



# *CONNECTED POSSIBILITIES*

Huawei Investment & Holding Co., Ltd. 2011 Annual Report





# Connected Possibilities

## Connected anytime, anywhere

Today's broadband challenges are in effect nothing less than opportunities to create a better world by connecting enterprises, people and devices around our planet.

## Building a connected world

Huawei is committed to connecting the world. To connect families and friends. To connect all people separated by distance and time. We believe the right technologies at the right time can bring everyone closer together, create new business opportunities, improve operating efficiency, and spur development. Above all else, connectivity lets us share experiences to enrich and improve the lives of everyone.

## Connection creates limitless opportunities and possibilities

As the world becomes more connected, individuals seize and conceive endless opportunities to understand more deeply, learn more broadly, and explore more completely. At the same time businesses grow more intelligent and engage more openly on wider bases. This shrinking world is enabling knowledge and business platforms to expand, to create new values, and to harvest new rewards. Huawei imagines a future that is bountiful and exciting, where connections between people and businesses will be seamless, helping everyone to communicate and to collaborate from all over the world.

## Joining hands to create the future

We join hands with our customers and partners in working towards a connected world.

We will continue to be dedicated to serving our customers. We look forward to sharing, listening, collaborating, and facing both new opportunities and new challenges together.















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## Letter from the CEO

### Clarifying the rotating CEO system under the leadership of the Board of Directors



We live in a fast changing world. Amazing changes have taken place over the past two decades. In the past, China was quite a poor country; yet today we see a lot of automobiles, high-speed rail lines, and splendid cities along with high prices. The changes in the electronics industry are even more remarkable, as evidenced by the telecom industry's evolution from the voice era into the broadband and ultra-broadband era. These tremendous changes have made many people happy while a few others have been left distressed. We don't know what tomorrow will be like. I have said that information pipes will have a diameter as wide as the Pacific Ocean. What would it look like? It's hard for us to imagine, just as it is for children in kindergarten. Some telecom equipment vendors who once possessed remarkable technological strengths and took the lead globally have disappeared in a market that has such a huge demand for information technologies. Does Huawei have some sort of magical powers protecting it from collapse? Do you think we are unique and will rise while many others decline?

A rotating system for leaders is nothing new. In times when social changes were not so dramatic, emperors could reign for several decades and create periods of peace and prosperity. Such prosperous periods existed in the Tang, Song, Ming, and Qing dynasties.

The rotational period for each emperor lasted several decades. Some companies in traditional industries rotated their CEOs every seven or eight years, and these CEOs experienced some prosperous times in their industries. Today, tides rise and surge; companies are springing up all over the place while others are quickly being swept away. Huawei hasn't found a way to adapt well to a rapidly changing society. Time will tell if the rotating CEO system is the right move or not.

Under conventional shareholder capitalism, the Board of Directors (BOD) represents the strength of capital and aims to continuously and effectively increase the value of capital. In consideration of the rights and responsibilities derived from capital as well as the long-term stability of the capital structure, BODs are inclined to be conservative when making decisions as part of corporate governance. The CEO accountability system under the leadership of the BOD is universally applicable. CEOs are a group of moving professional executives who have profound knowledge, a global view, and an open mind while staying abreast of the latest changes to technologies and business. It might be practical for an enterprise that has resources and privileges to select one CEO from among the exceptional individuals to run the company for a long time.



Huawei is a technology-centric company that possesses nothing except knowledge and customer recognition. Due to technological dynamics and market fluctuations, Huawei has adopted a rotating CEO system in which a small group of executives take turns to fulfill CEO duties. Compared to one single CEO who is expected to handle multiple affairs each day, have in-depth insights, and set the right direction, a group of rotating and acting CEOs should be more effective. Solidarity may be more of a challenge though. Huawei's BOD has made it clear that it will not make maximizing the interests of shareholders or stakeholders (including employees, governments, and suppliers) its goal. Rather, it holds on to the core corporate values that are centered on customer interests and encourage employee dedication. On this foundation, Huawei builds possibilities for its survival. By authorizing a group of "bright minds" to act as rotating and acting CEOs, the company allows them to make decisions within certain boundaries while they face a constantly changing world. This is our rotating CEO system.

Traditionally, one person was authorized to act as a company CEO, and the fate of the company rested with this single person. Such a practice echoes the Chinese saying, "Success or failure rests with Xiao He\*." History has proven time and again that this practice poses greater risks. To meet shareholder expectations and to achieve quarterly and annual operating results, traditionally, CEOs were extremely busy with multiple affairs, didn't have any time for further study or to think about the future, and were fully occupied each and every day. How could they succeed in such situations? Huawei's rotating and acting CEOs are comprised of a group of executives. As they seek harmony in diversity, they can help the company adapt quickly to changes in the environment. They make decisions collectively, which avoids corporate rigidity caused by any particular individual being too obstinate and also avoids the uncertainties caused by unexpected risks to company operations.

The rotating and acting CEOs take turns leading the company for six months. After the rotational period is over, the non-acting rotating CEOs are still part of the company's decision-making nucleus. They have considerable authority in making business decisions and in deploying managers and experts. The rotating CEO system is an organizational arrangement of positional rights and obligations, not a rotation of the mission and responsibilities of the rotating CEOs in the company. When they are not acting, the rotating CEOs do not

shift their mission or responsibilities. On the contrary, they participate in collective decision making and get even better prepared for their next terms as rotating and acting CEOs.

After their rotation is over, the non-acting rotating CEOs are still part of the company nucleus. By adopting this system, we avoid a situation similar to what the Chinese saying "Every emperor has a cabinet composed of his own favorites" describes. This rotating system ensures that outstanding employees continue to work for Huawei under the leadership of different rotating and acting CEOs. Some outstanding employees will not be inappropriately deployed because managerial deployments are based on collective decision making during the rotational periods and these employees will not be replaced randomly. This practice helps our company maintain sustainable development. Subject to the demands of capital and held in check by the BOD, the company will not develop blindly, and this might be the right way for us to succeed. Even if we fail, we will not regret our choice because we have blazed a new trail.

We must not be too critical of our rotating CEO system. Leniency will help them succeed.

*\* Xiao He was a Chinese statesman who lived during the early Han Dynasty. In the beginning of the Han Dynasty, Xiao He recommended that Han Xin become a general. Later, however, Xiao He helped Empress Lü Zhi to have Han Xin killed. This phrase has been used ever since as a metaphor to describe a situation in which the success or failure of an endeavor is derived from the same person or thing.*



Ren Zhengfei  
Chief Executive Officer



## Letter from the Rotating and Acting CEO

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*Huawei basically achieved the expected business results. Through the dedicated efforts of all our employees, our sales revenue reached CNY203.9 billion and net profits amounted to CNY11.6 billion in 2011.*

The downward spiral in the global economy, combined with other factors like political turmoil in some regions and exchange rate fluctuations, has impacted our company this past year. In spite of these difficulties, Huawei basically achieved the expected business results. Through the dedicated efforts of all our employees, our sales revenue reached CNY203.9 billion and net profits amounted to CNY11.6 billion in 2011. We increased our business investments and recruited nearly 30,000 additional employees. In addition, we adopted risk prevention initiatives to improve the quality of our contracts and to resolve transactional issues. These initiatives have laid a solid foundation for our continued growth over the next couple of years.

Our carrier network business has been growing steadily. We maintained a leading position in wireless LTE networks and experienced rapid growth in the area of professional services and national broadband. In carrier software and core networks, Huawei provides end-to-end solutions and services for more than 310 carrier customers worldwide. In the enterprise business area, Huawei has become a mainstream supplier of information and communication technologies (ICT) solutions for enterprises in China. The establishment of the IT Product Line and the acquisition of Symantec's shares in Huawei Symantec have strengthened our leading position in providing cloud computing data center solutions and improved our capabilities in providing ICT solutions for enterprise customers. Sales revenue from our consumer business was CNY44.6 billion, an increase of 44% year-on-year. Device shipments reached nearly

150 million units, an annual increase of over 30%. We also launched a series of flagship devices that received outstanding feedbacks from the market.

The ICT industry is now in a new stage of development. User experience characterized by zero wait time, superb quality, and simplicity has become the key factor that drives the development of this industry. Cloud computing will be used more widely and will change many of the business models in the CT and IT industries. In the next five years, the number of mobile broadband subscribers is expected to exceed five billion and network traffic is projected to grow a hundredfold. Smart devices will become increasingly popular and will be an integral part of people's daily lives.

While capitalizing on these unprecedented opportunities, we also face numerous challenges. From a macroeconomic perspective, the global economy remains stagnant. Factors such as inflation and exchange rate fluctuations have increased our operating costs and exposed us to greater operational risks. Weak global demand, the burst of the asset bubble, and financial deleveraging are likely to occur simultaneously, which has increased the degree of uncertainty about the future of the global economy. Our capabilities in selecting and executing strategies are being tested as we face new scenarios and difficulties. To clearly define the decision-making structure, streamline processes and organizations, and improve operational efficiency, we have adopted a management mechanism that is geared towards operating multiple business groups (BGs) rather than the



single carrier network business. We need to further explore this management mechanism, improve our organizational capabilities, constantly energize our operations, and develop Huawei into a truly globalized company.

Looking forward, we will focus on effective growth and continuously innovate to improve our capabilities of creating value for customers in the ICT field. We will accelerate our pace in developing managers and optimizing our incentive systems to strengthen organizational capabilities and boost organizational vitality. We strive to build a harmonious business ecosystem to help our company thrive globally.

We will deepen our insights into market trends, leverage the opportunities brought by industry transformations, confidently increase investments, and seize strategic opportunities. Keeping effective growth in mind, we will strengthen our strategic focus and lay a foundation for our

We will accelerate our globalization drive and establish a globalized corporate management structure. To help with this drive, we need to develop and promote a large team of managers who have a sense of mission, can think strategically, have a global view, are competent at business operations, and can confidently take on bold initiatives. We will further optimize our compensation incentive mechanism to share the results of our business success with our dedicated employees and motivate them to achieve even better performance.

We will build a solid foundation for our company to succeed as we expand our business into new areas around the world. In terms of investments and corporate culture, we will effectively deploy talent around the world; we will share our expertise, experiences, and resources globally; and we will establish extensive partnerships. At Huawei, improving the business ecosystem is a top priority. We will improve

*All our businesses must stay on course and remain in sync with major trends, increase forward-looking strategic investments, continue to augment technological advantages, and deepen our insights into customer needs in order to support industry developments.*

company's long-term growth and success. All our businesses must stay on course and remain in sync with major trends, increase forward-looking strategic investments, continue to augment technological advantages, and deepen our insights into customer needs in order to support industry developments. Many of our initiatives are aimed at improving the quality of our operations and promoting effective growth. To maintain our momentum, we must better align our business objectives and closed-loop performance management with the strategic demands of the company. We should strengthen risk management, consolidate standardized operations, and remain calm in the face of all the uncertainties in the global economy.

We are constantly optimizing our corporate governance structure and clearly defining the delegation and governance mechanisms for each BG. These action points will ensure that BGs do not deviate from the company's overall strategy or operational guidelines as they move forward. We are improving our appraisal and incentive mechanisms to better motivate each BG to expand properly and ensure effective growth for the company. The architecture of multiple BGs requires us to establish effective self-motivation and self-discipline mechanisms that feature a closed-loop management approach. These management mechanisms will cover all segments from strategy to execution and from budgeting to accounting, and will encompass all rewards and disciplinary measures tied to objectives - responsibilities, authority, and benefits will all be well aligned.

our relations with governments, the media, and industry partners in countries across the globe as we deepen our commitment to being a responsible corporate citizen who contributes to all the communities in which we operate. In addition, we will develop and implement a reliable end-to-end global cyber security assurance system.

The rapidly changing business ecosystem and the constantly evolving business models mean Huawei is presented with both opportunities and challenges. We would like to express our sincere gratitude to all our customers and partners for their continuing trust and support. Our thanks also goes to the 140,000 hardworking employees who strive to create more value for our customers every day. Looking forward, we will remain customer-centric and committed to dedication. We will continue to work with our customers and partners to enrich people's lives through communication.



Ken Hu  
Rotating and Acting CEO



## Business Highlights in 2011

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### Launching leading solutions to accommodate massive amounts of data

In response to rapid developments in mobile broadband services, high-definition video services, and other related technologies, Huawei unveiled the GigaSite solution and ubiquitous ultra-broadband network architecture (U2Net). These solutions help telecom carriers to prepare for the age of mass information and capitalize on new opportunities.

### Transforming cloud computing technologies into commercial applications

Huawei built cloud-based IT solutions and joined with over 300 partners to accelerate the commercial application of cloud computing technologies across various industries. By the end of 2011, we had helped customers around the world build 20 cloud computing data centers.

### Delivering a superior smartphone user experience

In 2011, Huawei launched a series of sleek smartphones in an effort to deliver the ultimate user experience. Huawei shipped approximately 20 million smartphones throughout the course of the year.

### Enhancing capabilities in ICT solutions

Huawei acquired Symantec's shares in Huawei Symantec (a Huawei and Symantec joint venture) at US\$530 million. The acquisition will enhance the company's ability to deliver end-to-end ICT solutions.

### Driving innovation

Huawei integrated several departments and functions to establish the 2012 Laboratories, the innovation, research, and platform development arm of the company. This newly integrated organization will be the company's foundation for developing future technologies and enhancing R&D capabilities.

### Providing leading professional services

We launched the HUAWEI SmartCare service solution, an industry-leading offering that enables telecom carriers to precisely manage user experiences on an aggregated Per Service Per User basis. We provide managed services for 115 networks in 60 countries to help customers achieve operational excellence.

### Bringing together high-quality resources from around the world

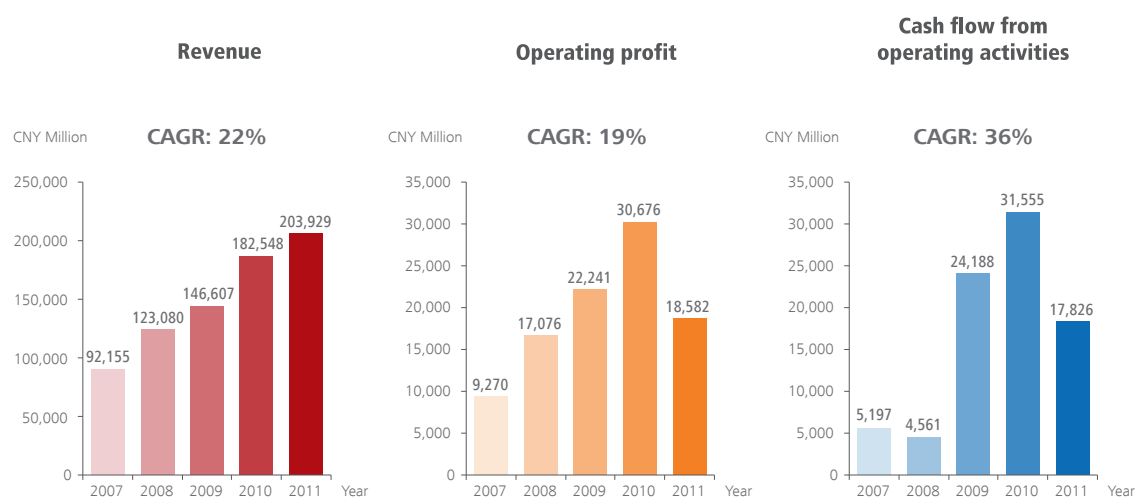
Huawei built Centers of Expertise (COEs) around the world to integrate competent resources from all locales in order to serve customers more effectively.



## Five-Year Financial Highlights

CNY Million	2011 (USD Million)*	2011	2010	2009	2008	2007
Revenue	32,396	203,929	182,548	146,607	123,080	92,155
Operating profit	2,952	18,582	30,676	22,241	17,076	9,270
Operating margin	9.1%	9.1%	16.8%	15.2%	13.9%	10.1%
Net profit	1,850	11,647	24,716	19,001	7,891	12,641
Cash flow from operating activities	2,832	17,826	31,555	24,188	4,561	5,197
Cash and short term investments	9,904	62,342	55,458	38,214	24,133	19,023
Working capital	9,004	56,681	60,899	43,286	25,921	28,228
Total assets	30,705	193,283	178,984	148,968	119,286	89,562
Total borrowings	3,229	20,327	12,959	16,115	17,148	5,700
Owner's equity	10,521	66,228	69,400	52,741	37,886	36,639
Liability Ratio	65.7%	65.7%	61.2%	64.6%	68.2%	59.1%

\* Translated into US dollars using the closing rate as at December 31, 2011 of US\$1.00 = CNY6.2949





## Letter from the Chairwoman

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*Huawei will fulfill user expectations for the ultimate experience by leveraging its strengths in ICT that feature ultra-broadband, zero wait time, and ubiquitous access. We will enhance the interconnectivity between individuals, enterprises, institutions, and society as we create bigger and better opportunities that inspire infinite possibilities in people's work and life.*

The external environment remained tough throughout 2011. Thanks to the unwavering diligence of the Board of Directors (BOD) and all employees, we explored new business opportunities and made strategic investments while creating more business value for our customers. Because of these efforts, we basically fulfilled all our business objectives and achieved steady growth.

Today, we are gearing up to welcome a more prosperous information era. To keep up with the sweeping trend of ICT convergence and to better serve our customers, Huawei will fulfill user expectations for the ultimate experience by leveraging its strengths in ICT that feature ultra-broadband, zero wait time, and ubiquitous access. We will enhance the interconnectivity between individuals, enterprises, institutions, and society as we create bigger and better opportunities that inspire infinite possibilities in people's work and life.

As a leading global ICT solution provider, we are committed to providing reliable and secure networks for our customers. For Huawei, the stable and safe operation of customers' networks always outweighs our own commercial interests. This is our commitment to customers as well as our social responsibility. To address

global cyber security challenges caused by ubiquitous access and cloud computing, we have established a reliable future-oriented cyber security assurance system, which covers policies, organizations, processes, management, technology, and standards. We are working closely with governments, customers, and industry partners from different countries in addressing cyber security challenges.

The new BOD started to convene in 2011. We further optimized the corporate governance architecture and improved the operational mechanism that drives collaboration across the BOD, its executive committee, and its professional committees. We implemented the rotating CEO system and agreed on a set of resolutions on the company's strategic directions and major investment decisions. Centered on the restructuring of our carrier network, enterprise, and consumer businesses, we formulated and released the operational regulations on the newly-established business groups, designed the high-level organizational structure for each BG, and appointed the Executive Management Team (EMT) members for each BG. This business restructuring enables Huawei to better understand customer needs and market opportunities as we extend development well into the future. We also



*By focusing on initiatives related to bridging the digital divide, conserving energy and protecting the environment, managing suppliers' CSR, caring for employees, and contributing to society, we strive to fulfill our CSR strategy, proactively give back to society, and create a harmonious business ecosystem.*

strengthened the support, service, and monitoring roles of the company's functional departments.

