

A Guide To Your Business In China

COMPANY PROFILE

— **Huawei Technology**

June 2008

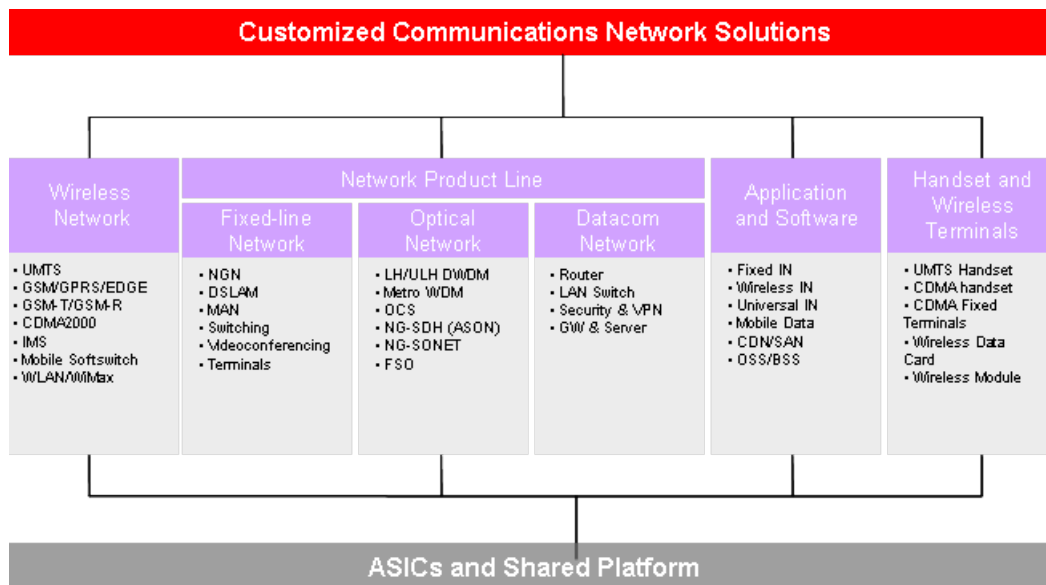
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Chapter 3: Market Analysis

3.1 Major Products

Huawei's full product portfolio covers wireless network products (UMTS/HSDPA, CDMA2000, GSM/GPRS/EDGE and WiMAX), network products (NGN, xDSL, optical transmission, data communications), application and software products (IN, mobile data, OSS/BSS, CDN/SAN), and terminals etc.

Figure 3-1: Huawei's Product Portfolio



Through its efforts in the past 20 years, Huawei's products, solutions and services have won more and more customers, and its position in the market and industry has been more and more important.

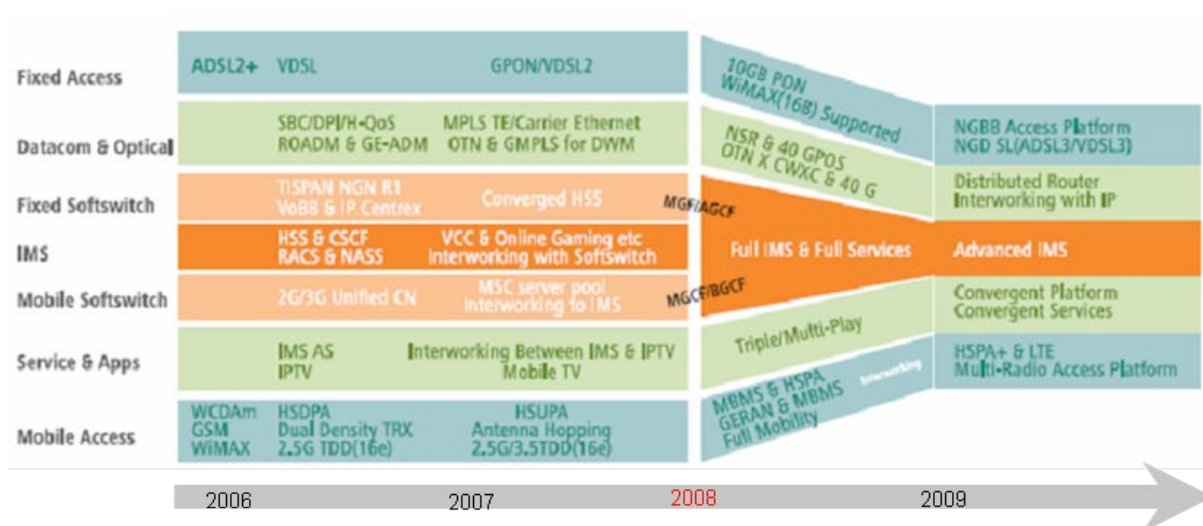
Table 3-1: Position of Huawei's Major Products in Global Market

