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NEW WORLD. NEW THINKING.

# Lenovo Group Limited

## 2007/08 Annual Results

May 22, 2008

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# Wong Wai Ming

**Senior Vice President &  
Chief Financial Officer**

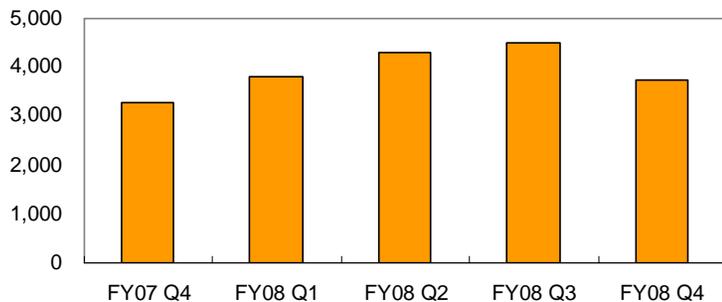
# Lenovo Q4 & Full Year FY07/08 Results Highlights

- Market share gain in all geographies, Notebook and Desktop WW for FY2007/08

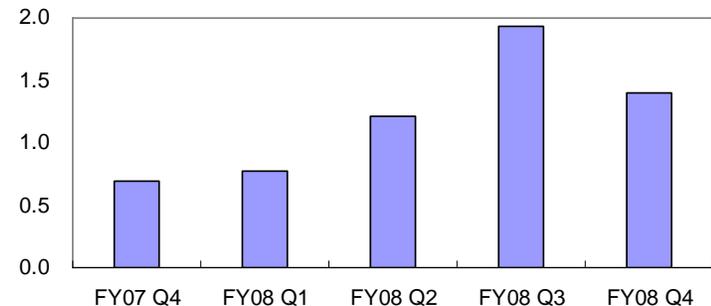
|                              | Q4 FY07/08 |           | Full Year FY07/08 |           |
|------------------------------|------------|-----------|-------------------|-----------|
| <b>PC unit shipment</b>      |            | + 21%     |                   | + 22%     |
| <b>PC WW market share</b>    | 6.9%       | + 0.3 pts | 7.6%              | + 0.4 pts |
| <b>Sales (US\$)*</b>         | 3,734 m    | + 13%     | 16,352 m          | + 17%     |
| <b>Pretax income (US\$)*</b> | 103 m      | + 69%     | 512 m             | + 231%    |
| <b>Basic EPS (US cents)</b>  | 1.56       | + 123%    | 5.51              | + 195%    |

- Completed the disposal of mobile handset business

Sales\* (US\$m)



Basic EPS (US cents)



# Financial Summary

|  | Q4 2007/08   |       |           |           | FY 2007/08     |       |           |
|--|--------------|-------|-----------|-----------|----------------|-------|-----------|
|  | US\$m        | %     | Y/Y       | Q/Q       | US\$m          | %     | Y/Y       |
| Continuing operations                  |              |       |           |           |                |       |           |
| Sales*                                 | <b>3,734</b> |       | + 13.5%   | - 16.9%   | <b>16,352</b>  |       | + 17.0%   |
| Gross Profit                           | <b>559</b>   | 15.0% | + 0.1 pts | - 0.2 pts | <b>2,450</b>   | 15.0% | + 1.5 pts |
| Operating Expenses                     | <b>(471)</b> | 12.5% | - 0.8 pts | + 1.5 pts | <b>(1,921)</b> | 11.6% | - 0.7 pts |
| Other income, net                      | <b>6</b>     |       |           |           | <b>17</b>      |       |           |
| Operating profit before restructuring  | <b>94</b>    | 2.5%  | + 83.9%   | - 52.1%   | <b>546</b>     | 3.3%  | + 215.5%  |
| Other non-operating income**           | <b>9</b>     |       |           |           | <b>14</b>      |       |           |
| Restructuring cost                     | <b>0</b>     |       |           |           | <b>(48)</b>    |       |           |
| Pre-tax Income                         | <b>103</b>   | 2.8%  | + 68.6%   | - 47.7%   | <b>512</b>     | 3.1%  | + 231.3%  |
| Taxation                               | <b>1</b>     |       |           |           | <b>(48)</b>    |       |           |
| Profit from continuing operations      | <b>104</b>   | 2.8%  | + 87.8%   | - 42.1%   | <b>464</b>     | 2.8%  | + 262.5%  |
| Profit from discontinued operations*** | <b>36</b>    |       |           |           | <b>20</b>      |       |           |
| Profit attributable to shareholders    | <b>140</b>   | 3.8%  | + 132.8%  | - 18.2%   | <b>484</b>     | 3.0%  | + 200.5%  |
| EPS (US cents)                         |              |       |           |           |                |       |           |
| - Basic                                | <b>1.56</b>  |       | + 122.9%  | - 19.2%   | <b>5.51</b>    |       | + 194.7%  |
| - Diluted                              | <b>1.44</b>  |       | + 111.8%  | - 18.2%   | <b>5.06</b>    |       | + 175.0%  |
| Proposed dividend per share (HK cents) | <b>12.80</b> |       |           |           | <b>15.80</b>   |       |           |

\* Handset (discontinued operations) sales of Q4 and FY is US\$93m and US\$436m respectively.

