

Huawei Investment & Holding Co., Ltd.

2013 Annual Report



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Letter from the CEO

Apply the spirit of the tortoise to catch up with the Dragon spacecraft



There is a fable about the race between a tortoise and a hare. The hare was born a fast runner, but during the race, it had a rest from time to time, taking an afternoon tea or having a nap on the grass. The tortoise surpassed the hare and won the race in the end.

Huawei is like a big tortoise. In the past 25 years, we have crawled along, not seeing the flowers on the road. While many people have become rich, riding on the rising economy over the last two decades, we still are on our journey of hard work and dedication. When we look up to find in front of us the likes of Dragon spacecraft and Tesla, and look at ourselves – the clumsy way we move ahead, we can't help but think, "Can we catch up and surpass them?"

I. Large companies are not necessarily synonyms for complacency or conservativeness; it is not inevitable for them to perish, or otherwise we would not strive to be one.

Can BMW match Tesla's pace? This has been an issue of debate for some time at Huawei. Most believe that Tesla vehicles represent a disruptive innovation and will surpass BMWs. I think that BMW may not lose the game if they take an open approach to improve themselves. We know there are several elements of a car: powertrain, smart driving (from on-line map, automatic shifting, bump shielding, all the way to unmanned driving), mechanical wearing, and safety and comfort. BMW is strong in the last two areas, and they can catch up too on the first two if they are open

and progressive. You could argue of course that Tesla can buy the capabilities they don't have, but I'm not saying BMW has to reinvent the wheel to establish themselves in the first two areas. BMW needs success, not a narrow sense of pride that everything has to come through its own innovation.

Huawei is like BMW, in that we are also a big company. We live in an information society that is fast-changing with lots of disruptive innovations. Can we continue to survive? Admit it or not, this is a question right in front of us. It took us 25 years to build a good platform and accumulate some resources. Those are our treasures, as they came after loads of money being wasted by our executives and experts into projects and products that had failed. Of course the money wasted comes from what you have earned in the first place, and more importantly without such wastes, we would not be where we are today. We value the success we have gained through learning from our failures. If we continue to be progressive, with the courage to shatter our own vested interest and embrace new things, Huawei may not necessarily lag behind. When we spot a strategic opportunity, we can catch up quickly by pouring in tons of resources. Different ways of investment can be used, not just by piling up people. This is quite different from the way small companies approach innovation. People are the most valuable. Employees who are open-minded, progressive, brave to break established advantages and keep up with the times are our most solid cornerstone. With such people in the company, we can possibly catch up with the Teslas of the world.

1. We must stay focused. We are a company with limited capabilities and resources. We can only catch up with or surpass US companies within limited areas. A force applied over a smaller surface area can get us larger pressure, and then breakthroughs would be possible. The Strategy & Development Committee proposed the idea of surpassing US companies and enjoying the ride, and I guess maybe that's because they are confident in our profitability in the next few years and want to invest more in the strategic areas. However, we can possibly surpass US companies only when our area of focus is as big as the tip of a needle. If we enlarge the focus area to the size of the head of a match or the end of a stick, surpassing US companies will be out of the question.

We only allow employees to leverage their initiative and creativity along the main route, or in other words in areas of our strategic business focus. Blind innovation would simply disperse our investment and energy. Businesses that are not on the main route have to learn from successful companies, maintain stable and reliable operations, and keep the management system rational, effective, and simple. We must avoid innovating blindly. If there is cry for innovation everywhere, that will be a death song for us.

The age of Big Data might be terrifying, because nobody knows exactly what is Big Data, and data traffic will be incredibly huge. The Big Data I've been talking about is different from the industry definition. The industry looks at Big Data from information search, not data size, point of view.

As Wu Hequan from the Chinese Academy of Engineering said, data creates value only when it is mined, analyzed, inducted, and utilized. By Big Data, I mean the surging and overwhelming data streams, and the fact that no one knows how much data has to be transmitted and stored. Of course, we hope what is transmitted is all useful information, but we cannot stop garbage from being transmitted and stored back and forth, which makes Big Data even bigger. Don't get lured by the success of the Internet. We are an Internet company too, in the sense that we produce "iron sheet" for pipes that transmit data streams for the Internet. Moving forward, there will be fewer companies that can produce "iron sheet" for pipes as wide as the Pacific Ocean; companies that run the pipes will be in the number of hundreds, and companies managing information in the number of thousands. Don't envy the prominence of others; don't get so stirred about the Internet. Employees who have such passion should come down-to-earth and try to use the Internet approach to optimize our internal supply transactions toward higher efficiency and timely and accurate operations. Our annual turnover of commercial notes, including internal handovers, has exceeded CNY2,500 billion, expected to reach 5,000 billion pretty soon. And we have more than 5,000 points of supply. There is significant value there, from improving contract accuracy and reducing waste via thorough analyses of contract scenarios. Why not do the "Internet" internally to better connect our operations? We have to remain focused, for decades, on improving our capability for the information pipes. Don't tow our huge ship away from the main route.

The network might loosen what has kept people within bounds. Without this bondage, can we still press forward like a torrent? Many people are amazed when they hear us sing the song *Huawei People*. They wonder why so many people are still singing such a song in such an age. At Huawei we still have a nucleus of several thousand people. United together, they rally and lead the rest of 150,000 employees. We will definitely win.

2. We must continue to be dedicated. The tortoise in the fable is a symbol of persistent effort, and such a spirit of Huawei must not change. The tortoise spirit also means that our effort and dedication should be sensible. We don't need our people to have their blood boiled up because that cannot power up the base stations. What we need is a controlled passion that allows our people to work intensely but with order. Value creation has to be the yardstick for everything we do.

We must be conscious of the power of the United States. They have advanced systems, flexible mechanisms, clear property rights, and respect and protection of individual rights. With such a sound business ecosystem, the US has attracted the world's best talent, in the number of hundreds of millions, to invent and innovate on the American soil. The light that never goes out in the Silicon Valley continues to shine. The US is not lagging behind; it is still a model for us to learn from. Isn't Tesla a good example? Catching up will never be as easy as coining catchwords. Too many catchwords are a waste in management. "Enjoying the ride" as Eric Xu put it, means we make constant effort for development, fearless of failures or sacrifices. All the work has to be measured by the value created.

Will ultra-broadband be the last battle in the electronic equipment manufacturing industry? I don't know what others think about it; but to me, it will. If we fail in the ultra-broadband age, we will have no more chance to turn it around. I was in Moscow not long ago. I told our people there that the city of Moscow is one circle after another, and the country's most powerful and wealthiest people live in the area encircled by MKAD (the Moscow Ring Road). For more than ten years however, no Huawei equipment has been deployed within MKAD. Can our ultra-broadband prosper in Siberia? If we cannot grab opportunities in high-value locations with massive data traffic, then our business in that market will eventually shrink and we will be marginalized. Today the paradigm of value distribution is being redefined. To survive, we must strive to establish ourselves at high-value regions with massive data traffic. Our technology is being used in Tokyo, London, and many other major cities. I believe we will also build our presence within MKAD of Moscow.

3. Self-criticism is the most important behavior for survival. It has started in our company since we embraced the beliefs that "from the ashes the phoenix is reborn" and "those who climbed out of the pit of setbacks are sages". Such self-correction has helped us to maintain steady growth over the years.

Our company moves forward on two wheels: technology innovation based on customer needs, and scientific exploration into the longer future. Huawei must have the courage to embrace disruptive innovations through self-reinvention and self-criticism. While fully tapping into the value of our installed business, we should not be pushing away disruptive innovations in the fear they might smash our "golden bowl".

With the establishment of the 2012 Laboratories, we intend to use the tool of self-criticism to question ourselves, our status quo, our future thoughts, and the questioning itself. 2012 Laboratories is studying the approaches of adapting to disruptive technical innovations, as well as the ways of applying sustaining innovations to today's technologies in order to make them future-proof. In the age of Big Data, we must move decisively to seize the high ground and create high-end products that meet customer needs. With regard to our low-and-mid-ranged products, consumer electronics from Germany and Japan should be the benchmark for the hardware, which ideally does not need any maintenance throughout the service life; the software can be upgraded online. Our high-end products are not absolutely stable, so our services have to come along.

The times are moving way too fast. If we are complacent and stand still just for three months, we will be erased from history. We survive till today because we have been embracing self-criticism since a long time ago. In 2013, our Board members reflected on the company's problems in the *Bombarding Huawei* series; our mid- and senior-level managers wrote and published *Management Issues in Our Eyes*. There were a mountain of such introspective articles. I reviewed and edited every piece of them before being published. Our people can also post their critical opinions at our online forum. Sooner or later there will be departments coming out to resolve these issues. The company will keep improving itself.

II. Core values are the heart and soul of an organization. The organizational structure in the future must fit in with the information society. Organizational setup is meant to serve nimble strategies and tactics.

Over the past 25 years, with the help of Western consulting firms and the efforts of several thousand HR professionals, business managers and experts, we have established a pyramid model for human resources management as Ken Hu described. This has helped us to reach almost USD40 billion in sales revenue. The several thousand outstanding managers and experts who have developed and evolved the pyramid model are great ones. We should grant them the honor of “human resources heroes”. Without their efforts and success, today’s pyramid restructuring would have been impossible. Pyramid-styled management is right for mechanized warfare in the past, in which the cannon-shot was near and communication systems not as advanced. Soldiers as a result must fight face-to-face. When the general on the top of the pyramid signaled “Go” with his hand, tankmen at the bottom drove thousands of tanks onto the battlefield; and soldiers in tens of thousands charged forward fighting enemies eye-to-eye. This was the only way to have enough firepower. In modern warfare however, as powerful long-range weaponry is available, operations are done using satellites, broadband, Big Data, missiles, airplanes, aircraft carriers, and many more. Electromagnetic waves become the new battlefield. Those who call for and command all the resources may not be the general atop the pyramid, but CC3s (Customer Centric 3) right at the frontline. The power projected from a thousand miles away is more effective than the face-to-face fight of

soldiers in huge number. The CC3s in our company today are mobilizing the resources they need through prompt and accurate calibration using the corporate platform. And the support to the frontline, be it sales, delivery, services, or finance, is being provided remotely. CC3s are not alone in the field; on project estimation, bidding, delivery, or finance, they have with them the support from hundreds in the back office via the network. This is what Ken Hu has described as “the squad leaders’ fight”. Leaders at CC3s should have the courage to fight; they should also keep the big picture in mind with the ability of strategic thinking. That’s why we put forward the concept of “major-general-company-commanders”. Why not colonel-company-commanders? It’s a deliberate exaggeration to make it more eye-catching. They are not real major generals of course. Nobody can grant you that title. Unless you buy some buttons and have them sewn on your collar. One button will make you a major general, and two will make you a lieutenant general.

1. The difference in compensation to employees needs to be widened, based on the value they each contribute. “Engines” in the organization have to be fueled to the full so that they can pull the train to run faster and deliver more. To live our core values, we must have a group of people who set the example. People’s compensation is not based on their scope of management; it has to be based on their contribution and responsibility-adjusted result in the first place, and then their dedication. Now the direction of our human resources policy has been set. For next steps, we need to allow some flexibility in HR policies at different scenarios, environments and regions.

I introduced the second law of thermodynamics from natural science into social science. The intention is to widen the compensation gap so that we will have a nucleus of several thousand people to lead the rest of us forward. We must always keep our team active to avoid “entropic death”. We will never allow the “black hole” to exist in our organization. Slacking off is that “black hole”. We must not let it suck away our light, heat, and vitality.

2. We will experiment with the idea of “major-general-company-commanders”. Projects should be staffed with the right management and expert teams based on project value and difficulty as well as the value and contribution that the projects have delivered. In the traditional pyramid, those at the bottom are people of the lowest levels. But those are also the people who face customer CEOs, confront complex projects, and deal with extreme difficulties. People that were staffed at this level were far away from what they should be.

We are having people with major-generals’ capability be company-commanders. Only the offices that are profitable can have “major-general-company-commanders”. I’m not sure whether some of you would like to be Lei Feng-style major-generals, doing all the good things wanting nothing in return. Well I’m not a supporter to this idea. Lei Feng is a kind of spirit; it cannot be used as a mechanism. The experiment has to start from profitable representative offices that can afford senior experts and managers. In this way, high-quality resources are channeled to high-quality customers. To have more capable resources to better serve high-quality customers, you have to make more money from such customers in the first place; or otherwise where you can get the money.

3. The internal talent market and the Strategic Reserves are established as an important means to improve capability. Bench resources are developed through real projects in the field.

The internal talent market is a place for finding Garcia and for dedicated employees, not a cradle for the laggards. The talent flow it facilitates will allow employees to find the most suitable positions and also drive managers to improve their management. When things get moved, vitality is gained.

Through the Strategic Reserves like the “Tiger Teams”, the strategic competition department, and project managers, we aim to expedite the circulation of organizations, talents, technologies, management approaches, and experience in the course of project operations. Also from project operations, we can identify more outstanding managers and experts to lead our company toward future progress.

We would like everyone to understand that hope is in their own hands. If they work hard, they will get good results. If they are made of gold, they will shine sooner or later. Do not moan or live in memories; keep striving forward. For those who are united as a team in both good times and bad, their names and their deeds may very likely not appear on the stone tablet of merits; such tablets record the achievements of generals. However, those who have nothing engraved on the stone tablet of merits might become commanders-in-chief in the future, organizing tens of thousands of men. Nobody knows how the inner world of commanders-in-chief develops. Selflessness is greatness.

III. Nimble strategies and tactics come from rigorous, well-organized, simple, and solid management.

Data traffic is growing, and our company is likely to become bigger. We can grow in size, but complexity in management must not increase.

We aim to transition our corporate governance from a centralized model to a new one. Under the new governance model, those who can hear the gunfire call for support; frontline organizations have both responsibilities and authorities; and corporate functions provide enablement and supervision. Such a model must be built on an effective management platform including among others, processes, data, information and authorities. Over the past twenty-plus years, with the help of Western consultants, we have established a rather integrated platform that provides guidance and support to the frontline. In the next five to ten years, we will build on this foundation and gradually move decision making closer to the frontline with the right level of support for them to exercise authority.

Guo Ping said our growth should no longer be driven by scale, but efficiency and effectiveness. Project operations management is an important way to get there; it is also a basic skill required of all the managers. Performance management both embodies and supports improved leadership management and business transformation. We should take a broader and longer perspective in understanding responsibility-adjusted result and performance. We have already optimized the performance metrics and we will continue to reduce the number of in-the-course metrics. Results are more important than the course. We must go in the right direction on finance management transformation. Finance management

is about value creation, not value distribution. We must continue to strengthen our customer and supplier interfaces and simplify internal accounting and measurement.

Huawei's management improvement, as Guo Ping said, has to be built on the improvement in project management. The eight critical roles for project management should be well selected and developed. Mature procedures and a large management team with high caliber have to be established. We need to build a pool of managers and experts on project management through the Strategic Reserves. As people in the pool move from project to project, good methods and capabilities are passed on to representative offices. We should be good at identifying the "golden seeds", and have them blossom out at different locations. These transformations represent opportunities for various organizations to create value; they are also the test bed to identify and develop future leaders.

The company's management transformation over the years has produced a lot of outstanding people. We will begin to select and commend the "Ten Whiz Kids" to encourage those unknown heroes who have contributed to the company's development. Guo Ping said we should look for those "Whiz Kids". And I think we have to find them and honor them with recognition; such search and commendation should cascade down the organization, so that those who have contributed to our success will feel inspired. While we select outstanding talent for the future, we should not forget those who have made contributions in the past. Only in this way can our steps toward the future be more solid. It is a law of history for the new to replace the old. However, we should never forget those who have put their best times, their health, or even their lives into Huawei, and the role they have played in paving the way for the company's sustainable development.

We must take a holistic view to advance the overall management system. It should be systematic, constructive, and simple. The management system has to be well connected, and processes be harmonized from end to end, to avoid silos from isolated transformation. We must respect facts and ensure the match between the financial book and the physical assets. We allow no lies. Whenever possible, we should try to skip one hop in the handover of our internal operations data, provided necessary separation of duties are observed, so as to increase the operating efficiency.

Further progress is expected not only in technology and the market. We must also make our management rigorous, well-organized, and simple. Internal transactions are to be done electronically over time, built on transparent data. A closed-loop management of planning, budgeting, and accounting will be implemented to ensure sustainable business development. There has to be a balance between making investment and mitigating risks.

Managers should get to know each other's area. Financial managers should know business and business managers know finance. We will have well-organized exchange of managers to facilitate such knowledge transfer. Frontline teams with mixed knowledge and experience are better positioned to seize opportunities in an efficient, timely, and solid way, to balance project wins with healthy business operations, and to take advantage of the LTC and IFS processes that have been deployed. The closed-loop management will be used to improve the appraisal and selection of managers.

When we had the management conference back in 2002, the IT bubble just burst and Huawei was on the verge of bankruptcy with low level of confidence. The Board of Directors believed in changing the industry landscape during the

hard winter; we chose the "chicken rib" strategy, increasing the investment into areas where others were stepping back. In the end we caught up. That was a difficult time for the world, and even more so for Huawei. Without the courage to change, we would not be here today. Now we are seeking changes again, but the situation we are in is much better, and this time we change for prosperity and effective growth. We should have more confidence to overcome any hardship and difficulty, and more importantly to surpass ourselves.

From the east of the Pacific to the west of the Atlantic, from the north of the Arctic Ocean to the south of Southern South America, from the high plateaus of Bolivia to the low lands of the Dead Sea, and from the boundless tropical rainforests to the scorching deserts... Tens of thousands of Huawei people, leaving behind their home and family, work diligently in every corner of the world to bring network coverage to all. Where there are people, there are dedicated Huawei employees. We take on the mission of supporting communications services to nearly three billion people. Such a mission keeps inspiring us to move forward.

The road ahead is broad and wide; our prospects are brighter than ever. It's a grand cause to be engaged, a cause that gives us unmatched pleasure and glory.



Ren Zhengfei
Chief Executive Officer

Letter from the Rotating and Acting CEO



For the past two decades, together with our customers and partners, we have created a stably connected world. In the future, we will continue to be dedicated to our vision as we endeavor to become the leader of the ICT infrastructure industry and create greater value for our customers. We seek to make this connected world a better place to live and open the door for infinite opportunities and possibilities.

A driving force to move the world forward

Connect closely to the world

As everything becomes increasingly connected, it is difficult to imagine a time without networks or an instantaneous flow of information, just as 20 years ago we could not imagine that information would so rapidly and profoundly change how we live and work today.

As an important contributor to these historical changes, Huawei has never been more closely connected to the world than it is now. This level of connectivity has two implications. First, ICT technologies have been deployed in more than 170 countries and regions, helping more than 3 billion people connect to the world, communicate anytime, anywhere, and easily acquire and share information. Second, this connected world is reshaping politics, economics, business, and production at an incredible speed and with formidable force.

ICT technologies – Huawei’s area of focus for the past 25 years – are changing from a support system that improves work efficiency to a production system that drives value creation. The result is that individuals, businesses, and organizations will become increasingly dependent on new business models, new orders, and new patterns for collaborative innovation and cross-boundary sharing.

Provide connectivity

By adapting to and staying at the forefront of industry trends over the past 25 years, we have narrowed the gap with our peers and become a top three player in the global market, fulfilling a dream our founder Mr. Ren Zhengfei set out in the company’s early days. Our efforts have made Huawei what it is today, helped our employees achieve their dreams, and, more importantly, contributed significantly to society and the progress of civilization.

From narrowband to broadband, from fixed to mobile, from voice to video, and from device to cloud, Huawei has been at the forefront during each of these technological transformations, and has ascended to new heights through collaboration with our peers. From the summit of Mount Everest to the Arctic Circle, from vast mountainous rural areas to densely-populated metropolises, and from emerging economies in Asia, Africa, and Latin America to developed markets in Europe, Huawei has built ubiquitous broadband networks, crossing borders to remove barriers to connectivity. From online shopping systems that handle hundreds of thousands of transactions per minute to the discovery of the God particle at 50 trillion collisions per second, from high-speed smart transportation systems to gigantic online education systems, and from financial data platforms to telemedicine diagnosis systems, Huawei has harnessed Big Data and leveraged cloud computing to drive innovation. From flagship devices that offer a superior experience to affordable smartphones, and from home entertainment centers to wearable devices, Huawei has made smart devices accessible to more people, enabling them to embrace mobility and enjoy the conveniences brought by technology.

Build a better connected world

The future will hold a better connected world, where everyone can share everything. Alongside our customers and partners, we will build the world's most efficient and integrated digital logistics system to ensure full connectivity between people, people and things, and things and things. Doing so will facilitate the free sharing of ideas. We will continue to pursue dreams, spark innovation, and drive the evolution of technologies, industries, and human interaction to create a better connected world.

We aim to support the highest volume of digital content, tens of millions of individual applications, and millions of enterprise applications to enable users to work, live, and study in the cloud. We hope to establish absolute leadership in the network field, helping customers build networks as wide as the Pacific Ocean. We will enable consumers to stream HD videos anytime, anywhere, via 10 Gbit/s broadband that supports holographic communication and delivers 100 times the speed of existing 4G networks. We are poised to provide a rich variety of affordable smart devices that deliver superior experience and connect tens of millions of enterprises and hundreds of millions of individuals and families.

2013: Innovate continuously and facilitate effective growth

In the fiscal year 2013, Huawei achieved CNY239.025 billion in sales revenue, an increase of 8.5% year-on-year, and CNY21.003 billion in net profits. Our strong performance can be attributed to the improved global macro economy, a better business environment, and the effective execution of our corporate strategy. Our operating cash flow and asset to liability ratio remained stable, and our operating efficiency continued to improve.

In anticipation of future trends, we launched the SoftCOM network architecture in 2013. In new areas such as cloud computing and storage, we made notable progress, delivering competitive IT infrastructure solutions to customers. In enterprise and data center networking, we launched the agile network architecture, the world's first agile switch, and a data center switch offering the industry's largest capacity at 64T. Our NFV-ready solutions are recognized by the industry and leading carriers. This auspicious start has given us a head start at the outset of network architecture transformation.

Encouraging results have also been delivered in our traditional areas of strength. We reinforced our leadership position in the global LTE market; our 400G routers have been commercially deployed by 49 customers on a considerable scale. We were the first to launch a 1T router line card, a 40T WDM prototype, and a new architecture for All-Optical Switching Networks (AOSNs). In the device market, particularly in the smartphone segment, we significantly improved product quality and brand competitiveness, thereby boosting our popularity among consumers.

2014: Strive for goals that bring value to Huawei

In 2014, the global economy will continue to recover. The increased coverage of ultra-broadband and mobile broadband, especially LTE, is set to bring new opportunities for the further development of the telecommunications industry. Smart devices will become an intrinsic necessity for digital natives and emerge as an extension of the human sensory system. Driven by the transformation of IT systems and the digital restructuring of traditional industries, IT systems are becoming a production system and a core competency for enterprises. Thus, 2014 marks a new beginning – not just for Huawei – but for the industry as a whole. While continuing to focus on strategy and simplify management in 2014, we will also work to expedite our effective growth and lay the foundation for development over the next decade.

Focus on strategic domains

To seize valuable strategic opportunities, in 2014, we will invest more efforts and resources in our future growth. We must have the courage to invest in strategic domains, core technologies, strategic

customers, and strategic markets, thus laying a solid foundation for our future development. In the product and technology domains, we will focus our investment on the SoftCOM network architecture in order to build a future-oriented leadership, establish our competitive advantage, and create long-term value for customers.

Rapidly adapt to change

History has proven that Huawei has the ability to adapt to market changes through self-restructuring. In response to the ICT convergence trend, we will further promote our internal organizational transformation, simplify management, and delegate authority to frontlines to ensure that our organizations in all three dimensions – customers, products, and regions – create value for customers and take responsibility for our company's effective growth, market competitiveness, and customer satisfaction. To adapt to changes in the business environment, we will strengthen delegation to field organizations so that they can operate more flexibly and respond to customers' high-value needs more quickly. This transformation will increase the operating efficiency of our organizations, further unlock our potential, and enable us to better serve customers.

Glocalize our operations

The business world is changing rapidly. Protectionism and cyber security are just a few of the challenges and risks that we face. Under any circumstance, supporting the stable and secure operations of customers' networks is our most honored commitment to our customers as well as one of our core strategies. We will work closely with all stakeholders to address cyber security challenges.

In 2014, we will continue to globalize by pooling together the world's best resources to improve our efficiency and capabilities. We will delegate authority to local management teams, regardless of nationality, so that they can be truly accountable for local operations. We will optimize the operations and management mechanisms of subsidiaries outside of China to ensure compliance, build a harmonious business environment, and contribute to local communities as a responsible corporate citizen.

Unite as many people as possible

We must unite as many people as possible as we move forward. All outstanding employees, regardless of their age, nationality, gender, and cultural background, have equal access to our platform to leverage their talents, develop themselves, and contribute to the company and society at large. We will have a more human touch when managing our people and business. We respect and trust our employees, and encourage them to grow with the company. The overall compensation will be made more competitive and our long-term incentives will be made available to a larger number of high-performing Huawei employees across the world. All these initiatives are designed to motivate our organization and employees (including managers) to create more value for our customers.

