

ZTE Corporation Document Submitted for Ratification (Review) Form

<b>Title of the Document submitted for ratification (review)</b>	<b>Report Regarding Comprehensive Reorganization and Standardization of the Company Export Control Related Matters</b>		<b>Document type:</b> <input type="checkbox"/> Red-head document <input type="checkbox"/> Company system <input checked="" type="checkbox"/> Other document	
<b>Attachment</b>	« Report Regarding Comprehensive Reorganization and Standardization of the Company Export Control Related Matters »		<input checked="" type="checkbox"/> Urgent document <input type="checkbox"/> Regular document	
<b>Drafted by</b>	Legal Department	<b>Draftsman</b>	GUO, Jianjun	<b>Date</b> August 25, 2011
<b>Contact phone</b>	13751147981	<b>Classification:</b>	<b>Department suggestion: For higher authorities to</b> <input checked="" type="checkbox"/> ratify <input type="checkbox"/> read	
<b>List of people who can read, use the document (apply to secret and above documents):</b> Director of Legal Department, company leaders				
<b>Synopsis of the document:</b> As our overseas businesses have grown rapidly in recent years, so have U.S. export control risks. Following Director TIAN and Director QIU's instructions, our company should immediately form a company-level export control project team to study, handle, and respond to our company's current export control risks.				
<b>Need counter-sign:</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		<b>Counter-sign by (apply to documents that need counter-sign):</b>		
<b>Responsible department's opinion</b>	Agree Submit to higher authorities for approval			
	_____ GUO, Xiaoming [signature] 2011.8.25 For higher-authorities to <input checked="" type="checkbox"/> ratify <input type="checkbox"/> read			
<b>Company leader's opinion (Director QIU)</b>	Agree [QIU 's signature]			
	_____ 8/26/11 For peers to <input type="checkbox"/> ratify <input type="checkbox"/> read			
<b>Company leader's opinion (Director TIAN)</b>	Agree TIAN, Wenguo [signature]			
	_____ 2011.8.27 For higher-authorities to <input type="checkbox"/> ratify <input type="checkbox"/> read			
<b>CEO review/approval</b>	Agree SHI, Lirong [signature] 2/9/2011			

## Report Regarding Comprehensive Reorganization and Standardization of the Company Export Control Related Matters

Dear company leaders,

As our overseas businesses have grown rapidly in recent years, so have U.S. export control risks. Following Director TIAN and Director QIU's instructions, our company should immediately form a company-level export control project team to study, handle, and respond to our company's current export control risks.

### I. Brief Introduction to U.S. Export Control Regulations

#### (I) Violations and Penalties

According to U.S. export control laws, our company must apply for reexport licenses when exporting controlled items to these five major embargoed countries- Iran, Sudan, North Korean, Syria, and Cuba. If [the company] violates the U.S. export control laws, the penalties will be the following:

- (1) Company will be subject to a large amount of civil penalty;
- (2) High-level managers will face prison sentences in a criminal case;
- (3) Company will be placed on the Blacklist and be banned from purchasing U.S. products directly or indirectly for a period of time.

#### (II) Related Cases

- (1) On 01/26/2011, WU, Zhenzhou, Chairman of Chichuang [Chitron] Company in Shenzhen, was sentenced to 8 years in prison by the U.S. Court for illegally exporting U.S. defense goods and materials to China. At the same time, Chichuang was banned from export trading.
- (2) On 5/24/2011, the U.S. Government placed three Chinese companies on the Blacklist for exporting controlled equipment and technology to Iran.

### II. Current Situation

#### (I) Our company's previous export control crises

- (1) Incident of Dell servers—our company used Dell servers in some projects with embargoed countries; in 2005 Dell found out and inquired intensively about it.
- (2) Incidents of cargo seizure in Hong Kong—in 2008, because our company violated Hong Kong export control laws (formulated based on U.S. laws), cargos were seized and confiscated and we were fined by Hong Kong Customs on 4 different occasions. The value of cargos exceeded one million Renminbi and fines were around several hundreds of thousands of Hong Kong Dollars.
- (3) Incident of U.S. Department of Commerce on-site inspection—in 2010, U.S. Department of Commerce came to our company to conduct an on-site inspection on the management of U.S. procured items. Similar on-site inspections can be expected in the future.