\*\* Finance income, finance cost and share of profits/(losses) of associated companies \*\*\* Include taxation from handset business

# Condensed Balance Sheet

| <b>US\$ mn</b>                             | <b>As at<br/>Mar 31, 2008</b> | <b>As at<br/>Mar 31, 2007</b> |
|--|-------------------------------|-------------------------------|
| Non-current assets                         | <b>2,494</b>                  | 2,388                         |
| Property, plant and equipment              | <b>365</b>                    | 326                           |
| Intangible assets                          | <b>1,838</b>                  | 1,868                         |
| Others                                     | <b>291</b>                    | 194                           |
| Current assets                             | <b>4,705</b>                  | 3,061                         |
| Bank deposits and cash                     | <b>2,191</b>                  | 1,064                         |
| Account receivables and others             | <b>2,002</b>                  | 1,617                         |
| Inventories                                | <b>472</b>                    | 358                           |
| Tax recoverable                            | <b>40</b>                     | 22                            |
| Current liabilities                        | <b>4,488</b>                  | 3,526                         |
| Short-term bank loans                      | <b>61</b>                     | 18                            |
| Account payables and others                | <b>4,379</b>                  | 3,499                         |
| Current portion of non-current liabilities | <b>49</b>                     | 9                             |
| Net current assets/(liabilities)           | <b>217</b>                    | (465)                         |
| Non-current liabilities                    | <b>1,098</b>                  | 789                           |
| Total equity                               | <b>1,613</b>                  | 1,134                         |

# Cash and Working Capital

| US\$mn                 | <u>Q4 2007/08*</u> | <u>Q4 2006/07</u> | <u>FY 2007/08*</u> | <u>FY 2006/07</u> |
|------------------------|--------------------|-------------------|--------------------|-------------------|
| EBITDA**               | 152                | 110               | 798                | 375               |
| Bank deposits and cash | 2,191              | 1,064             | 2,191              | 1,064             |
| Total Bank Borrowings  | <u>561</u>         | <u>118</u>        | <u>561</u>         | <u>118</u>        |
| Net Cash Reserves      | 1,630              | 946               | 1,630              | 946               |
| Days Inventory         | 13                 | 13                | 10                 | 11                |
| Days Receivable        | 28                 | 25                | 24                 | 23                |
| Days Payable           | 70                 | 72                | 62                 | 61                |
| Cash Conversion Cycle  | -29 days           | -34 days          | -28 days           | -27 days          |

\* Continuing business

\*\*Excluding restructuring charges

# Q4 Geography Summary – Continuing Business

(Excluding restructuring charge)

- All geographies (except Americas) posted double-digit YTY sales growth
- Positive segment operating profit for all geographies
- Overall segment profit margin improved YTY and QTQ

|                      | Sales US\$m  |       |        | Segment Operating Profit US\$m |       |       | Segment Operating Profit Margin |       |       |
|----------------------|--------------|-------|--------|--------------------------------|-------|-------|---------------------------------|-------|-------|
|                      | Q4 08        | Y/Y   | Q/Q    | Q4 08                          | Q4 07 | Q3 08 | Q4 08                           | Q4 07 | Q3 08 |
| <b>Greater China</b> | <b>1,287</b> | 18.3% | -25.2% | <b>99</b>                      | 62    | 114   | <b>7.7%</b>                     | 5.7%  | 7.1%  |
| <b>Americas</b>      | <b>1,025</b> | 2.9%  | -10.9% | <b>16</b>                      | 16    | 31    | <b>1.5%</b>                     | 1.6%  | 2.6%  |
| <b>EMEA</b>          | <b>879</b>   | 20.1% | -19.2% | <b>18</b>                      | 18    | 61    | <b>2.0%</b>                     | 2.5%  | 5.5%  |
| <b>AP (ex GC)</b>    | <b>543</b>   | 14.6% | 1.4%   | <b>6</b>                       | 2     | (2)   | <b>1.2%</b>                     | 0.4%  | -0.4% |
| <b>Total</b>         | <b>3,734</b> | 13.5% | -16.9% | <b>139</b>                     | 98    | 204   | <b>3.7%</b>                     | 3.0%  | 4.5%  |

