

Annual Report 2008

Enriching Life Through Communication



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Unique Values

Long-Term Partnership

Huawei serves 36 of the top 50 global telecom operators with leading-edge products, services and solutions. We have forged strategic partnerships with leading operators in developed markets, like Europe, Japan and North America, as well as with operators in emerging markets.

Huawei has maintained its record of steady growth and is recognized as one of the industry leaders today. Our solid financial conditions have laid the foundation for Huawei's consolidated partnership with operators, ensuring long-term value for customers.

Continuous Innovation Based on Customer Needs

In order to meet the needs of our customers, we focus on a strategy of continuous customer-centric innovation. The goal of our product R&D is to deliver timely solutions to projected and actual customer needs by developing innovations in technologies, products, solutions and services.

In the past year, we further deepened cooperation with leading operators around the world, including such customers as Vodafone, China Mobile, Telefónica, Deutsche Telekom and Telecom Italia. Our R&D staff work jointly with customers to develop solutions to their specific market challenges, translating technological advantages into commercial success.

Leading Products and Solutions

Our products and services embrace radio access networks, All-IP broadband, core network, software, professional services and terminals. With all major products ranking among the top three in their category, we are able to serve customers with complete and competitive telecom solutions.

In 2008, we established our leadership in LTE/SAE, SingleRAN, and 40G/100G transmission technologies through application of constant innovations. These technological breakthroughs will help customers create long-term competitive advantages.

Customer-Centric Operational Excellence

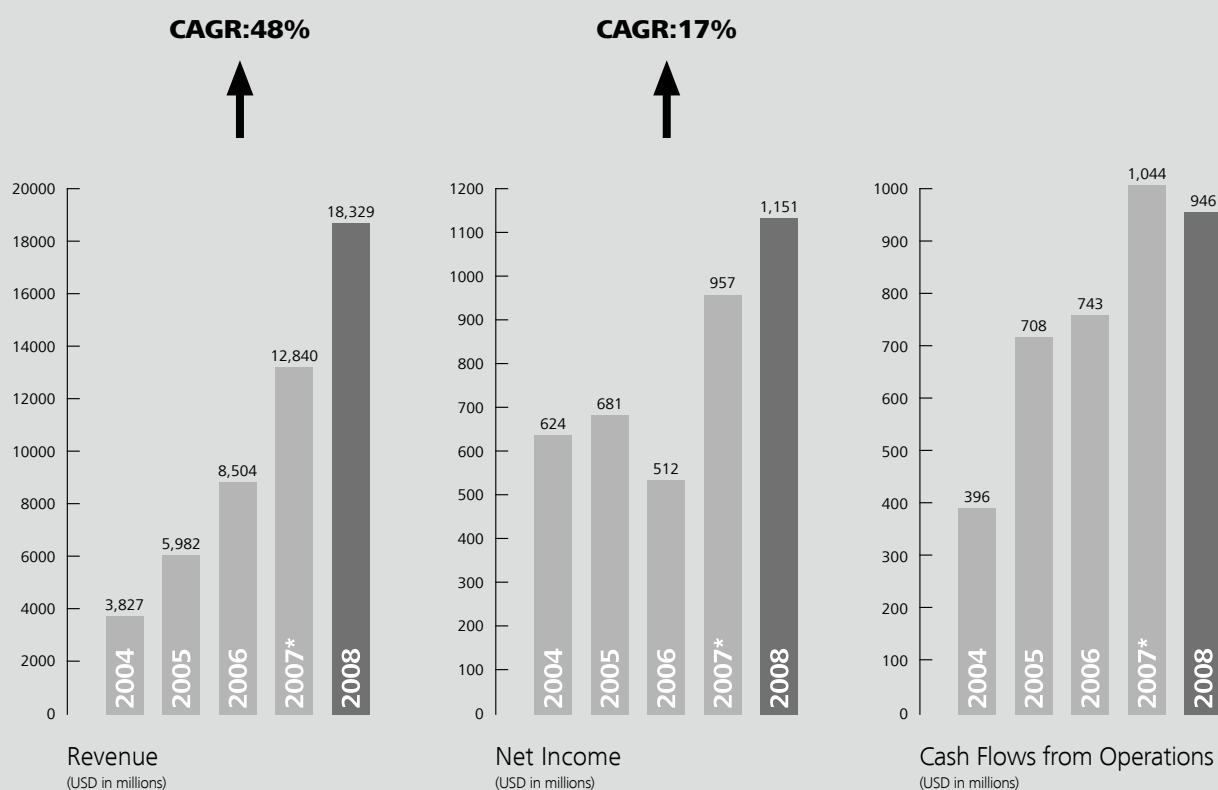
Huawei has long been implementing world-class Integrated Product Development (IPD) and Integrated Supply Chain (ISC) programs. In 2008, we continued to optimize our business processes to ensure that Huawei fulfils its commitment to meeting customer demands and maximizing customer value.

We also continued to decentralize our organization to place essential decision-making in the regions. In this way the people closest to our customers are able to mobilize resources to quickly and effectively respond to our customers' needs.

