WE SEE BEYOND TELECOM

Huawei Technologies Co., Ltd. 2010 Annual Report

HUAWEI

WE SEE BEYOND TELECOM

- A digital world, in which everyone shares information, is on the horizon.
- People all around the world are benefiting from the information age as they are able to work and live in more efficient, smarter and environmentally friendly ways.
- We are seeing the integration of information technologies with telecommunications, as well as the collaboration between broadband and digitalization.
- We envisage that the telecom industry is reinventing itself toward a new round of great development.
- We see beyond the telecom industry by moving into new business segments, thus expanding the boundaries of the industry.
- While addressing the current needs of customers, we are also forward looking and cooperating with partners in an open manner so that we may contribute to the future development of the industry.
- In line with the industry's trend of convergence, Huawei will always focus on our customers' needs through continuous innovation, dedication and the delivery of competitive and integrated Information and Communications Technology (ICT) solutions with the aim of achieving our vision of enriching people's lives through communication.

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Letter from the CEO

We will remain customer-centric in our approach and work with our customers and partners to enrich life through communication.

"Our sales revenues reached CNY 185.2 billion a year-on-year increase of 24.2%"

2011 has been a difficult year so far. We have witnessed a complex external environment due to natural disasters, political conflicts and economic challenges. This environment may present uncertainties for business development. In 2010, Huawei achieved sales revenue of CNY 185.2 billion, a year-on-year increase of 24.2%. This progress was mainly driven by significant growth in our overseas markets as well as rapid and balanced development of our Telecom Networks, Devices and Global Services business segments. We realized a net profit of CNY 23.8 billion and a net profit margin of 12.8%. Additionally, we generated CNY 28.5 billion cash flow from operating activities. The integration of ICT has created enormous business opportunities and Huawei's 2010 results will enable us to capitalize on these opportunities and jointly experience sustainable and solid growth with our customers.

Over the past year, Huawei consolidated its advantaged position in Telecom Networks and continued to create value for customers with products and solutions that fulfilled customer needs. Thanks to our customers' trust and support, Huawei made significant achievements against the backdrop of a weak economic recovery. We remained as the industry leader in mobile broadband, optical transmission, optical access, and core networks, while expanding our cooperation with the world's leading telecom operators in the software domain. As the global economy improved, sales from our Devices business recorded a year-on-year increase of 24.9%, further strengthening our leadership position in the areas of mobile broadband and converged home devices. Our capabilities in Global Services, especially in the professional services field, received further recognition from our customers. In 2010, Huawei won 47 major managed services contracts as we continued to help customers improve their network performance and efficiency, as well as reduce the costs of network operations and maintenance.

In line with the growing digitalization of society, the telecom industry is primed to embark on new developments, while striving to achieve four major migrations: voice to data; pipe to content; human-to-human to machine-to-machine communication; and CT to ICT. By leveraging these transformations, the telecom industry will converge broadband and digitalization for even greater development opportunities.

> **"In line with the growing digitalization of society the telecom industry is primed to embark on new developments"**

In 2011, under the leadership of Huawei's new Board of Directors, we will further promote our transformation towards a customer-centric organization with dedicated employees as our foundation. We will continue to streamline our management practices and improve operational efficiency to be more responsive and to meet customer needs. Huawei will establish four business groups: Carrier Network, Enterprise Business, Device Business, and Other Business, in an effort to set clear goals for the respective business areas and to simplify organizational structure and management processes. These efforts will enable us to deliver better products and faster services, and promote stable growth despite the uncertainties in the external environment.

Our venture into new business segments and establishment of a new business model will bring both challenges and opportunities. We are sincerely grateful to our global customers and partners for their continuous support and trust over the years. We would also like to thank our 110,000 dedicated employees for their commitment in creating new value for our customers. In the years ahead, we will remain customer-centric in our approach and work with our customers and partners to enrich life through communication.

Ren Zhengfei
Chief Executive Officer

Business Highlights in 2010

Consolidated market-leading positions in the telecommunications industry

In our ongoing effort to achieve excellence, Huawei consolidated its leading positions in the telecommunications industry. By the end of 2010 Huawei has deployed over 80 SingleRAN networks for operators among which 28 LTE/EPC networks were commercially launched or to be launched. In addition, Huawei also maintained its market-leading position in terms of shipments of optical access and optical transmission products, and realized rapid growth in the software field. Huawei's Global Services business continued to expand as we began to build our position at the forefront of the professional services area. In the operator resale market, our devices recorded considerable growth in the developed markets such as the USA and Japan.

Created values for customers in new business segments

Huawei expanded its business into new segments in order to create value for its customers, helping them to seize the opportunities from the convergence of the IT and CT industries. Huawei's cloud computing solutions facilitated various industries in shifting to cloud technology, while promoted an open and balanced cloud computing industrial chain, together with our business partners. Huawei strategically increased investment in the enterprise market and helped customers in the e-government, finance, energy, education and retail sectors to improve their operational efficiency.

Gained extensive recognition for continuous customer-centric innovation

Huawei's continuous investment in research and development has been widely acknowledged by the international community and by industry peers:

- Awarded the "2010 Corporate Use of Innovation Award" by *The Economist*.
- Awarded the "Significant Progress for a Commercial Launch of LTE by a Vendor" at the LTE World Summit 2010 and the "Best Contribution to R&D for LTE in North America" at the LTE North America Summit 2010.
- Huawei's SingleRAN@Broad solution won the InfoVision Award in the category of "Broadband Access Network Technologies and Services" at the Broadband World Forum 2010.

Developed secure and reliable networks

In 2010, Huawei prioritized the implementation of a comprehensive global cyber security system as one of the company's major development strategy. We have established and will constantly optimize a sustainable and reliable end-to-end cyber security assurance system that complies with relevant rules, regulations, international telecommunication standards, as well as industry best practices. This has been attained by streamlining security-related policies, organizational structure, business processes, management, technologies and standard practices. Huawei actively communicates with governments, customers and business partners in an open and transparent manner to fulfill their cyber security demands.

Drove sustainable developments

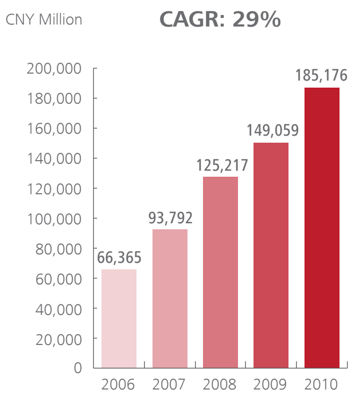
In 2010, Huawei signed a Voluntary Energy Conservation Agreement with the China Ministry of Industry and Information Technology (MIIT) to jointly promote the strategic objectives of energy conservation and emission reduction in China's telecommunication industry. Huawei is committed to reducing 35% of the average energy consumption of its product shipments by the end of 2012, using that in 2009 as a basis. The signing of the agreement would be able to increase the general awareness of the industry on energy conservation and promote the global green revolution in the long run.

Huawei also joined the United Nation's Broadband Commission for Digital Development for accelerating the realization of the vision of "broadband for all" and leveraging broadband to drive social and economic developments.

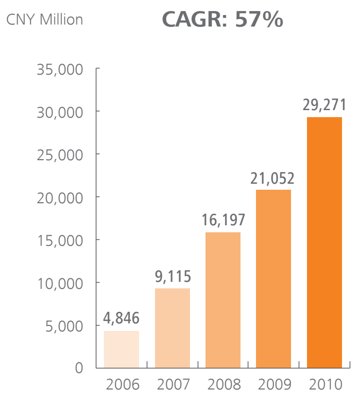
Five-Year Financial Highlights

CNY Million	2010	2009	2008	2007	2006
Revenue	185,176	149,059	125,217	93,792	66,365
Operating profit	29,271	21,052	16,197	9,115	4,846
Operating Margin	15.8%	14.1%	12.9%	9.7%	7.3%
Net Profit	23,757	18,274	7,848	7,558	3,999
Cash flow from operating activities	28,458	21,741	6,455	7,628	5,801
Cash and cash equivalents	38,062	29,232	21,017	13,822	8,241
Working capital	53,991	41,835	29,588	23,475	10,670
Total assets	160,841	139,653	118,240	81,059	58,501
Total borrowings	11,640	16,377	14,009	2,731	2,908
Owners'equity	55,251	43,316	37,454	30,032	20,846
Liability ratio	65.6%	69.0%	68.3%	63.0%	64.4%

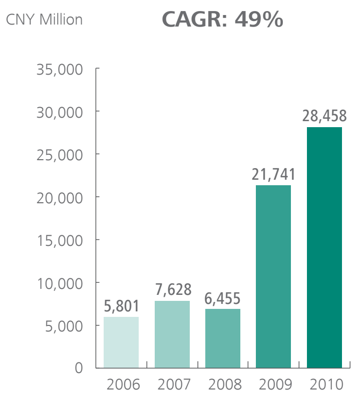
Revenue



Operating profit



Cash flow from operating activities



Letter from the Chairwoman

A new digital society
is taking shape before us
ICT has moved beyond
being an independent industry
and is enhancing
the efficiency of traditional industries

Due to a weak recovery in global economy in 2010, we continued to face a difficult external environment created by price increases and the appreciation of the Chinese currency. However, with our customer-centric approach and dedicated employees, Huawei has continuously created value for our customers, while achieving sustained growth. We would like to extend our sincere gratitude to global customers, partners and the industry peers for their support and trust, as well as to our corporate management and 110,000 employees for their focus and commitment.

A new digital society is taking shape before us. With the advancement of technologies and industries, ICT has moved beyond being an independent industry, and is enhancing the efficiency of traditional industries by introducing such solutions as national broadband, e-education, smart grid, smart transportation, e-health, smart building, and smart home. These solutions play an increasingly important role in facilitating low-carbon economic growth, improving government efficiency, and promoting harmonious social development. This trend will create opportunities for Huawei's sustainable development. By leveraging our experience and expertise in the telecom network sector, Huawei is developing cloud computing technologies to establish end-to-end ICT solutions.

Environmental protection is an important aspect of sustainable social and economic developments. We attach great importance to this issue in our product development and business activities, achieve energy savings and emissions reduction through constant technological innovation, and by doing so, create the optimal social and economic results. We are committed to reducing 35% of the average power consumption per unit business volume of shipments (APCU) by the end of 2012, using that in 2009 as a basis.

Today, cyber security has become a major concern in the telecom industry as it significantly impacts people's lives, as well as the society and economy. Huawei pays utmost attention to the reliability and security of telecom networks and is committed to building an industry leading end-to-end cyber security assurance system to further safeguard the security of equipment and network operations. Over the past 20 years, Huawei has established a sound track record in cyber security.

In 2010, Huawei took the lead in establishing its Cyber Security Evaluation Centre in the UK, which is a key part of Huawei's global end-to-end cyber security assurance system. The establishment of this Centre demonstrates our commitment to building mutual trust in the area of cyber security and to continuously delivering high quality and reliable communication networks to our customers.

> "Huawei is committed to building an industry leading end-to-end cyber security assurance system to further safeguard the security of equipment and network operations"

As a private company solely owned by employees, an election of the new representatives of the benefited employees of the Employee Shareholding Scheme was held at the end of 2010. Accounting for 95.5% of the overall 64,278 benefited employees who are entitled to vote, 61,359 benefited employees elected 51 representatives, who then elected the members of Board of Directors and Supervisory Board in January, 2011. I was re-elected as the Chairwoman of the Board. I am sincerely grateful to our employees' trust and confidence in me. I am convinced that under the leadership of the new Board of Directors, our company will open a new chapter in its history. The new Board has established a visionary corporate governance structure. This new structure aligns our organizational structure with our business goals, and further promotes our transformation towards a customer-centric organization with dedicated employees as our foundation.

In 2010, we continued to improve customer satisfaction by aligning ourselves with their strategic needs. We believe that we can achieve sustainable growth only through continuously creating value for our customers. Facing opportunities and challenges in the future, we firmly believe that, with our focus on meeting customer needs and with the dedication and commitment of our employees, we will sustain our growth momentum. We will continue to adopt an open and cooperative attitude, work closely with our industry partners to bring ICT to greater heights, facilitate the continued growth of our customers and industry partners, and constantly enrich life through communication.

Sun Yafang
Chairwoman of the Board

Vision, Mission and Core Values

Vision

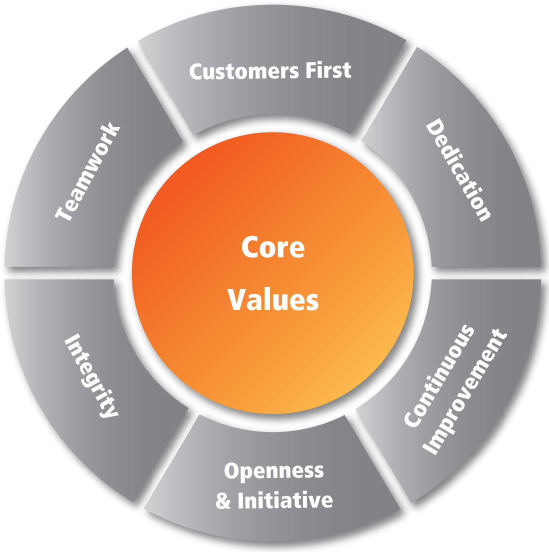
To enrich life through communication.

Mission

To focus on our customers' market challenges and needs by providing excellent ICT solutions and services in order to consistently create maximum value for our customers.

Core Values

Our core values are deeply rooted in every aspect of our business. They are the internal driving force for the Company and are our commitments to the ecosystem. These values enable us to provide effective services to our customers and to achieve our vision of "enriching people's lives through communication".



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.

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.

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.

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.

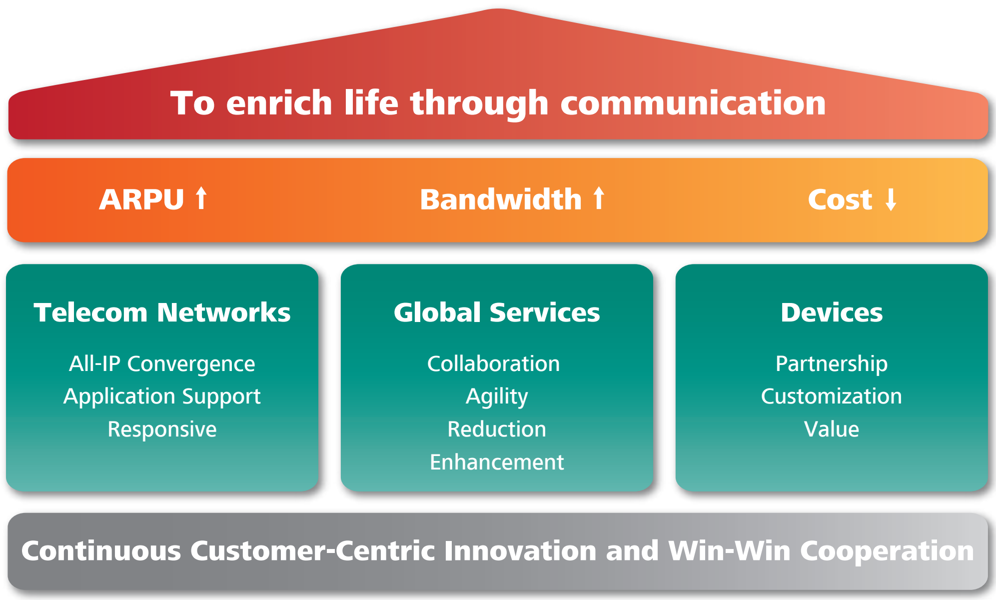
Integrity
Integrity is our most valuable asset. It drives us to behave honestly and keep our promises, ultimately winning our customers' trust and respect.

