

# Lenovo Group Limited

## 2006/07 3Q Results

February 1, 2007

New World. New Thinking.

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# Mary Ma

## Senior Vice President & Chief Financial Officer

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# Lenovo Financial Summary

	3Q 2006/07				3Q 2005/06		YTD 2006/07	
	US\$m	%	Y/Y	Q/Q	US\$m	%	US\$m	%
Turnover	3,998		0.4%	8.0%	3,983		11,174	
Gross Profit	542	13.5%	+0.3 pts	+0.5 pts	525	13.2%	1,519	13.6%
Operating Expenses	471	11.8%	+0.3 pts	-0.2 pts	458	11.5%	1,379	12.3%
Other Expense/(Income)*	5	0.1%			4	0.1%	(5)	0.04%
Pre-tax income before restructuring cost	66	1.6%	3.5%	46.9%	64	1.6%	145	1.3%
Restructuring Cost	2				-		23	
Pre-tax Income	64		-0.1%	48.3%	64		122	
Profit Attributable to Shareholders	58		23.3%	52.4%	47		101	
EPS (US cents)								
- Basic	0.67		26.4%	52.3%	0.53		1.17	
- Diluted	0.64		23.1%	48.8%	0.52		1.14	

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

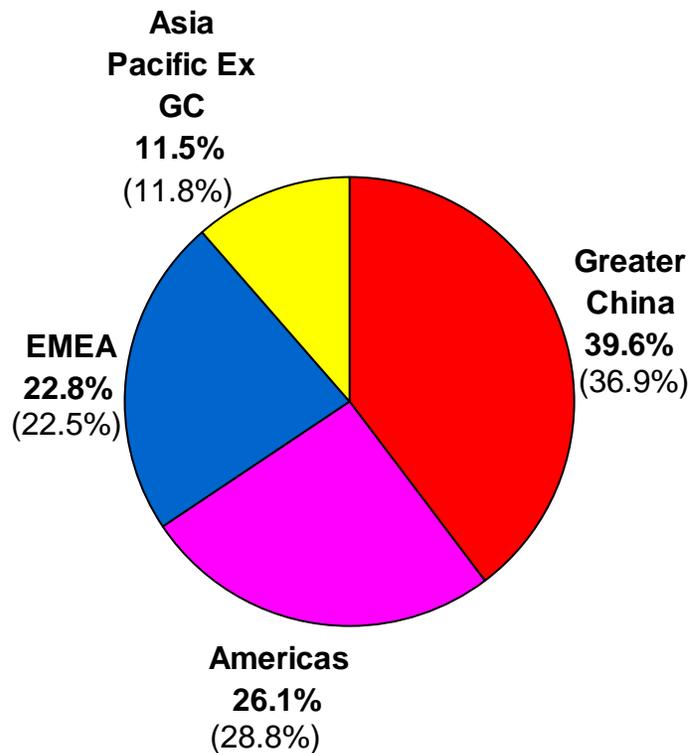
# Cash and Working Capital

US\$mn	<u>3Q 2006/07</u>	<u>3Q 2005/06</u>	<u>2Q 2006/07</u>
EBITDA*	<b>128</b>	122	89
Cash Reserves	<b>1,431</b>	1,719	1,101
Total Bank Borrowings	<b>114</b>	494	111
Net Cash Reserves	<b>1,317</b>	1,225	990
Days Inventory	<b>10</b>	10	10
Days Receivable	<b>23</b>	20	23
Days Payable	<b>62</b>	56	59
Cash Conversion Cycle	<b>-29 days</b>	-26 days	-26 days