Category	Description
Mobile	By December 2007, Huawei has signed a total of 151 contracts for commercial 3G network, among which there are 86 UMTS / HSPA contracts and 65 EV-DO contracts. Huawei's GSM network products have been used on large scale in more than 80 countries, serving 160 million users throughout the world. The CAGR of Huawei's GSM shipment in the past 3 years is more than 95%.
Core Network	Huawei leads the world in the commercial use of converged IMS based on 3GPP/Tispan standard; Ranks No.1 in the world in terms of the output and market share of NGN.
Network	Its optical network products rank the second in global market, and especially in global long-haul wavelength division market it takes the first place. (Ovum) Its broadband product IP DSLAM takes the first place in global market and its output of MSAN ranks the first in the world. (Infonetics)
Data Communications	It takes the third place in global router market. (Gartner)

Wireless Value-added Service

Its intelligent network users are the most in the world. (Ovum) ;
SMS business volume take the first place in the world. (Ovum) ;
Huawei has served 123 million CRBT users in the world, ranking the first in global market (IDC) .

Figure 3-2: Huawei's Roadmap of All IP based FMC Solutions



3.2 Target Market and Customers

Although China is still an important market for Huawei, the international market is becoming more and more important. In 2007, Huawei's overseas sales have reached 72 percent of the total.

In China, Huawei's main clients are the telecom operators and financial institutions, as well as various other companies that maintain their own networks. China Mobile, China Telecom, China Unicom and China Netcom are all major Huawei clients. Government institutions, oil companies such as PetroChina, financial institutions such as China Commercial Bank, Industrial & Commercial Bank of China, Bank of Communications, and the Ping An Insurance Company are other main clients.

In the international market, although a large part of Huawei's revenue still comes from developing countries in Asia-pacific region, MENA and Latin America, etc., it has made great breakthrough in the developed countries of Europe and America. In 2007, Leap of the U.S., Centertel of Poland, T-Mobile and O2 of Germany, Vodafone of Britain, TransTelecom of Bulgaria, Magyar Telecom, and Orange of Belgium etc all have become Huawei's clients.

3.3 Competition Landscape

In 2007, the growth of global telecommunication equipment manufacturing industry

continued to slow down. Performances of major equipment manufacturers were quite different. The lost of equipment manufacturers such as Alcatel-Lucent, Motorola and Nortel continued to increase; profits of Ericsson and NSN decreased, but their overall profit-generating capacity is still strong; while both incomes and profits of Chinese manufacturers such as Huawei and ZTE increased more than before, thanks to the enhancement of their competitiveness, quality-price ratio and international operations.

Table 3-2: Operating Revenue of Major Equipment Manufacturers 2001-2007

Manufacturers	Period	2002	2003	2004	2005	2006	2007
Ericsson	SEK M	145,773	117,738	131,972	153,222	179,821	187,780
Motorola	USD M	27,279	21,718	29,680	35,310	42,847	36,622
NSN	EUR M	-	-	-	-	7,453	13,393
Cisco	USD M	18,915	18,878	22,045	24,801	28,484	34,922
Alcatel-Lucent	EUR M	-	10,263	11,219	12,282	17,792	USD M 25,892
Nortel	USD M	10,736	9,907	9,478	10,509	11,418	10,948
Huawei	USD M	2,273	2,870	3,827	5,982	8,504	12,560
ZTE	RMB M	10,795.9	17,095.9	21,261.4	21,740.7	23,215	34,777