# FY 2007/08 Geography Summary – Continuing Business

(Excluding restructuring charge)

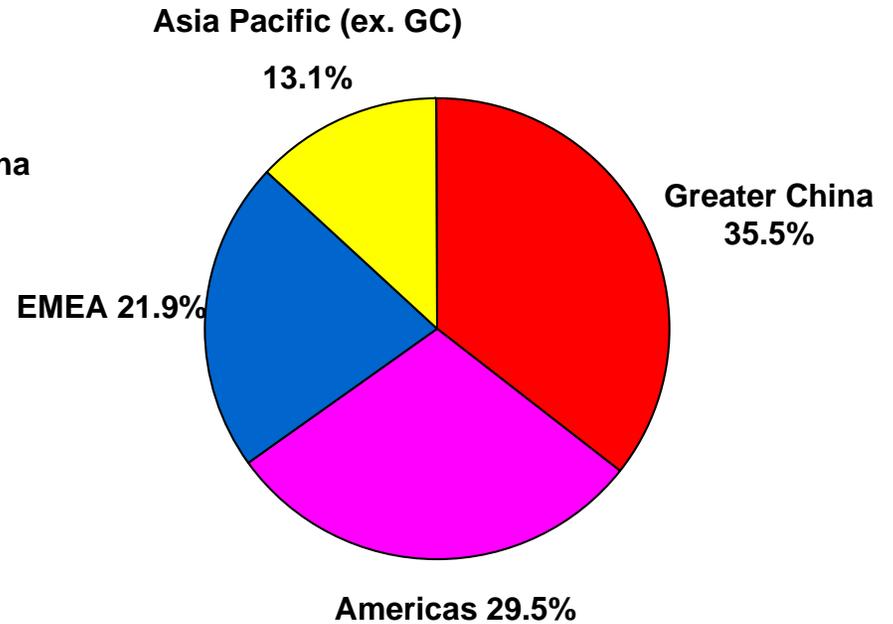
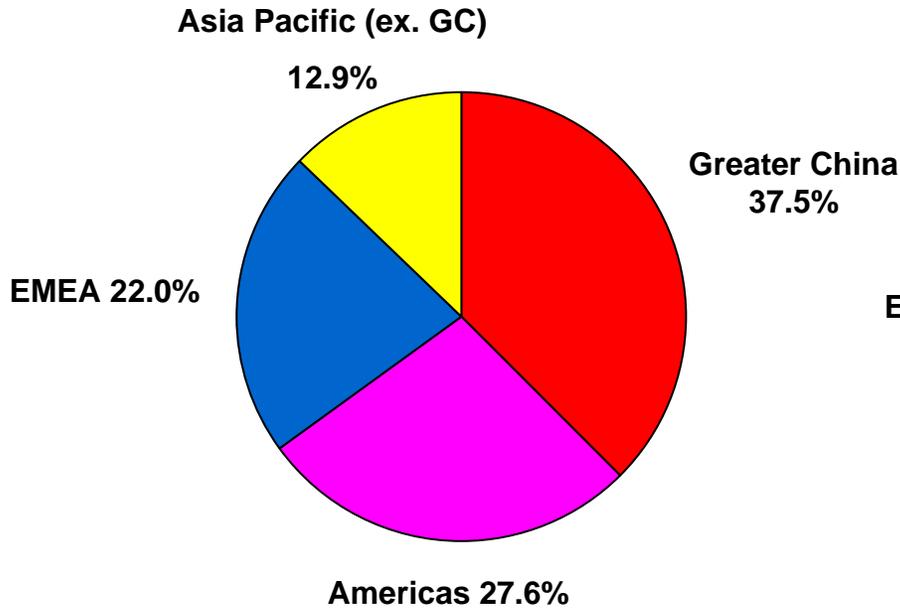
- All geographies posted YTY sales growth
- Significant YTY improvement on segment profit margin

