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NEW WORLD. NEW THINKING.

# Lenovo Group Limited

## FY2010/11 Q2 Results

November 10, 2010

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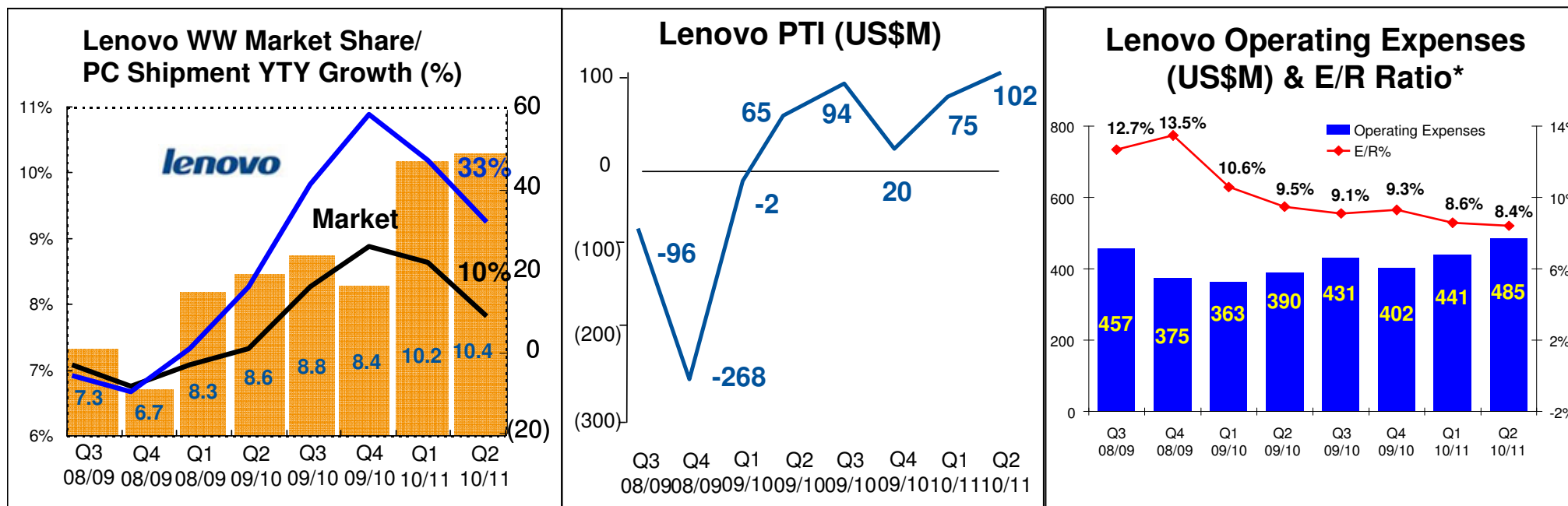
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**Yang Yuanqing**

**Chief Executive Officer**

# Fastest Growing PC Company, Record Worldwide Market Share

- Market share: 10.4%, up 1.8 points year-to-year
- Improved profitability: PTI of \$102 million USD, up \$37 million USD YTY
- Lowest E/R since acquisition: 8.4%, drop of 1.1 points YTY

