

# Lenovo Group Limited

## 2007/08 Interim Results

November 1, 2007

New World. New Thinking:

***lenovo***

# Wong Wai Ming

Senior Vice President & Chief Financial Officer

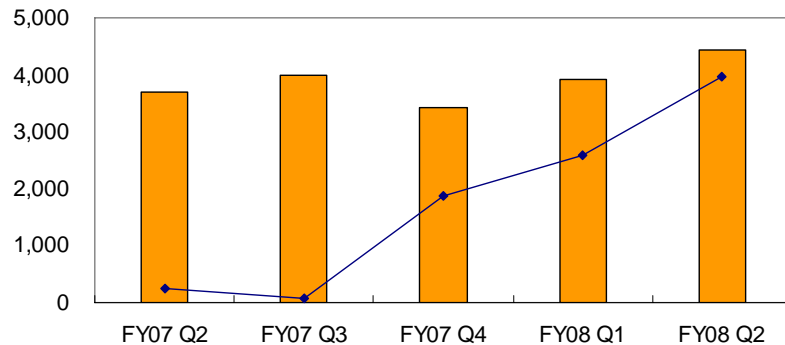
New World. New Thinking:

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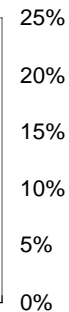
# Lenovo Q2 FY07/08 Results Highlights

- PC unit shipment, up 23% YTY
- WW Market share 8.2%, up 0.5 pts YTY
- Revenue US\$4,432 million, up 20% YTY
- Pretax income US\$123 million, up 186% YTY
- Basic EPS 1.22 US cents, up 177% YTY

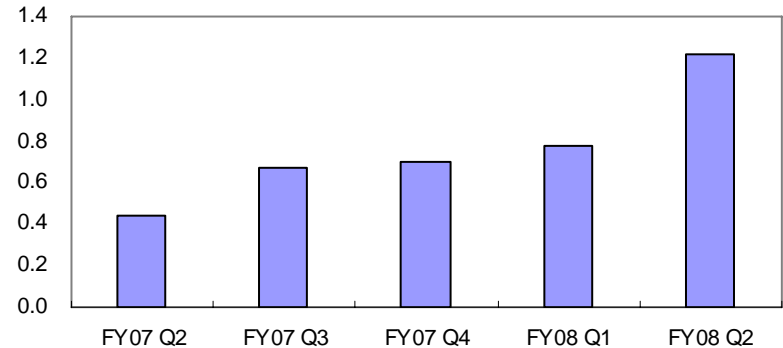
Turnover  
(US\$mn)



YoY Growth rate (%)



Basic EPS (US cents)



# Financial Summary

	Q2 2007/08				YTD 2007/08	
	US\$m	%	Y/Y	Q/Q	US\$m	%
Turnover	<b>4,432</b>		+ 19.8%	+ 12.9%	<b>8,358</b>	
Gross Profit	<b>668</b>	15.1%	+ 2.1 pts	+0.2 pts	<b>1,252</b>	15.0%
Operating Expenses	<b>(548)</b>	12.4%	+ 0.4 pts	+ 0.6 pts	<b>(1,009)</b>	12.1%
Other income, net	<b>0</b>				<b>2</b>	
Operating profit before restructuring	<b>120</b>	2.7%	+ 159.4%	- 4.1%	<b>245</b>	2.9%
Other non-operating income*	<b>5</b>				<b>3</b>	
Restructuring cost	<b>(2)</b>				<b>(47)</b>	
Pre-tax Income	<b>123</b>	2.8%	+ 185.9%	+ 57.8%	<b>201</b>	2.4%
Profit Attributable to Shareholders	<b>105</b>	2.4%	+ 177.8%	+ 57.5%	<b>172</b>	2.1%
EPS (US cents)						
- Basic	<b>1.22</b>		+ 177.3%	+ 56.4%	<b>2.00</b>	
- Diluted	<b>1.12</b>		+ 160.5%	+ 51.4%	<b>1.86</b>	
Dividend per share (HK cents)	<b>3.0</b>				<b>3.0</b>	

