)	(99)	(1)	(127)
At December 31, 2013	2,249	2,180	86	4,515
At January 1, 2014	2,249	2,180	86	4,515
Exchange adjustment	(42)	(18)	(5)	(65)
Additions	436	136	9	581
Acquisition of subsidiaries (note 28(c))	–	59	–	59
Disposals	(28)	(31)	(1)	(60)
At December 31, 2014	2,615	2,326	89	5,030
<b>Accumulated amortisation and impairment losses:</b>				
At January 1, 2013	1,081	634	40	1,755
Exchange adjustment	(14)	(1)	–	(15)
Amortisation for the year	264	192	7	463
Disposals	(19)	(78)	(1)	(98)
At December 31, 2013	1,312	747	46	2,105
At January 1, 2014	1,312	747	46	2,105
Exchange adjustment	(16)	–	(2)	(18)
Amortisation for the year	272	196	8	476
Impairment loss (note 9)	–	222	–	222
Disposals	(21)	(23)	(1)	(45)
At December 31, 2014	1,547	1,142	51	2,740
<b>Carrying amounts:</b>				
At December 31, 2013	937	1,433	40	2,410
At December 31, 2014	1,068	1,184	38	2,290

The amortisation charge for the year is included in "cost of sales", "research and development expenses", "selling and administrative expenses" in the consolidated statement of profit or loss. The impairment losses are included in "other (expenses)/income, net" in the consolidated statement of profit or loss.

## 11. Property, plant and equipment

	Freehold land	Buildings	Machinery, electronic equipment and other equipment	Motor vehicles	Construction in progress	Investment property	Decoration and leasehold improvements	Total
	CNY million	CNY million	CNY million	CNY million	CNY million	CNY million	CNY million	CNY million
<b>Cost:</b>								
At January 1, 2013	49	8,693	17,634	540	3,764	434	5,712	36,826
Exchange adjustment	(1)	(12)	(341)	(22)	(70)	-	(65)	(511)
Additions	58	13	2,530	83	3,179	-	239	6,102
Transfer from construction in progress	-	758	544	-	(1,963)	-	661	-
Disposals	-	(24)	(866)	(57)	-	-	(45)	(992)
At December 31, 2013	106	9,428	19,501	544	4,910	434	6,502	41,425
At January 1, 2014	106	9,428	19,501	544	4,910	434	6,502	41,425
Exchange adjustment	1	(8)	(423)	(32)	(21)	-	(47)	(530)
Additions	36	318	3,196	90	4,200	-	124	7,964
Transfer from construction in progress	-	1,637	809	-	(3,500)	-	1,054	-
Acquisition of subsidiaries (note 28(c))	-	617	365	-	-	-	487	1,469
Transfer from investment property	-	187	83	-	-	(334)	64	-
Disposals	-	(3)	(919)	(73)	-	-	(91)	(1,086)
At December 31, 2014	143	12,176	22,612	529	5,589	100	8,093	49,242
<b>Accumulated depreciation:</b>								
At January 1, 2013	-	2,166	10,157	353	-	285	3,499	16,460
Exchange adjustment	-	(2)	(176)	(11)	-	-	(42)	(231)
Depreciation charge for the year	-	408	2,403	68	-	22	856	3,757
Disposals	-	(18)	(667)	(49)	-	-	(36)	(770)
At December 31, 2013	-	2,554	11,717	361	-	307	4,277	19,216
At January 1, 2014	-	2,554	11,717	361	-	307	4,277	19,216
Exchange adjustment	-	-	(244)	(19)	-	-	(37)	(300)
Depreciation charge for the year	-	470	2,391	63	-	3	1,091	4,018
Transfer from investment property	-	85	77	-	-	(226)	64	-
Disposals	-	(2)	(794)	(65)	-	-	(79)	(940)
At December 31, 2014	-	3,107	13,147	340	-	84	5,316	21,994
<b>Carrying amounts:</b>								
At December 31, 2013	106	6,874	7,784	183	4,910	127	2,225	22,209
At December 31, 2014	143	9,069	9,465	189	5,589	16	2,777	27,248

### Investment property

The Group leased out certain buildings to third parties. Such buildings are classified as investment property.

The carrying value of investment property as at December 31, 2014 is CNY16 million (2013: CNY127 million). The fair value of investment property as at December 31, 2014 is estimated by management to be CNY71 million (2013: CNY252 million).

The fair value of investment property is determined by the Group internally with 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, are taken into account when estimating future cash flow. The fair value measurement is categorised into level 3 of the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*.

### 12. Long-term leasehold prepayments

	2014 CNY million	2013 CNY million
At January 1	2,761	2,361
Additions	607	462
Acquisition of subsidiaries (note 28(c))	61	–
Amortisation for the year	(80)	(62)
At December 31	3,349	2,761

### 13. Interest in associates

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Proportion of ownership interest		Nature of the relationship
			2014	2013	
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. ("Tianwen Digital Media")	Incorporated	Beijing, PRC	49%	49%	Development, publication and operation of digital media related services

All of the associates are accounted for using the equity method in the consolidated financial statements summary.

Summarised financial information of the material associates, reconciled to the carrying amounts in the consolidated financial statements summary, are disclosed below:

	TD Tech		Tianwen Digital Media	
	2014 CNY million	2013 CNY million	2014 CNY million	2013 CNY million
<i>Gross amounts of the associates'</i>				
Current assets	3,949	369	432	302
Non-current assets	49	56	8	8
Current liabilities	(3,412)	(429)	(159)	(60)
Non-current liabilities	(109)	(87)	(7)	(2)
Equity/(deficit)	477	(91)	274	248
Revenue	7,604	3,972	233	139
Profit/(loss)	234	(170)	24	1
<i>Reconciled to the Group's interest in the associates</i>				
Gross amounts of net assets of the associate	477	(91)	274	248
Group's effective interest	49%	49%	49%	49%
Group's share of net assets of the associate	202	(45)	134	122
Goodwill	-	-	5	5
Net loss not shared by the Group	-	45	-	-
Carrying amount in the consolidated financial statements summary	202	-	139	127

Aggregate information of associates that are not individually material:

	2014 CNY million	2013 CNY million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements summary	207	143
Aggregate amounts of the Group's share of those associates' profit	62	42

#### 14. Interest in joint ventures

Details of the Group's interest in the material joint venture are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Proportion of ownership interest		Nature of the relationship
			2014	2013	
Huawei Marine Systems Co., Ltd. ("Huawei Marine")	Incorporated	Hong Kong, PRC	51%	51%	Construction and operation of submarine fibres



Huawei Marine is an unlisted corporate entity whose quoted market price is not available.

Chengdu Huawei Investment Co., Ltd. ("CD Investment"), a limited company incorporated in the PRC, was previously a joint venture of the Group, with 51% and 49% equity interests held by a third party and the Company respectively. According to an agreement entered into by the Company and the third party on February 28, 2014, the Company acquired the 51% equity interests held by the third party with a consideration of CNY245 million in March 2014. After the acquisition, CD Investment became a wholly-owned subsidiary of the Company. Please refer to note 28(c) (ii) for the details of the acquisition. The Group's share of CD Investment's net loss before the acquisition (from January to March 2014) amounted to CNY5 million.

All of the joint ventures are accounted for using the equity method in the consolidated financial statements summary.

Summarised financial information of the material joint ventures, reconciled to the carrying amounts in the consolidated financial statements summary, are disclosed below:

	Huawei Marine		CD Investment	
	2014 CNY million	2013 CNY million	2014 CNY million	2013 CNY million
<i>Gross amounts of the joint ventures'</i>				
Current assets	<b>734</b>	439	<b>n/a</b>	173
Non-current assets	<b>16</b>	20	<b>n/a</b>	1,422
Current liabilities	<b>(598)</b>	(322)	<b>n/a</b>	(239)
Non-current liabilities	<b>(19)</b>	(13)	<b>n/a</b>	(1,137)
Equity	<b>133</b>	124	<b>n/a</b>	219
Included in the above assets and liabilities:				
Cash and cash equivalents	<b>107</b>	98	<b>n/a</b>	4
Non-current financial liabilities (excluding trade and other payables and provisions)	<b>-</b>	-	<b>n/a</b>	(1,137)
Revenue	<b>488</b>	498	<b>n/a</b>	241
Profit/(loss)	<b>8</b>	20	<b>n/a</b>	(75)
Included in the above profit/(loss):				
Depreciation and amortisation	<b>(9)</b>	(11)	<b>n/a</b>	(190)
Interest expense	<b>-</b>	-	<b>n/a</b>	(72)
Income tax expense	<b>-</b>	(1)	<b>n/a</b>	(1)

	Huawei Marine		CD Investment	
	2014 CNY million	2013 CNY million	2014 CNY million	2013 CNY million
<i>Reconciled to the Group's interest in the joint ventures</i>				
Gross amounts of net assets of the joint venture	133	124	n/a	219
Group's effective interest	51%	51%	n/a	49%
Group's share of net assets of the joint venture	67	63	n/a	107
Carrying amount in the consolidated financial statements summary	67	63	n/a	107

Aggregate information of joint ventures that are not individually material:

	2014 CNY million	2013 CNY million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements summary	40	41
Aggregate amounts of the Group's share of those joint ventures' loss	(1)	(1)

## 15. Other investments

	2014 CNY million	2013 CNY million
Unlisted equity securities stated at cost	516	477
Listed equity securities stated at fair value	7	118
Debt securities stated at fair value	37	5
	560	600
Less: Impairment loss	(i) (20)	(16)
	540	584

- (i) As at December 31, 2014 and 2013, certain of the Group's other investments were individually determined to be impaired on the basis of a material decline and adverse changes in the market in which the investees operated. This indicated that the cost of these investments may not be recovered. Impairment losses on these investments are recognised in accordance with the policy set out in note 1(l).

## 16. Deferred tax assets and liabilities

(a) The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position are as follows:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Accruals and provisions	<b>8,858</b>	5,740
Depreciation of property, plant and equipment	<b>220</b>	269
Provision for impairment losses	<b>873</b>	971
Unrealised profit	<b>3,460</b>	3,131
Tax losses	<b>172</b>	107
Undistributed profits of subsidiaries	<b>(141)</b>	(159)
Fair value adjustments on acquisition of subsidiaries	<b>(34)</b>	(75)
Others	<b>1,188</b>	1,117
<b>Total</b>	<b>14,596</b>	11,101

Reconciliation to the consolidated statement of financial position:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Net deferred tax assets recognised in the consolidated statement of financial position	<b>14,916</b>	11,577
Net deferred tax liabilities recognised in the consolidated statement of financial position	<b>(320)</b>	(476)
	<b>14,596</b>	11,101

**(b) Deferred tax assets not recognised**

At December 31, 2014 and 2013, deferred tax assets were not recognised in relation to certain unused tax losses and other deductible temporary differences. The unrecognized unused tax losses and deductible temporary differences are analysed as follows:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Other deductible temporary differences	<b>1,304</b>	1,008
Tax losses	<b>1,358</b>	1,463
	<b>2,662</b>	2,471

Deferred tax assets have not been recognised in respect of certain provisions for impairment losses and other provisions as management believes that these provisions are unlikely to be allowed for tax deduction by the relevant tax authorities.

Deferred tax assets have not been recognised in respect of certain unused tax losses as it was determined by management that it is not probable that future taxable profits against which the tax losses can be utilised will be available before they expire.

