

Lenovo Group Limited

2007/08 Q1 Results

August 2, 2007

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Wong Wai Ming

Senior Vice President & Chief Financial Officer

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Lenovo Financial Summary

	Q1 2007/08			
	US\$m	%	Y/Y	Q/Q
Turnover	3,926		+ 13%	+ 15%
Gross Profit	585	14.9%	+ 0.6 pts	- 0.3 pts
Operating Expenses	(462)	11.8%	- 1.6 pts	- 1.7 pts
Other Income/(Expenses)*	0			
Pre-tax Income before Restructuring Cost	123	3.1%	+ 258%	+ 127%
Restructuring Cost	(45)			
Pre-tax Income	78	2.0%	+ 425%	+ 18%
Profit Attributable to Shareholders	67	1.7%	+ 1184%	+ 11%
EPS (US cents)				
- Basic	0.78		+ 1200%	+ 11%
- Diluted	0.74		+ 1133%	+ 9%

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

Condensed Balance Sheet

US\$mn	As at Jun 30, 2007	As at Mar 31, 2007
Non-current assets	2,439	2,388
Property, plant and equipment	341	326
Intangible assets	1,865	1,868
Others	233	194
Current assets	3,811	3,061
Cash and cash equivalents	1,507	1,064
Account receivables and others	1,908	1,618
Inventory	374	358
Tax recoverable	22	22
Current liabilities	4,169	3,526
Short-term bank loans	93	18
Account payables and others	4,059	3,499
Marketing rights	17	9
Net current liabilities	358	465
Non-current liabilities	825	789
Total equity	1,256	1,134

Cash and Working Capital

US\$mn	<u>Q1 2007/08</u>	<u>Q1 2006/07</u>	<u>Q4 2006/07</u>
EBITDA*	182	81	117
Cash Reserves	1,507	852	1,064
Total Bank Borrowings	193	111	118
Net Cash Reserves	1,314	741	946
Days Inventory	11	11	13
Days Receivable	23	22	25
Days Payable	60	58	72
Cash Conversion Cycle	-26 days	-25 days	-34 days

* Excluding restructuring charges

Geography Summary (Excluding restructuring charge)

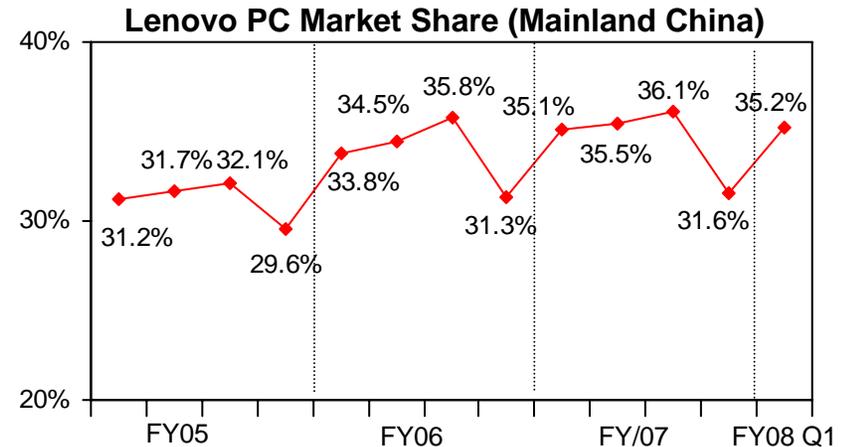
- Lenovo PC shipments increased 22% YTY and gained share across all geographies
- All geographies posted YTY revenue and operating profit growth
- Improvement on group's overall segment profit margin

	Turnover US\$mn			Segment Operating Profit US\$mn			Segment Operating Profit Margin		
	Q1 08	Y/Y	Q/Q	Q1 08	Q1 07	Q4 07	Q1 08	Q1 07	Q4 07
Greater China	1,527	14.0%	25.7%	93	90	72	6.1%	6.7%	5.9%
Americas	1,148	13.2%	15.1%	39	(24)	16	3.4%	-2.4%	1.6%
EMEA	755	14.0%	3.3%	14	(4)	18	1.9%	-0.6%	2.5%
AP (ex GC)	496	7.6%	4.9%	0.3	(3)	2	0.1%	-0.7%	0.4%
Total	3,926	12.9%	14.9%	146	59	108	3.7%	1.7%	3.2%

