

Built to Last: SUSTAINABILITY FOR A NEW WORLD



2008/2009 SUSTAINABILITY REPORT LENOVO GROUP LIMITED

lenovo
NEW WORLD. NEW THINKING.™

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We want to create a built-to-last company with sustainable business practices that stands the test of time.

Built to Last: Sustainability for a New World

The recent global economic downturn brought into much sharper focus what it means to be a sustainable business in the world today. In this climate, sustainability literally means a fight for survival for many companies. At Lenovo, we view this period of uncertainty not with fear or trepidation but as an opportunity to pause, reflect and re-examine our core values and aspirations for the type of company we want to be in this New World.

Having reached the significant milestone of the 25th anniversary of our founding, Lenovo concluded that we not only want to survive and thrive as a profitable business but also that we want to create a built-to-last company with sustainable business practices that stands the test of time for the next 25, 40 or even 50 years.

As an outgrowth of this enlightening exercise, we embraced the Lenovo Way as the embodiment of our commitment to create a built-to-last company and a more sustainable world. It's a commitment that we ask of ourselves and of every Lenovo employee, and that permeates every aspect of how we conduct our business in a more sustainable manner. At its core is the most fundamental of human values, which is trust. We place our trust in every employee to do the right thing for the company, our stakeholders and the environment. And with that trust comes implicit responsibility. We deliver commitments. We take responsibility. We do what we say and we own what we do.

At Lenovo, we believe Information and Communications Technology (ICT) is a powerful force for change in the world today, interconnecting and bringing together many areas and cultures with a profound impact on all facets of the economy, society and the environment. It breaks down barriers and opens new doors to learning that allow individuals to fully explore their full potential to become far more productive in everything they endeavor to achieve, while making the world better through richer, more rewarding human experiences. ICT is also a key enabler of solutions that can help reduce carbon emissions from fossil fuels.

"Are we doing this the Lenovo Way?" Asking this question consistently and at every decision point captures the essence of sustainability and the triple bottom line benefits of creating more sustainable ecological, social and financial outcomes from our products, our people and our company. Our commitment to do things the Lenovo Way means that we keep our commitments and take ownership of our company and our future—in terms of how we run our business, treat our customers, care for our communities and contribute to our society. We know that Lenovo plays a significant role in meeting the challenges of this New World and leading others in the ICT industry and beyond in helping develop sustainable solutions to the many social, economic and environmental challenges we face today. Lenovo customers, shareholders and employees, as well as the global community, should all benefit from Lenovo's success and the manner in which we conduct ourselves.

Doing things the Lenovo Way means:

- Minimizing our environmental impact, which is a strategic focus in all aspects of our business, from product design and supplier selection to manufacturing, facilities management, transportation and logistics, and product lifecycle management, including recycling and reuse. Lenovo is working hard to reduce our own environmental impact with the same passion and leadership we bring to every aspect of our business.
- Focusing on product quality and safety throughout the entire lifecycle, from manufacturing, transportation and installation to use, service and disposal.
- Building a safe and healthy workplace where we treat our people as our greatest asset. In addition to meeting the legal requirements of the countries in which we do business, Lenovo ensures our employees have safe equipment and facilities, offers competitive compensation packages, and supports stringent voluntary workplace safety standards.
- Maintaining the highest ethical standards with a commitment to integrity and responsibility, including respecting and protecting intellectual property. Lenovo provides guidance to every employee on a wide range of issues concerning ethical business practices, securities trading, health and safety, and compliance with government regulations.
- Donating time and resources to philanthropy to help those less fortunate and, when disaster strikes, to lend a helping hand to those who can no longer provide for themselves.

Lenovo's heritage in both emerging and mature markets means that we have had to work hard every day to successfully bridge the cultures of East and West and the economies of mature and emerging markets. Lenovo views our differences and diversity as a source of strength in building a collaborative culture that helps us achieve our goals.

The result is a culture in which sustainability is embedded in Lenovo's core values—it's a big part of who we are as a company, and who we are as people. It also affords Lenovo the unique opportunity to provide an example for others to follow by applying the most stringent global standards and adopting the best sustainable business practices wherever we do business, including emerging markets where the potential for positive impact is greatest.

We gladly accept this responsibility to be a generous, responsible and innovative global citizen committed to creating a built-to-last company and a more sustainable world—by doing things the Lenovo Way.



Liu Chuanzhi

Liu Chuanzhi

Chairman of the Board



Y. Yang

Yang Yuanqing

Chief Executive Officer

The Company:

ACHIEVING SUCCESS AND SUSTAINABLE GROWTH
THROUGH INNOVATION, OPERATIONAL EFFICIENCY
AND CUSTOMER SATISFACTION.