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

Strategy

Huawei will persist to be customer-centric and gradually extend our integrated advantages in the Telecom Networks, Global Services and Devices areas based around customer requirements. Moving forward, we are committed to providing products and solutions for the Cloud, Pipe and Devices businesses and helping operators to achieve business success with our ABC strategy: growing average revenue per user (ARPU), increasing bandwidth and reducing cost.



Telecom Networks: All-IP Convergence, Application Support, Responsive and Cloud Computing

Huawei has built comprehensive advantages in core areas such as wired and wireless broadband access, data communications, and optical transmission through years of continuous development. We have become the preferred partner for operators in the age of All-IP convergence. We are committed to providing open application environments, smart operational platforms, and efficient services to global telecom operators, thus helping to enhance their operational revenue and efficiency. At the same time, Huawei promptly fulfilled customer needs with our agility to developing innovative products and solutions. We help operators build cloud computing platforms to effectively improve their return on investment.

Global Services: Collaboration, Agility, Reduction, Enhancement

In Global Services, Huawei helps customers to further increase their total value of ownership (TVO) through continuously optimized service solutions and improved operational efficiency.

Devices: Partnership, Customization, and Value

We focus on the operator resale market to help consumers fulfill the diversified device requirements of end users and to provide consumers with rich and convenient communication experiences by offering a wide variety of network devices.

Continuous Customer-Centric Innovation and Win-Win Cooperation

In order to meet the needs of our customers, we focus on continuous customer-centric innovation. The goal of our product R&D is to deliver timely solutions for both anticipated and actual customer needs by developing innovations in technologies, products, solutions and services.

We have more than 51,000 employees (46% of our overall headcount) engaged in R&D and have established 20 research institutes in countries around the world including the USA, Germany, Sweden, Russia, India, and China. We have also set up over 20 joint innovation centers with top operators to transform leading technologies into a competitive edge for customers and to achieve business success.

Moving ahead, Huawei will continue to expand cooperation in Telecom Networks, Global Services and Devices, as well as moving into the new Enterprise Business segment, with the aim of establishing a healthy, harmonious and win-win environment.

Business Review 2010

In 2010, Huawei achieved significant and balanced revenue growth in the Telecom Networks, Global Services and Devices business segments, attributed mainly to the company's solid business foundations around the globe. Annual sales revenue amounted to CNY 185,176 million, a 24.2% increase over the previous year.

Sales revenue from the China market was CNY 64,771 million, an increase of 9.7% year-on-year. Despite slower growth due to reduced investment by major telecom operators, Huawei maintained its market-leading position.

Sales revenue from overseas markets amounted to CNY 120,405 million, up 33.8% from the previous year. Huawei achieved rapid growth in North America and the Commonwealth of Independent States (CIS) due to solid market demand. Growth in Russia was especially strong as the market recovered from last year's economic slowdown. Europe maintained stable growth mainly driven by strong demand for professional services. Notwithstanding a slowdown in India, Asia Pacific maintained good momentum with breakthroughs in markets such as Japan, Indonesia, Malaysia, Vietnam, the Philippines and Australia. We maintained steady growth in Africa with our market-leading positions in PS / CS and fixed access products in North Africa, while our sales of network equipment achieved an industry-leading growth rate in West Africa.

Sales Revenue

CNY Million

	2010	2009	YOY (%)
China	64,771	59,038	9.7%
Overseas	120,405	90,021	33.8%
Total	185,176	149,059	24.2%

CNY Million

	2010	2009	YOY (%)
Telecom Networks	122,921	99,943	23.0%
Global Services	31,507	24,499	28.6%
Devices	30,748	24,617	24.9%
Total	185,176	149,059	24.2%

Telecom Networks

Telecom Networks sales for 2010 were CNY122,921 million, an increase of 23.0% year-on-year.

Driven by leading technologies and outstanding product competitiveness, Huawei's radio access business expanded steadily and enabled Huawei to consolidate its market-leading position with a global market share of 20%.

Against the backdrop of burgeoning demand for mobile broadband network bandwidth, telecom operators face the challenges of enhancing the capacity of mobile broadband and enriching end user experiences, while also realizing profitability for their mobile broadband businesses. As mobile communication technologies continues to evolve, the coexistence of a variety of radio access technologies and the integration of various networks have become the development trends in mobile networks. Huawei unveiled the "Single" strategy which helped operators realize their network development objectives from the perspective of end-to-end operation and maintenance (O&M), and maximize the value of their four core assets, i.e. site, spectrum, subscribers and staff. Our "SingleRAN" solution comprehensively assists operators achieve maximum utilization of assets by integrating various technical modes into a single package. At the Mobile World Congress 2010 in Barcelona, Huawei unveiled our "SingleRAN@Broad" solution to help operators address the challenges of expanding network capacity, enriching user experience and reducing the per-bit cost, ultimately ensuring higher profitability and business successes for operators.

Huawei is committed to be the best business partners to telecom operators by helping them build sustainable and profitable LTE commercial networks. To achieve this goal, we unveiled innovative solutions for LTE operators: Best Evolution Cost Solution, Best O&M Efficiency Solution, Best User Experience Solution and Best Network Deployment Solution. Also in line with this, we launched our SingleRAN-based LTE solution. We demonstrated the world's leading LTE-Advanced technology at CTIA Wireless 2010 in Las Vegas, USA, which achieved a record-breaking downlink speed of up to 1.2 Gb/second. In recognition of these achievements, Huawei won the "Significant Progress for a Commercial Launch of LTE by a Vendor" and the "Best Contribution to Research & Development for LTE" awards at the LTE World Summit 2010.

Huawei has rapidly developed and strengthened its position as the market leader in the carrier and fixed access business, notably for optical access, optical transport, carrier IP and microwave products.

Telecom network infrastructure is entering an era which will feature ultra-broadband and video services. As the demand for higher bandwidth accelerates and outpaces revenue growth, operators are being driven to migrate from pipe business operations to devices and cloud business models as a mean for transferring values. They are also accelerating the transformation of their existing networks to ones that are more IP-based, broadband-based and detail-oriented. At the same time the national broadband strategies developed by the ever-increasing number of countries will serve as the main catalysts to spur the development of fixed networks.

In 2010, Huawei unveiled the "Single" strategy and rolled out innovative end-to-end solutions such as fixed broadband bearing, mobile broadband bearing, enterprise bearer network, and converged operation and maintenance. In the fixed broadband bearing field, Huawei is the clear leader having involved in constructing five of the six national broadband projects worldwide. In the broadband metropolitan market, Huawei further consolidated its leadership position and implemented the world's first commercial bearer solution that supports video-acceleration for Etisalat in the Middle East. We were selected as the exclusive supplier of long-distance wavelength division multiplexing (WDM) products for the 2014 Olympic Winter Games in Sochi with our "Bandwidth Cloud" solution. We successfully applied our mobile broadband bearing solutions for leading operators, including British Telecom, France Telecom, Deutsche Telekom and Telenor. In the converged O&M area, Huawei is the leader in the provision of All-IP operation and maintenance solutions based on our core concept of "converged management, visible operation and maintenance".

In 2010, Huawei launched new prototypes in DSL and OTN using the world's leading technology. To drive the commercialization of new technologies, we initiated the release of innovative products and solutions, including end-to-end 1588v2 co-frequency and co-phase clock mobile bearer solution, IP and optical fiber collaboration solution, integrated IP microwave solution and the "SingleMetro" unified multi-service platform. Concurrently Huawei accelerated the industrialization of new technologies by completing the world's first 10G-GPON full-service commercial test that fully complies with international standards, as well as setting up the first end-to-end 100G pilot office and 10T cluster router commercial office.

Our core network business developed rapidly in the CIS, Latin America and Western Europe. While overall sales declined somewhat due to a slowdown in business in China, Huawei maintained the leading position in the traditional areas of core network. At the same time, we continued to expand our product portfolio to help customers capitalize on the opportunities and overcome the challenges from the convergence of telecom networks. Our "SingleCORE" strategy provides customers with industry-leading end-to-end solutions for achieving ICT transformation, convergence and evolution. Examples of these solutions include voice communication core network, mobile broadband packet core network and converged user data center.

Huawei secured over 140 commercial and pilot contracts worldwide for our IMS solution for converged voice while the global capacity of our mobile softswitch reached 2.35 billion lines, as we consolidated our leadership in the industry. In the mobile broadband packet core business, Huawei continued to lead the industry and we established ourselves as a mainstream supplier in Europe. In 2010, we unveiled our "SingleEPC" strategy and six Smart solutions on intelligent broadband operation in response to the exponential growth in mobile broadband. In the converged subscriber data management area, our "SingleSDB" end-to-end solution enabled operators to leverage their core asset of subscribers' data. This solution received industry-wide recognition and was honored with the "Best Practice Award – 2010 SDM Equipment Vendor of the Year" by Frost & Sullivan. As a pioneer in promoting and building all-IP telecommunications networks, Huawei released the SmartCare solution in 2010. SmartCare provides end-to-end O&M solutions that support joint management of all types of networks and allow lean operation of an all-IP network. With SmartCare, carriers can shift their focus from network performance management to service quality and user experience management.

In the application and software business, our overall business recorded steady growth driven by rapid development in the individual, home and enterprise markets. Our application and software products continued their robust expansion in the Middle East, Africa and Asia Pacific, indicating the success of our revenue sharing business model with operators.

We are dedicated to helping telecom operators increase their revenue and improve their operational efficiency. Our innovative solutions constantly create value for our customers, and we initiated services with many leading operators in 2010, including Cell C, Etisalat, Royal KPN, Megafon, Saudi Telecom and Vodafone.

Huawei won many accolades for excellence in application and software products. These included "Best Service Delivery Platform (SDP)" at the Mobile World Congress 2010 in Barcelona, the "Solution Excellence Award" for our NGBSS solution at the 2010 Telecom Management Forum (TMF) Management World event in Nice, France, and the "Best Subscriber Growth Achievement Award" which we won together with Guangdong Telecom at the 2010 IPTV World Forum in London.

In line with the future trend of industry convergence, Huawei is committed to expanding our cloud computing business. We will support cloud service providers so that they are able to develop operable, manageable, and profitable multilateral business enabling platforms for cloud services (i.e. social broker). In addition, we will provide end-to-end support for realizing the business value of cloud service applications. To ensure the business value for our customers, we remain open to outsourcing these products and solutions to third-party partners, while helping customers develop customized and integrated ICT services.

Huawei steadily grew sales revenue from our site solution business as we increased strategic investments in power and infrastructure products. This provided a solid foundation for the construction of high-quality networks for our customers. In power products, we launched the Carrier-Class Conmmunication Power Solution and the Power Cube Hybrid Power Solution (wind-solar-diesel-electricity) in an effort to drive the digital communications toward green communications. In line with the rapid development of mobile broadband/LTE worldwide, Huawei developed multi-frequency and multi-band electrical-tilt antennas and introduced the corresponding tower-mounted amplifiers and combiners to facilitate the construction of high-quality radio networks as operators upgrade to LTE technology. As the global leader in outdoor sites solutions, we helped operators effectively address the high costs of site construction and maintenance with the all-in-one outdoor equipment room, Mini-shelter. Additionally Huawei unveiled the intelligent ODN solution (iODN) to meet the requirements for optical fiber management in the upcoming FTTH era.

Global Services

In the services sector, Huawei continued to support our customers' success by rapidly improving our solutions and end-to-end delivery capabilities. In 2010, total sales revenue for Global Services was CNY 31,507 million, a year-on-year increase of 28.6%.

Professional services have continued to grow rapidly in the telecom industry. In addition to traditional network roll-out, maintenance, and learning services, operators have begun to focus more on the transformation of the operation and maintenance business, end-user experience management and enhancement, as well as the processes consolidation and outsourcing of their non-core businesses. While the convergence of ICT continues to accelerate, traditional telecom operators are facing more challenges in business development and operational support. The industry as a whole and the needs of end-user are constantly in flux, and this has expanded the scope and scale of professional services, causing competition to become increasingly intense.

In 2010, Huawei significantly improved our capability in developing and customizing professional services solutions. Through in-depth collaborations with customers, and by understanding customers business, we have introduced three solution families: System Integration Services, Assurance Services (including Managed Services) and Learning Services. These solution families include eighteen key service solutions that support the rapid development of sales in Global Services, which has become Huawei's fastest-growing business. Our Professional Services made key breakthroughs with many customers around the world, and achieved huge successes in many regions, such as China, the Middle East, South Pacific and Europe. In the Managed Services business, we successfully conducted network management of 75 customer's networks (160,000 sites), provided services in developed markets such as Spain, Germany and Hong Kong, and retained the leading position in regions such as the Middle East and North Africa. In 2010, we held the Annual Customer Service Conferences for our top 20 global customers and held quarterly assessment meetings with nearly 300 customers. We also conducted the "Problem Elimination Action" worldwide for preventing network problems and improving network quality and customer satisfaction.

In 2010, Huawei strived to maintain its competitive edge in delivery through continuous improvement and provided high-quality delivery services of "All Technologies, All Scenarios, All Locations". We delivered wireless products to 320,000 sites and network products to 1,450,000 sites. We assured the successful delivery of 389 key network deployment and system integration projects, including wireless swap projects in Europe, TD projects for China Mobile, and a commercial LTE network in Sweden. We also delivered over 50,000 person-times of training services. Additionally, we successfully implemented network assurance projects for the World Expo in Shanghai, the World Cup in South Africa and the Asian Games in Guangzhou. Through the success of these events, Huawei won high acclaim from our customers, further enhancing our global brand image in the professional services field.

Moving forward, Huawei will continue to adhere to the C.A.R.E. service strategy: collaboration with customer, agility of delivery, reduction in cost, and enhancement of capabilities. We will maintain our in-depth understanding of industry trends and customer needs to uphold competitive advantages in the operation and maintenance area, distinguished by end-to-end networks, All-IP, and integrated ICT. Huawei has dedicated itself to being the global services leader for All-IP telecom networks by driving the successful business transformation of our customers and by increasing their profits via the improvement of end-user experience. In addition, we strive to help operators fulfill their corporate social responsibilities.

Devices

In 2010, Huawei's Devices business shipped over 120 million units of product and realized sales of CNY 30,748 million, an increase of 24.9% year-on-year. In the high-value markets of the USA and Japan, growth was especially significant, exceeding 100%.