**17. Inventories**

(a) Inventories in the consolidated statement of financial position comprise:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Raw materials	<b>6,261</b>	5,990
Manufacturing work in progress	<b>5,224</b>	4,150
Finished goods	<b>11,615</b>	6,077
Contract work in progress	<b>23,476</b>	8,712
	<b>46,576</b>	24,929

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Carrying amount of inventories sold	<b>116,062</b>	99,694
Write down of inventories	<b>2,120</b>	1,231
	<b>118,182</b>	100,925

**18. Trade and bills receivable**

	2014 CNY million	2013 CNY million Restated
<b>Trade receivables</b>		
Trade receivables due from third parties	<b>75,018</b>	71,979
Trade receivables due from related parties	<b>827</b>	372
	<b>75,845</b>	72,351
<b>Bills receivable</b>		
Bank acceptance bills	<b>2,334</b>	2,224
Commercial acceptance bills	<b>1,000</b>	2,967
Letter of credit receivables	<b>847</b>	798
	<b>4,181</b>	5,989
	<b>80,026</b>	78,340
Non-current portion	<b>446</b>	335
Current portion	<b>79,580</b>	78,005
	<b>80,026</b>	78,340

**(a) Ageing analysis**

At the end of the reporting period, the ageing analysis of trade receivables due from third parties is as follows:

	2014 CNY million	2013 CNY million Restated
Not past due	<b>55,700</b>	56,693
Less than 90 days past due	<b>15,120</b>	10,698
90 days to 1 year past due	<b>7,706</b>	7,575
1 year and above past due	<b>1,559</b>	1,353
	<b>80,085</b>	76,319
Less: Allowance for doubtful debts	<b>(5,067)</b>	(4,340)
	<b>75,018</b>	71,979

**(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 due from third parties directly (see note 1(l)).

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

	<b>2014</b> CNY million	<b>2013</b> CNY million
At January 1	4,340	3,487
Exchange adjustment	117	(520)
Impairment loss recognised	72	1,075
Collection of previously written-off debtors	895	411
Uncollectible amounts written off	(357)	(113)
At December 31	<b>5,067</b>	4,340

**19. Other assets**

	<b>2014</b> CNY million	<b>2013</b> CNY million Restated
Advance payments to suppliers	1,932	1,605
Tax related assets	7,117	5,103
Pledged deposits	2,530	1,805
Others	16,251	7,000
	<b>27,830</b>	15,513
Non-current portion	2,917	988
Current portion	24,913	14,525
	<b>27,830</b>	15,513

**20. Short-term investments**

	<b>2014</b> CNY million	<b>2013</b> CNY million
Debt securities stated at fair value	662	–
Wealth management products	27,326	8,545
	<b>27,988</b>	8,545

## 21. Cash and cash equivalents

	2014 CNY million	2013 CNY million
Cash in hand	13	5
Deposits with banks and other financial institutions	55,802	61,794
Highly liquid short-term investments	22,233	11,600
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	<b>78,048</b>	73,399

As at December 31, 2014, the Group had short-term investments of CNY22,233 million (2013: CNY11,600 million) purchased from commercial banks with maturities of less than three months. These short-term investments were highly liquid, readily convertible into known amounts of cash and were subject to an insignificant risk of changes in value. These short-term investments were all subsequently matured and settled before March 2015.

As at December 31, 2014, cash and cash equivalents of CNY1,010 million (2013: CNY1,302 million) were held in countries where exchange controls or other legal restrictions are applicable.

## 22. Borrowings\*

	2014 CNY million	2013 CNY million
Short-term loans and borrowings:		
– Intra-group guaranteed	1,891	2,022
– Unsecured	–	25
	<b>1,891</b>	2,047
Long-term loans and borrowings:		
– Intra-group guaranteed	22,254	18,351
– Unsecured	1,382	1,644
– Corporate bond	2,581	991
	<b>26,217</b>	20,986
	<b>28,108</b>	23,033
Non-current portion	17,578	19,990
Current portion	10,530	3,043
	<b>28,108</b>	23,033

\* For more information, please refer to the Appendix to 2014 Annual Report: Corporate Debt Financing.

## Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

	Total CNY million	1 year or less CNY million	1 to 5 years CNY million	Over 5 years CNY million
<b>Intra-group guaranteed bank loans:</b>				
Brazil Real – fixed at 11.09% p.a.	43	43	–	–
RMB – variable at 5.90%~6.55% p.a.	1,557	225	627	705
Ethiopian Birr – fixed at 9.50% p.a.	1	1	–	–
Euro ("EUR") – variable at 1.40%~1.71% p.a.	3,564	792	2,772	–
Indian rupee – variable at 9.50%~9.75% p.a.	842	842	–	–
Kazakhstan Tenge – fixed at 7.00%~8.50% p.a.	187	125	62	–
Philippines Peso – variable at 3.70% p.a.	18	18	–	–
United States dollar ("USD")				
– variable at 1.63%~2.64% p.a.	15,074	4,317	10,757	–
– fixed at 4.33% p.a.	2,788	2,788	–	–
New Venezuelan Bolivar – variable at 14.00% p.a.	12	12	–	–
Vietnam Dong – variable at 6.68%~8.00% p.a.	59	59	–	–
	24,145	9,222	14,218	705
<b>Unsecured bank loan:</b>				
RMB – variable at 5.90%~6.55% p.a.	1,382	310	643	429
<b>Corporate bond:</b>				
RMB – fixed at 5.30% p.a.	998	998	–	–
RMB – fixed at 4.55% p.a.	1,583	–	1,583	–
	2,581	998	1,583	–
	28,108	10,530	16,444	1,134

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

Certain of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the borrower's statement of financial position ratios, as are commonly found in lending agreements with financial institutions. If the Group were to breach the covenants, the draw down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at December 31, 2014, none of the covenants relating to draw down facilities had been breached (2013: nil).

### Corporate bond

On 17 September 2014, Proven Honour Capital Limited, a wholly-owned subsidiary of the Company, issued a corporate bond with a principal amount of CNY1,600 million with three years maturity at an annual interest rate of 4.55%. This corporate bond is fully guaranteed by the Company.



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

### 23. Trade and bills payable

	2014 CNY million	2013 CNY million
<b>Trade payables</b>		
Trade payables due to third parties	44,287	30,616
Trade payables due to related parties	857	674
	<b>45,144</b>	31,290
<b>Bills payable</b>		
Bank acceptance bills	755	378
Letter of credit payables	–	312
	<b>755</b>	690
	<b>45,899</b>	31,980

### 24. Other payables

	2014 CNY million	2013 CNY million Restated
Interest payable	662	634
Advances received	33,475	25,582
Accrued expenses		
– Staff related	29,111	17,820
– Supplies related	17,203	11,777
Other taxes payable	7,478	7,824
Purchase of property, plant and equipment	2,185	2,053
Others	18,704	14,758
	<b>108,818</b>	80,448

## 25. Provisions and contingencies

### (a) Provisions

		<b>2014</b> <b>CNY million</b>	<b>2013</b> <b>CNY million</b>
Provision for warranties	(i)	<b>3,662</b>	2,963
Other provisions	(ii)	<b>4,647</b>	2,537
		<b>8,309</b>	5,500
Non-current portion		<b>964</b>	782
Current portion		<b>7,345</b>	4,718
		<b>8,309</b>	5,500

Movement in provisions during the year is as below:

	<b>Provision for</b> <b>warranties</b> <b>CNY million</b>	<b>Other</b> <b>provisions</b> <b>CNY million</b>	<b>Total</b> <b>CNY million</b>
At January 1, 2014	2,963	2,537	5,500
Provisions made during the year	3,892	3,347	7,239
Provisions utilised during the year	(3,193)	(1,237)	(4,430)
At December 31, 2014	3,662	4,647	8,309

#### (i) Provision for warranties

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 anticipated rates of warranty claims for the products. The Group expects to settle the majority of the liability within the next twelve months.

#### (ii) Other provisions

Other provisions are mainly for onerous contracts, outstanding litigations and claims.

**(b) Contingencies**

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 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 in relation to the accused 3G wireless devices concerned ("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 into the licensing fees requested by IDC, which it deemed exploitative, discriminatory, and in violation of the FRAND policies as well as the EC's antitrust law.

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. ("USA Device"), 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 of IDC's other 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 rates licenses 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.

On March 11, 2013, IDC filed appeals to the Guangdong Higher People's Court in respect of the rulings made by the Shenzhen Intermediate People's Court. On October 25, 2013, the Guangdong Higher People's Court upheld the Shenzhen Intermediate People's Court's ruling which is the final ruling.

On June 28, 2013 and December 19, 2013, the USITC ruled in favor of Huawei Tech, Futurewei and USA Device in respect of the first complaint in the initial determination and the final determination, respectively.

On December 23, 2013, Huawei Tech, Futurewei and USA Device reached a settlement agreement with IDC to withdraw or dismiss all the ongoing legal actions against each other. Under the settlement agreement, the parties will solve their dispute through arbitration.

On January 12, 2015, the arbitration hearing was held in the United States to solve the dispute between Huawei and InterDigital. The arbitration award is still pending.

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

ii) On May 23, 2012, Flashpoint Technology Inc. ("Flashpoint") filed a complaint with the USITC, requesting the Commission to commence an investigation under Section 337 of the Tariff Act of 1930 into certain electronic imaging devices manufactured by four alleged infringing companies and their affiliates by reason of patent infringement and requested for issuance of an exclusion order and cease and desist order in relation to the electronic imaging devices concerned. Huawei Tech and Futurewei were named as respondents. On August 2, 2012, the Administrative Law Judge granted a joint motion to substitute Huawei Device Co., Ltd. ("Huawei Device") and USA Device for Huawei Tech and Futurewei. Flashpoint also filed another complaint before the United States District Court for the District of Delaware for the same reason against Huawei Device and USA Device. The legal action before District Court of Delaware was stayed.

On September 30, 2013, the Administrative Law Judge of the USITC issued an initial determination in respect of Flashpoint's complaint with USITC that Huawei Device and USA Device did not infringe the asserted patents.

On March 14, 2014, the USITC issued the final determination deciding that Huawei Device and USA Device did not infringe the asserted patents. Flashpoint did not appeal to such final determination, and the investigation terminated in the Group's favor. Flashpoint subsequently also dismissed its infringement assertions against Huawei Device and USA Device before the United States District Court for the District of Delaware. The Group could reasonably conclude that this litigation is terminated, and there is no possible loss to the Group.

iii) 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 into certain wireless consumer electronics devices and components manufactured by thirteen companies and their affiliates by reason of alleged patent

infringement and requested for issuance of an exclusion order and cease and desist order in relation to the electronic products concerned. Huawei Tech was named as one of the thirteen companies. On August 21, 2012, the USITC decided to institute Section 337 investigation in relation to the electronic products concerned. TPL also filed another complaint before the United States District Court for the Northern District of California for the same reason. On September 6, 2013, the Administrative Law Judge of the USITC issued an initial determination that the Group did not infringe the asserted patent. On February 19, 2014, the USITC issued a final determination that the Group did not infringe the asserted patent. TPL did not appeal the final determination within the statutory period, as a result, the USITC investigation formally terminated. With the termination of the investigation, the suit before the United States District Court for the Northern District of California was reopened. Given the fact that the suit in the district court remains in an early stage, the Group is unable to predict the outcome of the suit, or reasonably estimate a range of possible loss if any.

## 26. Operating leases

### (a) As lessee

As at December 31, 2014 and 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2014 CNY million	2013 CNY million
Within 1 year	1,471	1,493
After 1 year but within 5 years	1,935	2,141
After 5 years	341	481
	<b>3,747</b>	4,115

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 one to five years. None of the leases includes contingent rentals.

During the year ended December 31, 2014, CNY3,245 million was recognised as an expense in the consolidated statement of profit or loss in respect of operating leases (2013: CNY3,458 million).

**(b) As lessor**

The Group leases out certain of its properties under operating leases (see note 3 and note 11). As at December 31, 2014 and 2013, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Within 1 year	<b>18</b>	23
After 1 year but within 5 years	<b>61</b>	1
	<b>79</b>	24

During the year ended December 31, 2014, CNY81 million was recognised as rental income in the consolidated statement of profit or loss (2013: CNY77 million).