Table 3-3: Growth Rate of Major Equipment Manufacturers' Operating Revenue 2001-2007

Manufacturers	2003	2004	2005	2006	2007
Ericsson	-19.2%	12.1%	16.1%	17.4%	4.4%
Motorola	-20.4%	36.7%	19.0%	21.3%	-14.5
NSN	/	/	/	/	79.7%
Cisco	-0.20%	16.8%	12.5%	14.9%	22.6%
Alcatel-lucent	/	9.3%	9.5%	44.9%	-6.2%
Nortel	-7.7%	-4.3%	10.9%	8.6%	-4.1
Huawei	26.3%	33.3%	56.3%	42.2%	44.7%
ZTE	58.4%	24.3%	2.3%	6.8%	49.8%

Under this circumstance, some international equipment manufacturers are contracting their operations and cutting off employees. For instance, Alcatel-lucent plans to cut off 12,500 employees before 2009, making up 16% of the total currently. Motorola also announced to cut off 7,500 employees in 2007, making up 11% of the total currently. Even Ericsson has the demand of contracting its product line, transferring its CDMA business in China to ZTE. Contraction of international equipment manufacturers provided space for the expansion of domestic equipment manufacturers. With the advantages of the always-existed low cost in R&D, the increase of employees in Huawei and ZTE has been accelerating over the past few years. Even though the increase of employees led to the quick increase of cost, it also insured a strong growth momentum for the future.

Table 3-4: Major Equipment Manufacturers' Net Profit 2002-2007

Manufacturers	Unit	2003	2004	2005	2006	2007
Ericsson	SEK M	-10,844	17,836	24,460	26,436	22,135
Motorola	USD M	893	1,532	4,578	3,661	-49
NSN	EUR M	/	/	/	-1,308	808

Cisco	USD M	3,578	4,401	5,741	5,580	7,333
Alcatel-lucent	EUR M	645	936	-61	-3,477	USD -5,078 M
Nortel	USD M	105	-296	-2,611	19	-957
Huawei	USD M	492	624	681	512	674
ZTE	RMB 100 M	6.3	6.3	11.9	7.67	12.52

3.4 Sales

3.4.1 Overall

In 2007, Huawei's contractual revenue reached USD 16 billion, among which overseas revenue was USD 11.52 billion, representing 70.4% of the total. Comparing with the stable development of domestic market, Huawei's overseas market developed very quickly, with a year-on-year growth rate of 61.1%.

Table 3-5: Huawei's P&L 2003-2007

Items	2004	2005	2006	2007
Revenue	3,827	5,982	8,504	12,560
Net Income	624	681	512	674
Cash Flow From Operations	396	708	743	843
Operating Profit Margin	18%	14%	7%	7%
Return on Net Assets	31%	30%	20%	22%

Unit: USD M

Table 3-6: Huawei's Contract Sales 2004-2007

Items	2004	2005	2006	2007
Overseas	2.28	4.8	7.15	11.52
Domestic	3.3	3.4	3.85	4.48
Total	5.58	8.2	11.0	16.0
Percentage of Oversea Market	40.9%	58.5%	65.0%	72.0%

Unit: USD B

Table 3-7: Huawei's Sales Revenue 2004-2007

Items	2004	2005	2006	2007
Overseas	1.68	3.56	5.52	8.84
Domestic	2.15	2.42	2.98	3.72
Total	3.83	5.98	8.50	12.56
Percentage of Oversea Market	43.9%	59.5%	64.9%	70.4%