Smartphones sales grew rapidly with more than three million units shipped worldwide and made significant inroads into over 70 countries and regions, including Japan, the USA, and Western Europe. In September 2010, Huawei partnered with Google to launch the world's first affordable smartphone with Android 2.2, called IDEOS. The Huawei E398, the world's first LTE multi-mode data card, achieved large-scale commercial usage in Europe. The innovative Mobile WiFi, E5, won multiple awards globally and recorded substantial sales with over three million units shipped worldwide. Launched in the USA, Australia and Europe as a featured product during the Christmas holiday season, Huawei's first tablet PC, the IDEOS S7, was highly popular among consumers. Supported by these innovative products, Huawei's mobile broadband business continues to lead the global market.

The convergence between mobile broadband and the Internet brought profound changes to the industry, driving it to the "Mobile Internet" era. Correspondingly, devices are increasingly important as the engine and are a catalyst to drive the development of networks.

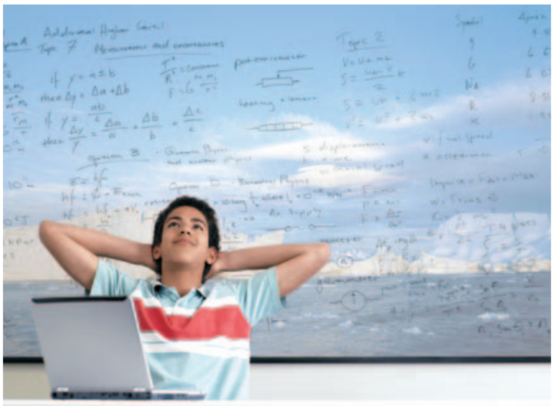
Fast CPU and an open operating system form the basis for smart devices that enable the execution of a wide range of applications and allow access to cloud services. As devices trend towards smart technologies, they are becoming increasingly integrated, specialized, and diversified. Integration in personal handheld devices means the incorporation of multiple functions, such as mobile phones, digital camera, music players, e-books, PDAs, etc. Specialization is reflected in various industrial devices and specialized digital devices such as the e-book. Diversification is demonstrated by the expanding arrays of individual, home and industrial devices supporting the development of numerous businesses.

The rapid development of mobile Internet has brought an abundance of information to consumers. With this in mind, Huawei has devised the "Smart Device, Simple World" development strategy for its devices in an effort to create a "simple, ubiquitous, smart and converged" mobile Internet application for consumers. The aim is to achieve our key strategy of "beyond devices and outstanding consumer experience" through open service platform, simplified management and universal devices.

Over the next three years, smartphones sales will continue to expand rapidly. Android-based smartphones are expected to grow at the fastest pace and become the world's most used operating system by 2014. Huawei has established a strategic partnership with Google and is committed to providing innovative smartphones that deliver vibrant mobile Internet experiences to the users.

As mobile broadband penetrates the consumer electronics field, more and more electronic devices, such as MP3s, PMP, digital cameras and tablets, are connected, resulting in a huge market for data devices in mobile Internet and pocket WiFi modules. Huawei will continue to lead through continuous innovations of technologies, architecture, and functionalities. Additionally, applications in the utilities, automobile, logistics, payment and monitoring industries will bring new markets to the machine-to-machine (M2M) module. Huawei will remain open in cooperating with industry partners to provide leading solutions through our R&D advantages in developing industry devices, ultimately striving to be a mainstream M2M device solutions provider.

The media and entertainment business, with video as the main feature, will be the focal point for future home business. Huawei is focused on converged home solutions and has developed the integrated Connected Home solution for home communications, entertainment and control. This solution encompasses three centers (access, media, and control) and two clouds (Service Cloud and Management Cloud) to enable consistent user experience and network design.



Results of operations

CNY Million	2010	2009	YOY(%)
Revenue	185,176	149,059	24.2%
Gross profit	77,510	58,969	31.4%
Gross margin	41.9%	39.6%	2.3%
Total operating expenses and other income	48,239	37,917	27.2%
as % of revenue	26.0%	25.4%	0.6%
Operating profit	29,271	21,052	39.0%
Operating margin	15.8%	14.1%	1.7%
Net finance expense / (income)	1,833	(1,255)	(246.1%)
Income tax expense	3,672	3,870	(5.1%)
Net profit	23,757	18,274	30.0%

Operating profit for 2010 amounted to CNY 29,271 million, an increase of 39.0% year-on-year, driven by revenue growth and improvement in profitability. The 2010 operating margin was 15.8%, increased 1.7 percentage points from 2009, as a result of consistent implementation of expense control measures and favorable gross margin. Gross margin in 2010 was 41.9%, 2.3 percentage points higher than 2009, mainly attributed to the implementation of our "Single" Strategy and product innovation.

Net finance expense increased by CNY 3,088 million year-on-year. Income tax expense decreased by CNY 198 million from 2009, of which current tax expense increased by CNY 942 million and amounted to CNY 5,639 million. This was offset by lower deferred tax expense in 2010 which decreased by CNY 1,140 million, i.e. CNY -1,967 million in 2010 and CNY -827 million in 2009. Net profit amounted to CNY 23,757 million, an increase of 30.0% year-on-year.

Total operating expenses and other income

CNY Million	2010	2009	YOY(%)
Research and development expenses	16,556	13,340	24.1%
as % of revenue	8.9%	8.9%	0.0%
Selling, general and administrative expenses	30,996	24,169	28.2%
as % of revenue	16.7%	16.2%	0.5%
Other operating expenses/(income)	687	408	68.4%
as % of revenue	0.4%	0.3%	0.1%
Total Operating expenses and other income	48,239	37,917	27.2%
as % of revenue	26.0%	25.4%	0.6%

The company's total expense ratio increased marginally by 0.6 percentage points year-on-year. This was attributable to increases in SG&A expenses ratio and other operating expenses ratio of 0.5 and 0.1 percentage points respectively.

Net finance expense / (income)

CNY Million	2010	2009	YOY(%)
Exchange loss / (gain)	1,236	(1,642)	(175.3%)
Other net finance expense	597	387	54.3%
Total net finance expense / (income)	1,833	(1,255)	(246.1%)

Net finance expense in 2010 amounted to CNY 1,833 million, an increase of CNY 3,088 million from 2009. This was principally attributed to the year-on-year change in foreign exchange loss of CNY 2,878 million. In addition, other net finance expense increased by CNY 210 million.

Financial position

CNY Million	2010	2009	YOY(%)
Non-current assets	18,074	15,047	20.1%
Current assets	142,767	124,606	14.6%
Among which: Inventory	27,566	24,947	10.5%
Trade receivables	48,110	51,875	(7.3%)
Cash and cash equivalents	38,062	29,232	30.2%
Total Assets	160,841	139,653	15.2%
Non-current liabilities	16,814	13,566	23.9%
Among which: Long-term borrowings	8,955	8,490	5.5%
Current liabilities	88,776	82,771	7.3%
Among which: Short-term borrowings	2,685	7,887	(66.0%)
Trade payables	34,299	28,393	20.8%
Owner’s equity	55,251	43,316	27.6%
Total liabilities and equity	160,841	139,653	15.2%

Cash and cash equivalents as of December 31, 2010 amounted to CNY 38,062 million, an increase of 30.2% compared to that of December 31, 2009. Cash to Revenue ratio was 20.6% at the end of 2010, versus 19.6% at the end of 2009, an increase of 1.0 percentage points.

Trade receivables decreased by 7.3% year-on-year. The company continued to improve trade receivable management and collection efficiency. The DSO of 94 days in 2010 was a 31-day improvement compared to that of 125 days in 2009.

Inventory increased by 10.5% year-on-year. The ITO of 92 days was a 8-day decline from 100 days in 2009 mainly due to the successful implementation of integrated planning, consignment control and standard operating procedure.

Trade payables increased by 20.8% year-on-year. The DPO of 115 days in 2010 was a 2-day increase compared to that of 113 days in 2009.

Total long-term and short-term borrowings as of December 31, 2010 amounted to CNY 11,640 million, a decrease of 28.9% compared to that of CNY16,377 million in 2009. The percentage of long-term borrowing amounted to 76.9% at the end of 2010, versus 51.8% at the end of 2009, an increase of 25.1 percentage points.

Operating cash flow

CNY Million	2010	2009	YOY(%)
Net profit	23,757	18,274	30.0%
Depreciation, amortization and non-operating loss / (income)	3,067	(198)	(1649.0%)
Cash flow before change in operating assets and liabilities	26,824	18,076	48.4%
Change in operating assets and liabilities	1,634	3,665	(55.4%)
Cash flow from operating activities	28,458	21,741	30.9%

The net cash inflow from operating activities in 2010 amounted to CNY 28,458 million, an increase of 30.9% year-on-year, and was mainly driven by:

- Improvement in profitability: the net profit increased by 30.0% year-on-year;
- The impact of depreciation, amortization and non-operating loss or gain, in particular exchange loss or gain: increased operating cash inflow of CNY 3,265 million compared to that of 2009; and
- Continued improvement in working capital management: the total balance of net operating assets and liabilities as of December 31, 2010 decreased CNY 1,634 million compared to that of December 31, 2009.

Financial Risk Management

The company's Treasury Department is responsible for financial risk management, under the direction of the Finance Committee of the Board of Directors. The company has stipulated a series of financial risk management policies and processes to manage liquidity, currency, interest rate and credit risks.

Liquidity risk

Huawei has established a well functioning cash flow planning and forecasting system to evaluate the company's short-term and long-term liquidity needs. The company has implemented various measures such as centralizing cash management, maintaining a reasonable level of funds and adequate credit facilities, establishing access to global funding sources, etc., to meet its liquidity requirements.

In 2010, cash and cash equivalents increased by 30.2% year-on-year to CNY 38,062 million. In addition Huawei repaid a significant amount of bank loans, causing the company's total borrowings to decrease by 28.9% from 2009. The increased cash and reduced borrowings positions were mainly facilitated by strong cash flow from operating activities. An adequate capital reserve and healthy cash flow from operations has enabled Huawei to manage its liquidity and borrowings risk, thus maintaining financial stability of the Company.

Liquidity Trends

CNY Million	2010	2009	YOY (%)
Operating cash flow	28,458	21,741	30.9%
Cash and cash equivalents	38,062	29,232	30.2%
Total borrowings	11,640	16,377	(28.9%)

Currency risk

As the Company's reporting currency is CNY, the exchange rate fluctuation between CNY and other currencies will impact its financial results.

The Company has established a currency exposure management system, and mitigated currency risk by adopting various forex hedging measures. These include:

- Matching the transaction currency between procurement and sales.
- Balancing the cash inflows and outflows of foreign currencies.
- Selecting the appropriate financial hedging measures which is in line with the Company's risk management strategies.

Interest Rate Risk

The Company's interest rate risk arises from its interest-bearing assets and interest-bearing liabilities, and therefore interest rate fluctuations affect the Group's interest income and expense.

Through the quantification of its interest rate exposures, the Company uses the combination of fixed-rate and variable-rate borrowings to manage its interest rate risks.

Credit Risk

The Company has established and implemented standard credit management policies, processes, IT systems and credit risk evaluation models. In addition, specific credit management functions have been established across all operating geographies and business units. The Company uses the credit risk evaluation model to determine customer credit ratings and credit limits, and has implemented various key credit controls along the end-to-end sales process. The Company's credit management department regularly evaluates global credit risk exposure, estimates potential losses and allocates bad debt provisions as appropriate. In the event that the credit risk for a specific customer or outstanding trade receivable becomes inappropriately high, a special handling process is initiated to mitigate the risk.

Utilizing a sound understanding of our customers' financing needs, a professional team and sufficient fund resources, Huawei provides its customers with customized and diversified financing solutions, helping them to achieve sustainable business success. In this regard, Huawei has established a sound risk management structure and project evaluation system to minimize the potential risk of customer financing.

Research and Development

Huawei is committed to investing in R&D to create competitive products and solutions.

To meet the needs of our customers, we focus on continuous customer-centric innovation. The goal of our product R&D is to deliver timely solutions for both potential and actual customer needs by developing innovations in technologies, products, solutions and services.

The Company has extensively implemented the Integrated Product Development (IPD) process within the R&D function. With thorough comprehension of customers' needs, we significantly shortened the timeline for products to reach the market and therefore helping our customers to achieve success.

In 2010, Huawei continued to increase its R&D investment. Annual R&D expenses amounted to CNY 16,556 million, an increase of 24.1% year-on-year. We have more than 51,000 employees (46% of our total workforce) engaged in R&D and have established 20 research institutes in countries including the USA, Germany, Sweden, Russia, India and China. In addition, we have over 20 joint innovation centers with leading telecom operators where we work in partnership with these operators to transform leading technologies into a competitive edge for customers and helping them achieve business success.

As at 31 December 2010, Huawei had accumulatively filed 49,040 patent applications i.e. 31,869 patent applications in China, 8,892 international patent applications under the Patent Cooperation Treaty, and 8,279 overseas patent applications. Of the 17,765 authorized patents granted, 3,060 were overseas patents. In addition, Huawei holds a leading position in terms of essential LTE patent applications.

Huawei joined, supported and made significant contribution to international standards. By the end of 2010, Huawei was a member of 123 standards organizations, including 3GPP, IETF, ITU, OMA, NGMN, ETSI, IEEE and 3GPP2. We have accumulatively submitted more than 23,000 proposals and served in 180 leadership positions including as board members in various organizations such as OMA, CCSA, ETSI, ATIS and the WiMAX Forum. In the LTE/EPC field, Huawei cumulatively submitted more than 6,400 proposals to 3GPP. In 2010, the number of our proposals on LTE Radio Communication Core Specification passed by 3GPP accounted for approximately 20% of the world's overall accepted proposals.

In 2010, Huawei won the "Solution Excellence Award" at the 2010 Telecom Management Forum (TMF) Management World event and the "Outstanding Contribution and Leadership Award" from Open Mobile Alliance (OMA). Both our Terabit Multi-Service Router Platform and New-Generation Multi-Service Transmission Platform Based On The Synchronous Digital Hierarchy (SDH) won the "Second Prize of the National Award for Science and Technology Progress" from the China government. The CTO of Huawei's Wireless Networks was appointed as a fellow of the Wireless World Research Forum (WWRF).

As a result of our strong innovation capabilities, Huawei competitively earned grants from several government research and innovation programs in 2010. These programs included China's Next Generation Broadband Wireless Networks, Highly-Reliable Networks and New-Generation Storage Technology, the EU's FP, and the BESTSELECT program from the government of Berlin, Germany. For the amount of government grants received, see note 3 to the Consolidated Financial Statements.

Critical Accounting Estimates

The consolidated financial statements on which this management discussion and analysis was based were prepared in compliance of International Financial Reporting Standards (IFRSs), see note 1(a) to consolidated financial statements for details.

The application of IFRSs requires the Company to make judgments, estimates and assumptions that directly affect its reported financial position and operation 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

Application of the accounting principles related to the measurement and recognition of revenue requires the Company to make judgments and estimates. Even for the same product, the Company often has to interpret contract terms to determine the appropriate accounting treatments. When services, installation and training etc., are rendered with product sales, it is judged by the Company whether the deliverables should be treated as separate units of accounting. When there are multiple transactions with the same customer, significant judgments should be made whether separate contracts are considered as part of one arrangement according to the contracts terms and conditions. When the installed equipments are accepted by customer in different periods, the Company should determine whether the completed project is able to be used by customer, whether the receivable is collectible and whether revenue is recognized by stages.