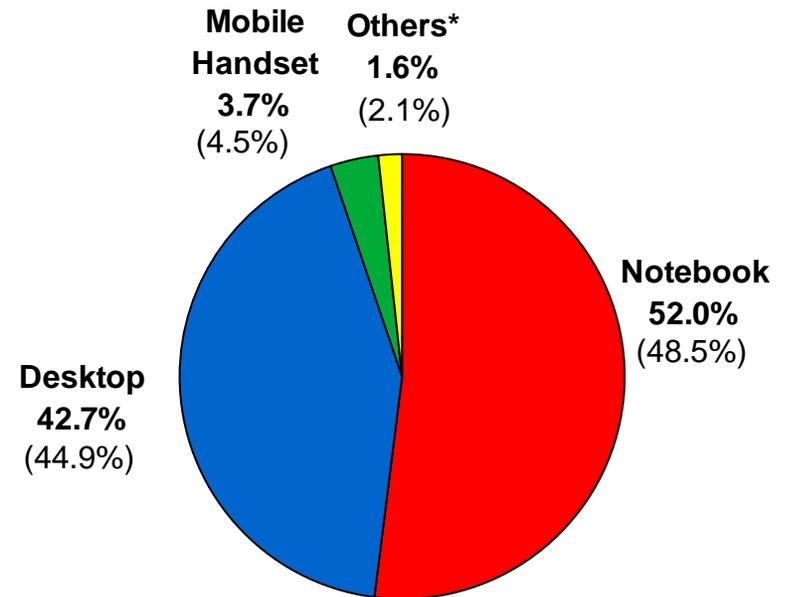
\* Excluding restructuring charges

# Revenue Breakdown (3Q 2006/07)

## Balanced Geographic Mix



## Strong Notebook Mix



3Q 2005/06 figures are in bracket

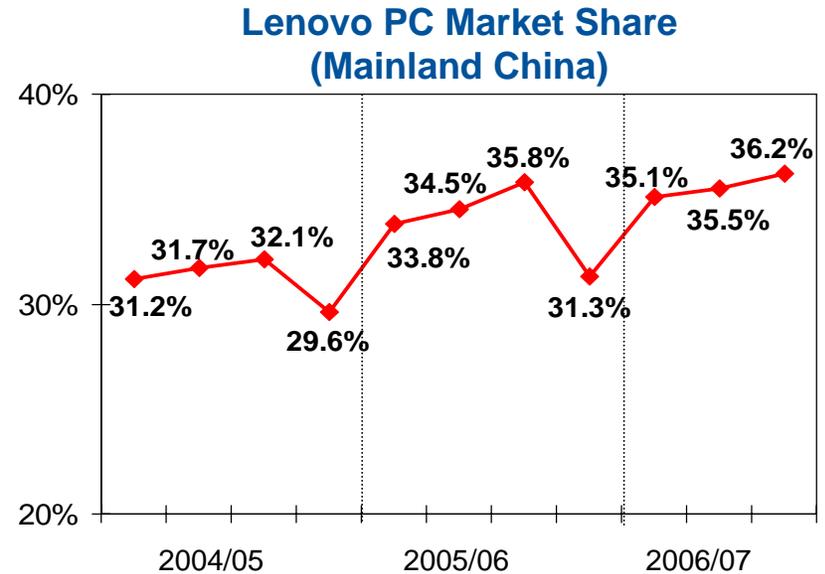
\* Others include servers, printers, digital products, etc.

## Geography Summary (Excluding restructuring charge)

	Turnover US\$ mn			Segment Operating Profit US\$ mn			Segment Operating Profit Margin		
	Q3 07	Q3 06	Q2 07	Q3 07	Q3 06	Q2 07	Q3 07	Q3 06	Q2 07
<b>GC</b>	<b>1,583</b>	1,468	1,444	<b>81</b>	95	83	<b>5.1%</b>	6.5%	5.7%
<b>Americas</b>	<b>1,042</b>	1,147	1,066	<b>(3)</b>	25	(18)	<b>(0.3%)</b>	2.2%	(1.7%)
<b>EMEA</b>	<b>913</b>	897	751	<b>15</b>	2	(8)	<b>1.6%</b>	0.2%	(1.1%)
<b>AP (ex GC)</b>	<b>460</b>	471	439	<b>5</b>	(18)	2	<b>1.0%</b>	(3.8%)	0.5%
<b>Total</b>	<b>3,998</b>	3,983	3,700	<b>98</b>	104	59	<b>2.4%</b>	2.6%	1.6%

# Strong Growth in Greater China

- Strong 3Q performance
  - Operating profit margin 5.1%
    - Strong price competition
    - Dollar profit stable
  - Mainland China
    - PC shipments up 19% YTY
    - Estimated PC market share 36.2%
    - Share gain of 0.4% pts YTY
- 2006/07 Key Focus
  - Transaction model: continue to grow
  - Supply chain: maintain best of breed
  - Desktop: build on success
  - Brand: continue to leverage
  - And:
    - Continue to expand relationship model
    - Further expand Think brand, notebooks



\* FY2004/05 market share information 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
  - Lower shipments due to weaker enterprise market
  - Relationship model in transition to build Lenovo sales team
  - Improvement actions required
- EMEA
  - Increased revenue
  - Transaction model drove growth and margin
  - Continued strong performance in Germany
- Asia Pacific (ex. GC)
  - Expanded transaction model coverage
  - Launched consumer PC in selected ASEAN countries
  - Profitable growth in India



