

Lenovo Group Limited

2006/07 1Q Results

August 3, 2006

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Mary Ma

Senior Vice President & Chief Financial Officer

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Lenovo Financial Summary

	1Q 2006/07			1Q 2005/06*		4Q 2005/06	
	US\$m	%	Y/Y	US\$m	%	US\$m	%
Turnover	3,476		38%	2,514		3,125	
Gross Profit	497	14.3%	-1.0 pts	385	15.3%	437	14.0%
Operating Expenses	465	13.4%	+0.9 pts	315	12.5%	456	14.6%
Other Expense/(Income)**	(2)	0.0%		4	0.2%	21	0.7%
Pre-tax income/(Loss) before restructuring cost	34	1.0%	-48%	66	2.6%	(40)	-1.3%
Restructuring Cost	19			-		70	
Pre-tax Income/(Loss)	15		-77%	66		(110)	
Profit Attributable to Shareholders	5		-89%	46		(116)	
EPS (US cents)							
- Basic	0.06		-89%	0.53		(1.30)	
- Diluted	0.06		-88%	0.52		(1.29)	

* Included only two months of contribution from acquired IBM's personal computer business

** Including finance income, finance cost and share of profits/(losses) of jointly controlled entities and associated companies

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Cash and Working Capital

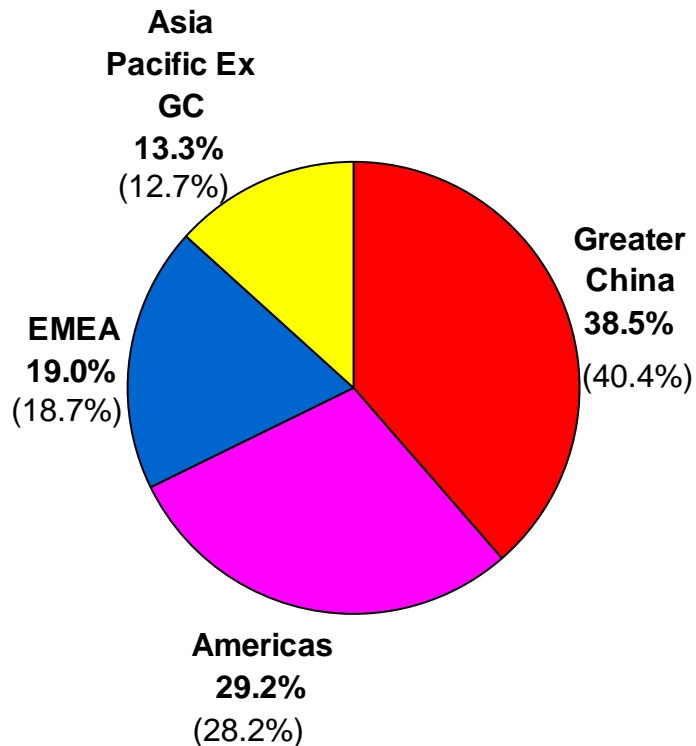
US\$m	<u>1Q 2006/07</u>	<u>1Q 2005/06*</u>	<u>4Q 2005/06</u>
EBITDA**	81	106	32
Cash Reserves	852	1,254	1,005
Total Bank Borrowings	111	500	228
Net Cash Reserves	741	754	777
Days Inventory	11	8	14
Days Receivable	21	18	23
Days Payable	59	61	73
Cash Conversion Cycle	-27 days	-35 days	-36 days

* Included only two months of contribution from acquired IBM's personal computer business