\* Finance income, finance cost and share of profits of associated companies

# Condensed Balance Sheet

<b>US\$ mn</b>	<b>As at Sept 30, 2007</b>	<b>As at Mar 31, 2007</b>
Non-current assets	<b>2,461</b>	2,388
Property, plant and equipment	<b>347</b>	326
Intangible assets	<b>1,851</b>	1,868
Others	<b>263</b>	194
Current assets	<b>4,192</b>	3,061
Cash and cash equivalents	<b>1,882</b>	1,064
Account receivables and others	<b>1,943</b>	1,617
Inventory	<b>353</b>	358
Tax recoverable	<b>14</b>	22
Current liabilities	<b>4,473</b>	3,526
Short-term bank loans	<b>81</b>	18
Account payables and others	<b>4,381</b>	3,499
Marketing rights	<b>11</b>	9
Net current liabilities	<b>281</b>	465
Non-current liabilities	<b>845</b>	789
Total equity	<b>1,335</b>	1,134

# Cash and Working Capital

<b>US\$mn</b>	<b><u>Q2 2007/08</u></b>	<b><u>Q2 2006/07</u></b>	<b><u>Q1 2007/08</u></b>
EBITDA*	<b>210</b>	89	182
Cash Reserves	<b>1,882</b>	1,101	1,507
Total Bank Borrowings	<b>181</b>	111	193
Net Cash Reserves	<b>1,701</b>	990	1,314
Days Inventory	<b>9</b>	10	11
Days Receivable	<b>24</b>	23	23
Days Payable	<b>62</b>	59	60
Cash Conversion Cycle	<b>-29 days</b>	-26 days	-26 days

\* Excluding restructuring charges

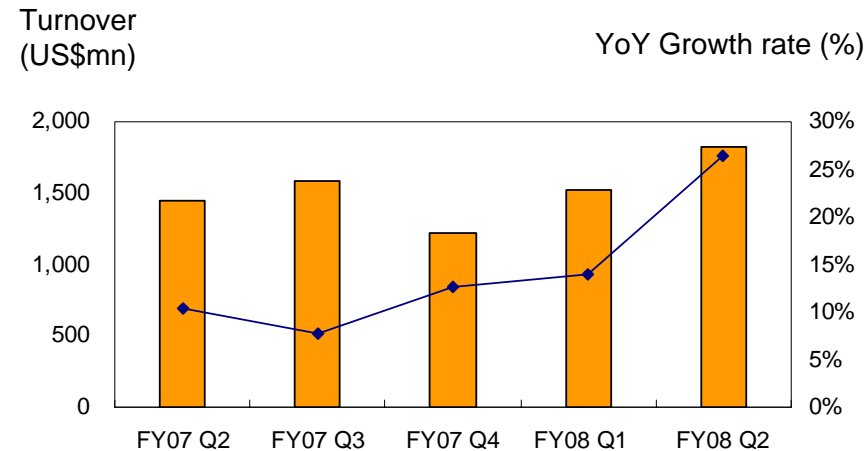
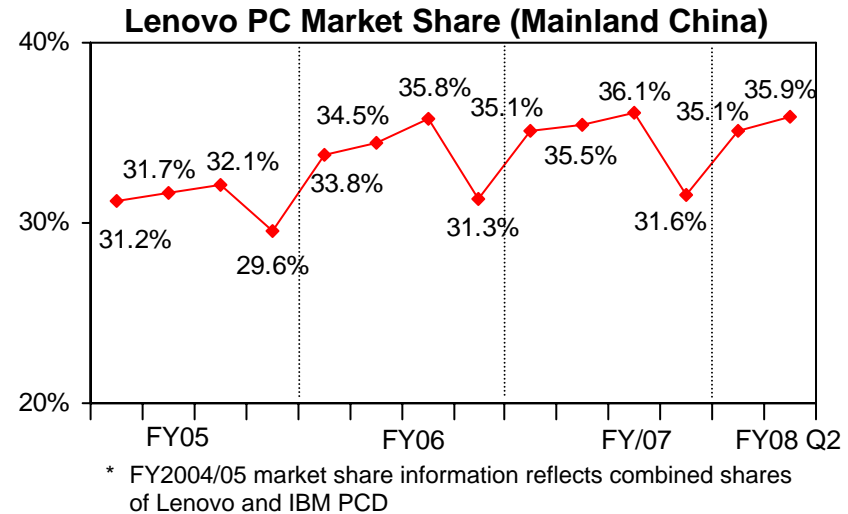
## Geography Summary (Excluding restructuring charges)