Achieve the goal of surpassing and enjoy the ride

The spirit of the tortoise has enabled Huawei to survive. The tortoise is focused, persistent, and highly adaptable to environmental change. It travels across land and sea, regardless of weather and temperature, subsisting on seaweed. The

tortoise has been evolving for millions of years and has outlived animals of all sizes, including dinosaurs. In this process, it has surpassed itself.

We live in an era of opportunities, challenges, and risks. No one can accurately forecast or steer the future amid such complex environments and uncertain markets; Huawei is no exception. This leaves us no choice but to hold onto our core values, focus on our pipe strategy, engage fully in what we do, and continuously evolve and develop at a solid pace.

Huawei is still a young company, and the ICT industry is booming. A connected world has unlocked opportunities beyond our imagination. Against this backdrop, our 150,000 dedicated employees must have the courage to take the lead, surpass themselves, and dominate the era. How many struggles are there in life? At Huawei, our philosophy is – no matter whether we can succeed or not, let's enjoy the ride!

Huawei's growth would not have been possible without the trust and support of our customers and partners. Let us join hands to create a better connected world!



Eric Xu
Rotating and Acting CEO

Business Highlights in 2013

Enhancing resource integration worldwide

We set up the Financial Risk Control Center (FRCC) in London to manage global financial risks and ensure that our financial operations remain efficient, secure, and standard-compliant. Our European Logistics Center was put into official operation in Hungary, covering countries throughout Europe, Central Asia, the Middle East, and Africa.

Leading 5G research and innovation

As a major facilitator of 5G projects initiated by the European Union and a founding member of the 5G Innovation Centre (5GIC) in the UK, we released a 5G white paper, proactively constructed a global 5G ecosystem, and carried out joint research in close collaboration with more than 20 universities worldwide. We played an active role in contributing to the development of future wireless technologies, industry standards, and the industry chain.

Enabling large-scale commercial use of 400G routers

Our commercial 400G router solution was recognized by 49 customers and put into large-scale commercial use. We were the first to launch a 1T router line card for backbone routers, a super-large-capacity 40T WDM prototype, and a new AOSN architecture.

Maintaining our global leading position in LTE

We remained the leader in commercial LTE deployment worldwide. Our solutions have been deployed in more than 100 capital cities and nine financial centers.

Changing the future with agile networks

We launched the world's first service- and user experience-centric agile network architecture, along with the first-of-its-kind agile switch S12700. These offerings are ideal for such new applications as cloud computing, Bring Your Own Device (BYOD), Software-Defined Networking (SDN), Internet of Things (IoT), multi-service support, and Big Data.

Enhancing brand competitiveness of smart devices

By adhering to a consumer-centric approach and a "Make it Possible" brand proposition, we continued to focus on a quality strategy. Our flagship device, the Ascend P6, achieved extraordinary results in terms of both brand awareness and profit. Historical breakthroughs were made in our smartphone business, and we were ranked among the top three globally. Global brand awareness of our mobile phones saw an annual increase of 110%.

Building service value

Huawei is committed to increasing service competitiveness. The capabilities of our service solutions and worldwide delivery organizations are continuing to advance, enabling us to deliver uniformly high-quality services on a global scale, tailored to local needs. The HUAWEI SmartCare® CEM solution has further extended our leadership in the telecom CEM area through scaled delivery of verifiable business value and constant innovation. We have worked with the TM Forum (TMF) to develop a CEM metrics system, becoming a leading player in the development of industry CEM standards. Our Managed Services have outperformed the market throughout the year. Huawei has become an industry-leading managed service provider (MSP) with strong business growth. In addition, we have steadily grown our consulting and system integration services and developed key capabilities in end-to-end network planning and evolution services.

Five-Year Financial Highlights

CNY Million	2013 (USD Million)**	2013	2012*	2011*	2010*	2009*
Revenue	39,463	239,025	220,198	203,929	182,548	146,607
Operating profit	4,809	29,128	20,658	18,796	31,806	22,773
Operating margin	12.2%	12.2%	9.4%	9.2%	17.4%	15.5%
Net profit	3,468	21,003	15,624	11,655	25,630	19,430
Cash flow from operating activities	3,724	22,554	24,969	17,826	31,555	24,188
Cash and short-term investments	13,529	81,944	71,649	62,342	55,458	38,214
Working capital	12,412	75,180	63,837	56,996	60,899	43,286
Total assets	38,226	231,532	210,006	193,849	178,984	148,968
Total borrowings	3,803	23,033	20,754	20,327	12,959	16,115
Owner's equity	14,243	86,266	75,024	66,228	69,400	52,741
Liability ratio	62.7%	62.7%	64.3%	65.8%	61.2%	64.6%

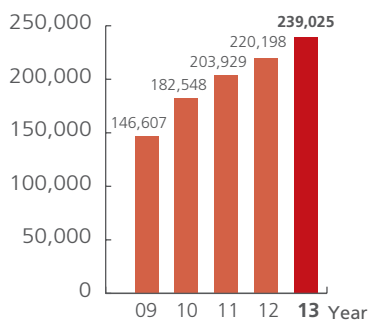
* As a result of the application of new International Financial Reporting Standards ("IFRSs") and amendments to IFRSs and to conform to current year's presentation, certain comparative figures have been restated.

** Translated into United States dollar ("USD") using the closing rate as at December 31, 2013 of USD1.00 = CNY6.0569

Revenue

CAGR: 13%

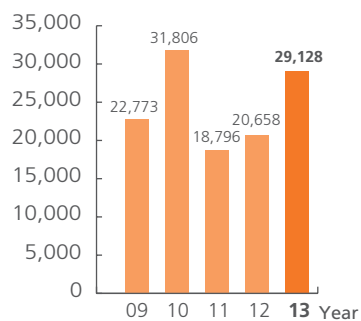
CNY Million



Operating profit

CAGR: 6%

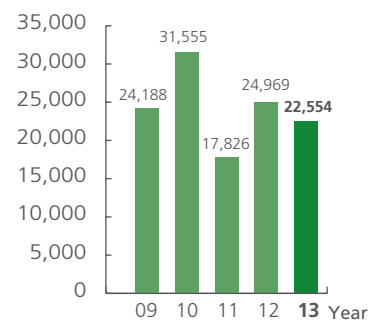
CNY Million



Cash flow from operating activities

CAGR: -2%

CNY Million



Letter from the Chairwoman



Flowing water brings energy, vitality, and boundless potential. The increasing flow of information around the world is similar in that it enables humanity to share knowledge, ideas, and wisdom. As the costs associated with information flow are constantly reduced and efficiency is significantly boosted, society becomes more educated and empowered. This is remarkable progress!

Today, information-based developments penetrate social-economic activities and nearly every aspect of our daily life as we embrace an era with massive data traffic. The new wave of ICT, characterized by mobile broadband, cloud computing, Big Data analytics, the Internet of Things (IoT), and social

networking, has further accelerated the integration of the digital and physical worlds. Billions of people have mobile devices and tens of billions of “things” are connected to M2M modules with ubiquitous broadband access made available by mobile, fixed, and enterprise networks, generating copious amounts of data every few seconds. How can such a massive volume of data be transmitted, processed, stored, and presented? Huawei builds highly efficient and fully-connected digital logistics systems with this purpose in mind.

Innovation connecting everyone

Driven by information-based development, we are no longer restricted by physical boundaries – our world is becoming flat. With mobile networks entering the LTE era, cloud technologies have made businesses and organizations more efficient, while individuals can easily find entertainment and shop, study, and job-hunt through a rich variety of smart devices.

ICT is the engine that powers innovation worldwide. We develop innovative technologies that can provide access to those who don't have any, and faster access to those who do. In 2013, we deployed LTE solutions in over 100 countries around the world, allowing people to enjoy easy and fast access to wireless networks. We called for the industry to add 500MHz frequency bands to propel the mobile broadband industry forward and make broadband access available to a wider

group of people. We published a 5G white paper and established our vision and key technological goals for 5G development and deployment in the hope of making 5G available sooner to advance the ICT industry and improve quality of life for all. We launched the world's first service – and user experience-centric agile network architecture, along with the first-of-its-kind agile switch S12700. These offerings are ideal for such new applications as cloud computing, Bring Your Own Device (BYOD), Software-Defined Networking (SDN), IoT, multi-service support, and Big Data. In addition, we will increase our investments in innovation and research on basic scientific and engineering technologies to drive the industry forward with leading core technologies.

Huawei's products and services have enabled nearly half of the world's population to enjoy easy and affordable access to information networks. We firmly believe that such networks increase opportunity and should be available to everyone.

Glocalized operations

In the context of globalization, we believe that open, cooperative, and free trade policies are guarantees for improving the competitiveness of the ICT industry and promoting the development of the digital economy. With a global view in mind, we integrate the best resources with comparative

advantages and manage these resources consistently across the globe. We are working hard to ensure a global industry chain grounded in win-win approaches and reciprocal obligations to help build a sound business ecosystem for the long-term development of the industry. As a responsible corporate citizen, we always contribute significantly to the local markets in which we operate.

We have fully leveraged the capabilities and cost advantages in different regions, including finance, services, consulting, and human resources, and have set up over 40 centers of expertise (COEs) and over 30 shared service centers (SSCs). In 2013, we set up the Financial Risk Control Center (FRCC) in London to manage global financial risks and ensure that our financial operations remain efficient, secure, and compliant. Our European Logistics Center, based in Hungary, makes the best use of regional resources and covers Europe, Central Asia, the Middle East, and Africa. By localizing our operations and cooperating extensively with local and global partners, we have improved our overall capabilities. In addition, our value chain enables fluid capability transfer across the entire world, creating great value. Through globalization, we have created tens of thousands of jobs in local communities and helped to advance the ICT industry in each market. Today, over 70% of our employees outside of China are local hires.

Building a robust network

The ICT industry relies on a global supply chain. Each smartphone, tablet, PC, TV, and even home appliance has a global supply network, which makes it increasingly difficult to trace the source of security risks and threats. Society is increasingly dependent on networks, and the scale and complexity of networks are increasing exponentially, increasing risks.

To mitigate risks, we have incorporated security requirements into our internal processes and established an auditable, sustainable, and trusted security assurance system. In the spirit of cooperation, we have actively participated in standards activities in IEEE, IETF, OMA, UPnP Forum, Wi-Fi Alliance, and other such organizations to help ensure network robustness and security.

In 2013, we continued to support stable network operations in over 170 countries and regions, particularly during critical incidents, natural disasters, and special events, including Hajj, the Ya'an earthquake in China, and Typhoon Haiyan in the Philippines.

Inspiring organizational vitality

As our company becomes more globalized and our business continues to develop, our Board of Directors (BOD) needs to represent a wider range of areas and embrace broader management views that will enable it to make timely and informed decisions, thereby helping to ensure sustainable and effective growth in today's fiercely competitive market. To this end, we increased the number of BOD members from 13 to 17. New members were voted in by representatives of shareholding employees on December 27, 2013. The four new directors have each worked at Huawei for over 10 years and possess extensive experience in markets, technologies, and management; their experience and insights will contribute significantly to the development of the company.

In 2014, we will gradually restructure our business organizations to suit the era of ICT convergence. This is the only way we can provide solutions that can fully meet customers' evolving needs. While building closer connections and partnerships with customers to help them achieve success, we ensure our own health and sustainable growth.

Sowing seeds of opportunity

In 2013, we deployed TD-LTE solutions in Africa, dramatically increasing access speeds and wireless broadband coverage. This, in turn, reduced the cost of wireless broadband access and allowed more people to enjoy high-speed broadband networks.

We also actively promoted the development of ICT professionals and knowledge transfers in local communities to help them join the digital society. As of the end of 2013, Huawei's "Telecom Seeds for the Future" program covered over 70 universities in more than 20 countries, benefiting over 10,000 students.

We firmly believe that everyone should have citizenship in the digital society that will soon connect the entire world. Universal access is a step towards creating a level playing field. Information networks, which so many of us take for granted, hold the potential to change the lives of those who

have yet to be connected. Joining the connected world, they will acquire more knowledge, receive a better education, and have more development opportunities.

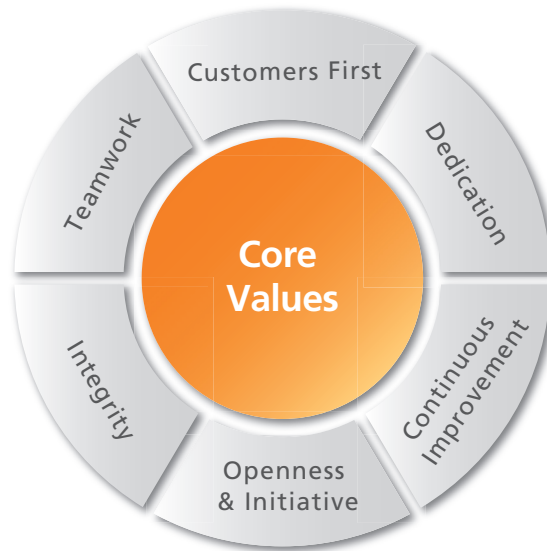
I would like to extend my sincere gratitude to all staff members and their loved ones, and to our customers, partners, and industry organizations worldwide. As we move forward, let us work together to create a better connected world – for everyone.



Sun Yafang

Chairwoman of the Board

Core Values



Customers First

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

Continuous Improvement

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

Integrity

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

Dedication

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

Openness & Initiative

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

Teamwork

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

Management Discussion and Analysis

Our Value Propositions

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



Ubiquitous Broadband

The Internet makes it easier to disseminate and obtain information, and stimulates people's desire to go online anytime, anywhere using any device. This level of connectivity enables users to access more content and applications and enjoy the convenience made possible by mobile offices. Enterprises are migrating their services from IT systems to data centers and clouds, which in turn places higher requirements on networks. Harnessing future data surges requires networks with enhanced capacity, coverage, and efficiency. Huawei aims to bring the benefits of networks to more people.

Given that the requirements for network connectivity, bandwidth, reliability, and security are far from being satisfied, Huawei is committed to helping carriers increase network capacity, optimize network management, and enable Internet-based operations. We continuously innovate new architectures (such as SoftCOM), Single platforms, and new technologies. By delivering products and solutions with leading technologies and smooth evolution, we help customers build highly efficient network infrastructures that provide on-demand services to users and offer them easy access to ubiquitous broadband.

Agile Innovation

The ICT industry is still developing rapidly. New trends such as mobility, cloud computing, Big Data, and social networking are driving the industry into new frontiers. In addition, significant digitalization changes are taking place in the real world. The Internet is driving the modernization and restructuring of traditional industries.

Enterprises and industries must rapidly gain insights into business opportunities and continuously enhance IT-enabled organizational collaboration in order to launch new products and new services into markets better and faster. IT is transforming from a support system into a production system and has become a core competence of enterprises.

Huawei provides data center infrastructure solutions based on cloud computing to help customers enhance utilization of storage and computing resources, and enable business systems to be quickly deployed, easily operated and maintained, and efficiently managed. Huawei also provides mobile office solutions that help customers improve work efficiency. Our intelligent data analysis system leverages Big Data technologies to help customers gain insights into business opportunities and make agile business innovations.

The next 30 years will witness the gradual replacement of private data centers by public cloud data centers. Huawei is positioned to help carriers build public clouds and seize the tremendous opportunities presented by enterprise ICT cloud services.

Inspired Experience

A superior user experience is the basis of business success. The experience with the product itself is important, but the experience of cloud services provided by the product is more important. Future smart devices, including wearable smart devices, are gaining wider market appeal thanks to enhanced user experience made possible by such features as precise emotion recognition and context awareness.

Our goal is to provide industry-leading device products. Through innovations in key technologies (e.g., ambient intelligence, voice interaction, and new materials), industry designs, and cloud services, we will take the user experience to a new level.

Business Review 2013



In 2013, Huawei's well-balanced presence worldwide helped the company achieve stable and healthy growth in the carrier network, enterprise, and consumer businesses. Annual sales revenue amounted to CNY239,025 million, an 8.5% increase over the previous year.

Sales from the Chinese market totaled CNY84,017 million, an increase of 14.2% year-on-year. The carrier network business continued to maintain modest growth, while the enterprise and consumer businesses both achieved rapid growth, increasing by over 35%. Thanks to the growth of infrastructure networks, professional services, and smartphones, Huawei earned CNY84,655 million from Europe, the Middle East, and Africa (EMEA), which marks an increase of 9.4% in sales revenue year-on-year. Due in large part to the development of emerging markets in Southeast Asia, Huawei maintained its growth momentum in the Asia Pacific Region and achieved CNY38,925 million in sales revenue, up 4.2% year-on-year. In the Americas, the infrastructure network business grew robustly and the consumer business enjoyed continued growth in Latin American countries. However, due to business slowdown in North America, Huawei earned CNY31,428 million in sale revenue in the Americas, down 1.3% year-on-year.

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

CNY Million	2013	2012	YoY
China	84,017	73,579	14.2%
America	31,428	31,846	(1.3%)
Asia Pacific	38,925	37,359	4.2%
EMEA	84,655	77,414	9.4%
Total	239,025	220,198	8.5%

CNY Million	2013	2012	YoY
Carrier Network Business	166,512	160,093	4.0%
Enterprise Business	15,263	11,530	32.4%
Consumer Business	56,986	48,376	17.8%
Others	264	199	32.5%
Total	239,025	220,198	8.5%

239,025

Huawei achieved CNY239,025 million in sales revenue, an increase of 8.5% year-on-year.

Carrier Network Business

Over the past 20 years, an increasingly more mobile digital society has profoundly changed the way people work and live. Over the next 20 years, this digital world will be further integrated into the physical world. With ubiquitous Internet, such integration will yield unlimited possibilities and drive the emergence of innumerable technological innovations and applications.

As this integration progresses, consumer needs are shifting from basic connections to content and applications, thereby adding thrust to the ICT industry as it figures out new ways to keep up with the changing demands. Enabling consumers to access desired content and applications faster is quickly becoming the differentiating factor between competing carriers. The following key factors decide which carriers maintain competitiveness:

- Ability to build ubiquitous networks and deliver optimal network experience
- Capacity to integrate a broad range of content and applications
- Competency in executing agile and efficient business operations

Remaining steadfast with Huawei's 2013 overall strategy, our focus remained on improving information transfer, processing, and storage. We provided integrated products, services, and solutions to help carriers build networks capable of delivering optimal customer experience.

Continuous and persistent technical and architectural innovation is the key to cultivating an optimal network experience. We invested in SoftCOM to promote the development of SDN and NFV and help carriers build a data center-based network architecture. We continued to invest in the research of 5G technology and improve

wireless network capabilities to promote industry development. Multi-dimensional collaboration was undertaken to develop higher bandwidth and improve user experience by facilitating the evolution of LTE. We continued to adhere to the "hybrid copper and fiber" strategy to promote the sound development of FBB. A pipe as wide as the Pacific Ocean has been constructed for IP and WDM to support the increase in traffic.

To integrate various content and applications, we developed enterprise cloud service platforms to explore and cultivate cloud opportunities with carriers; built video-centric multimedia service platforms to help carriers develop in-home services; collaborated with carriers to provide services for consumers, home and enterprise users; and worked with carriers to transform their operations support systems (OSS) into business enablement systems based on Internet architecture.

Regarding agile and efficient business operations, we built mobile Internet service platforms to help carriers transform towards personal consumption services, and developed the HUAWEI SmartCare® customer experience management (CEM) solution to help carriers transform to user-centric operations.

Thanks to our focus on the pipe strategy as well as our customer-centric product and business & service solution strategies, we are becoming the most trusted business and strategic partner of carriers. In 2013, sales revenue from our carrier network business totaled CNY166,512 million, an increase of 4% year-on-year. Our sound financial performance has enabled us to be more innovative in development of technologies, products, and business & service solutions, therein equipping us with the means to provide continuous strategic support for the transformation and development of carriers.

Wireless Networks

Sales revenue from our wireless network equipment totaled CNY52,503 million in 2013.

More than a decade of relentless efforts and continuous innovation in the mobile communications field have taken Huawei from deploying distributed base stations to establishing our SingleRAN solution as an industry standard and developing the industry-leading end-to-end mobile broadband (MBB) solution. All these remarkable achievements have positioned Huawei as a true industry leader, no longer merely to be perceived just a product provider.

Mobile broadband is changing the world and bringing with it great opportunities and unlimited growth potential. With our end-to-end MBB solutions, we are committed to paving the way for carriers to succeed in the mobile broadband era. Ubiquitous ultra-broadband networks provide end users with an inspired experience. Network architecture optimization and end-to-end resource collaboration effectuate rapid and efficient network construction and service deployment capabilities for carriers. Enhanced and open network capabilities will continue to drive carrier business innovation and revenue growth.

By the end of 2013, Huawei had deployed over 500 wireless networks worldwide, serving over two billion end users. With the vigorous development of the global mobile industry, large-scale LTE deployment was launched worldwide. The issuance of 4G licenses in China gave fresh impetus to the global mobile industry. We remained the leader in commercial LTE deployment worldwide. Our LTE solutions have been deployed in more than 100 capital cities and nine financial centers. In China, Huawei has become the most important

partner for all the top three carriers in the country providing mobile broadband services. In addition, we have maintained our leadership position in the UMTS/HSPA+ market and have deployed 297 commercial UMTS networks worldwide, of which 97 networks have been upgraded to use the 42 Mbit/s Dual Carrier HSPA+ technology. By leveraging our world-leading multi-band and super wideband electronic control antenna solutions, we have established a leadership role in the global LTE antenna market and provided services to over 360 networks in 155 countries.

As verified by 3GPP, Huawei has contributed the most high-quality LTE/LTE-A standard patents since 2010. Specifically, we have demonstrated our strong capability for standards development by contributing 466 granted proposals to LTE/LTE-A core standards, achieving the global No.1 position and constituting nearly 25% of all proposals granted globally. We currently hold key positions ranging from chairperson and board member to director, workgroup leader, and speaker in over 100 standards organizations (such as 3GPP, ETSI, IEEE, and ITU-T).

Almost without realizing it, mobile broadband has expanded its reach into nearly every part of everyday life. Looking forward, we will increase investment in future key technologies and standards on wireless networks. We will invest at least USD600 million into 5G technology research and innovation by 2018, and expect that by 2020, such countless "things" as cars, meters, medical equipment, and home appliances will all be connected to 5G networks. We will be presented with unprecedented development opportunities in the communications industry as well as the healthcare, retail, transportation, banking, media, education, and manufacturing industries, and people will lead better, fuller lives rewired to the age of hyper-connectivity.

Fixed Networks

Sales revenue from our fixed network equipment totaled CNY45,085 million in 2013.

The fourth information revolution, represented by cloud computing and Big Data, smart devices, HD/ultra HD video content, and the popularization of over the top (OTT) products are leading the ultra-broadband industry into a new era.

To enhance the social and economic value of the ultra-broadband industry, we proposed the BOOST ultra-broadband business strategy. This strategy focuses on bandwidth management, industry cooperation, collaboration between fixed and mobile networks, and on-demand network construction, helping carriers address the new challenges posed by the ubiquitous ultra-broadband environment. We advocate that carriers improve user experience, achieve differentiated operations, and provide higher bandwidth at no extra charge by providing appealing content and implementing bandwidth management. In addition, we are strengthening industry cooperation with OTT service providers by embracing the shift from the traditional OTT cooperation model into the Via the Telecom (VTT) model. This approach promotes joint development of content and broadband technology to create win-win outcomes. To enhance the overall return on investment (ROI) for carriers, fixed broadband can be jointly deployed with mobile broadband. This provides users with access to converged fixed and mobile broadband anytime, anywhere with unified service packages while improving efficiency in network construction to the benefit of carriers. On-demand network construction can be implemented in the last mile to leverage existing copper wires, coaxial cables, power lines, and so forth, thereby achieving optimum use of fiber and deployment resources and alleviating pressure in terms of ROI while

satisfying increasing requirements for bandwidth from subscribers.

During the construction of high-speed ultra-broadband networks, we constantly focus on customer needs and lead the development of the fixed network industry. In the IP network field, Huawei has taken a leadership role in the core router domain with the launch and large-scale commercial implementation of the first 400G/1T core router one year ahead of other industry players. Our 1T router line card won a prestigious award from InfoVision at the Broadband World Forum 2013. In the optical transport network field, we were the first to launch the all-optical switching network (AOSN) architecture, a critical milestone in the development of optical network technologies. Our 40T WDM equipment supports up to 10 million users concurrently playing HD video on demand and lays a solid foundation for the construction of a high-speed transport network as wide as the Pacific Ocean. In the access network field, we launched the Vectoring system, which provides the industry's highest capacity, capable of concurrently supporting 100 Mbit/s broadband access for 768 users. The world's first Fiber to the Door (FTTD) solution leverages existing cable resources to help carriers quickly provision services and increase ultra-broadband speed based on customer needs.

In 2013, our innovative fixed network products and solutions and excellent service gained worldwide customer recognition. Huawei's 400G core router won 49 customers worldwide and became the world's largest supplier for commercial 400G core routers. We helped Russia's MegaFon build the world's longest 100G WDM network across the Eurasian continent, and constructed over two hundred 100G WDM commercial networks, covering more than 200,000 kilometers in total – more than five loops around the earth. We offered

both fiber and copper access in the ubiquitous ultra-broadband era. Our Vectoring solution shipments ranked No. 1 in the world and Vectoring solutions have been widely deployed by more than 20 carriers, including Eircom, Telecom Italia, Swisscom, British Telecom, and Telekom Malaysia. As a leading supplier of IP microwave products, we deployed more than 40 second-generation E-band microwave networks, becoming the largest supplier in this field.