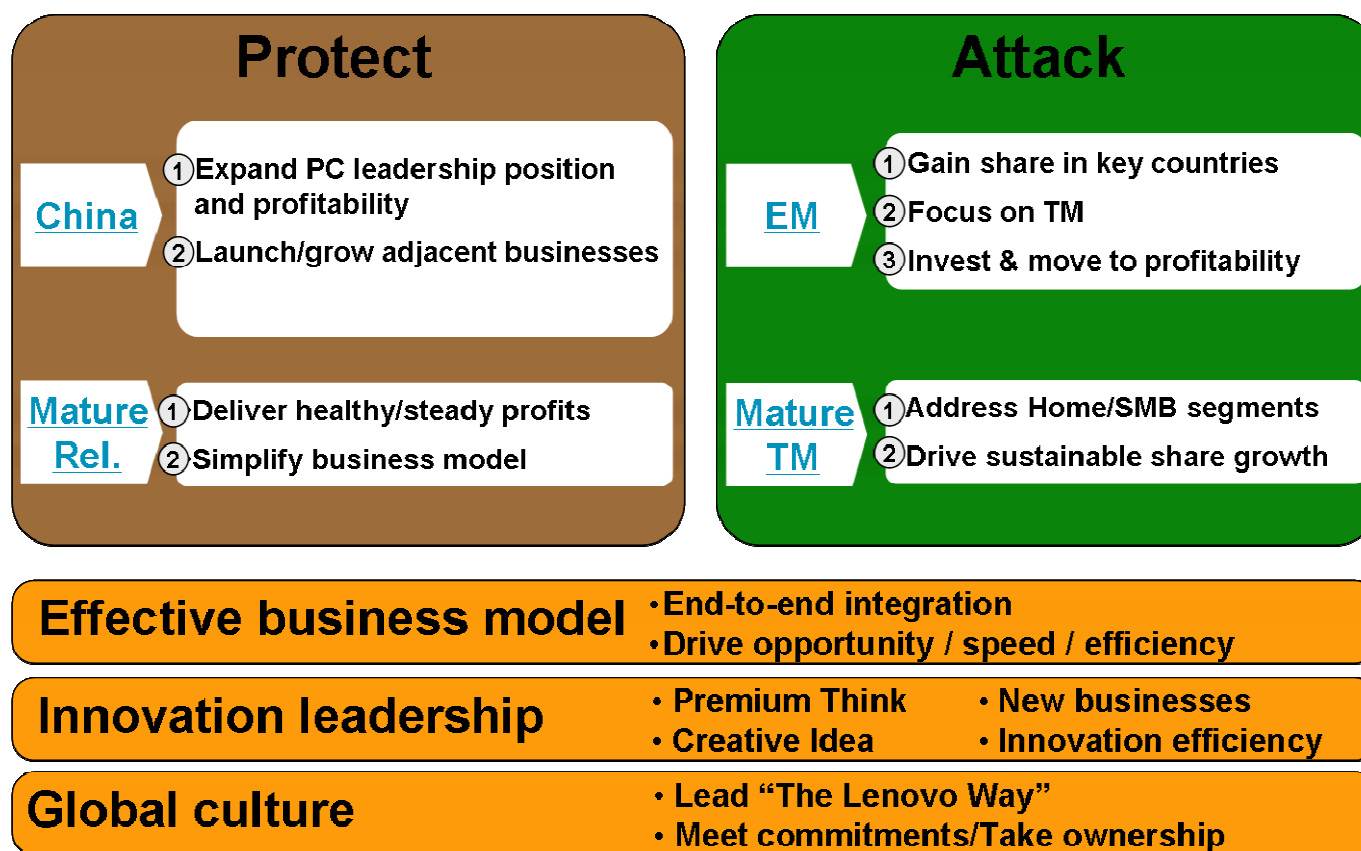


Source: IDC and Internal Data

\* Excludes one-off/restructuring items

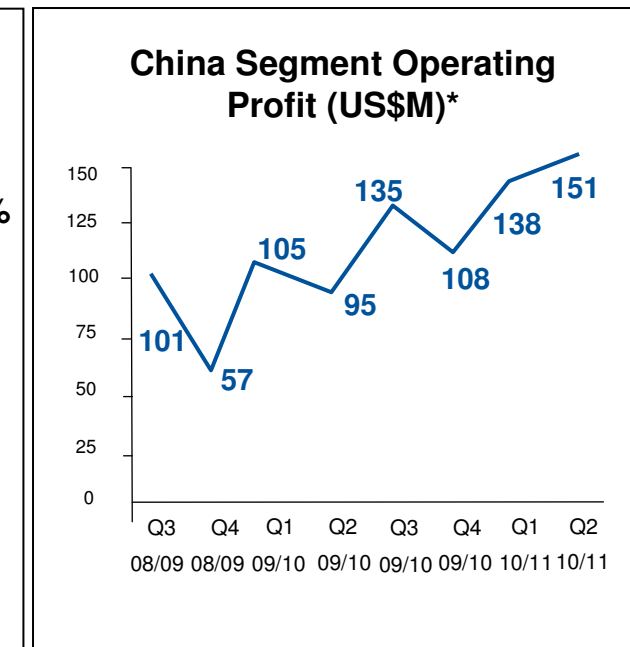
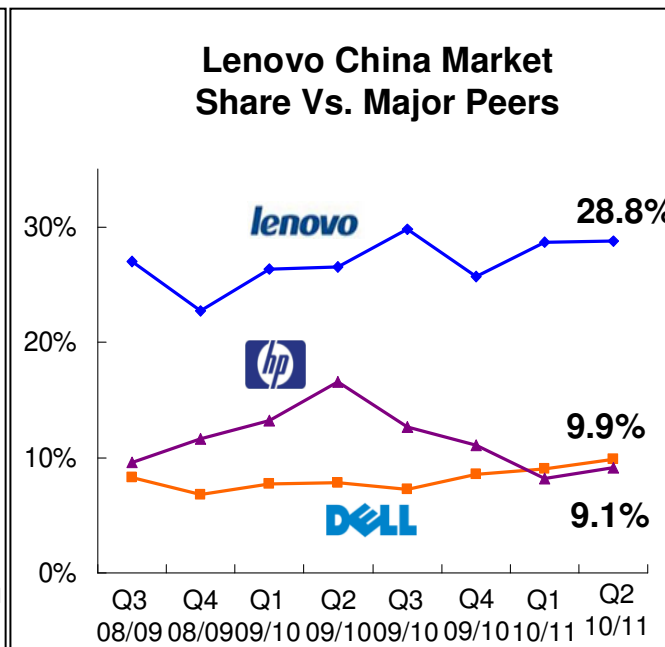
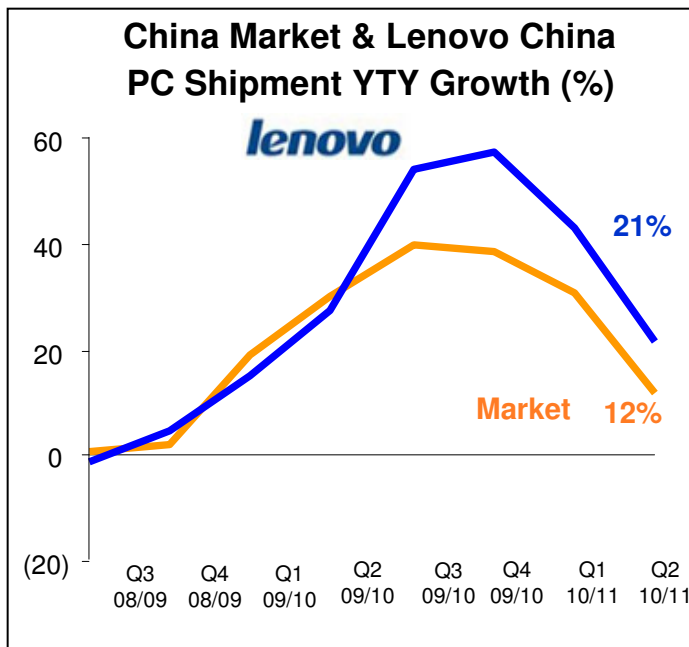
# Balanced Growth Came From Effective Strategy Execution

- Protect & Attack strategy aligned with our dual engines
  - All Geos – not just China – gained share and improved profitability
  - Outgrew market in all product types and customer segments



# Protect China Leadership

- Strengthened China leadership
  - Grew 21% YTY, gained 2.3 points market share YTY
  - Sustained wide gap with competition
- Improved Segment Operating Profit \$56 million USD YTY

