ZTE CORPORATION

中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

Overseas Regulatory Announcement
Announcement on the Application for Derivative Investment Limits for 2018

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company and all members of the Board of Directors confirm that all the information contained in this announcement is true, accurate and complete and that there is no false or misleading statement or material omission in this announcement.

Important notes:

1. The "Resolution on the Application for Derivative Investment Limits for 2018 of the Company" was considered and unanimously approved at the Fourteenth Meeting of the Audit Committee of the Seventh Session of the Board of Directors of the Company, which also approved the submission of the resolution to the Board of Directors of the Company for consideration.

2. The "Resolution on the Application for Derivative Investment Limits for 2018 of the Company" was considered and unanimously approved at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company. The resolution was adequately discussed by the Directors attending the meeting, who were aware of the types of the product, operating procedures and risk management procedures of derivative investments that the Company intended to make and the relevance of such investments to the day-to-day operations of the Company, and approved the submission of the resolution to the general meeting of the Company for consideration.

3. Value-protection derivative investments will be conducted to reduce the adverse impact arising from exchange rate and interest rate fluctuations on the Company in 2018. Investments in value-protection derivatives are based on our day-to-day import and export businesses and foreign currency loans, where the investment amount and investment period will match actual business requirements. The Company is forbidden to engage in speculative activities for profit-making. Derivative investments are subject to market risks, liquidity risks and contract performance risks and other risks.

I. STATEMENT ON THE FULFILLMENT OF LEGAL VOTING PROCEDURES IN RESPECT OF DERIVATIVE INVESTMENTS

In order to effectively manage the foreign exchange risks in the international businesses of ZTE Corporation and its majority-owned subsidiaries (the "Company") and the interest rate risks to which their foreign currency loans are subject, so as to mitigate the risk of uncertainty resulting from exchange rate and interest rate volatility in relation to the Company's profit and shareholders' equity, the Company is required to conduct value-protection derivative investments. The Company intends to apply for authorisation to invest in value-protection derivatives for an amount not exceeding USD3.6 billion (namely, the investment balance at any point of time during the effective period of the authorisation shall not exceed the equivalent of USD3.6 billion) for 2018. Such limit may be applied on a revolving basis during the effective period of the authorisation. The details of the limit are as follows:

(1) The investment limit for foreign exchange derivatives shall be USD3.0 billion, such foreign exchange derivative being used for value protection against operating asset or liability exposures, designated net investments and cross-currency exposures.
(2) The limit for interest rate swap shall be USD0.6 billion, such interest rate swap being used for value protection against foreign currency loans at floating interest rates.

At the Twenty-eighth Meeting of the Seventh session of the Board of Directors of the Company held on 15 March 2018, the "Resolution on the Application for Derivative Investment Limits of the Company for 2018" was considered and approved. The resolution is subject to further approval at the general meeting of the Company, and the Board of Directors of the Company intends to table the resolution for consideration at the 2017 Annual General Meeting to be held on 11 May 2018.

The matter is not deemed as a connected transaction and is therefore not subject to the voting procedures applicable to connected transactions.

II. TYPES OF DERIVATIVE INVESTMENTS

Value-protection derivative investments will be conducted to reduce the adverse impact arising from exchange rate and interest rate fluctuations on the Company in 2018. Value-protection derivative investments seek to preserve value by utilising foreign exchange and interest rate products provided by financial institutions, so that the Company may mitigate the impact of exchange rate and interest rate volatility in day-to-day operations on its assets, liabilities and profitability. Value-protection derivative investments primarily involve foreign exchange forwards, structured forwards, interest rate swaps, foreign exchange swaps and foreign exchange options.

III. PRINCIPAL TERMS OF DERIVATIVE INVESTMENTS

1. Duration of contract: to be matched with actual business requirements
2. Counterparties: banking financial institutions
3. Liquidity arrangements: Investments in foreign exchange value-protection derivatives are based on day-to-day receipts and payments in foreign exchange, while investments in interest

rate value protection derivatives are based on incurred foreign currency loans, where the investment amount and investment period will match actual business requirements.

4. Other terms: Derivative investments will primarily be financed by the composite credit facilities available to the Company, and shall be settled upon maturity by way of swap of principal amounts or on a net basis.

IV. JUSTIFICATION OF DERIVATIVE INVESTMENTS

Based on the development and projected payments and receipts of the Company's international business, the foreign exchange risk exposure in 2018 is expected to moderately greater than that in 2017, and the impact of exchange rate risks on the Company's operating conditions must be taken into consideration. With the gradual withdrawal of quantitative easing policies around the world, there is also an increasing risk of interest rate hikes which will affect foreign currency loans. To prevent the Company's profit and shareholders' equity from being adversely affected by exchange rate and interest rate fluctuations, it is necessary for the Company to conduct value-protection derivative investments to reduce its risk of uncertainties.