Moving forward, fixed broadband networks will face many opportunities and challenges. Carriers will gradually adopt SDN/NFV for simplified management, flexible deployment, and its open capabilities. The maturity of the 4K video industry chain poses higher requirements for network bandwidth and adds further impetus to fixed broadband development. In the FMC2.0 era that features mutual penetration and integration of CT, IT, and the Internet, full-service operations (including fixed, mobile, and content services) will be the key initiatives to enhance customer experience. In the face of opportunities and challenges brought by development in the industry, we will continue to nurture an open and innovative attitude, provide more competitive solutions to develop the industry, and become a strategic partner that even more global customers rely upon.

Global Services

2013 was another year of strong growth in Huawei Global Services. Sales amounted to CNY52,047 million.

The major industry trends in 2013 were carriers' focus on efficiency, innovation, and growth. The rapid evolution of network technologies, services, and applications has led to a shortage of spectrum, requiring carriers to place increased emphasis on

planning, collaborative design, smooth network evolution, and spectrum efficiency to maximize their ROI. Changes in the business environment, use of services and applications, together with user behavior are driving carriers to invest more in CEM to cultivate further commercial opportunities. The demand for Managed Services (outsourcing) remains strong, with the scope becoming broader and deeper. The rapid evolution of new technologies and network architectures such as SDN/NFV and cloud data centers is bringing greater challenges in all domains, including network planning, design, operation, and maintenance.

To enable carriers to stay abreast of the trends and stay competitive in a volatile market, Huawei has set services as a priority for our strategic investment. During 2013, we have continued to increase investment in service solutions, platforms, and tools, while establishing local service delivery organizations and supporting platforms around the world. In addition, we have been committed to creating greater value for carriers. We have established strategic collaboration and joint innovation initiatives with carriers, increased investment in joint innovation with carriers, and constructed a number of global Centers of Expertise (COEs), such as the Service Operation Center (SOC) in Jakarta, Indonesia; the Big Data COE in Dublin, Ireland; the Global Network Evolution and Experience Center (GNEEC) in Beijing, China; and the Customer Experience Transformation Center (CETC) in Shenzhen, China.

In the CEM field, the HUAWEI SmartCare® CEM solution has maintained its leadership position in the industry. Huawei, in collaboration with the TM Forum, has led the creation of the CEM Metrics Guidebook, establishing Huawei as the industry-leader in standardizing CEM measurements. The guidebook contains over 420 key quality indicators (KQIs) related to customer experience. In 2013, we

continued to expand its capabilities in customer experience consulting, service modeling, and CEM metrics. We have introduced 100G probes into large-scale commercial use and developed SEQ Analyst to provide mature big data storage and analysis capabilities. Meanwhile, we have continued to innovate in network and service optimization techniques. The end-user oriented SOC solution has reached maturity and enabled Huawei to be the first in the industry to establish collaborative closed-loop management with the Network Operation Center (NOC), helping carriers transform to experience-centric operations. By the end of 2013, the HUAWEI SmartCare® CEM solution was being widely used in Europe, the Middle East, and Asia Pacific. Through successful project delivery, we have brought verifiable business value to carriers in terms of VIP care, brand promotion, business development, and end user retention.

In Managed Services, we are continuing to develop the next generation Managed Services solutions to enhance the total value of ownership (TVO) for operators. The solutions, which include our innovative strategic alignment and operations transformation model, Managed Services Unified Platform (MSUP) that support ICT and FMC converged operations, and best-in-class OSS tools (E-iNOC), can deliver broad value including operational efficiency enhancement, together with network and service quality improvements. Huawei has become an industry leading Managed Services Provider in terms of market share and solutions that can align with carriers' business strategies, serving over 120 carriers in more than 75 countries in 2013.

In the consulting and system integration field, we are committed to increase ROI for carriers and facilitate the smooth evolution of services and networks. We have made significant breakthroughs in a number of areas, including precise site planning, multimode/multi-vendor/

multi-scenario collaborative planning and design, integrated verification and simulation, and dynamic refarming. Furthermore, we have continued to invest and innovate in several growing areas such as green cloud data center integration and OSS. In addition, we have integrated advanced geographical technologies for big data analysis into our network planning and optimization tools, increasing our competitiveness in information and data analysis. We have maintained steady growth throughout 2013. Specifically, we have provided network planning and design services for more than 500 carriers worldwide, provided end-to-end network evolution services for 30 carriers, deployed 110 LTE networks and indoor distributed systems at 26,000 hotspots, and maintained technical and market leadership in refarming technologies. By the end of 2013, we had provided integrated services to 330 data centers for carriers around the world, including 70 cloud data centers.

In the network construction and maintenance field, we have successfully completed more than 950 key projects in 2013, including network modernization projects and national broadband projects. We have successfully provided network assurance services to 178 key events, including Formula One racing and the Asia-Pacific Economic Cooperation (APEC) summit. Throughout, we have maintained an overall high level of customer satisfaction.

Looking ahead, the emergence of new technologies, the convergence of IT and CT, as well as the constant increase of costs will present new challenges for carriers in terms of operations and maintenance. We will continue to strengthen investment in service solutions and related tools and platforms, develop the technical skills and working efficiency of our global service personnel, and enhance joint innovation with customers to provide them with more valuable and competitive service solutions, maximizing their ROI, and helping them transform to value-oriented operations.

Carrier Software & Core Networks

Sales revenue in our carrier software and core network business totaled CNY16,877 million in 2013.

The telecom industry is rapidly entering the digital era. No longer merely focused on providing basic connections and large-scale telecommunication services, carriers are transforming to build a diversified digital ecosystem. In the future, carrier business models will transform from man to machine, from voice services to diversified digital services, from a closed value chain to an open ecosystem, and from unilateral business models to multilateral business models. Accordingly, carriers will gradually shift their business focus from network asset management to both customer asset management and network asset management.

Facing the digital wave, we focused on digital services, business support system (BSS), core network, and IT infrastructure based on customer asset management. By providing open telecom capabilities necessary to aggregate massive amounts of digital content and applications, digital and Internetized operation processes and systems, future-oriented network control capabilities, and cloud-based IT infrastructure, we have helped carriers implement the strategic transformation to digital services.

In the digital service field, we developed the next-generation unified open telecom platform, built a complete digital service ecosystem, and leveraged open telecom capabilities and integrated massive digital content to help carriers bring in more accounts, tap into the value of customer assets, and implement the strategic transition to digital services. In 2013, the SDP-based digital service transformation in hosting model brought revenue growth of 67%, and our SDP held the largest market share. Our digital home services focused on video and made significant headway into high-end

markets in Europe and the US by enhancing multi-screen experiences to meet market demands while our digital enterprise services saw 100% growth in the IPCC BPO solution.

In the BSS field, we have been committed to building strategic transformation capabilities in terms of digital enablement of business processes and our next-generation digital enablement platform. By providing open telecom capabilities and monetizing the data assets, we expanded the operation ecosystem and customer group, and provided online customer experience. We continuously expanded our global market presence in the BSS field. The new-generation Convergent Billing System has been put into commercial use worldwide, further dominating the market. Next-generation Business Support System (NGBSS) continued to facilitate in-depth operation transformation, helping carriers achieve business success.

In the core network field, we helped carriers strengthen their core business by best real-time communication solutions, monetize the network capabilities by Communication as a Service (CaaS), and value the data assets by Data Analysis as a Service (DAaaS), expanding carriers' pipe business. We established a leading position in the VoLTE market and have become a strategic partner of Deutsche Telekom, China Mobile, PCCW, and other leading carriers. Our IMS won the National Science and Technology Progress Award of China. Our SingleSDB has provided services for 3 billion users worldwide and maintained a "zero incident" record for six consecutive years. Our SmartPCC continued to direct the industry's development and grew over 40% in sales year-on-year. As an industry leader, we played an important role in the development of NFV, and worked together with Deutsche Telekom and China Mobile to implement cloud-based verification and testing for core networks by adopting NFV concepts and technologies.

In the IT infrastructure field, we focused on Internetized innovation concepts and technologies, developed the cloud operating system FusionSphere, rebuilt infrastructure for ICT convergence, and helped carriers transform to digital services. We achieved 116% growth in 2013. Our high-end storage products have been deployed by the top three carriers in China, and we have been ranked No.1 among all suppliers in high-end storage testing for China Mobile's centralized procurement project. Our UDS cloud storage system has been put into commercial use in the European subsidiaries of Vodafone; IT management services have been used by South Africa MTN and by three Telefonica subsidiaries in Colombia, Mexico, and Venezuela; and the telecom public cloud solution has been commercially deployed at over 20 sites worldwide.

In 2013, we fully utilized the advantages of collaboration between pipes and the four areas (digital services, BSS, core network, and IT infrastructure) in the carrier software and core network field, and built solutions for customer asset management. The MBB Value Growth Solution (VGS) continued to promote mobile broadband traffic operations, came into service in the Western European, South Pacific, and North Latin American markets, and became well recognized among customers. We also worked with carriers to explore and develop areas including Big Data and M2M. We have become a core member of the Big Data Benchmark of Transaction Processing Performance Council (TPC), and lastly our Big Data platform has been commercially deployed in over 10 sites worldwide.

In the years to come, in the carrier software and core network field, we will continue to focus on "customer asset management" and "network asset management"; adhere to the software platform strategy; create an open, cooperative, and win-win digital ecosystem; develop an internetized

digital operating system, and help carriers increase revenue, optimize their business models, and improve operation efficiency, so as to become the best business partner for carrier transformation to digital services.

Network Energy

Our network energy product line focuses on the development opportunities of LTE, data centers, energy conservation and emissions reduction; and deploys power supply solutions in line with primary product solutions. By adhering to the "efficient, secure, reliable, and evolution-compliant" core concept, our network energy product line provided communications energy and data center energy solutions necessary to fully address the demands for ICT power supply applications.

With the rapid development of LTE networks around the world, construction and maintenance of telecommunication sites became more complex. Hence, carriers were calling for highly-efficient, reliable, and intelligent network energy products to accommodate future network evolution. In the communications energy field, we were the first to launch a 98% conversion efficient power supply (the highest efficiency ever commercially released), and were the only vendor to provide a full range of high-efficiency power products and solutions in the industry. Huawei provided full services for world-leading carriers. We have worked with leading carriers, such as China Mobile, Vodafone, KPN, and British Telecom, on all-around energy conservation to help them implement their energy conservation strategies. In addition, carriers in developing countries suffered high OPEX due to power shortages and high carbon dioxide emissions. In response, Huawei launched the Alternative Energy Solution, which significantly decreased carrier OPEX by reducing fuel consumption and thereby increasing customer profit. Our Alternative Energy Solution has been

deployed by Airtel, Telefonica, Mobilink, Safaricom, and other carriers, having significantly reduced O&M costs for these customers while lowering carbon dioxide emissions.

As the digital society develops, data centers based on big data processing and cloud computing continued to experience rapid development, requiring innovative data center energy solutions to ensure service continuity and protect customer investments. The advanced modular design of our container data center solution and micro-module data center solution has been widely recognized by the industry. Our Desktop Cloud Container Data Center was awarded Tier III Design Certification from Uptime Institute. The mobile warehouse modular data center jointly built by Huawei and China Mobile Heilongjiang Branch was named the "Green" Data Center of the Year at the Datacenter Dynamics Awards (affectionately known as the "Oscars" of the data center industry). In addition, our full range of high-efficiency UPS products addressed a wide range of uninterruptible large-, medium-, and small-capacity power supply needs. Currently, our UPS solutions have been deployed in high-end industries and by key carriers, including Saudi Telecom, Telenor, 21Vianet, as well as the top three carriers in China. These solutions have been implemented globally in Europe, Africa, the Asia Pacific, and other regions, providing uninterruptible power supply services for all industries.

Enterprise Business

By adhering to the "focus" and "being integrated" strategies, our enterprise business embarked on a development fast track in 2013. Sales revenue reached CNY15,263 million, an annual increase of approximately 32%. We made significant breakthroughs in product competitiveness and market presence. Amid global economic recovery and challenges, we seized opportunities and

achieved rapid growth in sales revenue from the China Region. For markets outside of China, we further consolidated our resources in developed regions such as Western Europe and such emerging markets as Russia, Southeast Africa, and Latin America. In these markets, we also recorded relatively rapid growth and achieved large-scale sales with industry customers and channel partners.

As the influence of innovative ICT technologies like cloud computing, Big Data, mobility, and social networking continues to increase and as the IoT and mobile Internet develop rapidly, the physical world and the digital world are merging at an accelerating pace. Driven by digital restructuring in the ICT era, ICT is turning into a production system and a core competence for enterprises. We continue to take an open and cooperative attitude, innovate, focus on ICT infrastructure solutions, and work with our partners to provide innovative, differentiated, and leading products and solutions to our enterprise customers.

In the enterprise networking field, we launched the world's first agile network solution, along with the world's first agile switch S12700 which has a fully programmable Ethernet Network Processor (ENP). With a service-, user-, and experience-centric agile network architecture, the agile network solution delivers five unprecedented functionalities: ubiquitous service, full-scale security collaboration, IP quality perception, in-depth wired and wireless convergence, and smooth evolution to SDN, thereby enabling networks to be more agile for services. The IP network management model has transitioned from single-point best effort to full-scale control. The CloudEngine 12816 we launched is a data center switch that boasts the industry's largest switching capacity of 64 Tbit/s and an impressive virtualization capability of 1:16. The USG6000, our next-generation firewall product, identifies up to 6,000 applications, over

20% above the industry average. This firewall helps customers achieve refined policy control. The AR530, our first next-generation industrial switching router that targets the IoT, combines routing, switching, security, wireless, and industrial bus features on a single platform. Currently, our enterprise networking products and solutions have been successfully deployed in many projects, including China's National e-Government Network, Agricultural Bank of China, China's State Grid, the backbone network of Alibaba, Automatically Switched Optical Network (ASON) of the Three Gorges Dam across China's Yangtze River, Borussia Dortmund Stadium in Germany, Baidu's Data Center, and APT Satellite Company's Data Center. In 2013, our revenue from data communications products jumped by 44%. Our share in the enterprise router market was ranked by Gartner as the second largest worldwide for the fourth consecutive year. In Gartner's Magic Quadrant for the Wired and Wireless LAN Access Infrastructure report, our switch and WLAN products appeared in the Challengers quadrant. Huawei was selected by Technology Business Research (TBR) as the fastest-growing company in the global data center networking market for second year in a row. Huawei's full series of FW, UTM, and IPS products for the security domain were listed in Gartner's Magic Quadrant. According to statistics released by IDC in 2013, Huawei ranked number one in the combined firewall and UTM market in China.

In the IT field, by adhering to the concept of "Make IT Simple, Make Business Agile", we continued to launch innovative IT products and solutions. Featured offerings included the industry's first distributed cloud data center solution, FusionInsight (the industry's first enterprise-class Big Data analytics platform that supports geographic redundancy spanning over 1,000 km), and Huawei Appliance for SAP HANA®. Through continuous differentiated innovations, our servers set new

performance test records at Standard Performance Evaluation Corporation (SPEC) 105 consecutive times. Our storage products also passed the SPEC five million operations per second (OPS) and SPC-1 one million input/output operations per second (IOPS) performance tests, winning a global leading advantage in product performance. The Huawei OceanStor 18000 series Enterprise Storage System, our enterprise-class high-end storage product, won the 2013 New Product Innovation Leadership Award in High-End Storage Market from Frost & Sullivan and the Red Dot Award for Product Design in Germany. The OceanStor 18000 series is also the only storage product that won this prestigious award in the industrial design field. We have built more than 330 data centers for customers worldwide. Our storage solutions and server products have been deployed in more than 100 countries. We have become a storage partner of Vodafone, University of California at Santa Cruz (UCSC), CSS Insurance of Switzerland, Industrial and Commercial Bank of China, China Construction Bank, and Agricultural Bank of China. We also partnered with the China Merchants Bank to innovate its Big Data platform for financial data and helped Taobao make e-transaction history during the November 11 (widely referred to as "double-eleven" and known as "Singles' Day" in China) online shopping spree.

In the unified communications and collaboration (UC&C) field, we worked closely with partners in the industry chain to provide UC&C solutions ranging from basic platforms to experience and application. In 2013, we launched a series of main products, including the 96 series MCU, TE series videoconferencing endpoints, Intelligent Video Surveillance (IVS) 2.0, and Contact Center (CC) 2.0. Our main products serve a large number of industry customers worldwide, including Saudi Aramco, Ministry of Education of Uzbekistan, and Wing Lung Bank of Hong Kong. According to

Gartner's Magic Quadrant 2013, our UC products maintained its position in the Challengers quadrant and our CC products maintained the top spot in this quadrant. The 2013 MarketScape report for the UC&C market released by IDC elevated Huawei UC to the "Major Players" zone.

In the enterprise wireless field, our eLTE broadband trunking solution was widely deployed in multiple projects across government, transportation, and energy industries. These projects include the safe city project of Venezuela, Zhengzhou Metro Line 1, Tianjin municipal government network, Nanjing municipal government network, Ghana municipal government network, IB-RED in Spain, and the Ozarowice project in Poland. We have been awarded 41 commercial eLTE contracts. Zhengzhou Metro Line 1 is the world's first urban rail transit line to adopt 4G LTE technology. Our eLTE solution provided the Passenger Information System (PIS) and vehicle-mounted video surveillance services on this line. Our solution effectively addressed the problems associated with the current train-ground radio system, including decentralized construction, vulnerability to interference, and service discontinuity. We continued to enhance our GSM-R solution, which can evolve to LTE smoothly and is the industry leader in terms of reliability and performance. This solution has covered approximately 14,000 km of railway and has been widely deployed by our customers in Russia, South Africa, Turkey, Morocco, and Serbia. Our GSM-R solution also helped facilitate smooth operation on the Harbin-Dalian High-Speed Railway, the world's first high-speed railway in areas of deep freeze.

BYOD has become a widely-accepted working style for enterprises. With our partners, we built mobile platforms featuring rich applications and promoted the highly secure one-stop BYOD solution. This solution was adopted by large enterprises, financial services organizations, and educational institutions, such as Haier Group, China Minsheng Bank, and education bureaus in South Africa.

In vertical industries, we adhere to the "being integrated" strategy and integrate our main products into the solutions of our partners to jointly create greater value for customers. In the government and public sector, our Smart City, e-Government, Emergency Command, e-Education, and Healthcare solutions were integrated by more than 200 partners and supported 64 key projects worldwide in 2013. For example, our Smart City solution was deployed by Mobily of Saudi Arabia, helping to build efficient and safe cities. Our Public Safety solution helped Laos build an efficient Emergency Command system that features visualized dispatching, faster reaction, and more accurate decision-making. In the energy field, our Underground Mining Communication solution built industry-leading underground information highways for Shendong Coal Group, making it more safe and productive. Our all-IP solution on power transmission and transformation communications facilitated the build-out of a high-speed and reliable power data network for Eskom, the biggest power company in South Africa. In the transportation field, our GSM-R solution successfully served the high-speed rail between Sochi and its surrounding major cities, contributing to the success of the 2014 Winter Olympics in Sochi. Our intelligent transportation solution helped Moldova effectively alleviate traffic. As for the financial services field, our check image data management solution helped the Agricultural Bank of China effectively manage a massive 10 PB in check image data, reducing its management costs by 20%. Our desktop security solution for the financial services industry helped Shenzhen Stock Exchange and Industrial Bank build secure and controllable business and office platforms.

Huawei Enterprise Channel business has developed steadily. Meanwhile, our channel policy, process, and IT support system have become significantly more mature. By the end of 2013, we had more than 5,000 channel partners worldwide. Huawei

provided more support to our partners with respect to training & certification, Marketing Development Fund (MDF), finance, etc. and proactively conducted joint marketing activities with them. Both the quantity and quality of our partners have considerably increased. A sound and open channel ecosystem is taking shape.

Huawei Enterprise Services provides ICT services for the enterprise market, covering the entire network lifecycle. It includes technical consulting, network planning, network design, deployment, technical support, network optimization, as well as technical and pre-sales training and certification. We are dedicated to building a strong global ecosystem of service partners through certification, authorization, enablement, incentives, and all-around service support. Through this partner ecosystem we serve customers by leveraging our respective advantages. By the end of 2013, we had more than 800 certified and authorized service partners. Together with our partners we delivered over 5,000 projects during 2013. We have established a global ICT training and certification program, including Huawei's in-house training centers, authorized training partners, and education projects with more than 30 universities. Our training and certification program has helped develop ICT professionals around the globe. By the end of 2013, we trained more than 16,000 individuals and certified more than 3,000 engineers.

The information society is coming at an unstoppable pace. No industries and enterprises can be outside of it. To ride on this trend, enterprises must embrace advanced ICT technologies & solutions for digital reforming to build leading advantages into the future. In 2014, we will continue to make investments, consolidate resources, and prioritize the build-up of marketing and channel capabilities and teams in the enterprise business. We will use marketing to promote sales, attach

equal importance to marketing and sales, develop innovative, differentiated, leading, and easy-to-integrate ICT products and solutions, and cultivate specialized channel partners. In the enterprise market, we will continue to work hard to surpass ourselves, strive to become the best innovation partner of our enterprise customers in the ICT infrastructure domain, enthusiastically embrace opportunities and challenges in the ICT era, keep up with technological trends, remain customer-centric, and continue to create value for customer business success.

Consumer Business

4G LTE is developing rapidly. In particular, the Chinese market will lead the high-speed growth of LTE around the globe in the coming years. This will present historic opportunities for the rapid development of our smart devices. By relying on our end-to-end and leading advantages in 4G LTE, we will continue to launch high-quality mobile phones by centering on consumer experience, improve consumer satisfaction by combining experience in hardware, applications, and services, and strive to become a leading global smart device brand.

In 2013, our consumer business continued to maintain effective growth, earning sales revenue of CNY56,986 million, an annual increase of approximately 18%. Annual shipments totaled 128 million units. Historical breakthroughs were made in our smartphone business, and we were ranked among the top three globally. We continued to focus on a quality strategy and launched flagship devices, such as the Ascend P6 and the Ascend Mate. The Ascend P6 was sold in more than 100 countries, achieving extraordinary results in terms of both brand awareness and profit. Our Emotion UI took user experience to a new level, and our investment in the Huawei Fan Club has begun to pay off. Our share in the mobile broadband

LTE market further increased and we made landscape-shaping breakthroughs in telematics. Our share in the home access market further expanded, with tablet sales increasing by more than 200%.

In the past year, our smartphone shipments reached 52 million units, an annual increase of more than 60%. Smartphones accounted for more than 87% of total mobile phone shipments. As for the revenue from channel sales, while consolidating our carrier channels, we further expanded non-carrier channels. The revenue from open channels (excluding e-commerce channels) accounted for 45% of our total revenue and that from e-commerce channels accounted for 5%. In addition, the proportion of shipments of our mid-range and high-end devices priced at more than CNY1,500 rose significantly to 12%, demonstrating that our quality strategy has yielded some success.

The global shipments of our mobile broadband devices reached 44.5 million sets in 2013; we have maintained a leading share in this market for six consecutive years. We continued to optimize the overall product landscape. Global shipments of LTE products reached approximately eight million units, an annual increase of 103%. We actively implemented a diversified channel strategy. In 2013, the shipments of our mobile broadband devices through open channels exceeded four million sets and we developed large channel markets outside of China, such as Saudi Arabia, India, Germany, and the Philippines. Our Internet marketing efforts in the Chinese e-commerce market also started to show results. Breakthroughs were made in telematics. We cooperated closely with multiple top international automobile manufacturers on the front-end module and established strategic partnerships with multiple automobile brands.

Our profit from home devices grew steadily. Our share in the fixed access market grew from 14% to 21%, and we maintained our global leadership position in the fixed wireless terminal market. We cooperated with many top carriers and Multiple System Operators (MSOs) on set-top box (STB) products. We have established a comprehensive product portfolio with low-end, mid-range, and high-end tablets, and have seen tablet sales increase by more than 200%.

Our Emotion UI took user experience to a new level. The number of cloud service users exceeded 10 million, with more than 1 million active users. In terms of user engagement, we implemented a series of innovative marketing models, such as the “Tomorrow’s Partners” program, which achieved some favorable results. More than six million Huawei fans enrolled in this program.

In 2013, we unveiled our “Make it Possible” brand proposition for the consumer business. By focusing on consumer experience, we conducted a series of branding campaigns worldwide, including sponsoring football games and clubs, such as La Liga in Spain, A.C. Milan in Italy, Borussia Dortmund in Germany, and Arsenal in the UK. These campaigns significantly boosted brand awareness for Huawei mobile phones. According to a survey by Ipsos, the global brand awareness of our mobile phones reached 52% in 2013, an increase of 110% year-on-year. This figure was 68% in China, an increase of 113% compared with the previous year. In addition, the brand awareness of our mobile phones grew significantly in Europe, South America, and Southeast Africa. Brand awareness rose by 230% in Germany, 213% in Italy, 200% in the UK, and 140% in Spain.