|               | Sales<br>US\$mn |           |       | Segment Operating Profit<br>US\$mn |           |        | Segment Operating<br>Profit Margin |           |
|---------------|-----------------|-----------|-------|------------------------------------|-----------|--------|------------------------------------|-----------|
|               | FY2007/08       | FY2006/07 | Y/Y   | FY2007/08                          | FY2006/07 | Y/Y    | FY2007/08                          | FY2006/07 |
| Greater China | <b>6,127</b>    | 4,969     | 23.3% | <b>428</b>                         | 306       | 39.9%  | <b>7.0%</b>                        | 6.2%      |
| Americas      | <b>4,506</b>    | 4,119     | 9.4%  | <b>105</b>                         | (29)      | N/A    | <b>2.3%</b>                        | -0.7%     |
| EMEA          | <b>3,606</b>    | 3,057     | 18.0% | <b>138</b>                         | 21        | 557.1% | <b>3.8%</b>                        | 0.7%      |
| AP (ex GC)    | <b>2,113</b>    | 1,833     | 15.3% | <b>12</b>                          | 5         | 147.7% | <b>0.6%</b>                        | 0.3%      |
| <b>Total</b>  | <b>16,352</b>   | 13,978    | 17.0% | <b>683</b>                         | 303       | 125.4% | <b>4.2%</b>                        | 2.1%      |

# Balanced Geographic Sales Mix – Continuing Business

**FY2007/08**

**FY2006/07**

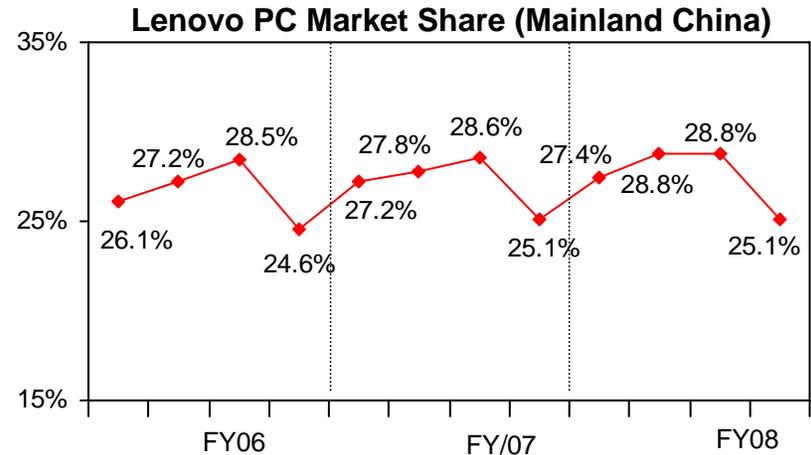


**Emerging Markets: 44%**

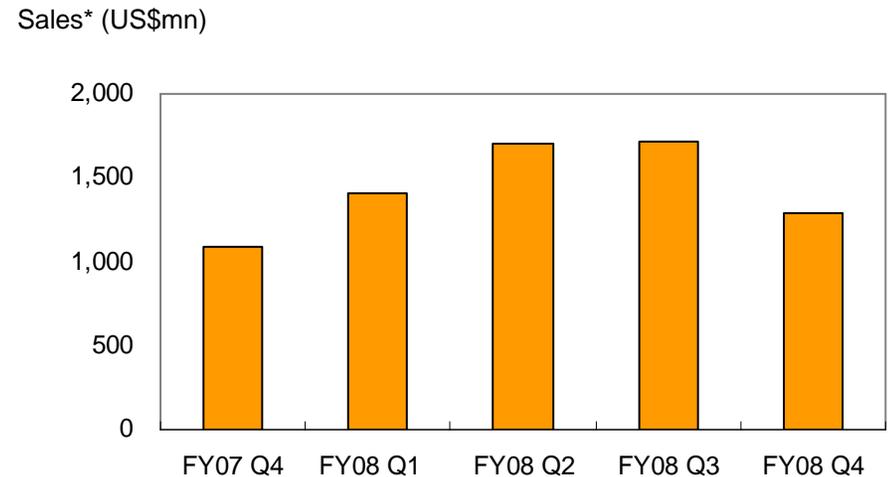
**Emerging Markets: 41%**

# Continues Strong Performance in Greater China

- Strong Growth in Q4
  - Improved segment profit margin at 7.7%
    - Up 2.0 pts YTY
  - Mainland China
    - PC shipments up 24%
    - Estimated market share slightly above 25.1%
    - Outpaced market for 11 consecutive quarters



- 2007/08 Key Focus
  - Market traction of dual business model
  - Notebook shipment growth 60% YTY
  - Further expand retail channel coverage
  - Leverage Olympic marketing



\* Continuing business

Source: Market share is based on industry and company estimates after IDC's resizing of China PC market in Nov 2007.