We adhere to a corporate strategy of establishing a more favorable social image and exemplifying good corporate citizenship everywhere we operate and incorporate corporate social responsibility (CSR) into our business operations. By focusing on initiatives related to bridging the digital divide, conserving energy and protecting the environment, managing suppliers' CSR, caring for employees, and contributing to society, we strive to fulfill our CSR strategy, proactively give back to society, and create a harmonious business ecosystem. As a member of the United Nations' Broadband Commission for Digital Development, we continued to help bridge the broadband divide and facilitated economic development, energy conservation, and efficiency improvement across all the regions in which we operate. Huawei has always treated dedicated employees as its foundation and has attached great importance to the growth, health, and well-being of its employees.

In closing, we would like to thank all our customers along with our partners and the entire industry for

your consideration and support. Special thanks also go to our corporate management and our over 140,000 diligent employees worldwide. Looking forward, we will continue to advocate "customers as our focus and dedicated employees as our foundation" and do everything we can to provide customers with quality solutions and services. Let's spare no effort to create a connected world full of opportunities.

Sun Yafang  
Chairwoman of the Board



## Vision, Mission and Core Values

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### 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 life through communication".

#### Customers First

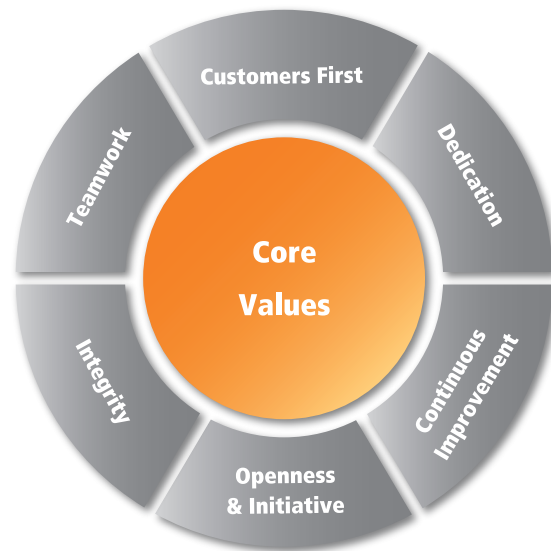
Huawei exists to serve customers, whose demands are the driving forces behind our development. We continuously create long-term value for customers by being responsive to their needs and requirements. We measure our work against how much value we bring to customers, because we can only succeed through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

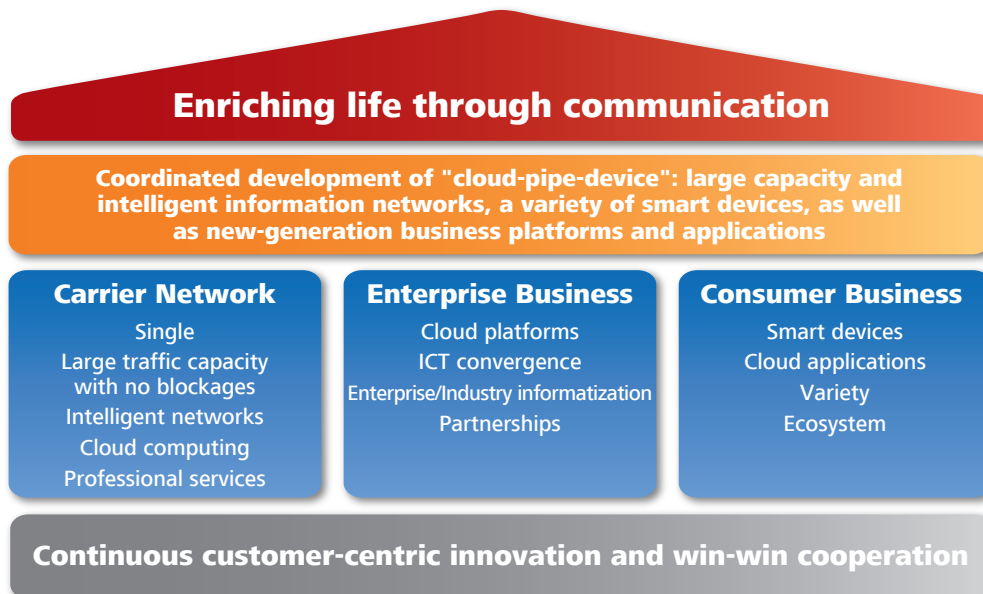
#### Teamwork

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

To adapt to the revolutionary changes that are taking place in the information industry, Huawei is making strategic adjustments to better serve its customers. Huawei has extended the reach of its innovative offerings from the telecom carrier network field to the enterprise and consumer fields. To this end, we have coordinated the development of the "cloud-pipe-device" business and put considerable resources towards providing large capacity and intelligent information networks, a variety of smart devices, as well as new-generation business platforms and applications to offer users an efficient, environmentally friendly, and innovative information-based experience. Huawei will remain focused on customer needs as we continue to innovate, openly cooperate with partners, and deepen our commitment to providing telecom carriers, enterprises, and consumers with integrated solutions, products, and services. We will also continue to enhance the user experience, create maximum value for our customers, enrich life through communication, and improve work efficiency.



#### Carrier Network Business

Huawei provides telecom carriers with unified platforms, consistent experiences, and flexible Single solutions. These solutions support the transmission and exchange of data traffic over carrier networks, help carriers simplify networks, achieve smooth evolutions, and implement end-to-end integrations while enabling rapid deployments, streamlining operations, and reducing network CAPEX and OPEX.

Huawei fully aligns its professional service solutions with carrier strategies, in a move to better position carriers to complete seamless evolutions, improve user experiences, boost operating efficiency, increase revenue, and ultimately achieve excellent business results.

#### Enterprise Business

With its focus on ICT infrastructures, Huawei continuously drives innovations based on requirements raised by customers from finance, energy, power, transportation, governments, public utilities, and other industries. By providing ICT products and solutions that can be easily integrated by our partners, Huawei helps enterprise customers improve the efficiency of

their communication, work, and production systems while reducing their operating costs.

#### Consumer Business

Huawei will continue to focus on consumers and fully utilize our carrier, distributor, and e-commerce channels to build Huawei into one of the most influential global brands for devices. We strive to bring consumers a simple and enjoyable user experience through mobile Internet applications. Moreover, Huawei customizes and manufactures devices according to the specific needs of telecom carriers to help them develop their business and achieve success.

In addition, Huawei will leverage its expertise in networks, cloud computing, and future-oriented converged solutions for personal and household applications and apply that knowledge to the production of a full range of devices. We will continue our commitment to "openness, cooperation, and innovation" as we build solid and cooperative relationships with operating system providers, chip suppliers, content providers, and other partners to form a complete and sound device ecosystem.



### Business Review 2011

Huawei's well-balanced presence around the world helped the company achieve healthy growth in the carrier network, enterprise, and consumer businesses. Annual sales revenue amounted to CNY203,929 million, an 11.7% increase over the previous year.

Sales revenue from the Chinese market was CNY65,565 million, an increase of 5.5% year-on-year. Despite slower growth due to reduced investments by major telecom carriers, Huawei was able to further consolidate its position in the marketplace.

Sales revenue from overseas markets amounted to CNY138,364 million, up 14.9% from the previous year. Huawei continued to achieve rapid growth in Europe, America, and the Commonwealth of Independent States (CIS). Professional services in Europe grew more than 60%, and the consumer area of the US market exceeded 100% growth for the second year in a row. We maintained momentum in the Asia-Pacific region thanks to growth in Hong Kong, Japan, Australia, New Zealand, and other APAC markets. Carrier network and consumer businesses showed strong growth in Latin America. There were also steady increases in the Middle East and North Africa, and the market for broadband products in the United Arab Emirates, Qatar, and other countries witnessed burgeoning growth.

### Sales Revenue

CNY Million

	2011	2010	YOY (%)
China	65,565	62,143	5.5%
Overseas	138,364	120,405	14.9%
Total	203,929	182,548	11.7%

CNY Million

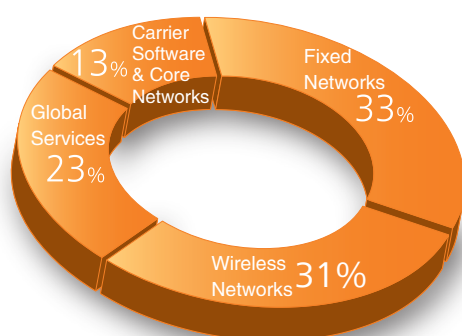
	2011	2010	YOY (%)
Carrier Network	150,145	145,800	3.0%
Enterprise Business	9,164	5,834	57.1%
Consumer Business	44,620	30,914	44.3%
Total	203,929	182,548	11.7%

## Carrier Network Business

Over the past year, Huawei maintained its leading position in the carrier network field with sales revenue of CNY150,145 million, an increase of 3.0% year-on-year. Adjusted for the effects of exchange rates, sales revenue increased by 5.2% year-on-year.

In this ICT era, networks are the foundation, operation and maintenance (O&M) provides the support, and business transformations bring opportunities. By leveraging Gigabit networks, fast-speed experience, and O&M synergy, we help carriers seize opportunities and surmount challenges by providing them with end-to-end solutions from mobile broadband (MBB), to fixed broadband (FBB), carrier software, and integrated O&M capabilities.

Coupled with the predominant trend of ICT convergence, the telecom industry will transcend its own boundaries as it produces new business models and expands its development through continued innovation in technologies and applications. We will do everything to encourage a virtuous circle in the industry chain, lead steady and sustainable development in the industry, and remain committed to being the best strategic partner for all customers while consolidating our position as an industry leader.



	CNY Million
Wireless Networks	45,911
Fixed Networks	49,761
Global Services	34,705
Carrier Software & Core Networks	19,768

## Wireless Networks

In 2011, Huawei's Wireless Networks business achieved a sales revenue of CNY45,911 million.

The popularity of smartphones and totally revamped applications are creating a strong momentum for mobile data services and transforming peoples' lifestyles with regard to mobile communications. Over the past decade, mobile subscribers have soared from 880 million to 5.8 billion while devices have evolved from gray screens to multi-touch HD screens, not to mention the evolving applications from mainly voice services and messaging into huge amounts of video data and applications. During these developments, we also witnessed the exponential growth of mobile network traffic from the kilobyte age of GSM to the megabyte era (1000K) of UMTS and onto the gigabyte age (1000M) based on LTE, LTE-Advanced, and other leading wireless access technologies.

To accommodate developments in the industry, Huawei released the GigaSite solution based on advancements in the SingleRAN solution in 2011 and combined the GigaSite solution with our SingleEPC solution to better meet the ever-increasing capacity demands of carrier networks during the MBB era. This GigaSite solution incorporates a series of key telecommunications technologies and supports multi-band, multi-mode, multi-sector, and multiple transmit/multiple receive to improve amplifier efficiency, enhance network capacity, and leverage spectrum and site resources. Moreover, Huawei delivered the data monetization solution, which sets a new direction for MBB developments. This innovative solution provides carriers with varied business models for their data-based operations while increasing their service revenues. Huawei also released the industry's first multi-standard Self-Organizing Network (SON) solution SingleSON. This solution delivers automated management control capabilities that can handle multi-standard and multi-layered networks while enhancing the effectiveness of O&M, ensuring a superior end-user experience, and supporting smooth evolutions that pave the way for future-oriented networks.

As of the end of 2011, Huawei's wireless networks products and solutions had been deployed by more than 500 carriers worldwide. Over the past years, Huawei has shipped over two million base transceiver stations, serving more than 1.5 billion mobile subscribers. We have deployed more than 150 SingleRAN commercial networks worldwide, all of which are LTE-capable. Of



the 49 LTE commercial networks that are deployed globally, 23 use the SingleRAN LTE solution. In 2011, Huawei was awarded six top LTE awards from around the globe, which affirmed the industry's recognition of Huawei's continued investment and significant contributions in this field. Huawei has also deployed 31 EPC commercial networks across the world. According to GSA reports, Huawei had deployed 50% of the HSPA+ commercial networks and 57% of the 42Mbps Dual Carrier HSPA+ networks globally as of October 28, 2011.

We have successfully applied world-leading information and communication technologies to energy systems, which can efficiently convert and utilize energy. By offering excellent site energy and equipment room energy solutions for global customers in the ICT field, we are helping telecom carriers and global enterprise customers save energy and reduce emissions.

In 2011, global sales for Huawei's power supply services and solutions skyrocketed. These solutions serve many of the world's leading carriers, and Huawei is quickly becoming a recognized specialist in energy efficiency management.

In rural areas, Huawei has provided innovative hybrid energy solutions, which fully utilize clean wind and solar energy to power communications sites, reducing carbon emissions by 60%. To date, Huawei has deployed over 20,000 hybrid energy-powered sites around the world. We have introduced the concept of modularization in the power supply design. In urban areas, Huawei provides high-efficiency power supply modules (efficiency=96.8%; density=41W/inch<sup>3</sup>), which can be used for a series of products in the 5 to 20,000 ampere range. These power supply modules satisfy customer requirements for large-capacity power supplies in centralized equipment rooms, energy-efficient power supplies for indoor sites, and power supplies for a wide range of outdoor site scenarios. To date, Huawei has deployed over 800,000 of these power supply modules around the world. Huawei has launched the all-in-one outdoor site solution, Mini-shelter, to help customers overcome difficulties with site acquisition, high energy consumption, high costs of site construction and maintenance, limited space for housing large amounts of equipment, and other deployment complexities. Over 60,000 Mini-shelter units have been deployed worldwide, making Huawei a global leader in green site construction.

## Fixed Networks

Sales revenue in our Fixed Networks Unit was CNY49,761 million in 2011.

Rapid developments in cloud computing and over-the-top (OTT) video services are driving application developers to migrate to the cloud as per capita bandwidth consumption is on an upward swing. Ubiquitous broadband networks keep massive numbers of individuals, families, and enterprises connected. In this manner, broadband has become a foundation for social development.

In 2011, Huawei unveiled the ubiquitous ultra-broadband network (U2Net) architecture that supports OTT and cloud applications. Following Huawei's Triple Play (voice, video, and data) services, the U2Net architecture is another groundbreaking innovation that moves telecom network technology forward. In the FTTx access network field, the U2Net architecture leverages innovative optical access technologies and copper-based network acceleration technologies to help ensure ultra-broadband access and wide coverage while delivering affordable fiber-to-the-home (FTTH) access and simplifying network deployment and maintenance. In the ODN field, Huawei launched the industry's first intelligent ODN (iODN) solution. This solution resolved the difficulties in managing optical infrastructure networks, realized the precise and effective management of optical fiber resources, and significantly improved the O&M efficiency for optical infrastructure networks. In the mobile bearer network field, the U2Net architecture allows any base transceiver station to provide "one gigabit per second or faster" access through any media, such as copper wires, optical fibers, and microwave. This architecture supports smooth evolutions from GSM/UMTS bearer networks to LTE networks. In the field of broadband metropolitan area networks, the U2Net architecture combines the strengths of IP and optical networks to increase the bandwidth of metropolitan area networks by as much as a hundredfold. Also, the U2Net architecture brings together the advantages of IP networks and content delivery networks (CDNs) to ease the pressure from huge volumes of video-rich traffic. In the backbone network field, the U2Net architecture is able to deliver a zero-wait service experience because it supports end-to-end 100G ultra-broadband backbone networks that are built on the OTN-based WDM system and core cluster routers with the largest capacity in the industry. Putting it all together, the U2Net architecture





can collectively manage access networks, metropolitan area networks, and backbone networks to provide fast service provisioning, precise fault location, and improved O&M efficiency. The U2Net architecture provides carriers with the ubiquitous ultra broadband networks that are easy to operate and manage.

In 2011, Huawei continued to maintain its leadership position in the fixed-line network field, consolidated its superiority in the optical access and transport network markets, and rapidly strengthened its position in the carrier IP and microwave network markets. In the FTTx access network field, Huawei launched a giga digital subscriber line (DSL) prototype and a 40G passive optical network (PON) prototype. Huawei was the first company to provide site-specific vectoring solutions around the globe. In the ODN field, Huawei innovated continuously and effectively resolved the difficulties in deployments and O&M of optical networks. Huawei has deployed more than 60 iODN commercial networks around the world. In the carrier IP network field, Huawei has entered into deals with and provided services for over 20 mainstream European carriers, occupying a large proportion of the market share in the global carrier network market. Huawei unveiled the world's first 200G high-speed line card for routers, which was awarded the Broadband Innovation of the Year Award by InfoVision in 2011. Huawei also released a distributed router operating system and a cluster router with a capacity of 25 Tbit/s to satisfy emerging demands in the era of video and cloud computing. These offerings are the most advanced core router technologies in the IP field. In the field of optical transport networks (OTNs), Huawei deployed 100G OTN solutions for large-scale commercial use and secured 15 commercial contracts for the same solution. Furthering its momentum, Huawei deployed more than 300 metropolitan OTNs in over 200 cities around the globe. Huawei dominates the global microwave network market and continues to set the pace in IP microwave networks. Huawei is also leveraging its core competencies in convergence and visibility in O&M to bolster transformations and innovations in All-Service Operations in the All-IP era. As of the end of 2011, Huawei had been awarded eight national broadband project contracts globally, further attesting to its strong capabilities in end-to-end solutions. These projects will provide users with richer ultra-broadband services than ever before.

## Global Services

In the services field, Huawei continuously helps customers achieve business success by listening attentively to customers, thoroughly understanding their business operational processes, stepping up investment and development initiatives for professional service solutions, and improving end-to-end delivery capabilities. In 2011, revenue from Global Services amounted to CNY34,705 million.

The fast-moving information society challenges and reshapes the traditional approaches for network planning, network construction, and O&M. Traditional network construction and O&M systems, which simply focus on KPIs of network equipment, are being transformed into systems which focus on services, applications, and user experiences, and which support integration as well as the operations of end-to-end networks and services. Through close strategic collaboration with customers in completing seamless evolutions, improving user experiences, achieving operational excellence, and increasing revenue, Huawei provides efficient, innovative service solutions and new business models to assist customers in optimizing their end-to-end operations and ensuring sustainable business success. Notably in O&M and user experience solution development, we have been more innovative and strengthened cooperation with industry standards organizations such as TM Forum and achieves service innovations. Our cooperation efforts are evidenced by our Managed Services Unified Platform (MSUP) being certified and recognized by TM Forum. Our SmartCare service solution that delivers the ability of service quality management on an aggregated Per Service Per User (PSPU) basis helps carriers manage and improve user experiences. In 2011, Huawei was awarded the Global Growth and Innovation in Telecom Managed Services of the Year Award and the Excellence in Customer Perception of Service Quality Award from Frost & Sullivan.

Following thorough research on the relationships between user experiences, service quality, and network quality, we provide the HUAWEI SmartCare service solution. Based on an aggregated Per Service Per User experience improvement capabilities, this solution aims to help carriers focus on innovation to build a customer-centric management practice, ensure excellent user experiences and operating efficiency, and increase business value.

Thanks to its rich hands-on experience and continued innovative efforts in managed services, Huawei has superior capabilities to provide end-to-end managed services solutions that help our customers boost operating efficiency, improve user experiences, and increase operating revenue. Through a range of initiatives, Huawei can provide managed services for improving networks, services, user experiences, and furthering ICT convergence. These initiatives include consolidating global network operations centers (GNOCs), introducing innovations to ensure visible O&M based on process KPIs, and developing field maintenance service systems based on intelligent scheduling.