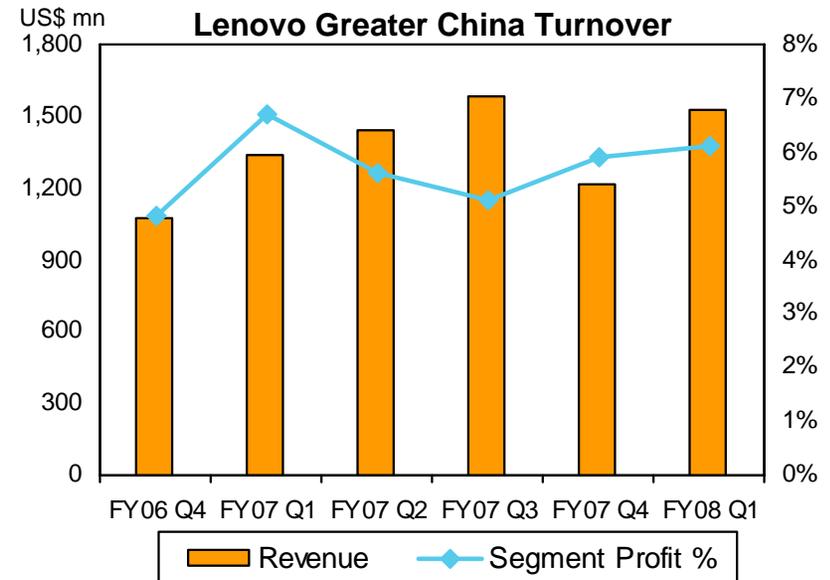
Strong Growth in Greater China

- Strong Q1 performance
 - Operating profit margin 6.1%
 - Mainland China
 - PC shipments up 30%
 - Estimated PC market share 35.2%

- 2007/08 Key Focus
 - Strengths of dual business model
 - Supply chain: Leverage on scale
 - Desktop: Outpaced market growth
 - Brand: Olympic Torch Relay



* FY2004/05 market share information reflects combined shares of Lenovo and IBM PCD



Source: Market share is based on industry and company estimates

Americas, EMEA and AP (ex. GC)

- Americas
 - Q1 PC shipments up 15% YTY
 - Gained shares in the U.S.
 - Improvement on sales to large enterprises and mid-market segment
 - Transaction model roll-out in US helped drive shipments
 - Posted record high segment profit with solid margins
- EMEA
 - Q1 PC shipments up 22% YTY
 - Share gain driven by desktop
 - Transaction model helped drive solid growth across geography
- Asia Pacific (ex. GC)
 - Q1 PC shipments up 12% YTY
 - Growth driven by India and ASEAN, benefiting from transaction model roll-out
 - Japan needs improvement in operation and management

Notebook and Desktop Q1 2007/08

	Notebook	Desktop
Revenue	<ul style="list-style-type: none">• US\$2.1 billion, up 16% YTY• 53% of total	<ul style="list-style-type: none">• US\$1.7 billion, up 16% YTY• 43% of total
Unit Growth YTY	<ul style="list-style-type: none">• 26%• Limited participation in consumer market outside China	<ul style="list-style-type: none">• 20%• Gained share worldwide• Improvement in profitability
Comments	<ul style="list-style-type: none">• Strengths in Asia and China• Solid margin• Good reviews of new products	<ul style="list-style-type: none">• Driven by China, EMEA and Americas• Positive PTI• Improving competitiveness



ThinkPad T61
(Wide Screen)



Lenovo Jiayue
Consumer PC

Mobile Handset Q1 2007/08

- Unit shipments up slightly YTY by 2%
- Revenue down 35% YTY to US\$113 million
- Held #4 place in China with 6.6% market share
- Efforts to simplify business model and improve efficiency