- All geographies posted segment profit, and double-digit YTY revenue growth
- QTQ and YTY improvement on group's overall segment profit margin

	Turnover US\$m			Segment Operating Profit US\$m			Segment Operating Profit Margin		
	Q2 08	Y/Y	Q/Q	Q2 08	Q2 07	Q1 08	Q2 08	Q2 07	Q1 08
<b>Greater China</b>	<b>1,826</b>	26.5%	19.6%	<b>102</b>	83	93	<b>5.6%</b>	5.7%	6.1%
<b>Americas</b>	<b>1,181</b>	10.8%	2.8%	<b>21</b>	(18)	39	<b>1.8%</b>	-1.7%	3.4%
<b>EMEA</b>	<b>886</b>	18.0%	17.4%	<b>44</b>	(8)	14	<b>5.0%</b>	-1.1%	1.9%
<b>AP (ex GC)</b>	<b>539</b>	22.8%	8.7%	<b>8</b>	2	0.3	<b>1.5%</b>	0.5%	0.1%
<b>Total</b>	<b>4,432</b>	19.8%	12.9%	<b>175</b>	59	146	<b>4.0%</b>	1.6%	<b>3.7%</b>

# Continues Strong Performance in Greater China

- Strong Growth in Q2
  - Segment profit margin in line with seasonality
    - Flat YTY at 5.6%
  - Mainland China
    - PC shipments up 31%
    - Estimated market share up 0.4 pt YTY to 35.9%
  
- 2007/08 Key Focus
  - Market traction of dual business model
  - End-to-end efficiency in supply chain
  - Notebook growth 78% YTY
  - Brand: Beijing Olympic Torch bearers search



Source: Market share is based on industry and company estimates



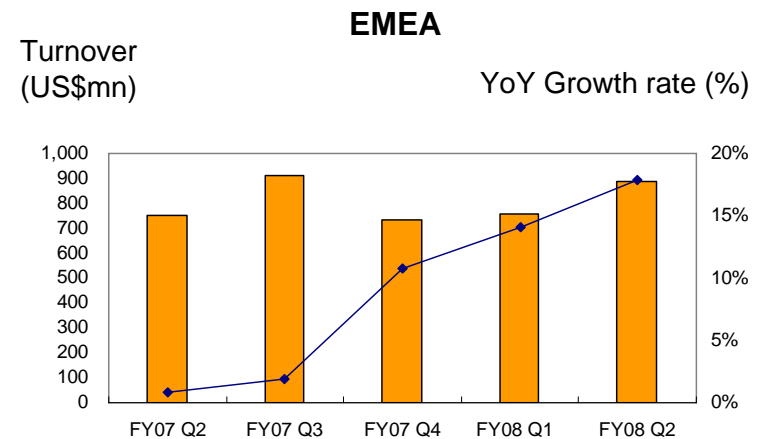
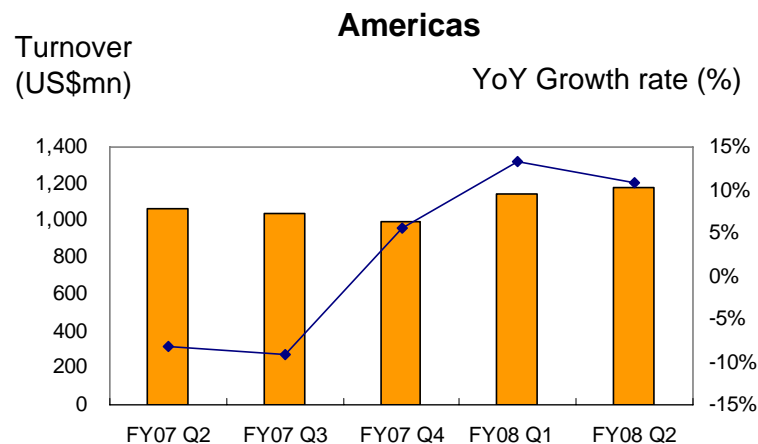
# Americas & EMEA

- Americas

- Q2 PC shipments up 12% YTY
- Driven by great progress in transaction model roll-out
- Gained shares in the U.S. for three consecutive quarters
- Segment profit margin lower QTY with more aggressive pricing