#### (II) Risks in our company's current projects

Currently our company has on-going projects in all five major embargoed countries- Iran, Sudan, North Korea, Syria, and Cuba. All of these projects depend on U.S. procured items to some extent, so export control obstacles have arisen.

- (1) Sudan project(s): at the moment, our company brings in controlled-item suppliers to directly provide products to our customer(s). Our company employees carry small amount of controlled items through customs to evade export control, but there are still potential risks. Also, some suppliers stopped providing products after learning that our company reshipped to Sudan.
- (2) North Korea project(s): our company brings in a cooperating company. The cooperating company signs contracts with our customer(s) and provides products to them directly. At present, the cut-off is fairly effective.
- (3) Cuba project(s): Customer(s) ask our company to make a special promise- not to let U.S. export control cause problems in project execution. If the supplies are interrupted, our company will have to pay a huge amount of damages.
- (4) At present, the biggest risk is Iran's on-going project(s). In June 2010, the UN passed a new round of sanctions against Iran. Even though the sanctions themselves did not target civilian-used communication industries, some impacts still occurred during implementation. More importantly, in 2010, the U.S. passed the "Comprehensive Iran Sanctions, Accountability and Divestment Act," applying stronger sanctions against Iran. Risk controls implemented by foreign banks made it more difficult for our company to finance. At the end of 2010, our company signed a four-party project contract with Iran customer(s), adopting semi cut-off method, i.e. our company provides our self-manufactured equipments to the customer(s) and our company's cooperating company provides sensitive U.S. procured items to the customer(s). (For the same project, F7 designated an independent company to directly sign two-party contracts with customers). Since the capital credit and capability of our company's cooperating company are weak, the project execution is more difficult. Therefore, currently most of the operations are actually done by ZTE Corporation; the risk cut-off is not effective.

Besides these five major embargoed countries, the export control problems have also occurred in projects with other countries. For example, a U.S. supplier refused to provide needed software for an Ethiopia project, because Ethiopia, to some degree, is a U.S. embargoed country. Supply problems have also occurred in Burma due to export control.

### (III) Our company's other risks

- (1) Our company high-level managers are also the board of directors of our subsidiary company in the U.S. (U.S. subsidiary is governed by U.S. laws, facing even stricter regulations) and they travel to the U.S. frequently. Thus, there is a potential risk of being investigated.
- (2) Our company projects in the embargoed countries have impacted not only our market breakthrough in the U.S. (in 2010, when our company placed a bid on a Sprint project, the customer asked if our company had projects in the embargoed countries), but also our current market share in the U.S. In addition, the European market may also be affected (on the export control issue, the European Union acts in accordance with U.S. policy).
- (3) R&D employees at the U.S. Research Centers often travel between China and the U.S., carrying R&D data. This already severely violates the law. [The company] needs to take preventative measures immediately, otherwise will face the risk of being investigated at anytime.
- (4) Our company's reexporting, especially in the Iran project(s), can potentially put us at risk of being put on the Blacklist by the U.S. If on the Blacklist, our company may face the risk of losing the supply chain of U.S. products.
- (5) The U.S. government export control Blacklist (changing from time to time) contains hundreds of Chinese companies, research

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institutes, and universities, such as Beijing University of Aeronautics and Astronautics, Northwestern Polytechnical University, University of Electronic Science and Technology of China, etc. When our company collaborates with outside research institutes, we need to be careful and avoid product and technology transfer.