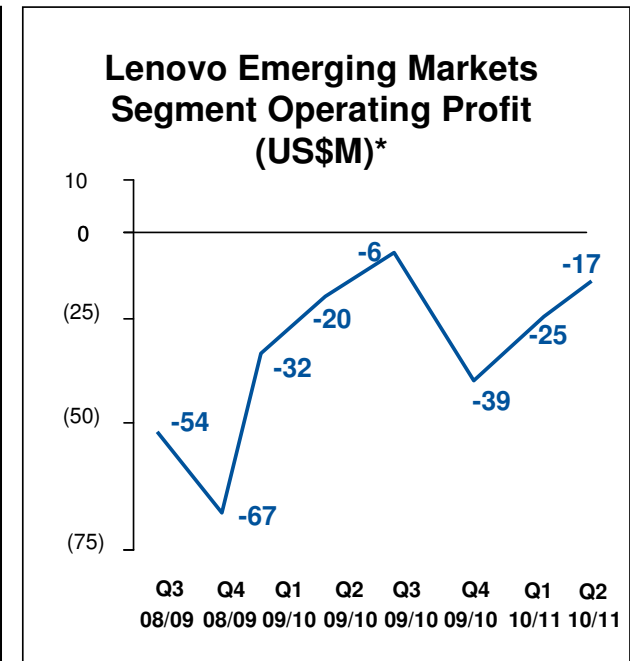
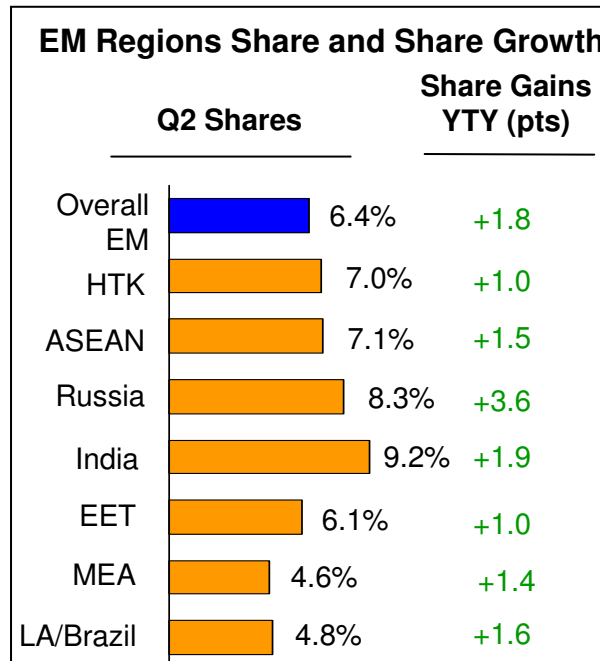
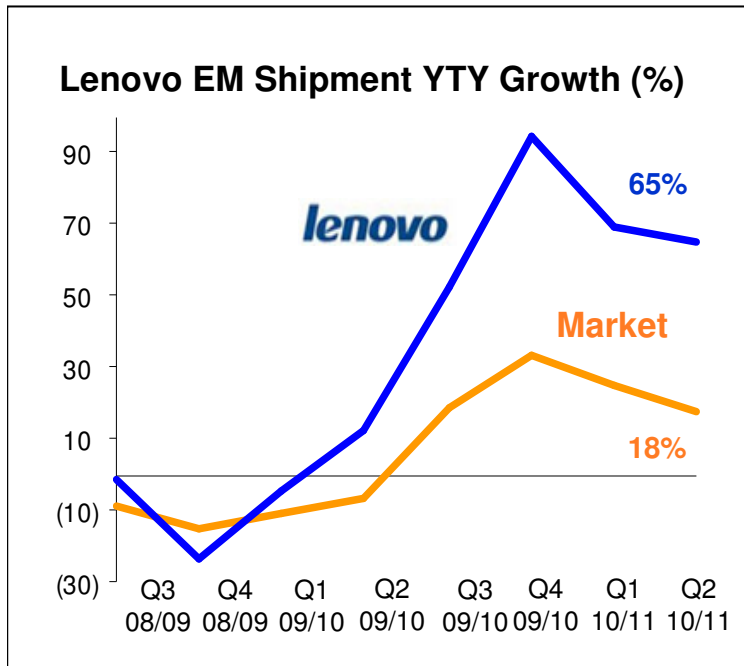


Source: IDC and Internal Data

\* Excluding One-off and Restructuring Charges

# Attack Emerging Markets

- Achieved rapid growth
  - Volume grew 65% YTY, gained 1.8 points market share YTY
  - Increased market share in all key emerging regions
- Improved Segment Operating Profit by \$3 million USD YTY