Revenue recognition is also impacted by various factors, including the credit-worthiness of the customer. Estimates of these factors are evaluated periodically to assess the adequacy of the estimates. If the estimates were changed, revenue would be impacted.

For a construction contract, revenue is recognized using the percentage of completion (POC) method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. If at any time these estimates indicate the POC contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately as a cost. The revenue of the construction contracts are CNY 17,849 million (9.6% of total revenue) and CNY 14,108 million (9.5% of total revenue) for the year ended December 31, 2010 and December, 31 2009, respectively.

Allowance for Doubtful Accounts

The Company’s gross accounts receivable balance was CNY 52,253 million and CNY 56,216 million as of December 31, 2010 and December 31, 2009, respectively. The allowance for doubtful accounts was CNY 4,143 million, or 7.9% of the gross accounts receivable balance, as of December 31, 2010, and CNY 4,341 million, or 7.7% of the gross accounts receivable balance, as of December 31, 2009. The allowance is based on the Company’s assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer’s ability to pay.

The Company’s provision for doubtful accounts was CNY 2,927 million and CNY 648 million for fiscal years ended December 31, 2010 and December 31, 2009, respectively. If a major customer’s credit worthiness deteriorates, or if actual defaults are higher than the historical experience, 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 to the Company’s profit.

Inventories Write-down

The Company’s inventory balance was CNY 27,566 million and CNY 24,947 million as of December 31, 2010 and December 31, 2009, respectively. Inventories are carried at the lower of cost or net realizable value. Inventory write downs are measured as the difference between the cost of the inventory and net realizable value, and are charged to the provision for inventory. 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. Factors shall be considered at the recognition of net realizable value include: purpose for the inventories held, aging of inventories and percentage of inventory utilization, category and condition of the inventories, subsequent events that have material influence to inventories. Inventory provisions are reviewed at least every quarter to ensure accuracy and reasonableness.

The Company's total provision for inventory charged to the income statement was CNY 998 million and 598 million for fiscal years ended December 31, 2010 and December 31, 2009, respectively.

Warranty Provision

The liability for product warranties was CNY 1,556 million as of December 31, 2010, compared with CNY 1,175 million as of December 31, 2009. The Company's products are generally covered by a warranty for 12 months. The Company accrues for warranty costs as part of cost of sales based on associated material costs, technical support labor costs, and associated overheads.

The provision for product warranties issued for fiscal years ended December 31, 2010 and December 31, 2009 was CNY 1,962 million and CNY 1,842 million, respectively.

If the Company experiences an increase in warranty claims compared with the historical experience, or if the cost of servicing warranty claims is greater than expected, the Company's gross margin could be adversely affected.

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 for which 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 believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experiences and interpretations of tax law. While the deferred tax assets recognized is to the extents that the deferred tax assets can be utilized based on the assessment of future taxable income.

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

Market Trends

Over the next decade, networks will be an essential part of people's lives and are expected to integrate with all sectors to drive sustainable economic development.

1. Enriching life and communication with digital living

With the success of Web 2.0, broadband networks will be universally available to encourage access to society and the world. Within the coverage area, everyone will be able to obtain information seamlessly at any place and at any time, thus enriching our communication with families and friends. While we will be able to listen to voices from all corners of the world, we will, in turn, exert influences over our virtual neighbors. Learning and working over networks will overtake the conventional geographical concept of schools and offices. Likewise, web-based activities will be the main platform for commercial transactions, surpassing the traditional trading activities. Other benefits include the extension of human's average life span as medical diagnosis become more timely and accurate. All of the above will become realities with the convergence of the virtual world and the real world over the next decade.

2. Video becoming the most common way for interaction

Considering the development on text, images, voice and video technologies in the recent years, video has become the most intuitive communication method. The transformation from voice and text to video and live images will be driven by a complete ICT infrastructure, high speed broadband and cloud computing services. Video will no longer be limited to the entertainment and media industries, but will be applied extensively in various aspects such as customer service, e-commerce, teleconferences, product introductions and demonstrations. Looking forward, we expect the world will be able to enjoy high definition video as simply and as easily as using the phone today.

3. The birth of "Generation Me" with mobile devices replacing PC

According to the Q4 2010 International Data Corporation (IDC) statistics, for the first time the global production of smartphones have surpassed the production of personal computers. This signifies that the industry has entered a new era, marking the shift of the consumer information platform from PC to mobile connectivity and initiating the "Generation Me" epoch that advocates personalization. This can be demonstrated through the wide usage of mobile intelligence, business cloud computing applications and high speed broadband services, redirecting the focus of ICT from networking to more user-centric applications. Today, the smart phone industry is a rapidly growing market. Operators in developed countries are strategizing to achieve over 50% market segmentation by 2015. Extensive support from service providers and lowered cost will make smartphone the popular choice, driving sustainable growth for the mobile broadband industry.

4. LTE & ALL IP: The leap from voice to broadband

After 30 years of development in mobile communication, LTE is growing at such a rapid rate that it is expected to be the unified mobile broadband technology of the future. We envisage that the global LTE subscribers will grow at a CAGR of 400% over the next 5 years, reaching 600 million subscribers in 2015. In order to realize this vision, we will gain support from the governments and regulatory bodies in allocating more spectrum resources for developing mobile broadband and stimulating investment in this industry, thus bringing social benefits as well as boosting the economy as a whole.

The diversification of user needs has spurred the increase in network traffic, resulting in cost pressures on the operation of network infrastructure. While the focus of past development in the telecom industry was to stimulate user demand, the greatest challenge today is to ensure profitable network operation while fulfilling customer needs. The ALL-IP network integration of IPv6 will drive the sustainable development of the ICT industry via the construction of network infrastructures as well as the development of innovation business platforms that fulfill the dynamic development strategies of simplicity, efficiency, intelligence, cost effectiveness, staying green and flexibility.

5. Cloud computing will drive the second revolution and restructure the IT industry

Following the first IT revolution where the PC replaced mainframe computers, cloud computing has initiated the second IT revolution. The PC-centric computing model will transform into a network-reliance computing model of data-centric and networking. This transformation is supported by the advanced convergence of IT and CT, coupled with the shifting of the business model from purchases of products to services. The innovation in cloud-based IT operations will greatly enhance the operational efficiency of telecom operators and will maximize the value of CT assets, eventually growing the ICT industry into a new trillion-dollar content and information services market. The industry will be restructured, driven by the changes in technological and business model brought by cloud computing.

6. Broadband becomes a fundamental human right, ICT drives economic growth

The United Nation's Broadband Commission for Digital Development, consisting of governments, operators, internet service providers, IT & CT solution providers, published the "The Future Built on Broadband" report in September 2010. It included the "2010 Declaration of Broadband Inclusion for All" that recommended broadband access as the fundamental rights to the world's citizens. Over 20 countries have launched national broadband plans. With the support of governments worldwide, the broadband industry is developing at its full speed to bring broadband access to all.

ICT technologies are increasingly important in promoting low-carbon economic growth as well as improving business efficiency and social harmony. The advance of the ICT industry will drive the rapid development of new industries such as distance education, smart grid, smart transportation, telemedicine, smart buildings, and smart homes, to name a few. Statistics shows that the ICT industry contributed 30 - 40% to the economic growth rate of developed countries: every US$1 investment in ICT creates approximately US$1.4 of added value per year. The "2010 Declaration of Broadband Inclusion for All" also stressed that a 10% increase in broadband penetration will improve GDP by 1.3%.

It is expected that by 2020, broadband will be widely penetrated. 6 billion smartphone users and 50 billion devices will be connected around the world, connecting all people and things.

The next decade will be the most exciting with ICT becoming profoundly integrated into businesses and people's lives worldwide.

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

We are the auditor of Huawei Technologies Co., Ltd. and its subsidiaries (the "Group"). We have audited the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards (the "audited consolidated financial statements") for the financial year ended December 31, 2010. We have issued an unqualified audit report dated March 10, 2011 on the audited consolidated financial statements of the Group for the financial year ended December 31, 2010.

Huawei Technologies 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 24 to 50 comprising the consolidated balance sheet as at December 31, 2010, the consolidated income statement, the consolidated statement of cash flow for the year then ended, and an accounting policy summary and other explanatory notes, which is derived from the audited consolidated financial statements of the Group. The audited consolidated financial statements and the consolidated financial statements summary do not reflect the effects of events that occurred subsequent to the date of our report on the consolidated financial statements.

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

Management's responsibility for the consolidated financial statements summary

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

Auditor's responsibility

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

Opinion

In our opinion, the consolidated financial statements summary derived from the audited consolidated financial statements of the Group for the year ended December 31, 2010 is consistent, in all material respects, with those consolidated financial statements, on the basis described in Note 1(a).

KPMG Huazhen
Certified Public Accountants
9th Floor, China Resources Building
5001 Shennan East Road
Shenzhen 518001, China
March 25, 2011

Consolidated Income Statement

	Note	2010	2009
		CNY'million	CNY'million
Revenue	2	185,176	149,059
Cost of sales		107,666	90,090
Gross profit		**77,510**	**58,969**
Research and development expenses		16,556	13,340
Selling, general and administrative expenses		30,996	24,169
Other operating expenses, net	3	687	408
Operating profit before financing costs		**29,271**	**21,052**
Net finance expenses / (income)	5	1,833	(1,255)
Share of losses of associates / jointly controlled entities		9	163
Profit before taxation		**27,429**	**22,144**
Income tax	6	3,672	3,870
Profit for the year		**23,757**	**18,274**
Attributable to:			
Equity holders of the Company		23,754	18,253
Non-controlling interests		3	21
Profit for the year		**23,757**	**18,274**

Consolidated Balance Sheet

	Note	2010	2009
		CNY'million	CNY'million
Assets			
Property, plant and equipment	8	9,323	8,317
Intangible assets	9	647	553
Trade and other receivables	13	116	-
Investments in associates and jointly controlled entities	10	305	311
Other non-current financial assets		64	108
Deferred tax assets	11	7,102	5,147
Other non-current assets		517	611
Non-current assets		**18,074**	**15,047**
Inventories	12	27,566	24,947
Trade and other receivables	13	68,809	63,282
Other financial assets		8,330	7,145
Cash and cash equivalents	14	38,062	29,232
Current assets		**142,767**	**124,606**
Total assets		**160,841**	**139,653**
Equity			
Equity attributable to equity holders of the Company		55,222	43,253
Non-controlling interests		29	63
Total equity		**55,251**	**43,316**
Liabilities			
Borrowings	15	8,955	8,490
Defined benefit post-employment obligations		5,950	3,512
Deferred government grants		1,319	933
Deferred tax liabilities	11	590	631
Non-current liabilities		**16,814**	**13,566**
Borrowings	15	2,685	7,887
Income tax payable		4,184	3,696
Trade and other payables	16	80,351	70,013
Provisions for warranties	18	1,556	1,175
Current liabilities		**88,776**	**82,771**
Total liabilities		**105,590**	**96,337**
Total equity and liabilities		**160,841**	**139,653**

Consolidated Statement of Cash Flow

	Note	2010	2009
		CNY'million	CNY'million
Cash flows from operating activities			
Cash receipts from customers		228,918	165,802
Cash paid to suppliers and employees		(196,952)	(141,411)
Other operating cash flows		(3,508)	(2,650)
Net cash from operating activities		**28,458**	**21,741**
Net cash used in investing activities		**(4,262)**	**(5,219)**
Net cash used in financing activities		**(14,907)**	**(8,384)**
Net increase in cash and cash equivalents		**9,289**	**8,138**
Cash and cash equivalents at January 1	14	29,232	21,013
Effect of foreign exchange rate changes		(459)	81
Cash and cash equivalents at December 31	14	**38,062**	**29,232**

Notes to the Consolidated Financial Statements Summary

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

(a) Basis of preparation

Huawei Technologies Co., Ltd. (the "Company") and its subsidiaries (the "Group") have prepared a full set of consolidated financial statements ("consolidated financial statements") for the year ended December 31, 2010 in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

This consolidated financial statements summary has been prepared and presented based on the audited consolidated financial statements for the year ended December 31, 2010 by disclosing material operating and financial information. The intended users of the summary financial statements can obtain access to the audited consolidated financial statements for the year ended December 31, 2010 upon consent of the Group's Management through the email address, information@huawei.com

(b) Functional and presentation currency

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

(c) Translation of foreign currencies

i) Foreign currency transactions

Transactions in foreign currency during the year are translated to the respective functional currencies of group entities at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rates at that date. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

ii) Foreign operations

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

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

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

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

(e) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the equity holder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling equity holder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain / loss arising is recognised directly in equity.

(f) Associates and jointly controlled entities

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

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

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

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

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

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

(g) Investment properties

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

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

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

(h) Other property, plant and equipment

i) Recognition and measurement

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Construction in progress is transferred to other property, plant and equipment when it is ready for its intended use. No depreciation is provided against construction in progress.

ii) Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. 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. Both the useful life of an item of property, plant and equipment and its residual value, if any, are reviewed annually.

(i) Intangible assets

i) 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 in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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. 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.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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

rewards of ownership to the Group are classified as operating leases.

ii) Operating lease charges

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

(k) Impairment of assets

i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

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

- For investments in associates and jointly controlled entities recognised using the equity method (see note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and 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 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 asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

ii) Impairment of other assets

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

- property, plant and equipment;
- long term prepayments; and
- intangible assets

If any such indication exists, the asset's recoverable amount is estimated. In addition, for 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 to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment loss

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

- Reversals of impairment losses

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

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

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

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

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

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

(m) Construction contracts

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

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)).

(o) Interest-bearing borrowings

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

(p) Trade and other payables

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

(q) Cash and cash equivalents

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

(r) Employee benefits

i) Short term employee benefits and contributions to defined contribution retirement plans
Salaries, annual bonuses and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Defined benefit plan obligations
The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the

balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by management using the projected unit credit method.

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

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

(s) Provisions and contingent liabilities

i) Provision for product warranties

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

ii) Other provisions and contingent liabilities

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

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

(t) Income tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

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

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

(u) Revenue recognition

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

i) Sale of goods and services rendered

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

ii) Contract revenue

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

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

iii) Government grants

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

iv) Rental income from operating leases

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

(v) Finance income and expenses

Finance income comprises dividend and interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial assets held for trading. Interest income is recognised as it accrues using the effective interest method. Dividend income from unlisted investments is recognised when the equity holder's right to receive payment is established; dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are directly attributable to the acquisition, construction or production of 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 complete.

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

(w) Without recourse factoring expenses

Factoring without recourse constitutes transfer of trade receivables. The Group transfers its trade receivables to banks or financial institutes; the bank or the financial institute 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 institute.

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

2. Revenue

	2010	2009
	CNY 'million	CNY 'million
Sales of goods	153,541	124,493
Services	31,507	24,499
Rental income	128	67
	185,176	149,059

3. Other operating expenses, net

	2010	2009
	CNY 'million	CNY 'million
Without recourse factoring expenses	1,401	727
Government grants	(593)	(273)
Others	(121)	(46)
	687	408

Government grants

During the year, the Group received unconditional government grants of CNY433,555,000 in respect of its contributions to the development of research and innovation in the PRC (2009: CNY251,006,000). These grants were directly recognised in profit or loss .