**27. Capital commitments****(a) Acquisition and construction of buildings**

Capital commitments of the Group in respect of acquisition and construction of buildings outstanding at December 31, 2014 and 2013 not provided for in the consolidated financial statements summary were as follows:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Contracted for	<b>3,496</b>	3,378
Authorised but not contracted for	<b>1,663</b>	2,945
	<b>5,159</b>	6,323

**(b) Other capital commitments**

Other contracted capital commitments outstanding at December 31, 2014 and 2013 not provided for in the consolidated financial statements summary were as follows:

	<b>2014</b> CNY million	<b>2013</b> CNY million
Investment commitment	<b>9</b>	–

## 28. Group enterprises

### (a) Parent and ultimate controlling party

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

### (b) Major subsidiaries

Name of subsidiary	Place of incorporation and business	Proportion of ownership interest		Principal activity
		2014	2013	
Huawei Technologies Co., Ltd.	PRC	100%	100%	Development, manufacture and sale of telecommunication products and the technical support & maintenance of electrical equipment and spare parts
Huawei Software Technologies Co., Ltd.	PRC	100%	100%	Development, manufacture and sale of software and new products in mobile communication area and rendering of related services
Shanghai Huawei Technologies Co., Ltd.	PRC	100%	100%	Development, sale, consultancy service and after-sale service of telecommunication equipment
Beijing Huawei Digital Technologies Co., Ltd.	PRC	100%	100%	Development, sale, and technical support of mobile communication products, import and export of goods and techniques
Shenzhen Huawei Technologies Software Co., Ltd.	PRC	100%	100%	Development, manufacture, sale and provide service of communication software and related products
HUAWEI TECHNICAL SERVICE CO., LTD.	PRC	100%	100%	Installation, technology consultancy service and maintenance of telecommunication equipment and auxiliary products
Huawei Machine Co., Ltd.	PRC	100%	100%	Development, manufacture and sale of telecommunication products; offering of technology services
HiSilicon Technologies Co., Limited	PRC	100%	100%	Design, development and sale of semiconductors of telecommunication products
HiSilicon Optoelectronics Co., Limited	PRC	100%	100%	Design, development, manufacture, sale and after-sale services of optoelectronic technology and products in information technology area, agency of relevant optoelectronic products, import and export of products related to information technology and optical communication and auxiliary parts

Name of subsidiary	Place of incorporation and business	Proportion of ownership interest		Principal activity
		2014	2013	
Huawei Device (Dongguan) Co., Ltd.	PRC	100%	100%	Design, development, manufacture and sale of telecommunication and information products and auxiliary parts, and provision of consulting and after-sale services; design, development, manufacture and sale of satellite TV receiving antenna, tuners and digital satellite TV receiver; import and export business in compliance with relevant laws and regulations
Huawei Tech. Investment Co., Limited	Hong Kong	100%	100%	Trading of imported materials, sale of overseas device (exclude the United States) and overseas machineries
Huawei Device Co., Ltd.	PRC	100%	100%	Development, manufacture and sale of mobile communication products and electrical parts
Huawei International Pte. Ltd.	Singapore	100%	100%	Trading of telecommunication equipment
Huawei Technologies. Coöperatief U.A.	Netherlands	100%	100%	Investor of overseas subsidiaries
PT. Huawei Tech Investment	Indonesia	100%	100%	Trading of telecommunication equipment
Huawei Technologies Japan K.K.	Japan	100%	100%	Design, development, manufacture and sale of telecommunication and information products, provide auxiliary products and services
Huawei Device (Hong Kong) Co., Limited	Hong Kong	100%	100%	Sale and maintenance of electrical equipment and mobile communication products
Huawei Technologies Deutschland GmbH	Germany	100%	100%	The trade and distribution of telecommunication equipment products and all related activities and services
Futurewei Technologies, Inc.	United States	100%	100%	Technology research and development
Proven Honour Capital Limited	British Virgin Islands	100%	100%	Financing

### (c) Acquisition of subsidiaries

#### i) Neul Limited

On September 16, 2014, Huawei Technologies Coöperatief U.A., a wholly-owned subsidiary of the Company, acquired 100% equity interest in Neul Limited ("Neul") from a third party, for a consideration of GBP15 million (equivalent to CNY142 million) in cash.

Neul is based in Cambridge, UK and was incorporated in September 2010. Neul develops and supplies technology to allow network operators to provide a scalable, low power network service to connect small low power devices to their online digital presence in the Cloud. The acquisition of Neul gives the Group improved access to the market in the "Internet of Things". The major asset item recognised at the date of acquisition is the intangible asset as disclosed in note 10; and the goodwill arising from the acquisition is disclosed in note 9.

#### ii) CD Investment

As disclosed in note 14, the Company acquired the 51% equity interests in CD investment (previously a joint venture of the Group) from a third party in March 2014 and CD Investment became a wholly-owned subsidiary of the Company. At the date of acquisition, CD Investment had no significant business transactions other than the holding of the ownership titles of the property, plant and equipment that are used by other group entities. Therefore, CD Investment's operation does not constitute a business as defined under IFRS 3, *Business Combination*. Accordingly, the acquisition is accounted for as purchase of assets. The property, plant and equipment items and long-term leasehold prepayments acquired from the transaction are disclosed in note 11 and note 12, respectively.

### 29. Comparative figures

During the year, the management has determined that certain operating support activities in the Group's selling organization, previously recorded as selling expenses, are more appropriately presented as administrative expenses, and that the product management activities for product divisions, previously presented as selling expenses, should be changed to research and development expenses to more accurately reflect their function.

As a result of financial statement process improvement, management determined that certain cash receipt from customers, are more appropriately presented as advances received within other payables, rather than being offset against the receivables due from the same customer.

The comparatives have been represented to comply with the current year presentation. These changes in presentation have had no impact on reported operating profit or net assets.



## Risk Factors

All "risk factors" listed in this Annual Report, particularly those covered in this section, refer to key future uncertainties that may influence the company's business objectives. Such risk factors have been identified in Huawei's strategic plans, business models, external environment, and financial system. "Major risk factors" refer to events that may significantly impact the company's competitive landscape, reputation, financial position, operating results, and long-term prospects in the coming 18 months. Those outlined below are all deemed to be major risk factors.

### Risk Management System of Huawei

Based on the COSO framework, ISO 31000 risk management standards, and Huawei's organizational structure and operating model, Huawei has developed an ERM system, introduced related ERM policies and processes, constantly refined its ERM organizations and operating mechanisms, and promoted risk management evaluations.

Huawei's ERM system defines the responsibilities of three major roles in the area of risk management:

- The FC makes routine decisions on corporate risk management.
- Business executives bear the principal responsibility for risk management in their assigned business domains.
- The Enterprise Risk Mgmt Dept assists the FC and coordinates efforts by business executives to manage all major risks.

At Huawei, risk management factors are incorporated into its strategic planning and business planning processes: Each business domain systematically identifies and assesses risks during strategic planning, provides risk countermeasures in its annual business

plan, and manages risk monitoring and reporting as priorities during daily operations. Identifying the major risk factors in strategic decision-making and planning coupled with preemptive measures to control risks in business planning and execution ensures that Huawei's business operations remain uninterrupted.

### Strategic Risks

**Intense competition:** The markets in which Huawei operates are highly competitive in terms of product pricing and functionality, service quality, and the timing of new product launches. Rapid technological advancements, alternative technologies, and changing industry standards not only result in shorter product lifecycles, but may also attract new market entrants.

In view of this market environment, Huawei will strive to find out, understand, and satisfy diverse requirements of our customers. To consolidate and expand our competitive advantages and continuously improve our operating results, we will continue to launch better products and services while reducing total cost of ownership for customers. We will continue to invest in the future to build future technological advantages and become a low-profile industry leader.

### External Risks

**Economic environment:** Global economic growth remains, in general, sluggish today, and economic recovery is unpredictable and varies from region to region. Therefore, network carriers are cautious about investing in improving network quality. There is still a high degree of uncertainty in terms of the future needs of network infrastructure and services, and these risks will continue to impact Huawei's operating results.

**Legal risks:** The legal environments in some of the regions in which Huawei operates are complex. We strive to fully comply with all local laws and regulations; nevertheless, legal complexity can make us susceptible to risks that cause negative effects. Huawei will continue to assess and respond to such risks.

**Trade barriers:** Today, Huawei conducts business around the world. The complex international economic and financial landscape and increasingly fierce competition may leave us facing trade barriers in certain countries. Many factors threaten the free trade of Huawei products; for example, increasingly sophisticated trade barriers that include investigations, hefty anti-dumping and anti-subsidy duties, and various safeguards that require special product quality and technical specifications. Huawei has sought to mitigate risks, but trade barriers may still exist that adversely affect Huawei's operating results.

**Natural disasters:** Earthquakes, floods, epidemics, and other natural disasters may impact certain elements of Huawei's business operations. However, we can also contribute to local disaster relief together with local people and in doing so create new opportunities.

**Country-specific risks:** Huawei currently conducts business in more than 170 countries and regions worldwide. The complex international economic and political landscape may expose Huawei to particular risks in certain countries, such as civil unrest, economic and political instability, sharp exchange rate fluctuations, foreign exchange controls, sovereign debt crises, regulations on local business operations, and labor issues.

In particular, tensions between regions, civil wars, mutual sanctions, or local unrest may greatly hinder Huawei's business operations and development. To address these risks, Huawei must have a high aptitude for risk management. We must closely monitor possible

risks and environmental changes, and take prompt countermeasures to minimize any impact on our business.

## Operational Risks

**Supply continuity:** Although Huawei strives to avoid relying on a single supplier, it is not always possible to achieve this due to objective factors. Finding alternative suppliers or redesigning products can be time-consuming and costly. If a single supplier suspends its supply or provides substandard products, Huawei's ability to meet delivery requirements will be severely compromised. To mitigate this risk, we periodically assess and audit our suppliers and take preemptive action to ensure component substitutes or solution redesigns are available.

**Business continuity:** As the division of labor becomes highly globalized, Huawei must rely on third parties (including companies and professional institutions) for manufacturing, logistics, and services. If a third party discontinues its business, Huawei's operations and business performance may be compromised, either directly or indirectly. Therefore, we must constantly improve end-to-end business continuity management to guarantee our basic interests and those of our customers.

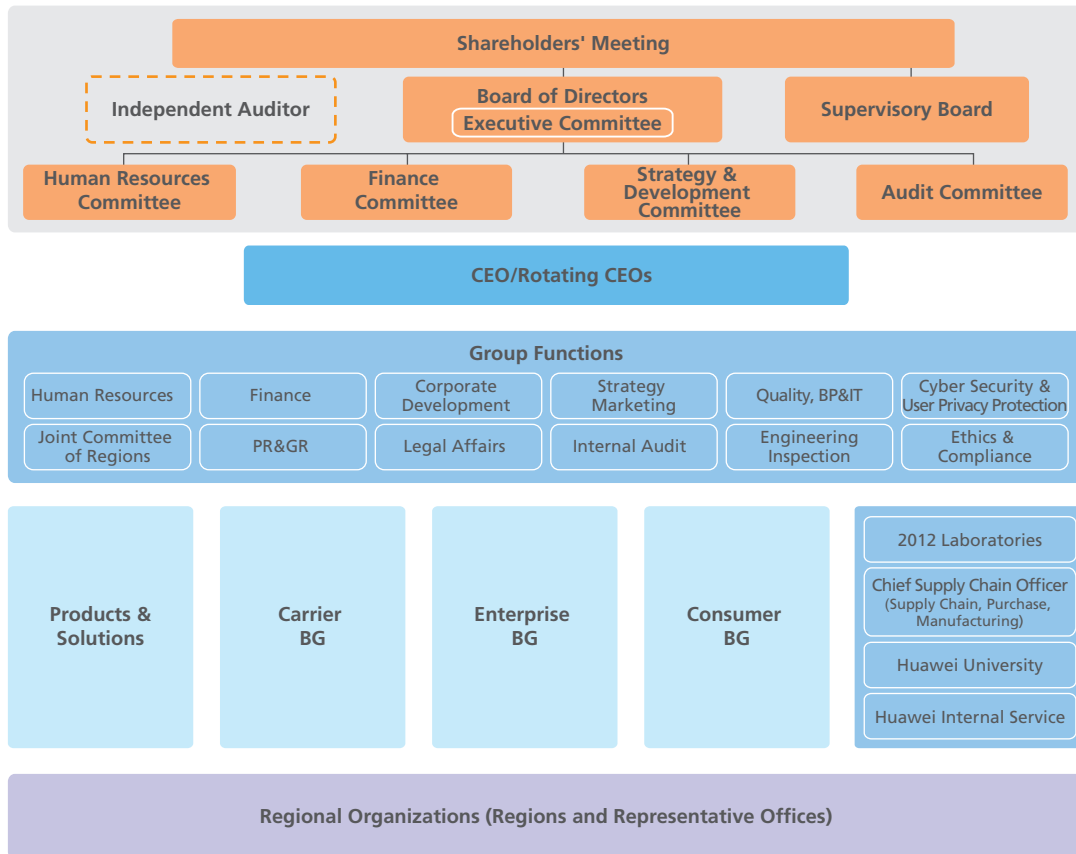
**Information security and IPR:** While Huawei has adopted stringent information security measures to protect its IPR, it is almost impossible to prevent other companies from improperly using our information, patents, and licenses. Even if we can resort to IP litigation to protect our IPR, we may still suffer losses from improper usage.

## Financial Risks

For further information on financial risks, see "Financial Risk Management" on pages 40 to 42 of this Annual Report.

## Corporate Governance Report

Driven by our core values of customer-centricity and dedication, we have maintained long-term effective growth by continuously improving our corporate governance structure, organizations, processes, and appraisal systems.



### Shareholders

Huawei Investment & Holding Co., Ltd. (the "Company" or "Huawei") is a private company wholly owned by its employees. Huawei's shareholders are the Union of Huawei Investment & Holding Co., Ltd. (the "Union") and Mr. Ren Zhengfei.