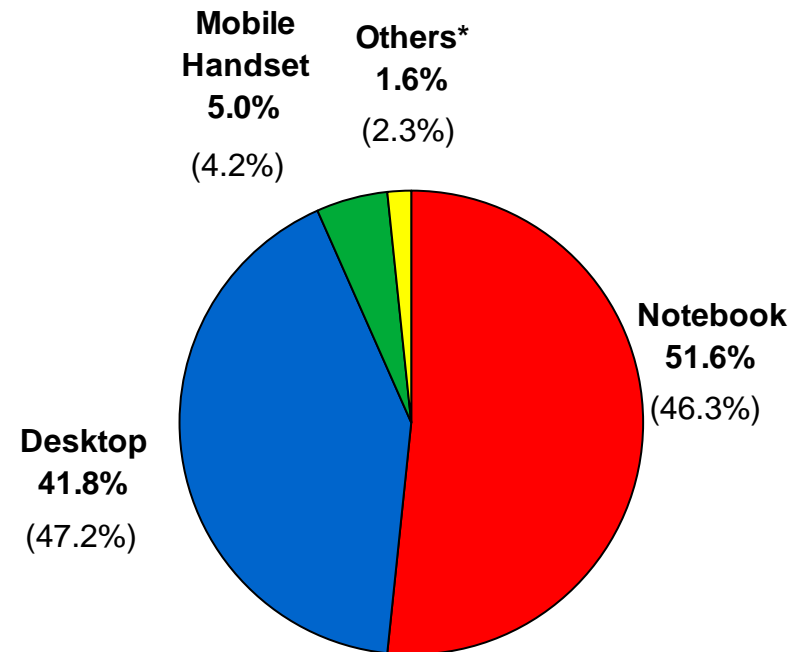
** Excluding restructuring charges

Revenue Breakdown (1Q 2006/07)

Balanced Geographic Mix



Strong Notebook Mix



1Q 2005/06 figures are in bracket, included only two months of contribution from acquired IBM's personal computer business

* Others includes servers, printers, digital products, etc.

Geography Summary (Excluding restructuring charge)

	Turnover US\$ mn			Segment Operating Profit US\$ mn			Segment Operating Profit Margin		
	1Q 07	1Q 06*	4Q 06	1Q 07	1Q 06*	4Q 06	1Q 07	1Q 06*	4Q 06
Greater China	1,339	1,017	1,078	90	59	52	6.7%	5.8%	4.8%
Americas	1,014	709	944	(24)	32	(32)	(2.4%)	4.5%	(3.4%)
EMEA	662	470	660	(4)	5	(11)	(0.6%)	1.1%	(1.7%)
AP (ex GC)	461	318	443	(3)	(4)	8	(0.7%)	(1.2%)	1.8%
Total	3,476	2,514	3,125	59	92	17	1.7%	3.7%	0.5%

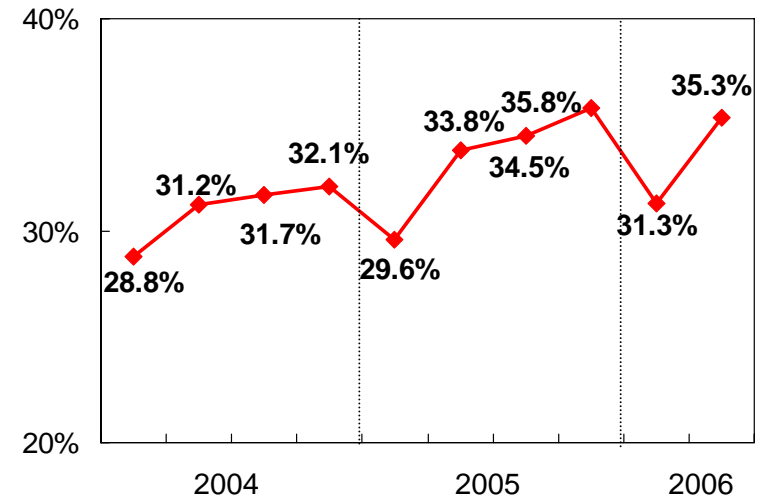
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Greater China

- Strong 1Q performance
 - Operating profit margin 6.7%
 - Mainland China
 - PC shipments up 29% yoy
 - Estimated PC market share 35.3%
- Strategy in 2006/07
 - Dual brand operation
 - Dual model refinement
 - 4 focus areas:
 - Notebook
 - Tier 5&6 market expansion
 - Large Account
 - SMB

**Lenovo PC Market Share
(Mainland China)**



* Calendar year 2004-2006, results before acquisition reflect combined shares of Lenovo and IBM PCD

Source: Market share is based on industry and company estimates

Americas, EMEA, and AP (ex. GC)

- Americas
 - Seasonality impact in fixed expense and cost
 - Maintained GP%
 - Incremental on investments
- EMEA
 - Signs of demand slow down
 - GP% improvement
 - Some currency benefit
- Asia Pacific (ex. GC)
 - Significant improvement in gross profit margin
 - Continued strong performance in India emerging market
 - Japan business stabilized