Summary

- 2007/08 Q1
 - Outpaced industry average growth in shipments
 - Strong performance in China and Americas amid keen competition
 - Desktop WW market share gain for eight consecutive quarters
 - Gross margin driven by component cost benefits
- Outlook
 - Continuous efforts on four strategic initiatives
 - Further improve efficiency and leverage business scale

William Amelio

President & Chief Executive Officer

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Strategic Initiatives

1. Transaction Model Roll-out

2. Supply Chain

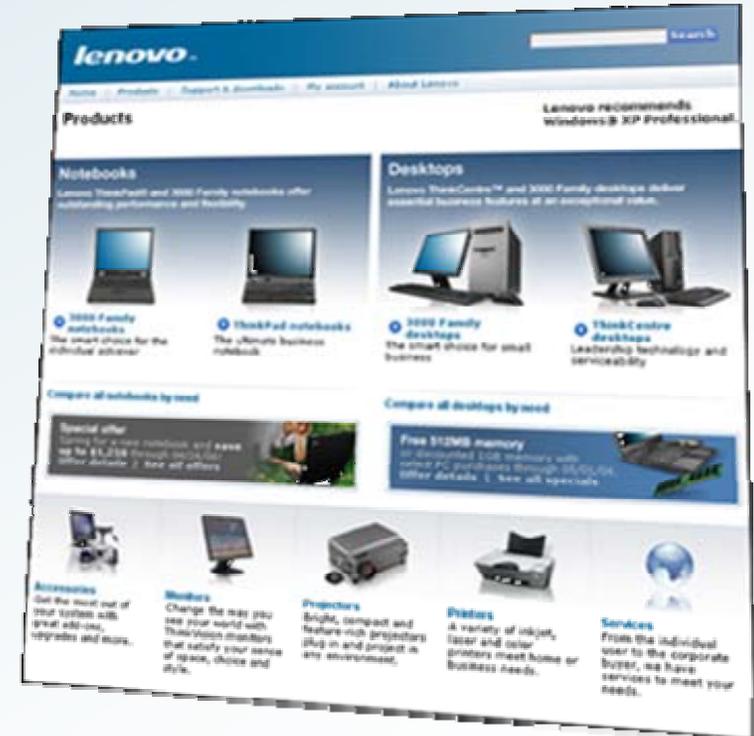
3. Desktop Competitiveness

4. Brands



Strategic Initiative #1: Transaction Model Roll-out

- Continued strong performance in Q1
 - Volume +23% YTY
 - Revenue +16% YTY
 - Market share gains in all geos
- Continued success from roll-out
 - Volume, revenue & profitability growth
 - Germany delivers 4 quarters in a row
 - Americas: rev +21% YOY
 - LatAm: rev +66% YOY



Relationship Model

- Record quarter; continued uplift in revenue & profitability
 - Volume +27%
 - Revenue +16%
 - All geographies profitable
- Strategic focus driving growth
 - Higher value configurations
 - Increased attach rate for S,S&P
 - Investments yielding results
 - New go-to-market model
 - Intensive sales training
 - SAP CRM implementation