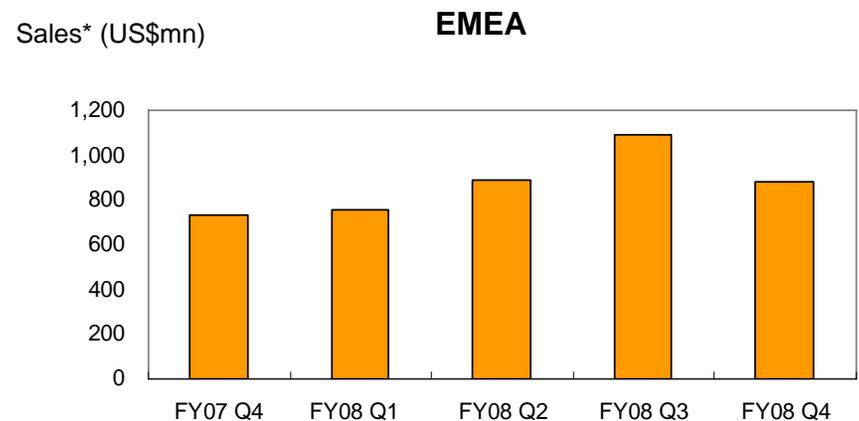
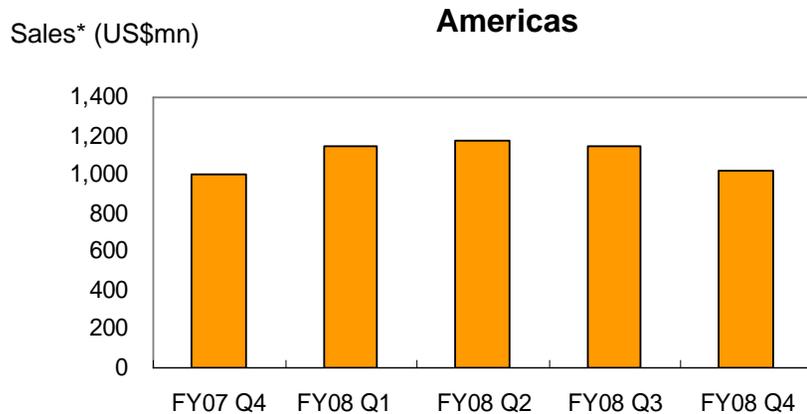
# Americas & EMEA

- Americas

- Q4 PC shipments up 9% YTY
- Cautious PC buying in US
- Need to drive faster growth in consumer segment
- Share gain in desktop shipments

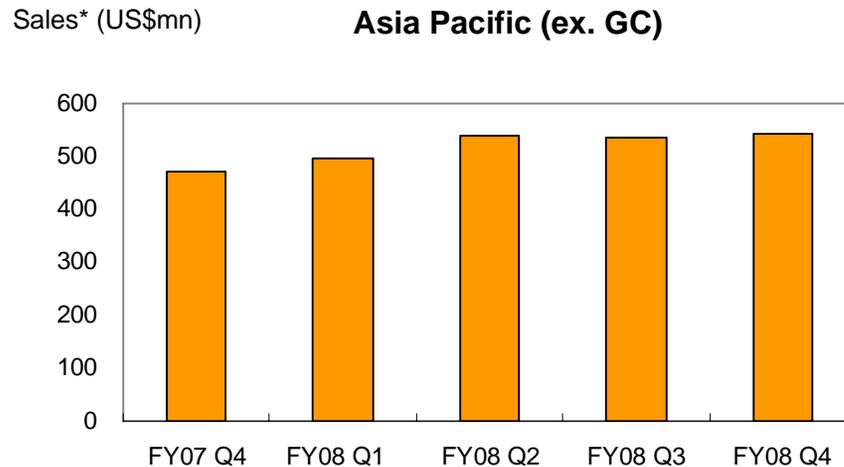
- EMEA

- Q4 PC shipments up 30% YTY
- Benefited from the robust PC market and strengthened currency
- Shipment growth of 56% in Central and Eastern Europe
- Double-digit sales growth for five consecutive quarters



# Asia Pacific (ex. Greater China)

- Asia Pacific (ex. Greater China)
  - Q4 PC shipments up 18% YTY
  - Shipments growth driven by ASEAN, Australia and New Zealand
  - Market share gain in Japan
  - Invests in emerging markets such as India to drive future growth



\* Continuing business

# Notebook and Desktop Q4 2007/08

## Notebook

### Sales

- US\$2.3 billion, up 22% YTY
- 61% of total

### Unit Growth YTY

- 38%
- Held share worldwide

### Comments

- Share gain in AP (ex. GC)
- Solid margin
- Expanded product portfolio

## Desktop

- US\$1.4 billion, up 2% YTY
- 38% of total

- 9%
- Gained share worldwide

- Driven by China, EMEA and Americas
- Enhanced competitiveness
- Improved profitability