For the year ended December 31, 2010, the Group received grants of CNY545,239,000 (2009: CNY328,445,000) which were conditional upon completion of certain research and development projects. These grants were initially recognised in the consolidated balance sheet as deferred government grants and amortised through the consolidated income statement on a systematic basis in the same periods in which the related research and development expenses are incurred. During 2010, CNY159,024,000 of conditional government grants were recognised in profit or loss (2009: CNY22,296,000).

4. Personnel expenses

	2010	2009
	CNY 'million	CNY 'million
Expenses recognised in respect of defined benefit plan	2,893	1,615
Contributions to defined contribution plans	2,725	2,067
Total post-employment plan cost	5,618	3,682
Salaries, wages and other benefits	25,046	21,134
	30,664	24,816

5. Net finance expenses / (income)

	2010	2009
	CNY 'million	CNY 'million
Net foreign exchange loss / (gain)	1,236	(1,642)
Other net finance expenses	597	387
	1,833	(1,255)

6. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	2010	2009
	CNY 'million	CNY 'million
Current tax		
PRC enterprise income tax		
- current year	3,981	3,119
- under / (over) - provision in respect of prior years	109	(70)
Overseas tax		
- current year	1,625	1,554
- (over) / under - provision in respect of prior years	(76)	94
	5,639	4,697
Deferred tax		
Origination and reversal of temporary differences	(1,967)	(827)
	3,672	3,870

7. Segment reporting

The Group has two regional segments, which are China and Overseas segments, determined based on its internal management requirements. The Group also divides its business segments in accordance with the types of products and services as follows:

- **Telecom Networks:**
  Radio Access Network, Network, Core Network, Application & Software and Site Solutions
- **Global Services:**
  System Integration Solution, Assurance Service Solution and Learning Solution
- **Devices:**
  Mobile Broadband Devices, Handsets, Convergence Devices and Video Solutions

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

Revenue information in respect of geographical segments

	2010	2009
	CNY 'million	CNY 'million
China	64,771	59,038
Overseas	120,405	90,021
Total	185,176	149,059

Revenue information in respect of business segments

	2010	2009
	CNY 'million	CNY 'million
Telecom Networks	122,921	99,943
Global services	31,507	24,499
Devices	30,748	24,617
Total	185,176	149,059

8. Property, plant and equipment

	Land and Buildings	Machinery, electronic equipment and other equipment	Motor vehicles	Construction in progress	Investment properties	Decoration and leasehold improvements	Total
	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million
Cost:							
At January 1, 2009	2,921	9,013	381	839	434	1,755	15,343
Exchange adjustment	3	38	3	-	-	8	52
Additions	159	1,650	48	1,252	-	171	3,280
Transfer from construction in progress	1	48	-	(49)	-	-	-
Disposals	(2)	(786)	(81)	-	-	(42)	(911)
At December 31, 2009	3,082	9,963	351	2,042	434	1,892	17,764
At January 1, 2010	3,082	9,963	351	2,042	434	1,892	17,764
Exchange adjustment	(6)	(113)	(20)	(4)	-	(13)	(156)
Additions	23	1,848	78	1,277	-	201	3,427
Transfer from construction in progress	959	583	-	(2,206)	-	664	-
Disposals	(3)	(1,337)	(42)	-	-	(28)	(1,410)
At December 31, 2010	4,055	10,944	367	1,109	434	2,716	19,625
Depreciation:							
At January 1, 2009	705	5,511	217	-	192	1,433	8,058
Exchange adjustment	2	7	(1)	-	-	5	13
Depreciation charge for the year	162	1,628	59	-	24	215	2,088
Disposals	(2)	(614)	(67)	-	-	(29)	(712)
At December 31, 2009	867	6,532	208	-	216	1,624	9,447
At January 1, 2010	867	6,532	208	-	216	1,624	9,447
Exchange adjustment	(1)	(43)	(10)	-	-	(4)	(58)
Depreciation charge for the year	178	1,404	51	-	24	233	1,890
Disposals	-	(921)	(34)	-	-	(22)	(977)
At December 31, 2010	1,044	6,972	215	-	240	1,831	10,302
Carrying amounts:							
At December 31, 2009	2,215	3,431	143	2,042	218	268	8,317
At December 31, 2010	3,011	3,972	152	1,109	194	885	9,323

Investment properties
The Group is engaged in the manufacturing, sales and marketing of telecommunication equipment and the provision of related services. Beginning from January 1, 2004, it leased certain buildings to an ex-subsidiary and a former related company. Such buildings are classified as investment properties.

The carrying value of investment properties as at December 31, 2010 is CNY194,160,000 (2009: CNY217,733,000). The fair value of investment properties as at December 31, 2010 is estimated by the directors to be CNY322,328,000 (2009: CNY358,745,000). The fair value is calculated by management based on the discounted cash flows analyses.

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

9. Intangible assets

	Software	Patents	Trademark	Total
	CNY'million	CNY'million	CNY'million	CNY'million
Cost:				
At January 1, 2009	163	476	24	663
Additions	542	131	1	674
Disposals	(8)	-	-	(8)
At December 31, 2009	697	607	25	1,329
At January 1, 2010	697	607	25	1,329
Additions	278	76	1	355
Disposals	(4)	(1)	-	(5)
At December 31, 2010	971	682	26	1,679
Amortisation:				
At January 1, 2009	155	362	20	537
Amortisation for the year	205	41	1	247
Disposals	(8)	-	-	(8)
At December 31, 2009	352	403	21	776
At January 1, 2010	352	403	21	776
Amortisation for the year	232	27	1	260
Disposals	(4)	-	-	(4)
At December 31, 2010	580	430	22	1,032
Carrying amounts:				
At December 31, 2009	345	204	4	553
At December 31, 2010	391	252	4	647

10. Investments in associates and jointly controlled entities

The Group has the following investment in associates:

Name of associate	Form of business structure	Country / region	Proportion of ownership interest 2010	Proportion of ownership interest 2009	Principal activity
TD Tech Holding Limited	Incorporated	Hong Kong	49%	49%	Research and development, production and sale of TD-SCDMA telecommunication products
Industria Electrónica Orinoquia S.A.	Incorporated	Caracas, Venezuela	35%	35%	Research and development, production and sale of telecommunication terminals

The Group's unrecognised share of losses for the year ended December 31, 2010 and cumulative post-acquisition losses as at that date in the above associate was Nil (2009: Nil) and Nil (2009: Nil), respectively.

Summary financial information on the associates:

		Assets	Liabilities	Equity	Revenues	Profit
		CNY 'million	CNY 'million	CNY 'million	CNY 'million	CNY 'million
2010	100 percent	1,460	1,086	374	4,135	149
2009	100 percent	1,089	866	223	5,096	610

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

Name of jointly controlled entity	Form of business structure	Country / region	Proportion of ownership percentage	Principal activity
Huawei Symantec Technologies Co., Limited ("Huawei Symantec")	Incorporated	Hong Kong	51%	Research and development, production and sale of network storage and security products
Huawei Marine Systems Co., Limited ("Huawei Marine")	Incorporated	Hong Kong	51%	Construction and operation of submarine fibres

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

	2010	2009
	CNY 'million	CNY 'million
Non-current assets	43	39
Current assets	925	787
Non-current liabilities	(7)	(2)
Current liabilities	(699)	(489)
Net assets	262	335
Income	1,676	1,011
Expenses	(1,740)	(1,175)
Loss for the year	(64)	(164)

11. Deferred tax assets and liabilities

	2010	2009
	CNY 'million	CNY 'million
Accrual and provision	3,662	2,810
Property, plant and equipment	184	140
Impairment	796	545
Unrealised profit	2,267	1,631
Tax losses	76	1
Undistributed profits of subsidiaries	(466)	(493)
Other deductible differences	118	20
Other taxable differences	(125)	(138)
Total	6,512	4,516

12. Inventories

	2010	2009
	CNY 'million	CNY 'million
Raw materials	6,471	4,667
Work in progress	2,697	2,090
Finished goods	5,726	5,250
Goods delivered but not completely installed	12,672	12,940
	27,566	24,947

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

	2010	2009
	CNY 'million	CNY 'million
Carrying amount of inventories sold	84,466	71,666
Write down of inventories	998	598
	85,464	72,264

13. Trade and other receivables

	2010	2009
	CNY 'million	CNY 'million
Trade receivables	48,110	51,875
Gross amount due from customers for contract work	7,004	4,253
Non-trade receivables	13,811	7,154
	68,925	63,282
Non-current	116	-
Current	68,809	63,282
	68,925	63,282

Impairment of trade receivables

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

The movement in the allowance for impairment losses in respect of trade receivables during the year is as follows:

	2010	2009
	CNY 'million	CNY 'million
At January 1	4,341	4,701
Impairment loss recognised and reversed during the year	2,927	648
Uncollectible amounts written off	(3,125)	(1,008)
At December 31	4,143	4,341

14. Cash and cash equivalents

	2010	2009
	CNY 'million	CNY 'million
Deposits with banks	5,595	1,843
Cash and bank balances	32,467	27,389
Cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement	38,062	29,232

15. Borrowings

Terms and conditions of outstanding loans were as follows:

	Total	1 year or less	1 to 5 years
	CNY 'million	CNY 'million	CNY 'million
Intra - group guaranteed bank loans:			
EUR - variable at 1.83%	606	-	606
USD - variable at 0.94% ~ 1.66%	5,616	991	4,625
LKR - variable at 10.92% ~ 14%	26	26	-
USD - fixed at 4.33%	2,973	-	2,973
ZAR - fixed at 14%	1	-	1
INR - fixed at 8.52% ~ 10.67%	1,038	1,038	-
	10,260	2,055	8,205
Unsecured bank loans:			
CNY - variable at 4.82% ~ 5.35%	1,380	630	750
	11,640	2,685	8,955

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

All of the Group's bank facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending agreements with banks. If the Group were to breach the covenants, the draw down facilities would become payable on demand. As at December 31, 2010, none of the covenants relating to draw down facilities had been breached (2009: Nil).

16. Trade and other payables

	2010	2009
	CNY 'million	CNY 'million
Trade payables	34,299	28,393
Bills payables	5,749	13,690
Gross amount due to customers for contract work	2,023	781
Non-trade payables and accrued expenses	38,280	27,149
	80,351	70,013

17. Construction contracts

The aggregate amount of costs incurred plus recognised profits less recognised losses to date for the Group, included in the gross amount due from / to customers for contract work at December 31, 2010, is CNY46,008,688,000 (2009: CNY29,405,852,000).

18. Provisions and contingencies

(a) Provision for product warranties

	2010	2009
	CNY 'million	CNY 'million
Balance at January 1	1,175	1,274
Provision made during the year	1,962	1,842
Provision used during the year	(1,581)	(1,941)
Balance at December 31	1,556	1,175

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

(b) Litigation

On 16 July 2010, Motorola, Inc. ("Motorola") filed a lawsuit and alleged that the Company has misappropriated Motorola's trade secret. The case is at preliminary stage, but the Company believes the claim is without merit and will defend this action vigorously. The Company is unable, however, to predict the outcome of the case, or reasonably estimate a range of possible loss, if any, given the current status of the litigation. No accrual has been recorded by the Company as at December 31, 2010 in respect of this case.

19. Operating leases

(a) Leases as lessee

Non-cancellable operating leases are payable as follows:

	2010	2009
	CNY 'million	CNY 'million
Less than one year	244	305
Between one and five years	230	200
Above five years	1	83
	475	588

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

During the year ended December 31, 2010, CNY1,892,136,000 was recognised as an expense in profit or loss in respect of operating leases (2009: CNY1,786,628,000).

(b) Leases as lessor

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

	2010	2009
	CNY 'million	CNY 'million
Less than one year	47	42
Between one and five years	67	58
Above five years	-	1
	114	101

During the year ended December 31, 2010, CNY127,979,000 was recognised as rental income in profit or loss (2009: CNY66,836,000).

20. Capital commitments

(a) Acquisition and construction of buildings

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

	2010	2009
	CNY 'million	CNY 'million
Contracted for	1,431	1,469
Authorised but not contracted for	770	291
	2,201	1,760

(b) Other capital commitments

During the year ended December 31, 2010, the Group entered into a contract to purchase debt securities to be issued by a foreign company for CNY137,360,000 (2009: Nil).

Information on the Company

Corporate profile

Huawei is a leading telecom solutions provider. Through continuous customer-centric innovation, we have established end-to-end advantages in Telecom Networks, Global Services and Devices. With comprehensive strengths in wireline, wireless and IP technologies, Huawei has gained a leading position in the All-IP convergence age. Our products and solutions have been deployed in over 140 countries and have served 45 of the world's top 50 telecom operators, as well as one third of the world's population.

Huawei's vision is to enrich life through communication. By leveraging our experience and expertise in the telecom sector, we help bridge the digital divide and provide people the opportunity to join the information age, regardless of their geographic origin. In order to address the increasingly prominent climate challenges, Huawei has deployed a wide range of green solutions that enable customers to reduce power consumption and carbon emissions, contributing to the sustainable development of the society, economy, and the environment.