Unit: USD B

Table 3-8: Huawei's Sales Revenue by Region 2007

Period	2006		2007	
Region	Percentage	Revenue	Percentage	Revenue

China	35.0%	2,980.0	29.6%	3720.0
CIS	5.3%	451.7	5.6%	707.8
East Pacific	1.2%	101.8	1.3%	158.3
MENA	17.9%	1,518.1	17.3%	2172.9
Asia Pacific	14.1%	1202.5	16.5%	2070.0
Latin America	9.6%	813.4	10.2%	1286.5
North America	0.1%	8.89	1.1%	134.7
South Africa	5.8%	491.2	4.7%	593.5
Europe	11.0%	936.4	13.7%	1716.3
Total	100.0%	8,504.0	100.0%	12,560.0

Unit: USD M

In the international market, revenues from Asia-pacific market (including China) accounts for 49.1% of the company's total sales revenue, while that from CIS, East Pacific, MENA, Latin-America, North America, South Africa, Europe account for 5.6%, 1.3%, 17.3%, 10.2%, 1.1%, 4.7% and 13.7% respectively.

2007 witnessed Huawei's most rapid growth in Japan, India and Vietnam, with a growth rate of more than 200%. Its business growth in European market also speeded up greatly to reach 83.4%, with major operators in Europe like BT, Vodafone and Telefonica having become Huawei's clients. Benefiting from the decline of some major European telecom manufacturers, Huawei made significant breakthrough in Europe in 2007, while in North America, manufacturers like Motorola and Nortel are still sharing most of the market.

In terms of products, revenue from fixed-network products accounts for 29.4% of its total revenue in 2007, from wireless products accounts for 30.5%, from core network 13.4%, from terminal 16.4%, from software, service and value-added service 10.2%.

3.4.2 International by Product

3.4.2.1 GSM

In 2007, global GSM market maintained rapid development with new operators continuously entering the market in the Middle-East and North Africa, subscribers of existing GSM network in Asia-pacific kept to increase rapidly and many Latin-American operators gradually moving their business from TDMA network to GSM network. According to statistics from GSMA there had established 700 GSM networks in 218 countries throughout the world by the end of 2007, with average number of GSM operators in each country exceeding 3.2.