Through the Union, the company implements an Employee Shareholding Scheme (the "Scheme"), which involved 82,471 employees as of December 31, 2014. The Scheme effectively aligns employee contributions with the company's long-term development, fostering Huawei's continued success.

Mr. Ren Zhengfei is the individual shareholder of the Company and also participates in the Scheme. As of December 31, 2014, Mr. Ren's investment accounts for nearly 1.4% of the Company's total share capital.

### The Shareholders' Meeting and the Representatives' Commission

The Shareholders' Meeting is the highest authority within the Company, and comprises two shareholders: the Union and Mr. Ren Zhengfei.

The Company's major issues, which involve the decisions of the Union as a shareholder of the Company, shall be primarily reviewed and decided on by the Representatives' Commission (the "Commission"). The Commission consists of all representatives of shareholding employees ("Representatives") and exercises rights on behalf of all shareholding employees. In 2014, the Commission held two meetings. At these meetings, the Commission approved proposals on annual profit distribution, capital increases, regulations on the by-elections of members of the Supervisory Board, and the incentive program – TUP, etc. The Commission elected five additional members to the Supervisory Board.

The 51 Representatives and 9 Alternate Representatives are elected by the active shareholding employees with a term of five years. In the event that there is a vacancy in the body of Representatives, the Alternate Representatives shall take up the vacancy in a predetermined sequence. The existing Commission was elected in December 2010.

At present, the Representatives are Ms. Sun Yafang, Mr. Guo Ping, Mr. Xu Zhijun, Mr. Hu Houkun, Mr. Ren Zhengfei, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Ms. Chen Lifang, Mr. Wan Biao, Mr. Zhang Ping'an, Mr. Yu Chengdong, Mr. Liang Hua, Mr. Ren Shulu, Mr. Tian Feng, Mr. Deng Biao, Mr. Zhou Daiqi, Mr. Cai Liqun, Mr. Jiang Xisheng, Mr. Yin Xuquan, Mr. Yao Fuhai, Mr. Zha Jun, Mr. Li Yingtao, Ms.

Ji Ping, Mr. Tao Jingwen, Mr. Zhang Shunmao, Mr. Ding Shaohua, Mr. Li Jin'ge, Mr. Wang Shengli, Mr. Wang Kexiang, Mr. Lv Ke, Mr. Yang Kaijun, Mr. Jiang Yafei, Ms. He Tingbo, Mr. Sun Ming, Mr. Wu Kunhong, Mr. Zhao Yong, Ms. Yan Weimin, Mr. Tang Xiaoming, Mr. Wang Jiading, Mr. Wei Chengmin, Mr. Xiong Lening, Mr. Li Shanlin, Mr. Xu Chi, Mr. Yang Shu, Mr. Song Liuping, Mr. Zhou Hong, Ms. Chen Jun, Mr. Hui Chun, and Mr. Yang Yuefeng.

### 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 main responsibilities of the BOD are to:

- Decide on the company's strategic directions; and approve and monitor the execution of the company's medium-to-long-term development plan.
- Provide advice and guidance to management regarding significant issues, including major crises and market changes.
- Review the company's business operations, organization, and processes; and approve major organizational restructurings, business transformations, and process transformations.
- Approve the company's major financial policies, financial arrangements, and business transactions.
- Approve the company's operating results, financial results, and financial statements.
- Establish the company's monitoring mechanisms and oversee their execution.

- Establish the company's governance structure and organize its optimization and deployment.
- Decide on the selection, appraisal, and compensation of the Chief Executive Officer; and approve the appointment and compensation of other members of senior management.
- Approve the corporate-level HR planning and major HR policies.

In 2014, the BOD held 12 meetings. At the meetings, the BOD reviewed and approved matters such as the company's medium-to-long-term development plan, annual business plan and budget, BOD committee operations, compensation and incentives, management transformations, information security, M&A, and cooperation. In addition, the BOD organized a training session for new directors.

Currently, the BOD has 17 members, who were elected by all Representatives.

- 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
- Directors: Ms. Chen Lifang, Mr. Wan Biao, Mr. Zhang Ping'an, Mr. Yu Chengdong, Mr. Li Yingtao, Mr. Li Jin'ge, Ms. He Tingbo, and Mr. Wang Shengli

The BOD has established the Executive Committee, which acts as the executive body of the BOD while it 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 2014, the Executive Committee held 16 meetings.

### Human Resources Committee

The Human Resources Committee (HRC) manages and optimizes core corporate elements such as organization, talent, incentives, and culture. It operates under the BOD to develop, determine, and oversee the implementation of key policies and transformation initiatives relating to HR management. The committee aligns HR policies with the company's HR management philosophy and core concepts to ensure policy consistency. These policies also reflect the business characteristics and management models of departments at all levels to support business development.

The main responsibilities of the HRC are to:

- Manage HR initiatives for key managers and talent (including succession planning, deployment, appointments/removals, performance appraisals, compensation, and incentives).
- Set policies for incentives, benefits, the compensation structure, and job matching.
- Set policies for organizational development and optimization; and manage HR budgets and staffing for each budgetary unit.
- Set policies for and provide guidance on learning and development.
- Set policies for employee discipline and oversee disciplinary action for major violations.
- Set policies for and provide guidance on health and safety.
- Manage HR strategic planning and key HR transformation initiatives.

The HRC holds monthly meetings. Business executives, HR executives from key departments, and various experts are invited to attend as non-voting participants.

The committee met 12 times in 2014, and achieved its annual targets in the areas of developing HR management frameworks and policies, making key decisions, and overseeing policy execution. The specific initiatives are as follows:

- Formulated strategic plans for HR management to satisfy BOD requirements, meet global development needs of business groups, and manage Huawei's diverse workforce.
- Identified specific talent requirements for different job levels and positions based on corporate strategies and future development needs; and implemented the Leadership Model and qualification management system to adapt managers to business strategies.
- Implemented the "Contribute and Share" bonus system; tailored compensation and incentive strategies and standards for different job categories; increased incentives for high-performing employees, and rolled out the TUP globally; and increased monetary incentives and established a management framework to create more non-monetary incentives.
- Restructured organizations based on three dimensions – customers, products, and regions; delegated more authority to field offices; and managed workforce budgets more flexibly based on business needs.
- Strengthened employee discipline; and improved healthcare initiatives.
- Launched a three-to-five-year program to improve HR management capabilities and deliver professional and efficient HR services.

The HRC comprises 15 members, including BOD members, senior business executives, and senior HR experts.

- Chairman: Mr. Hu Houkun.
- Members: Mr. Guo Ping, Mr. Xu Zhijun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Li Yingtao, Mr. Wan Biao, Ms. He Tingbo, Mr. Zhang Ping'an, Mr. Zha Jun, Mr. Li Jin'ge, Mr. Peng Bo, and Li Shanlin.

#### Finance Committee

The Finance Committee (FC) is the company's overall enterprise value integrator. It operates under the BOD to exercise macro-control over the company's business operations, investment activities, and enterprise risks, helping to strike a dynamic balance between opportunities and resources to facilitate the company's long-term effective growth.

The main responsibilities of the FC are to:

- Align resources with business needs based on the company's resources and resource acquisition capabilities.
- Set financial objectives for the growth and investment projects of the company and each responsibility center; and determine the standards, structure, and pace for resource investments.
- Measure the monetary value of key strategies, conduct forward-looking forecasts and analysis, and submit proposals to the BOD; and review the company's annual budget plan, approve the annual budget for each responsibility center, and

ensure closed-loop management of corporate-level planning, budgeting, accounting, and assessment.

- Review the capital structure plan; and propose major financing activities, the asset structure, and profit distribution.
- Review the company's key financial policies, annual financial statements, and related information disclosures.
- Review capital investment and strategic cooperation projects, submit proposals to the BOD, and periodically assess the execution of such projects.
- Review the company's risk management framework, and provide advice on operational compliance and business continuity management.

The FC holds monthly meetings and convenes special sessions as necessary. Based on business needs and BOD's requirements, the FC held 13 meetings in 2014. At the meetings, the FC reviewed such key items as the company's medium-to-long-term development plan, annual budget plan, operational management, capital investment projects, capital structure, enterprise risk management, and subsidiary and joint venture management. The FC then discussed and established financial policies and systems, reviewed and decided on key initiatives, and monitored their execution.

The FC comprises 15 members, including BOD members and various experts.

- Chairman: Mr. Guo Ping.
- Members: Mr. Xu Zhijun, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Liang Hua, Mr. Yi Xiang, Mr. Fang Weiyi, Mr. Zou Zhilei, Mr. Yao Fuhai, Mr. Xiong Lening, Mr. Song Liuping, and Mr. Peng Qiu'en.

### Strategy & Development Committee

The Strategy & Development Committee (SDC) develops, sets, and executes the company's strategic directions. The SDC gains insight into major industry and technological trends, and changes in 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 concerted efforts are made to maintain the company's effective growth.

The main responsibilities of the SDC are to:

- Manage the company's medium-to-long-term strategic planning, key initiatives, and major objectives of the year.
- Manage the company's brand strategy, brand architecture, and brand attributes, as well as publicity strategy and direction.
- Manage the company's strategy for strategic partnerships and alliances, as well as the selection of strategic partners and alliances.
- Manage the company's business portfolios and scope.
- Manage the company's pricing policies, commercial authorization principles, and actual pricing of key strategic products.
- Manage the company's medium-to-long-term technology development planning, standards and patent strategy, and major technology investments.
- Manage the company's medium-to-long-term business transformation strategy, process and management system structures, quality policies, etc.
- Review the company's business portfolios to ensure investments are made in strategic domains.

The SDC held 12 meetings and two special sessions in 2014. Based on the practice over the past two years, the SDC strengthened review of regional strategies, and enhanced strategic alignment, synergy, and execution. In accordance with the positioning and responsibilities determined by the BOD, the SDC continued to guide business units to build future-proof core competences along the path of strategic focus, innovation, differentiation, and leadership. On this basis, the SDC aims to make the industry pie bigger, formulate the future development strategy, and promote its execution to support the company's long-term development.

The SDC comprises 15 members, including BOD members, senior business executives, and various senior experts.

- Chairman: Mr. Xu Zhijun.
- Members: Mr. Guo Ping, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Yu Chengdong, Mr. Li Yingtao, Mr. Liang Hua, Mr. Zhang Ping'an, Mr. Zha Jun, Mr. Deng Biao, Mr. Wang Shengqing, and Mr. Zhang Shunmao.

### Audit Committee

The Audit Committee (AC) operates under the BOD to oversee internal controls, including the internal control system, internal and external audits, corporate processes, legal compliance, and adherence to BCGs.

The main responsibilities of the AC are to:

- Approve the annual internal audit plan, and review its scope, required resources, and audit outputs.

- Approve corporate policies for internal controls; approve the corporate development plan for internal controls and the plan's key milestones; and regularly assess the company's internal control status.
- Evaluate the effectiveness of the ethics and compliance function, legal compliance, and adherence to corporate policies.
- Approve the selection of the external auditor, notify the BOD of any proposed change to the external auditor for approval, approve related budgets, and evaluate the work of the external auditor.
- Supervise the completeness, accuracy, and legal compliance of the company's financial statements; and review compliance with accounting policies and all financial disclosures.
- Approve internal control KPIs at the beginning of each year, and instruct GPOs and business executives to report internal control results.

The AC holds quarterly meetings and convenes special sessions as necessary. Business executives and various experts are invited to attend as non-voting participants.

The committee held seven meetings in 2014. Focusing on topics such as risk management, the development of the internal control system, and anti-corruption, the committee:

- Reviewed and approved the company's annual internal audit plan and annual plan for internal controls on global processes.
- Received reports on Internal Control Maturity trends, SACA, internal control improvements by GPOs, assessments on the internal control framework and accountability system, and the anti-corruption roadmap.



- Improved employee compliance with BCGs by publicizing major audit findings and non-compliance cases.
- Arranged discussions between the committee Chairman and the external auditor on management improvement proposals.

The AC comprises 10 members, including Supervisory Board members, BOD members, and various experts.

- Chairman: Mr. Liang Hua.
- Members: Mr. Zhou Daiqi, Mr. Ren Shulu, Mr. Li Jianguo, Mr. Yin Xuquan, Mr. Tian Feng, Mr. Song Liuping, Mr. Yi Xiang, Mr. Li Jin'ge, and Mr. Hui Chun.