Products, Solutions and Services

Huawei offers a broad range of end-to-end product portfolios, including:

Telecom Networks

- Radio Access Network: SingleRAN, LTE, GSM, WCDMA, CDMA, TD-SCDMA, WiMAX
- Network: FTTx, DSL, WDM / OTN, MSTP / Hybrid MSTP, Microwave, Router, MSP, PTN and cyber security
- Core Network: IMS, Mobile Softswitch, NGN, Packet Core, SDM, PCRF, Cloud, CDN, Signaling Network
- Applications and Software: NGBSS, Digital Home, SDP, eCity, Mobile Office
- Sites Solutions: Hybrid power supply, Primary power, Antenna & RF, Site & Shelter, Fiber & Copper Infrastructure

Global Services

End-to-end services solutions, including:

- System Integration Solution: Mobile Network Integration, Fixed Network Integration, Data Center Solution, Site Solution
- Assurance Solution: Managed Services, Experience Enhancement, Network Safety
- Learning Solution: Knowledge Transfer, Huawei Certification, Competency Consulting

Devices

- Mobile broadband devices: USB sticks, wireless modems, embedded modules, WiMAX devices
- Handsets: UMTS, GSM, CDMA, TD-SCDMA
- Convergence devices: fixed / wireless terminals, wireless gateways, digital photo frames, set-top boxes
- Video solutions: Telepresence, video conferencing devices

Awards and Honors

- 9 December 2010, Huawei received FTTx Vendor of The Year award by Telecom Asia.
- 12 November 2010, Huawei won the "Best Contribution to R&D for LTE in North America" award at LTE North America 2010.
- 28 October 2010, Huawei's industry-leading SingleRAN@Broad solution won the InfoVision Award in the category of "Broadband Access Network Technologies and Services" at Broadband World Forum 2010 in Paris.
- 19 October 2010, Frost & Sullivan recognized Huawei in the contact center application market with the 2010 Asia Pacific Growth Strategy Leadership Award.
- 1 Oct 2010, Huawei received the Red Dot Design Award for its PIVIT Optical Distribution Network Access Terminal Box.
- 30 September 2010, Frost & Sullivan recognized Huawei as the 2010 SDM Equipment Vendor of the Year.
- 29 July 2010, Huawei was recognized by Britsh Telecom with Best in Class 21CN Solution Maturity, Value, Service and Innovation award, for its innovation and contribution in 21CN and Next Generation Access project.
- 5 July 2010, Huawei's Access Terminal Box and FTTx Optical Network Terminal products won the Red Dot Design award.
- 30 June 2010, Huawei received the Lewa Trophy for the Highest Corporate Fundraiser in the Safaricom Marathon 2010.
- 28 June 2010, Huawei won the Femtocell Design and Technology Innovation Award at 2010 Femtocell World Summit.
- 25 June 2010, Huawei received the "Messaging Application: Consumer" award for its Mobile Newspaper Service (MNS) at the 2010 Global Messaging award ceremony.
- 10 June 2010, Huawei received three honors at the Global Telecom Business Innovation Awards including "Green base station innovation", "Wholesale network innovation" and "Consumer voting innovation" awards with Vodafone, BT and TalkTalk, respectively.
- 3 June 2010, CDMA Development Group (CDG) recognized Huawei with the 2010 3G CDMA Industry Achievement Award at the 2010 CDMA World Forum.
- 27 May 2010, Huawei won the "LTE Innovation and Commercialization" award at the LTE World Summit 2010 in recognition of its advancements in the commercialization and research and development of LTE technology.
- 27 May 2010, Huawei won the "Solution Excellence Award" at the TM Forum.
- 7 May 2010, World Vendor Awards honored Huawei with the "Outstanding vendor of the year" award.
- 16 February 2010, GSM Association recognized Huawei with the Best Service Delivery Platform award.
- 11 December 2009, Telecom who's who in Asia Pacific chose Huawei as the only telecom vendor to receive triple accolades in *Telecom Asia's* 2009 Readers' Choice Awards.
- 7 December 2009, Huawei received the "2009 Corporate Award" from the IEEE Standards Association.
- 23 Nov 2009, Huawei received *Light Reading's* 2009 Top Picks award for its transport and router products.
- 18 and 19 November 2009, Grameenphone Ltd., jointly with Huawei, won the "Green Mobile Award" at the GSMA Mobile Awards 2009.
- 18 November 2009, Frost & Sullivan recognized Huawei with three best practice awards, including 2009 Digital City Solution Innovation of the Year, 2009 Unified Communications Solution Innovation of the Year, and 2009 Multimedia Contact Center Solution of the Year at the Frost & Sullivan Enterprise Communication Summit and Award Ceremony 2009 in Shanghai, China.
- 4 November 2009, *R&D Magazine* announced its R&D 100 Awards and recognized Huawei for its advanced Optix OSN 6800/OSN 3800 wavelength division multiplexer. This award is widely recognized in the technology and innovation fields, and is dubbed as the "Oscars of Invention".
- 8 July 2009, Huawei's Femtocell and optical transponder products won the Red Dot Design award.
- 17 June 2009, Huawei was recognized for its contribution to the industry at Global Telecoms Business Innovation Awards 2009.
- 5 June 2009, Huawei received three prestigious Asia Pacific telecom awards including 2009 Wireless Infrastructure Vendor of the Year, Broadband Equipment Vendor of the Year, and Vendor of the Year by Frost & Sullivan.
- 20 March 2009, Huawei was recognized by *Financial Times* with an award for Innovation and Leadership in Emerging Markets.
- 19 January 2009, Huawei received the iF Design Award for its Femtocell products.

Corporate Governance Report

Shareholders

Huawei Technologies Co., Ltd. (the "Company" or "Huawei") is a wholly-owned subsidiary of Shenzhen Huawei Investment & Holding Co., Ltd. ("Huawei Holding"). Huawei Holding is solely owned by employees of the Company, without any third parties, including the government bodies, holding any of its shares.

Huawei Holding implements an Employee Shareholding Scheme (the "Scheme") through the Union, which involves 65,179 employees as of 31 December 2010. They are represented by and exercise their rights through the elected representatives. The Scheme effectively aligns the personal goals of employees with the Company's long-term development, fostering the continuing success of Huawei.

Board of Directors and Committees

The Board guides and oversees the overall business operations, and makes decisions on significant issues in strategic and operational areas. The Board of Directors has established the Human Resources Committee, the Finance Committee and the Audit Committee to assist the Board in overseeing the Company's operations.

The key roles and responsibilities of Board of Directors include:

- Approving the Company's strategic directions and its medium-to-long-term business plan, and monitor their execution
- Approving the Company's major financial arrangements and business transactions
- Approving the Company's operational and financial results
- Establishing and reviewing the governance structure in accordance with the development of the Company and changes in the operating environment
- Overseeing the establishment and maintenance of the Company's monitoring mechanism
- Providing advice and guidance to management regarding significant issues encountered, including major market changes and risks
- Approving the appointment and remuneration of the Chief Executive Officer; establishing the succession plans for the Chief Executive Officer and other senior management
- Approving the appointment of senior management and their remuneration policy and performance evaluations

In 2010, the Board of Directors deliberated on the future governance and business structure of the Company, and set out plans for the formulation of the Company's management outlines. The annual business plan and budget, the quarterly operational performance, the strategic direction and organizational setup for new businesses, investment and merger & acquisition projects, the appointment and remuneration of senior management, and other key human resources and financial policies were also reviewed and approved by the Board. The Board also concluded a set of resolutions on the Company's strategic directions, major investment decisions, financing arrangements and major contracts.

Human Resources Committee

The Human Resources Committee comprises Board members and senior human resources experts. The key roles and responsibilities of the Human Resources Committee include:

- Evaluating the corporate strategy and policies on human resources
- Reviewing the Company's medium to long-term human resources plan and annual human resources programs
- Reviewing the selection, allocation, performance evaluation, remuneration, incentive & discipline as well as succession plan of the Company's middle and senior management

The Human Resources Committee meets on a monthly basis. Business executives and relevant experts are invited as non-voting participants when needed. Based on business needs and requests of the Board of Directors, the Human Resources Committee held twelve meetings in 2010 to develop frameworks and policies, as well as to monitor executions regarding cadres management & succession plan, compensation & incentive optimization, organization development and performance improvement of human resources system.

Finance Committee

The Finance Committee consists of members with relevant expertise and experience, including Directors and financial experts. The key roles and responsibilities of the Finance Committee include:

- Reviewing the Company's medium-to-long-term

business plan, overseeing and managing the Company's annual budget and business forecast through quarterly reviews and monthly reviews, and driving special actions on critical results of operations
- Reviewing all the finance-related strategies, plans, policies and campaigns, and submitting such for the Board's approvals, including capital and asset structures, asset and debt financing, strategic investments, major financial investments, mergers & acquisitions, and divestitures etc
- Monitoring the Company's operational and financial results and ensuring integrity and accuracy of financial information

The Finance Committee generally holds meetings on a monthly basis, and may call for special sessions and invite relevant functional experts to attend if needed. Based on business needs and requests of the Board of Directors, the Finance Committee held eleven meetings in 2010, and focused its efforts in the structural design, approval procedure, execution, and monitoring of the Company's strategic plan (SP) and business plan (BP), operational management, capital investment projects, capital structure, operating assets management, enterprise risk management, subsidiaries and joint ventures management etc. The Finance Committee also approved and issued relevant policies and guidelines for the above matters.

Audit Committee

The Audit Committee comprises Directors and the Chief Internal Auditor. The key roles and responsibilities of the Audit Committee include:

- Reviewing the Company's internal audit plan, monitoring its execution results, discussing the Company's internal control policies
- Approving the internal control framework and milestone plan, overseeing the implementation of internal control improvement measures and driving special actions on key issues
- Monitoring management's and employees' integrity and the Company's compliance with rules and regulations
- Approving the appointment of independent auditor together with the Board of Directors, and evaluating the performance of the independent auditor

The Audit Committee holds meetings on a quarterly basis. Four meetings were held in 2010 to review the Company's risk management and internal control strategies, and to approve the annual internal audit plan. In addition, the Audit Committee monitored the Company's internal control effectiveness through reviewing regular reports, such as the Audit Trend Report, the Semi-annual Control Assessment (SACA) and the GPO Internal Control Reports, submitted by the Internal Audit Department and Global Process Owners (GPO). The Audit Committee also promoted the compliance of the Business Conduct Guideline (BCG) among all employees through sharing of major audit findings and non-compliance cases. During the year, the Audit Committee also discussed the management letter with the independent auditor.

Supervisory Board

Pursuant to the requirements of the Company Law of the People's Republic of China, Huawei has established a Supervisory Board, which consists of five members who are elected by the shareholders. The key roles and responsibilities of the Supervisory Board include overseeing the Company's financial and operational results, monitoring the performance of the Directors, Chief Executive Officer and other senior management, as well as attending Board meetings as observers.

Independent Auditor

Independent auditor is responsible for auditing the Company's financial statements in accordance with applicable accounting standards and audit procedures, and 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 the review of the Audit Committee. Any relationship or service that may potentially affect the objectivity and independence of the independent auditor is reviewed by the Audit Committee. The independent auditor may also discuss with the Audit Committee for any audit issues identified and for any difficulties encountered during the course of the financial audits.

Huawei has selected KPMG as the independent auditor of the Company since 2000.

The members of the newly-elected Board of Directors and Supervisory Board

At the end of 2010, 51 representatives and 9 alternate representatives were elected by all the employees who participated in the Employee Shareholding Scheme. The representatives then elected the members of the Board of Directors and Supervisory Board. The newly-elected members of the Board of Directors 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 Pingan, and Mr. Yu Chengdong. The newly-elected members of the Supervisory Board are Mr. Liang Hua, Mr. Peng Zhiping, Mr. Ren Shulu, Mr. Tian Feng, and Mr. Deng Biao.

Chairwoman of the Board

Ms.Sun Yafang

Deputy Chairman of the Board

Mr. Guo Ping

Mr. Xu Zhijun (Eric Xu)

Mr. Hu Houkun (Ken Hu)

Mr. Ren Zhengfei

Executive Director

Mr. Xu Wenwei (William Xu)

Mr. Li Jie (Jason Li)

Mr. Ding Yun (Ryan Ding)

Ms. Meng Wanzhou (Cathy Meng)

Director

Ms. Chen Lifang

Mr. Wan Biao

Mr. Zhang Ping'an (Alex Zhang)

Mr. Yu Chengdong (Richard Yu)

Resume of Directors

Ms. Sun Yafang

Sun Yafang joined Huawei in 1989, and has served as Engineer of Marketing and Sales Department, President of the Procurement Department, President of Marketing and Sales Department, President of Human Resources Committee, President of the Business Transformation Executive Steering Committee (BT-ESC), President of Strategy and Marketing Committee, and President of Huawei University, etc.

Since 1999, Ms. Sun has been the Chairwoman of the Board.

Sun Yafang was employed as a technician of Xin Fei TV Manufactory in 1982. She was an engineer of Beijing Research Institution of Communication Technology in 1985.

Sun Yafang studied in Chengdu University of Electronic Science and Technology, bachelor's degree.

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 November 1988, and has served successively as an R&D Project Manager, General Manager of Supply Chain, Director of the Executives Office, Chief Legal Officer, President of the Business Process & IT Management Department, President of the Corporate Development Department, Chairman and President of Huawei Device, Corporate EVP, and now as Chairman of the Finance Committee.

Mr. Xu Zhijun (Eric Xu)

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

Mr. Hu Houkun (Ken Hu)

Mr. Ken Hu holds a Bachelor's Degree from Huazhong University of Science and Technology. Ken joined Huawei in 1990, and has held several senior roles within the company including President of Huawei's Chinese market, President of Huawei Latin America, President of Global Sales Department, Chief Sales & Service Officer, Chief Strategy & Marketing Officer, Chairman of Corporate Global Cyber Security Committee, Chairman of Huawei USA, Corporate EVP, and Chairman of the Human Resources Committee.

Mr. Ren Zhengfei

Born on October 25, 1944 into a rural family where both parents were school teachers, Mr. Ren Zhengfei spent his primary and middle school years in a remote mountainous town in Guizhou Province. In 1963, he studied at the Chongqing Institute of Civil Engineering and Architecture. After graduation, he was employed in the civil engineering industry until 1974 when he joined the military's Engineering Corps as a soldier tasked to establish the Liao Yang Chemical Fiber Factory. Subsequently, Mr. Ren had taken positions as a Technician, an Engineer, and 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 RMB 21,000 in 1987. He became the President 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 successively as President of the International Technical Sales & Marketing Department, President of the European Region, Chief Strategy & Marketing Officer, Chief Sales & Service Officer, President of the Joint Committee of Regions, and President of the Enterprise Business Group.

Mr. Li Jie (Jason Li)

Born in 1967, Mr. Li holds a Master's Degree from Xi'an Jiao Tong University. Mr. Li joined Huawei in 1992, and has served successively as Regional President, President of the Global Technical Service Department, President of the Human Resource Department, 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 successively as Product Line President, President of the Global Solution Sales Department, President of the Global Marketing Department, and Chief Products & Solutions Officer.

Ms. Meng Wanzhou (Cathy Meng)

Ms. Meng holds a Master's Degree from Huazhong University of Science and Technology. Ms. Meng joined Huawei in 1993. She obtained her M.A. in 1998. She has held positions of Director of the International Accounting Department, CFO of Huawei Hong Kong, President of the Accounting Management Department, President of the Sales Financing & Treasury Management Department, and is now the CFO of Huawei.

Ms. Chen Lifang

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

Mr. Wan Biao

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

Mr. Zhang Ping'an (Alex Zhang)

Born in 1972, Mr. Zhang holds a Master's Degree from Zhejiang University. Mr. Zhang joined Huawei in 1996, and has served successively as Product Line President, Senior Vice President, Vice President of Strategy & Marketing, Regional Vice President, Vice President of the Global Technical Service, and CEO of Huawei Symantec.

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 successively as 3G Product Director, Vice President of the Wireless Technical Sales Department, President of the Wireless Product Line, President of the European Region, and Chief Strategy & Marketing Officer.

Chairman of the Supervisory Board

Mr. Liang Hua

Member of the Supervisory Board

Mr. Peng Zhiping (Benjamin Peng)

Mr. Ren Shulu (Steven Ren)

Mr. Tian Feng

Mr. Deng Biao (Alex Deng)

Resume of members of the Supervisory Board

Mr. Liang Hua

Born in 1964, Mr. Liang holds a Doctorate Degree from Wuhan University of Technology. Mr. Liang joined Huawei in 1995, and has served successively as President of the Supply Chain Management Department, CFO of Huawei, and President of the Global Technical Service Department.

Mr. Peng Zhiping (Benjamin Peng)

Born in 1967, Mr. Peng holds a Master's Degree from Fudan University. Mr. Peng joined Huawei in 1996, and has served successively as President of the Terminal Product Line, President of the Optical Network Product Line, President of the Supply Chain Management Department, Vice President of the Procurement Qualification Management Department, and now as Chief Operations & Delivery Officer.