ThinkPad X300



Tianjiao i660 Small Form Factor

# Outlook



- PC market expected to grow healthily
- Strengthen cost efficiency
- Investments to drive future growth
- Currency impacts

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# William Amelio

**President &  
Chief Executive Officer**

# Strategic Initiatives

1. Roll Out Transaction Model

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2. Upgrade Supply Chain

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3. Enhance Desktop Competitiveness

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4. Build Brand Awareness



# Strategic Initiative #1: Transaction Model Roll-out

- Strong performance continues: volume, revenue & profitability growth
  - Sales: Q4 +18%; FY +23% YOY
  - Shipments: Q4 +28%; FY +29% YOY
  - All geographies grew double digits & outpaced market
  - Notebook volume +54% in Q4
  - Active business partner network growing
  - Consumer/SMB business → 8 consecutive quarters of growth



# Relationship Model

- **Sustained growth & profitability**
  - Sales: Q4 +9%; FY +12% YOY
  - Shipments: Q4 +12%; FY +17% YOY
  - All geographies profitable; 5<sup>th</sup> consecutive quarter
- **Strategic focus on global accounts and mid-market**
  - Relationship management → Global accounts sales +16% YOY in Q4
  - Enhanced sales capacity
  - Higher customer acquisition rates



# Strategic Initiative #2: Global Supply Chain Upgrade

- Overall cost and efficiency improvements
  - 16% YOY cost-per-box savings
  - Double digit material cost savings every quarter of FY 07/08
- Worldwide serviceability improvement +11% YOY
- Key focus on Lean Six Sigma
- Expanded global manufacturing & distribution footprint
  - Increases production by 20M+ total capacity/year
  - Shanghai, Baddi & Greensboro open on time and below budget
  - Poland & Mexico to “go live” by end of 2008



# Strategic Initiative #3: Desktop Competitiveness

- YOY WW share gain for 11 consecutive quarters
- 5<sup>th</sup> consecutive quarter of profitability
- Shipments +9% YOY vs. flat market in Q4
- Strong line-up of desktop offerings; environmental commitment
  - ThinkCentre M57 “Eco” first desktop to receive GREENGUARD certification
  - Led industry with first and most EPEAT Gold Monitors



# Services, Software & Peripherals

## Lenovo Services

- Contract signings up 50% YOY
- Global recognition for excellence in customer satisfaction
  - #1 OEM Service & Support Provider (TBR)
  - 8 awards from China's CCID for service & support
  - “Best in Class” for mobile computing repair activity (*Consumer Reports*)
  - #1 in Desktop Customer Service, India (IDC Dataquest)