(IV) Problems our company has exposed

Regarding U.S. export control matters, based on known information, the following problems currently exist in our company:

- (1) Company does not clearly assign a department in charge of export control matters, nor does it divide responsibilities among departments. There is no unified management standard. Departments do not know each other's situation; each handles issues in its own way.
- (2) Company product line and purchasing department do not organize equipment containing U.S. products; nor do they aggressively explore product substitution plans.
- (3) Overseas marketing departments are not fully prepared at the beginning of a project and do not take the consequences of violating U.S. export control laws seriously when making decisions on sales projects. There is no unified procedure for inspection and approval.
- (4) Currently our company still adopts the preventative method for each project individually, our company has never issued a comprehensive response plan. There is no dedicated crisis response team; as a result, the response is slow when a problem occurs during project execution.

(V) F7 current situation

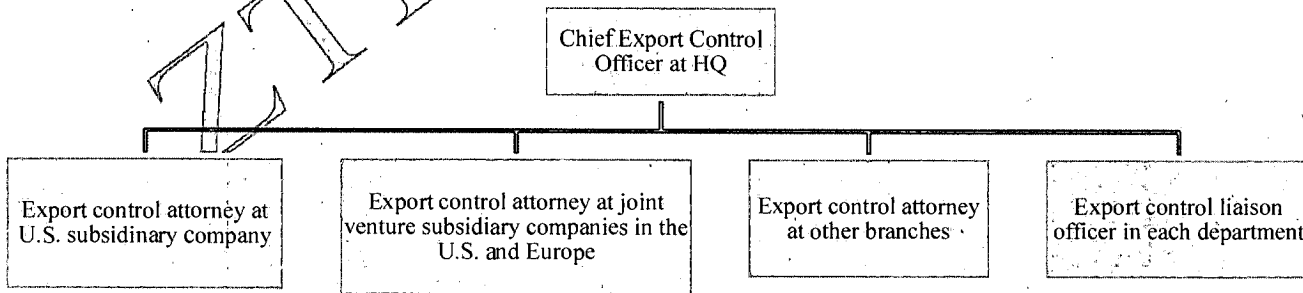
(1) Project

F7 found a big IT company serving as its agent to sign contracts for projects in embargoed countries. This cut-off company's capital credit and capability are relatively strong compared to our company; it can cut off risks more effectively.

In 2010, U.S. Representatives reported to Congress about F7's on-going projects in embargoed countries and this affected its project acquisitions in the U.S.

In 2010, F7's proposal to acquire U.S. 3leaf Company was opposed by the U.S. Government, citing the impact to U.S. national security. The review and approval of export control licenses were also involved in the acquisition.

(2) Business structure



According to CI information dug up by the Legal Department, F7 Headquarters offered high salary to recruit a senior export control compliance specialist from Texas Instruments to be in charge of export control matters, and placed export control liaison officers in all of the departments involved. Besides its Headquarters, F7 also placed chief export control officers in its subsidiary companies. For instance, it hired a Chinese American attorney who is familiar with the related laws in the U.S., and previously, its joint venture company with Symantec had an attorney specialized in export control. At present, F7 is still hiring attorneys specialized in export control and recruiting employees from European/American Chinese companies through recruiters. (The quoted annual salary is around 500,000 Renminbi.)

III. The Response Plan

In order to standardize the operation of the Iran project(s) and other export control projects, a cross-department project team shall be established to manage potential risks. The project team shall start working on the following tasks and establish a company-level preventative plan.

- (1) Organize company current related work flow; establish a unified work standard for export control matters; issue «Export Control Management Plan»; clarify each department’s responsibilities, and optimize internal procedures;
- (2) Set up a company export control committee to handle export control matters and appoint a company export control officer. The export control committee will review and approve sales projects to avoid potential risks;
- (3) Production lines shall calculate and analyze the ratio of controlled items in company equipment and aggressively search for a substitution plan for all controlled items to resolve the export control problem from the source;
- (4) Formulate a company-level preventative plan; reform the current cooperating companies; increase the operational capabilities of the cooperating companies; plan to set up new cut-off companies and contract-signing model; control project risks;
- (5) Strengthen internal regular training and implementation; raise risk awareness among employees, and follow through the unified work standard.