Our consumer business targets people of action who are also idealists — challengers who have vision, initiative, and belief that dreams can be realized through hard work. We strive to bring

the latest in technology to consumers everywhere. In product development, we adhere to a quality strategy, attaching the utmost importance to improving consumer experience. We strive to break through technical limitations to provide innovations tailored to consumer requirements. By doing so, we enable more people from around the world to reap the benefits of technological progress and realize their dreams. The Ascend product lineup includes the D series with the ultimate in technology, the P series with the ultimate in fashion, the G series that offers the best blend of performance and cost, and the Y series that delivers the best in terms of accessibility. In the future, we will leverage our advantages in intelligent 4G LTE technologies, strive to make the impossible possible, and provide ubiquitous high-speed connections to consumers. Our goal is to enable customers to better experience unparalleled technologies.

In 2013, we made notable achievements in channel development. Our revenue from open channels grew by 98% year-on-year. In open markets where retail accounts for a high proportion of all sales, such as China, Russia, Italy, the UK, Saudi Arabia, the Philippines, and South Africa, the sales of our smartphones grew by more than 80%. In addition, we established strategic partnerships with top distributors and retailers in China, Western Europe, the Middle East, Southeast Asia, and other

markets, which helped promote our large-scale sales. In the development of e-commerce channels, sales from these venues began to generate results in 2013. Many of our products remained top sellers online, such as the Ascend Mate, Honor 3 Outdoor, MediaQ M310, Honor 3C, and Honor 3X. More than 10 million users pre-ordered the Honor 3C, setting a new sales record for Huawei mobile phones.

The development of 4G LTE is in full swing around the globe, and a “borderless network” is becoming reality. With different 4G LTE products and Huawei’s future-proof innovative technologies, consumers can connect using ultra-broadband with zero wait time anytime, anywhere. This level of connectivity provides added conveniences and opportunities for consumers whether they are in the office, on the move, or at home — smart devices are becoming the most important thing consumers take along. We are a latecomer to the smart device field. 4G LTE presents a unique strategic opportunity for us to surpass our competitors worldwide by leveraging our advantages in 4G LTE networks as well as leading technologies and patents. With our proven track record in the communications field, we will lay hold of this historic opportunity, deliver an inspired experience, and bring more pleasant surprises to consumers worldwide.

Results of Operations

CNY Million	2013	2012 Restated	YOY (%)
Revenue	239,025	220,198	8.5%
Gross profit	98,020	87,686	11.8%
– Gross margin	41.0%	39.8%	1.2%
Total operating expenses and other income	68,892	67,028	2.8%
– as % of revenue	28.8%	30.4%	(1.6%)
Operating profit	29,128	20,658	41.0%
– Operating margin	12.2%	9.4%	2.8%
Net finance expenses	3,942	2,039	93.3%
Income tax expenses	4,159	2,758	50.8%
Net profit	21,003	15,624	34.4%

Sales revenue in 2013 amounted to CNY239,025 million, which represents an increase of 8.5% year-on-year. Net profit grew by 34.4% year-on-year to CNY21,003 million. The improvement in profitability is mainly attributed to internal continuous management transformations that reduced operational costs. Thanks to the rising proportion of the enterprise business as well as improved profits from the consumer business, gross margin increased by 1.2% year-on-year.

Total Operating Expenses and Other Income

CNY Million	2013	2012 Restated	YOY (%)
Research and development expenses	30,672	29,747	3.1%
– as % of revenue	12.8%	13.5%	(0.7%)
Selling and administrative expenses	38,943	38,667	0.7%
– as % of revenue	16.3%	17.6%	(1.3%)
Other (income)/operating expenses, net	(723)	(1,386)	(47.8%)
– as % of revenue	(0.3%)	(0.6%)	0.3%
Total operating expenses and other income	68,892	67,028	2.8%
– as % of revenue	28.8%	30.4%	(1.6%)

In 2013, the company's total expenses ratio decreased by 1.6% due to internal efforts aimed at continuously improving operational efficiency. Specifically, the selling and administrative expenses ratio declined by 1.3%, the research and development expenses ratio fell 0.7%, and the ratio of other income and other operating expenses (as % of revenue) rose 0.3%.

Net Finance Expenses

CNY Million	2013	2012 Restated	YOY (%)
Net foreign exchange loss	3,686	1,085	239.7%
Other net finance expenses	256	954	(73.2%)
Total net finance expenses	3,942	2,039	93.3%

Net finance expenses in 2013 amounted to CNY3,942 million, an increase of CNY1,903 million from 2012. This was attributable to an increase of CNY2,601 million year-on-year in net foreign exchange loss and a decrease of CNY698 million year-on-year in other net finance expenses.

Financial Position

CNY Million	December 31, 2013	December 31, 2012	YOY (%)
Non-current assets	44,688	40,538	10.2%
Current assets	186,844	169,468	10.3%
Total assets	231,532	210,006	10.3%
Among which: Cash and short-term investments	81,944	71,649	14.4%
Trade receivables	59,880	55,101	8.7%
Inventories	24,929	22,237	12.1%
Non-current liabilities	33,602	29,351	14.5%
Among which: Long-term borrowings	19,990	16,077	24.3%
Current liabilities	111,664	105,631	5.7%
Among which: Short-term borrowings	3,043	4,677	(34.9%)
Trade payables	31,290	33,536	(6.7%)
Owner's equity	86,266	75,024	15.0%
Total liabilities and owner's equity	231,532	210,006	10.3%

Cash and short-term investment balance as of December 31, 2013 rose by 14.4% year-on-year to CNY81,944 million.

Huawei's days of sales outstanding (DSO) as of December 31, 2013 was 90 days, which is the same as that of 2012.

Inventory balance increased by 12.1% year-on-year. The inventory turnover days (ITO) increased by four days to 64 days compared with 60 days in 2012.

Trade payables balance decreased by 6.7% year-on-year. Huawei's days of payables outstanding (DPO) as of December 31, 2013 was 80 days, 11 days shorter than that of 2012.

Total short-term and long-term borrowings as of December 31, 2013 amounted to CNY23,033 million, an increase of 11.0% year-on-year from CNY20,754 million in 2012.

Cash Flow from Operating Activities

CNY Million	2013	2012 Restated	YOY (%)
Net profit	21,003	15,624	34.4%
Adjustment for depreciation, amortization, and non-operating loss, net	5,550	3,164	75.4%
Actuarial losses on defined benefit obligations	(618)	(244)	153.3%
Cash flow before change in operating assets and liabilities	25,935	18,544	39.9%
Change in operating assets and liabilities	(3,381)	6,425	(152.6%)
Cash flow from operating activities	22,554	24,969	(9.7%)

Cash flow from operating activities in 2013 decreased by 9.7% year-on-year to CNY22,554 million. This decrease was attributable to:

- Net profit growth of 34.4% year-on-year due to rapid growth of consumer and enterprise businesses and reduction of internal management and operation costs.
- Adjustment for depreciation, amortization, and non-operating loss, net contributed CNY5,550 million to the cash flow from operating activities, increasing by CNY2,386 million year-on-year.
- In 2013, the change in operating assets and liabilities tied up in the cash flow from operating activities amounted to CNY3,381 million.

Financial Risk Management

In 2013, Huawei continuously amended and improved its financial risk management policies and processes to further enhance the company's capability to withstand financial risks and better support its business development.

Liquidity Risk

Huawei has continuously improved its system for cash flow planning, budgeting, and forecasting to better assess its short-term and medium to long-term liquidity needs. The company has implemented a variety of prudent financial measures to fulfill its overall liquidity needs, including centralizing cash management, maintaining a reasonable level of funds, and gaining access to adequate and committed credit facilities. In 2013, Huawei established the Financial Risk Control Center (FRCC) in London and set up a global liquidity risk monitoring team, to further improve its liquidity risk monitoring and management capabilities.

As of December 31, 2013, cash and short-term investments increased by 14.4% year-on-year to CNY81,944 million. An adequate capital reserve and a stable cash flow from operating activities enabled Huawei to manage its liquidity and borrowing risks, thus ensuring financial stability for the company.

Liquidity Trends

CNY Million	2013	2012	YOY (%)
Cash flow from operating activities	22,554	24,969	(9.7%)
Cash and short-term investments	81,944	71,649	14.4%
Long-term and short-term borrowings	23,033	20,754	11.0%

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

CNY Million	1 year or below	Above 1 year
Total borrowings	3,043	19,990

Foreign Exchange Risk

The Group's functional currency is CNY and has foreign currency exposures related to buying, selling, and financing in currencies other than CNY, which are mainly USD and EUR. According to the foreign exchange policy guidelines of the Group, material foreign exchange exposures are hedged unless hedging would be uneconomical due to market liquidity and/or hedging cost. The Group uses the value at risk (VaR)* model to measure its foreign currency exposures, and uses the following techniques to mitigate such risks:

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

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

	Impact on net profit CNY million
2013	
CNY appreciates 5% against USD	(1,454)
CNY appreciates 5% against EUR	(173)
2012	
CNY appreciates 5% against USD	(1,009)
CNY appreciates 3% against EUR	(140)

* The VaR model is a statistical tool. Huawei uses this model to estimate the quantitative value of foreign exchange exposures under a certain confidence level within a period of time based on the Group's net assets in foreign currencies, historical exchange rate fluctuations, and the relevancy between exchange rates.

Interest Rate Risk

Huawei's interest rate risk arises from its long-term borrowings and long-term receivables. Through the analysis of its interest rate exposures, the company uses a combination of fixed-rate and variable-rate bank loans to mitigate interest rate risks.

Interest-bearing long-term financial instruments held by the Group as of December 31, 2013

	2013		2012	
	Effective interest rate	Amount CNY Million	Effective interest rate	Amount CNY Million
Fixed-rate long-term financial instruments				
– Long-term receivables	–	–	1.98%	(70)
– Long-term borrowings	4.59%	3,722	4.60%	3,788
Total		3,722		3,718
Floating-rate long-term financial instruments				
– Long-term receivables	–	–	4.20%	(337)
– Long-term borrowings	2.41%	16,268	2.24%	12,289
Total		16,268		11,952

As of December 31, 2013, assume that the interest rate fluctuates by 50 basis points, with other variables unchanged, the Group's net profit and owner's equity will increase (decrease) by CNY 81 million (in 2012, the amount was CNY65 million). For the financial instruments that are held at the end of the reporting period and expose the Group to fair value change risks due to interest rate fluctuations, the impacts on net profit and owner's equity in the preceding sensitivity analysis are a re-measurement of the financial instruments based on the new interest rate, assuming that the interest rate changes at the end of the reporting period. For the floating-rate and non-derivative financial instruments that are held at the end of the reporting period and expose the Group to cash flow change risks due to interest rate fluctuations, the impacts on net profit and owner's equity in the preceding sensitivity analysis are impacts on interest expense or income estimated on an annual basis due to interest rate fluctuations. The analysis of the previous year is based on the same assumptions and methods.

Credit Risk

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

Sales Financing

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

Research and Development

Huawei has set up 16 R&D centers in such countries as Germany, Sweden, the US, India, Russia, Japan, Canada, Turkey, and China. Huawei employs approximately 70,000 product and solution R&D employees, comprising 45% of our total global workforce.

We focus investment in key technologies, architectures, and standards in the ICT field with the aim of providing broader, smarter, and more energy-efficient pipes that require zero wait time and create a better experience for users. We are committed to continuous innovations, and have made significant achievements in the fields of future 5G communications, network architecture, computing, and storage. We have worked closely with partners from industry, academia, and research institutes, enabling us to take the lead in researching, innovating, and implementing future networks. We have also set up 28 joint innovation centers with leading carriers to translate leading technologies into competitive edges and business success for customers.

As of December 31, 2013, we had filed 44,168 patent applications in China, 18,791 outside China, and 14,555 under the Patent Cooperation Treaty (PCT). Of these applications, 36,511 have been granted.

We apply mainstream international standards from the industry, work closely with global tier-1 carriers, and contribute positively to expanding the ICT industry. We actively proposed to identify at least additional 500 MHz spectrum for international mobile telephony (IMT) at the World Radiocommunication Conference 2015 (WRC-15), and published a white paper titled *5G: A Technology Vision*. In addition, we worked to boost such network capabilities as service exposure and service chaining in the areas of System Architecture

Evolution (SAE) and Policy and Charging Control (PCC). We also took the lead in developing Network Functions Virtualization (NFV) standards to build an ICT convergence standards ecosystem; promoted the incubation of the Carrier SDN industry; pushed the development of IP/Internet security rules that expand interoperability and robustness; led the Flex-OTN standards and were recognized as a major contributor of 100GE/400GE standards; and took the initiative at IEEE 802.11 to launch and lead research into next generation Wi-Fi standards. By the end of 2013, Huawei had joined more than 170 industry standards and open source organizations, including 3GPP, IETF, IEEE, ITU, BBF, ETSI, TMF, WFA, CCSA, GSMA, OMA, ONF, INCITS, OpenStack, and OpenDaylight. We hold 185 positions in these organizations and serve as a board member for ETSI, CCSA, OMA, OASIS, and WFA, as well as numerous other organizations. In 2013, Huawei submitted more than 5,000 proposals to standards organizations.

Huawei's R&D expenditure totaled CNY30,672 million in 2013, accounting for 12.8% of the company's annual revenue. Huawei has cumulatively spent more than CNY151,000 million on R&D over the last decade.

Cyber Security

Huawei views building and fully implementing an end-to-end global cyber security assurance system as a key corporate strategy and considers cyber security a shared global challenge. Global collaboration among suppliers, customers, and policy and law makers is crucial to meaningfully addressing global cyber security threats. As such, all stakeholders must share knowledge and expertise, be practical and cooperative, and

work collectively to reduce the unexpected risks resulting from the abuse of technology.

In 2013, Mr. John Suffolk, Huawei's Global Cyber Security Officer, authored the second edition of our cyber security white paper titled *Cyber Security Perspectives: Making cyber security a part of a Company's DNA — A set of integrated process, policies and standards*. The paper investigates how we can infuse cyber security into our company's DNA and promote the formulation and implementation of uniform international cyber security standards. We are more than happy to share our understanding and practices in the area of cyber security in the hope of inspiring a more open, rational, cooperative, and constructive dialogue across the public and private sectors on a wider range of issues. In doing so, we hope to realize our common cyber security objectives.

In 2013, we optimized each aspect of Huawei to address challenges with cyber security and embed cyber security requirements into our end-to-end corporate policies and processes, including strategy and governance, standards and processes, laws and regulations, personnel management, research and development, verification, third-party supplier management, manufacturing, delivery, issue response, traceability, and audits. Huawei employees have adopted improvement measures into their daily work to provide customers with more secure products, solutions, and services.

- In the past year, we continued cyber security awareness training and education for all Huawei staff, thereby encouraging an atmosphere and culture conducive to promoting cyber security awareness education and regulating employee behavior across the company.

- We have embedded cyber security requirements into our Integrated Product Development (IPD) process. Cyber security is built into everyone's daily work as well as each product and service, meaning that cyber security is everyone's job. We have also improved the approach that instructs employees to design, develop, and deliver our products with security in mind. Apart from independent verification, each step of our work can be examined, improved, and automated.
- We have greatly strengthened and improved our Cyber Security Technical Competence Center to incorporate security into design, improve product robustness, and enhance privacy protection.
- We have established a multi-layer cyber security evaluation process that allows our products to be independently tested and evaluated by different teams; that is, our Internal Cyber Security Lab, the UK Cyber Security Evaluation Centre (CSEC), customer evaluation teams, and third-party audit and evaluation teams. By doing so, we continuously provide our customers with optimum security assurance.
- We have enhanced our comprehensive supplier management system to monitor and evaluate the delivery and security performance of our qualified suppliers. We select suppliers that can contribute to the quality and security of our purchased products and services and in turn benefit our customers.
- Our manufacturing capabilities continue to improve in tandem with our security capabilities. Our standardized end-to-end manufacturing supply chain system enables us to more efficiently resolve security risks during manufacturing in a safe manner while retaining quality, thus ensuring the integrity of our hardware and software.
- We have embedded key cyber security management requirements into all our service delivery activities and stringently manage employees who have access to customer networks, thus ensuring the security of delivered products and services.
- When things do go wrong or customers and researchers identify possible security issues, we respond quickly and effectively to any vulnerability through our closely connected Product Security Incident Response Team (PSIRT) and core R&D processes. In addition, our barcode system and electronic manufacturing system enable us to forward or backward track 98% of the components used in our offerings within just a few minutes.
- As auditing plays a crucial role in ensuring what a company or department claims is true and effective, we ensure the implementation of cyber security policies, processes, and standards through our internal audit team. This allows us to provide more effective and comprehensive oversight on cyber security.

Huawei is passionate about being transparent and open. We encourage full and frequent communication with all stakeholders, including customers, industry, governments, and media. We aim to raise the understanding of cyber security, seek views and ideas for reducing security risks, and collectively improve trust in terms of cyber security.

We not only care about resolving past and present cyber security issues. We also seek to lay the foundation for future development. Sticking to our commitment, we will continuously collaborate with all stakeholders to enhance our security capabilities in design, development, deployment, and other areas. We will continue to position cyber security assurance as one of our core strategies, maintain open and transparent policies, and act responsibly in our operations to ensure a secure cyber world for tomorrow.

Critical Accounting Estimates

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

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

Revenue Recognition

The application of accounting principles related to the measurement and recognition of revenue requires the company to make significant judgments and estimates. Even for the same product, the company often has to determine the appropriate accounting treatment after analyzing the contract terms and conditions. When installation, training, and other services are rendered and sold together with a product, the company determines whether the deliverables should be treated as separate units of accounting and recognizes the revenue accordingly. When there are multiple transactions with the same customer, the company applies significant judgments to determine whether separate contracts are considered as part of one arrangement based on contracts terms and conditions. When an equipment that requires installation is delivered and accepted by a customer at different stages, the company determines whether to recognize revenue by stages based on assessment of whether the completed project is able to be used by the customer, and whether the obtained certificate of acceptance would support payment collections.

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

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

Allowance for Doubtful Accounts

The company's gross accounts receivable balances were CNY64,220 million and CNY58,588 million as of December 31, 2013 and December 31, 2012, respectively. The allowances for doubtful accounts were CNY4,340 million, or 6.8% of the gross accounts receivable balance as of December 31, 2013, and CNY3,487 million, or 6.0% of the gross accounts receivable balance as of December 31, 2012. The allowances are recorded based on the collectability of accounts receivable from customers. The company regularly reviews the allowances for doubtful accounts by considering factors such as historical experiences, customer creditworthiness, the age of accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

The company's provisions for doubtful accounts charged to the statement of profit or loss were CNY1,075 million and CNY3,479 million for fiscal years ended December 31, 2013 and December 31, 2012, respectively. If key customers' creditworthiness deteriorates, or if the default risk is higher than the historical trend, or if other circumstances arise, the estimates of the recoverability of amounts due to the company could be overstated, and additional allowances could be required, which could have an adverse impact on the company's profit.

Inventories Write-down

The company's inventory balances were CNY24,929 million and CNY22,237 million as of December 31, 2013 and December 31, 2012, respectively. Inventories are measured at the lower of cost or net realizable value. The difference between the cost of the inventory and the net realizable value is recorded as inventory provision. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The following factors are considered for the recognition of net realizable value: purposes of the inventories held, inventory aging, percentage of inventory utilization, inventory categories and conditions, and subsequent events with material influences on inventory value. The company reviews the inventory provisions periodically to ensure its accuracy and reasonableness.

The company's inventory provisions charged to the statement of profit or loss were CNY1,231 million and CNY17 million for fiscal years ended December 31, 2013 and December 31, 2012, respectively.

Provision for Warranties

When recognizing revenue, the company estimates the possible future liabilities that it may incur under its product warranty obligations and records a warranty provision. The warranty provision balances were CNY2,963 million and CNY2,407 million as of December 31, 2013 and December 31, 2012, respectively. The company's products are generally covered by a warranty period of 12 months. The company accrues for warranty costs as part of cost of sales based on historical expenditure on material costs, technical support labor costs, and associated overheads.

The warranty provisions accrued for fiscal years ended December 31, 2013 and December 31, 2012 were CNY3,491 million and CNY2,844 million, respectively.

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

Income Tax

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

During the ordinary course of business, there are many transactions and calculations where

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

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

Industry Trends

Riding the digitization trend into a new industrial age

The history of human society and civilization advancement is also a history of scientific and technological development. Numerous ICT technologies over the past half century, culminating in various ingenious Internet innovations, have shattered the limits of time and space, bringing the human civilization into an unprecedented new frontier. Today, we are entering an era of omnipresent networking and information. However, this is just the start of a greater information revolution. We are at the door to the next wave of digital society.

“Internet+” drives the integration of the digital and physical worlds and shapes the next wave of information revolution

Today, we are living in a time of Internet and information omnipresence, but the digital and physical worlds are still parallel to each other and not closely intertwined. For all industries and enterprises, “Internet+” will be the focus of innovation. Traditional industries and enterprises are in particular need to realize digital reformation by leveraging the power of the Internet, driving deeper integration of the physical and digital worlds. This has become a new growth trend for them.

- **The Internet is not just mere infrastructure, but more a brand new mindset**

The essence of the Internet is being connected anytime, anywhere. Being an infrastructure element just like the power grid, the Internet has greatly boosted social productivity and reduced cost. However, the value of the Internet is far more than providing connectivity. Its impact is profound and revolutionary, as it represents a brand new mindset, with the core being “all connected at zero distance” among people, enterprises and their customers, and business partners.

Therefore, enterprises must restructure their mindset, business, marketing, R&D, operation, and service models, based on the Internet rather than simply overlaying traditional models with the Internet as a tool. Among them, restructuring of mindset is of paramount importance, as action comes after that.

- **Infiltrating beyond value delivery into value creation, the Internet is set to redefine traditional industries**

Business processes, though complicated, mainly comprise value creation and value delivery. Value delivery is what we usually refer to as information flow, capital flow, and logistics flow. All the three flows have been smoothed out through mushrooming e-commerce platforms. In other words, the Internet has fully infiltrated and transformed the value delivery process. As a result, the digital and physical worlds are integrated, and the business chain is restructured, reducing or even eliminating many intermediate processes.

Currently, the Internet is starting its infiltration into value creation, especially the R&D and manufacturing fields. This infiltration is comprehensive. It has a technical dimension, as we see in the case of Tesla redefining automobiles using IT and the Internet. It also implies changes in the R&D model, toward, for example, user participation and crowd sourcing. The manufacturing field is not immune to this. After the steam engine, electricity, and IT, the Internet is driving the fourth Industrial Revolution, or Industry 4.0, enabling the integration of efficient mass production with the diversity of individualized manual workshops. With the infiltration of the Internet and ICT into the value creation field, the integration of the digital and physical worlds goes deeper. Transformation of traditional industries has just begun.

- **Through data analytics, a core competence for businesses today, the Internet will create new information monopolies and asymmetry while shattering the old ones**

The Internet makes information dissemination and access impossibly easy. It breaks the traditional monopoly of knowledge and information by certain industries and enterprises, who will find it hard to grab the high value they used to enjoy. But every coin has two sides. While shattering the old one, the Internet has created new monopolies and asymmetry of information at a higher level. The Internet giants are collecting massive user and transaction data, and leveraging Big Data analytics to fully explore user behaviors, thus creating new information asymmetry and monopolies over the other enterprises and service providers. A new monopoly at a higher level then takes shape. Information has become an asset more important than physical infrastructure. Information and data operation are and will continue to be core competences that carry great weight.

- **As power in the value chain shifts toward users, users have to be fully engaged with their wisdom pooled together to build a new commanding height**

With the traditional information monopoly shattered and information transparency increasing in general, users are getting more power. Enterprises must go further than just responding to and meeting customer needs. A higher-level of user-centricity is required that involves users in every business process, from requirement collection, product ideation and design, R&D, testing, production, marketing, to after-sales services. Only by leveraging users' collective wisdom can enterprises prosper, together with customers.

It is no exaggeration to say that the core of the Internet mindset is user-centricity. In designing products, delivering inspired experience, and promoting brand image via word of mouth, user involvement is a must. However, this is not simply the building of online communities and user forums; it involves the transformation of management, R&D, and technological architecture.

- **ICT is becoming the core of enterprise competitiveness that enables innovation and redefinition of the market**

In the information age, the enterprise ICT system is not just a support system that improves efficiency and reduces cost, but a customer-centric business and production system. It is shifting the focus from "digital management and IT assets" to "digital products and data assets." It is fair to say that ICT has become the core competence and engine that propels an enterprise's business development and enables innovation for enterprises to redefine the market. This is true for any enterprise, be it big or small, from automobile manufacturers to hotdog stands. Irrespective of business scope and size, future enterprises must first be "high-tech" enterprises, fully leveraging ICT to upgrade and transform themselves. Otherwise, they will be left with no chance, just like riding a horse in an attempt to catch up with a high-speed train.

As we embrace the next wave of digital society, we are seeing the infiltration of the Internet into value creation and a deeper integration of the digital and physical worlds. "Internet+" has become the focus of innovation in traditional industries and a starting point for their reformation towards digital.

Digital reformation: Riding the trend to win in the future information age

The digital society represents an irreversible trend. Riding on the trend to establish competitive strengths for today and into the future, and embracing digital reformation by applying the Internet mindset and ICT technologies, becomes an inevitable choice. Such reformation toward digital is not about just using the Internet as a tool; it is far more comprehensive and profound.