Five-Year Summary

USD in millions

Years ended 31 December	2008	2007*	2006	2005	2004
Revenue	18,329	12,840	8,504	5,982	3,827
Net Income	1,151	957	512	681	624
Cash Flows From Operations	946	1,044	743	708	396
Operating Profit Margin	13%	10%	7%	14%	18%
Return on Net Assets	24%	28%	20%	30%	31%



- All the financial data are quoted from the unqualified auditing reports by KPMG which are presented in accordance with IFRSs (International Financial Reporting Standards).
- The consolidated financial statements of the year ended 31 December 2008 have been translated to US dollars at the rate of USD1.00=CNY 6.8225 (2007: USD1.00=CNY 7.3046).
- According to the company's decision , the terminal business had been transferred into the company in 2008 , and it was excluded in 2007 , so comparative figures in 2007 have been restated in accordance with IFRSs (International Financial Reporting Standards).

2008 Highlights





Leadership in the mobile market

Huawei ranked No.3 in the global mobile equipment market in 2008.
(Source: Informa)

Industry's first LTE/SAE commercial network

TeliaSonera chose Huawei to deploy the world's first LTE/SAE commercial network in Oslo, Norway, bringing users the unique advantages of mobile broadband services.

First LTE-ready UMTS/HSPA Network in North America

Telus and Bell chose Huawei to build an LTE-ready UMTS/HSPA network in Canada, the first UMTS/HSPA network in North America.

Industry leader in All-IP mobile core networks

By the end of 2008, 1.2 billion licenses of Huawei All-IP mobile softswitch had been shipped, assisting operators in constructing more open, flexible and cost efficient mobile networks.

The world's longest 40G DWDM network completed

The 40G DWDM network Huawei constructed for TransTeleCom connects Moscow and St. Petersburg, spanning some 1,140 KM, substantially reducing the cost per Bit.

The world's first 10Tbps cluster system

Huawei released its NetEngine 5000E Core Router Multi-chassis Cluster System, the industry's first Carrier-Grade 10 Tbps router, providing operators with a key enabler in delivering All-IP broadband.

Leading GPON supplier in the world

Huawei provides FTTx solutions to more than 50 operators around the world. In 2008, we released the industry's first 10G GPON and 10G EPON prototypes, enabling operators to deliver a broader range of high-quality ultra-broadband services to users.

Rapid growth in professional services

Huawei has long been committed to providing responsive, professional and dedicated services for customers. In 2008, our sales in managed services increased 67% year on year. By the end of 2008, we had been delivering more than 45 managed services projects.

Leading provider of mobile broadband terminals

More than 25 million units of Huawei mobile broadband terminals were shipped in 2008, making Huawei the No.1 provider of these terminals in the world.

Member of the GeSI (Global e-Sustainability Initiative)

As a member of the GeSi, Huawei joins other industry members to further sustainable development, promoting energy savings and reduced emissions of the ICT industry.

No. 1 global PCT international patent applicant

In 2008, Huawei submitted the most applications under the PCT (Patent Cooperation Treaty), filing 1,737 applications. (Source: WIPO)

Message from Huawei Executive Management Team





In 2008, Huawei continued to achieve steady growth, with global sales exceeding USD23.3 billion, a year-on-year increase of 46%. Our internationalization efforts continued to show success and markets outside of China now account for over 75% of our total sales. Our major products are widely deployed by leading operators in Europe and Japan and we continue to make steady progress in North America. In emerging markets, our products are finding increasingly wider acceptance and we continue to expand and gain market strength in these important regions.

Over the years, Huawei has grown into a true market leader, gaining recognition and trust from an increasing number of leading operators. Credit for this success, is due to our customers, partners and our dedicated employees and we thank them for their support and confidence in Huawei.

In the current global economic situation, the telecom sector is facing many uncertainties. However, we believe that the global telecom industry will continue to experience dynamic growth over the longer term because communication is a basic human need and telecommunications has become integrated into the daily lives of billions of people. New growth will be driven by the continued demands for mobile broadband in mature markets, together with the fast growing user requirements for easy access to telecom services in emerging markets.

Driven by rapid technological evolution and emerging user demands, the boundary between telecom, the Internet, digital media and consumer electronics is becoming blurred, resulting in the advent of a new era—a "networked world". In the next few years, the number of mobile users is projected to exceed five billion, while over two billion fixed and mobile broadband users will be tapping into new services that are being enabled by the ubiquitous broadband. These billions of users, and the content that they develop and consume, will have huge impacts on operators' current networks.

In the future, the availability of future-proof networks with low Total Cost of Ownership (TCO) and innovative services which increase revenue will be the key to addressing the rapidly changing challenges of operators. Our commitment to our customers and our position as a trusted partner will enable operators to break bottlenecks in broadband and offer users ubiquitous, consistent broadband experiences. Our All-IP based FMC solutions will enable operators to substantially reduce TCO while protecting their initial investment. In emerging markets, operators will be able to get a head-start advantage from our targeted solutions and service models. We are already working with our customers to assist them in strengthening competitiveness and reducing energy costs, while enhancing end-user experiences and generating revenue through innovative services.

Our customers' success will continue to drive Huawei's growth as a leading global supplier. In 2009, we believe that Huawei will maintain our pace of steady growth and this will be driven by 3G network deployments in emerging markets including the Asia-Pacific region, and particularly in China. In North America and Europe, our consolidated partnership with leading operators will also generate new growth opportunities. Overall, the increasing recognition of Huawei's unique values will strengthen our strategic partnerships with leading operators and it will be a foundation for our future success.