### 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 responsibilities of the Supervisory Board include examining the company's financial and operational status, 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 2014, the Supervisory Board held nine meetings. At the meetings, it evaluated the company's financial position, received reports from the company's supervisory functions, and assessed the responsibility fulfillment of its own members and that of BOD members. The Supervisory Board organized its own candidate nomination and elected its executive members. Throughout the year, members of the Supervisory Board attended 12 meetings of the BOD as non-voting participants, monitoring the company's

financial position, the responsibility fulfillment of BOD members and senior management, and the standardization of BOD operations.

On November 28, 2014, all the Representatives elected five additional members of the Supervisory Board. Currently, the Supervisory Board comprises nine members.

- Chairman: Mr. Liang Hua.
- Executive members: Mr. Zhou Daiqi, Mr. Ren Shulu, Mr. Li Jianguo, and Mr. Yin Xuquan.
- Members: Mr. Tian Feng, Mr. Deng Biao, Mr. Song Liuping, and Mr. Yi Xiang.

### Rotating CEOs

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

The Rotating and Acting CEO convenes and chairs the company's EMT meetings. During routine management decision making, the Rotating and Acting CEO promptly notifies BOD and Supervisory Board members of responsibility fulfillment.

Three Deputy Chairmen take turns to act as the Rotating and Acting CEO for a tenure of six months. In 2014, the acting tenures for the three rotating CEOs are as follows:

- Mr. Xu Zhijun: October 1, 2013 – March 31, 2014
- Mr. Guo Ping: April 1, 2014 – September 30, 2014
- Mr. Hu Houkun: October 1, 2014 – March 31, 2015

## 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. Li Jin'ge, Mr. Guo Ping, Ms. Meng Wanzhou, Mr. Xu Zhijun, Mr. Ren Zhengfei, Mr. Hu Houkun, Ms. He Tingbo, and Mr. Li Jie  
From the left in the second row: Ms. Chen Lifang, Mr. Wan Biao, Mr. Zhang Ping'an, Ms. Sun Yafang, Mr. Xu Wenwei, Mr. Yu Chengdong, Mr. Ding Yun, Mr. Li Yingtao, and Mr. Wang Shengli

**Ms. Sun Yafang**

Ms. Sun joined Huawei in 1989, and had served as an engineer in the Marketing & Sales Dept, Director of the Training Center, President of the Procurement Dept, General Manager of the 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 served as 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 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, and Chairman and President of Huawei Device. Currently, Mr. Guo serves as Deputy Chairman of the Board, Rotating CEO, and Chairman of the FC.

**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 Network Product Line, Chief Strategy & Marketing Officer, Chief Products & Solutions Officer, and Chairman of the Investment Review Board. Currently, Mr. Xu serves as Deputy Chairman of the Board, Rotating CEO, and Chairman of the SDC.

**Mr. Hu Houkun (Ken Hu)**

Born in 1968, 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, Deputy Chairman of the Board, Rotating CEO, and Chairman of the HRC.

**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, CEO of the Enterprise BG, and Chief Strategy Marketing Officer.

**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 (Sabrina 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 then 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, and President of the Sales Financing & Treasury Mgmt Dept. Currently, Ms. Meng serves as 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 Network Product Line, CEO of Huawei Device, and President of the Russia Region.

**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, and COO of the Enterprise BG. Currently, Mr. Zhang serves as President of the Carrier Software 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 Network Product Line, President of the European Area, Chief Strategy & Marketing Officer, Chairman of Huawei Device, and CEO of the Consumer BG.

**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 Committee, member of the HRC, and member of the SDC.

**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-Saharan Area, member of the Joint Committee of Regions, member of the FC, and President of the Asia Pacific Area.

**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 Principal ASIC Engineer, and R&D Director of HiSilicon. Currently, Ms. He serves as President of HiSilicon and Vice President of the 2012 Laboratories.

**Mr. Wang Shengli (Victor Wang)**

Born in 1963, Mr. Wang holds a master's degree from Wuhan University. He joined Huawei in 1997 and has served as Regional Vice President, Regional President, and President of the Asia Pacific Area. Currently, Mr. Wang serves as President of the European Area, executive member of the Management Team of the Joint Committee of Regions, Director of the overseas subsidiaries' Board Bureau, and Chairman of the Board of Huawei Technologies Coöperatief U.A.

## Members of the Supervisory Board



From the left in the first row: Mr. Li Jianguo, Mr. Zhou Daiqi, Mr. Liang Hua, and Mr. Ren Shulu

From the left in the second row: Mr. Yi Xiang, Mr. Song Liuping, Mr. Tian Feng, Mr. Yin Xuquan, and Mr. Deng Biao

### 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, Chief Supply Chain Officer, and Chairman of the Audit Committee.

### Mr. Zhou Daiqi

Born in 1947, Mr. Zhou graduated from Xidian University. Mr. Zhou joined Huawei in 1994 and has served as ATM Product Manager, Chief Engineer and General Manager of the Multimedia Dept, Director of

the Hardware Dept, Chief of the Xi'an Research Center, and Director of the HR Branch of Products & Solutions. Currently, Mr. Zhou serves as Chief Ethics & Compliance Officer, Director of the Corporate Committee of Ethics and Compliance, and member of the Audit Committee.

### 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, and Chairman of the Capital Construction Investment Management Committee. Currently, Mr. Ren serves as Chairman of the Internal Service Mgmt Committee.

**Mr. Li Jianguo**

Born in 1964, Mr. Li holds a master's degree from Huazhong University of Science and Technology. Mr. Li joined Huawei in 1993 and has served as an R&D engineer, Deputy Manager of the Development and Pilot (D&P) Dept, Manager of the Manufacturing Dept, Executive Vice President of Huawei Electric, Director of the Assembly Business Dept, Deputy Director of the Supply Chain Mgmt Dept, Director of the Board Design Engineering Dept under the Central Research & Development Unit (CRDU), Director of the PDT/TDT Leaders Mgmt Dept under the CRDU, and President of the Manufacturing SBG. Currently, Mr. Li serves as President of the Manufacturing Dept.

**Mr. Yin Xuquan**

Born in 1964, Mr. Li holds a master's degree from Xi'an Jiaotong University. Mr. Yin joined Huawei in 1995 and has served as President of the Southern Africa Region, Vice President of the Turnkey Business Dept, President of the Optical Network Product Line, HR Director of Sales & Service Dept, and Vice President of the Procurement Qualification 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, Director of the Disciplinary and Supervisory Sub-committee of the HRC, and executive member of the Management Team of the Joint Committee of Regions.

**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 Quality, Business Process & IT Mgmt Dept.

**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 successively as Manager of the Product Strategy Planning Dept, Director of the IPR Dept, Director of the External Cooperation Dept, PSST member, President of the Legal Affairs Dept, Chief Legal Officer, President of the Patent Review Board, Director of the Trade and Customs Compliance Committee, member of the Disciplinary and Supervisory Sub-committee of the HRC, and member of the FC.

**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 Middle East and Africa Area, President of the Sales & Delivery Mgmt Dept, and Deputy CFO of Huawei. Currently, Mr. Yi serves as President of the Regions Mgmt Dept, Director of the Transformation Project Office, and member of the FC.

## Committee Members

Only committee members not listed in "Members of the Board of Directors" or "Members of the Supervisory Board" are included in this section. (The order is based on the number of strokes needed to complete the Chinese character that corresponds to the member's surname.)

### Mr. Wang Shengqing (Ken Wang)

Born in 1972, Mr. Wang holds a master's degree from Huazhong University of Science and Technology. Mr. Wang joined Huawei in 1997 and has served as Deputy Director of the Mobile Technical Sales Dept in China, Deputy Director (acting) of the Technical Sales Dept in the Asia Pacific Area, Deputy General Manager of the Indonesia Representative Office, Director of the Telefonica Account Dept, and President of the Marketing & Solution Dept.

### 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 CFO of the Carrier Network BG. Currently, Mr. Fang serves as Director of the Finance Mgmt Dept of the Carrier BG and member of the FC.

### 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 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, Director of the HR Branch of Products & Solutions, Vice President of the Human Resource Mgmt Dept, and member of the HRC.

### Mr. Zou Zhilei

Born in 1971, Mr. Zou holds a bachelor's degree from Hefei University of Technology. Mr. Zou joined Huawei in 1998 and has served as General Manager of the Xi'an Representative Office, General Manager of the Guangzhou Representative Office, President of the Northern Africa Region, President of the Global Sales Dept under the Enterprise BG, and President of the Global Sales and Service Dept under the Enterprise BG. Currently, Mr. Zou is EVP of the Carrier BG and member of the FC.

### Mr. Zhang Shunmao (Patrick Zhang)

Born in 1966, Mr. Zhang holds a master's degree from Fudan University. Mr. Zhang joined Huawei in 1992 and has served as Director of the Switch Business Dept of the Central Research Dept, Vice President of the Technical Support Dept, Corporate Senior Vice President, EVP of the Marketing Dept, President of the Fixed Network Product Line, President of the Wireless Network Product Line, EVP of the Latin America Area, President of the Northern Latin America Region, and President of the Enterprise Business Marketing & Solutions Dept.

### 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 R&D Product Manager, Director of the IMS Product Line, President of the Router and Network Security Product Line, President of the Fixed Network Business Unit, President of the Fixed Network Product Line, member of the HRC, 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, and President of the Global Technical Service Dept. Currently, Mr. Yao serves as President of the Procurement Qualification Mgmt Dept, Director of the Group Procurement Management Committee, and member of the FC.

**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 Section, Director of the Financial Planning & Analysis Dept, Vice President of the Sales & Delivery Finance Mgmt Dept, and CFO of the India Region. Currently, Mr. Peng serves as President of the Finance Mgmt Dept and member of the FC.

**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 Account Manager of the Customer Relationship Mgmt Dept, Account Manager of the Hong Kong Representative Office, President of the Vodafone Account Dept, Vice President of the West European Region, President of the Accounts Business Dept, President of the Sales & Accounts Business Dept under the Carrier BG, member of the Carrier BG EMT, member of the HRC, and member of the SDC.

**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, and Vice President of the Business Process & IT Mgmt Dept. Currently, Mr. Hui serves as Director of the Engineering Inspection Dept and member of the Audit Committee.

**Mr. Xiong Lening**

Born in 1969, Mr. Xiong holds a bachelor's degree from Zhejiang University. Mr. Xiong joined Huawei in 1993 and has served as Deputy Director of the Development and Pilot (D&P) Dept, General Manager of the Chengdu Representative Office, Director of the Beijing Branch, Director of the China Mobile Account Dept, Vice President of the China Region, and EVP (acting) of the Russia Region. Currently, Mr. Xiong serves as President of the Supply Chain Mgmt Dept and member of the FC.

**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

In 2014, the company gradually adjusted its business structure to focus on three dimensions: customers, products, and regions. All organizations jointly create value for customers, and are responsible for the company's financial results, market competitiveness, and customer satisfaction.

Based on the business patterns and operational characteristics of the carrier, enterprise, and consumer segments, the company restructured three BGs to deliver innovative, differentiated, and leading solutions.

To adapt to the increasing convergence of IT and CT technologies, the company established the Products & Solutions organization to sharpen its competitive edge in products and solutions, fully leverage the competitive advantages of its integrated ICT portfolio, and deliver a better user experience.

Regional organizations are the company's regional operations centers, and are responsible for developing and effectively utilizing regional resources and capabilities. The company has optimized regional organizations and accelerated the pace of delegating authority to field offices. While establishing closer partnerships with customers and helping them achieve business success, the company maintains effective and sustainable growth.

Group Functions provide business 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 them.

## Improving the Management System

Our global management system enables us to promote our corporate culture company-wide and effectively manage our businesses. Our aim is to:

- Remain customer-centric and contribute to customer success.
- Control risks and ensure business continuity.
- Adopt CSR to promote sustainable social development.

Huawei's management system is based on ISO 9001 (an international standard for quality management systems) and TL 9000 (an international standard for quality management systems in the telecom industry). Empowered by continued evolution, Huawei frequently conducts self-assessments and makes improvements to meet the requirements and expectations of customers and other stakeholders.

In the past year, we:

- Fulfilled the requirements of our management system in accordance with our corporate strategy.
- Continued to develop our customer-oriented management system. Based on integrated business processes, the system effectively ensured business development and continuous improvement.
- Consolidated excellent business practices to develop an end-to-end process system composed of operating, enabling, and supporting processes. The process system incorporated requirements for quality, internal controls, cyber security, information security, business continuity, EHS, and CSR into multiple business domains, including marketing, R&D, delivery and service, supply chain, and procurement.

- Optimized our business systems through leadership development, total employee participation, Six Sigma, quality measurements, and internal and external assessments and audits.