**Lenovo 3000 Consumer PCs  
in ASEAN**

# Desktop 3Q 2006/07

- Lenovo's WW desktop unit shipments up 2.2% YTY
- WW Market flat YTY – gaining share
- Growth in emerging markets
- Revenue US\$1.71 billion, 43% of total revenue
- Continued to improve cost
  - Portfolio simplification
  - Unifying platform
  - Model reduction
- Still plenty to do



ThinkCentre

# Notebook 3Q 2006/07

- Lenovo's WW notebook unit shipments up 20% YTY
- Market share loss in notebook WW
  - Need to keep pace in faster growing segments
- Revenue US\$2.08 billion, up 8% YTY, 52% of total revenue
- Good momentum in Lenovo 3000 SMB/Transaction Business
- Well-received ThinkPad X60 Tablet and T60 Widescreen



ThinkPad T60 Widescreen

# Mobile Handset 3Q 2006/07

- Unit shipments down 6% YTY
- Revenue US\$146 million, down 19% YTY
- Maintained share and #4 market position
- Market growth in ultra low-end
- Continued to improve operational efficiency



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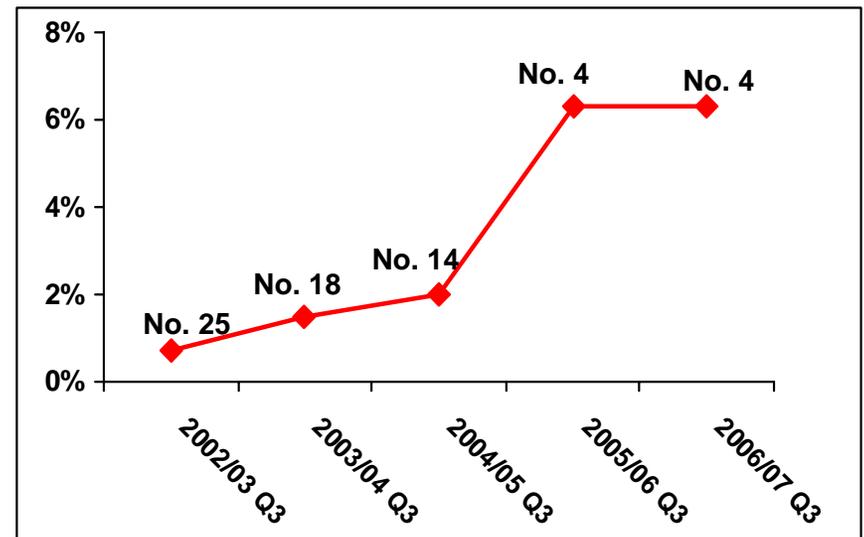


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### Lenovo Mobile Handset Market Share & Rank



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 on plan
    - Investment in Lenovo brand
    - Expand market coverage of transaction model
    - Gradual growth of Lenovo 3000 product family
- 2006/07 Objectives
  - Maintain market share
  - Sustain profitability
  - Improve efficiency

# William Amelio

## President & Chief Executive Officer

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# Global Operational Excellence Strategic Initiatives