2.0 About Lenovo

Lenovo is dedicated to building exceptionally engineered personal computers. Lenovo's business model is built on innovation, operational efficiency and customer satisfaction as well as a focus on investment in emerging markets. Formed by Lenovo Group's acquisition of the former IBM® Personal Computing Division, Lenovo is a New World company that develops, manufactures and markets reliable, high-quality, secure and easy-to-use technology products and services worldwide. Our mission is to provide businesses and consumers with smarter ways to be productive, efficient and competitive and to enhance their personal lives. Operating in more than 60 countries, we are dedicated to serving the needs of our customers, partners, investors, employees and local communities with a business model that is based on:

- Innovation
- Customer satisfaction
- Sustainability
- Operational efficiency

Our Values

Our values serve as the foundation of our company and define who we are and how we work. Principle among them is:

- Customer service
- Innovative and entrepreneurial spirit
- Accuracy and truth-seeking
- Trustworthiness and integrity

Our Heritage

Lenovo came about as the result of the merger of two of the most storied companies in technology and business: Lenovo Group in China and IBM's Personal Computing Division in the United States. The merger was heralded as a watershed event in global business with the potential for integrating two disparate cultures, languages, processes and markets.



2.0 About Lenovo



As a result, Lenovo embodies the unique market possibilities in combining the best of East and West—joining North American and China-based technology players in the creation of a unified global PC leader with growing market positions in developed and emerging markets alike. With more than \$15 billion in annual revenue, Lenovo's market strength spans not only market geographies but also the world's consumer and business PC markets.

Innovation: New World, New Thinking

Lenovo is one of the world's largest makers of personal computers and makes the world's most innovative PCs, including the renowned ThinkPad® notebook as well as products carrying the ThinkCentre®, ThinkStation™, ThinkServer™, IdeaPad™ and IdeaCentre™ sub-brands. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division in 2005, Lenovo today is a world leader operating in more than 60 countries and providing businesses and consumers in more than 160 countries around the world with innovative products.

Lenovo's heritage in both emerging and developed markets has resulted in a business model based on a concept and strategy we call "worldsourcing"—where our ideas, operations and resources are literally borderless and mobile. Our commitment to worldsourcing enables Lenovo to deliver consistent value by reacting quickly to global market requirements and changing customer needs. This approach makes maximum use of our resources to create the best products in the most efficient and effective way. The result: new thinking for a new world, bringing innovation to businesses and consumers alike.



Today, Lenovo is a global corporation with significant operations on six continents. Everyone at Lenovo takes great pride in our ability to attract top talent from diverse backgrounds and from around the world. We view our differences and diversity as a source of strength in building a collaborative culture that helps us achieve our goals.

We have no world headquarters and, instead, have put in place a distributed management structure that places operational hubs in centers of excellence around the world, integrating this talented, diverse group into a cohesive New World company.

Our multicultural management team is free to convene wherever and whenever it makes the most sense. Lenovo has operations hubs in Beijing; Raleigh, N.C.; Singapore; and Paris; a marketing hub in Bangalore, India; and major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, N.C.

Lenovo employs more than 21,000 people worldwide, including 1,700 designers, scientists and engineers, representing a broad collection of nationalities and languages but at the same time working with one unified language and vision: to build the world's most exceptionally engineered personal computers.

2.1 Two Roads to Creating a PC Powerhouse

- In **1981**, IBM launched its Personal Computing Division, which literally invented personal computing with such innovations as the first laptop computer, the precursor to the ThinkPad notebook, which is synonymous with innovation and quality.
- In **1984**, Legend Holdings was founded in China with just 11 computer scientists and \$25,000 in cash, with the idea of delivering information technology more rapidly to consumers and businesses in China.
- In **2003**, Legend began marketing products under the Lenovo brand, melding the "Le" from Legend with "novo", the Latin word for "new". The company name officially changed from Legend to Lenovo a year later.
- In **2005**, Lenovo Group's acquisition of IBM's PC division essentially combined the market strength of Lenovo in China and elsewhere in Asia among consumers with IBM's leadership position in Europe and North America among business PC users.
- In **2007**, Lenovo launched the IdeaPad line of consumer-branded PC products and dropped the use of the IBM logo on all our products two years ahead of schedule.
- In **2008**, Lenovo completed entry into the server market with the launch of the ThinkServer portfolio, which is designed to deliver a better server experience for small and medium business customers.

2.2 Innovation: New World, New Thinking

Lenovo owns the greatest track record for innovation in the PC industry and remains committed to innovation in our products and technology; innovation drives our business and adds value for customers.

