

## Message from the Rotating and Acting CEO



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

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

### Creating value for global progress

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

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

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

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

### Achieving effective growth in 2014

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Continuing process transformations to increase operational efficiency**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



**Hu Houkun**

Rotating and Acting CEO