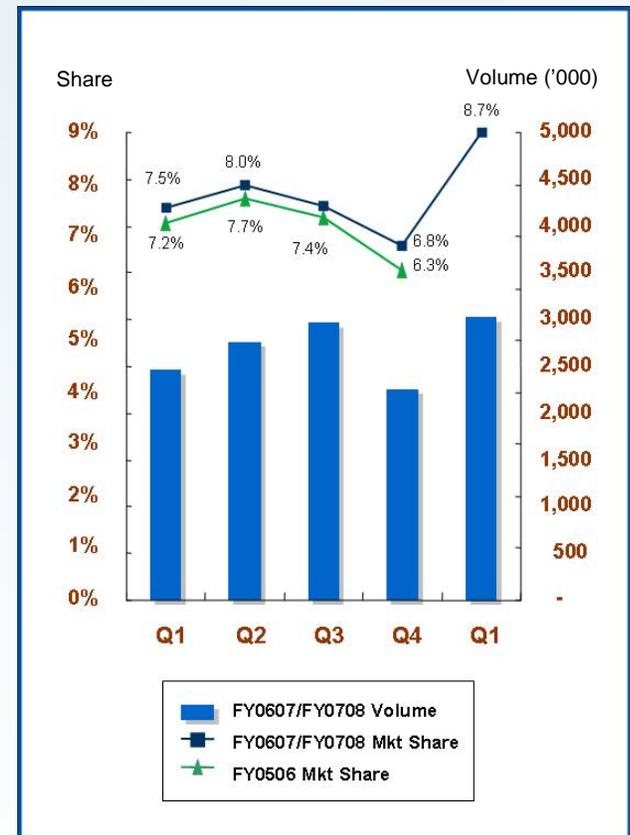
Strategic Initiative #2: Supply Chain Upgrade

- Overall cost and efficiency improvements
 - Cost Per Box reductions
 - 20% YTY
 - Material Cost reductions
 - Logistics Cost reductions
 - Lean Six Sigma-driven efficiencies
- New manufacturing sites extend global footprint
 - Shanghai, China
 - North Carolina, US
 - Monterrey, Mexico
 - Baddi, India
 - Eastern/Central Europe



Strategic Initiative #3: Desktop Competitiveness

- YTY W/W share gain for 8 consecutive quarters
- 2nd consecutive quarter of profitability
- Q1 desktop shipments up 20% YTY
 - Outpaced market
- Better profitability & greater efficiency
 - Reducing operational complexity
 - Streamlining product families/components
 - Unifying platform designs



Services, Software & Peripherals

Lenovo Services

- Contract signings up 50% YTY
- Build-out of dedicated w/w teams
- Expanding portfolio of services
 - Lenovo Experts Live (US)
 - eCares (China)

Software & Peripherals

- Revenue up 21%
 - Every geography showing YOY growth
 - Continued high overall attach rate
- Leverage alliance partnerships
 - Microsoft® Windows Live™ Portal w/w
 - NBA peripherals in China



Strategic Initiative #4: Brand

- “Best Engineered” Ads W/W Launch
 - Excellent early results
- Formula One & Indy 500
 - High brand visibility w/ global TV audiences
 - F1 in Monaco (#2) and Montreal (#5)
 - Indy 500
- Summer Olympics
 - 500 Day countdown
 - 100+ stories in 13 countries
 - One Year countdown: kick-off August 8th
- India Marketing Hub: “World-sourcing”
 - 100+ deliverables produced



Strategic Focus

- Execute against strategic initiatives
- Deliver the world's Best-Engineered PCs
- Improve operational efficiency
- Leverage business scale
- Offer unequaled ownership experience



Yang Yuanqing

Chairman of the Board

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Appendix

- **Income Statement**
- **Revenue Breakdown**
- **Cash Flow Statement**

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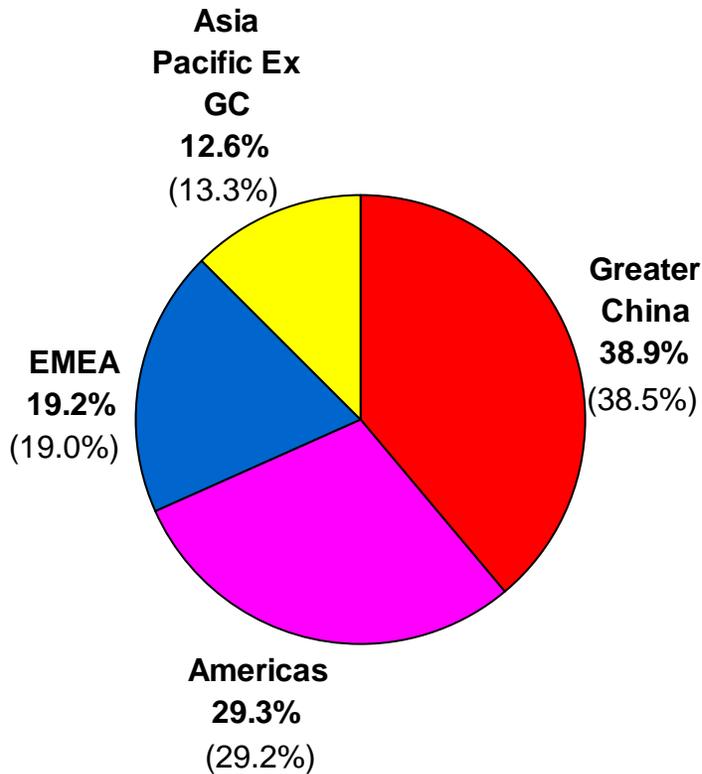
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Consolidated Income Statement