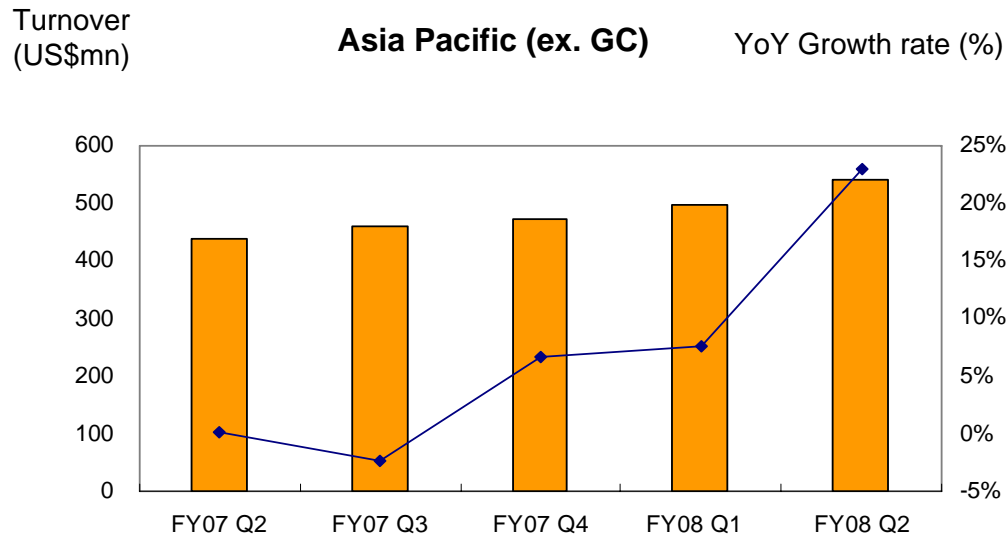
- EMEA

- Q2 PC shipments up 16% YTY
- Transaction model drove solid growth and profitability improvement
- Enhanced focus on profitability in Eastern Europe region



# Asia Pacific (ex. Greater China)

- Asia Pacific (ex. Greater China)
  - Q2 PC shipments up 24% YTY
  - Improved segment profit margin with expanded roll-out of transaction model
  - Shipments growth driven by India and ASEAN
  - Shipments growth in Japan better than market



# Notebook and Desktop Q2 2007/08

	Notebook	Desktop
<b>Revenue</b>	<ul style="list-style-type: none"><li>• US\$2.5 billion, up 31% YTY</li><li>• 56% of total</li></ul>	<ul style="list-style-type: none"><li>• US\$1.8 billion, up 12% YTY</li><li>• 40% of total</li></ul>
<b>Unit Growth YTY</b>	<ul style="list-style-type: none"><li>• 42%</li><li>• Gained share worldwide</li></ul>	<ul style="list-style-type: none"><li>• 12%</li><li>• Gained share worldwide</li></ul>
<b>Comments</b>	<ul style="list-style-type: none"><li>• Significant growth in China and Asia</li><li>• Solid margin</li><li>• Good reviews of new wide screens notebook</li></ul>	<ul style="list-style-type: none"><li>• Driven by China, EMEA and Asia</li><li>• Positive PTI</li><li>• Improving competitiveness</li></ul>



Tianyi F21-ST  
("Cloud of Promise" Special Edition)



ThinkCentre A61e  
(Ultra Small Form Factor)

# Mobile Handset Q2 2007/08

- Held #4 place in China with 6.2% market share
- Unit shipments down 17% YTY
- Revenue down 27% YTY to US\$122 million
- Continued efforts to improve business operation and efficiency
- Increased cooperation with telecom service carriers and retail chains



S5



S7



i716



i909

# Financial Objectives

- To grow faster than the industry
- To improve operational efficiency and profitability
- To enhance shareholder returns



# William Amelio

## President & Chief Executive Officer

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# Strategic Initiatives

1. Transaction Model Roll-out

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2. Supply Chain

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3. Desktop Competitiveness

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4. Brands



# Strategic Initiative #1: Transaction Model Roll-out

- Continued strong performance in Q2
  - WW Transaction revenue +38% YTY
  - Notebook volume up 70%
  - Market share gains in all geos
  - Profit exceeds forecast
- Continued success from roll-out
  - Volume, revenue & profitability growth
  - Growing faster than overall market
    - Germany: volume +86% YTY
    - France: volume +45% YTY
    - US: volume +42% YTY