Huawei's development over the past 20 years has taught us that only through customers' success can we succeed. It is for this reason that we will continue to optimize our organization and processes and promote management efficiency. By promoting a value of Customers First, we will continue to strive to meet customer needs with premium products and services. In partnership with our customers, every Huawei employee is dedicated to constructing a truly networked world, one that enriches people's lives through communication.

Huawei Executive Management Team (Huawei EMT)

Continuous Customer-Centric Innovation



We believe that advanced technology, products, solutions and management systems are only effective if they contribute to the business success of our customers.



Product R&D Driven by Customer Needs

Underpinned by the IPD system, Huawei ensures that our R&D remains responsive to actual and projected customer needs. Through widely applied modularization, standardization and technology sharing, we have built integrated advantages of "Speed, Quality and Cost", to maximize customer benefits and value.

R&D Investment

Huawei continues to invest a minimum of 10% of our annual sales revenue in R&D and 10% of the R&D budget is devoted to cutting-edge, core and essential technologies.

We have set up 14 R&D institutes worldwide. With this global R&D organization, we are able to effectively leverage the best global human and technological resources.

Patents and Standards

Huawei aggressively invests in patents and standards to maintain our position as a technology leader. We are a member of 91 standardization organizations, including ITU, 3GPP, 3GPP2, ETSI, IETF, OMA and IEEE, and our employees hold over 100 active leadership positions in these groups.

Huawei submitted over 4,100 standards proposals in 2008; in fiber transmission, access network, NGN, IP QoS and security, Huawei filed more than 1,300 proposals, and over 2,800 proposals were submitted in core network, service application and radio access technology areas. By the end of 2008, Huawei had filed a total of 35,773 patent applications, including 26,005 patent applications in China, 5,446 international applications and 4,322 foreign applications.

37,000

More than 37,000 employees (43% of the entire workforce) engaged in R&D

No.1

Ranking No.1 in terms of PCT (Patent Cooperation Treaty) patent applications

20%

Ranking among the world's top three, holding 20% of total essential LTE/SAE patents

91

Member of 91 standardization organizations



Broadband Everywhere

How to meet the exploding information demand?

The next few years will see the rapid growth of broadband technology, especially mobile broadband services. In five years, the number of fixed broadband users worldwide is expected to reach 600 million, doubling today's total, while mobile broadband users will soar to 1.4 billion, an increase of 1.2 billion over the number of current users. High bandwidth of fixed networks, combined with extensive mobile coverage has the potential to offer users ubiquitous broadband service experiences.

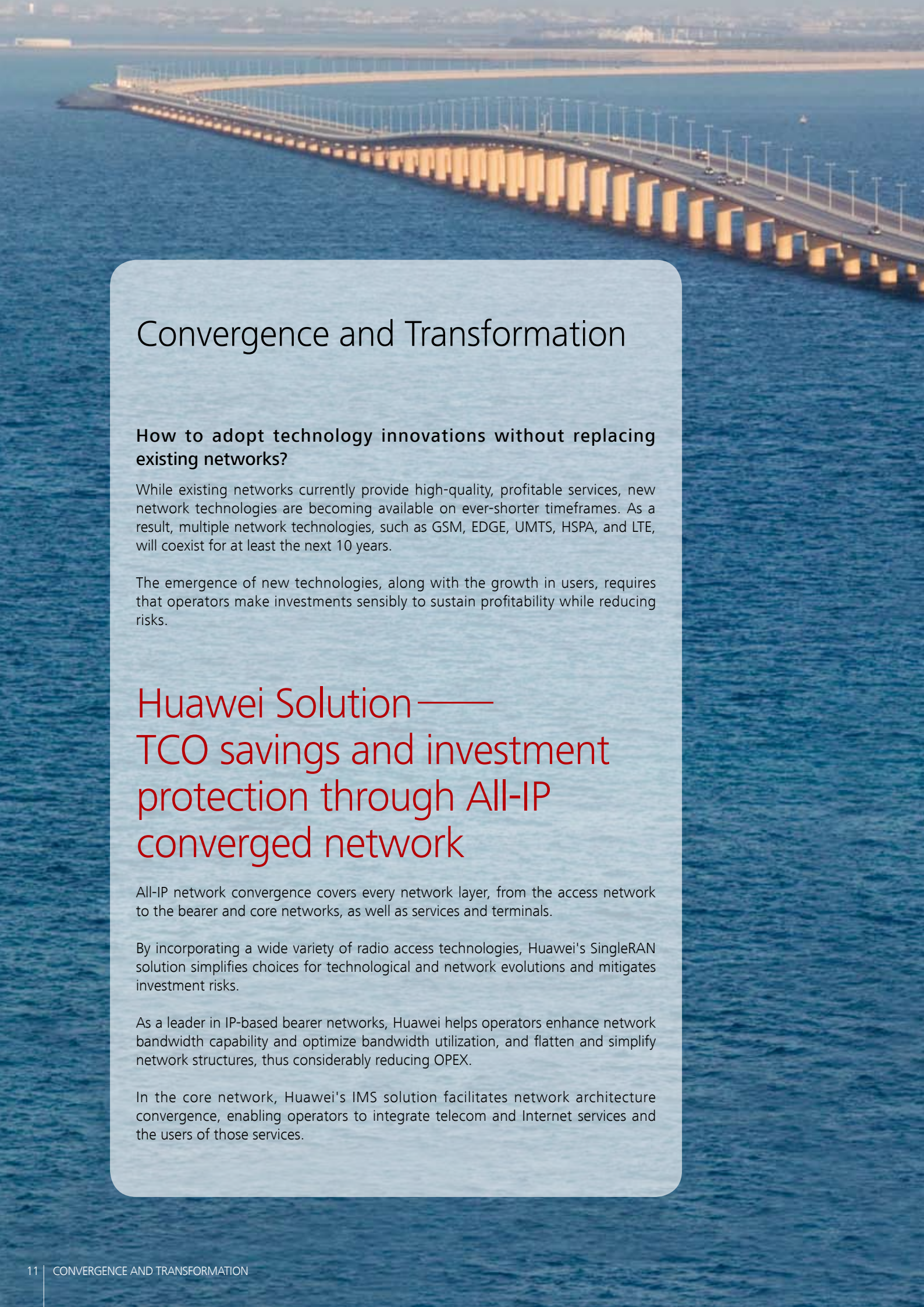
Capturing the tremendous business opportunities brought about by ubiquitous broadband will be vital for operators to establish a future competitive edge. However, a major challenge operators will face is how to effectively address network capacities, meet the explosive information demand, and construct head-start advantages with a well-planned network deployment.