In 2011, Huawei improved its global delivery capabilities by developing specialized and globalized delivery teams. Huawei delivered wireless products to 390,000 sites and network products to 690,000 sites, and migrated wireless networks at 100,000 sites. In terms of managed services, Huawei maintained and operated 115 customer networks, an increase of 53% over the previous year, or a compounded annual growth rate (CAGR) of more than 70% over a six year period. As a result, Huawei gained differentiated advantages in "anywhere, any scenario, any technology, and end-to-end ICT solution delivery".

#### Carrier Software & Core Networks

Sales revenue in Huawei's carrier software and core networks business was CNY19,768 million in 2011. The company focused on converged communications, such as fixed mobile convergence (FMC), operation support systems/business support systems (OSS/BSS), telecom business solutions, and telecom IT solutions, as we furthered our dedication to serving telecom carriers. Huawei collaborates extensively with its customers by addressing the different types of difficulties they face, such as fluxes in user behavior, changes in the environment, and challenges facing Internet service providers. Huawei takes this collaborative approach to help carriers transform their business models, IT & CT network resources, and operations. Based on these integrated communications capabilities, our carrier customers can maintain their prominent position in the value chain.

In the BSS field, Huawei expanded its presence in the European market. Our CBS solution was well-received by Vodafone Group and is now being used by its Spanish sub-network. Moreover, our NGBSS solution is being used by e-Plus, KPN's largest sub-network in Germany. In the consumer field, Huawei maintained solid momentum with regards to growth. In the cloud computing field, we saw burgeoning growth, as evidenced by our successful participation in China Mobile's projects for bases in the north and south of China. We launched high-density and modular data center energy solutions, which apply to equipment rooms in both container data centers and modular data centers. These data center energy solutions allow small, medium, and large-sized enterprises to deploy and expand data centers on demand. Compared to traditional data center energy solutions, our data center energy solutions conserve energy by more than 30%, reduce the space for housing equipment by 30-60%, and shorten the deployment time by 50%. In addition, we gained customers' acknowledgement for our next-generation, medium- to high-end storage products. Our storage systems have served a large number of world-leading carriers to back up data in their OSS and core billing systems, including billing applications, which are chosen by KPN; cloud-based storage systems, which are chosen by Vodafone and MegaFon; and data back-up solutions, which are chosen by Telefonica, Vodafone, Telecom Italia, Indonesian NTS, and Brazilian VIVO/TELESP.

Converged communications experienced rapid growth in Europe, Latin America, and other regions. Amidst all these developments, Huawei consolidated its leading positions and gained wider recognition from the entire industry. In 2011, Informa honored Huawei and MegaFon, a leading carrier in Russia, with the Award for Most Innovative Service Launch Enabled by Traffic Management for our cooperative efforts in MBB VGS deployments.

## Enterprise Business

In 2011, Huawei's enterprise business experienced rapid growth, with its sales revenue reaching CNY9,164 million, a year-on-year increase of 57.1%. Sales increased 60.8% year-on-year when adjusted for currency exchange rate effects. This growth was attributable mainly to expanded offerings in Huawei's overseas markets. Revenue generated from the company's China Region increased steadily, and business for channel partners developed rapidly.

The models that enterprises informatize are experiencing tremendous changes following the rise in cloud computing and mobile informatization. The boundaries between enterprise networks and personal information applications are becoming indistinguishable. In 2011, the adoption of cloud computing into new IT systems has become a mainstream trend while cloud computing data center solutions have started to evolve from small applications to scaled deployments.

Economic globalization has raised the bar for communications and collaboration within and between enterprises. The application of video communications at work, mobile offices, and enterprise social networking requires integrated transmissions of voice, video, and data to achieve the "One World, One Office" objective. Such requirements have promoted the rapid development of the unified communications and collaboration (UC&C) field.

In 2011, Huawei set up the Enterprise BG. To leverage the historic opportunities offered by the growth in cloud computing and the convergence in the ICT industry, the Enterprise BG provides comprehensive and highly efficient ICT solutions and services for finance, transportation, power, energy, enterprises, ISPs, governments, public utilities, and other industries across the world. These solutions and services include enterprise networks, UC&C, cloud computing, data centers, and applications in vertical industries.

Huawei released a full-range of products and solutions designed for enterprise networks in 2011. These offerings performed well in the global market. In response to this trend, Huawei launched eSight, the industry's first unified enterprise O&M system that simultaneously manages data communications products, IT equipment, and wireless equipment. Huawei also introduced the enterprise network One Net solution,

which adopts open standards, promotes multi-network synergy, and supports package service offerings.

In the UC&C field, Huawei is expanding its business by combining cloud applications (application platforms) with cloud devices to provide customers with UC&C products and solutions that feature mobility, integrated video capabilities, and collaboration with clouds. In 2011, Huawei released Telepresence 2.0, eSpace Virtual Teller Machine (VTM), eSpace Cloud Contact Center (CC), eSpace intelligent video monitoring systems, and other innovative solutions. Today, these solutions serve various industries and enterprise customers worldwide.

In the cloud computing and data center field, Huawei servers, storage devices/solutions, and other products are selling extremely well across the globe. Huawei successfully deployed the world's largest desktop cloud internally before it offered its cloud computing solutions on the market. Today, Huawei is partnering with 85 organizations in 33 countries and has commercially launched medical clouds, education clouds, and other cloud-based solutions. By the end of 2011, Huawei had helped customers around the world set up 210 data centers, including 20 cloud computing data centers.

In vertical industries, Huawei provides integrated ICT solutions to finance, transportation, power, energy, ISPs, governments, public utilities, and other industries. Huawei has made considerable progress in these sectors. With the support of the four core capabilities (Single mini-platforms, wireless frequency directing, rapid customization, and diversified devices), three of our most prominent enterprise wireless platforms (eWBB, eWSE, and eWEN) have been widely applied in civil aviation, railways, e-government, and other fields.

Huawei's Enterprise BG is openly cooperating with partners in the enterprise business field, especially in cloud computing, with a focus on ICT solutions and continuous customer-centric innovations. This BG is dedicated to seeking mutual development and helping its partners achieve success. The Enterprise BG plans its products in a centralized manner. Products designed under these business models are easy to integrate, easy to sell, easy to install and maintain, and allow for secondary development. In the area of cooperation with channel partners, we are building up a channel ecosystem to promote the rapid development of our enterprise business.



## Consumer Business

With the rapid development of mobile Internet, the smart device industry is quickly becoming a part of life in a whole new way. The consumer market is in a period of transformation. The mobile broadband trend has created great opportunities for personal hand-held electronic devices. Huawei has established the Consumer BG based on its in-depth insight into industry trends and is dedicated to providing excellent products, experiences, and services for global consumers.

In 2011, Huawei's consumer business increased rapidly, earning a global sales revenue of CNY44,620 million, an increase of 44.3% year-on-year. Adjusted for the effects of exchange rates, sales revenue achieved an increase of 46.4% year-on-year. The overall annual shipment totaled nearly 150 million units, including 55 million mobile phones, resulting in an increase of 30% year-on-year. Huawei had China's leading market share of CDMA smartphones. Smartphone shipments rapidly increased, with Huawei shipping nearly 20 million smartphones, an increase of over 500% year-on-year. In the field of MBB and home devices, Huawei continuously consolidated its global leadership position. In 2011, Huawei shipped over 60 million MBB devices globally, ranking at the top in the global market. Huawei also shipped over 30 million home devices, with fixed access and fixed wireless terminals consolidating their leading positions in the global market. In addition, we continuously maintained rapid growth in key markets, such as the US, Europe, Japan, and China, and enhanced our brand influence.

Huawei continuously strives to achieve its goal of becoming the most influential device brand in the world. Based on Huawei's overall strategy of "cloud-pipe-device", we focus on our consumers, innovate and change our products, channels, and marketing in an all-encompassing manner, and comprehensively improve user experience. In the meantime, our product competitiveness is rapidly strengthened and our core competencies are being built. Our products and services are deployed in over 140 countries and regions worldwide. We are steadily moving toward accomplishing our strategic goal of becoming the world's leading mobile phone brand within the next three years.

Huawei mobile phones have comprehensively appealed to the high-end, mid-range, and low-end markets. Our smartphones are emerging as a new force, while the data card business remains a global leader. Huawei's innovative products are now market leaders. In 2011, the Huawei C8650, Sonic+, and T8300 smartphones were well received. Global sales for the Sonic model alone totaled over 10 million units. Our mid- and high-end smartphones Vision, Honor, and Spark, were highly popular, along with MediaPad, the world's first 7-inch tablet powered by Android 3.2. High-end LTE smartphones obtained recognition in markets such as Japan, the US, and Europe, successfully establishing a high-end brand image. MBB and home devices continued to be leaders in the global marketplace. The first plug and play data card in the world, the HiLinkE353, was officially commercialized. Other products that were commercialized include the B593 (the world's first LTE TDD wireless broadband router), the E392 (the world's first LTE TDD/UMTS/GSM/CDMA multi-mode data card), and the E369 (the world's smallest PA+ data card). Our continuous breakthroughs of being "the first in the world" solidified Huawei's leading position in the global MBB market.

Huawei has gradually established device sales channels and is constantly expanding into areas such as social networking and e-commerce, as a means to diversify and complement its carrier channels. The influence that Huawei's device products and brands have on consumers is rapidly growing due to the development of online and offline diversified sales channels.

As we look to the future of smart devices, the Internet of People and ubiquity of the Internet of Things will further integrate the real world with the virtual world. By 2020, the effective interactions between people, things, people/things, and the environment are expected to result in over 10 billion smart devices and 50 billion connection requirements. Loaded with integrated sensory components and functions like GPS, accelerators, compasses, cameras, microphones, and near field communications (NFC), smartphones have become an important vehicle to perceive the virtual world and the real world and also the most important portal for mobile Internet. This trend towards increased connectivity is sure to inspire countless innovative applications and create completely new business opportunities and models, all of which will give Huawei's consumer business even more room for growth.

### Results of operations

CNY Million	2011	2010	YOY(%)
Revenue	203,929	182,548	11.7%
Gross profit	76,448	80,353	-4.9%
Gross margin	37.5%	44.0%	-6.5%
Total operating expenses and other income	57,866	49,677	16.5%
as % of revenue	28.4%	27.2%	1.2%
Operating profit	18,582	30,676	-39.4%
Operating margin	9.1%	16.8%	-7.7%
Net finance expense	5,897	2,118	178.4%
Income tax expense	810	3,832	-78.9%
Net profit	11,647	24,716	-52.9%

Sales revenue for 2011 amounted to CNY203,929 million, an increase of 11.7% year-on-year. Net profit totaled CNY11,647 million, a decrease of 52.9% year-on-year. The decline in net profit was largely attributable to an exchange loss of CNY4,876 million in 2011 (compared to CNY1,367 million in 2010) due to the constant appreciation of the Renminbi. Adjusted for the effects of exchange rates, net profit declined by 36.6% year-on-year, which is in line with expectations.

In 2011, Huawei embarked on new business ventures as the company increased investment in the enterprise and consumer business segments. In the carrier network field, telecom carriers controlled their capital expenditure in response to the volatile macroeconomic conditions, which resulted in increased price competition and declining profits.

### Total operating expenses and other income

CNY Million	2011	2010	YOY(%)
Research and development expenses	23,696	17,653	34.2%
as % of revenue	11.6%	9.7%	1.9%
Selling, general and administrative expenses	33,770	31,439	7.4%
as % of revenue	16.6%	17.2%	-0.6%
Other operating expenses / (income)	400	585	-31.6%
as % of revenue	0.2%	0.3%	-0.1%
Total operating expenses and other income	57,866	49,677	16.5%
as % of revenue	28.4%	27.2%	1.2%

In 2011, the company expanded its investment in the consumer and enterprise business segments. Total expense ratio increased by 1.2 percentage points year-on-year. This increase was mainly attributable to a 1.9 percentage points

increase in the R&D expense ratio and was partially offset by declines in the SG&A expense ratio and the other operating expense ratio, which decreased by 0.6 percentage points and 0.1 percentage points, respectively.

### Net finance expense

CNY Million	2011	2010	YOY(%)
Exchange loss	4,876	1,367	256.7%
Other net finance expense	1,021	751	36.0%
Total net finance expense	5,897	2,118	178.4%

Net finance expense in 2011 amounted to CNY5,897 million, an increase of CNY3,779 million from 2010. This was primarily attributable to the increased exchange loss

year-on-year, which amounted to CNY3,509 million. In addition, other net finance expense increased by CNY270 million from 2010.



## Financial position

CNY Million	2011	2010	YOY(%)
Non-current assets	33,668	26,976	24.8%
Current assets	159,615	152,008	5.0%
Among which: Cash and short term investments	62,342	55,458	12.4%
Trade receivables	55,359	48,047	15.2%
Inventory	25,873	27,568	-6.1%
Total Assets	193,283	178,984	8.0%
Non-current liabilities	24,121	18,474	30.6%
Among which: Long-term borrowings	13,270	10,264	29.3%
Current liabilities	102,934	91,110	13.0%
Among which: Short-term borrowings	7,057	2,695	161.9%
Trade payables	27,039	28,604	-5.5%
Owner's equity	66,228	69,400	-4.6%
Total liabilities and equity	193,283	178,984	8.0%

**Cash and short term investments** as of December 31, 2011 amounted to CNY62,342 million, an increase of 12.4% year-on-year. The cash to revenue ratio was 30.6% at the end of 2011 compared to 30.4% at the end of 2010, an increase of 0.2 percentage points.

**Trade receivables** increased by 15.2% year-on-year. The company maintained its refined management of trade receivables and improved its collection efficiency as sales revenue grows steadily. The days sales outstanding (DSO) of 98 days in 2011 was a 3-day increase compared to that of 95 days in 2010.

**Inventory** decreased by 6.1% year-on-year. The inventory turnover days (ITO) of 73 days represented a 24-day improvement from 97 days in 2010. The progress was due to improvements in contract quality, integration of project

delivery plans, and increased operational efficiency. These initiatives helped reduce the overall inventory balances and improved the efficiency of inventory turnover.

**Trade payables** decreased by 5.5% year-on-year. The days payable outstanding (DPO) of 76 days was 25 days lower than that of 101 days in 2010.

**Total long-term and short-term borrowings** as of December 31, 2011 amounted to CNY20,327 million, an increase of 56.9% compared to that of CNY12,959 million on December 31, 2010. The percentage of long-term borrowings amounted to 65.3% at the end of 2011, versus 79.2% at the end of 2010, a decrease of 13.9 percentage points.

### Cash Flow from Operating Activities

CNY Million	2011	2010	YOY(%)
Net profit	11,647	24,716	-52.9%
Depreciation, amortization and non-operating loss / (income)	7,900	3,893	102.9%
Cash flow before change in operating assets and liabilities	19,547	28,609	-31.7%
Change in operating assets and liabilities	-1,721	2,946	-158.4%
Cash flow from operating activities	17,826	31,555	-43.5%

The net cash flow from operating activities in 2011 amounted to CNY17,826 million, a decrease of 43.5% year-on-year. This decrease was mainly attributable to:

- Lower profitability: net profit decreased by 52.9% year-on-year.
- The impact of depreciation, amortization, and non-operating loss or income: the cash flow from operating activities increased by CNY4,007 million compared to that of 2010 mainly due to exchange loss or gain.
- Changes in working capital: the total balance of net operating assets and liabilities as of December 31, 2011 increased by CNY1,721 million compared to that of December 31, 2010.

### Financial Risk Management

In 2011, Huawei further amended and improved its financial risk management policies and processes to enhance the company's ability to withstand financial risks and better strategize to achieve business development goals.

#### Liquidity Risk

Huawei has a well functioning cash flow planning, budgeting, and forecasting system to evaluate its short-term liquidity needs. The company has implemented a variety of sound financial measures to fulfill its overall liquidity requirements, including centralizing cash management, maintaining a reasonable level of funds, and gaining access to adequate and committed credit facilities to enhance its liquidity management. In 2011, cash and short term investments increased by 12.4% year-on-year to CNY62,342 million. An adequate capital reserve and consistent cash flow from operating activities has enabled Huawei to manage its liquidity and borrowing risks, thus ensuring financial stability for the company.

#### Liquidity Trends

CNY Million	2011	2010	YOY (%)
Cash flow from operating activities	17,826	31,555	-43.5%
Cash and short term investments	62,342	55,458	12.4%
Total borrowings	20,327	12,959	56.9%

#### 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 measures 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 are in line with the company's risk management strategies.

### Interest Rate Risk

Huawei's interest rate risk arises from the company's interest-bearing assets and interest-bearing liabilities; consequently, interest rate fluctuations affect its interest income and interest expense. Through the quantification and analysis of its interest rate exposures, the company uses a combination of fixed-rate and variable-rate bank loans to manage its interest rate risks.

### Credit Risk

The company has established and implemented standard credit management policies, institutions, processes, IT systems, and credit risk evaluation models. In addition, dedicated credit management functions have been established across all regions and business units. The company uses the credit risk evaluation models to determine customer credit ratings and credit limits, and has implemented various risk control points over key processes along the end-to-end sales cycle. The company's Credit Management Department regularly evaluates global credit risk exposures, 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.

### Sales financing

The company has established a global sales financing team committed to understanding our customers' financing needs and to providing customized financing solutions. At the same time, Huawei has set up related operational policies, processes, systems, and standards to manage its overall financing business process and to control the inherent risks.

### Research and Development

We have over 62,000 product and solution R&D employees, which comprise more than 44% of Huawei's total employees worldwide. We have set up 23 research centers in Germany, Sweden, the UK, France, Italy, Russia, India, China, and other countries. In addition, we have established 34 joint innovation centers with top carriers to transform leading technologies into competitive advantages and business success for our customers.

As of 2011, Huawei had filed 36,344 patent applications in China, 10,650 under the Patent Cooperation Treaty (PCT), and 10,978 patent applications overseas. We have been awarded 23,522 patent licenses, 90% of which are invention patents. With regard to cloud computing technologies, Huawei possesses 685 patents in China, 226 in Europe, and 107 in the US. Huawei has played a major role in standards development in cloud computing and is one of the DMTF's 14 board members. In addition, Huawei led the establishment of the ARDM work group in the cloud computing/data center sector for the IEFT and has served as the chair for the group. Huawei also extensively participates in cloud computing standards organizations.

Huawei supports mainstream international standards and contributes to the formulation of such standards. By the end of 2011, Huawei had joined 130 industry standards organizations, such as the 3GPP, IETF, ITU, OMA, ETSI, IEEE, and 3GPP2. In total, Huawei submitted more than 28,000 proposals to these standards organizations and has served as a board member for OMA, CCSA, ETSI, ATIS, and numerous other authoritative organizations in which it holds more than 180 positions.

In 2011, Huawei was awarded six top LTE awards from around the globe which served as the industry's affirmation of our continued investment and significant contributions to the research and development of LTE technology, commercial practices, standard patents, integration of the industry chain, and other areas.

Huawei's R&D expenses totaled CNY23,696 million in 2011, and the company has spent accumulatively over CNY100 billion on R&D over the last decade.