Notebook and Desktop 1Q 2006/07

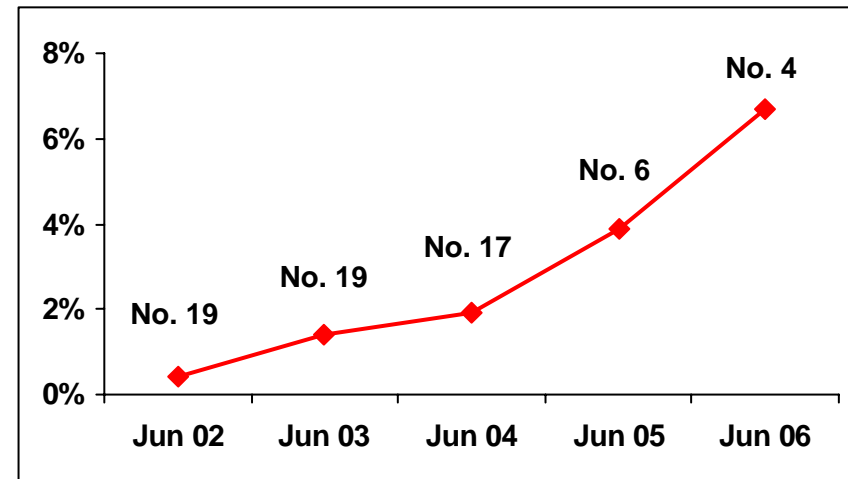
	<u>Notebook</u>	<u>Desktop</u>
Revenue (US\$ Billion)	1.79	1.45
Unit Growth Y/Y	23%	7%

	China	Americas / EMEA / AP	
Product Competitiveness	Mainstream and Premium	Premium	Mainstream
Brand	Lenovo and Think	Think	Lenovo
Market Success	All Markets	LE	SMB + Emerging Mkts
Model	Relationship / Transaction	Relationship	Transaction

Mobile Handset 1Q 2006/07

- Unit shipments up 97% Y/Y
- Revenue US\$174 million, up 65% Y/Y
- Launched 5 new models with strong market response
- Key success factors:
 - Attractive new models
 - Strong sales promotion
 - Successful sales channels expansion

Market Share & Rank (2002 - 06)



v528



i360

Source: Market performance is based on industry and company estimates of mobile handset market (CDMA and GSM) in mainland China

Summary

- 2006/07 Financial Drivers
 - China: Continued leveraging of Lenovo business model
 - Americas/EMEA/AP: Expansion of Lenovo business model
 - Restructuring initiatives yielding 2nd-half benefit
 - Investment in Lenovo brand
 - Investment in Relationship and Transaction model
 - Gradual growth of Lenovo 3000 product family
- 2006/07 Objectives
 - Hold market share
 - Maintain profitability
 - Reduce expenses

William Amelio

President & Chief Executive Officer

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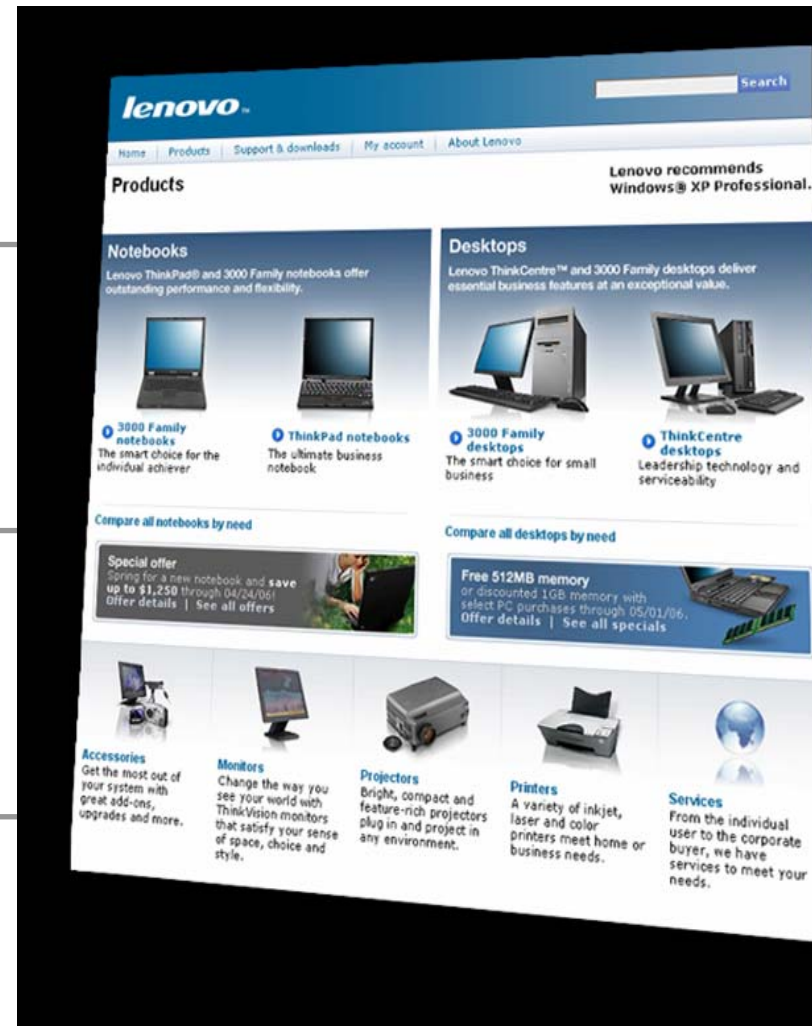
Driving Global Operational Excellence