Huawei Solution—— efficient provision of ubiquitous broadband experiences

As a leader in All-IP broadband, Huawei assists operators in breaking the bandwidth bottleneck by providing ubiquitous broadband connectivity, while offering new revenue opportunities.

Huawei's LTE/SAE solution significantly reduces transmission costs, improves quality of service (QoS), facilitates broadband services applications, and ultimately help operators achieve a smooth broadband transformation.

Huawei's ITime solution not only enables operators to effectively handle massive traffic flow over end-to-end ultra-broadband networks, it also helps operators reduce TCO significantly by providing full-service access and unified bearer networks. The solution supports the provision of broadband services that are catered to a variety of users, including families and enterprises, creating opportunities for operators to differentiate their service offerings.



Convergence and Transformation

How to adopt technology innovations without replacing existing networks?

While existing networks currently provide high-quality, profitable services, new network technologies are becoming available on ever-shorter timeframes. As a result, multiple network technologies, such as GSM, EDGE, UMTS, HSPA, and LTE, will coexist for at least the next 10 years.

The emergence of new technologies, along with the growth in users, requires that operators make investments sensibly to sustain profitability while reducing risks.

Huawei Solution—— TCO savings and investment protection through All-IP converged network

All-IP network convergence covers every network layer, from the access network to the bearer and core networks, as well as services and terminals.

By incorporating a wide variety of radio access technologies, Huawei's SingleRAN solution simplifies choices for technological and network evolutions and mitigates investment risks.

As a leader in IP-based bearer networks, Huawei helps operators enhance network bandwidth capability and optimize bandwidth utilization, and flatten and simplify network structures, thus considerably reducing OPEX.

In the core network, Huawei's IMS solution facilitates network architecture convergence, enabling operators to integrate telecom and Internet services and the users of those services.





Innovative Services

How to meet rapid traffic growth while boosting revenue?

The "Digital Flood" created by high definition, three-dimensional and "user-generated" content is driving exponential increases in network traffic. At the same time, the revenue growth rate lags far behind the traffic growth. Expanding networks to handle the growth, while putting in place new services to enhance revenue from the increased traffic will be a serious challenge confronting operators.

Huawei Solution—— Profit margin expansion through innovative applications and intelligent traffic management

Value-added services and basic service foundation elements, including a unified service development platform, convergent billing, personal entertainment, digital home, digital media and advertising as well as ICT based enterprise solutions, provide operators with the ability to support users with ubiquitous access to entertainment and information, thus opening up a wide range of new revenue opportunities.

In addition, Huawei's innovative technology has realized the delivery of a user and service-based intelligent traffic management system that allows operators to provide quality services and ensure quality of experiences, while improving bandwidth utilization by up to 30%.



Emerging Markets

How to accommodate one billion new users in face of deteriorating ARPU?

Over one billion new users will be added to mobile networks in emerging markets over the next few years. This will help bridge the digital divide while boosting local economic development.

This growth will come from emerging markets, but it is expected that the average revenue per user (ARPU) in those markets will be around USD5 or even lower. Meeting the challenges of user growth, while being profitable and achieving sustainable growth at low ARPU rates will be critical to future success of operators.

Huawei Solution —— Head start market advantages through innovative solutions and services

Problems with basic infrastructure, engineering, power supply, and transmission account for a large proportion of the construction cost in emerging markets. To address this issue, Huawei has been creating innovative approaches to high-power coverage, solar and wind power supplies, traffic-based power controls, natural heat dissipation and affordable handsets. These innovations expand network coverage, reduce transmission resources, and increase energy efficiency, thus lowering TCO significantly.

The limited disposable income of subscribers in emerging markets means that communications has to create value to attract new users. Huawei works with operators to create more value from mobile services, thus attracting more users while improving revenue. An example can be found in Bangladesh, where Huawei assisted the operator to not just construct the mobile network, but also add value by creating services such as publishing farm produce information — a development that opens a communication channel between local growers and final buyers, and increases producers' income through price transparency and reduced procedures.