## Cyber Security

Against the backdrop of the exponential development of information and communications technologies, cyber security has emerged as a global issue and a global challenge. At Huawei, establishing and implementing an end-to-end global cyber security assurance system is an integral part of our development strategy. Huawei is always ready to cooperate extensively with governments, customers, and industry peers to address cyber security threats and challenges all over the world.

In 2011, Huawei released the *Statement on Establishing a Global Cyber Security Assurance System*. This statement, which has been approved by Huawei's CEO, Mr. Ren Zhengfei, underscores the strategic importance of cyber security to Huawei. The Global Cyber Security Committee – the highest level cyber security management body at Huawei – held four meetings in 2011 to decide on and approve Huawei's overall cyber security strategy. During the same year, Mr. John Suffolk was appointed Huawei's Global Cyber Security Officer. Mr. Suffolk reports directly to the CEO and is tasked with formulating strategies for the cyber security assurance system as well as managing and overseeing the implementation of the system. This cyber security assurance system encompasses all business domains and departments at Huawei, including R&D, supply chain, marketing, sales, engineering delivery, and technical services.

Over the course of 2011, Huawei identified seven strategic priorities in cyber security assurance: open and transparent cooperation, compliance with rules and regulations on security and privacy, end-to-end proactive prevention, security verification by internationally recognized bodies, traceability, anti-backdoor & anti-tampering, and emergency responses. Notably, Huawei leveraged quality management methodologies to enhance cyber security requirements in our process management system, business decision-making system, and even to our employee business conduct guidelines.

Huawei has always been open and transparent in its collaboration with all parties involved in addressing the global issue of cyber security, and work with these partners through a variety of platforms, organizations, and channels. Leading global carriers have fully acknowledged Huawei's contributions in minimizing security risks to their existing networks as a result of close cooperation in responding to security emergencies. In countries such as the US, Italy, and Spain, Huawei

commissioned local third-party testing institutes to independently examine our products for security risks and certify them for release. At the invitation of the British Foreign & Commonwealth Office, Huawei attended the London Conference on Cyberspace in November 2011 and participated in active dialogue on cyber security with industry peers.

## Critical Accounting Estimates

The consolidated financial statements on which this management discussion and analysis was based were prepared in compliance with International Financial Reporting Standards (IFRSs), see note 1(a) to the Consolidated Financial Statements Summary and Notes 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, the company determines 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 equipment is 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.

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

The company's gross accounts receivable balance was CNY58,907 million and CNY52,193 million as of December 31, 2011 and December 31, 2010 respectively. The allowance for doubtful accounts was CNY3,548 million, or 6.0% of the gross accounts receivable balance, as of December 31, 2011, and CNY4,147 million, or 7.9% of the gross accounts receivable balance, as of December 31, 2010. 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, the 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 CNY1,481 million and CNY2,929 million for fiscal years ended December 31, 2011 and December 31, 2010 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 on the company's profit.

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

The company's inventory balance was CNY25,873 million and CNY27,568 million as of December 31, 2011 and December 31, 2010 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 that 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 a material influence to inventories. Inventory provisions are reviewed periodically to ensure accuracy and reasonableness.

The company's total provision for inventory charged to the income statement was CNY549 million and CNY998 million for fiscal years ended December 31, 2011 and December 31, 2010 respectively.

### Warranty Provision

The liability for product warranties was CNY1,962 million as of December 31, 2011, compared with CNY1,556 million as of December 31, 2010. 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, 2011 and December 31, 2010 was CNY2,449 million and CNY1,962 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. Deferred tax assets are recognized to the extent that the 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

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### "User Experience" Leads to a New and Flourishing Information Era

Over the past twenty years, the information age has developed at a rapid pace, and various technological transformations and applications have grown in both scope and variety. Today, the exponential growth of digitized information, combined with the skyrocketing popularity of mobile networks, has led to a surge in the sheer volume of digital content. At the same time, as the digital divide has become smaller, people around the world are now able to freely share information and communicate with each other thanks to fewer barriers.

This new digital era is marked by an important new factor: user experience. Users have the ultimate say in steering the development of the industry so it is vitally important that they are equipped with the means with which to quickly and easily access mobile networks. This in turn drives current and future industry development, which will result in a flourishing information age.

#### User experience drives industry development

In today's world, millions of services and applications are close at hand, enabling a constant, 24-hour online digital life. While the underlying network infrastructure is at the heart of this ubiquitous connectivity, user experience is limited to a few points of interface. Because user experience and the demand for continuous service drive technological development, it is of utmost importance to provide users with optimal experiences. The following factors best illustrate what comprises an optimal user experience.

#### Speed that counts: Zero wait time redefines network speed

In the telecom industry, increases in speed are often measured exponentially. Due to rapidly advancing technologies that have taken us from dial-up to fiber to the home (FTTH), it has taken a mere 20 years to increase bandwidth by more than 1,000 times. Despite this extraordinary pace of development, people are still clamoring for additional bandwidth.

Despite the current fixation on bandwidth, in the future, network speed will no longer be measured by the bandwidth a service needs, but determined instead by the wait time experienced by users waiting for networks to respond. Zero wait time for users is the new paradigm that will shape Internet development.

#### Quality that counts: Ensuring the availability of video and other media presentation forms powered by augmented reality technologies

The development of the Internet has witnessed the transformation of web content from text, images and sounds into high-definition videos and other next-generation forms of media presentation, such as 3D technologies, ultra high-definition technologies, and augmented reality technologies. These vivid media presentation forms will become more widely available and will increasingly be used across various applications such as e-commerce, social networking, and broadcast media.

#### Freedom that counts: Access the ubiquitous Internet easily and instantaneously

It took twenty years to bring the number of fixed Internet users to two billion, but only five years to bring the number of mobile Internet users to one billion, two times faster than the fixed Internet. Thanks to the rapid development of mobile Internet, people can be online anywhere and anytime. The popularization of smartphones are setting users free from fixed lines and giving them more freedom for Internet access.

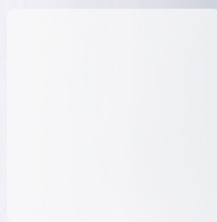
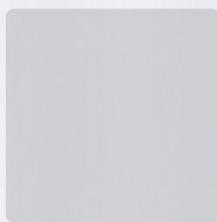
Similarly, à la carte services will continue to be provided on-demand, television programming in particular, because people will have the ability to watch programs at any time much more freely than they do today. Key to this provision of on-demand services is a freely available mobile Internet, which will enable users to easily access services and applications around the clock and from any location.

#### Simplicity that counts: Optimal ergonomic function

The history of man-machine interaction, during which the input method has transformed from keyboard and mouse to touchpad to motion sensing input, demonstrates a return from complicated input devices to intuitive and natural ones that tap into natural human function and form. In the future, even more natural ergonomics will further the user experience by leveraging people's natural abilities like speaking, making gestures, and conveying emotions.

#### Sharing that counts: Community-like experiences elevate the user experience

Google introduced mathematical logic to its search services, providing improved access to massive amounts of information. Google does this merely at the tool layer, while Facebook transcends the tool layer and deals with the social nature of humans. By emphasizing the



social aspects of the Internet, Facebook addresses users' emotional needs to some extent as well as satisfying their desire for sharing. The Facebook phenomenon indicates that a community-like experience will be a basic feature for both consumer-oriented services and enterprise-targeted applications.

The pursuit of a better user experience is a major driver in the further development of the telecom industry. A better user experience equates to higher speed, better quality, more freedom, greater simplicity, and easier sharing - in some ways, these factors reflect our fundamental human nature.

## Ten Key Issues That Influence the Development of the Telecom Industry

User experience and progress in network technologies are inextricably linked: User experience drives network development, and progress in network technologies guides improvements in user experience. As an improved user experience coincides with cutting-edge mobile networks, a new round of opportunities awaits itself to the telecom industry.

The telecom industry as a whole needs to closely adhere to the following ten key issues to take full advantage of this round of opportunities.

### 1. The mobile network enters the Gigabit Era - it's time to build ubiquitous broadband networks

The biggest bottleneck for current mobile networks is insufficient bandwidth capacity. Compared with fixed networks, mobile networks still have a long way to go in terms of user experience, and it is only through building mobile broadband networks with traffic at a gigabit level that user experience can improve. In this scenario, innovations in architecture and continuous cost reductions for networks will support the sustainable development of mobile broadband services provided by carriers.

### 2. Implement intelligent optical network management and embrace the advent of all optical access

In the telecom industry, copper wires have been managed manually for over 100 years. Since copper wires are highly inefficient in operational terms, managing them is the most expensive part of network maintenance. As the industry begins to evolve toward optical access, enhanced cable deployment, maintenance and troubleshooting, fault correction, and intelligent optical network management are all core measures that can be used to promote optical network development.

### 3. The telecom industry needs to further its transformation toward All-IP networks and enter an all packet phase

Over the past two decades, IP technologies have developed at unprecedented speeds. Telecom networks today are a hybrid of time division multiplexing (TDM), asynchronous transfer mode (ATM), and Internet Protocol (IP). In the future, Single networks based on All-IP will be the inevitable trend. The telecom industry needs to further its transformation toward All-IP and complete service migration, network convergence, network interconnectivity, and changes in operation and maintenance to lead the industry into an all packet phase.

#### **4. IT infrastructure based on cloud computing is the prerequisite for building networks based on data centralization and data centers**

Data has replaced voice as the main type of network traffic, enabling data centers to replace voice switching. This development adds new meaning to flattening, which is an ongoing topic in network development. New technologies, such as virtual and distributed storage as well as parallel computing based on cloud computing, make it possible to build exabyte computing and storage capacities. In addition, IT infrastructure based on cloud computing is the prerequisite for building networks based on data centralization and data centers.

#### **5. Operations support systems/business support systems (OSS/BSS) must be modernized to adapt to an open environment in the industry chain and the on-demand operational model**

User requirements have transformed the telecom industry priority from cost efficiency to value creation, which in turn changed the telecom industry from a completely closed system to a completely open system. The modernization and renovation of carriers' IT systems means that there is a need to focus on creating value for users and building an open industry chain to support the end-to-end process of product design and development, product market entry, and value distribution. These systems need to support packages designed by users as well as package and bandwidth selection to provide users with the maximum amount of freedom and power to control these systems.

#### **6. Provide insights into customer needs and build adaptable enterprises based on "big data" analysis**

In the open Internet age, user requirements are individualized and dynamic. Under the All-IP architecture, automation and statistical multiplexing have been achieved in networks, and both network quality and Quality of Service (QoS) assurances are dynamic. By analyzing "big data", carriers can provide insights into networks and user requirements, build adaptable enterprises, offer better user experiences and services, and explore more business opportunities.

#### **7. Build resilient and intelligent networks, and support on-demand bandwidth operations**

Network and bandwidth are the bases for carriers' business operations, with networks becoming more intelligent and resilient. This trend bodes well for on-demand user experiences, which enable users to freely select bandwidth and services based on their own

needs. In addition, the provision of on-demand services will improve network efficiency and utilization while reducing network costs.

#### **8. Integrate digital media content, and build digital distribution channels across various platforms**

As digital content flourishes and networks serve as channels on which digital media is distributed, traditional content delivery channels are disrupted. Integrating digital media content and achieving a cross-platform (mobile phone/PC/TV/Pad) on-demand user experience will be a future trend for media content providers, presenting them with a significant strategic opportunity.

#### **9. Integrate the IT supply chain and harness the impact of cloud computing on the existing IT business model to transform ICT**

Cloud computing has completely transformed the business model of the IT industry, shifting the focus from selling products to selling services. The ongoing popularity of broadband networks is a prerequisite for cloud computing services. Based on innate advantages such as localized services, network assurance, security, and trustworthiness, carriers take great efforts to integrate IT applications and communication capabilities. This enables end-to-end ICT solutions, which can provide ICT services to enterprises, especially small- and medium-sized enterprises. In addition, this integration allows small-sized enterprises to experience the ICT capabilities of large enterprises.

#### **10. Provide trustworthy information services to ensure cyber security and privacy protection**

Open IP networks and cloud computing models have elevated the importance of information security and privacy protection. In light of this, carriers need to build end-to-end security architectures, including the basic architecture, data protection, application protection, and legal compliance, to provide security solutions that fully protect user information and privacy for both users and enterprises.

Although the concept of an information society has been bandied about for years, actual information-based development has just begun. The ongoing pursuit of better user experiences will continuously drive the transformation of information services. The development of telecom networks and technologies will also enter a new development phase. The combination of optimizing user experiences and network technologies will undoubtedly drive information services into stronger synergies and promote new applications and technologies.





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

We are the auditor of Huawei Investment & Holding Co., Ltd. and its subsidiaries (the "Group"). We have audited the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards (the "audited consolidated financial statements") for the financial year ended December 31, 2011. We have issued an unqualified audit report dated March 12, 2012 on the audited consolidated financial statements of the Group for the financial year ended December 31, 2011.

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

The Group publishes a consolidated financial statements summary set out on pages 32 to 60 comprising the consolidated balance sheet as at December 31, 2011, the consolidated income statement, the consolidated statement of cash flow for the year then ended, and an accounting policy summary and other explanatory notes, which is derived from the audited consolidated financial statements of the Group. The audited consolidated financial statements and the consolidated financial statements summary do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

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

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

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

### **Auditor's responsibility**

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

### **Opinion**

In our opinion, the consolidated financial statements summary derived from the audited consolidated financial statements of the Group for the year ended December 31, 2011 are 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 28, 2012

## Consolidated Income Statement

	Note	2011	2010
		CNY'million	CNY'million
Revenue	2	203,929	182,548
Cost of sales		<u>127,481</u>	<u>102,195</u>
<b>Gross profit</b>		<b>76,448</b>	<b>80,353</b>
Research and development expenses		23,696	17,653
Selling, general and administrative expenses		33,770	31,439
Other operating expenses, net		<u>400</u>	<u>585</u>
<b>Operating profit before financing costs</b>		<b>18,582</b>	<b>30,676</b>
Net finance expenses	4	5,897	2,118
Share of losses of associates / jointly controlled entities		<u>228</u>	<u>10</u>
<b>Profit before income tax</b>		<b>12,457</b>	<b>28,548</b>
Income tax	5	<u>810</u>	<u>3,832</u>
<b>Profit for the year</b>		<b><u>11,647</u></b>	<b><u>24,716</u></b>
<b>Attributable to:</b>			
Equity holders of the Company		11,736	24,714
Non-controlling interests		<u>(89)</u>	<u>2</u>
<b>Profit for the year</b>		<b><u>11,647</u></b>	<b><u>24,716</u></b>

**Consolidated Balance Sheet**

	Note	2011	2010
		CNY'million	CNY'million
<b>Assets</b>			
Property, plant and equipment	7	18,631	16,008
Intangible assets and goodwill	8	1,378	719
Trade and other receivables	14	29	116
Investments in associates and jointly controlled entities		683	509
Available-for-sale equity investments	9	454	67
Loans receivable	10	17	18
Deferred tax assets	11	9,095	7,210
Other non-current assets		3,381	2,329
<b>Non-current assets</b>		<b>33,668</b>	<b>26,976</b>
Inventories	13	25,873	27,568
Trade and other receivables	14	70,832	68,734
Financial assets held for trading	12	5,150	13,957
Loans receivable	10	568	248
Cash and cash equivalents	15	57,192	41,501
<b>Current assets</b>		<b>159,615</b>	<b>152,008</b>
<b>Total assets</b>		<b>193,283</b>	<b>178,984</b>
<b>Equity</b>			
Equity attributable to equity holders of the Company		66,274	69,381
Non-controlling interests		(46)	19
<b>Total equity</b>		<b>66,228</b>	<b>69,400</b>
<b>Liabilities</b>			
Borrowings	16	13,270	10,264
Defined benefit post-employment obligations		8,392	6,266
Deferred government grants		1,857	1,354
Deferred tax liabilities	11	602	590
<b>Non-current liabilities</b>		<b>24,121</b>	<b>18,474</b>
Borrowings	16	7,057	2,695
Income tax payable		2,323	4,203
Trade and other payables	17	91,592	82,656
Provisions for warranties	19	1,962	1,556
<b>Current liabilities</b>		<b>102,934</b>	<b>91,110</b>
<b>Total liabilities</b>		<b>127,055</b>	<b>109,584</b>
<b>Total equity and liabilities</b>		<b>193,283</b>	<b>178,984</b>

**Consolidated Statement of Cash Flow**

	Note	2011	2010
		CNY'million	CNY'million
<b>Cash flows from operating activities</b>			
Cash receipts from customers		253,847	228,865
Cash paid to suppliers and employees		(233,092)	(194,205)
Other operating cash flows		(2,929)	(3,105)
<b>Net cash from operating activities</b>		<b>17,826</b>	<b>31,555</b>
<b>Net cash generated from / (used in) investing activities</b>		<b>3,421</b>	<b>(14,708)</b>
<b>Net cash used in financing activities</b>		<b>(4,774)</b>	<b>(10,152)</b>
<b>Net increase in cash and cash equivalents</b>		<b>16,473</b>	<b>6,695</b>
Cash and cash equivalents at January 1	15	41,501	35,213
Effect of foreign exchange rate changes		(782)	(407)
<b>Cash and cash equivalents at December 31</b>	<b>15</b>	<b>57,192</b>	<b>41,501</b>



## Notes to the Consolidated Financial Statements Summary

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

#### (a) Basis of preparation

Huawei Investment & Holding Co., Ltd. (formerly "Shenzhen Huawei Investment & Holding Co., Ltd.", the "Company") and its subsidiaries (the "Group") have prepared a full set of consolidated financial statements ("consolidated financial statements") for the year ended December 31, 2011 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, 2011 by means of disclosing operational and financial information of material nature. The intended users of the consolidated financial statements summary can obtain access to the audited consolidated financial statements for the year ended December 31, 2011 upon consent of the Group's Management through the email address, [information@huawei.com](mailto:information@huawei.com).

#### (b) Functional and presentation currency

All financial information in the consolidated financial statements summary is presented in Chinese Yuan, 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 translated to the functional currency at the

foreign exchange rates at that date. Exchange gains and losses are recognised in profit or loss.

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

##### ii) Foreign operations

The results of foreign operations, except for foreign operations in hyperinflationary economies, are translated into 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) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

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

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

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-

controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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

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

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

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

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

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

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

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

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

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

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

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

**(h) Other property, plant and equipment****i) Recognition and measurement**

Items of property, plant and equipment are measured in the consolidated balance sheet at cost less accumulated depreciation (see below) and impairment losses (see note 1(k)). Cost includes expenditures that are directly attributable to the acquisition of the 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 as follows:

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

Both the useful life of an item of property, plant and equipment and its residual value, if any, are reviewed annually.

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

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

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

**ii) Research and development**

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

**iii) Other intangible assets**

Other intangible assets that are acquired by the



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

#### iv) Amortisation

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

Software	3 years
Patents	3 to 22 years
Trademark	10 years

Both the period and method of amortisation are reviewed annually.