## Lenovo Software & Peripherals

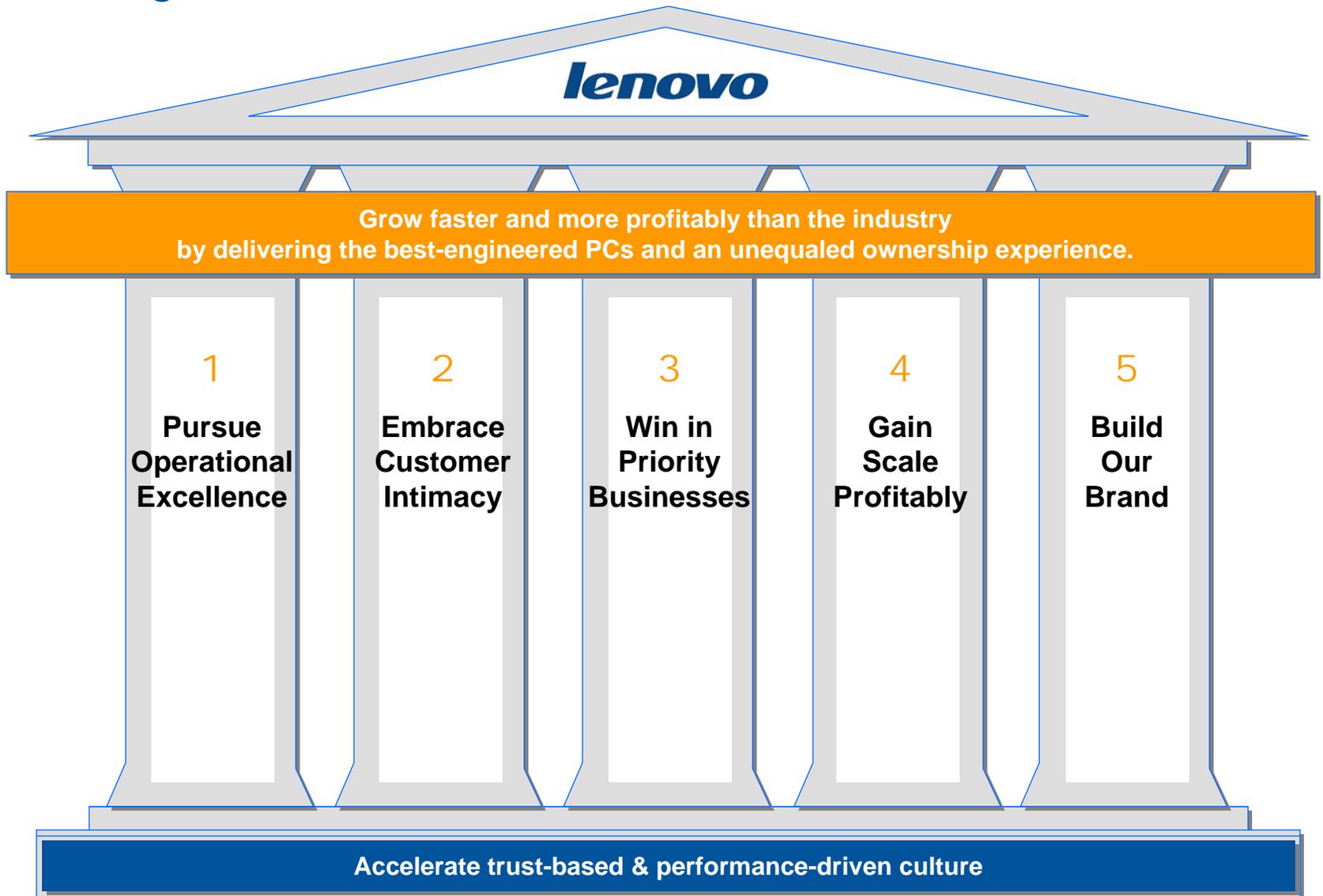
- Sales up 14% YOY in Q4
- Strong growth in Greater China and AP
- New product offerings to support new Think Station & ThinkPad X300
- Expanded routes to market
- New or growing technology alliance partnerships

# Strategic Initiative #4: Brand Building

- Brand metrics on track
- Product launches
  - Idea Consumer launch
  - ThinkPad X300 launch
- Winning sports sponsorships
  - Olympic Games
  - NBA
  - Formula One
- “Ideas” ad campaign



# Strategic Focus



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# Yang Yuanqing

## Chairman of the Board

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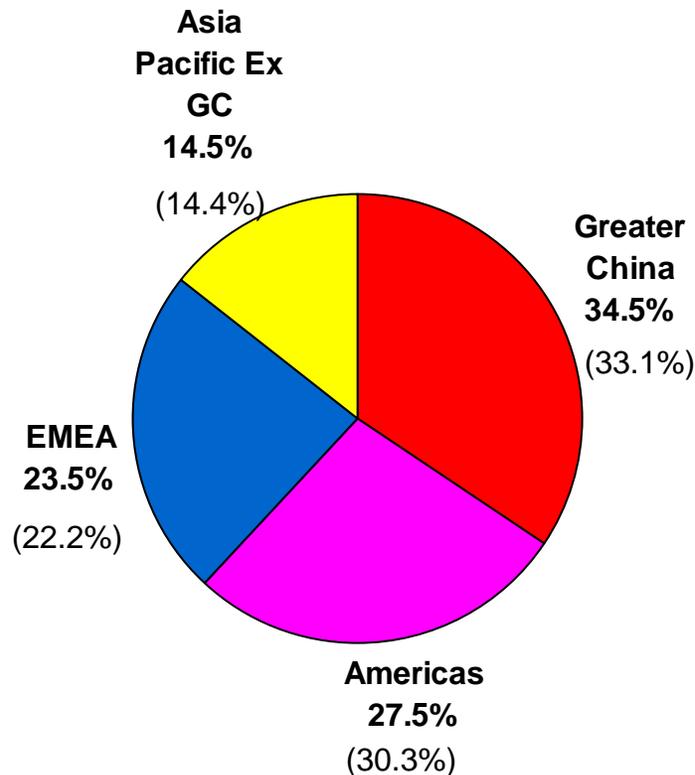
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## Appendix