V. MANAGEMENT OF DERIVATIVE INVESTMENTS

1. The Company has formulated the "System for Risk Control and Information Disclosure relating to Derivative Investments" and "Measures for the Administration of Derivative Investments" to lay down specific provisions relating to risk controls, review procedures and subsequent management for the Company's derivative investments, so that derivative investment activities will be subject to effective regulation and risks associated with derivative investments will be duly controlled.
2. The Company has formed a derivative investment committee and an investment work group. The derivative investment committee shall be responsible for conducting risk assessment and decision-making by way of voting in respect of resolutions and plans of derivative investment, analyzing the feasibility and justification of derivative investment, and conducting risk assessment and decision-making based on the actual operation of derivatives in times of significant market changes. The investment work group shall conduct derivative investments subject to the scope of authorisation mandated by the Board of Directors or the general meeting.
3. The members of the derivative investment committee and the investment work group of the Company are fully aware of the characteristics and potential risks of derivative investments and are operating such investments in strict compliance with the operational and risk management systems for derivative investments.

VI. RISK ANALYSIS OF DERIVATIVE INVESTMENTS

1. Market risks

For value-protection derivative investments, the difference between the agreed exchange rate or interest rate for transaction and the exchange rate or interest rate prevailing on the maturity date will result in investment gains or losses. Revaluation gains or losses will arise in respect of each accounting period during the effective period of the value-protection derivatives. Investment gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date.

2. Liquidity risks

Value-protection derivatives are based on the Company's projected receipts and payments in foreign exchange and incurred foreign currency loans and match the actual business, assuring that there would be sufficient funds for settlement upon completion, or alternately settling the derivatives on a net basis to reduce the outlay of cash flow at maturity and avoid liquidity risks.

3. Contract performance risks

The counterparties to the Company's derivative investments are banks with sound credit ratings and long-standing business relationships with the Company, which basically give rise to no risk in terms of contract performance.

4. Other risks

Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; obscure terms in the trade contract may result in legal risks.

VII. RISK MANAGEMENT STRATEGY FOR DERIVATIVE INVESTMENTS

1. Any derivative investments conducted by the Company shall be aimed at mitigating the impact of exchange rate volatility and interest rate on the Company. Speculative activities for profit-making are forbidden. Any derivative investments of the Company shall be limited to the authorised cap approved by the Board of Directors or the general meeting. Leveraged derivative investments are not permitted.
2. Prior to conducting any derivative investments, the investment work group of the Company will conduct risk analyses for such investments and draw up investment plans (including investment types, duration, amounts) to the derivative investment committee of the Company for risk examination, all of which shall be subject to the final approval of the Chief Financial Officer before conducting.
3. The investment work group may execute an approved derivative investment plan in separate trading orders, which may be placed after approval by the head of the investment work group.
4. The Company enters into contracts with clear terms with counterparty banks and stringently implements the risk management system to prevent legal risks.
5. The derivative investment committee of the Company will track changes in the open market prices or fair values of the derivative products, conduct timely assessment of changes in the risk exposures of invested derivative products, and report to the Board of Directors and the Audit Committee on a regular basis. If any irregularities are identified, they will promptly be reported and contingency measures may be implemented where necessary.
6. Process auditing and performance evaluation in respect of derivative investments shall be undertaken by the internal audit department of the Company on a quarterly basis.

VIII. FAIR VALUE ANALYSIS OF DERIVATIVE INVESTMENTS

The derivative investments conducted by the Company are primarily related to currencies with strong liquidity trading in highly transparent markets. The fair values of the derivative products can be sufficiently reflected in the traded prices and daily settlement prices of such currencies, which will be determined by the Company based on prices quoted by or obtained from pricing service providers such as banks and the Reuters system.

IX. ACCOUNTING POLICY AND SUBSEQUENT DISCLOSURES REGARDING DERIVATIVE INVESTMENTS

1. The accounting treatment of the Company's derivative investments shall be determined in accordance with the Accounting Standards for Business Enterprises.
2. The derivative investment committee of the Company will report to the Board of Directors when the aggregate loss or variable loss of the invested derivative products of the Company (representing the sum of the fair value impairment of the invested derivative products and the change in value of the assets used for risk hedging) exceeds RMB500 million and the information disclosure department of the Company publish an interim announcement for timely disclosure when such loss reaches 10% of the latest audited net assets of the Company.
3. Relevant information on derivative investments in force will be disclosed in the regular reports of the Company.

X. OPINION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors of the Company have reviewed the derivative investments conducted by the Company and furnished an independent opinion in relation thereto as follows:

In view of the ongoing development of the international businesses of the Company and its majority-owned subsidiaries, in order to prevent exchange rate or interest rate volatility from adversely affecting the Company, it is necessary for the Company to conduct value-protection derivative investment. The Company has conducted meticulous internal assessment in respect of the derivative investments and has established relevant regulatory regimes. We are of the view that the engagement of derivative investments by the Company is closely related to its day-to-day operation needs, subject to controllable risks and in compliance with relevant provisions of pertinent laws and regulations.

By Order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC
15 March 2018

As at the date of this announcement, the Board of Directors of the Company comprises two executive directors, Yin Yimin and Zhao Xianming; seven non-executive directors, Zhang Jianheng, Luan Jubao, Wang Yawen, Tian Dongfang, Zhan Yichao, Wei Zaisheng and Zhai Weidong; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.