# Relationship Model

- Sustained growth & profitability
  - Volume +15%
  - Revenue +11%
  - All geographies profitable
    - 3<sup>rd</sup> consecutive quarter
- Strategic focus driving growth
  - Major “wins” in large enterprise
  - Public sector business gains momentum
    - Doubled shipments to U.S. government
    - Strength in education segment
  - Double-digit growth in mid-market
  - Investments in sales coverage, training



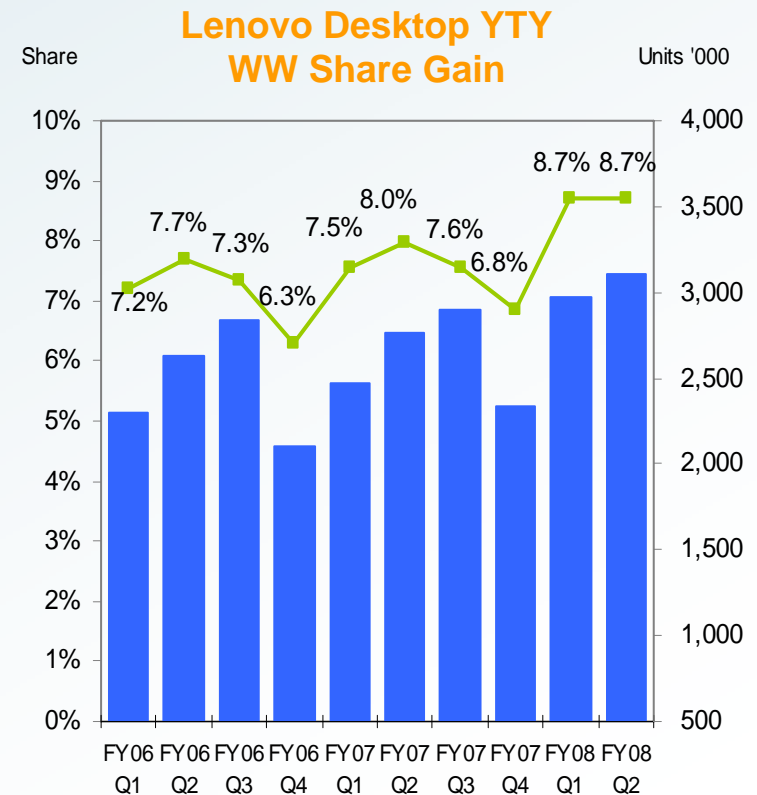
# Strategic Initiative #2: Supply Chain Upgrade

- Overall cost and efficiency improvements
  - Cost Per Box reductions
  - Material Cost reductions
  - Lean Six Sigma-driven efficiencies
    - 50% test cycle improvements
    - 40% cycle time improvements
- Desktop serviceability
  - 45% YTY improvement
- New Baddi, India plant operational August 30



# Strategic Initiative #3: Desktop Competitiveness

- YTY W/W share gain for 9 consecutive quarters
- 3rd consecutive quarter of profitability
- Q2 desktop shipments up 12% YTY
  - Revenue up 12%
- Key milestones
  - More business/product simplification
  - Launched smallest, “greenest” desktop
  - Streamlined product launch process



# Services, Software & Peripherals

## Lenovo Services

- Contract signings up 65% YTY
- Investments in dedicated sales coverage
- Expanding portfolio of services
  - Executive-Class Service