- **Reforming mindset: Building a new business mindset around the core of “all connected at zero distance”**

When the Internet becomes omnipresent, it becomes an underlying business mindset too. Enterprises have to embrace the Internet as an intrinsic mindset. Then they rebuild the external formalities like business, marketing, and service models around the concept of “all connected at zero distance.” Reformation of internal systems should then follow, to reengineer the management, R&D, and operation models. Enterprise, in such a way, will be redefined culturally, organizationally, and process-wise.

Mindset change is a very painful choice, but a must for industries and enterprises in transition. When a new era dawns, the life-or-death question is not whether to change or not, but how fast you can change.

- **Reforming business: Business models focusing on product digitalization and cloud services are a must for enterprises in the information era. Cloud services are all about operations of users and their data. By taking advantages of business model transformations powered by cloud computing, enterprises can leverage ICT-enabled cloud services to rebuild the telecom industry.**

As discussed above, the integration of the digital and physical worlds is reflected in the trend of products towards digital. Every industry must figure out how to digitalize products. Cloud service is a new business model and business mindset. While it differs with enterprises, ranging from products, after-sales services, online information services, online games, to e-commerce, and e-banking services, its core boils down to user and data operation at a higher level, instead of just product operation itself. Without cloud services, enterprises lack the foundation for such operations. The importance of cloud services as the foundation for future business is well illustrated by the example of Nike.

This trend creates a great strategic opportunity for the telecom industry, as the ICT infrastructure required for enterprise cloud services would become a basic cloud offering itself. When we look at the past history from 1900 to 1930, we see enterprises relinquishing their own power

generators and using electricity from power plants, as well as the beginnings of IT deployment through primitive systems such as punchers and tabulators. For the next 30 years, we expect to see history repeat itself, as enterprises back out of their own data centers and opt for purchased ICT cloud services. With cloud computing-based business model transformation, enterprise ICT will be moved to the public cloud, which represents a market of similar magnitude to the telecom market, a strategic business opportunity worth trillions of dollars to the industry.

- **Reforming operations: Internetized operation to deliver “all online” and “on demand” services in an automatic and intelligent way, shifting focus from internal control to external services**

As mentioned before, power is shifting toward users irreversibly, with the Internet’s all-connected and zero-distance features shattering time and space limits as well as asymmetrical information distribution. Internetized operation becomes a must for enterprises. By doing so, they allow users to obtain services on demand, giving users their most desired freedom, freedom of choice. To support on-demand services, online operation is an indispensable foundation. What we are talking about here is not simply online interface to interact with users, but user-oriented online operation to drive all of an enterprise’s internal processes online, with automation and intelligence built on that.

In other words, reforming operations is not simply providing online customer service and sales; it is reforming all processes to meet customers’ on-demand requirements, with the focus shifting from internal management and control to external customer services.

- **Reforming ICT infrastructure: Building DC-centric ICT infrastructure to fully explore the value of information and data, the so-called “digital oil”**

For enterprises and carriers, ICT infrastructure is the foundation that supports their business transformation and digital reformation. In the information age, information & data analytics and operation become core competences for any enterprise. To explore the value of enterprise data, the so-called digital oil, data mining and governance are key. With Big Data analytics, enterprises are endowed with new intelligence and wisdom to gain customer insights, conduct accurate product development, perform precision marketing, ensure informed management and decisions, and realize energy conservation.

In the future, all business activities will be digitized. Data centers (DCs) will become the core of ICT infrastructure, or the “switching center in the digital age.” It is the place where information is stored, processed, and exchanged; it is also the hub where services are handled and transactions made. Thus, building DC-centric ICT infrastructure becomes a necessity in the information age.

- **Reforming technologies: Redefining IT and network architectures with software-defined, scale-out computing models, thus setting the trend for the next wave of technology revolution**

Driving behind the success of business innovation is the force of technological innovation. It is with these two wings that the Internet is set to fly high. According to the new interpretation of Moore’s law from Turing Award-winner Jim Gray, the volume of data traffic generated every 18 months now equals that for all of human history. Facing such

a huge amount of data traffic, which could surge suddenly and unpredictably, ICT infrastructure must be more agile and scalable, which renders the traditional hardware-based architecture and pre-planned construction model outdated. To support business development into the future, brand new technological architectures that allow for agility and scalability are needed.

This is exactly where software-defined and scale-out computing models come in, which are becoming the new normal. Software definition refers not only to the IT domain, such as software-defined storage and software-defined DC, but also to the network domain, including software-defined networking (SDN) and network function virtualization (NFV). It realizes more flexible architectures via software, on the basis of programmable hardware. As for the scale-out computing model, it is permeating everywhere, from underlying multi-core chips to distributed storage, from parallel computing to fully distributed network architecture. Different from

the scale-up model, which is confined by material and processing constraints, scale-out allows for huge capacity and low cost. Software-defined and scale-out computing models are transforming traditional IT and network architectures, setting the trend for the next wave of technology revolution.

The information society is coming at an unstoppable pace. No industries and enterprises can be outside of it. To ride on this trend, enterprises must embrace an Internet mindset and advanced ICT technologies & solutions for digital reforming to build leading advantages into the future. The future belongs not only to Internet companies based on the virtual world, but also to those deeply rooted in the physical world. Huawei will continue to focus on the pipe strategy surrounding ICT infrastructure, and develop our SoftCOM strategy, which integrates the latest ICT ideas and technologies. We will continue to work hand-in-hand with our partners to help realize digital reforming of traditional industries, pushing the information society to a new height.

Independent Auditor's Report



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

We are the auditor of Huawei Investment & Holding Co., Ltd. and its subsidiaries (the "Group"). We have audited the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards (the "audited consolidated financial statements") for the year ended December 31, 2013. We have issued an unqualified audit report dated March 10, 2014 on the audited consolidated financial statements of the Group for the year ended December 31, 2013.

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 55 to 105 comprising the consolidated statement of financial position as at December 31, 2013, the consolidated statement of profit or loss, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, which is derived from the audited consolidated financial statements of the Group. The audited consolidated financial statements and the consolidated financial statements summary do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

The consolidated financial statements summary does not contain all the disclosures required by International Financial Reporting Standards in the preparation of the audited consolidated financial statements of the Group, and 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, 2013 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note 1(a).

KPMG Huazhen (Special General Partnership)
Certified Public Accountants
9th Floor, China Resources Building
5001 Shennan East Road
Shenzhen 518001, China
March 28, 2014

Consolidated Financial Statements Summary and Notes

Consolidated Statement of Profit or Loss

	Note	2013 CNY million	2012 CNY million Restated (Note 2)
Revenue	3	239,025	220,198
Cost of sales		141,005	132,512
Gross profit		98,020	87,686
Research and development expenses		30,672	29,747
Selling and administrative expenses		38,943	38,667
Other (income)/operating expenses, net	4	(723)	(1,386)
Operating profit before financing costs		29,128	20,658
Net finance expenses	6	3,942	2,039
Share of associates' results	13	(4)	1
Share of joint ventures' results	14	28	236
Profit before taxation		25,162	18,382
Income tax	7	4,159	2,758
Profit for the year		21,003	15,624
Attributable to:			
Equity holders of the Company		20,919	15,609
Non-controlling interests		84	15
Profit for the year		21,003	15,624

The notes on pages 58 to 105 form part of this consolidated financial statements summary.

Consolidated Statement of Financial Position

	Note	December 31, 2013 CNY million	December 31, 2012 CNY million
Assets			
Property, plant and equipment	9	22,209	20,366
Long-term leasehold prepayments	10	2,761	2,361
Intangible assets	11	2,410	1,689
Goodwill	12	3,343	3,389
Interest in associates	13	270	243
Interest in joint ventures	14	211	250
Other investments	15	584	549
Deferred tax assets	16	11,577	9,805
Trade receivables	18	335	497
Other receivables	19	14	407
Other non-current assets		974	982
Non-current assets		44,688	40,538
Other investments	15	8,545	4,469
Inventories	17	24,929	22,237
Trade and bills receivable	18	65,534	59,829
Other receivables	19	14,437	15,407
Cash and cash equivalents	20	73,399	67,180
Assets held for sale	21	–	346
Current assets		186,844	169,468
Total assets		231,532	210,006
Equity			
Equity attributable to equity holders of the Company		86,207	75,048
Non-controlling interests		59	(24)
Total equity		86,266	75,024
Liabilities			
Borrowings	22	19,990	16,077
Defined benefit obligations		9,608	9,686
Deferred government grants		2,746	2,218
Deferred tax liabilities	16	476	784
Provisions	26(a)	782	586
Non-current liabilities		33,602	29,351
Borrowings	22	3,043	4,677
Income tax payable		4,034	1,653
Trade and bills payable	23	31,980	40,273
Other payables	24	67,889	55,379
Provisions	26(a)	4,718	3,649
Current liabilities		111,664	105,631
Total liabilities		145,266	134,982
Total equity and liabilities		231,532	210,006

The notes on pages 58 to 105 form part of this consolidated financial statements summary.

Consolidated Statement of Cash Flows

	Note	2013 CNY million	2012 CNY million
Cash flows from operating activities			
Cash receipts from customers		293,317	258,332
Cash paid to suppliers and employees		(269,598)	(230,991)
Other operating cash flows		(1,165)	(2,372)
Net cash from operating activities		22,554	24,969
Net cash used in investing activities		(8,037)	(5,426)
Net cash used in financing activities		(7,126)	(9,180)
Net increase in cash and cash equivalents		7,391	10,363
Cash and cash equivalents at January 1	20	67,180	57,192
Effect of foreign exchange rate changes		(1,172)	(375)
Cash and cash equivalents at December 31	20	73,399	67,180

The notes on pages 58 to 105 form part of this consolidated financial statements summary.

Notes to the Consolidated Financial Statements Summary

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

(a) Basis of preparation

Huawei Investment & Holding Co., Ltd. (the "Company") and its subsidiaries (together referred to as the "Group") have prepared a full set of consolidated financial statements ("consolidated financial statements") for the year ended December 31, 2013 in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements summary has been prepared and presented based on the audited consolidated financial statements for the year ended December 31, 2013 in order to disclose material financial and operational information. The intended users of the consolidated financial statements summary can obtain access to the audited consolidated financial statements for the year ended December 31, 2013 upon consent of the Group's Management through the email address, information@huawei.com.

(b) Functional and presentation currency

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

(c) Translation of foreign currencies

i) Foreign currency transactions

Foreign currency transactions during the year are translated to the respective functional currencies of group entities at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

ii) Foreign operations

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

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

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

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

(d) Business combinations and goodwill

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

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

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

Goodwill arising on a business combination represents the excess of:

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

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

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

(e) Subsidiaries and non-controlling interests

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

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

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

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

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

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

(f) Associates and joint ventures

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

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

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

When the Group's share of losses equals or exceeds its interest in the associate or

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

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

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

In other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(o)).

(g) Investment property

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

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

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

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

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

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

ii) Subsequent costs

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

iii) Depreciation

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

	Estimated useful lives
Freehold land and construction in progress are not depreciated	
Buildings	20 years
Machinery, electronic equipment and other equipment	3 to 10 years
Motor vehicles	5 years
Decoration and leasehold improvements	2 to 5 years

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

(i) Long-term leasehold prepayments

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

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

(j) Intangible assets

i) Research and development

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

recognised as expenses in profit or loss in the period in which they are incurred.

ii) Other intangible assets

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

iii) Amortisation

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

Software	3 years
Patents	3 to 22 years
Trademark	10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(k) Leased assets

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

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

ii) Operating lease charges

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

made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(l) Impairment of assets

i) Impairment of investments in debt and equity securities and 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 the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

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

- For investments in associates and joint ventures accounted for under the equity method (see note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities 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 these financial assets share similar risk

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

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

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

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

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

■ Calculation of recoverable amount

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

■ Recognition of impairment loss

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

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(m) Inventories

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the

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

(n) 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(s)(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 end of the reporting period. 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 end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated statement of financial position as "gross amount due from third-party customers for contract works" (as an asset) or "gross amount due to third-

party customers for contract works" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the consolidated statement of financial position under "other receivables". Amounts received before the related work is performed are included under "other payables".

(o) Financial instruments other than derivatives

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

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

i) Recognition and derecognition

Non-derivative financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

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

ii) Measurement

■ Financial assets at fair value through profit or loss

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

■ Loans and receivables

Loans and receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related

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

From time to time, the Group transfers its trade receivables to banks or financial institutions; the bank or the financial institution fully bears the collection risk without the right to receive payments from the Group in the event a loss occurs due to the non-collectibility of the receivables transferred. The Group's customers make payments of the receivables transferred directly to the bank or the financial institution. In such case, trade receivables transferred are derecognised from the consolidated statement of financial position. The excess of the carrying amount of trade receivables over cash received from the banks or financial institutions is included in "other (income)/operating expenses, net" in the consolidated statement of profit or loss.

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

three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

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

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

- Interest-bearing loans and borrowings
Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the loans and borrowings, together with any interest and fees payable, using the effective interest method.
- Other financial liabilities
Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) 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 obligations

The Group's obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. The calculation is performed by management using the projected unit credit method.

Service cost and interest cost on the defined benefit obligations are recognised in profit or loss. Service cost is allocated by function as part of "cost of sales", "research and development expenses", "selling and administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligations resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Interest cost on defined benefit obligations for the period is determined by applying the discount rate used to measure the defined benefit

obligation at the beginning of the reporting period to the defined benefit obligations. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

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

(q) Provisions and contingent liabilities

i) Provision for warranties

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

ii) Provision for onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

iii) Other provisions and contingent liabilities

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

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

(r) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying

amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

liabilities on a net basis or realise and settle simultaneously.

(s) Revenue recognition

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

i) Sale of goods and provision of services

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

ii) 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 statement of financial position 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 other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently are effectively recognised in profit or loss on a systematic basis over the useful life of the asset.

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.

(t) Finance income and expenses

Finance income comprises dividend and interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale and held-for-trading financial assets, and changes in

the fair value of held-for-trading financial assets. Interest income is recognised as it accrues using the effective interest method. Dividend income from listed and unlisted investments is recognised when the equity holder's right to receive payment is established; dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

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

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

Foreign exchange gains and losses are included under finance income or expenses on a net basis.

(u) Non-current assets held for sale

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

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) or disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the consolidated financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefit and financial assets (other than investments in associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

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

(v) Segment reporting

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

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

2. Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the consolidated financial statements summary:

Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

IFRS 10, *Consolidated financial statements*

IFRS 11, *Joint arrangements*

IFRS 12, *Disclosure of interests in other entities*

IFRS 13, *Fair value measurement*

Revised IAS 19, *Employee benefits*

Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

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

Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The Group has chosen to use the new title “statement of profit or loss” as introduced by the amendments in the consolidated financial statements summary.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at January 1, 2013.

IFRS 11, *Joint arrangements*

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investments from jointly controlled entity to joint venture. The investments continue to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial performance of the Group.

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 13 and 14.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 9. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Revised IAS 19, *Employee benefits*

Revised IAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised IAS 19 requires all actuarial gains and losses to be recognised immediately in other comprehensive income.

As a result of the adoption of revised IAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which actuarial gains and losses were previously recognised in profit or loss. This change in accounting policy has been applied retrospectively with consequential adjustments to comparatives for the year ended December 31, 2012 as follows:

	As previously reported CNY million	Effect of adoption of revised IAS 19 CNY million	As restated CNY million
Consolidated statement of profit or loss for the year ended December 31, 2012:			
Defined benefit plan expense	2,240	(291)	1,949
Income tax	2,711	47	2,758
Profit for the year	15,380	244	15,624

Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

3. Revenue

	2013 CNY million	2012 CNY million
Sale of goods and provision of services	238,948	220,084
Rental income	77	114
	239,025	220,198

4. Other (income)/operating expenses, net

	2013 CNY million	2012 CNY million
Expense on factoring	550	762
Government grants	(465)	(750)
Net gain on disposal of property, plant and equipment, and intangible assets	(985)	(719)
Others	177	(679)
	(723)	(1,386)

Government grants

During the year ended December 31, 2013, the Group received unconditional government grants of CNY307 million (2012: CNY588 million) in respect of its contributions to the development of research and innovation in the People's Republic of China (the "PRC"). These grants were directly recognised as other income.

During the year ended December 31, 2013, the Group received government grants of CNY686 million (2012: CNY523 million) which were conditional upon completion of certain research and development projects. These grants were initially recognised in the consolidated statement of financial position as deferred government grants and amortised through the consolidated statement of profit or loss on a systematic basis in the same periods in which the related research and development expenses are incurred. During the year ended December 31, 2013, conditional government grants of CNY158 million (2012: CNY162 million) were recognised in profit or loss.

5. Personnel expenses

	2013 CNY million	2012 CNY million Restated (Note 2)
Expenses recognised in respect of defined benefit plan	1,338	1,539
Contributions to defined contribution retirement plans	6,497	5,865
Total costs on post-employment plans	7,835	7,404
Salaries, wages and other benefits	44,615	39,979
	52,450	47,383

6. Net finance expenses

	2013 CNY million	2012 CNY million Restated (Note 2)
Interest income	(839)	(844)
Net gain on disposal of available-for-sale wealth management products	(1,056)	(785)
Interest expense	1,358	1,758
Net foreign exchange loss	3,686	1,085
Interest cost on defined benefit obligations	469	410
Others	324	415
	3,942	2,039

7. Income tax

Taxation in the consolidated statement of profit or loss represents:

	2013 CNY million	2012 CNY million Restated (Note 2)
Current tax		
Provision for the year	6,384	3,262
(Over)/under-provision in respect of prior years	(78)	108
	6,306	3,370
Deferred tax		
Origination and reversal of temporary differences	(2,147)	(612)
	4,159	2,758

8. Segment reporting

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

■ Carrier Network Business

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

■ Enterprise Business

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

■ Consumer Business

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

The reportable segments are determined based on the Group's 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 most senior executive management for the purpose of resource allocation and performance assessment.

Revenue information in respect of business segments

	2013	2012
	CNY million	CNY million
Carrier Network Business	166,512	160,093
Enterprise Business	15,263	11,530
Consumer Business	56,986	48,376
Others	264	199
Total	239,025	220,198

Revenue information in respect of geographical segments

	2013	2012
	CNY million	CNY million
China	84,017	73,579
Europe, the Middle East and Africa (EMEA)	84,655	77,414
Asia Pacific	38,925	37,359
Americas	31,428	31,846
Total	239,025	220,198

9. Property, plant and equipment

	Freehold land	Buildings	Machinery, electronic equipment and other equipment	Motor vehicles	Construction in progress	Investment property	Decoration and leasehold improvements	Total
	CNY million	CNY million	CNY million	CNY million	CNY million	CNY million	CNY million	CNY million
Cost:								
At January 1, 2012	50	7,357	14,412	484	5,304	567	4,272	32,446
Exchange adjustment	(1)	(2)	(14)	(3)	(17)	–	(8)	(45)
Additions	–	3	2,693	92	2,730	–	810	6,328
Transfer from construction in progress	–	1,969	1,131	–	(4,253)	–	1,153	–
Disposals and reclassification	–	(634)	(588)	(33)	–	(133)	(515)	(1,903)
At December 31, 2012	49	8,693	17,634	540	3,764	434	5,712	36,826
At January 1, 2013	49	8,693	17,634	540	3,764	434	5,712	36,826
Exchange adjustment	(1)	(12)	(341)	(22)	(70)	–	(65)	(511)
Additions	58	13	2,530	83	3,179	–	239	6,102
Transfer from construction in progress	–	758	544	–	(1,963)	–	661	–
Disposals	–	(24)	(866)	(57)	–	–	(45)	(992)
At December 31, 2013	106	9,428	19,501	544	4,910	434	6,502	41,425
Accumulated depreciation:								
At January 1, 2012	–	1,845	8,568	303	–	289	2,810	13,815
Exchange adjustment	–	(1)	(25)	(1)	–	–	(5)	(32)
Depreciation charge for the year	–	442	2,131	79	–	23	1,131	3,806
Disposals and reclassification	–	(120)	(517)	(28)	–	(27)	(437)	(1,129)
At December 31, 2012	–	2,166	10,157	353	–	285	3,499	16,460
At January 1, 2013	–	2,166	10,157	353	–	285	3,499	16,460
Exchange adjustment	–	(2)	(176)	(11)	–	–	(42)	(231)
Depreciation charge for the year	–	408	2,403	68	–	22	856	3,757
Disposals	–	(18)	(667)	(49)	–	–	(36)	(770)
At December 31, 2013	–	2,554	11,717	361	–	307	4,277	19,216
Carrying amounts:								
At December 31, 2012	49	6,527	7,477	187	3,764	149	2,213	20,366
At December 31, 2013	106	6,874	7,784	183	4,910	127	2,225	22,209

Investment property

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

The carrying value of investment property as at December 31, 2013 is CNY127 million (2012: CNY149 million). The fair value of investment property as at December 31, 2013 is estimated by management to be CNY252 million (2012: CNY273 million).

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

10. Long-term leasehold prepayments*

	2013 CNY million	2012 CNY million
At January 1	2,361	2,223
Additions	462	198
Amortisation for the year	(62)	(60)
At December 31	2,761	2,361

* For more information, please refer to the Appendix to 2013 Annual Report: Land Use Rights and Building Property.

11. Intangible assets

	Software CNY million	Patents CNY million	Trademark CNY million	Total CNY million
Cost:				
At January 1, 2012	1,409	976	77	2,462
Additions	309	707	5	1,021
Disposals	(31)	(8)	–	(39)
At December 31, 2012	1,687	1,675	82	3,444
At January 1, 2013	1,687	1,675	82	3,444
Exchange adjustment	(26)	(2)	1	(27)
Additions	615	606	4	1,225
Disposals	(27)	(99)	(1)	(127)
At December 31, 2013	2,249	2,180	86	4,515
Accumulated amortisation and impairment losses:				
At January 1, 2012	807	468	24	1,299
Exchange adjustment	1	–	–	1
Amortisation for the year	238	167	7	412
Disposals	(17)	(1)	–	(18)
Impairment losses	52	–	9	61
At December 31, 2012	1,081	634	40	1,755
At January 1, 2013	1,081	634	40	1,755
Exchange adjustment	(14)	(1)	–	(15)
Amortisation for the year	264	192	7	463
Disposals	(19)	(78)	(1)	(98)
At December 31, 2013	1,312	747	46	2,105
Carrying amounts:				
At December 31, 2012	606	1,041	42	1,689
At December 31, 2013	937	1,433	40	2,410

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

12. Goodwill

	Note	2013 CNY million	2012 CNY million
Cost:			
At January 1		3,609	218
Exchange adjustment		(87)	(28)
Acquisitions through business combinations	29(c)	44	3,419
At December 31		3,566	3,609
Accumulated impairment losses:			
At January 1		220	–
Exchange adjustment		3	4
Impairment loss		–	216
At December 31		223	220
Carrying amounts:			
At December 31		3,343	3,389

Impairment tests for cash-generating units containing goodwill

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

	2013 CNY million	2012 CNY million
Sectors under Enterprise business group	3,139	3,229
International Turnkey Systems Technologies W.L.L. ("ITS Bahrain")	–	–
Beijing Huawei Longshine Information Technology Company Limited ("Beijing Huawei Longshine")	154	154
Others	50	6
	3,343	3,389

Goodwill is allocated to the Group's CGUs expected to benefit from the synergies of the acquisitions. For annual impairment assessment purposes, the recoverable amount of the CGUs are based on their value-in-use calculations. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial budgets approved by management covering five-year, eight-year and five-year period for sectors under Enterprise business group, ITS Bahrain and Beijing Huawei Longshine, respectively, based on their industry expertise.

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

	As at December 31	
	2013	2012
	%	%
Sectors under Enterprise business group		
– Discount rate	17.0	14.5
– Terminal value growth rate	5.0	10.0
ITS Bahrain		
– Discount rate	N/A	36.4
– Terminal value growth rate	N/A	4.0
Beijing Huawei Longshine		
– Discount rate	17.9	19.1
– Terminal value growth rate	3.0	3.0

During the year ended December 31, 2012, impairment loss of CNY216 million related to goodwill allocated to ITS Bahrain was recognised and the carrying amount of the goodwill allocated was reduced to nil.

13. Interest in associates

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

Name of associate	Form of business structure	Place of incorporation and business	Proportion of ownership interest		Principal activity
			2013	2012	
TD Tech Holding Limited ("TD Tech")	Incorporated	Hong Kong, PRC	49%	49%	Research and development, production and sale of TD-SCDMA telecommunication products
Tianwen Digital Media Technology (Beijing) Co., Ltd. ("Tianwen Digital Media")	Incorporated	Beijing, PRC	49%	49%	Development, publication and operation of digital media related services

All of the associates are accounted for using the equity method.