To ensure that Huawei products and services are effective and reliable, our management system has been certified by multiple independent third parties, including ISO 9001/TL 9000 (quality), ISO 14001 (environment), OHSAS 18001 (occupational health and safety), ISO 27001 (information security), and ISO 28000 (supply chain security), as well as SA 8000 (CSR) in the device domain.

Our company has passed comprehensive audits, regular assessments, and stringent reviews conducted by 33 of the world's top 50 carriers, and by enterprise customers from various sectors. These audits and assessments covered a wide range of items, including financial robustness, quality management, delivery, supply chain management, knowledge management, project management, information and cyber security, risk management, EHS, CSR, and business continuity management. Huawei has obtained full and extensive recognition from its customers in these key domains, as evidenced by their choice of Huawei as a strategic partner.

We have continued to entrust professional third-party market survey companies to conduct customer satisfaction surveys among our three major customer groups worldwide: carriers, industry customers, and consumers. Based on customer feedback, we identified and consolidated key issues for improvements, and managed all issues in a closed loop to continuously improve customer satisfaction.

### From Strategy Development to Execution

Our DSTE strategy management system makes the following tasks possible: strategy-driven business planning, budgeting, and performance appraisals. In 2014, this system ensured that the medium-to-long-term strategic objectives of the company and business units were incorporated into annual plans and budgets, and that all business units were well coordinated. It also ensured that corporate investments were effectively managed to help the company achieve its strategic and business objectives.

We use balanced scorecards to measure organizational performance while formulating annual business plans and setting budgets. Specifically, we follow the process below:

- Break down corporate strategic objectives into organizational performance objectives at all levels.
- Include the above requirements in work reports from department heads at all levels.
- Manage employees' personal business commitments.
- Strengthen the application of organizational and individual performance results.

Each step in the process ensures that the individual and organizational objectives are aligned with those of the company, and that corporate strategy is thoroughly understood and effectively executed across the organization.

### Management Transformation

In 2014, we refined our transformation management structure by restructuring the ESC, which comprises the rotating CEOs and presidents from business domains and BGs. As the highest decision-making

body on transformation, the ESC sets the direction of Huawei's transformation, and plans, coordinates, and guides the execution of the transformation strategy. This restructuring will usher Huawei into a phase of integrated transformation across functions, processes, and departments in the next three to five years, with a view to maintaining effective growth in terms of revenue, profits, and cash flow, and allowing Huawei to achieve industry leadership.

In 2014, Huawei launched the following initiatives:

- Establishing the transformation program management team for a major business stream IPD+ to improve product and solution competitiveness and end-to-end efficiency of the IPD+ business stream, and enable the company to continue to grow and improve operational efficiency:
  - ▲ Established an end-to-end product management system to focus on market-oriented innovation and cross-process integration.
  - ▲ Expanded the reach of the system from IPD to end-to-end product management.
  - ▲ Applied a unified and conversion-free product configuration model to streamline the entire process.
  - ▲ Promoted agile version development and developed ALM solutions to shorten time-to-market.
- Comprehensively implementing an integrated CRM+ transformation based on a customer-oriented approach:
  - ▲ Provided competitive integrated solutions that met customer needs.
  - ▲ Helped customers manage assets and built new-style partnerships to forge an open and collaborative ecosystem that supports effective and sustained growth.
  - ▲ Refined business models to link marketing, sales, services, delivery, supply, finance, and other major processes.
- ▲ Developed efficient and integrated working processes and IT platforms that met the needs of field offices.
- ▲ Promoted an operating model shift, from one focusing on functions to one focusing on projects.
- ▲ Improved operating capabilities in the field.
- ▲ Implemented total budget management.
- ▲ Optimized delivery models by building an integrated delivery platform and remote delivery centers to achieve cost-effective, highly efficient, and high-quality merged on-site delivery.
- ▲ Implemented the LTC, ISD, MCR, and ITR processes in most regions worldwide.
- ▲ Carried out integrated transformation pilot projects in several countries to improve operational efficiency and customer satisfaction, and reduce operating expenditure and risks.
- Implementing the ISD transformation:
  - ▲ Deployed the ISD process that is aligned with the Customer Delivery Process Adaptation process, and established a TMO to improve the quality of delivery solutions in the service domain.
  - ▲ Put in place an integrated IT architecture for managing projects, their implementation, and delivery information assets.
  - ▲ Applied mobile Internet technology to ensure orderly, streamlined, and efficient project delivery and improve customer satisfaction.
- Completing the IFS transformation:
  - ▲ Established a total budget management system to streamline financial data management and business processes for transactions.
  - ▲ Developed an ICFR mechanism which improved the company's overall operational, management, and risk control capabilities.

- Developing the Consumer BG 2C Transformation Program for daily channel and retail management and efficiency improvement, and planning the transformation towards the 2C-oriented end-to-end service system:
  - ▲ Released the Retail BPA V1.0 (provisional).
  - ▲ Implemented the PRM Project in 70 representative offices.
  - ▲ Launched iRetail – the brick-and-mortar store management system – in China and Thailand.
  - ▲ Globally deployed the purchase, sales, and inventory management system (PSI V1.0) to streamline sell-in and sell-out data.
  
- Implementing integrated business transformations in the Enterprise BG:
  - ▲ Developed channel partners and a cooperation ecosystem to improve the BG's capabilities regarding industry solutions, marketing, channel sales, and enterprise services. Specifically, built an agile, standardized, and visualized channel transaction platform to greatly enhance order processing efficiency.
  
- Implementing project management and knowledge management transformation:
  - ▲ Continued to develop a project-based management culture.
  - ▲ Readjusted processes, organizations, the resource allocation mechanism, and the appraisal system to make every project an independently managed entity.
  - ▲ Introduced a "resource buy-and-sell mechanism" that connects functional departments and project teams to improve organizational efficiency.
  - ▲ Incorporated knowledge management into major business processes for R&D, sales and marketing, and delivery to improve the quality and efficiency of project delivery.

Through management transformations, we improved our BPA covering three customer groups: carriers, enterprises, and consumers. These transformations also ensured all major business processes flowed smoothly and enabled digital operations. By implementing a series of transformation projects and process accountability, we have been able to promptly respond to customer needs, continually reduce internal operating costs, improve the efficiency of business operations, and effectively support Huawei's global strategic objectives and sustainable development.

### Organizational Capabilities

We defined rules for delegating responsibility and authority to field offices to improve operational efficiency. This enabled field offices to flexibly change their organizational form and scale based on business needs. We were then able to develop highly competent, specialized, and professional customer-facing teams.

To better utilize our regional operating platforms, we:

- Refined our resource allocation mechanism to enhance expertise and knowledge sharing.
- Set up three corporate-level strategic reserves – the Special Project Dept, tiger teams, and the Project Mgmt Resource Pool.
- Improved our management mechanism and methodologies for project-based organizations.

In the past year, we continued to improve the capabilities of our SSCs around the world. Our SSCs in five domains continued to improve their service quality to help the company constantly increase operational efficiency. Specifically, we took the following measures:

- Introduced multi-level shared service models for finance, with an average of over 8,000 invoices being processed per capita annually.

- Consolidated two HR SSCs to provide basic HR services for employees world-wide, with each HR professional serving more than 350 employees.
- Launched smart robots for 19 IT application systems through the IT SSC to provide online services. Processing time was shortened by 36% despite a 31% increase in service volume.
- Raised the remote delivery rate of the GTAC from 28% to 54%.
- Put into operation four major bidding SSCs with global coverage and created a unified transaction SSC – known as the Deal Hub – to process all of Huawei's transaction-related documents.

### Improving the Internal Control System

Huawei continued to design and implement an internal control system based on its organizational structure and operating model. The internal control framework and its management system apply to all business and financial processes of the company and its subsidiaries and business units. The internal control system is based on the five components of the COSO framework: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. It also covers internal controls of financial statements to ensure their truthfulness, integrity, and accuracy.

#### Control Environment

A control environment is the foundation of an internal control system. Huawei is committed to a corporate culture of integrity, business ethics, and compliance with laws and regulations. Huawei has issued the *BCGs* to identify acceptable business conduct. The *BCGs* must be observed by all employees, including senior executives. Regular training programs are offered, and all employees are requested to sign the *BCGs* to ensure that the *BCGs* have been read, understood, and observed.

Huawei has implemented a mature governance structure, with clearly defined authorization and accountability mechanisms. The governance structure comprises the BOD, its committees, group functions, and multi-level management teams.

Huawei clearly defines the roles and responsibilities of its organizations to ensure the effective separation of rights and responsibilities. The CFO of Huawei is in charge of internal controls. The business control department reports to the CFO for any possible defects and improvements already made in terms of internal controls, and assists the CFO in building the internal control environment. The internal audit department independently monitors and assesses the status of internal controls for all business operations.

#### Risk Assessment

Huawei dedicates a department to internal controls and risk management to regularly assess risks to the company's global business processes. This department identifies, manages, and monitors significant risks, forecasts potential risks caused by changes to the internal and external environments, and submits risk management strategies along with risk mitigation measures for decision-making. All process owners are responsible for identifying, assessing, and managing business risks and taking necessary internal control measures. Huawei has instituted a mechanism for improving internal controls and risk controls to efficiently manage critical risks.

#### Control Activities

Huawei has established the Global Process Management System and the Business Transformation Management System, released the global BPA, and appointed GPOs in line with the BPA. Responsible for building processes and internal controls, GPOs:

- Identify key control points and the Separation of Duties Matrix for each process, and apply these to all regional offices, subsidiaries, and business units.
- Conduct monthly compliance tests on key control points and issue test reports to ensure continuous and effective monitoring of internal controls.
- Optimize processes and internal controls based on business pain points to improve operational efficiency and help achieve business objectives.
- Perform SACAs to assess the overall process design and the effectiveness of process execution by each business unit, and then report the results to the AC.

#### Information & Communication

Huawei has developed multi-dimensional information and communication channels to ensure the timely acquisition of external information from customers, suppliers, and other parties. It has also created formal channels for transferring internal information, and offered an online space, *Xinsheng Community*, for employees to freely communicate their thoughts and ideas. Corporate management holds regular meetings with departments at all levels to effectively communicate management orientation to employees and ensure effective implementation of management decisions.

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 up-to-date information is made available to all employees. The company has established a mechanism for process owners at all levels to regularly communicate with each other, review the execution of internal controls, and follow up on internal control issues.

#### Monitoring

Huawei has established an internal complaint channel, an investigation mechanism, an anti-corruption mechanism, and an accountability system. The *Agreement on Honesty and Integrity* that Huawei has signed with its suppliers clearly stipulates that suppliers may report improper conduct by Huawei employees through the channels stipulated in the *Agreement* to assist the company in monitoring the integrity of its employees. The internal audit department independently assesses the overall status of the company's internal controls, investigates any suspected violations of the *BCGs*, and reports the audit and investigation results to the AC and senior management.

Huawei has also implemented a mechanism for internal control appraisals of GPOs and regional managers, as well as their accountability and impeachment when and where necessary. The AC and the CFO regularly review the company's internal control status, and receive reports on action plans for improving internal controls, if necessary, and on plan execution progress. Both have the authority to request the relevant GPOs or business executives to explain their internal control issues and take corrective actions. The AC and the CFO may also need to submit their proposals to the HRC for disciplinary action or impeachment.

# Sustainable Development





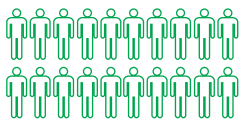


In 2014, Huawei continued to strengthen communication with stakeholders and incorporate sustainability requirements into business operations. Our aim is to promote the harmonious and sustainable development of the economy, the environment, and society.

We leveraged cutting-edge technologies to bridge the digital divide and provide high-quality network connectivity for all. We honored our commitment to supporting secure and stable network operations at all times and at all sites. To drive low-carbon economic growth, we helped our customers and industries decrease energy consumption and increase efficiency. By integrating resources worldwide and localizing operations, we boosted technological development and economic prosperity in local communities where we operate. In addition, we achieved mutual success within the ICT industry chain and across various sectors.

Huawei will continue collaborating with stakeholders to establish a sound business ecosystem, achieve sustainable development, and build a Better Connected World.