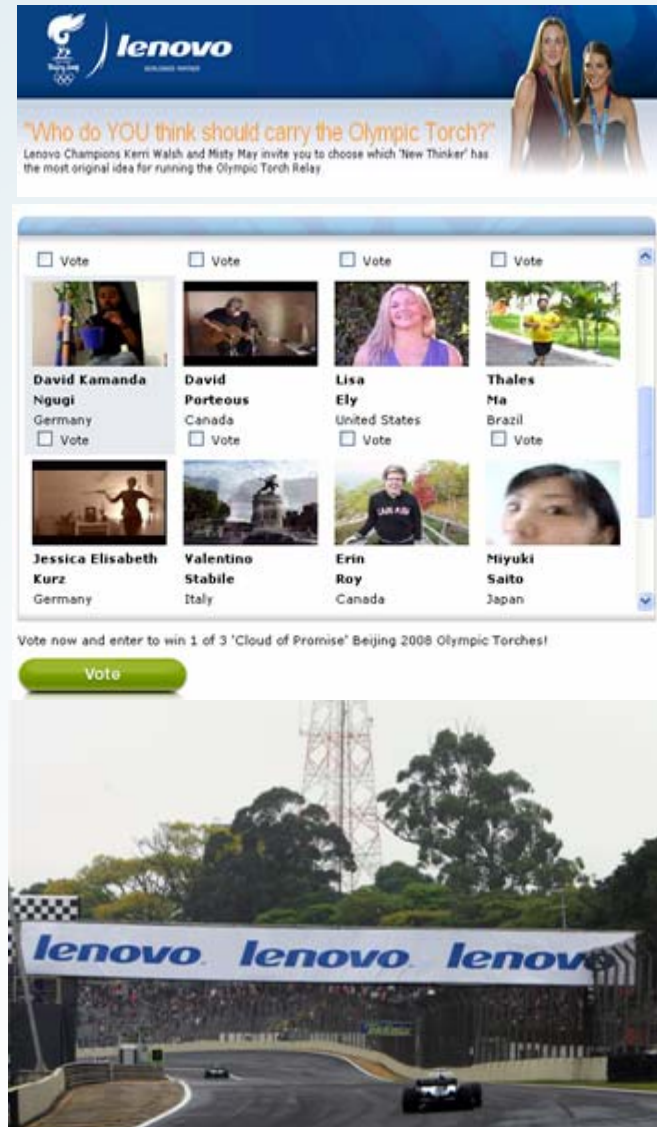
## Software & Peripherals

- Revenue up 22%
  - Strong growth in China market
  - Continued high overall attach rate
- Leverage alliance partnerships
  - First to preload MS Office Home, Student Editions in China
  - New partnerships for thin clients, end-user service management



# Branding

- Brand metrics growth
  - Early transition of Think products to Lenovo brand
- “Best-Engineered” campaign
  - Japan (transit) and US/Europe (airports)
- Sponsorships
  - Olympics
    - 1 Year Countdown
    - Google & CCTV Olympic Torch Bearer Selection Program
  - Formula 1
    - Sao Paulo, Shanghai race exposure
    - Mobile Marketing Tour
    - Supercomputer announcement
- Next Phase: Consumer Launch



# Strategic Focus

- Execute against strategic initiatives
- Deliver the world's Best-Engineered PCs
- Complete brand transition
- Improve operational efficiency
- Leverage business scale
- Offer unequaled ownership experience
- Ride paths to sustained growth



# Yang Yuanqing

Chairman of the Board

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# Appendix

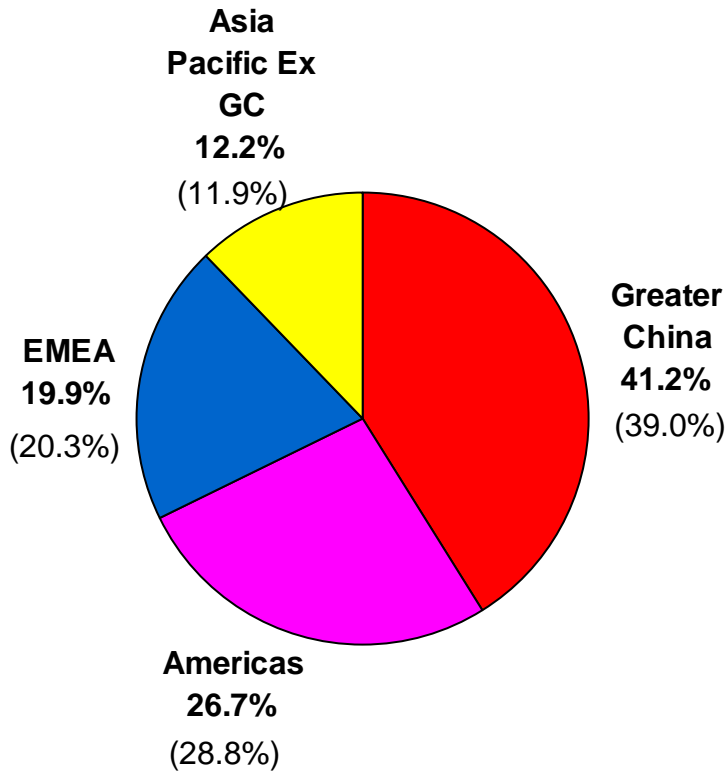
- Revenue Breakdown
- Income Statement
- Cash Flow Statement