Lenovo boasts extraordinary research capabilities. Our Research and Development (R&D) centers in China, Japan and the U.S. have produced some of the world's most important advances in PC technology, ranging from the original "bento box" PC notebook design in 1992 to the 2008 launch of the innovative ThinkPad X300 "Kodachi", heralded as one of the world's lightest, thinnest and most innovative full-featured notebook PCs ever.

The ultimate goal of Lenovo's R&D team is to improve the overall experience of PC ownership, while driving down the cost of ownership. Lenovo is rich in talent, with teams that have won hundreds of technology and design awards—including more than 2,000 patents—and introduced many industry firsts:

- TrackPoint® pointing device ("the little red button").
- ThinkPad design—one of the industry's most silent PCs.
- VeriFace™: Lenovo's facial recognition technology that creates a digital map that becomes the system's password.
- Dual-screen mobile workstation: combining a unique design with complex engineering to meet the needs of high-demand computing environments.

2.3 Our Commitment to Corporate Social Responsibility (CSR)

Lenovo is committed to being a responsible and active corporate citizen, consistently working to improve our business while contributing to the betterment of our local communities, the environment and society overall.

Lenovo practices corporate citizenship in many ways:

- **Product quality and safety:** Lenovo is focused on the safety of our products throughout their entire lifecycle, from manufacturing, transportation and installation to use, service and recycling or disposal.
- **Safe and healthy workplaces:** Lenovo's people are our greatest asset. In addition to meeting the legal requirements of the countries in which we do business, we ensure our employees have safe equipment and facilities, offer competitive compensation packages and support stringent voluntary workplace safety standards.
- **The highest ethical standards:** Lenovo is committed to the highest standards of integrity and responsibility,

including respecting and protecting intellectual property. We provide guidance to every employee on a wide range of issues concerning ethical business practices, securities trading, health and safety, and compliance with government regulations.

- **Concern for the environment:** Lenovo is committed to environmental-responsibility in all aspects of its business, from product design and supplier selection to manufacturing, facilities management, transportation and logistics, and product lifecycle management, including recycling and reuse.
- **Donating time and resources to philanthropy:** Lenovo and our employees are committed to helping those less fortunate and, when disaster strikes, to lend a helping hand to those who can no longer provide for themselves. Soon after the devastating earthquake in Sichuan Province in May 2008, nearly 4,000 Lenovo employees made financial donations for disaster relief while hundreds more lined up to donate blood. In addition, Lenovo has committed 1 percent of our pre-tax income to programs and initiatives that serve society to address issues in areas of great need, no matter where those areas or issues happen to be.

2.4 Our Competitive Spirit

Lenovo's thirst for excellence extends from our products to our sponsorships. The global spotlight shone brightly on the Lenovo brand during the 2008 Olympic Games in Beijing, where we leveraged our role as a global partner of the International Olympic Committee and presenting sponsor of the Olympic Torch Relay.

What's more, Lenovo demonstrated our technical strengths in delivering a flawless performance that met the unprecedented demand of the Beijing Games. A network of 30,000 pieces of equipment, including desktop and notebook computers, touch-screen devices and printers supported by more than 600 Lenovo engineers.

Building on the success of our sponsorships of the Beijing Olympic Games, Lenovo has been selected to perform a similar role in providing technology and support for the Shanghai World Expo in 2010.

Lenovo is also a sponsoring partner with motor racing's Formula One Vodafone McLaren team. Formula One provides an outstanding showcase for Lenovo's technology and keeps Lenovo at the forefront of an arena where performance counts.

Lenovo CSR Highlights:

ADOPTING SOCIALLY RESPONSIBLE BUSINESS
PRACTICES IN EVERY ASPECT OF OPERATION.



3.1 Corporate Social Responsibility

Lenovo is committed to building exceptionally engineered personal computers, helping change the way people around the world use technology. Just as Lenovo is dedicated to providing innovative technologies, we are also devoted to ensuring that our products, employees, sites and suppliers are following the commitments we have made to socially responsible business practices. Lenovo embraces the values of customer service, innovative and entrepreneurial spirit and integrity.

Lenovo seeks to integrate these core values into every aspect of our business and into policies and procedures in areas of quality and safety for products, employee welfare, managing a global supply chain, ethical corporate behavior, social investments and environmental affairs. Lenovo employees and contractors work together to promote these values, policies and procedures.

3.2 Promoting Product Quality and Safety

Product quality and safety are important. Lenovo is continually raising the bar by developing and evaluating new safety initiatives. Lenovo is focused on the safety of our products throughout their entire lifecycle, from manufacturing, transportation and installation to use, service and disposal. Lenovo strives to ensure that our products meet all applicable legal requirements and voluntary safety and ergonomics practices to which we subscribe wherever our products are sold. Through stringent emphasis on product safety and quality, Lenovo is achieving high customer satisfaction and delivering quality products, solutions and services.