IV. Project Team Members, Milestone Schedule, and Reward System

(I) Project team members

Company Export Control Management Project Team Members and Responsibilities				
No.	Role	Responsibilities	Name	Department
1	Project Implementation Committee	Provide strategic support for the entire project operation	TIAN, Wenguo; QIU, Weizhao	Company leaders

Company Export Control Management Project Team Members and Responsibilities				
No.	Role	Responsibilities	Name	Department
2	Project Manager (PM)	1. Formulate the project team's entire work plan; 2. Manage team's daily activities; 3. Set up project operation standards, acceptance standards and related guidelines, as well as work module; 4. Report project progress; track problems; coordinate resources, and assess acceptance;	GUO, Xiaoming	Legal Department
3	Project Management Manager (PMM)	Provide daily management support for the project team's routine operation	GUO, Jianjun	Legal Department
4	Project Core Members	Interpret related laws; formulate company-level preventative plan; participate in drafting and revising work standards	GUO, Jianjun; HU, Yongfeng; TAN, Wenyong; TANG, Jiang; WANG, Keyou; DU, Jin; XIE, Guohui; CHEN, Yinghua; GUO, Min; SHI, Yu; LIU, Zhaoyan; LIN, Hongping	Legal Team in Legal Department
		Plan for cut-off companies; participate in drafting and revising work standards	ZHAO, Yun; YIN, Jie	Business Development Department
		Responsible for related financial planning; participate in drafting and revising work standards	CHEN, Yan; LOU, Qiang; WANG, Yong; CAO, Guoqi	Overseas Finance Department
		Responsible for related financing planning; participate in drafting and revising work standards	SHAO, Weilin; DU, Lihui; LIU, Chunhua	Financing Department
		Provide front-line project information and competitor information; participate in drafting project resolution proposal	LI, Baoqiang; GUO, Liming; WEN, Zhuoming	Iran Representative Office
		Check all of the export control projects; participate in drafting and revising work standards	LI, Xiaodong; XU, Lingyun	Sales Management Department
		Establish new cut-off companies	LIU, Hongjing	Investment Management Department

Company Export Control Management Project Team Members and Responsibilities				
No.	Role	Responsibilities	Name	Department
		Analyze and calculate U.S. product ratio and search for a substitution plan	Members are not decided at this time	Commercial Technology Department, Product Line
		Plan export businesses with cooperating companies; organize import/export license application document procedure; participate in drafting and revising work standards	TANG, Hongshun; XIAO, Peng; WU, Xiaotang; ZHANG, Lei; WU, Peng; PANG, Yongjie	Central Logistics Department
		Organize supplier information; provide unified company information to suppliers	SONG, Youlu; YE, Feng	Kangxun Company
		Plan overseas transportation; participate in drafting and revising work standards	YAN, Dong; HUANG, Guanzhong; LIU, Shuguang; ZHANG, Lei; HU, Guangwei; GONG, Jing; NIE, Xiaofang; HU, Bo; HE, Meiliang; QU, Weiming	Overseas Logistics Department
		Select suppliers; participate in drafting and revising work standards	GUI, Guocai; FANG, Yuanli; ZHOU, Shuli	Three-integration Department
		Organize management procedures for controlled goods and material; participate in drafting and revising work standards	WU, Changshui; HAO, Caixia	Distribution Department
		Plan procurement channels; participate in drafting and revising work standards	ZHENG, Yi; YANG, Shijun	Purchasing Department
		Maintain and provide ECCN codes	WANG, Zhijian; WANG, Zeping; ZHAO, Fengguo; ZHOU, Zhao	Material Planning Technology Department
		Plan the response to on-site inspection	LIU, Yashuang	Supply Chain Department
		Plan trans-shipping and receiving goods in Hong Kong	CAO, Suzhu	Hong Kong Subsidiary Company
		Responsible for management matters related to existing cut-off companies	CAO, Guoqi; SUN, Wei	Cooperating companies
4	Project Other Members			