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

	TD Tech		Tianwen Digital Media	
	2013 CNY million	2012 CNY million	2013 CNY million	2012 CNY million
<i>Gross amounts of the associates'</i>				
Current assets	369	1,194	302	257
Non-current assets	56	76	8	8
Current liabilities	(429)	(1,189)	(60)	(15)
Non-current liabilities	(87)	(3)	(2)	(3)
Equity (deficit)	(91)	78	248	247
Revenue	3,972	2,801	139	10
(Loss)/profit	(170)	78	1	(58)
<i>Reconciled to the Group's interest in the associates</i>				
Gross amounts of net assets of the associate	(91)	78	248	247
Group's effective interest	49%	49%	49%	49%
Group's share of net assets of the associate	(45)	38	122	121
Goodwill	–	–	5	5
Net loss not shared by the Group	45	–	–	–
Carrying amount in the consolidated financial statements summary	–	38	127	126

Aggregate information of associates that are not individually material:

	2013 CNY million	2012 CNY million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements summary	143	79
Aggregate amounts of the Group's share of those associates' profit/(loss)	42	(10)

14. Interest in joint ventures

Details of the Group's interests in the material joint ventures are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Proportion of ownership interest		Principal activity
			2013	2012	
Huawei Marine Systems Co., Ltd. ("Huawei Marine")	Incorporated	Hong Kong, PRC	51%	51%	Construction and operation of submarine fibres
Chengdu Huawei Investment Co., Ltd. ("CD Investment")	Incorporated	Chengdu, PRC	49%	49%	Investment, lease of property and machinery, developments of high technology products and provision of related services, sale of telecommunication and electronic products

All of the joint ventures are accounted for using the equity method.

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

	Huawei Marine		CD Investment	
	2013 CNY million	2012 CNY million	2013 CNY million	2012 CNY million
<i>Gross amounts of the joint ventures'</i>				
Current assets	439	447	173	49
Non-current assets	20	28	1,422	1,612
Current liabilities	(322)	(333)	(239)	(313)
Non-current liabilities	(13)	(17)	(1,137)	(1,054)
Equity	124	125	219	294
Included in the above assets and liabilities:				
Cash and cash equivalents	98	74	4	3
Non-current financial liabilities (excluding trade and other payables and provisions)	–	–	(1,137)	(1,054)
Revenue	498	583	241	60
Profit/(loss)	20	(34)	(75)	(67)
Included in the above profit/(loss):				
Depreciation and amortisation	11	10	190	46
Interest income	–	–	–	–
Interest expense	–	–	72	22
Income tax expense	1	1	1	–
<i>Reconciled to the Group's interest in the joint ventures</i>				
Gross amounts of net assets of the joint venture	124	125	219	294
Group's effective interest	51%	51%	49%	49%
Carrying amount in the consolidated financial statements summary	63	64	107	144

Aggregate information of joint ventures that are not individually material:

	2013 CNY million	2012 CNY million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements summary	41	42
Aggregate amounts of the Group's share of those joint ventures' loss	(1)	(186)

15. Other investments

	2013 CNY million	2012 CNY million
Available-for-sale financial assets:		
– Unlisted equity securities stated at cost	477	502
– Listed equity securities stated at fair value	118	76
– Debt securities	5	7
– Wealth management products (i)	8,545	4,456
Held-for-trading equity securities	–	13
	9,145	5,054
Less: Impairment losses (ii)	(16)	(36)
	9,129	5,018
Non-current portion	584	549
Current portion	8,545	4,469
	9,129	5,018

- (i) The Group purchased certain wealth management products from commercial banks with maturity less than one year. The principal and earnings of these wealth management products were not guaranteed. These wealth management products were classified as available-for-sale in accordance with the policy set out in note 1(o).
- (ii) As at December 31, 2013 and 2012, certain of the Group's available-for-sale equity and debt securities were individually determined to be impaired on the basis of a material decline and adverse changes in the market in which the investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in accordance with the policy set out in note 1(l).

16. Deferred tax assets and liabilities

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

	2013	2012
	CNY million	CNY million
Accruals and provisions	5,740	4,745
Depreciation of property, plant and equipment	269	321
Provision for impairment losses	971	1,088
Unrealised profit	3,131	2,487
Tax losses	107	236
Undistributed profits of subsidiaries	(159)	(468)
Fair value adjustments on business combinations	(75)	(92)
Others	1,117	704
Total	11,101	9,021

Reconciliation to the consolidated statement of financial position:

	2013	2012
	CNY million	CNY million
Net deferred tax assets recognised in the consolidated statement of financial position	11,577	9,805
Net deferred tax liabilities recognised in the consolidated statement of financial position	(476)	(784)
	11,101	9,021

(b) Deferred tax assets not recognised

At December 31, 2013 and 2012, deferred tax assets were not recognised in relation to certain unused tax losses and other deductible temporary differences. The unrecognized unused tax losses and deductible temporary differences are analysed as follows:

	2013	2012
	CNY million	CNY million
Other deductible temporary differences	1,008	574
Tax losses	1,463	1,396
	2,471	1,970

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

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

17. Inventories

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

	2013	2012
	CNY million	CNY million
Raw materials	5,990	6,313
Work in progress	4,150	2,462
Finished goods	6,077	5,734
Goods delivered but not completely installed	8,712	7,728
	24,929	22,237

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

	2013	2012
	CNY million	CNY million
Carrying amount of inventories sold	99,694	96,551
Write down of inventories	1,231	17
	100,925	96,568

18. Trade and bills receivable

	2013	2012
	CNY million	CNY million
Trade receivables		
Trade receivables due from related parties	691	525
Trade receivables due from third parties	59,189	54,576
	59,880	55,101
Bills receivable		
Bank acceptance bills	2,224	2,078
Commercial acceptance bills	2,967	2,106
Letter of credit receivables	798	1,041
	5,989	5,225
	65,869	60,326
Non-current portion	335	497
Current portion	65,534	59,829
	65,869	60,326

(a) Ageing analysis

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

	2013	2012
	CNY million	CNY million
Not past due	43,903	37,430
Less than 90 days past due	10,698	11,960
90 days to 1 year past due	7,575	6,983
1 year and above past due	1,353	1,690
	63,529	58,063
Less: Allowance for doubtful debts	(4,340)	(3,487)
Total	59,189	54,576

(b) Impairment of trade receivables due from third parties

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

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

	2013	2012
	CNY million	CNY million
At January 1	3,487	3,548
Exchange adjustment	(520)	(63)
Impairment loss recognised	1,075	3,479
Collection of previously written-off debtors	411	–
Uncollectible amounts written off	(113)	(3,477)
At December 31	4,340	3,487

19. Other receivables

	2013	2012
	CNY million	CNY million
Advance payments to suppliers	1,605	2,388
Withholding taxes receivable	4,620	4,797
Pledged deposits	1,805	1,832
Gross amount due from third-party customers for contract works	228	1,340
Others	6,193	5,457
	14,451	15,814
Non-current portion	14	407
Current portion	14,437	15,407
	14,451	15,814

20. Cash and cash equivalents

	2013 CNY million	2012 CNY million
Cash in hand	5	15
Deposits with banks and other financial institutions	61,794	67,165
Highly liquid short-term investments	11,600	–
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	73,399	67,180

As at December 31, 2013, the Group had certain short-term investments purchased from commercial banks with maturity less than three months. These short-term investments were highly liquid, readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. These short-term investments were all subsequently matured and settled in January 2014.

21. Assets held for sale

According to an agreement entered into by the Company and a third party, the Company committed to sell certain of its property, plant and equipment to the third party with a total consideration of CNY2,800 million. Pursuant to the agreement, the Company shall deliver the related property, plant and equipment to the third party before the end of March 2013. As a result, the related property, plant and equipment were classified as held for sale. The sale of the related property, plant and equipment was completed in two batches in the latter half of 2012 and the first half of 2013 with a net gain of CNY761 million and CNY986 million recognised, respectively.

22. Borrowings

	2013 CNY million	2012 CNY million
Short-term loans and borrowings:		
– Intra-group guaranteed	2,022	2,266
– Unsecured	25	1,991
	2,047	4,257
Long-term loans and borrowings:		
– Intra-group guaranteed	18,351	14,464
– Unsecured	1,644	1,048
– Corporate bond	991	985
	20,986	16,497
	23,033	20,754
Non-current portion	19,990	16,077
Current portion	3,043	4,677
	23,033	20,754

Terms and debt repayment schedule

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

	Total	1 year or less	1 to 5 years	Over 5 years
	CNY million	CNY million	CNY million	CNY million
Intra-group guaranteed bank loans:				
CNY – variable at 5.9% p.a.	577	157	420	–
Euro (“EUR”) – variable at 1.41% ~ 1.92% p.a.	3,571	577	2,994	–
Japanese yen – variable at 0.97% ~ 1.28% p.a.	809	809	–	–
Indian rupee – variable at 9.9% ~ 11.75% p.a.	1,213	1,213	–	–
United States dollar (“USD”) – fixed at 4.33% p.a.	2,726	–	2,726	–
USD – variable at 1.68% ~ 2.71% p.a.	11,472	–	11,472	–
Ethiopian birr – fixed at 9.5% p.a.	5	–	5	–
	20,373	2,756	17,617	–
Unsecured bank loans:				
Bangladeshi taka – variable at 14.5% p.a.	24	24	–	–
CNY – variable at 5.9% ~ 6.55% p.a.	1,644	262	858	524
Singapore dollar – fixed at 2.5% p.a.	1	1	–	–
	1,669	287	858	524
Corporate bond:				
CNY – fixed at 5.30% p.a.	991	–	991	–
	23,033	3,043	19,466	524

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

Certain of the Group’s banking facilities are subject to the fulfillment of covenants relating to certain of the borrower’s statement of financial position ratios, as are commonly found in lending agreements with financial institutions. If the Group were to breach the covenants, the draw down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at December 31, 2013, none of the covenants relating to draw down facilities had been breached (2012: nil).

Corporate bond

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

23. Trade and bills payable

	2013 CNY million	2012 CNY million
Trade payables		
Trade payables due to related parties	761	840
Trade payables due to third parties	30,529	32,696
	31,290	33,536
Bills payable		
Bank acceptance bills	378	1,794
Letter of credit payables	312	4,943
	690	6,737
	31,980	40,273

24. Other payables

	2013 CNY million	2012 CNY million
Interest payable	634	1,174
Advances received	12,694	8,661
Accrued expenses		
– Staff related	17,820	14,414
– Supplies related	11,777	9,797
Other taxes payable	7,824	5,640
Purchase of property, plant and equipment	2,053	1,759
Gross amount due to third-party customers for contract works	416	2,331
Others	14,671	11,603
	67,889	55,379

25. Construction contracts

The aggregate amount of costs incurred plus recognised profits less recognised losses to date for the Group, included in the gross amount due from/to third-party customers for contract works as at December 31, 2013, is CNY8,067 million (2012: CNY26,723 million).

26. Provisions and contingencies

(a) Provisions

		2013	2012
		CNY million	CNY million
Provision for warranties	(i)	2,963	2,407
Other provisions	(ii)	2,537	1,828
		5,500	4,235
Non-current portion		782	586
Current portion		4,718	3,649
		5,500	4,235

Movement in provisions during the year is as below:

	Provision for	Other	Total
	warranties	provisions	Total
	CNY million	CNY million	CNY million
At January 1, 2012	1,962	1,842	3,804
Provisions made during the year	2,844	1,384	4,228
Provisions utilised during the year	(2,399)	(1,398)	(3,797)
At December 31, 2012 and January 1, 2013	2,407	1,828	4,235
Provisions made during the year	3,491	1,332	4,823
Provisions utilised during the year	(2,935)	(623)	(3,558)
At December 31, 2013	2,963	2,537	5,500

(i) Provision for warranties

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

(ii) Other provisions

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

(b) Contingencies

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

In December 2011, Huawei Tech filed a complaint against IDC in the PRC for violation of the fair, reasonable, and non-discriminatory (“FRAND”) policies and the PRC’s Anti-Monopoly Law. In June 2012, Huawei Tech filed another complaint with the European Commission (the “EC”) to request an investigation into the licensing fees requested by IDC, which it deemed exploitative, discriminatory, and in violation of the FRAND policies as well as the EC’s antitrust law.

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

On February 4, 2013, the Shenzhen Intermediate People’s Court ruled that IDC had violated the PRC’s Anti-Monopoly Law and ordered IDC to compensate the Group for damages of CNY20 million. The Court also ruled that the royalty rates licenses to Huawei Tech for IDC’s Chinese essential standard patents in wireless communication should not exceed 0.019% of the actual sales prices of Huawei Tech’s wireless devices.

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

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

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

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

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

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

to predict the outcome of the litigation, or reasonably estimate a range of possible loss, if any, given the current status of this litigation.

iii) On July 24, 2012, Technology Properties Limited LLC ("TPL") filed a complaint with the USITC, requesting the Commission to commence an investigation under Section 337 of the Tariff Act of 1930 into certain wireless consumer electronics devices and components manufactured by thirteen companies and their affiliates by reason of alleged patent infringement and requested for issuance of an exclusion order and cease and desist order in relation to the electronic products concerned. Huawei Tech was named as one of the thirteen companies. On August 21, 2012, the USITC decided to institute Section 337 investigation in relation to the electronic products concerned. TPL also filed another complaint before the United States District Court for the Northern District of California for the same reason. On September 6, 2013, the Administrative Law Judge of the USITC issued an initial determination that the Group did not infringe the asserted patent. On February 19, 2014, the USITC issued a final determination that the Group did not infringe the asserted patent.

27. Operating leases

(a) Leases as lessee

As at December 31, 2013 and 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013	2012
	CNY million	CNY million
Within 1 year	618	472
After 1 year but within 5 years	878	577
After 5 years	65	58
	1,561	1,107

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

During the year ended December 31, 2013, CNY2,392 million was recognised as an expense in the consolidated statement of profit or loss in respect of operating leases (2012: CNY2,334 million).

(b) Leases as lessor

The Group leases out certain of its properties under operating leases (see note 3 and note 9). As at December 31, 2013 and 2012, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2013	2012
	CNY million	CNY million
Within 1 year	23	100
After 1 year but within 5 years	1	9
	24	109

During the year ended December 31, 2013, CNY77 million was recognised as rental income in the consolidated statement of profit or loss (2012: CNY114 million).

28. Capital commitments

(a) Acquisition and construction of buildings

Capital commitments of the Group in respect of acquisition and construction of buildings outstanding at December 31, 2013 and 2012 not provided for in the consolidated financial statements summary were as follows:

	2013 CNY million	2012 CNY million
Contracted for	3,378	2,094
Authorised but not contracted for	2,945	4,376
	6,323	6,470

(b) Other capital commitments

Other contracted capital commitments outstanding at December 31, 2013 and 2012 not provided for in the consolidated financial statements summary were as follows:

	2013 CNY million	2012 CNY million
Establishment of an associate	–	25

29. Group enterprises

(a) Parent and ultimate controlling party

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

(b) Major subsidiaries

Name of subsidiary	Place of incorporation and business	Proportion of ownership interest		Principal activity
		2013	2012	
Huawei Technologies Co., Ltd.	PRC	100%	100%	Development, manufacture and sale of telecommunication products and the technical support & maintenance of electrical equipment and spare parts
Huawei Software Technologies Co., Ltd. ("Huawei Software Tech")	PRC	100%	100%	Development, manufacture and sale of software and new products in mobile communication area and rendering of related services
Shanghai Huawei Technologies Co., Ltd.	PRC	100%	100%	Development, sale, consultancy service and after-sale service of telecommunication equipment
Beijing Huawei Digital Technologies Co., Ltd.	PRC	100%	100%	Development, sale, and technical support of mobile communication products, import and export of goods and techniques
Shenzhen Huawei Technologies Software Co., Ltd.	PRC	100%	100%	Development, manufacture, sale and provide service of communication software and related products
HUAWEI TECHNICAL SERVICE CO., LTD.	PRC	100%	100%	Installation, technology consultancy service and maintenance of telecommunication equipment and auxiliary products
Huawei Machine Co., Ltd.	PRC	100%	100%	Development, manufacture and sale of telecommunication products; offering of technology services
HiSilicon Technologies Co., Limited	PRC	100%	100%	Design, development and sale of semiconductors of telecommunication products
Huawei Tech. Investment Co., Ltd ("Huawei Tech Investment")	Hong Kong	100%	100%	Trading of imported materials, sale of overseas device (exclude the United States) and overseas machineries
Huawei Device Co., Ltd.	PRC	100%	100%	Development, manufacture and sale of mobile communication products and electrical parts
Huawei International Pte. Ltd.	Singapore	100%	100%	Trading of telecommunication equipment
Huawei Technologies Coöperatief U.A.	Netherlands	100%	100%	Investor of overseas subsidiaries
PT. Huawei Tech Investment	Indonesia	100%	100%	Trading of telecommunication equipment
Huawei Technologies Japan K.K.	Japan	100%	100%	Design, development, manufacture and sale of telecommunication and information products, provide auxiliary products and services
Huawei Device (Hong Kong) Co., Ltd.	Hong Kong	100%	100%	Sale and maintenance of electrical equipment and mobile communication products

(c) Acquisition of subsidiaries

- i) On August 6, 2013, Huawei Tech Investment, a wholly-owned subsidiary of the Company, acquired 100% equity interest in Caliopa NV ("Caliopa") from third parties for a consideration of EUR7 million (equivalent to CNY56 million).

Caliopa is located in Belgium and principally engaged in developing silicon photonics-based optical solutions in the telecommunication industry. In 2013, all of Caliopa's services were provided to entities within the Group.

- ii) On December 10, 2013, Huawei Technologies (Australia) PTY Ltd., a wholly-owned subsidiary of the Company, acquired 100% equity interest in Fastwire PTY Limited ("Fastwire") from a third party for a consideration of USD19 million (equivalent to CNY117 million).

Fastwire is located in Sydney and provides Operation Supporting System services to telecommunication operators.

In the period from the acquisition date to December 31, 2013, Fastwire contributed revenue of CNY1 million and net loss of CNY3 million to the Group's results. If the acquisition had occurred on January 1, 2013, management estimate that consolidated revenue would have been increased by CNY30 million, and consolidated profit for the year would have been decreased by CNY9 million. In determining these amounts, management have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2013.

- iii) On March 30, 2012, Huawei Tech Investment, a wholly-owned subsidiary of the Company, acquired the remaining 49% stake in Huawei Digital Technologies (Hong Kong) Co., Limited (formerly "Huawei Symantec Technologies Co., Ltd.") ("Huawei Digital HK") from Symantec Hardware Holding LLC ("Symantec Hardware") for a consideration of USD530 million (equivalent to CNY3,337 million). As a result of this acquisition, the Group's equity interest in Huawei Digital HK increased from 51% to 100% and Huawei Digital HK became a wholly-owned subsidiary of Huawei Tech Investment, which in turn is a wholly-owned subsidiary of the Company.

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

In the period from the acquisition date to December 31, 2012, Huawei Digital HK contributed revenue of CNY3,225 million and net loss of CNY69 million to the Group's results. If the acquisition had occurred on January 1, 2012, management estimate that consolidated revenue would have been increased by CNY4,289 million, and consolidated profit for the year would have been decreased by CNY375 million. In determining these amounts, management have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2012.

- iv) On March 31, 2012, Huawei Software Tech, a wholly-owned subsidiary of the Company, acquired the remaining 48% stake in Beijing

Huawei Longshine from Longshine Information Technology Company Limited (“Longshine Information”) for a consideration of CNY116 million. As a result of this acquisition, the Group’s equity interest in Beijing Huawei Longshine increased from 52% to 100% and Beijing Huawei Longshine became a wholly-owned subsidiary of the Company.

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

In the period from the acquisition date to December 31, 2012, Beijing Huawei Longshine contributed revenue of CNY130 million and profit of CNY13 million to the Group’s results. If the acquisition had occurred on January 1, 2012, management estimate that consolidated revenue would have been increased by CNY130 million, and consolidated profit for the year would have been decreased by CNY9 million. In determining these amounts, management have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2012.

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

	Recognised values on acquisition			
	2013		2012	
	Caliopa CNY million Note 29(c)(i)	Fastwire CNY million Note 29(c)(ii)	Huawei Digital HK CNY million Note 29(c)(iii)	Beijing Huawei Longshine CNY million Note 29(c)(iv)
Property, plant and equipment	2	1	88	2
Available-for-sale financial assets	–	–	26	–
Intangible assets	26	116	375	92
Trade and other receivables	5	7	509	62
Inventories	–	–	543	16
Cash and cash equivalents	3	1	1,025	33
Trade and other payables	(15)	(15)	(1,629)	(24)
Borrowings	–	(1)	(170)	(63)
Defined benefit obligations	–	–	(313)	–
Deferred tax liabilities	(1)	–	(61)	(14)
Total net identifiable assets	20	109	393	104
Acquisition-related costs	1	3	28	–
Consideration, satisfied by cash	56	117	3,337	116
Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:				
Cash consideration paid	53	117	3,337	116
Cash and cash equivalents acquired	(3)	(1)	(1,025)	(33)
Net cash outflow	50	116	2,312	83

Goodwill

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

	Recognised values on acquisition			
	2013		2012	
	Caliopa	Fastwire	Huawei Digital HK	Beijing Huawei Longshine
	CNY million Note 29(c)(i)	CNY million Note 29(c)(ii)	CNY million Note 29(c)(iii)	CNY million Note 29(c)(iv)
Total consideration	56	117	3,337	116
Fair value of pre-existing interest	–	–	315	142
Fair value of identifiable net assets	(20)	(109)	(393)	(104)
	36	8	3,259	154

Caliopa

The goodwill is attributable mainly to the skills and technical talent of Caliopa's work force. None of the goodwill recognised is expected to be deductible for tax purposes.

Fastwire

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

30. Comparative figures

As a result of the application of new IFRSs and amendments to IFRSs and to conform to current year's presentation, certain comparative figures have been adjusted to provide comparative amounts in respect of items disclosed for the first time in 2013. Further details of these developments are disclosed in note 2.

Risk Factors

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

Huawei's Risk Management System

Based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, in line with our organizational structure and operating model, and by referring to the ISO31000 risk management standards, Huawei designed and established an enterprise risk management (ERM) system, issued corresponding ERM policies and processes, and optimized our ERM organizations and operating mechanism. The ERM system consists of three major roles:

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

Huawei has incorporated risk management factors into its strategic planning and business planning processes; through strategic planning, all domains systematically identify and assess their risks. In the 2013 business plan, all domains developed risk countermeasures, thereby giving managerial priority to risk monitoring and reporting in daily operations. The company ensures the continuity of business operations by clarifying major risks during strategic decision making and planning, while also preemptively controlling risks in business plans and execution.

Strategic Risks

Intense competition: The markets in which Huawei operates are highly competitive in terms of product price, functionality, and service quality, as well as the timing of new product launch. The rapid development of science and technology, and changes in alternative technologies or industry standards will lead to shorter product lifecycles and may attract more new entrants into the markets in which we operate.

In this market context, we will remain committed to thoroughly understanding, digging out, and satisfying diversified customer requirements. To secure and strengthen our competitive advantage and continuously improve our operating results, we will launch products and services of even higher quality to the market while reducing the total costs for our customers.

External Risks

Economic environment: Many uncertainties and downside risks will persist in the global economy in the future. To improve financial conditions, telecom carriers may postpone investments or initiate other cost-cutting measures. These factors could result in reduced demand for network infrastructures and services, which would in turn affect Huawei's operating results.

Country-specific risks: Huawei conducts business in more than 170 countries and regions. Operating in these countries involves certain risks, such as civil unrest, economic and political instability, imposition of exchange controls, sovereign debt crisis, supervision over the right of operations, and labor issues. All these risks require Huawei to have a high aptitude for risk management.

Legal risks: In certain regions where we operate, the complex legal environments may pose various adverse impacts although we strive to comply with all local laws and regulations.

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

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

Operational Risks

Supply continuity: Although Huawei strives to avoid procurement from single-source suppliers, it is not always possible due to objective factors. Finding an alternative supplier or redesigning products may be time-consuming and costly. As such, supply and delivery of our products to our customers could be seriously affected if any of our single-source suppliers were unable to ensure continuous supply or met with product quality issues. To mitigate this risk, we periodically assess and conduct audits on our suppliers, and preemptively initiate component replacements or solution redesign.

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

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

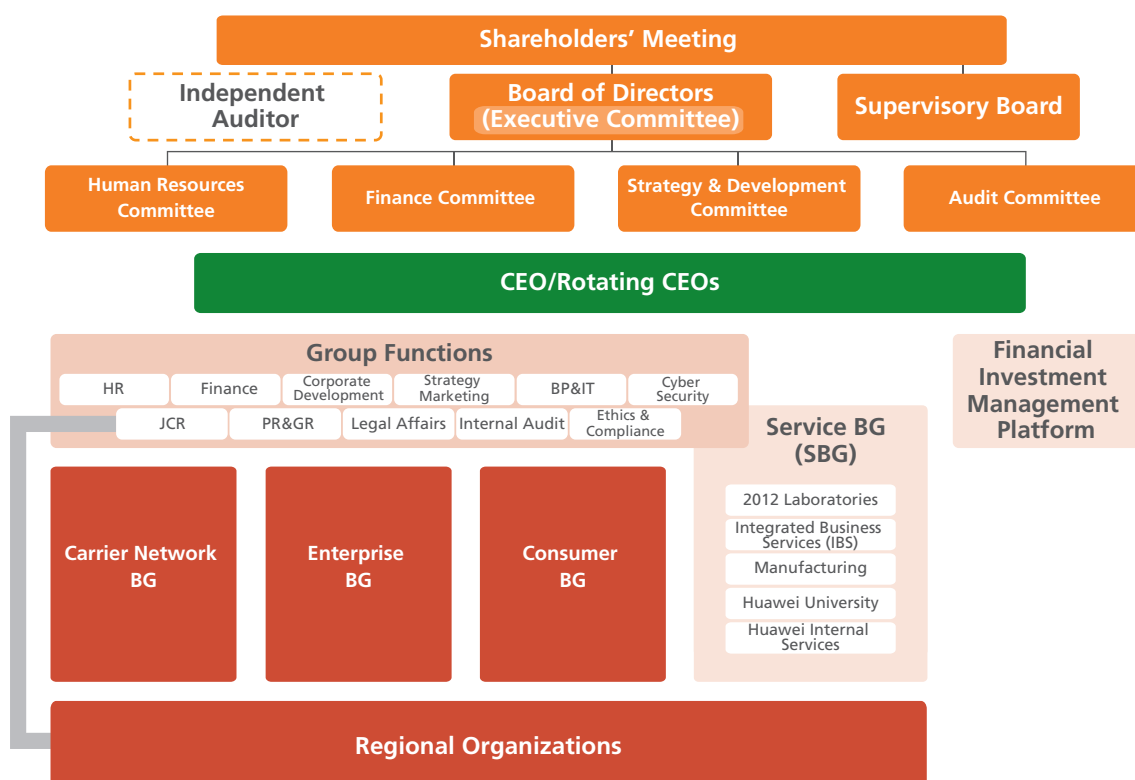
Financial Risks

For further information on financial risks, see "Financial Risk Management" on pages 40 to 43 of this Annual Report.