3.3 Focusing on Employee Welfare

Lenovo's people are our greatest asset, and we are committed to providing a safe and healthy working environment. Lenovo provides employees with products and equipment that are safe for use and strives to implement and improve processes and controls that prevent work-related accidents, injuries and illnesses.

Lenovo offers competitive compensation packages and abides by applicable minimum wage requirements in every country and region where we operate, and is recognized as a leading employer around the world. Lenovo is pursuing global voluntary initiatives, such as OHSAS 18000, which is an Occupation Safety and Health Management System certification.

3.4 Maintaining High Ethical Standards

Lenovo is committed to the highest standards of integrity and responsibility and respects the intellectual property rights of other companies and individuals. Lenovo provides guidance to our employees on a wide range of ethical issues, such as reporting unlawful or inappropriate conduct, respecting and protecting intellectual property, trading in securities and complying with governmental regulations. Employees are required to report any evidence of fraud, unethical business conduct, violation of laws, danger to health or safety or any other violation of corporate policies. In addition, Lenovo has created the role of Ombudsman to help employees address and resolve problems as well as to help us identify systemic issues and areas for needed change.



3.5 Sustainability Management Process

Lenovo's global sustainability strategy is managed and evaluated by a formal cross-functional and global committee of executive leaders and a corresponding team of professionals and subject matter experts. The goal of this infrastructure is to research, manage, advocate, and evaluate sustainability initiatives that will support the sustainability strategy in a way that is consistent with our sustainability values – innovative, trustworthy and transparent, strategic and global.

The highest level oversight is provided by the Sustainability Steering Committee, consisting of the CEO's direct reports with the largest impact capability and ownership of the implementation of sustainability principles. The committee is chaired by the Senior Vice President of the Product Group who serves as Lenovo's Corporate Sustainability Executive and is also responsible for oversight of Lenovo's environmental affairs.

The Steering Committee relies on a standing Sustainability Action Team, consisting of senior professionals representing the functional areas responsible for the breadth of Corporate Social Responsibility. The Action Team, chaired by Lenovo's Director of Global Environmental Affairs, continuously examines the changing regulatory, standards, and customer requirements, assesses Lenovo's current practices and communications, and recommends any needed changes. The steering committee can approve the proposed changes, or refer to the CEO for resolution of any open issues.





3.6 Office of Ombudsman

Lenovo is committed to the well-being of all employees and expects that decisions made in the management of the company, and the management of our people, reflect Lenovo's core values and business conduct expectations. This commitment was demonstrated with the establishment of the role of the Lenovo Ombudsman in late 2007.

Lenovo recognizes that regardless of efforts made to administer processes fairly and consistent with our values, there may be occasions when the formal channels available for the resolution of problems and issues may not adequately or sufficiently address the concern of the individual. In such instances, the Ombudsman serves as a designated neutral resource available to all Lenovo employees. Meeting with the Ombudsman is voluntary. The Ombudsman is neither an employee advocate nor a member of management but rather a representative for fair process, problem resolution and actions that serve Lenovo's best interests, image and reputation. The Ombudsman, as a thought partner, helps employees address and resolve problems, while helping Lenovo with risk management, identifying systemic issues and areas for needed change.

As part of an ongoing, systematic, company-wide employee outreach process, the Lenovo Ombudsman schedules site visits to every major Lenovo location at least once during the year. Through listening, coaching, discussion and mediation, the Ombudsman provides confidential and informal assistance to help raise and address work-related issues in an objective manner. Issues might include but aren't limited to interpersonal conflict and misunderstandings that occur among colleagues, business conduct violations, security matters, perceived unfair treatment or harassment, job performance or any behavior that is inconsistent with Lenovo policies, local practices or values.

The mandate of the Ombudsman role is neutrality and impartiality—an advocate for the resolution of problems and for fair and equitable process execution. Any and all discussions with Lenovo's Ombudsman are held in strict confidence. The only exception is when the Ombudsman believes there is the possibility of imminent risk or serious harm to an individual or the company. Conversations with an employee are off the record and confidential, and are not to be disclosed without the employee's permission.