Moreover, our services teams understand our customers' needs, and rapidly deploy networks while providing customers with professional services, such as network technology services and managed services, thus help them seize new business opportunities in emerging markets.



Green Communications

How to enhance competitiveness while protecting the environment?

While bringing convenience and efficiency to people's work and lives, the ICT industry is also facing huge pressure related to energy conservation and emissions reduction. Statistics show that the annual CO₂ emissions of global ICT devices are as much as 860 million tons, almost equaling that of the aviation industry. It is for this reason that operators need to save energy and reduce carbon emission as part of their commitment to social responsibility.

Therefore, it has become vital for operators to integrate social responsibilities with business activities and translate investments in environmental protection into business competitive advantages.

Huawei Solution —— "Green" competitiveness through enhanced energy efficiency

Through our "Green Huawei, Green Communications, Green World" program, Huawei is committed to ensuring harmony between technological development, environmental and economic benefits. Environmental protection is incorporated into our end-to-end solutions, covering base station sites, equipment rooms, transmission and supply chains. Our product offerings help operators reduce energy consumption by over 30% compared with traditional solutions, helping operators substantially reduce operational expenses while enhance competitiveness.

The substantial decreases in the power consumption of telecom equipment have made it possible to adopt new energy sources as power supplies in our industry. Our solar/wind power solutions and solar/diesel solutions, which are part of our focus on Green programs, have been widely applied in the mobile base stations deployed in China, Africa and the Middle East.

As part of our commitment to environmentally sensitive developments in our industry, Huawei works with GeSI and other industry conservation groups to promote utilization of alternative energy sources, environmental protection, and research on the social impacts of the ICT industry.



Products, Solutions and Services



Our products and services embrace radio access networks, All-IP broadband, core network, software, professional services and terminals. With all major products ranking among the top three in their category, we are able to serve customers with complete and competitive telecom solutions.

Radio Access Network

The Radio Access Network is a critical link in providing a high-quality user experience for mobile operators. The daunting array of environmental conditions, increasing usage and new standards can quickly impact operators' profitability. Huawei employs customer-oriented technological innovation to support operators with environmentally friendly and reliable solutions which support convergence and are designed to evolve to meet new requirements.

Huawei launched the 4th generation BTS, which features multiple radio access technologies (RATs) convergence, multiple carriers on radio carrier, green, and All-IP. Huawei initiates the convergent single RAN network, where all the RATs can be applied to a type of BTS. Our singleRAN solution effectively simplifies choices for technological and network evolutions, greatly reducing the frequency of site visits and costs related to equipment room construction, transmission and ancillaries.

Huawei has established a strong lead in the mobile broadband areas, helping operators reduce TCO while constructing profitable mobile broadband networks.

2008 Key Achievements

- Recorded shipments of more than three million GSM TRXs; 1.5 million TRXs shipped in 2008, ranking No.2 in the world
- Adopted UMTS on a large scale in developed markets; deployed more than 20 UMTS/HSPA networks in Europe; built the first LTE-ready UMTS/HSPA network in North America
- Shipped more than 220,000 TRXs of CDMA BTSs in 2008, ranking No.2 in the world
- Signed the world's first LTE/SAE commercial contract with a European operator; launched versions of all key radio products which are ready for LTE evolution
- Deployed 34 commercial WiMAX networks worldwide
- Ranked No.1 in shipments for China's 3G market
- Named Wireless Broadband Network Vendor of the Year by TelecomAsia

Customer Quote

"Our cooperation with Huawei has set new standards. Today, we see rapid growth of the mobile web. The new technology enables us to make a big step forward into the future this year."

—Jaime Smith Basterra, CEO of Telefónica O2 Germany

All-IP Broadband Network

The evolution of communication from voice to data and converged services has resulted in rapidly expanding deployment of All-IP broadband networks, an area where Huawei has market leadership. The IPTIME Solution, a carrier-class All-IP ultra-broadband green network solution, developed by Huawei, integrates products of fixed access, transmission network, Metro Ethernet, routers, OSS and service.

As well as helping operators reduce TCO and attract subscribers with superior quality of experience, this solution ensures smooth end-to-end traffic flow and the sustainable development of broadband networks with ultra-high bandwidth and low power consumption.

This flexible solution addresses the diversified requirements of fixed and mobile operators with FTTx, broadband bearer, mobile bearer and backbone bearer solutions and is widely deployed by leading operators around the world.

2008 Key Achievements

- Huawei IPTIME Solution won the InfoVision Award from IEC; as the sole supplier for Vodafone's All-IP mobile transport network in Spain, the first network of its kind in Europe
- Ranked No.1 in WDM/OTN; launched the first 100G/100GE prototypes and the first T-bit OTN Product for both trial and commercial applications
- Built the world's largest GPON FTTH commercial network; the sole supplier for Deutsche Telekom's GPON FTTB network
- Leading position in the IP access market for six consecutive years
- The world's No.3 provider of routers to global operators; deployed 112 NGN/wireless bearer networks and more than 560 Metro Ethernet networks

Customer Quote

"By 2009 all TransTeleCom's DWDM backbones will be updated to 40G transfer per wavelength. It is a natural stage of backbone development, which is necessary to satisfy the constantly growing demand for bandwidth. Thanks to Huawei's advanced DWDM equipment, 40G channels can be activated quickly without restructuring the existing network."