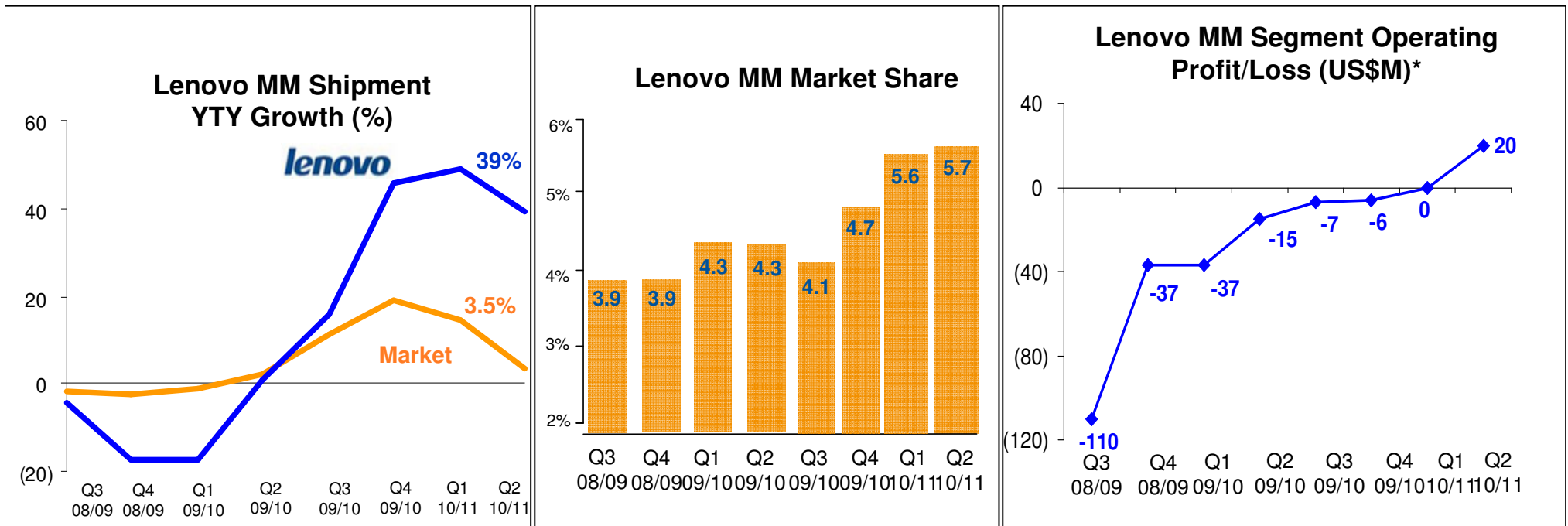


Source: IDC and Internal Data

\* Excluding One-off and Restructuring Charges

# Mature Markets: Protect Relationship, Attack Transactional

- Profit generator: segment operating profit up \$35 million USD YTY
- Volume up 39% YTY, share up 1.5 points, strong growth in key countries
  - Germany became the first major Mature country to achieve 10% share
  - Fastest growing in Japan for 5 quarters
  - North America grew 20 times market rate



Source: IDC and Internal Data

\* Excluding One-off and Restructuring Charges

# Growing the Mobile Internet Category

- LePhone established strong position, on track to meet plan
- Increasing efforts to drive higher business growth
  - Investing in marketing to drive higher volume
  - Driving more applications and content



# Investing in our Foundation for Growth

- Maintain our commitments to competitiveness through investment:
  - Innovation, to improve innovation capability
  - Business model, to improve efficiency and effectiveness
  - Branding, to increase worldwide brand recognition



# Outlook

- Facing challenges:
  - Global economy is still recovering
  - Moderate PC market growth WW, including China
- Opportunities for growth:
  - Commercial replacement demand growing strong
  - Emerging Markets continue rapid growth
  - Mobile Internet tremendous opportunity for long-term growth