Overview of Huawei's Sustainability Initiatives in 2014



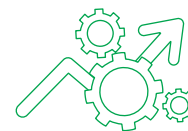
Deployed products and solutions in over **170** countries and regions to serve nearly **3 billion** people



Operated **45** global training centers to nurture local ICT professionals



Delivered ICT training to benefit over **10,000** students



Provided ICT technologies for governments and the energy, transportation, and finance industries to **boost efficiency**



Supported the stability of over **1,500** customer networks



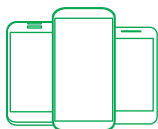
Supported network stability during over **150** major events and natural disasters worldwide



Published the white paper *Cyber Security Perspectives – 100 requirements when considering end-to-end cyber security with your technology vendors*



Won the "**Cyber Security Organization of the Year**" award



World's first mobile phone with a Product **Water Footprint** Verification Statement



Saved **43 million** kWh of electricity via managerial and technological approaches



Cooperated with suppliers to reduce over **53,000 tons** of CO<sub>2</sub> emissions



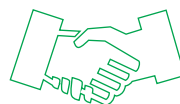
Reduced the landfill rate to **2.37%** via a circular economy model



Invested over **CNY7,300 million** in employee benefits



**75%** of employees outside China were local hires



Audited **100%** of medium-to-high potential risk suppliers



Implemented the "Seeds for the Future" program in **35** countries across 5 continents

## Bridging the Digital Divide

### Communications for All



#### **Connecting Rural Zambia**

The mobile penetration rate is low in Zambia's remote areas. According to ITU, over 25% of Zambians are unable to access the Internet via mobile phones. The Zambian people have a strong desire for mobile connectivity. They want to be able to promptly connect with their family and relatives, receive holiday greetings via call or text message, and reach distant buyers to sell their agricultural products via mobile phones.

Since 2013, Huawei has worked with the Zambia Information and Communication Technology Authority and a local carrier to implement the Universal Access Project, an initiative designed to deliver network coverage to remote areas. As one of the most important welfare programs launched by the Zambian government, the Universal Access Project is aimed at deploying base stations in remote regions, which in turn can stimulate local economic growth, promote cultural development, and bridge the digital divide.



*Zambia's Vice President making the first phone call*

In 2014, Huawei successfully installed 169 base stations in remote areas of all 10 provinces in Zambia. These base stations connected over 500 villages for the first time and allowed tens of thousands of people to reach the outside world via their mobile phones. Huawei also donated 100 mobile phones to local villagers so that they could instantly enjoy convenient mobile services.

In addition to deploying communications networks, Huawei employed local people in the construction of base stations, creating job opportunities and increasing their income. Through this, Huawei has contributed to local economic growth.

Huawei is committed to providing people across all geographic regions with easy access to communications networks. As mobile communications services are readily available, Huawei strives to provide basic voice communications to people in remote areas, helping them join the information society and improve their livelihoods. Through its own efforts and in collaboration with stakeholders, Huawei is dedicated to meeting the goal of enabling communications for all.

## Broadband Inclusion for All



### Making Internet Access Available to over 3,000 Students in South Sudan

In cooperation with a local carrier and UNESCO, Huawei helped schools in South Sudan connect to the Internet and access the information society.

In 2014, the first phase of the project enabled four schools to connect to the communications network, allowing over 3,000 students to access the Internet for the first time. These schools were entitled to 1 gigabyte of data per month per computer free of charge, so that students could enrich their knowledge by surfing the Internet freely. In addition, Huawei played several roles during the project, including providing computer training for school staff, furnishing computer labs, repairing computers, and offering computers, desks, and chairs. Thanks to Huawei's efforts, these students were able to use the Internet with ease.



*Students in South Sudan accessing the Internet*

Empowered by Huawei's technologies, students were able to participate in the UNESCO Associated Schools Project Network to learn from and interact with students in neighboring countries.

Broadband networks that offer affordable and convenient connectivity have the potential to significantly drive economic growth, modernize education, and improve people's lives. With this in mind, Huawei has closely collaborated with its stakeholders and participated in broadband build-out projects in different regions. We strive to promote ubiquitous broadband for all and bridge the broadband divide on a global scale.

## Improving Digital Literacy



### Nurturing ICT Professionals in Myanmar

Huawei spares no effort to nurture ICT professionals and transfer ICT knowledge in local communities. In doing so, Huawei aims to increase people's engagement in the digital society and make information technology available to all.

Huawei believes that "if you give a person a fish, you feed them for a day; if you teach a person how to fish, you feed them for a lifetime". Acting on this belief, Huawei has cooperated with the training

organization KMD to provide end-to-end ICT training in Myanmar. Specifically, Huawei offered a wide array of training materials; donated equipment to create a practical training environment; trained trainers; arranged internships; and developed a pool of ICT talent. Through these initiatives, Huawei comprehensively contributed to the development of ICT professionals in Myanmar.

Huawei trained more than 1,500 ICT professionals in 2014 and plans to train 5,000 more over the next three years to address the shortage of technical personnel and boost socioeconomic growth in Myanmar.



*Huawei – KMD joint training program for ICT professionals in Myanmar*

As broadband access issues are gradually resolved, the task of nurturing digitally literate ICT professionals has moved up our agenda. By the end of 2014, Huawei had established 45 training centers globally to nurture local professionals and transfer knowledge. In close collaboration with local higher education institutions and other organizations, Huawei offered scholarships and internships to outstanding students, in order to support ICT education and nurture talented individuals.

## ICT Application



### Expanding the Reach of Medical Services to People in Remote Areas

Huawei's telemedicine solution boasts multiple benefits. First, it helps people in remote areas to receive a similar level of quality medical services as those in large cities. Second, it reduces patient traveling time and increases treatment efficiency. To achieve these benefits, the solution provides a telepresence system and seamlessly integrates medical instruments from mainstream vendors with hospital information systems. Using this solution, hospitals can collect, transmit, and share patient data in real time. The solution also supports multiple application scenarios to address diverse healthcare needs, such as remote consultations, emergency rescues, and home nursing.



*Convenient remote consultations for patients*

In Karamay, Xinjiang Autonomous Region, Huawei's telemedicine platform connects about 100 departments of 4 hospitals as well as 11 community health centers and rural health clinics. The platform maximizes the utilization of internal and external medical resources. It can allocate medical resources to lower-level hospitals in Xinjiang, and bring in resources from outside Xinjiang by connecting to multiple hospitals in large cities such as Beijing, Shanghai, and Wuhan. This platform enables doctors from the same departments in different hospitals to consult with each other remotely.

Huawei's telemedicine platform effectively addresses the inequality of medical resources, boosts the efficiency of emergency rescues, reduces patients' traveling costs, and expands the reach of medical resources. Huawei's telemedicine platform puts convenient healthcare services into the hands of all people in northern Xinjiang.

Huawei has actively promoted the application of ICT technologies in governments and industries such as finance, transportation and energy. Our telemedicine, e-education, and HD conferencing technologies have significantly increased resource utilization efficiency and decreased resource consumption. Our products and solutions play a meaningful role in driving forward the sustainable development of society.

## Supporting Stable and Secure Network Operations

### Supporting Network Stability



#### Ensuring Zero Network Interruptions during FIFA World Cup Brazil

From June 12 to July 13, 2014, the 20th FIFA World Cup was held in 12 cities across Brazil. More than 3.3 million spectators watched matches in stadiums, while millions more did so from football parks, bars, and other locations. They employed a variety of devices – mobile phones, laptops, tablets, and even smart watches – to access social networking platforms and apps, as well as upload photos and videos. Some shared special moments with friends over their phones. Additionally, media outlets in more than 100 countries and regions broadcast the events live to hundreds of millions of people around the world. Network efficiency and stability were crucial to ensuring a superior user experience for people worldwide.



*Huawei team working to support network stability during the World Cup*

During the event, Huawei's network assurance team worked around the clock to monitor network operations, ensure the availability of spare parts, resolve network faults, and eliminate potential equipment risks. With our support, the carrier successfully delivered quality voice and data services to ensure a superior experience for people all over the world.

Through unremitting efforts, Huawei successfully ensured zero network interruptions or incidents during the 120 matches in 12 cities, contributing to the success of the World Cup.

In 2014, Huawei ensured smooth communications for nearly 3 billion people worldwide, and supported stable operations for over 1,500 networks for more than 600 customers in over 170 countries and regions. We spared no effort to guarantee network availability during over 150 major events, natural disasters (e.g., Ludian earthquake in China), and special occasions (e.g., the Sochi 2014 Winter Olympics, the FIFA World Cup in Brazil, and the Hajj).

## Proactively Responding to Cyber Security Challenges



### Huawei Released a Cyber Security White Paper at EWI's Cyberspace Summit

In December 2014, Huawei attended the global cyber security summit held by EastWest Institute (EWI) in Berlin, and released its third cyber security white paper, *Cyber Security Perspectives-100 requirements when considering end-to-end cyber security with your technology vendors*. (Top 100)

This white paper documents the top 100 things our customers talk to us about in relation to cyber security. When we developed this white paper, we studied the existing legal requirements and best practices to help tech buyers systematically analyze vendor cyber security capabilities and jointly raise the security levels of all technologies. EWI has agreed to take this Top 100 concept, and using its extensive knowledge and networks, led its future optimization.



*Huawei's Global Cyber Security Officer John Suffolk giving a speech*

Establishing and implementing an end-to-end global cyber security assurance system is one of Huawei's strategic priorities. Regardless of the challenges, Huawei has always done its utmost to support the secure operations of customer networks. As a responsible corporate citizen, Huawei has taken all necessary measures to boost user privacy protection in accordance with local laws and regulations.



## Promoting Environmental Protection

### Green Pipe



#### World's First Mobile Phone with a Product Water Footprint Verification Statement

In accordance with industry standards, Huawei developed capabilities in product water footprint analysis, and established a product water footprint evaluation process in 2014. Through these initiatives, we are now better able to consider water conservation requirements during product design and manufacturing, to maximize water utilization and minimize water pollution. Over the past year, we evaluated the water footprint of two mobile phones. Huawei's Honor 6 Plus became the world's first mobile phone to be issued with a Product Water Footprint Verification Statement.



*The world's first mobile phone with a product water footprint verification statement*

Huawei is the first company to evaluate the water footprint of mobile phones, and attaches great importance to water conservation. Our efforts are conducive to promoting environmental protection in the mobile phone industry.

Huawei has incorporated green concepts into the entire product lifecycle, including design, R&D, manufacturing, and delivery. Through continuous technological innovations, Huawei has increased the energy efficiency and environmental performance of its products. Furthermore, Huawei has provided customers with world-leading products and solutions that are highly energy efficient and environmentally friendly. Our green offerings have enabled customers to reduce their OPEX, resource consumption, and carbon emissions.

## Green Operations



### Using Clean Energy to Lower Carbon Emissions

In recent years, Huawei has researched and utilized new energy sources to reduce product carbon footprint while seeking to slash OPEX.

In 2014, Huawei continued to construct solar power stations to increase its use of clean energy and minimize carbon emissions. Over the past year, Huawei constructed 15-megawatt grid-connected photovoltaic power stations at its Hangzhou and Dongguan campuses, generating approximately 16 million kWh of electricity. By the end of 2014, Huawei had constructed 19-megawatt photovoltaic power stations to generate nearly 20 million kWh of electricity per year, equivalent to a CO<sub>2</sub> emissions reduction of over 1,800 tons.



*Huawei solar power station*

Huawei has proactively responded to climate change by taking concrete actions to increase energy utilization efficiency, reduce greenhouse gas emissions, and minimize adverse impacts on the environment. In 2014, Huawei continued to increase its use of clean energy and strengthen energy management. By leveraging managerial and technological approaches to energy conservation, Huawei saved 43 million kWh of electricity over the past year, equivalent to a CO<sub>2</sub> emissions reduction of over 3,900 tons.

## Green Partner



**Energy Conservation and Emission Reduction in Cooperation with Suppliers**

Huawei has an extensive supply chain. Reducing the carbon emissions of its suppliers is an important step in decreasing the carbon footprint of both Huawei and its customers. Huawei has conducted energy audits to reduce energy consumption and lower carbon emissions. In addition, Huawei has incorporated such requirements into its supplier qualification and review process, and worked with suppliers on innovative energy conservation projects to build a green supply chain.

Starting in 2012, Huawei has implemented a pilot program of energy conservation and emission reduction for its suppliers. A total of 24 suppliers have participated in the program to make great progress in energy conservation and emission reduction. In 2014 alone, 20 suppliers participated in the program to reduce CO<sub>2</sub> emissions by 53,652 tons.

Year	Number of Suppliers	CO <sub>2</sub> Emissions Reduction (Tons)
2013	4	23,895
<b>2014</b>	<b>20</b>	<b>53,652</b>

In 2014, Huawei received a Best Practices Award from the United Nations Global Compact Local Network China in recognition of its new public-private partnership model for building a green supply chain and protecting the environment.