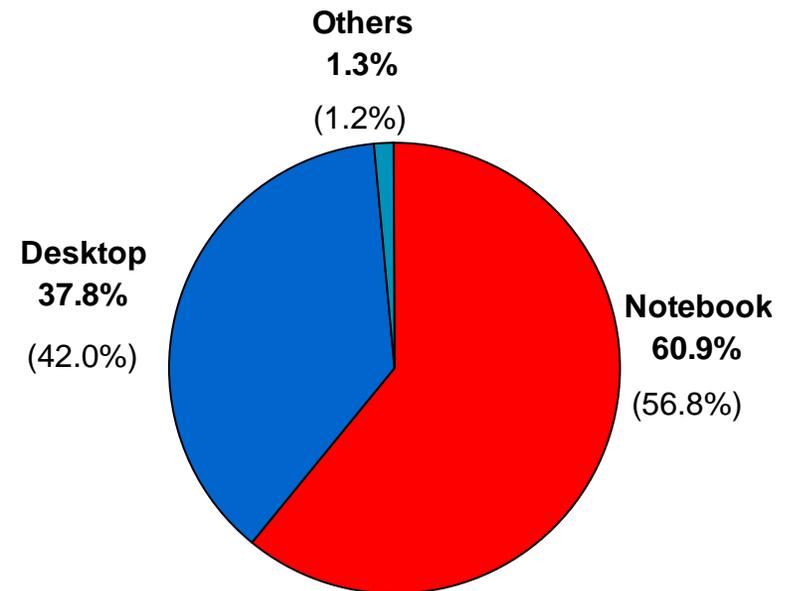
- Sales Breakdown
- Income Statement
- Cash Flow Statement

# Sales Breakdown (Q4 2007/08) – Continuing Business

## Balanced Geographic Mix



## Strong Notebook Mix



Q4 2006/07 figures are in bracket

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

# Consolidated Income Statement

| US\$ Million                               | 2007/08<br>Q4 | 2007/08<br>Full Year | 2006/07<br>Q4 | 2006/07<br>Full Year |
|--|---------------|----------------------|---------------|----------------------|
| Continuing operations:                     |               |                      |               |                      |
| Sales                                      | 3,734         | 16,352               | 3,290         | 13,978               |
| Cost of sales                              | (3,175)       | (13,902)             | (2,801)       | (12,091)             |
| Gross profit                               | 559           | 2,450                | 489           | 1,887                |
| Other income, net                          | 6             | 17                   | (2)           | 8                    |
| Selling and distribution expenses          | (262)         | (1,103)              | (245)         | (1,033)              |
| Administrative expenses                    | (153)         | (596)                | (139)         | (488)                |
| Research and development expenses          | (65)          | (230)                | (54)          | (196)                |
| Other operating income/(expenses)          | 10            | (39)                 | 14            | (16)                 |
| Operating profit                           | 95            | 499                  | 63            | 161                  |
| Finance income                             | 16            | 52                   | 7             | 26                   |
| Finance costs                              | (8)           | (38)                 | (9)           | (35)                 |
| Share of profits of associated companies   | (0)           | 0                    | 0             | 2                    |
| Profit before taxation                     | 103           | 513                  | 61            | 155                  |
| Taxation                                   | 1             | (48)                 | (5)           | (26)                 |
| Profit from continuing operations          | 104           | 465                  | 56            | 128                  |
| (Loss)/profit from discontinued operations | 36            | 20                   | 4             | 33                   |
| Profit for the period                      | 140           | 485                  | 60            | 161                  |
| Profit attributable to:                    |               |                      |               |                      |
| Shareholders of the Company                | 140           | 484                  | 60            | 161                  |
| Minority interests                         | (0)           | (1)                  | -             | -                    |
|  | 140           | 484                  | 60            | 161                  |
| Dividend                                   | -             | 187                  | -             | 59                   |
| Earnings per share                         |               |                      |               |                      |
| - Basic                                    | 1.56 US cents | 5.51 US cents        | 0.70 US cents | 1.87 US cents        |
| - Diluted                                  | 1.44 US cents | 5.06 US cents        | 0.68 US cents | 1.84 US cents        |

# Condensed Consolidated Cash Flow Statement

| US\$ Million   | 2007/08<br>Full Year | 2006/07<br>Full Year |
|--|----------------------|----------------------|
| Net cash generated from operating activities                                 | 1,009                | 437                  |
| Net cash used in investing activities  | (734)                | (163)                |
| Net cash used in financing activities  | 290                  | (254)                |
| Increase in cash and cash equivalents  | 565                  | 21                   |
| Discontinued operations:<br>(Decrease)/increase in cash and cash equivalents | (13)                 | 32                   |
| Effect of foreign exchange rate changes                                      | 35                   | 6                    |
| Cash and cash equivalents at the beginning of the period                     | 1,064                | 1,005                |
| Cash and cash equivalents at the end of the period                           | 1,651                | 1,064                |

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