—Andrei Pavlov, senior vice-president, head of TTC technical development department

Core Network

Huawei's innovative All-IP core network solution enables operators to construct All-IP FMC networks and provide subscribers with seamless multimedia communication experience, thus helping operators achieve business success.

Our new generation softswitch features All-IP, intelligence and self-management, substantially reducing operators' TCO for voice services and the cost related to future evolution. Huawei's innovative large-capacity intelligent mobile broadband solutions provide operators with the tools to improve the profitability of mobile broadband networks; Huawei's IMS-based converged solutions can measurably shorten the time-to-market of new applications, helping operators respond quickly to new business opportunities.

2008 Key Achievements

- First vendor to reach the milestone of having shipped one billion licenses of mobile softswitch as a result of our focus on IP Transformation
- Named by TelecomAsia as NGN solution provider of the year
- Built the global largest IMS based VOB network for Deutsche Telekom in Hungary
- Shipped the most "next generation" HLRs, including building the world's largest HLR commercial exchange in Pakistan for Telenor
- Ranked No.1 in new contracts for mobile packet switches
- Constructed the world's largest signaling network for China Mobile, with the capability of more than 400 million users

Customer Quote

"Given Huawei's dedicated expert team and advanced packet switch core network solution, Huawei really surprised us by this flawless delivery. They fulfilled our expectations and we are proud of the result. As a company we are always looking for new ways to demonstrate our continuing track record as an innovator in the Austrian marketplace."

—Jim Burke, CTO of T-Mobile Austria

Software

Value-added telecom services enable operators to outperform their competitors. Huawei's end-to-end operation support solution helps operators meet changing market demands and increase their competitiveness; our personal/home solutions offer users access to entertainment and information anytime they want and the ICT solutions we provide for enterprises enable automated office work, easy communication among employees and thus more business opportunities for enterprises.

2008 Key Achievements

- Ranked No. 1 for RBT services, serving 1.2 billion users worldwide
- Ranked No. 2 among telecom equipment vendors in billing system sales
- Constructed the world's most advanced and largest SDP platform, which serves Telefónica's network subscribers in 13 countries across Latin America
- The largest provider of IP Call Centers, powering customer support for operators in China

Customer Quote

"This platform allows us to integrate a seamless range of services for different networks and countries, so we can continue leading innovation for the mobile market throughout the Latin American region."

—Luis Miguel Gilpérez, Director, Mobile Business of Telefónica Latin America



Services

Huawei attaches strategic importance to services and achieved rapid growth in 2008. We help customers keep competitive edge by reducing TCO and increasing total value of ownership (TVO) of their networks through continuously optimized professional service solutions.

Through rapid capturing of customer requirements and cutting-edge technology, we deliver fast and high-quality professional services to customers.

We constantly improve operational efficiency to maintain sustainable growth, which allows us to be the strategic partner of customers in a changing market environment.

2008 Key Achievements

- Delivered 231 turnkey network deployment projects and 220,000 sites. Sales of network deployment and integrated services increased 111% year on year
- Had been delivering more than 45 managed services projects by the end of 2008; in 2008, our sales in managed services increased 67% year on year
- Provided network technology services for 320 wireless networks and 220 fixed networks for 180 operators, with sales up 104% year on year
- Provided managed services solutions for Mobily in Saudi Arabia and KPN in Netherlands

Customer Quote

"From as early as the preparation for the Olympics through the entire course of the Paralympics, Huawei did an excellent job fulfilling its communications support role, demonstrating good organizational ability, strong technological capabilities and fast response to emergencies during significant events."

—China Mobile Communications Corporation

Terminals

In the age of All-IP convergence, people are able to enjoy consistent communication experiences via any terminal. Providing the industry's broadest range of terminals, Huawei is committed to bringing operators business success by helping them meet users' widely diversified demands for terminals. In doing this, we have forged strategic partnership with such world-leading operators as Vodafone, and Telefónica.

Huawei's terminal portfolio is comprised of mobile broadband terminals, mobile phones, convergent terminals, and videoconferencing terminals. With an extensive sales network covering more than 70 countries and a worldwide logistics network, we are well-positioned to offer high-quality and responsive services.

We have retained our leadership in the area of mobile broadband terminals. Our expertise in mobile phone customization has positioned us as the leading ODM provider of UMTS phones. We also hold a leadership position in the convergence field, providing converged terminals that support various access modes and service experiences. Our high-definition videoconferencing solution has been widely deployed in a variety of industries.

2008 Key Achievements

- Shipped more than 25 million mobile broadband terminals
- Ranked No.1 in fixed wireless terminals with shipments of over 37 million units
- Ranked No. 2 in xDSL terminals with shipments of over 38 million
- The world's third largest supplier of CDMA phones, with shipments of 20 million units
- The E180 "USB stick" 3G wireless modem was named as the "Best Mobile Broadband Device" at the 2008 Mobile Asia Congress

Corporate Social Responsibility



In addition to succeeding as a business enterprise, Huawei is committed to being a globally responsible corporate citizen, making contributions to the development of a harmonious world. This section offers some brief examples of steps we are taking to fulfill our social responsibilities.