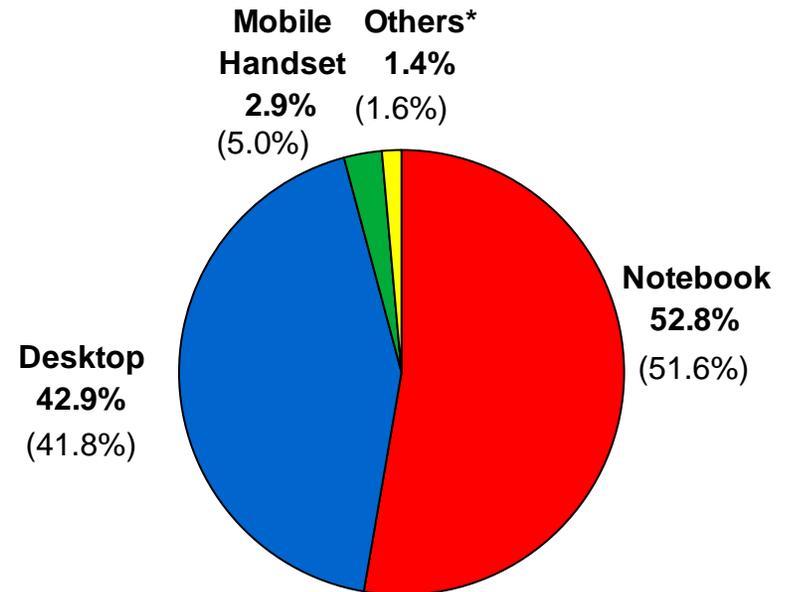
US\$ Million	2007/08 Q1	2006/07 Q1
Turnover	3,926	3,476
Cost of sales	(3,341)	(2,979)
Gross profit	585	497
Other income	2	6
Selling and distribution expenses	(275)	(312)
Administrative expenses	(132)	(99)
Research and development expenses	(55)	(51)
Other operating expenses	(45)	(22)
Operating profit	80	18
Finance income	6	4
Finance costs	(8)	(9)
Share of profits / (losses) of associated companies	(0)	1
Profit before taxation	78	15
Taxation	(11)	(10)
Profit for the period	67	5
Profit attributable to:		
Shareholders of the Company	67	5
Minority interests	-	-
	67	5
Earnings per share		
- Basic	0.78 US cents	0.06 US cents
- Diluted	0.74 US cents	0.06 US cents

Revenue Breakdown (Q1 2007/08)

Balanced Geographic Mix



Strong Notebook Mix



Q1 2006/07 figures are in bracket

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

Condensed Consolidated Cash Flow Statement

US\$ Million	2007/08 Q1	2006/07 Q1
Net cash generated from operating activities	395	33
Net cash used in investing activities	(62)	(37)
Net cash generated from/(used in) financing activities	86	(154)
Increase/(decrease) in cash and cash equivalents	419	(158)
Effect of foreign exchange rate changes	24	5
Cash and cash equivalents at the beginning of the period	1,064	1,005
Cash and cash equivalents at the end of the period	1,507	852