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

#### (j) Leased assets

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

##### i) Classification of assets leased to the Group

Assets that are held by the Group under leases which

transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

##### ii) Operating lease charges

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

#### (k) Impairment of assets

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

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

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

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

- For investments in associates and jointly controlled entities recognised using the equity method (see note 1(f)), the impairment loss is measured by comparing the recoverable

amount of the investment as a whole with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are

recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### ii) Impairment of other assets

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

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

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

#### ■ Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

#### ■ Recognition of impairment loss

An impairment loss is recognised in profit

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

■ Reversals of impairment losses

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

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

## (l) Inventories

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

Cost is calculated using the standard cost method with periodical adjustments of cost variance to arrive at the actual cost, which approximates actual cost on a first-in first-out basis. The cost of inventories includes 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 asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(u)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the consolidated balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated balance sheet as the "Gross amount due from 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)), except where the receivables are interest-free loans made to related parties

without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

**(o) Interest-bearing borrowings**

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, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Defined benefit plan obligations

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their

service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by management using the projected unit credit method.

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

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

**(s) Provisions and contingent liabilities**

i) Provision for 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 a business combination or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the

deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

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

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

**(u) Revenue recognition**

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

**i) 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 a qualifying asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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

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

**(w) Factoring without recourse**

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

	2011	2010
	CNY 'million	CNY 'million
Sales of goods and services	203,732	182,368
Rental income	197	180
	<u>203,929</u>	<u>182,548</u>

**3. Personnel expenses**

	2011	2010
	CNY 'million	CNY 'million
Expenses recognised in respect of defined benefit plan	2,426	2,994
Contributions to defined contribution plans	4,322	2,848
Total post-employment plan cost	6,748	5,842
Salaries, wages and other benefits	32,619	25,512
	<u>39,367</u>	<u>31,354</u>

**4. Net finance expenses**

	2011	2010
	CNY 'million	CNY 'million
Interest income	(376)	(514)
Dividend income	-	(2)
Net realised and unrealised gains on financial assets held for trading	(391)	(121)
Net gain on disposal of available-for-sale equity investments	(4)	-
Finance income	<u>(771)</u>	<u>(637)</u>
Interest expense	1,398	1,035
Net foreign exchange loss	4,876	1,367
Impairment of available-for-sale securities	1	21
Bank charges	<u>393</u>	<u>332</u>
Finance expenses	<u>6,668</u>	<u>2,755</u>
Net finance expenses	<u>5,897</u>	<u>2,118</u>



## 5. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	2011	2010
	CNY 'million	CNY 'million
<b>Current tax</b>		
PRC enterprise income tax		
- current year	1,984	4,142
- (over) / under-provision in respect of prior years	(522)	117
Overseas tax		
- current year	1,490	1,630
-over-provision in respect of prior years	(113)	(76)
	<u>2,839</u>	<u>5,813</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(2,029)</u>	<u>(1,981)</u>
	<u>810</u>	<u>3,832</u>

## 6. Segment reporting

The Group has two reportable geographical segments, which are China and Overseas. The Group divides its business into three operating segments in accordance with the types of products and services provided:

### ■ Carrier Network

Develops and manufactures a wide range of wireless networks, fixed networks, telecom software & core networks, as well as services solutions to telecommunications operators.

### ■ Enterprise Business

Develops integratable information and communications technology ("ICT") products and solutions including enterprise network infrastructure, cloud-based green data centers, enterprise information security and unified communication & collaboration, and delivers these solutions to vertical industries such as governments, public utilities, enterprises, energy, power, transportation and finance.

### ■ Consumer Business

Develops and manufactures mobile broadband devices, home devices, smartphones, as well as the applications on these devices, and delivers them to consumers and businesses.

Both the geographical and business segments are determined based on the Group's organization structure, management requirement and reporting system.

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

### Revenue information in respect of geographical segments

	2011	2010
	CNY 'million	CNY 'million
China	65,565	62,143
Overseas	138,364	120,405
Total	203,929	182,548

### Revenue information in respect of business segments

	2011	2010
	CNY 'million	CNY 'million
Carrier Network	150,145	145,800
Enterprise Business	9,164	5,834
Consumer Business	44,620	30,914
Total	203,929	182,548

## 7. 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
<b>Cost:</b>							
At January 1, 2010	5,468	11,103	452	4,618	567	2,460	24,668
Exchange adjustment	(8)	(113)	(21)	(4)	-	(13)	(159)
Additions	50	2,011	92	2,558	-	213	4,924
Transfer from construction in progress	1,918	1,206	-	(4,548)	-	1,424	-
Disposals	(2)	(1,491)	(49)	-	-	(28)	(1,570)
At December 31, 2010	7,426	12,716	474	2,624	567	4,056	27,863
At January 1, 2011	7,426	12,716	474	2,624	567	4,056	27,863
Exchange adjustment	(26)	(257)	(18)	(18)	-	(42)	(361)
Additions	7	2,710	75	2,744	-	260	5,796
Transfer from construction in progress	-	21	-	(46)	-	25	-
Disposals	-	(767)	(44)	-	-	(26)	(837)
At December 31, 2011	7,407	14,423	487	5,304	567	4,273	32,461
<b>Depreciation:</b>							
At January 1, 2010	1,171	6,882	258	-	230	1,959	10,500
Exchange adjustment	(1)	(44)	(10)	-	-	(4)	(59)
Depreciation charge for the year	318	1,642	73	-	30	399	2,462
Disposals	-	(985)	(40)	-	-	(23)	(1,048)
At December 31, 2010	1,488	7,495	281	-	260	2,331	11,855
At January 1, 2011	1,488	7,495	281	-	260	2,331	11,855
Exchange adjustment	(1)	(133)	(11)	-	-	(28)	(173)
Depreciation charge for the year	358	1,728	75	-	29	523	2,713
Disposals	-	(511)	(39)	-	-	(15)	(565)
At December 31, 2011	1,845	8,579	306	-	289	2,811	13,830
<b>Carrying amounts:</b>							
At December 31, 2010	5,938	5,221	193	2,624	307	1,725	16,008
At December 31, 2011	5,562	5,844	181	5,304	278	1,462	18,631

**Investment properties**

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

The carrying value of investment properties as of 31 December 2011 is CNY278,153,000 (2010: CNY306,931,000). The fair value of investment properties as of 31 December

2011 is estimated by the directors to be CNY478,684,000 (2010: CNY493,913,000). The fair value is calculated by management based on the discounted cash flow analysis.

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

**8. Intangible assets and goodwill**

	Goodwill	Software	Patents	Trademark	Total
	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million
<b>Cost:</b>					
At January 1, 2010	-	706	607	25	1,338
Additions	-	278	147	-	425
Disposals	-	(4)	(1)	-	(5)
At December 31, 2010	-	980	753	25	1,758
At January 1, 2011	-	980	753	25	1,758
Additions	215	443	223	52	933
Disposals	-	(14)	-	-	(14)
At December 31, 2011	215	1,409	976	77	2,677
<b>Amortisation and impairment loss:</b>					
At January 1, 2010	-	354	403	21	778
Amortisation of the year	-	236	28	1	265
Disposals	-	(4)	-	-	(4)
At December 31, 2010	-	586	431	22	1,039
At January 1, 2011	-	586	431	22	1,039
Amortisation of the year	-	232	37	2	271
Disposals	-	(11)	-	-	(11)
At December 31, 2011	-	807	468	24	1,299
<b>Carrying amounts:</b>					
At December 31, 2010	-	394	322	3	719
At December 31, 2011	215	602	508	53	1,378



**9. Available-for-sale equity investments**

	2011	2010
	CNY 'million	CNY 'million
Available for sale equity securities:		
- unlisted stated at cost	<u>454</u>	<u>67</u>
Cost of individually impaired available-for-sale equity securities		
- unlisted	<u>44</u>	<u>50</u>

As at 31 December 2011 and 2010, the Group's available-for-sale equity securities were individually determined to be impaired on the basis of a material decline and adverse changes in the market in which these investees operated

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

## 10. Loans receivable

The terms and repayment schedules of these loans receivable are summarised as follows:

	2011	2010
	CNY 'million	CNY 'million
Within 1 year		
- Loans receivable due from related parties (i)	41	30
- Other loans receivable	577	272
	<u>618</u>	<u>302</u>
1 to 3 years		
- Loans receivable due from related parties	-	-
- Other loans receivable (ii)	17	17
	<u>17</u>	<u>17</u>
Over 3 years		
- Other loans receivable (ii)	-	1
	<u>-</u>	<u>1</u>
Loans receivable, gross	635	320
Less: Provision	(50)	(54)
Loans receivable, net	<u>585</u>	<u>266</u>

(i) Loans receivable due from related parties have an annual interest rate of 3% and mature within one year.

(ii) Long-term loans receivable consist of loans made to customers principally to support their operations.

At 31 December 2011, all the Group's loans receivable are not due except for those were individually impaired (see below):

The movement of provision in respect of other loans receivable during the year is as follows:

	2011	2010
	CNY 'million	CNY 'million
At 1 January	54	59
Exchange difference	(4)	(5)
At 31 December	<u>50</u>	<u>54</u>

At 31 December 2011, the Group's other loans receivable of CNY50,044,000 (2010: CNY53,640,000) were individually determined to be fully impaired. The individually impaired

loans receivable are two-year past due and management assessed that the receivable is likely irrecoverable. The Group does not hold any collateral over these balances.

**11. Deferred tax assets and liabilities**

	2011	2010
	CNY 'million	CNY 'million
Accrual and provision	4,563	3,756
Property, plant and equipment	259	185
Impairment	695	796
Unrealised profit	2,979	2,267
Tax losses	170	76
Undistributed profits of subsidiaries	(369)	(465)
Other deductible differences	429	130
Other taxable differences	(233)	(125)
Total	8,493	6,620

**Unrecognised deferred tax assets**

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

	2011	2010
	CNY 'million	CNY 'million
Deductible temporary differences	463	425
Tax losses	2,666	1,817
	3,129	2,242

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

Deferred tax assets have not been recognised in respect of certain inventory provision and bad debt provision for accounts receivable, because management believes that these provisions are unlikely to be allowed for tax deduction by the tax authorities.

**12. Financial assets held for trading**

Financial assets held for trading mainly comprise investments in wealth management products issued by banks.

**13. Inventories**

	2011	2010
	CNY 'million	CNY 'million
Raw materials	5,896	6,473
Work in progress	2,664	2,697
Finished goods	6,137	5,725
Goods delivered but not completely installed	11,176	12,673
	<u>25,873</u>	<u>27,568</u>

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

	2011	2010
	CNY 'million	CNY 'million
Carrying amount of inventories sold	99,013	78,977
Write down of inventories	549	998
	<u>99,562</u>	<u>79,975</u>

**14. Trade and other receivables**

	2011	2010
	CNY 'million	CNY 'million
Trade receivables due from related parties	613	982
Other trade receivables	54,746	47,065
Gross amount due from customers for contract work	3,075	7,004
Non-trade receivables due from related parties	21	44
Other non-trade receivables	11,060	12,298
Pledged deposit	1,346	1,457
	<u>70,861</u>	<u>68,850</u>
Non-current	29	116
Current	<u>70,832</u>	<u>68,734</u>
	<u>70,861</u>	<u>68,850</u>



**Impairment of other trade receivables**

Impairment losses in respect of other 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

other trade receivables directly (see note 1(k)).

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

	2011	2010
	CNY 'million	CNY 'million
At January 1	4,147	4,343
Impairment loss recognised and reversed during the year	1,481	2,929
Uncollectible amounts written off	(2,080)	(3,125)
At December 31	<u>3,548</u>	<u>4,147</u>

**15. Cash and cash equivalents**

	2011	2010
	CNY 'million	CNY 'million
Fixed deposits with banks	2,671	5,685
Cash and bank balances	<u>54,521</u>	<u>35,816</u>
Cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement	<u>57,192</u>	<u>41,501</u>

**16. Borrowings**

	2011	2010
	CNY 'million	CNY 'million
<b>Non-current liabilities</b>		
Unsecured bank loans	1,783	2,059
Intra-group guaranteed bank loans	11,487	8,205
	<u>13,270</u>	<u>10,264</u>
<b>Current liabilities</b>		
Unsecured short-term bank loans	253	330
Intra-group guaranteed bank loans	1,978	1,064
Current portion of unsecured long-term bank loans	419	310
Current portion of intra-group guaranteed long-term bank loans	4,407	991
	<u>7,057</u>	<u>2,695</u>

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Total	1 year or less	1 to 5 years
	CNY 'million	CNY 'million	CNY 'million
<b>Intra - group guaranteed bank loans:</b>			
EUR – variable at 1.83% ~ 2.81%	2,358	-	2,358
USD – variable at 1.69% ~ 1.8%	10,701	4,406	6,295
BDT – variable at 13%	49	49	-
ZAR – variable at 14%	-	-	-
ETB - variable at 2.81%	1	-	1
DZD – fixed at 5.25%	131	131	-
USD - fixed at 4.33%	2,833	-	2,833
INR - fixed at 11.86%	1,799	1,799	-
	17,872	6,385	11,487
<b>Unsecured bank loans:</b>			
CNY - variable at 6.12% ~ 6.35%	2,202	419	1,783
BDT - variable at 2.12% ~ 13.5%	156	156	-
VEF - fixed at 18% ~ 20%	97	97	-
	2,455	672	1,783
	20,327	7,057	13,270

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

All of the Group's bank facilities are subject to the fulfilment of covenants relating to certain of the Group's balance

sheet ratios, as are commonly found in lending agreements with banks. If the Group were to breach the covenants, the draw down facilities would become payable on demand. As at 31 December 2011, none of the covenants relating to draw down facilities had been breached (2010: Nil).

**17. Trade and other payables**

	2011	2010
	CNY 'million	CNY 'million
Trade payables due to related parties	894	1,274
Other trade payables	26,145	27,330
Bills payable and letter of credit payables	8,685	10,720
Gross amount due to customers for contract work	2,325	2,023
Non-trade payables due to related parties	5	15
Other non-trade payables and accrued expenses	53,538	41,294
	<u>91,592</u>	<u>82,656</u>

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

**18. 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 31 December 2011, is CNY27,053,171,000 (2010: CNY46,008,688,000).

**19. Provisions and contingencies****(a) Provision for warranties**

	2011	2010
	CNY 'million	CNY 'million
Balance at January 1	1,556	1,175
Provision made during the year	2,449	1,962
Provision used during the year	(2,043)	(1,581)
Balance at December 31	<u>1,962</u>	<u>1,556</u>

The provision for warranties relates primarily to equipment sold during the year. The provision is determined based on estimates made from historical warranty data associated with similar products and

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

**(b) Litigation**

(i) In December 2007, two overseas subsidiaries of the Company had filed a legal claim against a foreign customer in respect of the foreign customer's failure to honor payment of a contract; while in return, the foreign customer had launched a counter claim against the subsidiaries in January 2008 for failure in honoring the contract. In December 2009, the subsidiaries entered into a Memorandum of Understanding for Dispute Settlement with the foreign customer to partially withdraw the claim which was approved by the court in Thailand. During the financial year, the court read its judgment in favor of the Group and accordingly these claims were resolved without a material adverse effect on the Group's consolidated financial performance, consolidated cash flows or consolidated financial position.

(ii) On 16 July 2010, Motorola, Inc. ("Motorola") filed a lawsuit and alleged that Huawei Technology Co., Ltd., ("Huawei Tech") one of the subsidiaries of the Company has misappropriated Motorola's trade secret. On 24 January 2011, Huawei Tech filed a lawsuit against Motorola and Nokia Siemens Networks ("NSN") to

prevent Motorola from illegally transferring Huawei Tech's confidential information to NSN. On 13 April 2011, Motorola and Huawei Tech have entered into an agreement to settle all pending litigation between two parties which Motorola paid a fee to Huawei Tech for transferring the commercial agreements between Motorola and Huawei Tech to NSN and allows NSN to receive and use Huawei Tech's confidential information.

(iii) On 22 February 2012, Creative Technology Ltd. and its subsidiary, Qmax Communications Pte. Ltd. ("Creative") filed a lawsuit against Huawei International Pte. Ltd., a wholly-owned subsidiary of the Company and asserted a claim for misrepresentation and breach of contract for about CNY120 million. This case is at preliminary stage, but the Group believes the claim is without merit and will defend this action vigorously. The Group is unable, however, to predict the outcome of this 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 Group as at 31 December 2011 in respect of this case.

**20. Operating leases****(a) Leases as lessee**

Non-cancellable operating lease rental are payable as follows:

	2011	2010
	CNY 'million	CNY 'million
Less than one year	364	319
Between one and five years	410	233
Above five years	-	1
	<u>774</u>	<u>553</u>

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

During the year ended 31 December 2011, CNY2,052,028,000 was recognized as an expense in the consolidated income statement in respect of operating leases (2010: CNY1,903,979,000).



**(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:

	2011	2010
	CNY 'million	CNY 'million
Less than one year	46	49
Between one and five years	47	69
Above five years	-	-
	<u>93</u>	<u>118</u>

During the year ended 31 December 2011, CNY196,819,000 was recognised as rental income in the consolidated income statement (2010: CNY179,505,000).