Figure 3-3: Huawei's Overseas GSM Sales Revenue 2004-2007

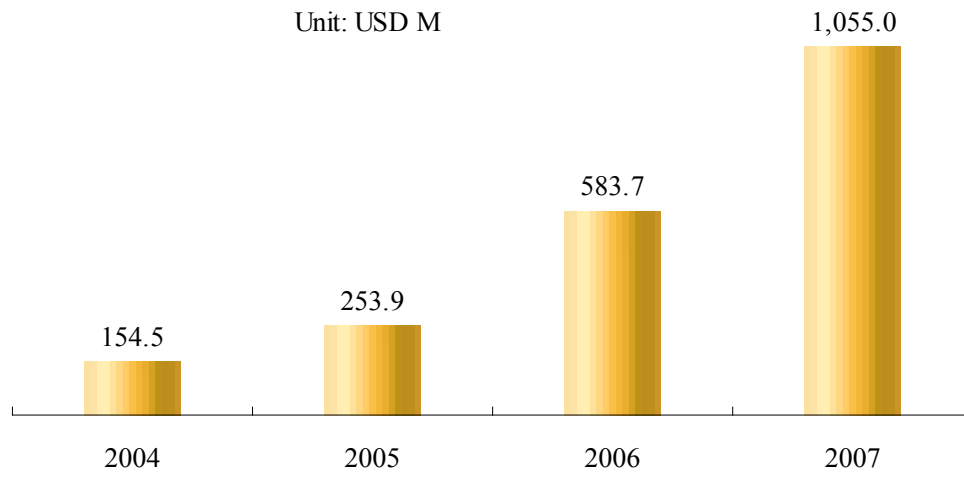


Figure 3-4: Huawei's Global GSM Shipment 2004-2007

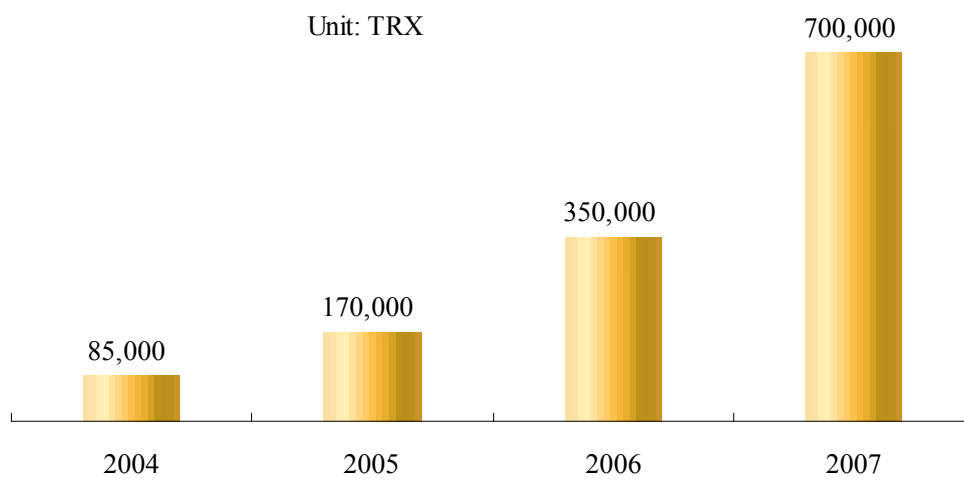
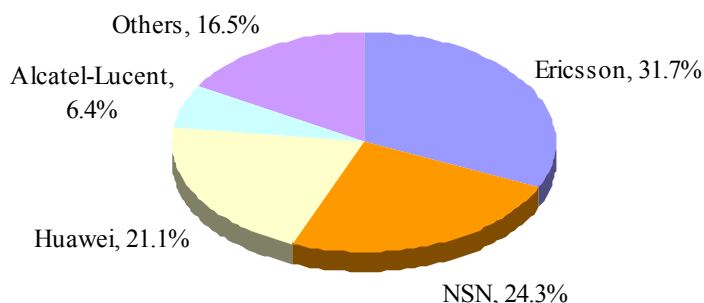


Figure 3-5: Market Share of Major Global GSM Manufacturers by TRX 2007



In terms of competitiveness landscape, nearly all players in the industry believed that GSM would be replaced by 3G several years before, and most of them step up efforts to welcome the 3G era. What resulted was that many GSM suppliers merged their R&D of 3G and 2G to reduce GSM investment. On the contrary, Huawei realized that GSM was not “sunset industry” and input a lot more in the area. Additionally, certain key 3G technologies developed by Huawei are being introduced into its 2G equipment in order to provide better coverage and smooth technology transition capability.

As a consequence, Huawei’s shipment volume of GSM reached 700,000 transceivers in 2007, increasing by 100% over the 350,000 transceivers in 2006, accounting for 21% of the global GSM market and ranking the third in the world. By the end of 2007, the accumulative output of Huawei’s GSM equipment in the world had exceeded 1.5 million transceivers and the CAGR during 2003 to 2007 exceeded 95%. At present, Huawei’s GSM base station has got a delivery capacity of 120,000 transceivers / month. Huawei aims to raise its market share of global GSM market to 30% in 2008.