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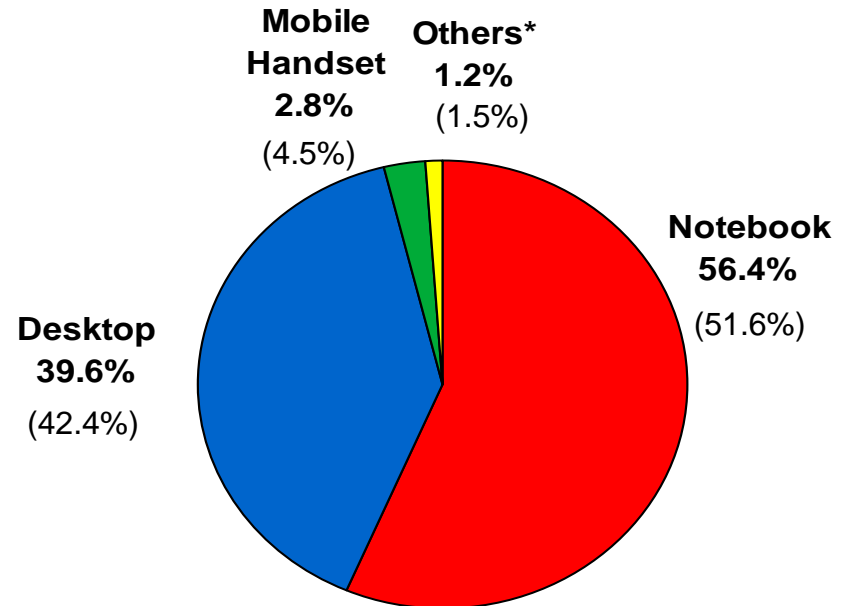
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# Revenue Breakdown (Q2 2007/08)

## Balanced Geographic Mix



## Strong Notebook Mix



Q2 2006/07 figures are in bracket

\* Others include servers, printers, digital products, etc.

# Consolidated Income Statement

US\$ Million	2007/08 Q2	2007/08 YTD	2006/07 Q2	2006/07 YTD
Turnover	4,432	8,358	3,700	7,176
Cost of sales	(3,764)	(7,106)	(3,220)	(6,199)
Gross profit	668	1,252	480	977
Other income, net	0	2	9	15
Selling and distribution expenses	(322)	(597)	(267)	(564)
Administrative expenses	(145)	(277)	(113)	(228)
Research and development expenses	(65)	(120)	(56)	(107)
Other operating expenses	(18)	(63)	(9)	(31)
Operating profit	118	198	44	62
Finance income	14	20	7	11
Finance costs	(9)	(18)	(8)	(18)
Share of profits of associated companies	0	0	0	2
Profit before taxation	123	201	43	58
Taxation	(18)	(29)	(5)	(15)
Profit for the period	105	172	38	43
Profit attributable to:				
Shareholders of the Company	105	172	38	43
Minority interests	-	-	-	-
	105	172	38	43
Dividend		35		27
Earnings per share				
- Basic	1.22 US cents	2.00 US cents	0.44 US cents	0.50 US cents
- Diluted	1.12 US cents	1.86 US cents	0.43 US cents	0.49 US cents

# Condensed Consolidated Cash Flow Statement

US\$ Million	2007/08 Q2	2006/07 Q2
Net cash generated from operating activities	535	358
Net cash used in investing activities	(79)	(21)
Net cash used in financing activities	(47)	(73)
Increase in cash and cash equivalents	409	264
Effect of foreign exchange rate changes	(34)	(15)
Cash and cash equivalents at the beginning of the period	1,507	852
Cash and cash equivalents at the end of the period	1,882	1,101