**21. 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:

	2011	2010
	CNY 'million	CNY 'million
Contracted for	2,152	3,726
Authorised but not contracted for	<u>5,257</u>	<u>2,113</u>
	<u>7,409</u>	<u>5,839</u>

**(b) Other capital commitments**

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

	2011	2010
	CNY 'million	CNY 'million
Acquisition of joint venture interests	3,336	-
Establishment of joint venture	40	-
Purchase of equity investments	462	-
Purchase of debt securities	-	137
	<u>3,838</u>	<u>137</u>

## Company Information

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### Corporate Profile

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

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

### Products, Solutions and Services

#### Carrier Network BG

- Wireless Networks:
  - LTE, GSM, WCDMA, CDMA, TD-SCDMA, WiMAX, OSS, antenna, site energy, PS core, and EPC
- Fixed Networks:
  - FTTx, DSL, ODN, WDM/OTN, MSTP/Hybrid MSTP, microwave, core routers, routers, switches, and network security gateways
- Global Services:
  - Consulting services: business consultations, network consultations, and O&M consultations
  - Managed services: NOC O&M services, network performance managed services, IT managed services, and business process outsourcing (BPO) services
  - Quality enhancement and assurance services: Huawei SmartCare service
  - System integration services: network integration services, OSS integration services, data center integration services, and site integration services
  - Energy retrofit services: site energy retrofit services and green energy services
  - Customer support services: network operation assurance services
  - Learning and capability development services: knowledge transfer services, Huawei certification services, and Huawei education services
- Carrier software & core networks:
  - BSS & OSS, service delivery platform (SDP), digital home, mobile broadband value growth solutions (MBB VGs), cloud computing, RCS-e/RCS, unified communications, mobile office, IP contact center business process outsourcing (IPCC BPO), convergent conference, SmartCare solution, SmartPCC, and SingleSDB

**Enterprise BG**

- IT:  
Media networks, desktop clouds, servers, storage products, data centers, and cloud management platforms
- Enterprise networks:  
Access routers (ARs), NE core routers, campus switches, data center switches, WLAN, transport networks, access networks, and network management
- UC&C:  
Intelligent video surveillance, unified communications, contact centers, converged conference, telepresence and videoconferencing systems, IP communications devices, industry-specific TVs, enterprise IMS/NGN, enterprise information security, digital TVs, and industry-specific billing
- Security:  
Secure routing gateways, firewall and united threat management, VPN gateways, intrusion detection and prevention, anti-DDoS attack, and security management software
- Enterprise wireless and auxiliary products
- Industry-specific solutions:  
Solutions for the power, energy, transportation, government, finance, ISP, and other industries

**Consumer BG**

- Handsets:  
Smartphones and feature phones
- Mobile broadband devices:  
Data cards, wireless routers, and modules
- Home convergence devices:  
Fixed/wireless access devices, set-top boxes, digital photo frames, and tablets

## Awards and Honors

- In 2011, Huawei won six TOP LTE awards. The awards include the Best LTE Commercial Performance Award and the Best LTE Network Elements Award received at the LTE World Summit 2011, the Best Contribution to LTE R&D Award and the Best Contribution to LTE Standards Award at the LTE North America Awards 2011, the LTE Network Infrastructure Innovation Award received at the Global Telecoms Business Innovation Awards 2011, and the Most Innovative Mobile Broadband Deployment Award received from RCR Wireless News. All these awards are in recognition of Huawei's dedicated efforts to promote a thriving and prosperous LTE ecosystem.
- On December 13, 2011, Huawei received three awards at the Telecom Asia 4th Annual Reader Choice Awards. These awards included Best Telecom Vendor of the Year, Wireless Network Vendor of the Year, and Broadband Network Vendor of the Year.
- On November 23, 2011, Huawei was awarded the Supplier of the Year in Information-based Software & Hardware for Urban and Rural Housing Construction at the 6th China Digital City Construction Technology & Equipment Expo. This award recognized the outstanding contributions Huawei made in the urban informatization field.
- On November 15, 2011, Informa honored Huawei and MegaFon, a leading carrier in Russia, with the Award for Most Innovative Service Launch Enabled by Traffic Management for our cooperative efforts in MBB VGS deployments. The award was presented at the Broadband Traffic Management (BBTM) Global Congress 2011 held in London and hosted by Informa Telecoms & Media.
- On November 8, 2011, Frost & Sullivan granted Huawei the Global Growth and Innovation in Telecom Managed Services Award at the Global Community of Growth, Innovation and Leadership 2011 held in Shanghai. This is the only award that the research firm granted in the area of managed services in 2011. Huawei was also the only company to receive the Excellence in Customer Perception of Service Quality Award from Frost & Sullivan for its SmartCare professional service solution. These awards from prestigious organizations in the industry further acknowledged Huawei's leadership position and solution competitiveness in managed services.
- In October 2011, Huawei was awarded Best New Network Infrastructure Solution for its world-leading Small Cell solution at 4G World held in North America. This award signified that the Huawei Small Cell solution had gained acceptance from the industry and helped further consolidate Huawei's leading position in the field of wireless broadband.
- On October 18, 2011, Huawei was presented the Most Innovative Mobile Broadband Deployment Award at the award ceremony of the 2011 RCR Wireless News Innovation Awards for deploying the world's first LTE DD800 commercial network solution, a SingleRAN-based solution for Vodafone.
- On September 29, 2011, Huawei earned three InfoVision awards at the Broadband World Forum, making it the winner of the most awards. The awards recognized Huawei's outstanding performance and contributions to the telecom industry with its 200G high-speed line card for routers, intelligent ODN (iODN) solutions, and IPTV solutions. The 200G line card won the most coveted Broadband Innovation of the Year Award. The iODN solution won the award for Broadband Network and Services Management and Operations, and the IPTV solution won the award for Content, Entertainment, Applications, and Services.
- On September 28, 2011, Huawei was awarded the 2011 Service Provider of the Year Award for Financial Call Centers in China at the 5th Annual Summit for Financial Industry Call Center Development in China for its outstanding contributions to the financial customer service sector.
- On September 28, 2011, Huawei was awarded the 2011 Best Technology Solution in Customer Contact Centers at the 2011 China Best Customer Contact Center and CRM award ceremony. The award recognized Huawei's excellent achievements in the field of customer contact centers and customer relationship management (CRM) as well as its contributions to the development of the entire customer contact center and customer service industry.

- On September 7, 2011, Huawei received the Annual Best Service Award and the Special Recognition Award from the Organizing Committee at the award ceremony of the 2011 China International Financial Expo.
- On August 1, 2011, Huawei was included in the list for the Global Green Fortune (China) 100 companies at the 2nd Global Green Economy and Wealth Forum. The list, compiled by the International Green Economy Association, is the world's first assessment system that equally emphasizes environmental responsibility with the ability to create social wealth. The list is designed to recognize enterprises that have made outstanding contributions to the global environment and have significantly influenced the sustainable development of the global economy. These enterprises serve as role models in driving new tracks for building wealth.
- On July 8, 2011, Huawei was awarded China's Best Customer Service Solution Supplier Award at the selection and award ceremony of the 6th Annual Best Customer Service Awards in China. Huawei's Enterprise BG was also honored with an Honorary Award for Outstanding Contribution to Customer Service in China.
- On June 24, 2011, Huawei was named the winner of the 2011 Femtocell Industry Award for Progress in Commercial Deployment. The Femtocell Industry Awards are held every year by the Femto Forum, the most widely-recognized organization in the femtocell industry. This award recognizes outstanding contributions in the commercial deployment of femtocells over the past year.
- On June 20, 2011, Huawei was awarded the Excellence in Standards Development Award by the Institute of Electrical and Electronics Engineers (IEEE). This award recognized Huawei's outstanding contributions to the IEEE 802.1AS standard.
- On June 17, 2011, Huawei accepted two highly-coveted 2011 CDG Industry Achievement Awards from the CDMA Development Group (CDG). These awards recognized Huawei's continuous innovation and outstanding contributions to the CDMA field. The company was recognized in the "Innovation in Network Technology" and "Innovation in Mobile Application" categories. This is the second time Huawei has been recognized by the industry for its innovations in CDMA technology and applications.
- On June 9, 2011, Huawei received the LTE Network Infrastructure Innovation Award at the annual award ceremony of the Innovation Awards sponsored by Global Telecom Business, an internationally recognized telecom industry media outlet, for the deployment of the LTE commercial networks for Aero2 and Vodafone using its SingleRAN LTE solution.
- On May 24, 2011, Huawei received the Industry Leadership Award, the most sought-after award at the annual summit of the TM Forum held in Dublin, Ireland.
- On March 23, 2011, Huawei received the Best Service Delivery Platform for IPTV Award at the IP&TV World Forum 2011 in London. Huawei was the only manufacturer from Asia to receive the award, which is also the most prestigious award presented by the global IPTV industry.
- On December 9, 2010, Huawei received the "FTTx Vendor of The Year" award by Telecom Asia.
- On November 12, 2010, Huawei won the "Best Contribution to R&D for LTE in North America" award at LTE North America 2010.
- On October 28, 2010, Huawei's industry-leading SingleRAN@Broad solution won the InfoVision Award in the category of "Broadband Access Network Technologies and Services" at the Broadband World Forum 2010 in Paris.

- On October 19, 2010, Frost & Sullivan recognized Huawei's contributions to the contact center application market with the 2010 Asia Pacific Growth Strategy Leadership Award.
- On October 1, 2010, Huawei received the Red Dot Design Award for its PIVIT Optical Distribution Network Access Terminal Box.
- On September 30, 2010, Frost & Sullivan recognized Huawei as the 2010 SDM Equipment Vendor of the Year.
- On July 29, 2010, Huawei received the Best in Class 21CN Solution Maturity, Value, Service and Innovation Award from British Telecom for its innovation and contribution in the 21CN and Next Generation Access project.
- On July 5, 2010, Huawei's Access Terminal Box and FTTx Optical Network Terminal products won the Red Dot Design Award.
- On June 30, 2010, Huawei received the Lewa Trophy for the Highest Corporate Fundraiser in the Safaricom Marathon 2010.
- On June 28, 2010, Huawei won the Femtocell Design and Technology Innovation Award at the 2010 Femtocell World Summit.
- On June 25, 2010, Huawei received the "Messaging Application: Consumer" award for its Mobile Newspaper Service (MNS) at the 2010 Global Messaging award ceremony.
- On June 10, 2010, Huawei received three honors at the Global Telecom Business Innovation Awards, including the "Green Base Station Innovation", "Wholesale Network Innovation" and "Consumer Voting Innovation" awards along with Vodafone, BT and TalkTalk, respectively.
- On June 3, 2010, the CDMA Development Group (CDG) recognized Huawei's contributions with the 2010 3G CDMA Industry Achievement Award at the 2010 CDMA World Forum.
- On May 27, 2010, Huawei won the "Solution Excellence Award" at the TM Forum.
- On May 7, 2010, World Vendor Awards honored Huawei with the "Outstanding Vendor of the Year" award.
- On February 16, 2010, GSM Association recognized Huawei's contributions with the Best Service Delivery Platform Award.
- On December 11, 2009, Telecom Who's Who in Asia Pacific chose Huawei as the sole telecom vendor to receive triple accolades in Telecom Asia's 2009 Readers' Choice Award.
- On December 7, 2009, Huawei received the "2009 Corporate Award" from the IEEE Standards Association.
- On November 23, 2009, Huawei received Light Reading's 2009 Top Picks Award for its transport and router products.
- On November 18 and 19, 2009, Grameenphone Ltd., jointly with Huawei, won the "Green Mobile Award" at the GSMA Mobile Awards 2009.
- On November 18, 2009, Frost & Sullivan recognized Huawei's contributions 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.
- On November 4, 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 the "Oscars of Invention".
- On July 8, 2009, Huawei's Femtocell and optical transponder products won the Red Dot Design Award.



- On June 17, 2009, Huawei was recognized for its contribution to the industry at Global Telecoms Business Innovation Awards 2009.
- On June 5, 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.
- On March 20, 2009, Huawei's contributions were recognized by the Financial Times with an award for Innovation and Leadership in Emerging Markets.
- On January 19, 2009, Huawei received the iF Design Award for its Femtocell products.

## Risk Factors

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Based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and in line with our organizational structure and operating model, Huawei designed and implemented an enterprise risk management (ERM) system with a corresponding ERM policy. Huawei also established the ERM Department and an operational mechanism. The company ensures the continuity of our business operations by taking risks into account when making strategic decisions and planning, while also preemptively controlling risks in our business plans and execution.

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

### Strategic Risks

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

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

### External Risks

- **Economic environment:** The global economic downturn could cause telecom carriers to postpone investments or initiate other cost-cutting measures to improve their financial position. These factors could result in reduced demand for network infrastructure and services, which would in turn affect Huawei's operating results.
- **Country-specific risks:** Huawei conducts business in more than 140 countries. Operating in these countries involves certain risks, such as civil unrest, economic and political instability, trade protection, imposition of exchange controls, nationalization of private assets, and debts. All these risks require Huawei to have a high aptitude for risk management. In addition, there may be uncertainties in the legal environment in certain regions. Although we strive to comply with all such laws and regulations, unintentional violations could have material adverse effects on our business.
- **Natural disasters:** Earthquakes, floods, and other natural disasters may slow down or even prevent delivery and impact the company's supply chain operations.

#### Operational Risks

- **Business continuity:** Although Huawei strives to avoid single-source supplier solutions, it is not always possible. To find an alternative supplier or to re-design products may take significant time. As such, supply and delivery of our products to our customers could be disrupted if any of our single-source suppliers were to meet with difficulties. To mitigate this risk, we periodically evaluate and conduct audits on our suppliers, and initiate product replacements or redesign to reduce the risk of obsolescence.
- **Rising labor costs:** Increasing labor costs in China may offset the company's efforts to reduce our product cost and ultimately affect our profitability.
- **Information security:** While Huawei has judiciously adopted information security measures to protect our intellectual property rights, they may not be adequate to prevent infringement or improper use of our information, patents, or licensing. Misappropriations of this nature will cause losses to Huawei even though we may be protected to some extent by intellectual property law.

#### Financial Risks

For further information on financial risks, see "Financial Risk Management" on pages 22 to 23 of this Annual Report.

# Corporate Governance Report

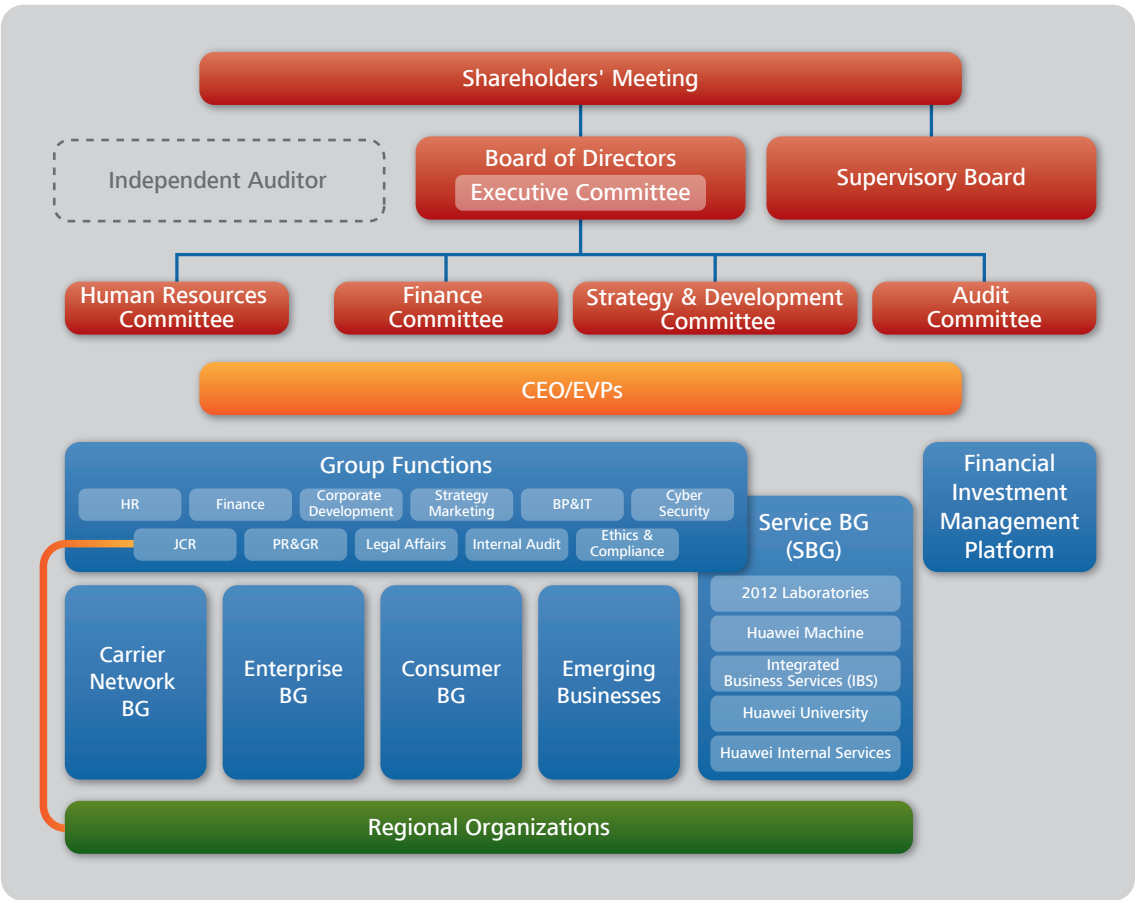
## Corporate Governance Structure

At Huawei, we advocate "customers as our focus and dedicated employees as our foundation." We will continue to improve our organizational structure, processes, and appraisal systems to achieve effective growth.

## Shareholders

Huawei Investment & Holding Co., Ltd. (the "company" or "Huawei") is a private company wholly owned by its employees.

Through the Union, the company implements an Employee Shareholding Scheme (the "Scheme"), which involves 65,596 employees as of December 31, 2011. They are represented by and exercise their rights through the elected representatives (the "Representatives"). The Scheme effectively aligns employee contributions with the company's long-term development, fostering Huawei's continued success.



## Board of Directors and Committees

The BOD is the decision-making body for corporate strategy and management. The BOD guides and oversees the overall business operations and makes decisions on significant strategic issues. The BOD established the Executive Committee, which acts as the executive body of the BOD while the BOD is adjourned. The BOD has also established the Human Resources Committee, the Finance Committee, the Strategy & Development Committee, and the Audit Committee to assist the BOD in overseeing the company's operations.

The key roles and responsibilities of the BOD include:

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

In 2011, the BOD held 12 meetings, reviewed, and released a series of documents related to the overall corporate governance architecture, operating principles and mechanisms for corporate governance, and the operational regulations of the Executive Committee. Throughout the year, the BOD also reviewed and approved the annual business plan and budget, quarterly operational performance reports, the strategic direction and organizational setup for new businesses, investment and merger & acquisition projects, appointments and compensation policies for senior management, and other major HR and financial policies. The BOD also agreed on a set of resolutions on the company's strategic directions, major investment decisions, and financing arrangements.

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

## Human Resources Committee

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

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

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

The Human Resources Committee meets on a monthly basis and convenes special sessions whenever needed. At the request of the committee, business executives and field-specific experts may attend its meetings as non-voting participants. Based on business needs, requests of the BOD, and activities aimed at governance structure optimization and business restructuring, the Human Resources Committee held 14 meetings in 2011. The topics of these meetings included such items as monitoring manager selection and succession plans for key positions, organizational restructuring, optimizing the compensation and incentive structure, developing the governance

mechanism for headcount budgeting, improving the overall capability of HR, updating the HR policy framework, setting policies, and supervising policy execution.

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

## Finance Committee

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

The key roles and responsibilities of the Finance Committee include:

- Aligning resources with business needs based on the company's resources and resource acquisition capabilities.
- Setting financial objectives for the growth and investment projects of the company and responsibility centers; determining the standards, structure, and pace for resource investments.
- Measuring the monetary value of key strategies, conducting forward-looking forecasts and analysis, and submitting proposals to the BOD.
- Reviewing the company's annual budgeting plan, approving the annual budget for each responsibility center, and ensuring closed-loop management of the corporate-level plan, budget, accounting, and performance appraisals.
- Reviewing the capital structure plan; making proposals for major financing activities, the asset structure, and profit distribution.
- Reviewing the company's key financial policies, annual financial statements, and issues related to information disclosure.



- Reviewing capital operations and strategic cooperation projects, submitting proposals to the BOD, and periodically assessing the execution of such projects.
- Reviewing the company's risk management framework, advising on trade compliance issues, and establishing a business continuity management system.

The Finance Committee meets on a monthly basis and convenes special sessions whenever needed. Based on business needs and requests of the BOD, the Finance Committee held 12 meetings in 2011. At the meetings, the committee reviewed such items as the company's medium-to-long-term business plan, annual budgeting plan, operational management, capital operations projects, the capital structure, enterprise risk management, and subsidiary and joint venture management. The Finance Committee discussed and established relevant financial policies and systems, reviewed and decided on relevant activities, and monitored the execution of these activities.

The Finance Committee is comprised of 21 members, including BOD members and financial experts. The Chairman of the committee is Mr. Guo Ping. The members include Mr. Xu Zhijun, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Liang Hua, Mr. Wan Biao, Mr. Peng Zhiping, Mr. Tian Feng, Mr. Fang Weiyi, Mr. Song Liuping, Mr. Yao Fuhai, Mr. Jiang Xisheng, Mr. Li Jin'ge, Mr. Peng Qiu'en, Mr. Yi Xiang, Mr. Yang Yuefeng, Mr. Qiao Nengdong, and Ms. Zheng Liying.