The operation of the Ombudsman office is based on four principles established by the International Association of Ombudsman (IOA) Code of Ethics. These principles are:

- **Independence:** The Ombudsman role has access to the senior management team and reports to the CEO. The role is independent of the formal management structures such as legal and human resources. In this way, it offers an "informal and independent channel" for employees to talk freely without worry of interference or that "official notice" of the exchange will be reported or lead to further action being taken.
- **Confidentiality:** All conversations with the Ombudsman are confidential and no documentation is kept. The only exception to confidentiality is if there is an imminent threat to Lenovo or other employees.
- **Impartiality/Neutrality:** The Ombudsman is neither a representative of management nor an employee advocate. Rather, the Ombudsman is nonpartisan, open-minded and unbiased, and does not make decisions or set policy.
- **Informality:** Because the Ombudsman is not a member of the company's formal management structure, the Ombudsman does not participate in any formal adjudicative or administrative procedure related to concerns.

A large, metallic gear with a world map cutout, symbolizing global economic impact. The gear is made of a dark, polished metal, and the world map is a light, metallic color. The map shows the continents of North America, South America, Europe, and Africa. The gear is positioned in the upper half of the image, and its teeth are visible at the bottom. The background is a warm, golden-brown color.

Economic Impact:

ADDRESSING THE GLOBAL ECONOMIC SLOWDOWN
THROUGH STRATEGIC THINKING AND IMPROVED
BUSINESS PERFORMANCE.



the groundwork for him to lead Lenovo toward success in the future. Rory Read, our newly appointed Chief Operating Officer, is very strong in execution and will work with Yang Yuanqing as the core of management, overseeing day-to-day operation of Lenovo.

In the 25 years since Lenovo was founded, I have encountered many challenges, some seemingly insurmountable. We weathered through all the storms with courage, faith and luck, but also insights into corporate leadership that we have gained over the course. The Board of Directors has entrusted me with the chairmanship again to support the new management team in maximizing returns to shareholders. I am confident of living up to this expectation. Up against the severe global economic crisis, I expect Lenovo will continue to face significant challenges in the near future and see our business performance affected. However, I have strong confidence in the new management team and believe it will be able to effectively implement the defined strategies and fully realize Lenovo's strengths in business model, innovation and lean cost structure. These efforts will take Lenovo to new heights and return Lenovo to the path of sustainable and profitable growth. I believe the decisive actions that we have taken to combat the economic crisis and the efforts to execute various strategic priorities will enable Lenovo to emerge as a more competitive company when the market recovers. I would like to express my gratitude to our shareholders, my fellow board members, customers and employees for their continuous support for Lenovo. I hope Lenovo will continue to have your strong support in the future. We are committed to bringing sustainable long-term returns to our shareholders.

Liu Chuanzhi

Liu Chuanzhi

Chairman of the Board

Hong Kong, May 21, 2009



4.1 Chairman's Statement

In FY 2008-09, the PC industry was hard hit by the global economic crisis, and as a result the operating environment for Lenovo became extremely challenging. Under the unprecedented economic crisis, enterprise customers delayed their purchase and cut spending on PCs, leading to a reduction in global commercial PC demand. At the same time, the growth of the China PC market also slowed as it was affected by the macro economic conditions. These unfavorable factors impacted Lenovo's business performance in the second half of the 2008-09 fiscal year and also highlighted the urgency for Lenovo to improve execution and operational efficiency.

Since its acquisition of IBM's PC business, Lenovo has progressed smoothly in the integration of its global operations and attained a number of achievements through steady implementation against our strategic directions. To meet the current economic challenges, Lenovo will remain steadfast in pursuing the defined strategic priorities and take decisive actions to alleviate the impact. First, Lenovo realigned our resources and organizational structure to boost operational efficiency and reduce expenses. We strive to stabilize our business performance by focusing on enhancing the competitiveness and profitability of our core businesses. Furthermore, Lenovo will endeavor to strengthen our position in the China PC market by leveraging the government's economic stimulus package to grow our business, accelerate expansion into other emerging markets and the consumer PC market, and at the same time strengthen our leading position in the worldwide commercial market.

Lenovo also introduced a series of changes in our management team to boost our ability to execute business strategies. Yang Yuanqing returned to the role of Chief Executive Officer in which he will apply his extensive experience in China and the insights that he has gained during the course of Lenovo's internationalization. When Lenovo acquired IBM's PC business in 2005, Yang Yuanqing considered working closely with managers from diverse cultural backgrounds and leadership styles a major challenge. In the four years following the acquisition, he has gained valuable experiences that laid

4.2 Business Review

The impact of the global economic crisis in 2008 reached far and wide. It has significantly affected worldwide PC market demand as many large enterprises delayed purchase decisions and reduced IT budgets. Even the growth of the China PC market has slowed under the economic challenges. At the same time, the PC industry as a whole has shifted dramatically and rapidly to lower price points, imposing additional pressures on industry players.