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**Wong Wai Ming**

**Chief Financial Officer**

# Financial Summary

US\$ Million	Q2 FY2010/11	Q2 FY2009/10	Y/Y	Q/Q	Interim FY2010/11	Y/Y
Sales	<b>5,760</b>	4,087	1,673	613	<b>10,907</b>	3,379
Gross Profit	<b>593</b>	433	160	70	<b>1,116</b>	306
Operating Expenses*	<b>(485)</b>	(390)	(95)	(44)	<b>(926)</b>	(173)
Operating Profit*	<b>108</b>	43	65	26	<b>190</b>	133
Other Non-Operating (Expenses)/Income	<b>(5)</b>	(13)	8	1	<b>(11)</b>	18
Pre-tax Income*	<b>103</b>	30	73	27	<b>179</b>	151
Restructuring Cost	<b>(1)</b>	(3)	2	0	<b>(2)</b>	3
Other income, net	<b>0</b>	38	(38)	0	<b>0</b>	(40)
Pre-tax Income	<b>102</b>	65	37	27	<b>177</b>	114
Taxation	<b>(25)</b>	(12)	(13)	(5)	<b>(45)</b>	(19)
Profit attributable to Equity Holders	<b>77</b>	53	24	22	<b>132</b>	95
EPS (US cents)						
- Basic	<b>0.81</b>	0.59	0.22	0.24	<b>1.38</b>	0.96
- Diluted	<b>0.76</b>	0.55	0.21	0.22	<b>1.30</b>	0.91
Dividend per Share (HK cents)	<b>NA</b>	NA	NA	NA	<b>2.60</b>	1.60
	<b>Q2 FY2010/11</b>	<b>Q2 FY2009/10</b>	<b>Q1 FY2010/11</b>			
Gross margin	<b>10.3%</b>	10.6%	10.2%			
E/R ratio*	<b>8.4%</b>	9.5%	8.6%			
Operating margin*	<b>1.9%</b>	1.1%	1.6%			
PTI margin*	<b>1.8%</b>	0.7%	1.5%			
Net margin	<b>1.3%</b>	1.3%	1.1%			

\* Exclude restructuring costs and other income, net



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# Condensed Balance Sheet

US\$ Million	<b>As at Sep 30, 2010</b>	As at Mar 31, 2010
Non-current assets	<b>2,672</b>	2,720
Property, plant and equipment	<b>228</b>	248
Intangible assets	<b>2,063</b>	2,066
Others	<b>381</b>	406
Current assets	<b>8,342</b>	6,235
Bank deposits and cash	<b>2,696</b>	2,439
Account receivables	<b>4,619</b>	2,871
Inventories	<b>983</b>	879
Others	<b>44</b>	46
Current liabilities	<b>8,424</b>	6,418
Short-term bank loans	<b>48</b>	65
Account payables	<b>7,848</b>	5,822
Current portion of non-current liabilities	<b>369</b>	437
Others	<b>159</b>	94
Net current liabilities	<b>(82)</b>	(183)
Non-current liabilities	<b>1,023</b>	931
Total equity	<b>1,567</b>	1,606

# Cash and Working Capital

<b>US\$ Million</b>	<b><u>Q2 FY2010/11</u></b>	<b><u>Q2 FY2009/10</u></b>	<b><u>Q1 FY2010/11</u></b>
Bank deposits and cash	<b>2,696</b>	2,383	2,715
Total Bank Borrowings	<b>378</b>	599	478
Net Cash Reserves	<b>2,318</b>	1,784	2,237
Days Inventory	<b>19</b>	14	19
Days Receivable	<b>28</b>	21	28
Days Payable	<b>73</b>	65	70
Cash Conversion Cycle	<b>-26 days</b>	-30 days	-23 days