## (II) Project milestones

Company Export Control Management Project Milestone Schedule					
No.	Milestone	Output/Hand-Over Item	Completion Time	Department-in-charge	Acceptance Standard
<b>Phase I</b>					
	<b>Initiation phase</b>	<b>Complete initiation work</b>	<b>2011-8-30</b>	<b>Legal Department</b>	<b>Complete initiation work</b>
1	Project preparation and planning	Project set-up report	2011-8-25	Legal Department	Successfully completed project set-up
2	Project team establishment and start-up	Project proposal, team establishment, convene project initiation meeting	2011-8-30	Legal Department	Team establishment, project start-up
<b>Phase II</b>					
	<b>Iran project(s) renovation phase</b>	<b>Submit a resolution proposal for problems in Iran project(s), start implementing</b>	<b>2011-10-30</b>	<b>Iran Representative Office, all units of the project team</b>	<b>Submit a resolution proposal, start implementing</b>
3	Sort out the problems encountered during Iran project(s) execution	Problem summary report, detail explanation of the execution problems	2011-9-10	Iran Representative Office	Submit a problem summary report
4	Submit a resolution proposal for Iran project execution problems	Submit a resolution proposal for problems in Iran project(s), start transforming the current cut-off companies	2011-10-30	Each unit of the project team is responsible for its own duties	Submit a resolution proposal
<b>Phase III</b>					
	<b>Company comprehensive reorganization phase</b>	<b>Complete organization of the entire company's internal procedures; draft and revise unified work standards; formulate preventative measures</b>	<b>2011-12-31</b>	<b>All units of the project team</b>	<b>Complete procedure organization, standard revision, and avoidance measures draw-up</b>
5	Organize each department's related business procedures; optimize internal process	Organize current business procedures; optimize internal process; add procedures related to license application, suppliers materials feedback etc.	2011-9-30	Each unit of the project team is responsible for its own duties	Complete business organization and process optimization
6	Each product-line searches for overall substitution plan for U.S. procured products	Analyze and calculate the ratio of U.S./Chinese items in products from each product line. If it exceeds a certain ratio, then find a substitution plan	2011-10-30	Each product line	Calculate ratio, submit a substitution plan

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Company Export Control Management Project Milestone Schedule					
No.	Milestone	Output/Hand-Over Item	Completion Time	Department-in-charge	Acceptance Standard
7	Formulate the unified work standards	Formulate «Export Control Management Plan»; specify each department's duties	2011-10-30	Each unit of the project team is responsible for its own duties	Issue «Export Control Management Plan»
8	Formulate related departments' work standards	Formulate «Export Controlled Goods and Materials Management Plan», «Export Control License Application Regulations»	2011-10-30	Warehouse Department, Central Logistics Department	Issue «Export Control Management Plan» «Export Control License Application Guide»
9	Formulate company comprehensive preventative plan for export control	Formulate company-level comprehensive risk preventative plan; set up new cut-off companies; direct specific work related to controlled projects	2011-11-31	Each unit of the project team is responsible for its own duties	Submit a comprehensive avoidance plan
<b>Phase IV</b>	<b>Execution and implementation phase</b>	<b>Training and implementation</b>	<b>2011-12-31</b>	<b>Each unit of the project team</b>	<b>Complete implementation, training</b>
10	Internal training and implementation	Complete training of core employees from internal business departments; implement work standards and preventative measures	2011-12-31	Each unit of the project team is responsible for its own duties	Complete training, implementation

## (III) Project reward proposal

This project (1) involves many company departments; number of participating departments exceed 20; number of project participants exceed 70; (2) has an enormous amount of work; is highly-specialized; involves risk prevention for several current big Iran projects; reorganizes logistics, procurement, marketing, and other procedures for the entire company; organizes all of the products from company product lines, (3) is innovative work for company management; needs to draft new management standards and set up new management procedures. To encourage the project team members to successfully complete the project assignments, there should be a project reward of 400,000 Renminbi which shall be distributed to the team members according to their contribution after the project is completed.

Company leaders, please advise!

Legal Department  
08/25/2011