During FY 2008-09, the year-on-year growth of worldwide PC market shipments decelerated to approximately 4 percent, mainly supported by consumer and low-priced notebook segments. The China PC market and worldwide commercial PC segment in which Lenovo is heavily weighted showed significant slowdown in the second half of the fiscal year under the economic crisis. In addition, Lenovo could not enjoy the benefits of the growth in the transaction space because it has not adequately addressed the worldwide transaction segment outside China, in particular the consumer market. Lenovo reported lower-than-market growth in our worldwide PC shipments, which only increased by approximately 2 percent year-on-year. As a result, Lenovo's market share decreased slightly to 7.6 percent, ranking No. 4 worldwide during the fiscal year.

Lenovo's financial performance in the second half of FY 2008-09 was significantly impacted by the widespread economic slowdown. Lenovo's overall sales for the fiscal year decreased 9 percent year-on-year to approximately US\$14.901 billion, resulting from the slower PC shipment growth and a steeper-than-normal decline in average selling prices exacerbated by the weak economic backdrop. Lenovo's gross margin performance was further affected by the continued shift in the market to lower price points, aggressive pricing and currency fluctuations. The gross margin (excluding one-off items) for the fiscal year declined to 11.9 percent from 15.0 percent while gross profit (excluding one-off items) decreased 27 percent year-on-year to approximately US\$1,779 million.

In anticipation of continued deterioration in the global economic environment, Lenovo announced a global resource restructuring plan in January 2009 to reduce costs and enhance operational efficiency. About 2,500 employees were eliminated as a result of this action, which is expected to realize annual savings of approximately US\$300 million on a run rate basis in the coming fiscal year. Despite Lenovo's efforts to control expenses during FY 2008-09, the decline in sales and pressure on gross margin resulted in 95 percent year-on-year decline in our profit before taxation (excluding the cost of restructuring actions and one-off charges) to approximately US\$29 million for the year. Lenovo reported a loss attributable to shareholders of approximately US\$226 million, after accounting for US\$146 million of

restructuring costs and US\$71 million of one-off charges. This compared with a profit attributable to shareholders (including US\$20 million net profit from discontinued operations) of US\$484 million in the previous fiscal year.

Performance of Geographies

The worldwide PC market showed year-on-year negative growth in the second half of FY 2008-09, caused by the widespread economic slowdown. No country was immune in this PC market slowdown. Lenovo's performance in various geographies was also affected in varying degrees. Nevertheless, Lenovo continued to acquire commercial customers at a strong pace, resulting in an increase of its worldwide commercial market share to approximately 10.9 percent during the year.

Greater China

Lenovo Greater China accounted for approximately 43 percent of our overall sales in FY 2008-09, continuing to be the largest sales contributor. The growth of the China PC market was negatively impacted by earthquake, floods, softer consumer demand and, later in the fiscal year, the global economic slowdown. Nevertheless, owing to its outstanding execution and leadership position across all customer segments, Lenovo achieved approximately 8 percent year-on-year growth in PC shipments in China as compared with the 4 percent growth of the overall market. Lenovo strengthened its No. 1 position by gaining 0.9 percentage points in market share, accounting for approximately 28.8 percent of the market.

Lenovo's solid performance in China was attributable to continual efforts to enhance our dual business model. In FY 2008-09, Lenovo implemented a business management system for our transaction model to ensure a more consistent performance across the country. At the same time, Lenovo expanded our channel partnerships by collaborating with Taobao, the largest Internet retail website in China, and it also refreshed storefronts to strengthen the coverage of consumer and Small and Medium-size Business (SMB) customers.

Lenovo also formed a strategic relationship with Alibaba, the largest online Business-to-Business (B2B) marketplace, to launch a customized Lenovo eCommerce PC model for SMB in China. In view of the robust growth of notebook demand in China, Lenovo focused our resources on expanding our leadership in this segment. Lenovo's alignment of our end-to-end business model, specifically tailored for high-end as well as mainstream notebook segments, resulted in outstanding sales performance of the ThinkPad brand during the year. Lenovo also saw significant improvement in our customer acquisition capability via our relationship business, particularly in the public sector.

Americas

In FY 2008-09, the Americas accounted for approximately 25 percent of Lenovo's overall sales. The PC market in the United States was sluggish, and in particular the commercial segment was hard hit by the economic crisis. Although Lenovo's efforts to increase our presence in the transaction segment helped offset some of the impact of the reduction in commercial spending, we still reported a year-on-year decline of approximately 6 percent in PC unit shipments in the Americas.