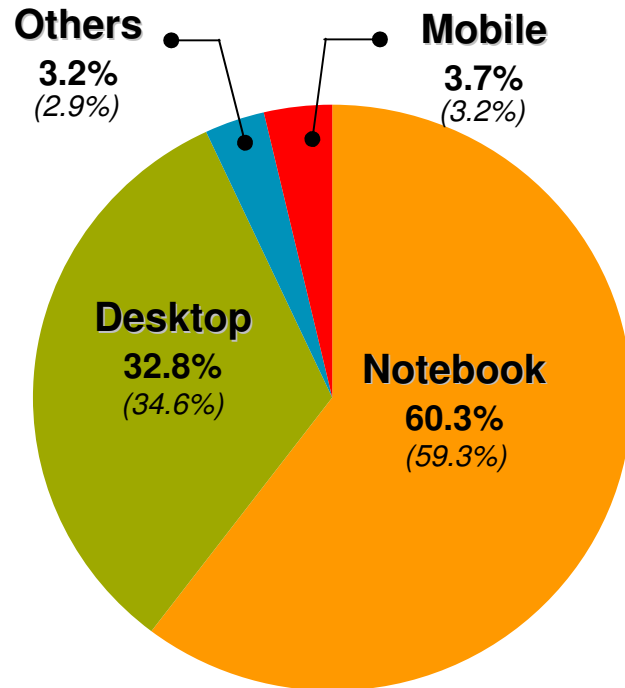
# Performance by Geography

<i>(Excluding restructuring charges &amp; one-off items)</i>	Sales US\$ Million			Segment Operating Profit US\$ Million			Segment Operating Profit Margin		
	Q2 FY11	Y/Y	Q/Q	Q2 FY11	Q2 FY10	Q1 FY11	Q2 FY11	Q2 FY10	Q1 FY11
<b>China*</b>	<b>2,630</b>	32.0%	4.9%	<b>151</b>	95	138	<b>5.7%</b>	4.8%	5.5%
<b>Emerging Markets (Ex. China)</b>	<b>1,071</b>	76.7%	30.5%	<b>(17)</b>	(20)	(25)	<b>-1.6%</b>	-3.2%	-3.0%
<b>Mature Markets</b>	<b>2,059</b>	38.4%	13.3%	<b>20</b>	(15)	0	<b>1.0%</b>	-1.0%	0.0%

\* Included Lenovo Mobile

# Q2 Performance By Product

## By Product Type



### Notebook

- Shipments up 38% YTY; Sales up 40% YTY
- Market share up 1.9 points and remained as 4th largest notebook PC company
- #4 world largest notebook player
- Accumulated sales of ThinkPad surpassed 60 million milestone

### Desktop

- Shipments up 26% YTY; Sales up 27% YTY
- #3 world largest desktop player
- Market share up 1.8 points through AIO and SMB targeted desktops

### Mobile

- Shipments up 41% YTY; Sales up 58% YTY
- Strong feature phones shipment YTY growth at 36%
- #1 domestic mobile handset brand in China
- Further strengthened China's distribution coverage by teaming up with China Telecom, in addition to China Unicom

# Share Repurchase Update

- **Objectives**
  - Enhance shareholders' return
  - Management confidence on company prospects
  
- **June 21, 2010 – Sep 30, 2010**

	Q1 (June 21 - June 30)	Q2 (July 1 - Sep 30)	Accumulated Total
Shares purchased (mn shares)	34	55	89
Total Considerations (US\$ mn)	19	31	50
Average Price (HK\$)	4.34	4.35	4.35

# Outlook

- **Remain cautiously optimistic**
- **Expect gradual improvement in margins**
- **Continue to invest for sustainable growth**
- **Continue to look for M&A opportunities within the PC industry**

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**Liu Chuanzhi**

**Chairman of the Board**

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## Appendix

- Consolidated Income Statement
- Condensed Consolidated Cash Flow Statement

# Consolidated Income Statement

US\$ Million	Q2 FY2010/11	YTD FY2010/11	Q2 FY2009/10	YTD FY2009/10
Sales	5,760	10,907	4,087	7,528
Cost of sales	(5,167)	(9,791)	(3,655)	(6,718)
Gross profit	593	1,116	432	810
Other income, net	-	-	38	40
Selling and distribution expenses	(244)	(466)	(212)	(402)
Administrative expenses	(181)	(334)	(137)	(276)
Research and development expenses	(76)	(153)	(54)	(103)
Other operating income/(expense) - net	15	25	11	22
Operating profit	107	188	78	91
Finance income	6	11	4	8
Finance costs	(11)	(22)	(17)	(36)
Share of (loss)/profit of associated companies	-	-	-	-
Profit before taxation	102	177	65	63
Taxation	(25)	(45)	(12)	(26)
Profit attributable to:				
Equity holders of the company	77	132	53	37
Earnings per share (US cents)				
- Basic	0.81 US cents	1.38 US cents	0.59 US cents	0.42 US cents
- Diluted	0.76 US cents	1.30 US cents	0.55 US cents	0.39 US cents

# Condensed Consolidated Cash Flow Statement

US\$ Million	Q2 FY2010/11	Q2 FY2009/10
Net cash generated from operating activities	148	324
Net cash used in investing activities	(94)	(82)
Net cash used in financing activities	(182)	(85)
Increase/(decrease) in cash and cash equivalents	(128)	157
Effect of foreign exchange rate changes	33	6
Cash and cash equivalents at the beginning of the period	2,617	1,899
Cash and cash equivalents at the end of the period	2,522	2,062

**thank you** grazie **merci** danke **grazias** 謝謝 **спасибо**  
gracias **obrigado** ありがとう **dank** takk **bedankt** dakujem

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