Huawei has made every effort to ensure both its products and its partners comply with environmental protection laws and regulations. By incorporating green concepts into its procurement strategy and end-to-end procurement management process, Huawei has guided suppliers in carrying out green initiatives and building a green supply chain.

## Green World



### **Going Green with Huawei's Green Recycling Program**

In 2014, Huawei launched the Green Recycling Program by setting up recycling stations in many countries. To give new life to used mobile phones, promote resource recycling and reuse, and drive circular economic growth, Huawei has recycled used mobile phones from consumers.

To date, Huawei has set up over 190 recycling stations in 8 countries, including China,

India, and Thailand. Consumers can locate their nearest recycling stations on Huawei's official website: <http://consumer.huawei.com/en/support/recycling/index.htm>.



*Huawei's recycling station in Thailand*

Huawei has extended its recycling services to cover all mobile phone brands. As a free service, Huawei collects used phones at recycling stations and sends them to leading recyclers to maximize the value of each scrapped handset. In addition, eco-friendly processes were adopted in the program to power a green world.

By implementing a "from cradle to cradle" circular economy model, Huawei has increased the proportion of its product reuse and reduced the impact of waste on the environment. Huawei has also introduced a wide range of green ICT solutions to enable different industries to conserve energy and reduce carbon emissions. As such, Huawei has played an active role in building an energy-conserving, environmentally friendly, and low-carbon society.

## Seeking Win-Win Development

### Caring for Employees



#### Creating a Healthy and Relaxing Working Environment

Huawei considers employees to be its most valuable asset, and unfailingly places employee health as its top priority. We have carried out a series of activities centering on employee care and creating a healthy and relaxing working environment.

Such activities include the "3+1" program, which encourages employees to "make a friend", "join in a sports activity", "take up a hobby", and "read a thought-provoking book". In 2014, the "3+1" program was expanded from R&D departments to all departments across the company, attracting a total of 115,000 participants. In addition, Huawei launched various online activities such as "My Show", "Share Your Concerns", and "Testimonials" on its *Xinsheng Community* and *WeChat* public account to encourage employees to cultivate and showcase their hobbies, talk about concerns, and find solutions. These activities have helped employees reduce stress and enhance health awareness.

Huawei has implemented the "3+1" program for six consecutive years, creating a healthy and relaxing working environment that is very well received among its employees.



*Employees participating in "3+1" activities*

Employee health, safety, and benefits are at the forefront of our corporate consciousness. We have provided attractive and timely rewards to dedicated employees. As Huawei continues to grow, we have paid more attention to our employees' career development, providing varied career paths to help our diverse range of employees realize their individual value.

## Social Charity



### Seeds for the Future Program

Huawei is committed to promoting the development of the ICT industry in the countries where it operates, to support socioeconomic and environmental sustainability over the long term. Huawei believes that education is vital to creating opportunities and to sustainable and fair development. With this in mind, Huawei has prioritized education as a key focus of its global CSR initiatives.

Since its debut in Thailand in 2008, the Seeds for the Future program has become Huawei's flagship CSR program. Students under this program can receive professional training from Huawei experts, visit Huawei labs, get hands-on experience in equipment rooms, and obtain first-hand knowledge on cutting-edge technologies and industry developments. Nearly 1,000 outstanding university students from all over the world have visited and studied at Huawei HQ. Some have already joined Huawei or other ICT enterprises, contributing to the development of the entire ICT industry.

The Seeds for the Future program has been implemented in 35 countries worldwide, benefiting over 10,000 students from more than 100 universities. Under this program, Huawei has leveraged multiple channels to share ICT expertise and innovative technologies with local communities and facilitate knowledge transfers. In addition, Huawei has helped local communities develop highly efficient education systems that nurture ICT professionals and propel the ICT industry forward.



*Participants of the Seeds for the Future program studying communications technologies at Huawei HQ*

As a global company, Huawei has sought win-win development with local communities. As a responsible corporate citizen, Huawei has proactively integrated into local communities to support charities, education, environmental protection, healthcare, and disaster relief efforts. We strive to create value for local communities and help them achieve prosperity and sustainability.

## Operations in Compliance with Applicable Laws and Regulations



### Sharing Huawei's Trade Compliance Practices at the WCO Global AEO Conference

Huawei puts trade and customs compliance over its commercial interests. It complies with all rules stipulated by the WTO and free trade agreements to support smooth international trade operations.

On April 28, 2014, the World Customs Organization (WCO) Global AEO Conference was held in Madrid, Spain. Over 1,000 customs officials from 89 countries and regions attended the conference. Huawei's senior expert James Kenneth Lockett delivered a

keynote speech titled *Perspective: Huawei Experience* to share Huawei's best practices in trade compliance. He was the only representative from a manufacturer invited to give a speech.



*Huawei's senior expert James Kenneth Lockett delivering a speech at the WCO Global AEO Conference*

Huawei consistently demonstrates solid business ethics, conforms to applicable international conventions and national laws, and operates with integrity. We comply with *BCGs* and oppose corruption (including bribery) in all forms. In addition, we advocate fair competition and obey antidumping and antitrust laws and regulations of all countries. We protect our own IPR while respecting that of others, in compliance with international IPR regulations. We have incorporated operational compliance into our business processes to establish a compliance system and create a sound business ecosystem.

## Sustainability Risk Management



### Strengthening Professional Management to Ensure Safe Engineering Delivery

In 2014, Huawei improved its professional management of the Environment, Health, and Safety (EHS) in delivery projects. Specifically, we enforced EHS absolute rules, set up dedicated teams for EHS management, and aligned our EHS management system with international standards. In addition, we proactively participated in setting EHS standards for project delivery to ensure professional EHS management. In 2014, Huawei carried out the following major EHS management practices to ensure safe engineering delivery.

- Received the Best EHS Management Practice award at the QuEST Forum in New Delhi, India in May 2014; participated in developing the *Tower Safety Standards* as a chief standards developer.
- Developed the *Safety Manual for Working at Heights*, an effective guide for worksite safety.
- Researched hoisting safety technologies and removed weak links in hoisting safety management.
- Initiated NEBOSH certification management for all EHS managers in Vodafone subsidiaries worldwide, and provided EHS training on working at heights for all on-site management personnel.
- Organized on-line tests on driving safety, safe operation of powered-on equipment, construction safety, and tower safety for site engineers. Each test is designed to improve site engineers' safety knowledge and skills.



*Huawei representatives at the Best Practices Conference of the QuEST Forum in 2014*



*Huawei receiving the Best EHS Management Practice award*

Huawei has paid particular attention to EHS management during engineering delivery, and has extended EHS management requirements to subcontractors. We have made every effort to ensure product safety and provide safe products to our customers and consumers. Additionally, we have created a robust safety culture with responsibility and accountability built-in to minimize safety risks and ensure the health and safety of our employees, subcontractors, and all other stakeholders. Thanks to these measures, we have continuously improved our risk management and become a role model in sustainability management.



## Supply Chain Management



### Global Supplier Sustainability Conference

Supply chain sustainability lies in the collective awareness and actions of all players on the supply chain. Communication and information sharing between different players help the entire community reach a consensus and achieve synergies.

In September 2014, Huawei hosted the Sixth Global Supplier Sustainability Conference in Shenzhen, under the theme of "Building a Connected World – a Greener Supply Chain and Greater Competitiveness".

The event attracted 220 attendees, including representatives from customers, suppliers, government agencies, and non-governmental organizations.

Huawei Rotating CEO Eric Xu attended the conference, and called for deeper collaboration from suppliers to discover opportunities for innovation, develop new products, enter new markets, explore new business models, and improve business efficiency. When combined, these initiatives will go a long way toward promoting sustainability across the industry chain.



*Sixth Global Supplier Sustainability Conference*

In 2014, Huawei continued to incorporate sustainability requirements into its supplier management process, help suppliers increase their capabilities and awareness, and boost procurement efficiency to lead sustainability initiatives across the industry chain. We redoubled our efforts to evaluate and cooperate with suppliers, encouraged them to make continuous improvements, and ensured that our sustainability requirements were communicated to all downstream suppliers and other value chain players. All these efforts have helped build a sustainable business ecosystem.

**For details, please see Huawei 2014 Corporate Sustainability Report.**

## Abbreviations, Financial Terminology, and Exchange Rates

### Abbreviations

Abbreviation	Full Name
AI	Artificial Intelligence
ALM	Application Lifecycle Management
BCGs	Business Conduct Guidelines
BDII	Business-Driven ICT Infrastructure
BG	Business Group
BPA	Business Process Architecture
BSS	Business Support System
CA	Carrier Aggregation
CBS	Convergent Billing Solution
CBTC	Communication-Based Train Control
CEM	Customer Experience Management
CERT	Computer Emergency Response Team
CETC	Customer Experience Transformation Center
CIAG	Consistency of Inventory Accounts and Goods
COE	Center of Expertise
COSO	Committee of Sponsoring Organizations under the Treadway Commission
CPRI	Common Public Radio Interface
CRM	Customer Relationship Management
CS	Circuit Switched
CSR	Corporate Social Responsibility
CVM	Customer Value Management
DSTE	Develop Strategy to Execute
EANTC	European Advanced Networking Center
EHS	Environment, Health, Safety
eMBMS	evolved Multimedia Broadcast/Multicast Service
EMEA	Europe, the Middle East and Africa
ERM	Enterprise Risk Management
ESC	Executive Steering Committee
eSRVCC	Enhanced Single Radio Voice Call Continuity
FMC	Fixed Mobile Convergence

Abbreviation	Full Name
GNEEC	Global Network Evolution and Experience Center
GNOG	Global Network Operation Center
GPO	Global Process Owner
GTAC	Global Technical Assistance Center
HCIE	Huawei Certified Internetwork Expert
HSPA	High Speed Packet Access
IBS	In-building Solution
ICFR	Internal Controls over Financial Reporting
IDC	Internet Data Center
IFS	Integrated Financial Services
IMS	IP Multimedia Subsystem
IoT	Internet of Things
IoV	Internet of Vehicles
IP RAN	IP Radio Access Network
IPD	Integrated Product Development
IPR	Intellectual Property Right
ISD	Integrated Service Delivery
ISP	Internet Service Provider
ITR	Issue to Resolution
KQI	Key Quality Indicator
LTC	Lead to Cash
M2M	Machine-to-Machine
MAN	Metropolitan Area Network
MoU	Memorandum of Understanding
MSUP	Managed Services Unified Platform
NFV	Network Functions Virtualization
NGBSS	Next Generation Business Support System
NoSQL	Not Only SQL
NVM	Non-Volatile Memory
OLT	Optical Line Terminal
OSS	Operations Support System
PCRF	Policy and Charging Rules Function
POC	Proof of Concept

Abbreviation	Full Name
PON	Passive Optical Network
PRM	Partner Relationship Management
PSIRT	Product Security Incident Response Team
ROADS	Real-time, On-demand, All-online, DIY, Social
ROI	Return on Investment
RPO	Recovery Point Objective
RTO	Recovery Time Objective
SACA	Semi-Annual Control Assessment
SAN	Storage Area Network
SBC	Session Border Controller
SCMA	Sparse Code Multiple Access
SDN	Software-defined Networking
SDP	Service Delivery Platform
SOC	Service Operation Center
SPO Lab	Service Provider Operation Lab
SSC	Shared Services Center
TMO	Technical Management Office
T-SDN	Transport-SDN
TUP	Time-based Unit Plan
UMTS	Universal Mobile Telecommunications System
UPS	Uninterruptible Power Supply
vDC	virtual Data Center
VGS	Value Growth Solution
VoLTE	Voice over Long Term Evolution
WAN	Wide Area Network
WDM	Wavelength Division Multiplexing
ZOOM	Zero-touch Orchestration, Operations and Management

## Financial Terminology

### Operating profit

Gross profit less research and development expenses, selling and administrative expenses, plus other (expenses)/income, net

### Cash and short term investments

Cash and cash equivalents plus other current investments

### Working capital

Current assets less current liabilities

### Liability ratio

Total liabilities 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, investment income, gain on disposal of property, plant and equipment and intangible assets, and other non-operating income.

### Exchange rates

Exchange rates used in the annual report:

CNY/USD	2014	2013
Average rate	6.1701	6.1424
Closing rate	6.1958	6.0569

Download:



HUAWEI INVESTMENT & HOLDING CO., LTD.

Huawei Industrial Base

Shenzhen 518129, P.R.China

Tel: +86-755-28780808

[www.huawei.com](http://www.huawei.com)

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