Mr. Ren Shulu (Steven Ren)

Born in 1956, Mr. Ren holds a Bachelor's Degree from Yunnan University. Mr. Ren joined Huawei in 1992, and has served successively as President of Shenzhen Smartcom Business Co., Ltd, President of the Internal Service Management Department, and Head of the Capital Construction Investment Management Committee.

Mr. Tian Feng

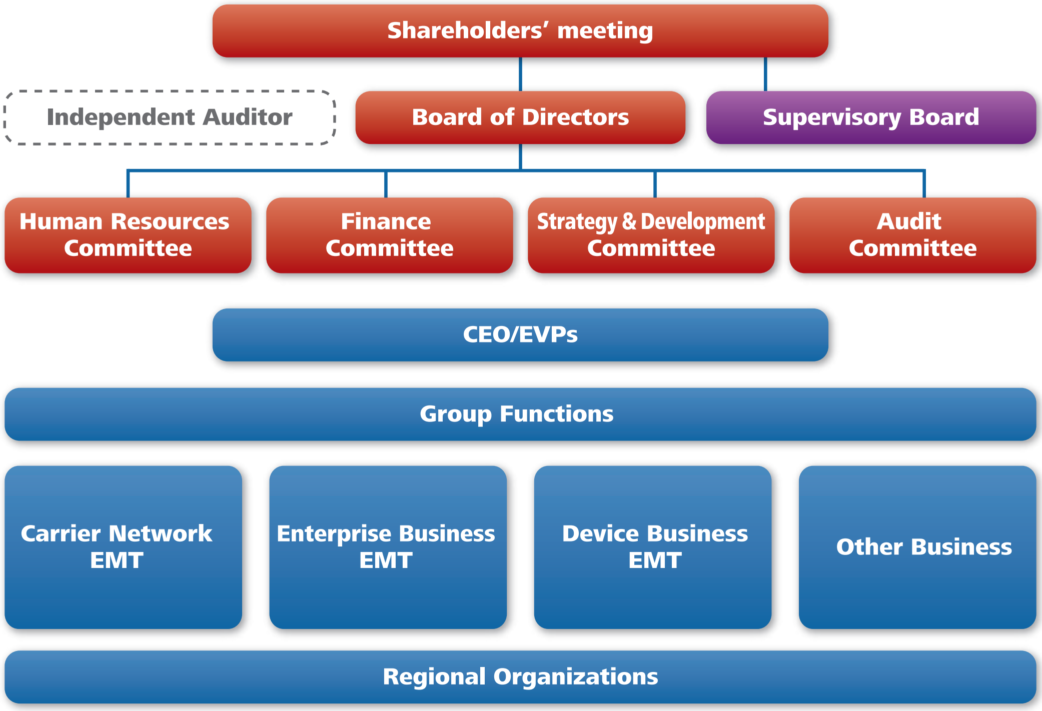
Born in 1969, Mr. Tian holds a Bachelor's Degree from Xi'an University of Electronic Science and Technology. Mr. Tian joined Huawei in 1995, and has served successively as Regional Vice President, Regional President, and CEO of Huawei Agisson.

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 successively as President of the Access Network Product Line, President of the Network Product Line, and CEO of Huawei Software Technologies Co., Ltd.

The Corporate Governance Structure for the future

At Huawei, we advocate "Customers as our focus and dedicated employees as our foundation". We will gradually transform our organizational structure, processes, and appraisal systems so as to always direct our organization towards customer-centricity.



The new Board of Directors establishes an Executive Committee to make decisions for matters authorized by the Board. The Board of Directors establishes the Human Resources Committee, the Finance Committee, the Strategy & Development Committee and the Audit Committee, which assist the Board of Directors in guiding and supervising the company's operations.

The Group Functions of the company perform the roles of supporting, facilitating and monitoring. They provide support for the Board Committees, act as an efficient and low-cost operational platform for the Business Groups (BGs) and monitor their operations, helping them to further develop their competitive edge.

On this basis, Huawei establishes four BGs, namely the Carrier Network BG, Enterprise Business BG, Device BG, and other BG. Each BG will have its own Executive Management Teams (EMTs) to set business targets based on respective customer needs and has its own appraisal and management system. The four BGs will leverage the unified platform of the company but adopt differentiated operations and management approaches.

The Regional Organizations will gradually transform themselves into platforms which support, serve and monitor business units at front end. On this regional platform, the four BGs will carry out business activities that align with customer needs.

Continuous Improvement of Management Systems

Huawei has implemented a dedicated and customer-centric management system since 1997. With long-term partnership with the world's top management consulting companies, the Company has aligned its management system with industry's leading practices in respect of R&D, supply chain & procurement functions, sales & customer services , human resources management, financial management, quality & business operations and IT management, etc.

In order to better fulfill customers' requirements, Huawei has undertaken ongoing business transformations in 2010, to building a global process architecture with continuous optimization, establish a global process ownership system, construct core competencies of Huawei in terms of strategy, customer demand management, quality & business operations and IT management, as well as improving the process-based and effective management systems. These transformations include:

- Customer Relation Management (CRM) Transformation: Developing customer-centric sales and service approach to ensure that Huawei focuses on customers' requirements and expectations at all times, so as to maximize value for its customers and facilitates their success as a way to realize Huawei's own achievements
- Issue to Resolution (ITR) Process Transformation: Adopting a customer-oriented approach in customer support and service management to ensure that Huawei remains attentive to the customers' issues and complaints, and provides timely resolutions in order to improve customer satisfaction.
- Integrated Finance Service (IFS) Transformation: Cover all of the key financial areas globally, build a global system of financial management, facilitate the business development with better management and drive for sustainable and profitable growth.
- Improvement of Corporate Quality and Operations System: Carrying out ongoing initiatives on Environment, Health and Safety (EHS), Corporate Social Responsibility (CSR) and Enterprise Risk Management (ERM), etc., to reduce operational risks and support sustainable growth. In addition, optimizing quality management of the supply chain including that in Electronic Manufacturing Services (EMS) and supply centers, and undertaking ongoing activities like 6 SIGMA and lean production improvements to achieve higher efficiency and better quality production.

Alignment of business strategy and goals

Huawei has utilized balanced scorecards to manage organizational performance. Corporate goals are communicated top-down to business functions, in order to align the goals with business activities of client relationship management, internal operations, employee development, and financial management. The assignment of business targets enables different business functions to take ownership of their responsibilities in achieving the Company's short and long-term objectives.

The balanced scorecards of each function are reviewed and revised on an annual basis for the alignment with the annual business plan and budget. In addition, the performance targets of individual employee and business functions performance targets are monitored and assessed annually to ensure the Company's strategies and goals are embedded throughout the organization.

Internal Controls

Based on the COSO (The Committee of Sponsoring Organizations of The Treadway Commission) framework, Huawei has designed and implemented an internal control system, covering the internal controls over financial reporting in its business and financial processes across all subsidiaries and business units, with a view to ensuring the data integrity of its financial statements. The Company's internal control framework consists of five components, including Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring.

Control Environment

Control environment is the foundation of an internal control system. Huawei has established and maintained high standards of ethical values, and is dedicated to promote good corporate citizenship and strict compliance with laws and regulations. Huawei has established BCG to define the Company's acceptable behaviors and business conduct. In addition, Huawei has provided structured training programs and required employees to acknowledge their understanding and commitment in complying with the BCG.

Huawei has a well-established governance structure with clear delegation of authority and accountability, which comprises of the Board of Directors, Board

Committees, Group Functions and multi-level Management Teams. Huawei has also clearly segregated the roles and responsibilities for its functions and units to ensure proper check and balance. In addition, Huawei has established a Business Control Department to assist business functions to improve their systems of internal controls, with the Internal Audit Department performing independent reviews on a regular basis to assess the internal control effectiveness of all processes.

Risk Assessment

Huawei performs risk assessment on all business processes on a regular basis. Each process owner is responsible for identifying, assessing and managing different types of risks. Risk assessment criteria include the likelihood and the potential impact of risk occurrence, for example, the impact on the business, financial reporting and reputation, etc.

The top management works closely with process owners to identify, manage and monitor the significant risks faced by the Company. They also assess the potential risk impact of any changes in the external and internal environments, review and approve the associated risk management strategies and mitigating measures for the Company.

Control Activities

Huawei has established standardized business processes globally, and identified Key Control Points (KCPs) and Global Process Owners (GPOs) for each process. In addition, the Company has established a Global Process Control Manual and Segregation of Duties Matrix that are applicable to all subsidiaries and business units. The GPOs are responsible for ensuring the overall internal control effectiveness, in light of changes in operational environment and risk exposures.

Information & Communication

The Company has established information and communication channels to collect external information as well as to facilitate information flow within the Company.

The management discusses business strategies and operational issues with different functions through regular meetings. All the operational policies and procedures are available on the Company's intranet, and training seminars on business operations and internal controls are organized regularly to ensure that employees can obtain the latest information in a timely manner. The Company has also established mechanism to communicate internal control issues and the follow-up actions with the GPOs.

Monitoring

The Company has established a whistle blowing mechanism for employees to report any irregularities, and has provided channels for suppliers to raise complaints in the Honesty & Integrity Agreement signed with them. Any irregularities reported by internal or external parties will be followed up by the Company to ensure business conducts of staff members are properly monitored.

The Internal Audit Department is responsible for performing an independent evaluation on the internal control system of the Company, and conducting investigations on any cases of potential violation of the BCG. The Internal Audit Department reports the audit and investigation results to the Audit Committee and senior management.

The Audit Committee monitors the internal control effectiveness of the Company, including the implementation of control improvement plans. The Audit Committee has the authority to request management to provide explanations on control issues identified and to take remedial actions. The Audit Committee may also suggest the Human Resources Committee to take disciplinary actions when necessary.

Corporate Social Responsibility

Only if an enterprise aligns and integrates its core values with its operational and social responsibilities, can it survive and continue to contribute to society.

As a member of the United Nations "Global Compact", Huawei adheres to customer-centricity and is dedicated to creating a mutually beneficial industry ecosystem that promotes the sustainable development of society, the economy, and the environment.

In 2010, we developed our CSR strategy of "fair operation, bridging the digital divide, environmental protection, community support, caring for employees, and optimizing supply chain CSR management". We further strengthened our internal CSR management structure to ensure a stronger relationship between the conception and execution of CSR initiatives. In 2011, we will continue to improve CSR management and performance, particularly improving the communication and interaction of Huawei's overseas organizations with local communities, and actively contributing to local development.

1. CSR Strategy and Management

CSR vision	To bridge the digital divide, and promote harmonious and sustainable development of the economy, society, and environment.					
CSR mission	To build an excellent CSR management system, operate with integrity, promote a harmonious business ecosystem, ensure sustainable development of the company, and bring benefits back to customers and society.					
CSR strategy	Fair operation	Bridging the digital divide	Environmental protection	Enhancing supply chain CSR management	Caring for employees	Community engagement

CSR strategy

- Fair operation: Huawei abides by ethical business practices, operates with integrity, and strictly observes Huawei Business Code of Conduct. Huawei promotes fair operations, strictly implements "transparent procurement" and "transparent sales", and opposes bribery, corrupt activities, dumping, and monopolies so as to build a harmonious business environment.

- Bridging the digital divide: Huawei provides customized solutions to enable people in different regions to access information, takes the initiative to help underdeveloped regions nurture talent, and form effective education systems in the field of communications, and to improve regional technology to promote communications.

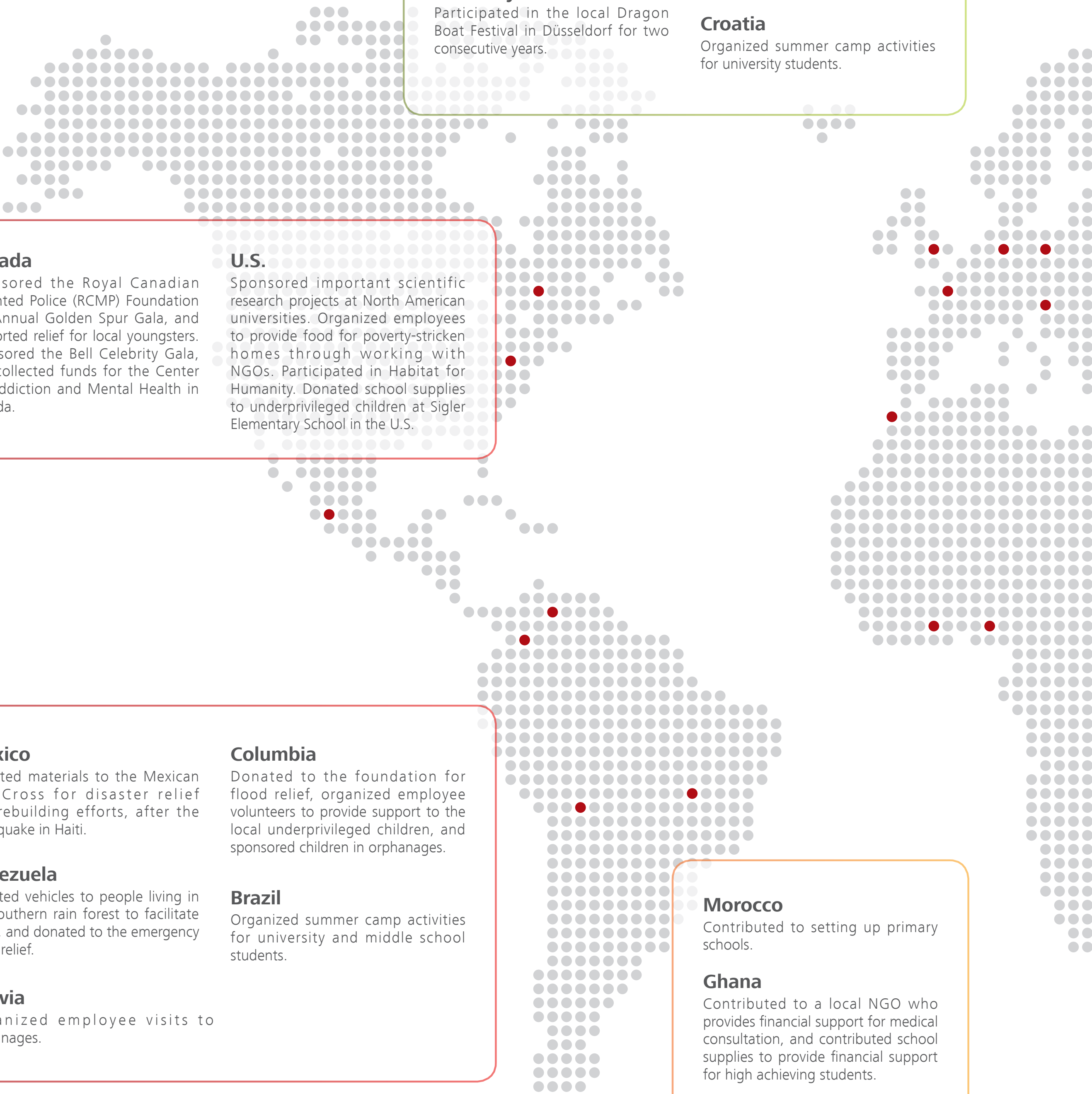
- Environmental protection: Huawei actively communicates with customers on energy conservation and environmental protection. Huawei closely collaborates with enterprises across the value chain to build environmentally-friendly networks, and promotes sustainable development of the industry in order to achieve our objective: "Green Communications, Green Huawei, and Green World".