To learn more, please visit www.huawei.com/CSR

Bridging Digital Divide

Over the past few years, while the fast evolving telecom industry has greatly facilitated global economic growth, many developing economies, due in large part to low telecom penetration, have seen far fewer economic benefits than those in the developed world. Today, there is an increasing link between the increasing demands for connectivity and the development of economies. However, telecommunication coverage varies significantly throughout the world and the gap is widening across people with different demographics and geographic origins, and the digital divide between these groups is ever-growing.

We are devoted to removing the digital divide, in order to provide equal access to connectivity and communications for all.

Environmental Protection

We have set a goal of "Green Huawei, Green Communications, Green World", which is shaping all aspects of our operations.

Environmental protection and energy savings are key elements in the planning, design, R&D and manufacturing of our products and solutions, and they are key performance metrics for our entire company.

Contributions to Local Community

As an international company, Huawei understands that its operations are closely linked with the social-economic environment of the communities where we operate. As such, we are committed to giving back to those local communities. As an example of the implementation of that commitment, Huawei is playing an active role in promoting public welfare, education and disaster relief.

Supply Chain

Huawei also incorporates CSR requirements into the certification, selection and management of our suppliers. We have instituted and enacted a supplier social responsibility verification program, and the training and certification of procurement employees and suppliers is based on the requirements of SA8000/TL9000/ISO14001 in order to ensure the effective execution of our CSR policies.

Employees

Dedicated and passionate employees are Huawei's most valuable asset. In recognition of their contributions, Huawei has established policies to ensure that dedicated employees are given meaningful benefits in such areas as growth opportunities and compensation, among others.

Huawei has designed a Dual Career Development Path for all employees. This program offers both managerial and professional paths, allowing every employee to choose an appropriate career goal for their future development.

Huawei pays particular attention to our employees' physical and mental health. As part of our focus on promoting the well-being of our employees, we have established a wide variety of clubs and associations designed to enrich the extracurricular life of all employees.



Consolidated Income Statement

Huawei Technologies Corporation and Subsidiary Companies

For the year ended 31 December	2008 USD '000	2007* USD '000
Revenue	18,328,956	12,840,113
Cost of sales	(11,060,376)	(7,936,732)
Gross profit	7,268,580	4,903,381
Operating expenses	(4,820,843)	(3,577,867)
Other operating income/loss	(73,673)	(77,655)
Income from operations	2,374,064	1,247,859
Net financing cost	(970,731)	(198,881)
share of losses of associates/jointly controlled entities	(28,379)	(7,273)
Profit before income tax and minority interests	1,374,954	1,041,705
Net income for the year	1,151,278	956,898

Consolidated Balance Sheet

Huawei Technologies Corporation and Subsidiary Companies

As of 31 December	2008 USD '000	2007* USD '000
Assets		
Cash and cash equivalents	3,080,612	1,892,266
Trade and other receivables	8,850,518	5,488,077
Inventories	3,377,637	2,267,276
Total Current Assets	15,308,767	9,647,619
Property, plant and equipment	1,067,800	931,721
Long-term leasehold prepayments	54,935	52,172
Intangible assets	18,590	15,038
Investments	104,757	85,402
Deferred tax assets	548,486	364,982
Long-term prepayments	39,328	-
Total Non-current Assets	1,833,896	1,449,315
Total Assets	17,142,663	11,096,934
Liabilities and Shareholders' Equity		
Interest-bearing loans and borrowings	1,902,902	158,628
Income tax payable	198,631	94,513
Trade and other payables	8,682,286	6,029,505
Provision for warranties	187,992	151,201
Total Current Liabilities	10,971,811	6,433,847
Interest-bearing loans and borrowings	150,364	215,280
Other payables	500,904	336,417
Deferred tax liabilities	29,784	-
Total Non-current Liabilities	681,052	551,697
Minority Interest	4,900	127,539
Total Capital and Reserves	5,484,900	3,983,851
Total Liabilities and Shareholders' Equity	17,142,663	11,096,934

Consolidated Statement of Cash Flow

Huawei Technologies Corporation and Subsidiary Companies

For the year ended 31 December	2008 USD '000	2007* USD '000
Cash Flows from Operating Activities		
Cash generated from operation	1,201,150	1,300,990
Income tax paid	(255,092)	(256,713)
Cash Flows from Operating Activities	946,058	1,044,277
Cash Flows (used in)/from Investing Activities	(1,828,809)	(201,817)
Cash Flows (used in)/from Financing Activities	2,050,931	(213,387)
Net Increase/(decrease) in Cash and Cash Equivalents	1,168,180	629,073
Cash and Cash Equivalents at 1 January	1,892,266	1,277,748
Effect of foreign exchange rate changes	19,548	(14,555)
Cash and Cash Equivalents at 31 December	3,079,994	1,892,266

Notes:

- All the financial data are quoted from the unqualified auditing reports by KPMG which are presented in accordance with IFRSs (International Financial Reporting Standards).
- The consolidated financial statements of the year ended 31 December 2008 have been translated to US dollars at the rate of USD1.00=CNY 6.8225 (2007: USD1.00=CNY 7.3046).
- According to the company's decision, the terminal business had been transferred into the company in 2008, and it was excluded in 2007, so comparative figures in 2007 have been restated in accordance with IFRSs (International Financial Reporting Standards).