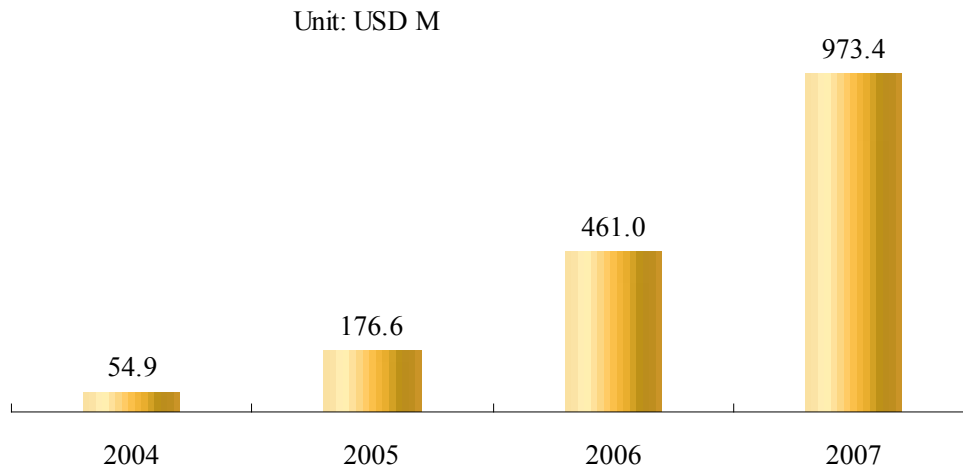
3.4.2.2 WCDMA

WCDMA is the pivot of Huawei’s 3G strategy. Since it has begun the R&D of WCDMA commercial service system in 1998, Huawei has accumulatively input more than RMB 7 billion and R&D staff of more than 6,000. In 2007, Huawei’s revenue from WCDMA reached USD 9.7 M, increasing by 111% over that in 2006.

According to the research of In-stat, Huawei’s output of HSPA/WCDMA base station accounted for 44% of the world’s total in 2007, ranking No.1 in the world. As shown by the EJM Wireless Research, Huawei shared almost 50% of the global WCDMA and HSPA base station market in the last quarter of 2007, almost

doubling that of its rival Ericsson. It is obvious that in WCDMA wireless access market, Huawei has been striding forward with great pace and challenged Ericsson and Nokia which are currently the two largest equipment manufacturers in this area.

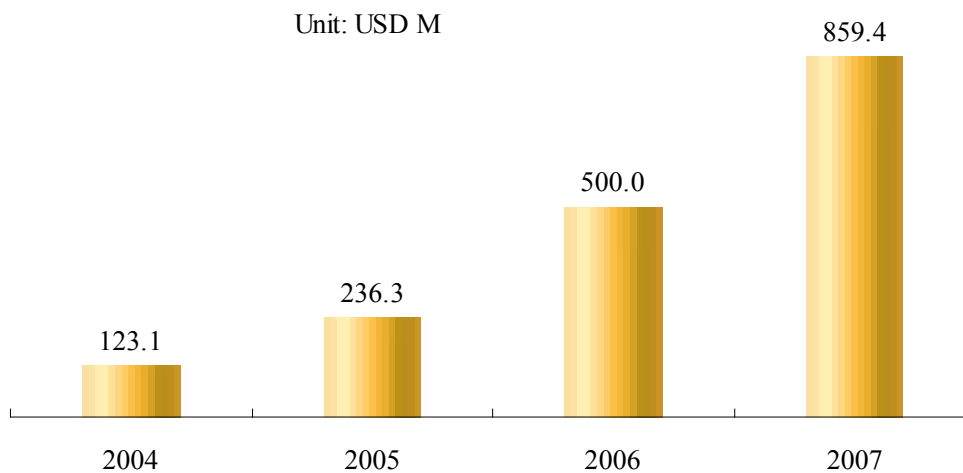
Figure 3-6: Huawei's Overseas WCDMA Sales Revenue 2004-2007



3.4.2.3 CDMA

As for CDMA, Huawei signed 65 EV-DO commercial contracts globally in 2007 with the accumulated number of EV-DO commercial contracts reaching up to 85. Its CDMA sales revenue was USD 9,04.8 M in 2007, representing a y-o-y increase of 71.8%. By the end of 2007, Huawei had accumulatively deployed a CDMA network of 140 million lines and 320,000 transceivers, making it become the largest CDMA supplier in the emerging market.

Figure 3-7: Huawei's Overseas CDMA Sales Revenue 2004-2007



Market Avenue



A Guide to Your Business in China

www.MarketAvenue.cn

E-MAIL: market@marketavenue.cn

FAX: (+86-10) 6290 2471

ADDRESS: RM602, Creation Bldg.

Zhongguancun Ave.

Beijing 100085, China

MarketAvenue
www.marketavenue.cn