Corporate Governance Report

Corporate Governance Structure

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



In 2014, we will gradually restructure our business organizations in order to establish our innovative and technological advantages in the era of ICT convergence, and to provide solutions that can fully meet different customers' needs, so as to deliver a superior user experience. In addition, we will build closer connections and partnerships with customers and help them achieve business success while ensuring healthy, sustainable, and effective growth for our company.

Shareholders

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

Through the Union, the company implements an Employee Shareholding Scheme (the “Scheme”), which involved 84,187 employees as of December 31, 2013. The Scheme effectively aligns employee contributions with the company's long-term development, fostering Huawei's continued success.

Mr. Ren Zhengfei is the individual shareholder of the Company and also participates in the Scheme. As of December 31, 2013, Mr. Ren's investment accounts for nearly 1.4% of the Company's total share capital.

The Shareholders' Meeting and the Representatives' Commission

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

The Company's major issues, which involve the decisions of the Union as the shareholder of the Company, shall be primarily reviewed and decided by the Representatives' Commission (the "Commission"). The Commission consists of all representatives of shareholding employees ("Representatives") and exercises rights on behalf of these shareholding employees. In 2013, the Commission held three meetings. At the meetings, the Commission received reports on the company's 2012 operational performance, consolidated financial statements, and the operations of the Supervisory Board. In addition to reviewing and approving proposals about profit distribution, capital increases, and regulations on the by-elections of members of the Board of Directors and the Supervisory Board, the Commission elected four additional members to the Board of Directors.

The 51 Representatives and 9 Alternate Representatives are elected by the active shareholding employees with a term of five years. In the event that there is a vacancy in the Representatives, the Alternate Representatives shall take up the vacancy in sequence. The existing Commission was elected in December 2010. At present, the Representatives are Ms. Sun Yafang, Mr. Guo Ping, Mr. Xu Zhijun, Mr. Hu Houkun, Mr. Ren Zhengfei, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Ms. Chen Lifang, Mr. Wan Biao, Mr. Zhang Ping'an, Mr. Yu Chengdong, Mr. Liang Hua, Mr. Peng Zhiping, Mr. Ren Shulu, Mr. Tian Feng, Mr. Deng Biao, Mr. Zhou Daiqi, Mr. Cai Liqun, Mr. Jiang Xisheng, Mr. Yin Xuquan, Mr. Yao Fuhai, Mr. Zha Jun, Mr. Li Yingtao, Ms. Ji Ping, Mr. Tao Jingwen, Mr. Zhang Shunmao, Mr. Ding Shaohua, Mr. Li Jin'ge, Mr. Wang Shengli,

Mr. Wang Kexiang, Mr. Lv Ke, Mr. Yang Kaijun, Mr. Jiang Yafei, Ms. He Tingbo, Mr. Sun Ming, Mr. Wu Kunhong, Mr. Zhao Yong, Ms. Yan Weimin, Mr. Tang Xiaoming, Mr. Wang Jiading, Mr. Wei Chengmin, Mr. Xiong Lening, Mr. Li Shanlin, Mr. Xu Chi, Mr. Yang Shu, Mr. Song Liuping, Mr. Zhou Hong, Ms. Chen Jun, and Mr. Hui Chun.

Board of Directors and Committees

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

The key roles and responsibilities of the BOD include:

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

- Deciding on the selection, appraisal, and compensation of the Chief Executive Officer; approving the appointment and compensation of other members of senior management.
- Approving the corporate-level HR planning and major HR policies.

In 2013, the BOD held 12 meetings. Throughout the year, the BOD reviewed and approved the company's medium-to-long-term business plan, the annual business plan and budget, revisions to the *Articles of Association*, operations of the committees of the BOD, organization building and accountability, and other major HR and financial policies and activities. In addition, the BOD organized a training session for its members in which they had in-depth discussions about training topics with external experts.

On December 27, 2013, the Representatives elected four additional members to the BOD, increasing the number of BOD members from 13 to 17. Currently, BOD members are Chairwoman Ms. Sun Yafang; Deputy Chairmen Mr. Guo Ping, Mr. Xu Zhijun, Mr. Hu Houkun, and Mr. Ren Zhengfei; Executive Directors Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, and Ms. Meng Wanzhou; Directors Ms. Chen Lifang, Mr. Wan Biao, Mr. Zhang Ping'an, Mr. Yu Chengdong, Mr. Li Yingtao, Mr. Li Jin'ge, Ms. He Tingbo, and Mr. Wang Shengli.

In 2013, the attendance record for each Director is as follows:

Director	Meetings Attended
Ms. Sun Yafang	12
Mr. Guo Ping	12
Mr. Xu Zhijun	12
Mr. Hu Houkun	12
Mr. Ren Zhengfei	12
Mr. Xu Wenwei	12
Mr. Li Jie	12
Mr. Ding Yun	12
Ms. Meng Wanzhou	12
Ms. Chen Lifang	11
Mr. Wan Biao	7
Mr. Zhang Ping'an	12
Mr. Yu Chengdong	11

Note:

- Mr. Li Yingtao, Mr. Li Jin'ge, Ms. He Tingbo, and Mr. Wang Shengli were elected to the BOD on December 27, 2013, and did not attend BOD meetings in 2013.

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

In 2013, the Executive Committee of the BOD held 21 meetings.

Human Resources Committee

The Human Resources Committee manages and improves the core elements of organizational management such as organization, talent, incentives, and culture. Under the authorization of the BOD, this committee develops and decides on key policies and transformation initiatives related to HR management and oversees their implementation. To support business development, the committee ensures that HR policies reflect the company's HR management philosophy and core concepts while also considering the business characteristics and management models of departments at all levels.

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

- Managing the succession plans, allocation, appointments or removals, performance appraisals, compensation, and incentives for key managers and talent under the authorization of the BOD.
- Managing overall incentive policies, benefit policies, the compensation structure, and job matching.
- Managing policies for organizational development and optimization; managing the HR budget and staffing for each budgetary unit.
- Managing employee learning and development policies and providing guidance.
- Setting policies related to employee disciplinary compliance and managing disciplinary actions in the case of major violations.
- Setting policies related to the occupational health and safety of employees and providing guidance.
- Managing strategic HR plans and key HR transformation initiatives.

The Human Resources Committee meets on a monthly basis and convenes special sessions as needed. At the invitation of the committee, business executives and subject matter experts may attend the meetings as non-voting participants. The Human Resources Committee held 12 meetings in 2013 to meet the requirements of the BOD, the global development needs of multiple business groups, and the challenges of managing diversified talent.

In 2013, the committee continued to conduct strategic planning regarding HR management. Focusing on the "Talent Pyramid" and its solution architecture, the committee developed management systems for managerial and professional positions. To address the problems and needs related to incentive management, the committee optimized the company's compensation and incentive structure and ensured that it was effectively implemented. To adapt to business development needs, the committee restructured relevant organizations and continued to solidify the flexible governance mechanism for headcount budgeting that aligns with business needs. The committee continuously carried out major tasks related to employee disciplinary compliance. In addition, the committee made expected progress in areas such as development of HR management frameworks and policies and supervision of the implementation of key decisions and policies.

To help managers at all levels better understand the company's major HR policies issued in recent years, the Human Resources Committee held the 2013 Huawei Annual Management Conference. At the conference, in-depth discussions about corporate vision and major directions and policies regarding talent and incentive management were conducted, and consensus was reached. The discussions facilitated the effective implementation of corporate policies in organizations at all levels.

The Human Resources Committee is comprised of 15 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 Yingtao, Mr. Wan Biao, Ms. He Tingbo, Mr. Zhang Ping'an, Mr. Zha Jun, Mr. Tian Feng, Mr. Peng Bo, and Mr. Li Shanlin.

Finance Committee

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

The key roles and responsibilities of the Finance Committee include:

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

- Reviewing the capital structure plan; making proposals for major financing activities, the asset structure, and profit distribution.
- Reviewing the company's key financial policies, annual financial statements, and issues related to information disclosure.
- Reviewing capital operations and strategic cooperation projects, submitting proposals to the BOD, and periodically assessing the execution of such projects.
- Reviewing the company's risk management framework, advising on trade compliance issues, and establishing a business continuity management system.

The Finance Committee meets on a monthly basis and convenes special sessions as needed. Based on business needs and requirements of the BOD, the Finance Committee held 13 meetings in 2013. 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 15 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. Yi Xiang, Mr. Fang Weiyi, Mr. Zou Zhilei, Mr. CT Johnson, Mr. Qiao Nengdong, Mr. Yao Fuhai, and Mr. Xiong Lening.

Strategy & Development Committee

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

The key roles and responsibilities of the SDC include:

- Managing the company's medium-to-long-term strategic plan, key initiatives, and major objectives 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, quality policies, etc.
- Reviewing the company's business portfolios frequently to ensure investments are made in the strategic domains.

The SDC held 12 regular meetings in 2013 and a four-day event comprised of strategy development workshops in September. During 2013, the SDC reached 28 resolutions on business direction, positioning, and investment focus. In accordance with the positioning and responsibility determined by the BOD, the SDC focused on formulating the company's strategy and steering its direction, guided each business unit to continue along the path of strategic focus, innovation, differentiation, and leadership to build future-proof core competences based on the pipe strategy and industry development trends, and managed the company's business presence and the focus of its industrial investment portfolio. On this basis, the SDC improved and institutionalized processes and methodologies for strategy management, systematically analyzed the uncertainties in the future development of the ICT industry, and continuously promoted key strategic initiatives, such as globalization, SoftCOM, and 5G, to support the company's long-term sustainable development.

The SDC is comprised of 15 members, including BOD members, senior business executives, and senior subject matter experts. The Chairman of the committee is Mr. Xu Zhijun. The members include Mr. Guo Ping, Mr. Hu Houkun, Mr. Xu Wenwei, Mr. Li Jie, Mr. Ding Yun, Ms. Meng Wanzhou, Mr. Yu Chengdong, Mr. Li Yingtao, Mr. Liang Hua, Mr. Zhang Ping'an, Mr. Zha Jun, Mr. Deng Biao, Mr. Wang Shengqing, and Mr. Zhang Shunmao.

Audit Committee

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

The key roles and responsibilities of the Audit Committee include:

- Approving the internal audit plan of the year; reviewing the scope of the internal audit plan, resources required for its execution, and the results of the execution.
- Approving corporate policies related to internal control management; approving the company's internal control development plan and key milestones; regularly assessing the company's overall internal control posture.
- Overseeing the effectiveness of the ethics and compliance function, and the company's compliance with legal and regulatory requirements as well as corporate policies.
- Reviewing the selection of external auditors; reporting the change of external auditors to the BOD for approval, and approving all related fees; assessing the effectiveness of external auditors' performance.
- Supervising the integrity, completeness, and legal compliance of the company's financial statements; reviewing accounting policy compliance and application as well as disclosure of financial statements.
- The Audit Committee approves the control KPIs at the beginning of each year, and has the right to summon Global Process Owners (GPOs) and business executives to report their control work.

The Audit Committee meets on a quarterly basis and convenes special sessions as needed. At the invitation of the Audit Committee, business executives and subject matter experts may attend the meetings as non-voting participants. The Audit Committee held five meetings in 2013. Focusing

on topics such as risk management and internal control construction and promotion, the Audit Committee reviewed and approved the annual internal audit planning and the annual planning for global process control construction, and received reports on the trend analysis of Internal Control Maturity (ICM), the Semi-Annual Control Assessment (SACA), GPOs' control improvements, the internal control framework and responsibility system assessment, etc. The Audit Committee also improved employee compliance with Huawei's BCG by publicizing major audit findings and non-compliance cases. In addition, the Chairman of the Audit Committee discussed the management improvement proposal with the external auditor.

The Audit Committee is comprised of eight members, including members of the Supervisory Board, BOD members, and subject matter 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. Peng Zhijun, Mr. Hui Chun, and Mr. Zhou Daiqi.

Supervisory Board

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

In 2013, the Supervisory Board held four meetings. At the meetings, the Supervisory Board reviewed and approved regulations on its own operations, and developed a work plan for the next three years. According to the work plan, the Supervisory Board will strengthen its operations in three aspects: supervision of the responsibility fulfillment of BOD members and senior management, monitoring of the financial performance of the company, and building of the Supervisory Board itself. In addition, the Supervisory Board reviewed and assessed the company's financial performance, and received reports by the company's supervisory departments. Throughout the year, members of the Supervisory Board attended 12 meetings of the BOD as non-voting participants, monitoring the financial performance of the company, the responsibility fulfillment of BOD members and senior management, and the standardization of BOD operations. In 2013, the Supervisory Board began to appraise the annual responsibility fulfillment of BOD members.

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

Rotating CEOs

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

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

Three Deputy Chairmen take turns to act as the Rotating and Acting CEO for a tenure of six months. In 2013, the acting tenures for the three rotating CEOs are as follows:

- Mr. Guo Ping: October 1, 2012 – March 31, 2013
- Mr. Hu Houkun: April 1, 2013 – September 30, 2013
- Mr. Xu Zhijun: October 1, 2013 – March 31, 2014

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



Members of the Board of Directors

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

Director Biographies

Ms. Sun Yafang

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

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

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

Mr. Guo Ping

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

Mr. Hu Houkun (Ken Hu)

Born in 1968, Mr. Hu holds a bachelor's degree from Huazhong University of Science and Technology. Mr. Hu joined Huawei in 1990 and has served as President of the Marketing & Sales Dept in China, President of the Latin America Region, President of the Global Sales Dept, Chief Sales & Service Officer, Chief Strategy & Marketing Officer, Chairman of the Corporate Global Cyber Security Committee, Chairman of the BOD of Huawei USA, Deputy Chairman of the Board, Rotating CEO, and Chairman of the 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, CEO of the Enterprise BG, and President of the company's Strategy Marketing Dept.

Mr. Li Jie (Jason Li)

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

Mr. Ding Yun (Ryan Ding)

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

Ms. Meng Wanzhou (Cathy Meng)

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

Ms. Chen Lifang

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

Mr. Wan Biao

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

Mr. Zhang Ping'an (Alex Zhang)

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

Mr. Yu Chengdong (Richard Yu)

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

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. Li Jin'ge

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

Ms. He Tingbo (Teresa He)

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

Mr. Wang Shengli (Victor Wang)

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



Members of the Supervisory Board

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

Supervisory Board Member Biographies

Mr. Liang Hua (Howard Liang)

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

Mr. Peng Zhiping (Benjamin Peng)

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

Mr. Ren Shulu (Steven Ren)

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

Committee, and currently, President of the Internal Service Mgmt Dept.

Mr. Tian Feng

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

Mr. Deng Biao (Alex Deng)

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

Committee Member Biographies

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

Mr. Wang Shengqing (Ken Wang)

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

Mr. Fang Weiyi

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

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

Mr. CT Johnson, CPA

Born in 1968, Mr. Johnson received an MBA in Finance and a Master of Science in Accounting at the University of Texas at Dallas. He worked as an Auditor with Ernst & Young starting in 1993 (US, Russia), as Finance Director for InBev from 1998 (Russia) and then as a turn around CFO for multiple companies starting in 2000 (US, Germany). He joined Ericsson in 2006 as the Controller for the North America Region, later becoming the head of their Hosted Services Business, and finally taking over as head of Commercial Management. In 2012, Mr. Johnson joined Huawei and served as Corporate Controller in the Group Finance Mgmt Dept, and is now Director of the Contract Commerce and Fulfillment Mgmt Dept and member of the Finance Committee.

Mr. Zhang Shunmao (Patrick Zhang)

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

Mr. Yi Xiang (Steven Yi)

Born in 1975, Mr. Yi holds a bachelor's degree from Wuhan University. Mr. Yi joined Huawei in 1998 and has served as Director of the Sales Mgmt Dept in the Asia Pacific Area, General Manager of the Pakistan Representative Office, President of the Middle East Region, President of the Middle East and Africa Area, and currently, President of the Sales & Delivery Finance Mgmt Dept, Deputy CFO of Huawei, 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, Chief Ethics & Compliance Officer, Director of the Corporate Committee of Ethics and Compliance, and member of the Audit 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, President of the Fixed Network Business Unit, member of the Human Resources Committee, 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, and currently, President of the Procurement Qualification Mgmt Dept, Director of the Group Procurement Management Committee, 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 Account Manager of the Customer Relationship Mgmt Dept, Account Manager of the Hong Kong Representative Office, President of the Vodafone Account Dept, Vice President of the Western European Region, President of the Accounts Business Dept, President of the Global Sales Dept under the Carrier Network BG, member of the Carrier Network BG EMT, member of the Human Resources Committee, 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, Deputy Director of the Business Control and Enterprise Risk Mgmt Dept, and currently, Chief Risk Review Officer and member of the Audit 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 currently, Director of the General Procurement Qualification Dept and member of the Finance Committee.

Mr. Xiong Lening

Born in 1969, Mr. Xiong holds a bachelor's degree from Zhejiang University. Mr. Xiong joined Huawei in 1993 and has served as Deputy Director of the Development and Pilot (D&P) Dept, General Manager of the Chengdu Representative Office, Director of the Beijing Branch, Director of the China Mobile Account Dept, Vice President of the China Region, EVP (acting) of the Russia Region, and currently, President of the Supply Chain Mgmt Dept 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. 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. Service BGs (SBGs) are responsibility centers that provide end-to-end support and services for BGs. SBGs shall continuously increase efficiency and reduce operating costs. 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.

In 2014, we will gradually restructure our organization.

Continuous Improvement of Management Systems

Huawei established global management systems to promote and pass down our corporate culture while achieving effective business management. The aim is to:

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

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

We fulfilled the requirements of our management systems in accordance with our corporate strategy. We continuously strengthened the capabilities of our customer-centric management systems based on integrated business processes to effectively support our business development and continuous improvement. In addition, on the basis of excellent business practices, we developed a comprehensive process system, encompassing operating, enabling, and supporting processes. Through these processes, we incorporated requirements associated with quality, internal controls, Environment, Health, and Safety (EHS), cyber security, and CSR into marketing, R&D, supply chain, procurement, delivery, service,

and other business domains. Besides this, we streamlined our processes end-to-end. We employed the Six Sigma methodology to enhance the ability of all employees to improve. We also promoted continuous improvements through quality measurements, reviews, and assessments in accordance with the best practices of the industry.

To ensure that the products and services we provide to our customers are effective and reliable, we had our systems certified by multiple independent third parties. Additionally, Huawei obtained certification in ISO9001/TL9000 (quality), ISO14001 (environment), OHSAS18001 (health and safety), and ISO27001 (information security). Huawei also obtained certification in SA8000 (CSR) in the device domain.

Huawei has also successfully passed the comprehensive audits, regular assessments, and stringent reviews conducted by 33 of the world's top 50 carriers as well as by enterprises and industries. The items covered include financial stability, quality management, delivery, supply chain management, knowledge management, project management, information and cyber security, risk management, EHS, CSR, and business continuity management. We enjoy wide recognition from our customers in these key domains, as evidenced by their choice of Huawei as a strategic partner.

Huawei continued to entrust professional third-party market survey companies to conduct customer satisfaction surveys around the globe. Based on customer feedback, we summarized and identified our top issues, made improvements accordingly, and managed the issues in a closed-loop manner to further improve customer satisfaction.

Strategy to Execution

Huawei launched its “Develop Strategy to Execute (DSTE)” strategy management system to enable strategy-driven business planning, budgeting, and performance appraisal. This action aims to ensure that the medium-to-long-term strategic objectives of the company and each business unit are taken into account in the annual plan and budgets, thus helping ensure that business units are well coordinated. This action also aims to effectively manage corporate investments and assist the company in achieving its strategic and business objectives.

During the annual business planning and budgeting, Huawei utilizes balanced scorecards to measure its organizational performance. Corporate strategic objectives are broken down into organizational performance objectives at all levels. At Huawei, work reports are conducted level-by-level, personal business commitments (PBCs) are managed for employees, and the applications of organizational and individual performance results are strengthened. These approaches ensure that organizational and individual objectives are aligned with the company’s objectives and that the company’s strategy is effectively understood and implemented across the organization.

Management Transformations

In 2013, Huawei focused on strengthening the integration of its process architecture, ensuring the smoothness of main business flows, further delegating authority to field offices based on processes, better aligning organizations with processes, and improving process performance and operations. In addition, we incorporated the design of internal controls into the process management system. By implementing a variety

of transformation programs, we ensured prompt responses to and end-to-end management of customer requirements, further lowered our internal operating costs, and improved our business operational efficiency, thereby bolstering the company’s strategic goals of globalization and sustainable development.

- Deepened Transformation of Customer Relationship Management (CRM): Huawei developed process-based organizations for customer-centric marketing, sales, and services to ensure that we remain focused on customer expectations and requirements, improve efficiency, and reduce risks and costs in order to create maximum value for customers and enable their and eventually Huawei’s success. To date, we have completed the development of the Lead to Cash (LTC) process and the IT system, and optimized them for regions based on local conditions. The Manage Client Relationship (MCR) process has been implemented effectively in 14 regions and 10 key account departments worldwide to effectively manage customer relationships and customer satisfaction.
- Continuous Customer Issue Management Transformation: The Issue to Resolution (ITR) process has been launched and fully deployed, allowing us to handle non-technical problems, complaints, and other customer concerns in addition to technical issues. As such, we ensure that issues raised by customers are resolved in accordance with contracts in a timely and effective manner to protect service continuity and cyber security of customer equipment and networks. This initiative also drives the company to improve its products and management to ensure customer satisfaction.

- **Continuous Integrated Financial Services (IFS) Transformation:** Huawei is building a global financial management system to facilitate the company's sustainable and profitable growth through data-based management. Huawei is close to finishing the streamlining of its financial and business processes and data at the transaction level. As such, we are now focusing on developing comprehensive financial capabilities related to operations and decision making.
- **Continuous Optimization of the Integrated Product Development (IPD) Process:** Huawei has deployed the One Track development model through the Product Lifecycle Management (PLM) system, achieving process integration and ensuring data consistency. We have integrated operation systems that support end-to-end R&D activities, from product requirement, design, implementation, validation, version building, to release. In addition, a complete IT system that supports R&D activities has almost been developed. These measures have helped improve R&D efficiency and product quality while ensuring that cyber security and product compliance requirements are defined and fulfilled in the product R&D process. We have optimized innovation management in terms of process architectures, built innovation DNAs in the company's process and management systems, and continued to develop the service and device IPD processes to support the development of new industries.
- **Continuous Project Management and Knowledge Management:** Huawei is making efforts to build a management culture focused on project operations, and continues

to change related processes, organizations, resource allocation mechanisms, and appraisal mechanisms so that projects are treated as independent operating units. To improve organizational efficiency, Huawei also deploys a resource buy-and-sell mechanism that enables project teams to buy resources from Group Functions. In addition, Huawei has devoted more efforts to knowledge management, document management, and knowledge communities to enhance knowledge and experience sharing, thus improving employees' efficiency.

Organizational Capabilities

Functional departments at Huawei, such as finance, HR, business process & IT, sales support, service & delivery, and administrative affairs, have widely deployed the shared service model to integrate resources and support the improvement of the company's business capabilities and operational efficiency. Huawei has established over 40 Centers of Expertise (COEs) across 16 countries, with the focus on filling capability gaps and sharing expertise. By integrating global professional talent, we are able to make breakthroughs in key technologies, share professional experiences, and improve business capabilities. In addition, Huawei has set up more than 30 Shared Service Centers (SSCs) worldwide. Some mature SSCs, such as the finance and contract fulfillment SSCs, are shifting their roles from regional to global integration centers. The bidding, IT, HR, supply chain, and logistics SSCs have also been established and started operations. COEs and SSCs aim to better provide quality and efficient services to the three BGs and regional organizations, enabling them to focus more on customers.