### Strategy & Development Committee

The Strategy & Development Committee (SDC) considers, sets, and executes the company's strategic directions. The SDC gains insight into major trends concerning the industry, market, and customers; and identifies opportunities and paths for the company's development. Through macro-management of markets, businesses, and technological development, the SDC ensures that the company continues to make concerted efforts to achieve effective growth.

The key roles and responsibilities of the SDC include:

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

and characteristics, as well as the publicity strategy and direction of the company.

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

The SDC started to convene officially in 2012. In 2011, the Investment Review Board (IRB) was responsible for the company's strategic planning, product investment decisions, and other related matters. After the SDC is established, the IRB will be dissolved at the corporate level. However, each BG will set up its own IRB, which will be responsible for product investment decisions and lifecycle management within their operational authority.

The company's IRB meets on a monthly basis and convenes special sessions whenever needed. At the request of the IRB, business executives and field-specific experts attended its meetings as non-voting participants. The IRB, which held 12 meetings in 2011 in total, made decisions on product investments based on customer needs and promoted collaboration across Marketing, R&D, Procurement Qualification, Supply Chain, Sales, Service, and other departments to have these decisions implemented under the guidance of the overall strategic direction formulated by the BOD. In addition, the IRB discussed related business strategies, reviewed decisions, oversaw their fulfillment, and released relevant regulations.

The SDC is comprised of 23 members, including BOD members, senior business executives, and field-specific senior experts. The Chairman of the SDC is Mr. Xu Zhijun. The members include Mr. Guo Ping, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Hou Jinlong, Mr. Zhang Ping'an, Mr. Li Yingtao, Mr. He

Gang, Mr. Zha Jun, Mr. Tang Qibing, Mr. Zhang Xinyu, Mr. Peng Bo, Mr. Deng Biao, Mr. Yu Chengdong, Mr. Wang Tao, Mr. Liang Hua, Mr. Zheng Yelai, Mr. Wu Qinming, Ms. He Tingbo, and Mr. Peng Zhongyang.

### Audit Committee

The key roles and responsibilities of the Audit Committee include:

- Reviewing the company's internal audit plan, monitoring its execution, and discussing internal control policies.
- Approving the company's internal control framework and milestone plan, overseeing internal controls across the company, driving closed-loop issue management, and promoting management improvements.
- Monitoring the effectiveness of Huawei's ethics and compliance environment, and driving employees' compliance with Huawei's Business Conduct Guidelines (BCG).
- Selecting the independent auditor along with the BOD, approving related expenses, and reviewing the performance of the independent auditor.

The Audit Committee meets on a quarterly basis and convenes special sessions whenever needed. At the request of the Audit Committee, business executives and field-specific experts may attend its meetings as non-voting participants. The Audit Committee held three meetings in 2011. Focusing on topics such as risk management and internal control frameworks, the Audit Committee reviewed and approved the annual internal audit planning and the three-year roadmap for developing global process controls and reviewed the internal control maturity reports, semi-annual control assessment (SACA) reports, and the control improvement work reports presented by Global Process Owners (GPOs). The Audit Committee also improved employee compliance with the BCG by sharing major audit findings and non-compliance cases. In addition, the Audit Committee discussed the management improvement proposal with the independent auditor.

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

### Supervisory Board

Pursuant to the requirements of the Company Law of the People's Republic of China, Huawei has established a Supervisory Board. The key roles and responsibilities of the Supervisory Board include overseeing the company's financial and operational performance; monitoring the performance of BOD members, the Chief Executive Officer, and other senior management; and attending BOD meetings as non-voting participants.

In 2011, the Supervisory Board held two meetings and its members attended 12 meetings of the BOD as non-voting participants. The Supervisory Board reviewed and assessed the financial performance of the company and the performance of senior management. The Supervisory Board also discussed how it could operate more effectively as an important part of the corporate governance structure.

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

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



### Members of the Board of Directors

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

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

## Director Biographies

### Ms. Sun Yafang

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

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

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

### Mr. Guo Ping

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

### Mr. Xu Zhijun (Eric Xu)

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

### Mr. Hu Houkun (Ken Hu)

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

### Mr. Ren Zhengfei

Born on October 25, 1944 into a rural family where both parents were school teachers, Mr. Ren Zhengfei spent his primary and middle school years in a remote mountainous town in Guizhou Province. In 1963, he studied at the Chongqing Institute of Civil Engineering and Architecture. After graduation, he was employed in the civil engineering industry until 1974 when he joined the military's Engineering Corps as a soldier tasked to establish the Liao Yang Chemical Fiber Factory. Subsequently, Mr. Ren had taken positions as a Technician, an Engineer, and was lastly promoted as a Deputy Director, which was a professional role equivalent to a Deputy Regimental Chief, but without military rank. Because of his outstanding performance, Mr. Ren was invited to attend the National Science Conference in 1978 and the 12th National Congress of the Communist Party of China in 1982. Mr. Ren retired from the army in 1983 when the Chinese government disbanded the entire Engineering Corps. He then worked in the logistics service base of the Shenzhen South Sea Oil Corporation. As he was dissatisfied with his job, he decided to establish Huawei with a capital of CNY21,000 in 1987. He became the CEO of Huawei in 1988 and has held the title ever since.

### Mr. Xu Wenwei (William Xu)

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

### Mr. Li Jie (Jason Li)

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

### Mr. Ding Yun (Ryan Ding)

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

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

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

**Ms. Chen Lifang**

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

**Mr. Wan Biao**

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

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

Born in 1972, Mr. Zhang holds a master's degree from Zhejiang University. Mr. Zhang joined Huawei in 1996 and has served as Product Line President, Senior Vice President, Vice President of Strategy & Marketing, Regional Vice President, Vice President of the Global Technical Service Dept, 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 as 3G Product Director, Vice President of the Wireless Technical Sales Dept, President of the Wireless Product Line, President of the European Area, and Chief Strategy & Marketing Officer.





Members of the Supervisory Board

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

### Supervisory Board Member Biographies

#### Mr. Liang Hua

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

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

Born in 1967, Mr. Peng holds a master's degree from Fudan University. Mr. Peng joined Huawei in 1996 and has served as President of the Terminal Product Line, President of the Optical Network Product Line, President of the Supply Chain Mgmt Dept, President of the Procurement Qualification Mgmt Dept, and currently, 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 as President of Shenzhen Smartcom Business Co., Limited, Chairman of the Capital Construction Investment Management Committee, and currently, President of the Internal Service Mgmt Dept.

#### Mr. Tian Feng

Born in 1969, Mr. Tian holds a bachelor's degree from Xidian University. Mr. Tian joined Huawei in 1995 and has served as EVP of the Middle East and Northern Africa Area, President of the Middle East Region, President of the China Region, and CEO of Huawei Agissson.

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

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



## Committee Member Biographies

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

### Mr. Fang Weiyi

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

### Mr. Jiang Xisheng

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

### Mr. Tang Qibing

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

### Mr. Li Jian (James Lee)

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

### Mr. Li Shanlin

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

### Mr. Li Jin'ge

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

### Mr. Li Yingtao

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

### Mr. Yang Yuefeng

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

**Mr. Wu Qinming**

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

**Mr. He Gang**

Born in 1973, Mr. He holds a master's degree from Xidian University. Mr. He joined Huawei in 1998 and has served as a GSM hardware engineer, President of the GSM Product Line, President of the GSM&UMTS Product Line, Director of the Global Wireless Solution Sales Dept, President of the Handset Product Line of Huawei Device, and member of the SDC.

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

Born in 1969, Ms. He holds a master's degree from Beijing University of Posts and Telecommunications. She joined Huawei in 1996 and has since served as ASIC engineer/senior engineer/chief engineer, Director of the Shanghai ASIC Design Branch, Director of ASIC Design Center (Fundamental R&D Dept), R&D Director of Hisilicon, Executive Vice President of Hisilicon, President of Hisilicon, Vice President of the 2012 Laboratories, member of the Human Resources Committee, and member of the Strategy & Development Committee.

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

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

**Mr. Song Liuping**

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

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

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

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

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

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

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

**Mr. Zhou Daiqi**

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

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

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

**Ms. Zheng Liying (Helen Zheng)**

Born in 1973, Ms. Zheng holds a Juris Doctor degree from Jilin University. Ms. Zheng joined Huawei in 2000 and has served as Director of the Contract Mgmt Dept under the Legal Affairs Dept, Director of the Project Execution Dept under the Corporate Development Dept, Vice President of the Investment Mgmt Dept, and member of the Finance Committee.

**Mr. Zha Jun**

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

**Mr. Hou Jinlong**

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

**Mr. Yao Fuhai**

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

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

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

**Mr. Peng Zhongyang**

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

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

Born in 1969, Mr. Peng holds a master's degree from Shanghai University of Finance and Economics. Mr. Peng joined Huawei in 1997 and has served as Director of the Investment Mgmt Dept, CFO of the Latin America Area, Director of the Tax Mgmt Dept, Vice President of the Finance Mgmt Dept, and currently, Deputy Director of the Business Control and Enterprise Risk Mgmt Dept, and member of the Audit Committee.

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

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

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

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

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

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

**Independent Auditor**

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

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

KPMG has been Huawei's independent auditor since 2000.

**Business Structure**

The company has established three BGs: the Carrier Network BG, the Enterprise BG, and the Consumer BG. The company is also engaged in emerging businesses.

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

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

- The CEO and EMT Director for the Carrier Network BG is Mr. Ding Yun. The core members of the EMT include Mr. Li Jie, Mr. Liang Hua, Mr. Zha Jun, Mr. Deng Biao, Mr. Fang Weiyi, Mr. Peng Bo, and Mr. Wang Tao.
- The CEO and EMT Director for the Enterprise BG is Mr. Xu Wenwei. The COO and Deputy EMT Director is Mr. Zhang Ping'an. The core members of the EMT include Mr. Zhang Shunmao, Mr. Tang Qibing, Mr. Chen Jun, Mr. Qiao Nengdong, Mr. Zheng Yelai, Mr. He Liyang, Mr. Chen Yiquan, and Mr. Liu Shaowei.
- The CEO for the Consumer BG is Mr. Yu Chengdong. The EMT for the BG has yet to be established.

Service BGs (SBGs) are responsibility centers that provide end-to-end support and services for BGs. SBGs continuously increase efficiency and reduce operating costs. Huawei has established five SBGs: the 2012 Laboratories, Huawei Machine, Supply Chain Management Services, Huawei University, and Huawei Internal Services.

The Group Functions provide BGs with support, services and supervision. They are positioned to offer accurate, timely, and effective services to field offices and strengthen supervision while delegating sufficient authority to field offices.

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

#### Continuous Improvement of Management Systems

In order to better meet customer needs, Huawei carried out ongoing management transformations in 2011 to build a continuously evolving global process architecture; establish a GPO system; build core competencies in terms of strategy, customer requirement management, quality operations, and IT management; and enhance process-based effective management systems. These transformations include:

- Customer Relationship Management (CRM) Transformation: Huawei develops customer-centric marketing, sales, and service strategies to ensure that the company always focuses on customer expectations/requirements, improves efficiency, and reduces costs while creating the maximum value for customers to enable customer success and eventually Huawei's success.
- Issue to Resolution (ITR) Process Transformation: Huawei adopts a customer-centric approach in providing customers with support and service. This approach ensures that Huawei remains attentive to customer issues and complaints and provides timely resolutions to improve customer satisfaction.
- Integrated Financial Services (IFS) Transformation: Huawei is building a global financial management system that covers all of the key financial fields to facilitate sustainable growth through detailed process management.
- Continuous improvements to the IPD process: Through layered process metrics, agile deployment, and product information architecture optimization, and newly established IPD processes for services and mobile phones, Huawei continuously optimizes its IPD process to support the development of multiple businesses, continuously improve efficiency and quality, and better satisfy customer needs.
- Improvements to the company's quality and operations system: Huawei carries out ongoing initiative in Environment, Health, and Safety (EHS), CSR, and other areas to reduce operational risks and support sustainable growth. Huawei optimizes its supply chain quality management systems, including the Electronic Manufacturing Services (EMS) and supply centers, and implements ongoing activities, such as Six Sigma and lean production improvements, to achieve more efficient, higher-quality production.
- Widespread adoption of shared services centers across the company: Following the establishment of the Accounting Shared Services Center (SSC), the Translation Services Center (TSC), the Service Procurement Fulfillment SSC, and the Service Delivery Resource SSC, the HR SSC (China Region) went live for a trial run on October 31, 2011. The construction of an IT SSC is being planned. Through the core values of "consolidating resources, reducing costs, enhancing governance, and improving efficiency", Huawei's shared services centers lay a solid foundation for the company to achieve operational excellence.

### Alignment with Corporate Strategy

Huawei utilizes balanced scorecards to manage its organizational performance. Corporate strategic goals are broken down into organizational performance goals at all levels to drive balanced development of customers, internal operations, learning and development, and financial management. The assignment of strategic goals enables different types of organizations to take on differentiated responsibilities in achieving the company's short-, medium-, and long-term objectives.

The balanced scorecards for organizations at all levels are updated on an annual basis to align with the annual business plan and budget. In addition, work reports are conducted level-by-level, personal business commitments (PBCs) are managed for employees, and the applications of organizational and individual performance results are strengthened. These approaches ensure that organizational and individual objectives are aligned with the goals of the company and that the company's strategic goals are effectively understood and implemented throughout the organization.

### Establishment of Internal Control System

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

#### Control Environment

A control environment is the foundation for an internal control system. Huawei is dedicated to maintaining a corporate culture of integrity, placing a high value on business ethics, and strictly complying with laws and regulations. Huawei has established its BCG to define the company's standards for acceptable conduct. Huawei also provides training programs for all employees, requires employees to acknowledge their understanding of and commitment to complying with the BCG, and asks all employees to sign the BCG on a regular basis.

Huawei has a well-established governance structure with clear authorizations and accountability of responsibilities. The governance structure is comprised of the BOD, its professional committees, Group Functions, and multi-level administrative teams. Huawei has clearly defined roles and responsibilities for its teams to ensure checks and balances. In addition, Huawei has established a Business Control Dept to help process owners establish and improve their internal control systems. The Internal Audit Dept performs independent monitoring and assessment of the internal control effectiveness for all operational activities.



### Risk Assessment

Huawei has established a dedicated risk management department to regularly perform risk assessments on all business processes across the company. This department identifies, manages, and monitors the significant risks to which the company is exposed, forecasts potential risks to the company caused by changes in both the internal and external environments, and submits risk management strategies along with mitigating measures to corporate management for decision making.

All process owners are responsible for identifying, assessing, and managing different types of risks and related internal control measures. Risk assessment factors include the likelihood of a risk occurring and its potential impact.

### Control Activities

Huawei has established the Global Process Management System (GPMS) and the Business Transformation Management System (BTMS), released the global Business Process Architecture (BPA), and appointed GPOs who take charge of process and internal control building based on the BPA. The GPOs identify Key Control Points (KCPs) and the Separation of Duties Matrix for each process and apply them to all regions, subsidiaries, and business units. The GPOs organize monthly compliance tests on the KCPs to continuously monitor the effectiveness of internal controls and publish test reports. In addition, the GPOs perform Semi-Annual Control Assessments (SACAs) to assess the effectiveness of the overall process design and execution effectiveness of each business unit. The GPOs then publish assessment reports and submit the results to the Audit Committee.

### Information & Communication

The company has established information and communication channels to ensure our information is the most current, such as customer and supplier information. Huawei has established an online forum that provides a channel for employees to communicate with each other.

The top management holds regular meetings with

different departments to help them with operational issues and ensure that management decisions are effectively implemented. All business policies and processes are available on the company's intranet. Managers and process owners regularly organize training programs on business processes and internal controls to ensure that all employees know the most current information. The company has established a mechanism for process owners at all levels to regularly communicate with one another, review the execution effectiveness of internal controls, and follow up on resolving internal control issues.

### Monitoring

The company has established an internal complaint channel, an investigation mechanism, and an accountability system. We have clearly defined guidelines in the *Agreement on Honesty and Integrity* which the company signs with its suppliers. Suppliers can report any improper conduct concerning Huawei employees through the channels provided in the agreement. This helps Huawei monitor the integrity of its employees.

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

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

## Corporate Social Responsibility

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As a leading ICT solutions provider, Huawei has the vision of enriching life through communication. We offer our expertise, experiences, and innovative technologies in ICT while focusing on CSR through the following approaches:

- Bridging the digital divide by ensuring that all people can experience basic communications and information services.
- Protecting the environment is a core strategy of Huawei that focuses on providing the most competitive and efficient end-to-end green ICT solutions.

- Continuously focusing on supplier CSR management, safe operations, social contributions, caring for employees, and stakeholder communication. In terms of sustainable development, Huawei will actively have greater impact on the industry by implementing and executing its CSR strategies, operating with integrity, promoting a harmonious business environment, and benefiting society.

We adhere to a corporate strategy of "establishing a more favorable social image and exemplifying good corporate citizenship everywhere we operate" and incorporate CSR into our business operations.



## Vision

To bridge the digital divide and promote the harmonious and sustainable development of the economy, society, and the environment

## Mission

To establish an excellent CSR management system, operate with integrity, promote a harmonious business ecosystem, ensure sustainable development, and contribute to our customers and society

## Strategy

### Bridging the Digital Divide

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

### Caring for Employees

Huawei attaches importance to employees' growth, health, and safety. Huawei values employees' contributions and makes every effort to ensure that employees' personal growth is realized alongside the company's success.

### Fair Operations

Huawei abides by ethical business practices, operates with integrity, and strictly observes Huawei's BCG. 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.

### 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".

### Social Contribution

Huawei always believes in giving back to society. We insist on local operations, contributing to the local welfare, education, and disaster relief efforts, and being an ethical corporate citizen.

### Supply Chain CSR Management

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

### Stakeholder Communication

Huawei continuously improves communication with stakeholders, increases customer satisfaction, and enhances user experience management based on industry standards and corporate strategies.

### Safe Operations

During the operations of the company, Huawei adheres to the principle of "Safety First, Prevention First", systematically identifies sources of potential hazards, assesses risks, and implements risk control measures to ensure the sustainable development of enterprises and society.

## Bridging the Digital Divide

### Aim:

- To enable more people to access information by providing customized ICT solutions
- To support and develop telecom networks at regional and national levels
- To nurture and support education in telecom technologies in underdeveloped regions

Through our "Bridging the Digital Divide" strategy, Huawei aims to better allocate information resources in developing effective communications networks in underdeveloped regions that would enable more people to have access to communications and information systems. To achieve this goal, Huawei is consistently expanding the coverage of communications networks in underdeveloped regions and providing training opportunities for local technicians and talent.

To sustain communication services and help bridge the digital divide, Huawei focuses its activities on three main elements: technology, funds, and knowledge transfer, which foster mutual support and improvement.

### Case: The Phone Lady Initiative in Bangladesh

In remote areas of Bangladesh where information access is lacking, Huawei partnered with the largest local carrier to initiate the Phone Lady solution and in establishing the Communication Information Centers (CICs). The goal of the initiative was to provide people in rural areas with telephone and information access services and enable them to benefit from economic and social success, thereby increasing their income.