The commercial market conditions in the Americas deteriorated significantly in FY 2008-09 as many large enterprise customers delayed their purchase decisions and cut IT spending to reduce costs while struggling under the unprecedented economic challenges. Lenovo implemented a market crisis program by tailoring our offerings even more to increase customer value during the economic downturn. Lenovo also introduced significant enhancements to our relationship model, including expanding our market footprint by increasing channel partner relationships, increasing share-of-wallet with tailor-made product catalogs for the mid-market and public sectors, and using dedicated sales teams focused on new business acquisition.

With improved execution, establishment of an integrated business management system and expansion into the consumer segment, Lenovo delivered better-than market growth in the Americas' transaction business space. Lenovo reported a 14 percent year-on-year growth in PC unit shipments during FY 2008-09 by gaining traction in consumer and SMB markets, as well as in Latin America. The launch of IdeaPad S Series netbook at the Consumer Electronics Show 2009 brought additional excitement with favorable feedback from both retail and value-added reseller business partners.

Europe, Middle East and Africa (EMEA)

Lenovo enjoyed solid growth in Europe, Middle East and Africa (EMEA) up until the economic crisis hit in the summer of 2008. The extreme currency fluctuations during the year posed additional challenges in EMEA, which accounted for approximately 21 percent of Lenovo's overall sales. Because of the significant contraction of desktop demand and Lenovo's limited participation in consumer and entry-level PC segments in the geography, we reported a lower-than-market PC shipments growth of 6 percent year-on-year for FY 2008-09.

In view of the demand decline in our relationship business, Lenovo aligned resources to capture available market opportunities while initiating measures to alleviate the impact of the decline. For example, Lenovo won several significant strategic global accounts by focusing on back-end execution,

customer experience and segment coverage expansion. At the same time, Lenovo implemented best practices in our demand-generation efforts targeting mid-market and public sector customers across the EMEA region while focusing on sales retention, acquisition and account development processes. Lenovo continued to outgrow the market in the mid-market segment with solid margin performance.

Despite the challenging market environment, Lenovo stayed focused on enhancing our transaction business model in EMEA. On the commercial side, Lenovo optimized business partner segmentation and coverage to achieve better return on resource investment. In addition to France, Lenovo expanded into the consumer market in Turkey in August 2008 and quickly drove significant increase in our share of the notebook market in Turkey to more than 8 percent in the second half of FY 2008-09. In the fourth fiscal quarter, Lenovo completed our consumer notebook portfolio buildup in the geography with the successful launch of the IdeaPad netbook computer, which has been a very popular PC form factor across EMEA.

Asia Pacific (excluding Greater China)

In FY 2008-09, Asia Pacific (excluding Greater China) contributed approximately 11 percent to Lenovo's overall sales. The growth of the PC market in this geography slowed significantly because of the negative growth of the Indian market in addition to the impact of the global economic crisis. Lenovo reported a year-on-year decline of approximately 14 percent in PC shipments for the year.

Lenovo's performance in this geography was impacted by execution issues in both India and Japan, which offset the higher growth achieved in the rest of the geography in the first half of the year. Even though Lenovo achieved the No. 1 position in the education segment in Australia and New Zealand in FY 2008-09, we saw our PC shipments in large enterprise and high-end segments under great pressure in the second half of the year when the market showed marked slowdown with the widespread economic crisis.

In FY 2008-09, Lenovo implemented several actions to improve our business operations in India. However, Lenovo had to scale back our business in the Indian PC market, which faced severe challenges with market demand because of both domestic issues and the global economic crisis. In Japan, Lenovo also met with significant challenges caused by the weakness in the commercial market. Nevertheless, Lenovo was encouraged with the enthusiastic market response to the launch of IdeaPad netbooks in the fiscal fourth quarter.

Corporate Governance:

INTEGRATING LOCAL AND INTERNATIONAL BUSINESS
PRACTICES TO BEST SERVE THE INTERESTS OF
SHAREHOLDERS, CUSTOMERS AND EMPLOYEES.





5.1 Corporate Governance

The Board of Directors (the "Board") and the management of the Company strive to attain and uphold a high standard of corporate governance and to maintain sound and well-established corporate governance practices that serve the interests of shareholders, customers and staff.

The Company abides strictly by the governing laws and regulations of the jurisdictions where it operates and observes the applicable guidelines and rules issued by regulatory authorities. It regularly undertakes review of its corporate governance system to ensure it is in line with international and local best practices.

Throughout FY 2008-09, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange"), and where appropriate, met various recommended best practices in the CG Code, save for the following deviations explained below.

Code A.4.1 of the CG Code articulates that nonexecutive directors should be appointed for a specific term, subject to re-election. All the existing Nonexecutive directors of the Company currently and through the year do not have specific terms of appointment. Nevertheless, Nonexecutive directors are subject to retirement by rotation at annual general meetings under the Company's articles of association, accomplishing the same purpose as a specific term of appointment.