Transaction Model Rollout

Supply Chain

Desktop Competitiveness

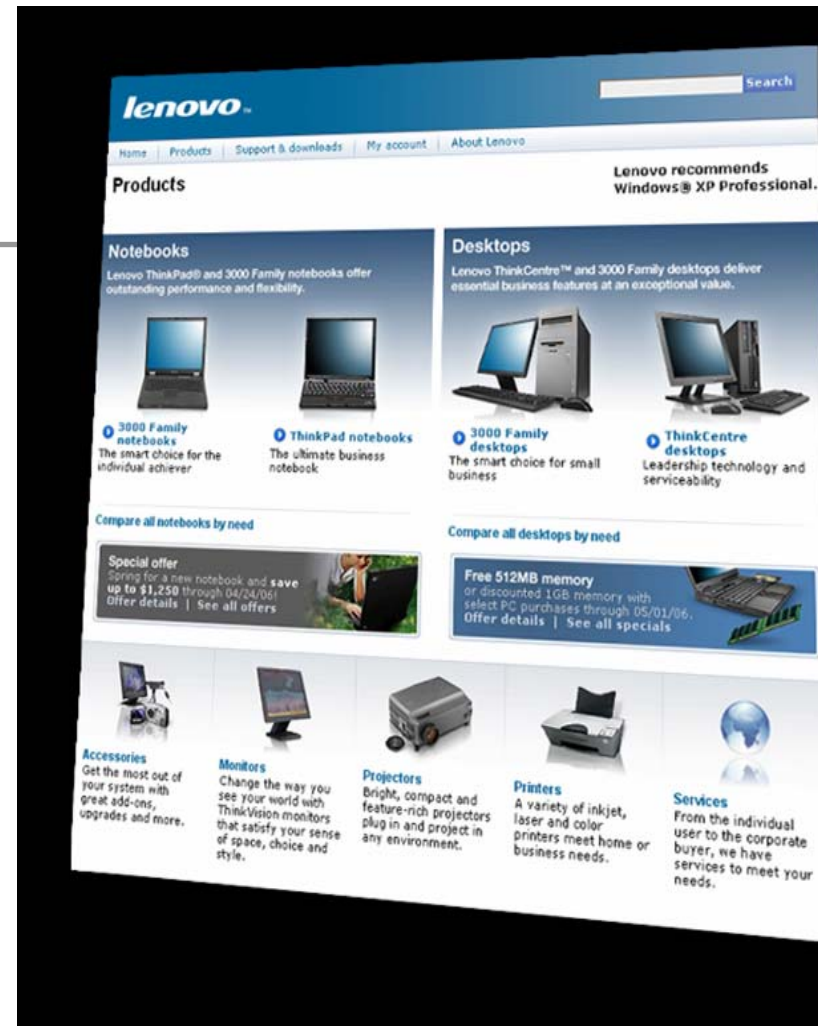
Brands



Driving Global Operational Excellence

Transaction Model Rollout

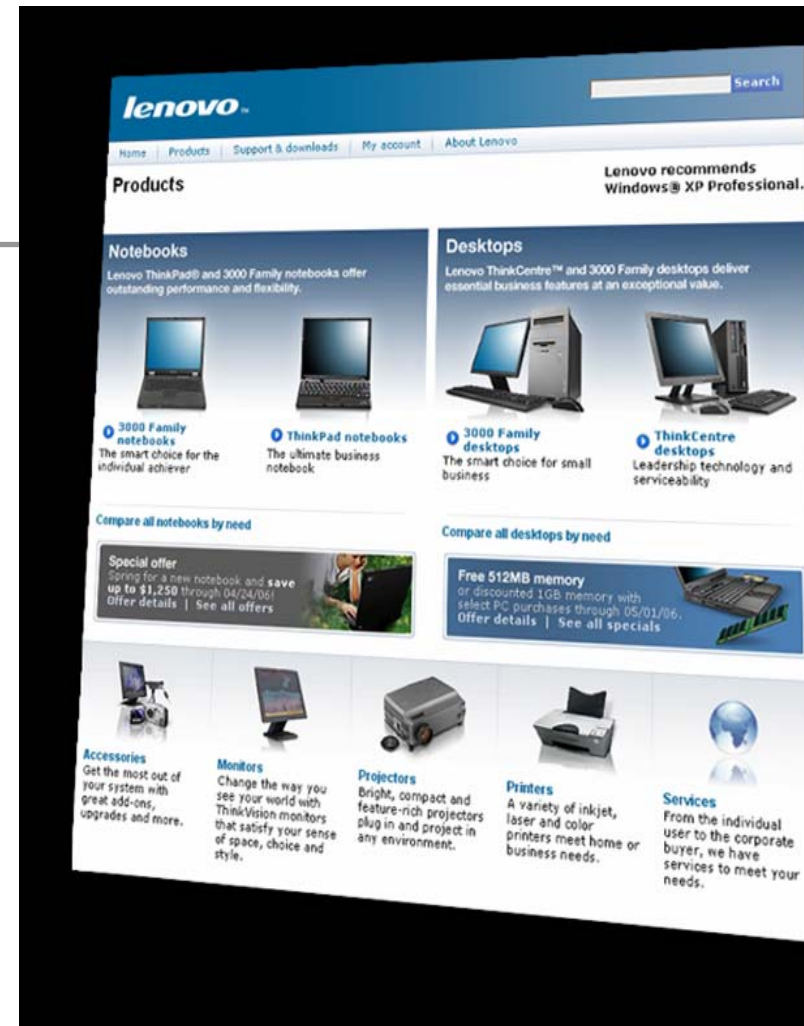
- Initial rollouts: Hong Kong and India
 - Expanded partner networks
 - Hong Kong
 - Incremental shipment growth
 - Lenovo 3000 acceptance
 - India
 - Expect share gains
 - Margin momentum
 - EMEA
 - Pilot program underway



Driving Global Operational Excellence

Supply Chain

- Short-term improvements
 - “quick hits” and longer-term initiatives
 - Serviceability improved, costs down
 - Increased Web sales traffic
- Quality management system