Reporting Entity

Huawei Technologies Co., Ltd. (the "Company") is a company domiciled in Shenzhen in the People's Republic of China (the "PRC"). The consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in an associate and jointly controlled entities. The Group's activities involve research and development, production and sale of telecommunications equipment and provision of related services.

Revenue Recognition Policy

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 the consolidated income statement as follows:

i) Sale of goods and services rendered

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

ii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and 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) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated income statement 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 the consolidated income statement 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.

Net financing cost

	2008 USD'000	2007 USD'000
Foreign exchange loss	776,051	30,609
Other finance expenses	194,680	168,272
Net financing cost	970,731	198,881

Property, plant and equipment

	Buildings	Machinery, electronic equipment and other	Motor vehicles	Construction in progress	Investment property	Decoration and Leasehold improvements	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cost							
At 31 December 2007	398,497	1,059,990	52,612	47,909	59,427	216,725	1,835,160
At 31 December 2008	428,187	1,321,018	55,793	123,015	63,627	257,228	2,248,869
Depreciation and impairment loss							
At 31 December 2007	76,138	623,107	31,966	-	20,322	151,905	903,438
At 31 December 2008	103,267	807,744	31,815	-	28,202	210,040	1,181,069
Carrying amounts							
At 31 December 2007	322,358	436,883	20,646	47,909	39,105	64,820	931,721
At 31 December 2008	324,920	513,274	23,978	123,015	35,424	47,188	1,067,800

Investment properties

The Group is engaged in the manufacturing, sales and marketing of telecommunications equipment and the provision of related services. Beginning from 1 January 2004, it leased certain buildings to an ex-subsiary and a former related company. Such buildings are classified as investment properties.

The carrying value of investment properties as of 31 December 2008 is USD 35,424 thousand (2007: USD 39,105 thousand). The fair value of investment properties as of 31 December 2008 is estimated by the directors to be USD 68,360 thousand (2007: USD 62,594 thousand). The investment properties have not been valued by an external independent valuer.

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

Inventories

	2008 USD'000	2007 USD'000
Raw materials	601,019	537,736
Work in progress	307,731	269,343
Finished goods	872,613	810,344
Goods delivered but not completely installed	1,596,274	649,853
Total	3,377,637	2,267,276

Trade and other receivables

	2008 USD'000	2007 USD'000
Trade receivables	6,988,320	5,148,013
Other receivables	1,679,445	340,046
Pledged deposit	182,753	18
Total	8,850,518	5,488,077

Cash and cash equivalents

	2008 USD'000	2007 USD'000
Cash and cash equivalents	3,080,612	1,892,266

Trade and other payable

	2008 USD'000	2007 USD'000
Trade payables	6,078,337	4,247,896
Dividends payable	14,714	5
Other trade payables	2,589,235	1,781,604
Total	8,682,286	6,029,505

Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2008 USD'000	2007 USD'000
Less than one year	54,349	36,293
Between one and two years	33,536	21,805
Between two and five years	25,509	11,348
Total	113,395	69,446

The Group leases a number of warehouses, factory facilities, office premises and staff apartments under operating leases. The leases typically run for an initial period of between one and five years. None of the leases includes contingent rentals. During the year ended 31 December 2008, USD 166,789 thousand was recognized as an expense in the consolidated income statement in respect of operating leases (2007: USD 145,695 thousand).

Leases as lesser

The Group leases out certain of its properties under operating leases. Non-cancellable operating lease rentals are receivable as follows:

	2008 USD'000	2007 USD'000
Less than one year	1,125	6,752
Between one and five years	4,523	5,097
Total	5,648	11,849

During the year ended 31 December 2008, USD 11,741 thousand was recognised as rental income in the consolidated income statement (2007: USD 7,849 thousand).

Glossary

Abbreviations	Full name
ADSL	Asymmetric Digital Subscriber Line
ASIC	Application Specific Integrated Circuit
ASON	Automatic Switching Optical Network
BSS	Business Support System
CAPEX	Capital Expenditure
CDMA	Code Division Multiple Access
CN	Core Network
CRBT	Color Ring Back Tone
DSLAM	Digital Subscriber Line Access Multiplexer
DWDM	Dense Wavelength Division Multiplexing
E2E	End-to-End
EV-DO	Evolution-Data Optimized (Original term is Data Only)
FTTH	Fiber to The Home
GPRS	General Packet Radio Service
GSM	Global System for Mobile communications
HSPA	High-Speed Packet Access
ICT	Information and Communications Technology
IEC	International Engineering Consortium
IN	Intelligent Network
IP	Internet Protocol
IPD	Integrated Product Development
IPTime	IP Transport Infrastructure for Multi-play Experience
IPTV	IP Television
ISP	Internet Service Provider
ISC	Integrated Supply Chain
LTE	Long-Term Evolution
NGN	Next Generation Network
O&M	Operation and Maintenance
OPEX	Operating Expenditure
QoS	Quality of Service
RAN	Radio Access Network
R&D	Research and Development
RoI	Return on Investment
SMS	Short Message Service
TCO	Total Cost of Ownership
TD-SCDMA	Time Division-Spatial Code Division Multiple Access
TRX	Transceiver
TVO	Total Value of Ownership
UMTS	Universal Mobile Telecommunication System
VOBB	Voice Over Broadband
VoIP	Voice over IP

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