- Enhancing supply chain CSR management: Huawei improves CSR awareness and capabilities of the company and its supply chain to achieve sustainable development. We have established close ties with our suppliers to strengthen CSR management to gain our customers' confidence, enable us to take appropriate actions to ensure CSR compliance, and improve the CSR risk control of suppliers.

- Caring for employees: Huawei attaches importance to employees’ growth and health and safety. Huawei values employees’ contributions and makes every effort to ensure that employees’ personal growth is realized alongside the company’s success.

- Community support: Huawei always believes in paying back to society. We support countries and communities where we operate by paying taxes, insisting on local operation and contributing to the local welfare, education, and disaster relief efforts.

2. Overview of major CSR activities



U.K.
Held a charity gala evening with the Prince's Trust.

Germany
Participated in the local Dragon Boat Festival in Düsseldorf for two consecutive years.

France
Contributed €250,000 to establish a permanent foundation with Institut des Hautes Etudes Scientifiques (IHES),which supports fundamental math research.

Croatia
Organized summer camp activities for university students.

Canada
Sponsored the Royal Canadian Mounted Police (RCMP) Foundation 6th Annual Golden Spur Gala, and supported relief for local youngsters. Sponsored the Bell Celebrity Gala, and collected funds for the Center for Addiction and Mental Health in Canada.

U.S.
Sponsored important scientific research projects at North American universities. Organized employees to provide food for poverty-stricken homes through working with NGOs. Participated in Habitat for Humanity. Donated school supplies to underprivileged children at Sigler Elementary School in the U.S.

Mexico
Donated materials to the Mexican Red Cross for disaster relief and rebuilding efforts, after the earthquake in Haiti.

Venezuela
Donated vehicles to people living in the southern rain forest to facilitate travel, and donated to the emergency flood relief.

Bolivia
Organized employee visits to orphanages.

Columbia
Donated to the foundation for flood relief, organized employee volunteers to provide support to the local underprivileged children, and sponsored children in orphanages.

Brazil
Organized summer camp activities for university and middle school students.

Morocco
Contributed to setting up primary schools.

Ghana
Contributed to a local NGO who provides financial support for medical consultation, and contributed school supplies to provide financial support for high achieving students.

Nigeria
Sponsored the establishment of the Chinese Culture Center, and promoted cultural exchanges.

Russia
Contributed equipment to help in the reconstruction after the local forest fire.

Poland
Contributed financial support for orphans of families impacted by the Presidential air crash. Sponsored the Beethoven Musical Festival.

Turkey
Organized summer camps for university and middle school students and the communications summer camp "Youth Bridge".

China
Contributed to the area of Yushu, Qinghai, impacted by the earthquake, and the area of Zhouqu, Gansu, impacted by the landslide. Launched the "Spring Dew" program during the drought, and contributed water and materials to Guiyang, Kunming, and Chengdu.

Japan
Sponsored "the 5th Chinese Composition Competition" hosted by the Sino-Chinese Exchange Research Institute of the China Press in Japan. Sponsored the rural recycling project in Kyoto, and supported the initiative of the Kyoto government of ensuring food safety in rural areas and improving the regional competitiveness of remote districts.

Philippines
Contributed to the IT-Star internship program.

Vietnam
Employees voluntarily contributed to Central Vietnamese provinces struck by the devastating flood and contributed computers to Hanoi primary schools.

Bangladesh
Donated winter clothes for poor people.

Malaysia
Founded a graduate employment training program.

Yemen
Sponsored the Youth Employment Laboratory program.

Pakistan
Contributed to the foundation for disaster relief during the devastating flood.

Indonesia
Contributed the Datacom Authentication and Training Center to the Department of Communications at ITB University.

India
Sponsored the visit and performance of an arts troupe.

Australia
Contributed to two charity institutions which provide financial support for employment and healthcare. Organized summer camps for university and middle school students. Established a joint lab with the Institute for a Broadband-Enabled Society (IBES) of the University of Melbourne and a joint training center with the Royal Melbourne Institute of Technology (RMIT).

Uganda
Contributed to the "Sanyu Babies Home" orphanage.

Kenya
Continued support for the Lewa marathon. Sponsored the visit and performance of the Safaricom classical music group and Sarakasi charity group to China, and supported sports, children education, and female health projects. Contributed microwave equipment to Moi University.

Tanzania
Contributed to a local foundation that provides financial support for the education of women and children.

3. Fair operation

Huawei operates with integrity and actively promotes a harmonious business environment. Huawei developed the CSR strategy of fair operation in 2010, and adheres to "transparent sales" and "transparent procurement" to create a harmonious business environment. Huawei's cultural integrity has created a company with values of a modern and ethical corporate citizen that strictly observes laws in the countries where its operations are located.

Case: Complaint Channels

Huawei has set up internal channels at BCG for employees to raise complaints, and established external complaint channels at the company's official website: complain@huawei.com and purchase_audit@huawei.com designed for facilitating suppliers' complaints. Huawei formed an Allegation Review Board to manage the complaint channels and handle the complaints, carrying out professional investigations in compliance with predefined procedures.

4. Bridging the digital divide

Huawei applies its professional experience in the IT field to bridge the digital divide so that people can enjoy communications services and experiences anytime, anywhere through any terminal. Huawei makes constant innovations centered around customer requirements to provide advanced, efficient, and low-ARPU solutions for customers. As a result, the information society is accessible to more people. Huawei is also committed to universal broadband convenience by deploying broadband networks and helping construct national broadband networks. The purpose is to enable people from different regions to enjoy the conveniences that broadband services bring. This will also drive local social and economic development. Moreover, Huawei provides extensive support for local education projects and develops communications talent to boost the technological level of the telecom industry in these areas.

Case: Joining the U.N. Broadband Commission for Digital Development

In 2010, Huawei was invited by the ITU to become a telecom provider representative to the U.N. Broadband Commission for Digital Development. Along with other leading global enterprises, we discuss and formulate policies, guidelines, concepts, and promotional measures for the development of the broadband industry.

Case: Expanding network coverage

In order to enable people in areas with extremely harsh conditions to enjoy telecom services, Huawei employees show their commitment by providing intense levels of support. For example, in Vanuatu, an island nation located in the South Pacific, Huawei employees blazed trails through rain forests using machetes. Only after the trails were in place, could optical cables be laid to link the more than 80 islands. In Ecuador, Huawei employees remained at their posts during wartime to ensure that local communications systems ran properly. Thanks to their efforts, Huawei made great contributions to expanding network coverage and enriching local people's lives through communication.

Case: Cultivating telecom talent through "Telecom Seeds for the Future"

In Thailand, Huawei's "Telecom Seeds for the Future" project was intended for telecom majors at Chulalongkorn University, Kasetsart University, Mahidol University, and Thammasat University to study cutting-edge telecom technologies, such as 3G and LTE, thus preparing them for the workforce. Since 2008, when the project was launched, Huawei has delivered about 3,000 hours of training to local university students.

5. Environmental Protection

Environmental deterioration and accelerated global warming have posed great challenges to the sustainable development of the world economy. The telecomindustry consumes a huge quantity of energy each year and the consumption tends to increase year on year. In such a context, energy saving and emissions reduction measures become imperative.

Taking "environmental protection" as one of its fundamental strategies for corporate development, Huawei actively communicates with customers about energy saving and environmental protection measures and closely collaborates with enterprises across the industry chain to build energy-efficient telecom networks. Leading the telecom industry towards an era of "green communications", Huawei promotes the sustainable development of the industry towards the eventual achievement of its "Green Communications, Green Huawei, and Green World" objectives.

Case: Alternative Energy Solutions

Huawei's alternative energy solutions include: solar power, solar and diesel hybrid power, wind and solar hybrid power, and a wind, solar, and diesel hybrid solution. Because these solutions can be tailored to meet customers' diversified demands and local climates, they can help reduce costs as well as meet energy saving and emission reduction requirements. In 2010, a total of 8,000 hybrid-energy powered stations (including those running on diesel-electricity and recyclable resources) were deployed.

Case: Signing the Voluntary Green Agreement

On November 12, 2010, Huawei signed the Voluntary Green Agreement with the Ministry of Industry and Information Technology in Beijing, promising to reduce 35 percent of the average energy consumption per unit business volume of shipments by the end of December 2012, as compared with 2009.

Case: Green Production and Operation

Huawei has attached great importance to environmental protection and energy savings and emission reductions, and has taken technological and management measures to reduce energy consumption during its production and operation. In addition, Huawei promotes environmental protection measures within the company so that energy efficiency and environmental protection are integrated into corporate operations and employees' activities. By launching energy saving and consumption reduction programs, Huawei saved CNY 7.93 million in the production phase last year, equivalent to saving 9.75 million kWh or reducing CO2 emissions by 9295.5 tons.

6. Supply Chain

Huawei insists on ethical and green procurement approaches and improves CSR management in its supply chain to ensure that product procurement meets CSR requirements and realizes the following strategic goals:

1. Improve CSR awareness and management capability of suppliers to encourage sustainable development of the industry chain.
2. Urge suppliers to establish a CSR management systems and assist them in improving critical CSR fields so as to reduce risks encountered by suppliers, Huawei, and our customers, and bring benefits to stakeholders, including the employee of suppliers.
3. Urge suppliers to comply with CSR standards and encourage them to require the same from their suppliers.

Case: 2010 Global Supplier CSR Conference

In 2010, the theme of the Key Supplier CSR Training Conference emphasized environmental protection, energy saving and emissions reduction, health and safety, and social responsibility. Over 170 CEOs and/or vice presidents from 170 key suppliers and partners attended the conference, and presentations were given by senior executives from British Telecom, Deutsche Telekom, Vodafone, and France Telecom.

7. People

Huawei deems dedicated employees as the foundation for the company’s sustained development and ensures that the hard work of its employees is reasonably rewarded in accordance with their performance and contributions. We provide a complete health and safety assurance system, as well as a comprehensive training and development program for our employees. Huawei also attaches high importance to the psychological health and well-being of its employees by providing support for employee issues through multiple internal communication channels and by offering a wide range of activities to enrich their leisure life.

Case: Diversity

Currently, Huawei has offices in over 140 countries around the world and is committed to the localization of its operations. Huawei's employees come from 150 countries and regions (including China), and the number of foreign employees reached over 21,700 (as of December 31, 2010), accounting for 19.4 percent of the total workforce. In 2010, Huawei enhanced its localization efforts. The localization rate of employees in our overseas offices increased from 65 percent in 2009 to 69 percent in 2010. Managerial positions are also available to foreign employees, enhancing the diversity of the management team.

Case: Growth, Progress, and Excellence

To promote the diversity of managers and employees and further create a climate advocating the development of female managers and employees, Huawei established the "Steel Rose Club" in 2009. In March 2010, Huawei's products & solutions division held its first female development conference. The theme of the conference was "Growth, Progress, and Excellence". Fifty female managers and employees gathered to discuss how the advantages of female employees can be better utilized in R&D positions and how female employees can better develop themselves. In 2011, Huawei will continue to enhance the occupational training and promotion of its female employees.

8. Community Support

Huawei is a believer in giving back to the local communities in which it operates. As a member of local communities, we are committed to charitable efforts and take decisive actions to make positive contributions to the charity, education, disaster relief and environmental protection of local communities.

Case: Scholarship Programs in China

In China, Huawei has established scholarship funds to support the development of education and encourage students and teachers who have made outstanding achievements in teaching and scientific development. In 2009, Huawei scholarships included 33 domestic universities totalling CNY 2.09 million, and in 2010 included 40 domestic universities totalling CNY 2.47 million.

Case: Donations for Disaster Relief

In 2010, Huawei donated cash and materials totaling USD 1,055,000 for flood victims in Venezuela, Columbia, and Mexico through local foundations that purchased emergency materials and helped local residents recover from the flood.

Case: Communications Assurance after the Earthquake in Chile

On February 27, 2010, an earthquake measuring 8.8 struck Chile. After the earthquake, some services of local customers were disrupted as the equipment was destroyed. Huawei immediately sent engineers to the affected cities to repair sites and equipment, with a high risk of aftershocks and while water and power supplies were off. After days of hard work, local telecom services were restored.

Abbreviations, Financial Terminology and Exchange Rates

Abbreviations

Abbreviations	Full name
3GPP	The 3rd Generation Partnership Project
ARPU	Average Revenue Per User
ATIS	The Alliance for Telecommunications Industry Solutions
BCG	Business Conduct Guideline
BG	Business Group
CAGR	Compound Annual Growth Rate
CCSA	China Communications Standards Association
CDMA	Code Division Multiple Access
CSR	Corporate Social Responsibility
CT	Communication Technology
CTIA	Cellular Telecommunications and Internet Association
DSL	Digital Subscriber Line
EMS	Electronic Manufacturing Services
EMT	Executive Management Team
EPC	Evolved Packet Core
ETSI	European Telecommunications Standards Institute
EVP	Executive Vice President
FTTH	Fiber To The Home
FTTx	Fiber to the x
GDP	Gross Domestic Product
GPO	Global Process Owner
GPON	Gigabit-Capable Passive Optical Network
GSM	Global System for Mobile communications
GSMA	GSM Association
ICT	Information and Communications Technology
IDC	Internet Data Center
IEEE	Institute of Electrical and Electronics Engineers
IETF	Internet Engineering Task Force
IP	Internet Protocol
IPTV	IP Television
IPv6	Internet protocol version 6
IMS	IP Multimedia Subsystem

Abbreviations	Full name
IT	Information Technology
ITU	International Telecommunication Union
LTE	Long Term Evolution
MBB	Mobile Broadband
MP3	MPEG audio layer-3
MSP	Metro Service Platform
MSTP	Multi-Service Transmission Platform
NGBSS	Next Generation Business Support System
NGMN	Next Generation Mobile Network
NGN	Next Generation Network
NGO	Non-Government Organization
O&M	Operation and Maintenance
ODN	Optical Distribution Network
OMA	Open Mobile Alliance
OTN	Optical Transport Network
PCT	Patent Cooperation Treaty
PDA	Personal Digital Assistant
RAN	Radio Access Network
R&D	Research and Development
SAN	Storage Area Network
SDB	Service Database
SDM	Service Data Management
SDP	Service Delivery Platforms
TCO	Total Cost of Ownership
TD-SCDMA	Time Division-Spatial Code Division Multiple Access
TVO	Total Value of Ownership
UMTS	Universal Mobile Telecommunication System
WiFi	Wireless Fidelity
WiMAX	Worldwide Interoperability for Microwave Access
WCDMA	Wideband Code Division Multiple Access
WDM	wavelength division multiplexing

Financial Terminology

Operating profit

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

Working capital

Current assets less current liabilities

Liability ratio

Liability expressed as a percentage of total assets

Days of sales outstanding (DSO)

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

Inventory turnover days (ITO)

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

Days of payables outstanding (DPO)

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

Cash flow before change in operating assets and liabilities

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

Exchange rates

Exchange rates used in consolidation of financial statements:

CNY/USD	2010	2009
Average rate	6.7629	6.8310
Closing rate	6.6070	6.8255

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