#### Phone Lady initiative

The carrier helped many local proprietors, most of whom were female, by arranging for loans from the local bank so that they could own mobile phone devices. The carrier also provided them with training on the operation and billing of their services. The initiative was created to overcome the difficulty of providing Universal Access Service (UAS) to people in rural areas to allow them to communicate with their relatives, friends, and business partners.

The Phone Lady initiative succeeded in overcoming the communication barrier through the provision of mobile services. Building on this success, the carrier and Huawei extended the UAS to information services by providing the local people with internet and information services through the CICs.

### CIC initiative

The carrier partnered with the local units and proprietors in establishing CICs, which were owned and independently operated by the proprietors. The CICs functioned as customer service centers to provide services such as pay phone access, e-recharging, printing, scanning, and copying. The CICs also served as information centers to provide useful information, including prices of farm goods, government website information, and job information. This enabled people in remote areas to benefit from a normal economy, find jobs, obtain information on farm goods, and increase their income.

### Huawei's Participation

Huawei, as the carrier's strategic partner, provided network support for the implementation of the projects. In addition to providing network equipment, Huawei actively provided customized services based on the business features of the project. The entire network is now integrated with green technology solutions in rural areas where the power supply is unreliable, helping promote sustainable business growth.

### Impacts and Benefits of the Phone Lady Initiative

The Phone Lady initiative was a success. The carrier has received a sound business return on its mobile services. The Phone Lady initiative has employed more than 280,000 people. The proprietors are earning an income three times higher than the average income in Bangladesh. This initiative increased employment and improved livelihood in rural areas, and created in-depth social effects as a result of having access to communication and information services.

## Caring for Employees

### Aim:

- To ensure employees' health and welfare
- To develop the individual values of employees
- To enhance the well-being of employees

Huawei focuses on enhancing employees' ethic awareness and compliance. We attach much importance to employee health and welfare by creating a sound work environment and climate. We also ensure that dedicated employees receive reasonable and timely rewards. As the company continues to grow, we care about employees' career development by offering different paths to diversified and local employees to realize their personal value.

### Case: Talent Management

Huawei motivates employees to contribute to the company by clearly defining their career development path and designating their positions and responsibilities. We select and appoint managers who demonstrate high performance, solid adherence to moral principles, and outstanding leadership capabilities.

### Case: Employee Assistance Program

The Employee Assistance Program (EAP) is an initiative that requires managers at all levels to focus on the mental health of their employees and take precautionary measures whenever they notice unusual behavior.

Huawei worked with a famous enterprise management consulting firm to conduct a series of EAP-related training programs for its employees from March 2011 through March 2012. The EAP consists of four trainings:

1. Identification of and Assistance for Psychological Crises
2. Fulfilling Work – Enhancing Mental Competencies
3. Energy Management – Being Efficient in Work and Life
4. Management of Generation Y Employees

Huawei employees appreciated the EAP program and acknowledged it is of great help to them.



Career development model for Huawei employees

## Fair Operations

### Aim:

- To ensure compliance with the legislation and national standards for fair and ethical practices in our business operations
- To comply with regulations for intellectual property rights

Huawei has established ethical compliance organizations to strengthen employees' legal awareness, integrity, and moral character. We have created a good environment for ethical compliance, which helps our employees consciously comply with laws and regulations as well as the company's ethical guidelines. We have put in place a supervisory mechanism that features "points, lines, and sites" to ensure that fairness and ethical behavior are incorporated into our business operations. During the process of producing and utilizing products and services, we ensure that we comply with intellectual property laws and regulations, grow with our peers together, and create a benign environment for development.

Huawei firmly believes that operations should be based on business ethics. Huawei defines bribery, corruption, intellectual property violations, and other similar behavior as major risks in business. Any behavior that violates the rules for fair play will have a negative impact on the company. Therefore, Huawei has introduced procedures to incorporate anti-bribery and anti-corruption principles into its operations. The IPR risks Huawei is exposed to include protection of its own IPR and respecting other companies' IPR. Huawei will continue to adopt similar initiatives to ensure that the company complies with international intellectual property laws and regulations.

### Case: Huawei's BCG

Huawei's BCG provides the foundational principles for our general business conduct, which we expect all employees to follow. The BCG was developed by analyzing situations that occurred in our company and the global environment in which we operate, as well as the regulations with which our employees must comply while conducting business activities. The BCG provides guidance and assistance for Huawei to comply with laws and ethical standards.

New Huawei employees are required to learn and sign the BCG. Each year, all employees are required to learn the BCG based on their specific positions, take online examinations, and sign a letter of commitment.

### Case: Anti-Corruption and Anti-Bribery

Huawei believes that corruption activities like business bribery severely destroy the legal system, impair free and fair competition, and have negative effects on the development of society, the economy, and enterprises. Huawei believes that by employing an efficient and transparent anti-corruption and anti-bribery control system, it can win trust from its partners and customers to guarantee its sustainable development. Huawei strongly prohibits bribery in business situations. Huawei will abide by business ethics, perform all operations with integrity, adopt active and effective systems and measures, and oppose and prevent bribery and other corrupt activities. Huawei stresses that employees shall be active and effective in all business situations, abide by all laws, and conduct themselves ethically. The BCG and legal documents state that:

- Employees must not give or accept gifts or business amenities that exceed normal value.
- Employees are strongly forbidden to perform illegal actions, such as bribery, in business situations.
- Employees must comply with all government laws and regulations when conducting business.



## Environmental Protection

### Aim:

- To practice the "Green Communications, Green Huawei, Green World" strategy
- To design and provide green solutions
- To respond actively to climate change by implementing energy conservation and emissions reduction measures

The ICT sector is an energy-intensive industry with further user and traffic growth leading to greater energy consumption. Huawei realizes the importance of providing energy-efficient solutions. To address this issue, Huawei has implemented the "Green Communications, Green Huawei, Green World" strategy in its operations, products, and services.

Huawei fully considers the need for environmental protection and evaluates its impact on resource and energy consumption, greenhouse gas (GHG) emissions, and waste handling procedures for its products, services, and business activities. This understanding allows us to develop innovative solutions that minimize negative environmental effects and maximize our active influence in facilitating the development of a low-carbon economy. Additionally, Huawei hopes to spread our environmental protection practices, such as energy conservation and emissions reduction, throughout society to achieve our goal of "Green Communication, Green Huawei, and Green World".



### Case: Energy Conservation and Emissions Reduction Measures

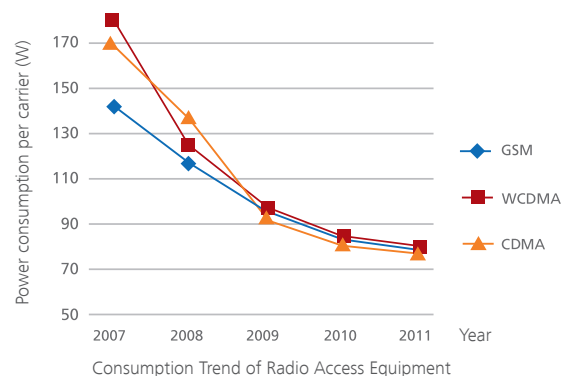
The energy consumption of the R&D Center and manufacturing base in Huawei's China Region is primarily related to the power consumption of manufacturing, R&D equipment, central air-conditioning, and lighting systems; the diesel consumption of generators; the gas consumption of service cars; and the natural gas consumption of canteens and heating.

Huawei strictly implements regulations on air-conditioning and lighting for indoor heating, strictly controls environmental temperatures, adjusts the on-and-off time of its systems in a timely manner, and reduces the consumption of diesel and gas by maintaining generators and establishing fuel consumption per hundred kilometers for cars.

In 2011, Huawei's Shenzhen and Dongguan bases implemented energy conservation audits and strategies based on the 12th Five Year Energy Conservation Plan. The major production facilities in the China Region saved a total of 14.13 million kWh through management and technology.

### Case: Green Base Station

Our research has shown that carbon emissions occur mostly in products used for base stations in mobile networks and broadband access in fixed networks. Based on our analysis of our customers' energy consumption, we are focusing on the need for a more energy-efficient design of our networks: primarily our access network, core equipment room, and transport network. In 2011, Huawei reduced its power consumption by implementing various measures and developing energy-conservation soft features during the operation of its base station. The reduction in our power consumption has also led to a reduction in carbon dioxide emissions and air pollution.



## Social Contribution

### Aim:

- To be a responsible corporate citizen
- To contribute to the development of the communities where we operate
- To contribute to positive economic, environmental, and social changes

#### Canada

Huawei sponsored a charity event held in Toronto and donated money to the local community mental health center.

#### The US

1. Huawei donated to Children's Medical Center at Legacy in Plano to improve community medical services.
2. Huawei supported the charitable activities of the North Texas Food Bank through donations and employee volunteer services.

#### The UK

1. Huawei launched the undergraduate work experience program for the students from Royal Holloway University and the University of Southampton.
2. Huawei organized a Prince's Charities Foundation concert in the UK and donated the money raised to the Prince's Charities Foundation.

#### France

1. A Chinese Spring Festival Concert was held locally to promote cross-cultural communication.
2. Huawei started the work experience training program for excellent students from the Ecole Polytechnique which enables them to do an internship in Huawei.

#### Italy

Huawei sponsored the China Disabled Art performance in Rome and promoted cross-cultural exchanges between the two countries.

#### Venezuela

Huawei worked with local charities CAJA MAGICA to visit children in poor areas and donated toys.

#### Colombia

Huawei donated money to Colombia to support the government's efforts in dealing with the floods.

#### Morocco

Huawei launched a network technology institute to promote IP technology and develop ICT talent by cooperating with the State University of Posts and Telecommunications in Morocco.

#### Mali

Huawei cared for women and children of the community and donated to the local foundation for women and children.

#### Guinea

Huawei Guinea contributed to the Guinean Government's policy on "Youngsters Employment", donated telephone booths and tools for repairing mobile phones, and provided training to create job opportunities for young people.

#### Nigeria

Huawei worked with the Nigeria Charity Foundation organizations to organize the "Happy Children's Day" charity activity in Abuja, the capital.

#### Ghana

1. Huawei donated a complete package of facilities to help the university of Cape Coast to build a new ICT laboratory, provided training courses, and developed ICT talent for local enterprises, research institutes, and government.
2. Huawei donated equipment to the local hospital to improve medical conditions and healthcare technologies.

#### Kenya

Huawei donated money to the Kenya Red Cross Society for relief of the biggest drought in 60 years as part of the "Kenyans for Kenya" initiative.

Huawei believes that the power of information communications can transcend the boundary of economies, society, and regions. We are committed to popularizing communications technologies, increasing educational opportunities, and developing ICT talent. We actively join our partners, promote sustainable development, contribute to local communities, and enrich life through communication.

The following provides an overview of Huawei's major social contribution activities in 2011:

#### Poland

Huawei participated in fundraising activities to support youth education and organized volunteers to care for orphans and the poor.

#### Latvia

Huawei donated telepresence systems to improve medical services.

#### Hungary

Huawei cooperated with Hungary's Economics University and Technology University and provided scholarships to the students.

#### Belarus

Huawei set up a training center in the National Institute of Advanced Communication (VGKS) in Belarus and is establishing a fund to encourage and support outstanding students.

#### Russia

Huawei donated communications equipment to Russia's St. Petersburg State University of Telecommunications.

#### Kazakhstan

Huawei provided scholarships to Kazakhstan International IT University to develop local ICT talent.

#### Japan

Huawei employees offered disaster relief assistance in response to the earthquake and tsunami, deploying equipment and emergency solutions to help restore communication networks.

#### China

1. Huawei cooperated with 45 universities in China and continued to provide scholarships and faculty fellowships to support academic development.
2. Huawei made donations to the earthquake-stricken area of Yingjiang, Yunnan.
3. Huawei supported the activities of the "Care Association" for charitable donations.

#### India

Huawei continued the E-Hope initiative to enable students from underdeveloped regions to gain equal access to the latest information and knowledge.

#### Thailand

Huawei contributed cash, goods, and equipment to assist the Thai government in resolving the flood situation in many regions.

#### Laos

Huawei donated computers and office facilities to the local government to improve school conditions in developing regions in northern Laos.

#### Cambodia

1. Huawei made cash donations to the Cambodian Red Cross to support education programs for the community and to assist the poor.
2. Huawei donated equipment and materials to the Cambodian government as part of rebuilding efforts after the flood.

#### Malaysia

Huawei launched a program to develop and train 10,000 ICT professionals in cooperation with the government of Malaysia over the next five years.

#### Indonesia

The STEI/ITB/Huawei datacom IP advanced training center was completed and inaugurated as a technical development base oriented toward school and society, and was dedicated to the development of local communications talent.

#### Australia

Huawei sponsored local foundations committed to cancer prevention and research to support local community healthcare careers.



### Supply Chain CSR Management

#### Aim:

- To work with suppliers to promote sustainable development and social responsibility in the supply chain
- To establish Huawei's social responsibility in the supply chain and boost the confidence of global customers
- To integrate CSR standards into the whole procurement process and supplier lifecycle management
- To cooperate with industry peers to solve supplier CSR issues via innovative thinking

To enable the sustainable development of the supply chain, Huawei works hand-in-hand with its suppliers to fulfill social responsibilities. We pay close attention to our suppliers' performance in the areas of ethics, the environment, health, safety, and labor. Issues with our suppliers may affect our businesses, such as production losses and damages to our brand value. As suppliers are an integral part of our company's value chain, a risk to a supplier is also a risk to our company and our customers. Based on the belief that our supply chain is as strong as its weakest link, Huawei requires CSR to be extended to all parties in its supply chain.

#### Case: 3rd Annual Huawei Supplier CSR Conference

In 2011, Huawei held its 3rd Annual Supplier CSR Conference with the theme of "Commitment and Innovation" – strengthening suppliers' commitment to sustainable development and behavioral change through innovative thinking. The conference was attended by 360 people from our six key customers and 174 suppliers, including senior executives from Telenor, Deutsche Telekom, Vodafone, British Telecom, France Telecom, and China Mobile. Huawei's Chief Operation & Delivery Officer delivered a speech entitled "CSR, Foundation for Sustainable Development". There were extensive exchanges between the participating members, including Huawei CSR experts and representatives from our customers and suppliers, on issues such as Huawei's CSR management process, approaches and ideas for innovatively resolving CSR issues, international CSR trends, principles for sustainable procurement, as well as experience in creatively resolving CSR issues. All representatives attending the conference signed their commitment on a CSR board.

## Stakeholder Communication

### Aim:

- To strengthen the management of stakeholder inclusiveness through consultation and communication
- To incorporate stakeholders' viewpoints into our business approaches and activities
- To enhance perception management and continue to improve customer satisfaction

A new focus of our CSR strategy is to regard stakeholder communication as a critical factor in all of our operations. Our goal is to continuously engage with our internal and external stakeholders to understand their views and address them by incorporating the issues raised into our business strategy and operations. In the future, we will be expanding the scope and scale of stakeholder communication, highlighting stakeholders' participation in our business.

### Case: Communication with Customers

For years, Huawei has been putting customers first. We strive to provide high-quality products and responsive services while driving down operating costs. Satisfying customer needs is our top priority. We help customers enhance their competitiveness and profitability. In addition, we will continue to take steps to establish a global customer satisfaction management system.

Huawei has set up regions and representative offices in major countries across all continents. We listen attentively to customers and better understand their needs by establishing multi-layer customer-facing organizations and lines of communication, as well as through activities such as open discussions, annual meetings, third-party satisfaction surveys, service hotlines, receptions for customers who come to audit Huawei, summits, and routine visits.

## Safe Operations

### Aim:

- To comply with the "Safety First, Prevention First" principle relating to occupational health & safety
- To systematically identify hazards, assess risks, and implement control measures to ensure sustainable development

Huawei develops its management processes and operation guides and implements its occupational health and safety management system to prevent accidents in many areas, such as manufacturing, project delivery, infrastructure, firefighting, vehicle security, and food safety.

### Case: Manufacturing Safety

In 2011, Huawei promoted its "I Want Safety" management concept throughout its manufacturing departments. This strategy involved establishing a multi-level safe manufacturing inspection model in multiple locations and implementing regulations and policies. In 2011, only four minor accidents occurred. There were no serious accidents. The injury rate in 2011 was 0.15 per million labor hours. Over the past three years, the accident occurrence rate has been significantly reduced.



Safety awareness training at manufacturing site

For more information about Huawei's CSR, see the 2011 Huawei Corporate Sustainability Report.

## Abbreviations, Financial Terminology, and Exchange Rates

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### Abbreviations

Abbreviations	Full name
ARPU	Average Revenue Per User
ATIS	The Alliance for Telecommunications Industry Solutions
ATM	Asynchronous Transfer Mode
BSS	Business Support System
CAGR	Compound Annual Growth Rate
CDMA	Code Division Multiple Access
CDN	Content Delivery Network
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
CT	Communication Technology
CTIA	Cellular Telecommunications and Internet Association
DSL	Digital Subscriber Line
EDGE	Enhanced Data Rates for GSM Evolution
EMT	Executive Management Team
EPC	Evolved Packet Core
ERM	Enterprise Risk Management
ETSI	European Telecommunications Standards Institute
EV-DO	Evolution-Data Optimized
EVPs	Executive Vice presidents
FBB	Fixed Broadband
FTTH	Fiber To The Home
GDP	Gross Domestic Product
GPON	Gigabit-Capable Passive Optical Network
GPRS	General Packet Radio Service
GSM	Global System for Mobile communications
GSMA	GSM Association
HSPA	High-Speed Packet Access
ICT	Information and Communications Technology
IDC	Internet Data Center
IEEE	Institute of Electrical and Electronics Engineers
IMS	IP Multimedia Subsystem
IP	Internet Protocol



Abbreviations	Full name
IPTV	IP Television
IPv6	Internet protocol version 6
IT	Information Technology
ITR	Issue To Resolution
ITU	International Telecommunication Union
LTE	Long Term Evolution
MBB	Mobile Broad Band
NFC	Near Field Communication
NOC	Network Operation Center
ODN	Optical Distribution Network
OMA	Open Mobile Alliance
OSS	operations Support System
OTN	Optical Transport Network
OTT	Optical Transmission Technology
PBX	Private Branch Exchange
PCT	Patent Cooperation Treaty
R&D	Research and Development
RAN	Radio Access Network
SAN	Storage Area Network
SDB	Service Database
SDM	Service Data Management
SDP	Service Delivery Platforms
SON	Self-Organizing Network
TCO	Total Cost of Ownership
TDM	Time Division Multiplexing
TD-SCDMA	Time Division-Spatial Code Division Multiple Access
TVO	Total Value of Ownership
U2Net	Ubiquitous Ultra-broadband Network Architecture
UMTS	Universal Mobile Telecommunication System
WCDMA	Wideband Code Division Multiple Access
Wi-Fi	Wireless Fidelity
WiMAX	Worldwide Interoperability for Microwave Access

**Financial Terminology****Operating profit**

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

**Cash and short term investments**

Cash and cash equivalents plus financial assets held for trading

**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	2011	2010
Average rate	6.4487	6.7629
Closing rate	6.2949	6.6070



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