Transaction Model Rollout

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Supply Chain

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Desktop Competitiveness

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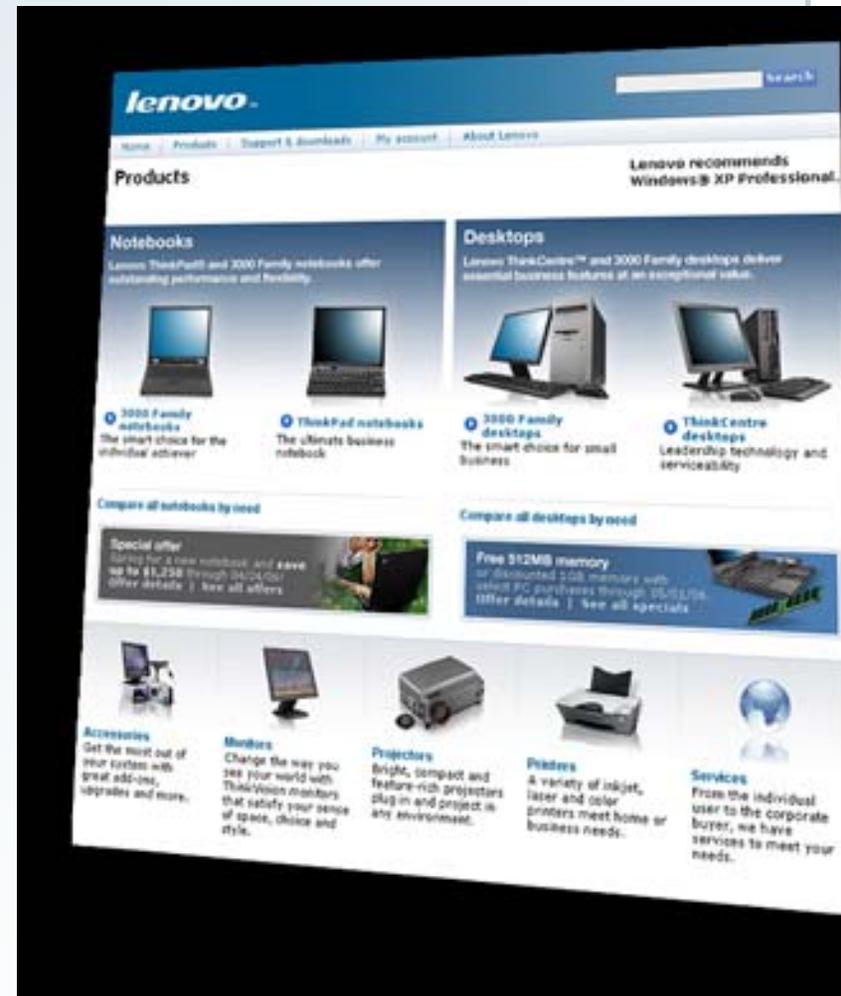
Brands



# Global Operational Excellence Strategic Initiatives

## Transaction Model Roll-out

- Transaction volume, revenue up
  - Double-digit increases YTY
  - Market expansion by roll-outs
  - Web site improvements
- Hong Kong: Volume up 18%
- India: Volume up 16%
- Germany: Volume up 50%
- 4Q roll-out plans
  - EMEA, United States, ASEAN markets



# Global Operational Excellence Strategic Initiatives

## Relationship Model Update

- Overall relationship sales softness
  - Industry-wide impact
  - Soft commercial market
- Lenovo
  - 3 of 4 geographies profitable
- Margin management
- Sales force transition



# Global Operational Excellence Strategic Initiatives

## Supply Chain

- Overall cost and efficiency improvements
  - Manufacturing efficiencies
  - Lean re-engineering
  - Serviceability
  - Complexity reduction
- Market models
- Serviceability
  - Stabilizing
  - Improved trends in 3Q



# Global Operational Excellence Strategic Initiatives

## Desktop Competitiveness

- Gained share
  - Strength in emerging markets
- Cost improvements continue
  - Trend to breakeven performance



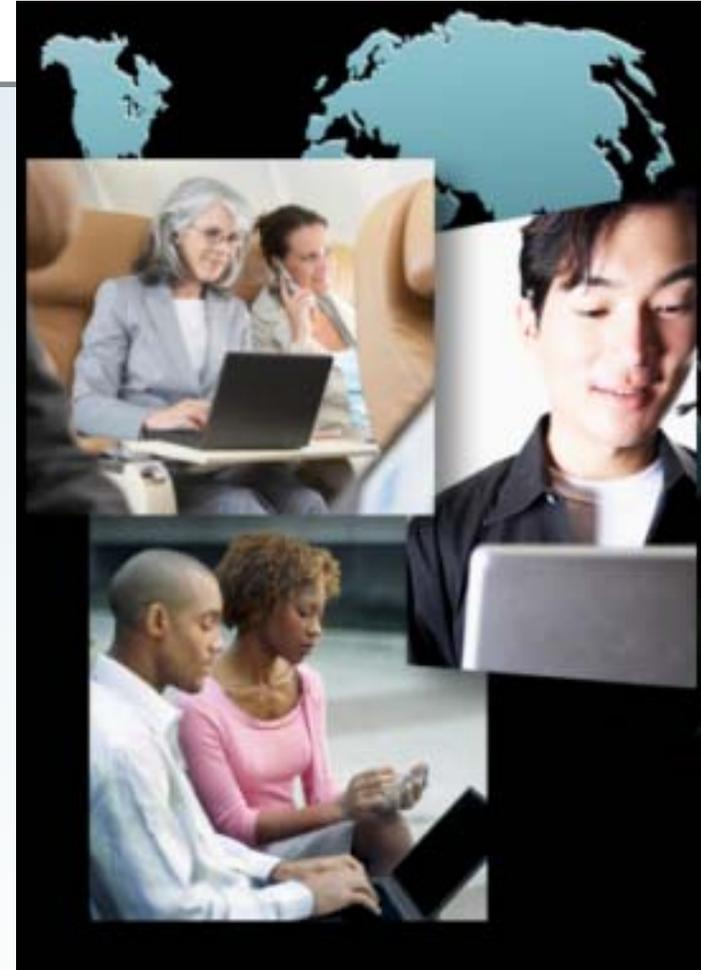
# Lenovo Services, Software & Peripherals Business Units