Driving Global Operational Excellence

Desktop Competitiveness

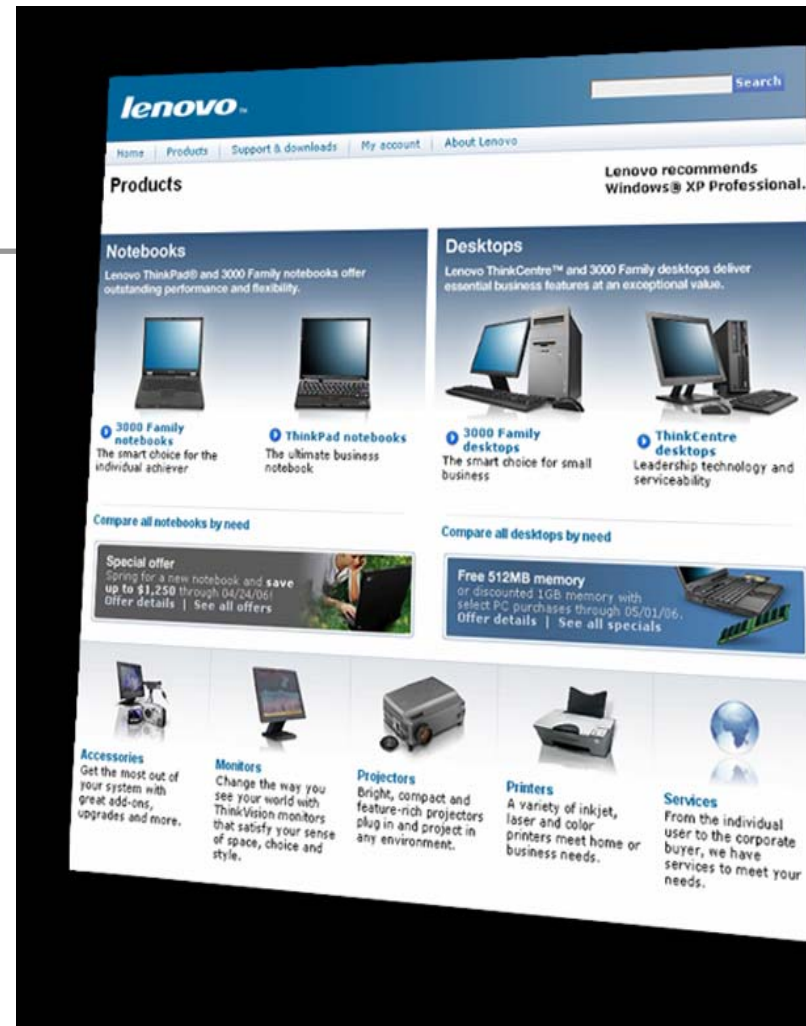
- Competitive pricing
 - Price to win
 - Manage to profitability
 - Innovation as differentiator
- Cost issues
 - Short-term improvements
 - Design, reengineering
 - Supply chain: longer term
- Successful targeting
 - ThinkCentre A60
 - TopSeller/SMB



Driving Global Operational Excellence

Brands

- Brand recognition progress
 - Increased Lenovo awareness
- Marketing innovation
 - Web, viral programs
 - Sponsorships



Sponsorships - Ronaldinho

- Footballer of the Year endorsed Lenovo surrounding World Cup
- Activation in EMEA, Latin America, and China (20 countries)
 - Advertising and direct marketing
 - Business partner contests & communications
 - Pervasive press pickup
 - Internal motivator

FLASH NEWS



June 2006



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- Intel® Centrino® Duo Mobile Technology
- Performance Redefinition
- 1-Button System Recovery
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Yang Yuanqing

Chairman of the Board

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Appendix

- **Income Statement**
- **Balance Sheet**
- **Cash Flow Statement**

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Consolidated Income Statement

US\$ Million	2006/07 Q1	2005/06 Q1*
Turnover	3,476	2,514
Cost of sales	(2,979)	(2,129)
Gross profit	497	385
Other income/(expense) – net	10	3
Selling and distribution expenses	(312)	(191)
Administrative expenses	(99)	(75)
Research and development expenses	(51)	(33)
Other operating expenses	(22)	(16)
Operating profit	23	73
Finance costs	(9)	(6)
Share of profits/(losses) of associated companies	1	(1)
Profit before taxation	15	66
Taxation	(10)	(19)
Profit for the period	5	47
Profit attributable to:		
Shareholders of the Company	5	46
Minority interests	-	1
	5	47
Earnings per share		
- Basic	0.060 US cents	0.528 US cents
- Diluted	0.059 US cents	0.522 US cents

* Included only two months of contribution from acquired IBM's personal computer business

Condensed Balance Sheet

US\$ Million	As at June 30, 2006	At at March 31, 2006
Non-current assets	2,308	2,305
Current assets	2,865	2,736
Total assets	5,173	5,041
Shareholders' funds	1,007	1,044
Minority interests	1	1
Total equity	1,008	1,045
Non-current liabilities	826	814
Current liabilities	3,339	3,182
Total liabilities	4,165	3,996
Total equity and liabilities	5,173	5,041
Net current liabilities	(474)	(446)
Total assets less current liabilities	1,834	1,859

Condensed Consolidated Cash Flow Statement

US\$ Million	2006/07 Q1	2005/06 Q1*
Net cash generated from operating activities	33	554
Net cash used in investing activities	(37)	(533)
Net cash (used in)/generated from financing activities	(154)	845
(Decrease)/Increase in cash and cash equivalents	(158)	866
Effect of foreign exchange rate changes	5	1
Cash and cash equivalents at the beginning of the period	1,005	387
Cash and cash equivalents at the end of the period	852	1,254

* Included only two months of contribution from acquired IBM's personal computer business