Establishment of the Internal Control System

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

Control Environment

A control environment is the foundation for an internal control system. Huawei is dedicated to maintaining a corporate culture of integrity, placing a high value on business ethics, and strictly complying with laws and regulations. Huawei has established *BCG* to define the company's standards for acceptable conduct. Huawei also provides training programs, requires all employees to acknowledge their understanding of and commitment to complying with the *BCG*, and asks all employees to sign the *BCG* on a regular basis. Huawei has a well-established governance structure with clear authority delegation and accountabilities. The governance structure is comprised of the BOD, its committees, Group Functions, and multi-level administrative teams. Huawei has clearly defined roles and responsibilities for its teams to ensure checks and balances. The CFO of Huawei is in charge of internal control management. The Business Control Dept identifies areas for improvement, reports improvements

made in terms of internal controls to the CFO of Huawei, and assists the CFO in building the internal control environment. The Internal Audit Dept independently monitors and assesses the effectiveness of internal controls for all operational activities.

Risk Assessment

Huawei has established a dedicated internal control and risk management department to regularly assess risks related to all business processes around the globe. This department identifies, manages, and monitors significant risks, forecasts potential risks caused by changes in both the internal and external environments, and submits risk management strategies along with risk mitigation measures for decision making. All process owners are responsible for identifying, assessing, and managing business risks and taking internal control measures accordingly. Huawei has established a mechanism for improving internal controls and risk controls in order to efficiently manage critical risks.

Control Activities

Huawei has established the Global Process Management System (GPMS) and the Business Transformation Management System (BTMS), released the global Business Process Architecture (BPA), and appointed Global Process Owners (GPOs) based on the BPA. As the role responsible for building processes and internal controls, GPOs identify Key Control Points (KCPs) and the Separation of Duties Matrix for each process and apply them to all regions, subsidiaries, and business units. GPOs organize monthly compliance tests on the KCPs to continuously monitor the effectiveness of internal controls and publish test reports. GPOs optimize processes and internal

controls based on business pain points to improve operational efficiency and help achieve business objectives. In addition, GPOs perform Semi-Annual Control Assessments (SACAs) to assess the effectiveness of the overall process design and execution effectiveness of each business unit, and then report the results to the Audit Committee.

Information & Communication

The company has established information and communication channels to ensure timely acquisition of external information from customers, suppliers, and other parties. Huawei has created formal channels for transferring internal information. Huawei has also established an online forum that provides a channel for employees to communicate freely with each other. Corporate management holds regular meetings with departments at all levels to effectively pass on management orientation and ensure that management decisions are effectively implemented. All business policies and processes are available on the company's intranet. Managers and process owners regularly organize training programs on business processes and internal controls to ensure that all the up-to-date information is available to all employees. The company has established a mechanism for process owners at all levels to regularly communicate with one another, review the 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 stipulates that suppliers can report any improper conduct concerning Huawei employees through the channels provided in the agreement. The Internal Audit Dept independently assesses the effectiveness of the company's internal controls and investigates any suspected violations of the BCG. The Internal Audit Dept reports the audit and investigation results to the Audit Committee and senior management. Huawei has established and implemented a mechanism for internal control appraisal, accountability, and impeachment of GPOs and regional managers. The Audit Committee and the CFO of Huawei regularly review the effectiveness of the company's internal controls and receive reports on action plans for internal controls and the progress of plan execution. Both have the right to request that the GPOs or top management of each business unit provide explanations for identified internal control issues and, if necessary, take corrective actions. The Audit Committee and the CFO of Huawei may also suggest that the Human Resources Committee take disciplinary action or propose impeachment when necessary.

Sustainable Development

In 2013, we redoubled our efforts to manage our sustainability initiatives. We have incorporated sustainability requirements into our business activities and have built sustainability into our operations, making sustainability an integral part of the day-to-day work for every Huawei employee. We continued to focus on our four sustainability strategies: bridging the digital divide, supporting stable and secure network operations, promoting environmental protection, and seeking win-win development. Our goal is to ensure harmony in the economy, environment, and society.

Bridging the Digital Divide

Communications for All

Resolving Communications Challenges for 8 Million People in Remote Areas of the “Mountain Kingdom”

Located in the Himalayas, Nepal is known as the “Mountain Kingdom” as it has many mountains with elevations of over 6000 km above sea level. Nepal’s mountainous terrain makes transportation in this developing country rather difficult. In the country, goods are mainly carried by manual labor, oxen, or helicopters. Electricity supply is another major challenge for the country. Every winter, some areas of the country suffer from power outages of up to 16 hours every day. Carriers in Nepal have long been troubled by such issues as difficult construction of common base stations, long construction periods, and high construction costs, and thus have been unable to more effectively promote local communications. People in Nepal could not even make smooth calls, let alone communicating with the outside world.



The Huawei SingleSite solution makes communications convenient for Nepalese in mountainous areas

After gaining a deep understanding of the conditions in Nepal, Huawei helped local carriers deploy integrated base stations in rural areas using the Huawei SingleSite solution. The deployment of energy-efficient outdoor base stations powered by solar energy significantly helped carriers lower their site construction costs, effectively reduced the dependency of base stations on electric power, and quickly achieved signal coverage in the relevant areas. By the end of 2013, Huawei rolled out 2G networks in mid-west, western, and far west Nepal, the country’s three remote mountainous areas, providing coverage for over 8 million people. Convenient communications have made the lives of the Nepalese much easier.

As part of our efforts to bridge the digital divide, Huawei is committed to providing people across all geographic areas with easy access to basic voice communications services. Our products and solutions have been deployed in more than 170 countries and regions, including a large number of underdeveloped countries and regions.

Broadband Inclusion for All

Providing High-Speed Broadband Access for More Africans

According to analysis by the International Telecom Union (ITU), only 6.7% of African homes had access to broadband connections by 2013. In Europe, this figure reached up to 77%. African users are eager to gain access to the Internet. What they need is fast, reliable, and affordable broadband services.

Given that Africa has rigid demands for broadband access but lacks fixed network resources, wireless broadband becomes especially important for bridging the digital divide in Africa. With its ultra-high downlink bandwidth and industry chain maturity, Huawei's TD-LTE solution effectively improves the penetration of broadband access in Africa while reducing the cost of wireless broadband access. In the past, broadband access was a luxury that could be afforded only by wealthy individuals and enterprises in Africa. Now, Huawei's TD-LTE solution has changed broadband access from a luxury to a basic ICT service accessible to ordinary people in Africa. Wireless broadband is developing rapidly, playing an increasingly important role in reducing the number of Africans who lack internet connections. More and more Africans have gained access to high-speed broadband services and benefited from the efficiency and convenience of the information society.



Huawei's TD-LTE solution increased the penetration of broadband services in Africa

Huawei enables broadband inclusion for all, ensuring that broadband is available everywhere. As an active member of broadband projects in different regions, Huawei seeks to bridge the broadband divide around the globe. In addition, Huawei enthusiastically promotes future-proof ICT technologies to improve people's livelihoods and provide local communities with easy access to the information society.

Nurturing ICT Talent

Telecom Seeds for the Future Program

The Telecom Seeds for the Future Program offers hands-on ICT training, scholarships, work experience, and internships to students from different countries.

By the end of 2013, the Program had been extended to benefit more than 10,000 students from over 70 universities in more than 20 countries, including Australia, France, Germany, Ghana, Indonesia, Kenya, Morocco, Norway, and Spain.



Students are participating in hands-on ICT training

As issues surrounding broadband access are gradually resolved, the task of nurturing digitally literate ICT professionals has moved up our agenda. As of the end of 2013, Huawei had established 45 global training centers to nurture professionals for local communities and transfer knowledge to them. In close collaboration with local higher education institutes and other organizations, Huawei offers scholarships and internships to excellent students in order to support ICT education and nurture talent.

Application of ICT Technologies

Providing Aid for Visually Impaired Students

Visually impaired students find it challenging to switch between computers because they can hardly detect the differences of different computers and desktops. Huawei virtual desktop technology takes the needs of the visually impaired students into consideration and allows for customization based on the needs of individual students. As a result, students have no difficulty using different devices, and can easily log in to a familiar graphical user interface (GUI) from any device.



Visually impaired students learn with Huawei's Desktop Cloud

In March 2013, Huawei successfully completed the installation of 80 classroom ports for the Shanghai School for the Blind. The Huawei Desktop Cloud system provides students with quick and easy access to connectivity and an improved learning experience. A high school student surnamed Pan said, "The cloud desktop system gives us the chance to log in to the desktop easily in different classrooms, and seamlessly connect with our tablets and mobile phones, which makes learning easier."

Huawei actively promotes the application of ICT technologies for consumers, governments, the public sector, and industries such as transportation and energy. Our customized ICT solutions help different geographic areas and groups use ICT technologies to increase their economic status, work efficiency, and competitiveness.

Supporting Stable and Secure Network Operations

Network Stability

Supporting Network Stability in Response to the Ya'an Earthquake

On April 20, 2013, a magnitude 7.0 earthquake hit Ya'an, Sichuan Province, creating widespread destruction and a wave of more than 4,000 aftershocks. Electricity and water supplies were cut off, roads were blocked, and critical telecommunication lines and wireless base stations were destroyed, affecting thousands of people. Bad weather, powerful aftershocks, and landslides proved ongoing challenges to the effort to restore communications.



Huawei staff is working on the frontline in Ya'an

In the wake of the earthquake, Huawei quickly initiated an emergency plan, established an emergency command center in Ya'an to coordinate local efforts, and worked alongside carriers, government agencies, subcontractors, and relief workers to carry out rescue efforts.

In spite of the danger posed from numerous aftershocks, possibility of building collapse, and landslides, Huawei employees courageously went to such severely stricken areas as Baoxing and Lushan immediately after the disasters occurred to collaborate with local carriers in providing communications for rescue and relief efforts. Huawei designated more than 400 employees to disaster-stricken areas to restore equipment. All Huawei communications equipment was recovered by midday on April 26. Through dedication and collaboration with related parties, we quickly restored communications for local communities and provided effective support for relief efforts.

In 2013, Huawei ensured smooth communications for nearly 3 billion people worldwide and supported the stable operations of over 1,500 networks for more than 600 customers in over 170 countries and regions. We spared no effort in guaranteeing network availability during 181 critical events, natural disasters (including the Ya'an earthquake and Typhoon Haiyan in the Philippines), and special occasions (such as Hajj).

Cyber Security

Huawei's Cyber Security White Paper

In 2013, Huawei released the second version of our cyber security white paper, *Cyber Security Perspectives: Making cyber security a part of a company's DNA – A set of integrated processes, policies and standards*. In the white paper, Huawei discussed ways to make cyber security a part of our DNA, and called for the development and implementation of consistent international cyber security standards.

"We confirm our company's unswerving commitment to continuing to work with all stakeholders to enhance our capability and effectiveness in designing, developing, and deploying secure technology."

— Chairman of the Huawei Global Cyber Security Committee



Huawei's cyber security white paper

Cyber security assurance has been one of Huawei's core strategies. It has long been an area of focus of our company. In 2013, we comprehensively incorporated cyber security requirements into our corporate policies and business processes in 12 domains, such as strategy & governance, laws & regulations, personnel management, R&D, and verification. We have developed and implemented an end-to-end global cyber security assurance system.

Promoting Environmental Protection

Green Pipe

20,000 Base Stations Powered by Natural Resources

Normal base stations are usually powered by diesel generators. This not only generates carbon dioxide and other hazardous emissions; it also requires carriers to regularly refuel base stations and designate skilled workers for maintenance, resulting in extra travel and maintenance expenditures.

Base stations powered by renewable energy have low operation costs, conserve energy, and are environmentally friendly. Renewable energy is therefore an ideal power supply solution for base stations.

Huawei has deployed approximately 20,000 green base stations worldwide. Wind and solar energy can be leveraged to supply most of the power used by these base stations, saving 80% of fuel consumption. This helps carriers reduce carbon dioxide emissions during network expansions and lower their operational expenditures.



Solar-powered base stations in Inner Mongolia, China

Huawei emphasizes green concepts in the entire product lifecycle, including design, R&D, manufacturing, delivery, and service. We make continuous innovations in our technology, aiming to increase the resource utilization efficiency of our products. We also provide customers with world-leading products and solutions that are highly energy efficient and environmentally friendly, helping customers reduce their operational expenditures and decrease their carbon emissions.

Green Operations

Reducing Carbon Footprints with Solar Power Stations

In recent years, Huawei has actively researched and utilized new energy solutions to help reduce the carbon footprints of our products while reducing our operational expenditures. In particular, the solar power stations used at Huawei's Dongguan Campus generated 3.5 million kWh of power in 2013, which is equivalent to a 3,228 ton reduction in carbon dioxide emissions.



Solar power stations at Huawei's Dongguan Campus

In addition, Huawei plans to build solar power station projects at other Huawei campuses, including Shenzhen, Hangzhou, and Nanjing. Once these stations are put into use, they will generate more power for Huawei's operations. This, in turn, will help the company achieve the goal of reducing carbon dioxide emissions and contribute to the building of a low-carbon society.

Huawei not only actively responds to climate change, but also takes concrete measures to increase the efficiency of energy utilization, reduce greenhouse gas emissions, and build ourselves as a role model of environmentally-friendly operations. By strengthening our energy management and leveraging our management and technological approaches to energy conservation, Huawei saved 41.98 million kWh of electricity in 2013, which is equivalent to a 38,000 ton reduction in carbon dioxide emissions.

Green Partner

Huawei Green Partner Certification

The Huawei Green Partner (HW GP) Program aims to encourage our suppliers to systematically manage their environmental protection efforts and pay attention to green initiatives throughout product lifecycles, ranging from “green” design to “green” manufacturing. By controlling the use of prohibited materials from sources, we strive to establish a green supply chain.

In 2013, Huawei upgraded the HW GP standards to GP2.0 by adding the requirements for the environment management system as well as energy and greenhouse gas management. In 2013, 34 suppliers passed our HW GP certification.



HW GP award ceremony

Huawei makes every effort to ensure that our products meet environmental protection requirements, and that our partners operate in compliance with environmental protection laws and regulations. During supplier qualification, selection, performance management, and material selection, we clarify environmental protection requirements for suppliers and their materials. By enforcing clear requirements for our suppliers to adopt better approaches to energy conservation and emissions reduction, we play an active role in promoting carbon emissions reduction and environmental protection in the industry chain.

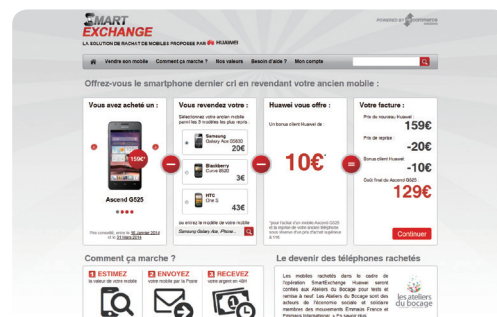
Green World

Huawei SmartExchange Program Contributes to Circular Economic Growth

The Huawei SmartExchange Program encourages consumers to trade in old mobile phones for recycling or reuse, in exchange for a discounted new smartphone. As a result, this Program reduces e-waste and encourages environmentally responsible consumer behavior.

In 2013, Huawei developed the SmartExchange platform in France and collected 300 used mobile phones through a pilot program. We ensured that no phone ended up in a landfill, and reduced the equivalent of 13 tons of carbon dioxide emissions.

In 2014, we plan to continue to work with our partners to expand the reach, visibility, and benefits of this initiative. The SmartExchange Program is expected to further reduce e-waste and give a strong impetus to circular economic growth.



SmartExchange platform

A wide variety of our green integrated ICT solutions enable industries to conserve energy and reduce emissions. As such, Huawei is an active player in promoting an energy-conserving, environmentally-friendly, and low-carbon society.

Seeking Win-Win Development

Caring for Employees

Making Employees Happier

At Huawei, we advocate the motto of “work hard, play hard”. Apart from emphasizing good work performance and helping employees increase individual capabilities by providing them with broad development platforms, Huawei also strives to increase employee happiness and help them achieve a work-life balance.

In 2013, Huawei championed a variety of activities to help employees experience the pleasure of being part of our “big family”, remain mentally and physically healthy, and have a fulfilling life outside of work. These activities include “Family Day,” “3+1” (make a friend, join in a sports activity, take up a hobby, and read a thought-provoking book), and “Looking for Huawei Health-Conscious Employees”.



A variety of activities for employees

Huawei considers our employees to be our most valuable assets and the key to retaining our competitiveness and leadership position in the long run. Employee health, safety, and benefits are at the top of our mind. We provide reasonable and timely rewards to dedicated employees. Also, we give employees access to broad platforms where they can realize their individual value.

Social Charity

An Overview of Huawei's Major Social Charity Activities in 2013



France

- Launched the SmartExchange program to promote mobile recycling
- Partnered with the Institute of Civil Service to support young people



Spain

- Launched the SmartBus program to promote the responsible use of ICT



United Kingdom

- Supported the Prince's Trust Foundation

Portugal

- Launched the SmartBus program to promote the responsible use of ICT

US

- Supported the K to College non-profit organization

Venezuela

- Donated Huawei MediaPads to outstanding students



Kenya

- Partnered with SlumCode to fight against digital illiteracy
- Partnered with Red Cross as its strategic relief partner
- Supported the Lewa Charity marathon



Tanzania

- Promoted e-education in schools



Uganda

- Supported a charity marathon to protect the environment

Nigeria

- Supported the ICT training of 1,000 girls
- Supported the Nungtso Charity Fund

South Africa

- Supported the Khulisani Foundation to promote ICT education



Hungary

- Supported top ICT students through the Huawei Innovative Leaders of Tomorrow Scholarship

Belgium

- Launched the InnoApps Challenge to foster youth entrepreneurship

Turkey

- Supported the region of Van in cooperation with the Ministry of Education, Turkcell and Turkey Education Association (TEV) for post-disaster relief

China

- Guaranteed to stable communication in Ya'an after the 2013 earthquake and donated 3000 handsets to the quake-stricken area
- Launched social charitable activities to donate books to children in remote areas, helping them realize their dreams

 **Japan**

- Supported the Charity Relay Run to support community activities in the disaster areas of Tohoku

 **United Arab Emirates**

- Supported a charity marathon to raise awareness about education

India

- Supported students enrolled in Chinese universities through the Huawei Maitree Scholarship Program

Philippines

- Implemented the Instant Network with Vodafone Foundation in disaster-stricken areas following Typhoon Haiyan

 **Singapore**

- Launched a GPON Training Centre as part of Telecom Seeds for the Future

 **Australia**

- Supported the Children's Hospital to train nurses
- Supported the Tour de Cure Foundation to fight against cancer

At Huawei, our social charity activities are designed to attain four goals: bridging the digital divide, creating opportunities through education, promoting environmental initiatives, and contributing to the communities where we operate. Specifically, we contribute to local communities by supporting charity, education, environmental protection, health, and disaster relief efforts. We aim to become part of local communities, create value for them, and help them achieve prosperity and sustainability.

Operations in Compliance with Applicable Laws and Regulations

Anti-Corruption and Anti-Bribery

Huawei abides by business ethics, operates with integrity, complies with applicable laws and regulations in countries where we operate, and prohibits bribery and corruption. In 2013, Huawei continuously optimized our control mechanism for preventing and eliminating bribery and corruption, and required all employees worldwide to adhere to the *Huawei Business Conduct Guidelines (BCG)* and attend associated training. Furthermore, Huawei also asked all partners and suppliers to sign the *Anti-Bribery, Honesty, and Integrity Agreement*.

Huawei abides by ethical business practices, conforms to international conventions as well as laws of local countries, and operates with integrity. We adhere to the BCG, implement “transparent procurement” and “transparent sales”, and oppose bribery and corruption. In addition, we advocate fair competition and obey antidumping and antitrust laws and regulations defined by local countries. We protect our own intellectual property rights (IPR) while respecting the rights of other IPR holders, and ensure that Huawei complies with international IPR regulations. All these initiatives aim to create a harmonious business ecosystem.

Sustainability Risk Management

Ensuring Safety in Engineering Delivery

To meet customer requirements and comply with applicable laws and regulations, Huawei has set up specialized departments for Environment, Health, and Safety (EHS) management of subcontractors and engineering delivery activities through cooperation with subcontractors. As a result, our delivery employees are protected against health and safety hazards, and our engineering delivery activities will not adversely affect the environment. Huawei has developed four EHS management strategies for delivery projects: “practice EHS leadership and build an EHS culture and atmosphere,” “require subcontractors to implement EHS,” “apply the minimum EHS standards and comply with EHS absolute rules,” and “warn about accidents ahead of time, report violations, and hold violators accountable.” These strategies are set to achieve the EHS goal of “zero accidents, injury, and pollution” during project delivery.







For high-risk areas, such as transporting equipment, working at heights, and operating powered-on equipment during project delivery, we have developed “six absolute rules for EHS management of delivery projects” as the EHS management red lines. All delivery personnel must obey these rules.

Building security leadership is crucial for security management in engineering delivery. Huawei’s executives have become more and more concerned about security management and set an example by participating in security management at construction sites. In 2013, Huawei executives at the regional vice president level and above paid 77 visits to project sites for security checks.



Huawei’s executives are conducting security check at the engineering delivery site

EHS Absolute Rules

Do	Don't
 Wear a seat belt when driving	 Never work under alcohol or drugs
 Wear protective equipment when working at heights	 Never exceed speed limits when driving
 Operate powered-on equipment only when qualified	 Never use the phone when driving

Sustainability risk management is a priority during our operation activities and service processes. We are mindful of EHS management during engineering delivery, and have continuously invested more in this regard and extended EHS management requirements to subcontractors. We also spare no effort to provide secure products to our customers and consumers. Additionally, we have established a sustainability management system and continuously improve our approaches to managing sustainability risks. We are becoming a global and industry leader in sustainability.

Supply Chain Management

Collaboration on Sustainability Means Better Business

On September 25, 2013, Huawei hosted the Fifth Huawei Core Partner Convention in Shenzhen under the theme of "Collaboration on Sustainability Means Better Business". The event attracted 341 attendees, including representatives from government agencies and non-governmental organizations (NGOs), sustainability experts, executives of 170 suppliers, and carrier customers (including British Telecom, Deutsche Telekom, Orange, and Vodafone).



Fifth Huawei Core Partner Convention

Huawei Rotating and Acting CEO Eric Xu addressed the audience, and emphasized the need for Huawei to collaborate with suppliers worldwide for win-win development. Customers and NGOs shared ideas about the trends and requirements of sustainability. Representatives from suppliers presented their best practices in sustainability. The conference was well received by the representatives present.

In 2013, apart from extensively adopting customer-oriented methods for managing supplier CSR risks, Huawei also transformed our risk management approach into one that focuses on efficiency management. We have incorporated sustainability requirements into our supplier management process, helped suppliers develop their capabilities and awareness, and boosted our procurement efficiency to set the trend for sustainability initiatives across the industry chain.

For details, please see Huawei 2013 Corporate Sustainability Report.

Abbreviations, Financial Terminology, and Exchange Rates

Abbreviations

Abbreviations	Full name
AOSN	All Optical Switching Network
ATM	Asynchronous Transfer Mode
BG	Business Group
BPO	Business Process Owner
BSS	Business Support System
BYOD	Bring Your Own Device
CAGR	Compound Annual Growth Rate
CEM	Customer Experience Management
CETC	Customer Experience Transformation Center
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
DSTE	Development Strategy to Execution
EHS	Environment, Health and Safety
EMT	Executive Management Team
ETSI	European Telecommunications Standards Institute
FMC	Fixed Mobile Convergence
FTTD	Fiber To The Door
GNEEC	Global Network Evolution and Experience Center
GPON	Gigabit-capable Passive Optical Network
GPS	Global Position System
GSM	Global System for Mobile communications
HSPA	High-Speed Packet Access
IAS	International Accounting Standards
ICT	Information and Communications Technology
IDC	Internet Data Center
IEEE	Institute of Electrical and Electronics Engineers
IFRS	International Financial Reporting Standard
IFS	Integrated Financial Services
IMS	IP Multimedia Subsystem
IP	Internet Protocol
IPCC BPO	IP Call Center Business Process Outsourcing
IPD	Integreted Product Development
IT	Information Technology
ITR	Issue To Resolution
ITU	International Telecommunication Union
LTE	Long Term Evolution
MBB	Mobile Broad Band
MSUP	Managed Services Unified Platform
NFV	Network Functions Virtualization
NGBSS	Next Generation Business Support System
NOC	Network Operation Center
OMA	Open Mobile Alliance
OSS	Operations Support System

Abbreviations	Full name
OTN	Optical Transport Network
PCC	Policy and Charging Control
PCT	Patent Cooperation Treaty
POC	Percentage of Completion
RAN	Radio Access Network
SBG	Service Business Group
SDB	Service Database
SDN	Software Defined Networking
SDP	Service Delivery Platforms
SOC	Service Operation Center
SP	Strategic Plan
STB	Set Top Box
TD-SCDMA	Time Division-Synchronous Code Division Multiple Access
TMF	TeleManagement Forum
TVO	Total Value of Ownership
UMTS	Universal Mobile Telecommunication System
VGS	Value Growth Solution

Financial Terminology

Operating profit

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

Cash and short term investments

Cash and cash equivalents plus other current investments

Working capital

Current assets less current liabilities

Liability ratio

Total liabilities expressed as a percentage of total assets

Days of sales outstanding (DSO)

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

Inventory turnover days (ITO)

Inventory 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 property, plant and equipment and intangible assets, and other non-operating expenses, less unrealized exchange gain, interest income, investment income, gain on disposal of property, plant and equipment and intangible assets, and other non-operating income.

Exchange rates

Exchange rates used in the annual report:

CNY/USD	2013	2012
Average rate	6.1424	6.3049
Closing rate	6.0569	6.2285

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