## Lenovo Services

- Revenue, PTI growth
- Contract signings up >50%
- Expanding service capabilities
  - Maximum customer satisfaction

## Software & Peripherals

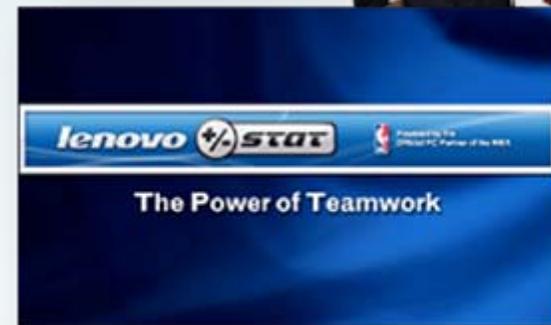
- Revenue up 28%
  - Substantial PTI increase
  - Attach rate improvement: desktop & notebook



# Global Operational Excellence Strategic Initiatives

## Branding

- Ongoing programs generating enhanced visibility
  - NBA, Olympics, Ronaldinho
- Targeted local sponsorships
  - India: cricket; Japan: baseball
- Awareness and positive image
  - >50% and growing
  - >75% dual model markets
    - i.e.: India



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# Global Operational Excellence Strategic Initiatives



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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 Q3	2006/07 YTD	2005/06 Q3	2005/06 YTD*
Turnover	3,998	11,174	3,983	10,150
Cost of sales	(3,456)	(9,655)	(3,458)	(8,729)
Gross profit	542	1,519	525	1,422
Other income/(expense) – net	3	29	8	16
Selling and distribution expenses	(287)	(851)	(292)	(757)
Administrative expenses	(130)	(357)	(115)	(304)
Research and development expenses	(63)	(170)	(55)	(140)
Other operating expenses	7	(24)	5	(13)
Operating profit	72	146	75	225
Finance costs	(8)	(26)	(12)	(31)
Share of profits/(losses) of associated companies	0.1	2	0.7	(0.6)
Profit before taxation	64	122	64	195
Taxation	(6)	(21)	(15)	(51)
Profit for the period	58	101	49	143
Profit attributable to:				
Shareholders of the Company	58	101	47	138
Minority interests	-	-	(2)	(5)
	58	101	49	143
Dividend		27		27
Earnings per share				
-Basic	0.67 US cents	1.17 US cents	0.53 US cents	1.56 US cents
- Diluted	0.64 US cents	1.14 US cents	0.52 US cents	1.55 US cents

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

# Condensed Balance Sheet

US\$ Million	As at Dec 31, 2006	As at Mar 31, 2006
Non-current assets	2,328	2,305
Current assets	3,695	2,736
<b>Total assets</b>	<b>6,023</b>	<b>5,041</b>
Shareholders' funds	1,039	1,044
Minority interests	1	1
<b>Total equity</b>	<b>1,040</b>	<b>1,045</b>
Non-current liabilities	814	814
Current liabilities	4,169	3,182
<b>Total liabilities</b>	<b>4,983</b>	<b>3,996</b>
<b>Total equity and liabilities</b>	<b>6,023</b>	<b>5,041</b>
Net current liabilities	(474)	(446)
<b>Total assets less current liabilities</b>	<b>1,854</b>	<b>1,859</b>

# Condensed Consolidated Cash Flow Statement

<u>US\$ Million</u>	<b>2006/07 Q3</b>	2005/06 Q3
Net cash generated from operating activities	<b>434</b>	302
Net cash used in investing activities	<b>(67)</b>	(42)
<u>Net cash used in financing activities</u>	<b>(32)</b>	(32)
Increase in cash and cash equivalents	<b>335</b>	228
Effect of foreign exchange rate changes	<b>(5)</b>	(5)
<u>Cash and cash equivalents at the beginning of the period</u>	<b>1,101</b>	1,496
<u>Cash and cash equivalents at the end of the period</u>	<b>1,431</b>	1,719