The Board has previously adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") prevailing before January 1, 2009. A revised Model Code complying with new requirements effective from January 1, 2009, was adopted by the Board on May 21, 2009. Notwithstanding this, the Board and relevant employees were informed of the new changes made in the Model Code and complied with the requirements of the new Model Code throughout FY 2008-09.

The Audit Committee of the Company regularly discusses with management the system of internal controls to ensure their effectiveness. An amendment of the terms of reference of the Audit Committee was approved by the Board on May 21, 2009, to include new responsibilities including the adequacy of resources, qualifications and experience of accounting and financial reporting function staff, and training programs and budget.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as set out in the Company's

2008-09 Annual Report. Particularly, the Company published quarterly financial results and business reviews within 45 days after the end of the relevant period in addition to interim and annual results. Quarterly financial results enhanced shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual accounts.

Directors' Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules and devised a comprehensive operative company policy based on the principles of the Model Code to govern securities transactions by directors and designated senior management of the Company. All the directors of the Company have confirmed, after specific enquiry, their compliance with the required standard during the 2008-09 fiscal year.

The Board

The Company together with its subsidiary companies (collectively the "Group") is controlled through its Board, which is responsible for steering the success of the Company by overseeing the overall strategy and directing and supervising its affairs in a responsible and effective manner, whilst management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer (the "CEO"). The Board has formulated a clear written policy that stipulates the circumstances under which management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will regularly review this policy.

The specific responsibilities reserved to the Board for its decision and consideration cover: annual budget, major capital and equity transactions, major disposals and acquisitions, connected transactions, recommendation on appointment or reappointment of auditors, and other significant operational and financial matters.

In addition, the Board is responsible for the preparation of financial statements for each financial year, which gives a true and fair view of the state of affairs of the Group on a going concern basis while the external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report on page 75 of the Company's 2008-09 Annual Report.

As of September 30, 2009, there were 11 Board members consisting of one Executive Director, six Nonexecutive Directors and four Independent Nonexecutive Directors. Accordingly, Nonexecutive Directors accounted for a vast majority of the Board whereas the Independent Nonexecutive Directors represented more than one-third of the Board, thus providing a strong independent element, which enhanced independent judgment. Mr. John W. Barter III, an Independent Nonexecutive Director of the Company, has the appropriate professional qualifications, or accounting or related financial management expertise as required under the Listing Rules. The biographies and responsibilities of Directors and senior management are set out on pages 61 to 64 of the Company's 2008-09 Annual Report.

During FY 2008-09 and up to September 30, 2009, the following changes in the Board structure of the Company occurred: (i) Mr. Shan Weijian resigned as a Nonexecutive Director of the Company with effect from May 23, 2008, whereas his alternate Mr. Daniel A. Carroll ceased to act in such position on the same date; (ii) Mr. William J. Amelio resigned as an Executive Director, President and CEO with effect from February 5, 2009; (iii) Mr. Yang Yuanqing became the CEO of the Company and ceased to be the Chairman of the Board effective on February 5, 2009; (iv) In place of Mr. Yang, Mr. Liu Chuanzhi was appointed the Chairman of the Board concurrently; (v) Dr. Wu Yibing was appointed Nonexecutive Director of the Company on May 21, 2009; and (vi) Mr. Justin Chang resigned as an Alternate Director to Mr. James Coulter with effect from August 6, 2009.

Save for the relationships (including financial, business, family, other material and relevant relationships) as detailed below and in the biography of Directors set out on pages 61 and 62 of the Company's 2008-09 Annual Report, there is no other relationship among the Board and the Chief Executive to the best knowledge of the Board members as on May 21, 2009:

- ① Mr. Liu Chuanzhi, Mr. Zhu Linan and Dr. Wu Yibing, Nonexecutive Directors, either serve on the Board of Directors or the management team of Legend Holdings Limited, the controlling shareholder of the Company.
- ② Among the Nonexecutive Directors of the Company, Mr. James G. Coulter being a partner of TPG Capital (formerly known as TPG) was nominated by TPG Capital pursuant to the Investment Agreement dated March 30, 2005, details of which were disclosed in the Company's circular dated April 20, 2005. In 2007, Ms. Ma Xuezheng, a Nonexecutive Director of the Company, became a Managing Director of TPG Capital. Thus, Ms. Ma is a Work Associate of Mr. Coulter.
- ③ Mr. William O. Grabe, a Managing Director of General Atlantic Group, was nominated by General Atlantic Group as a Nonexecutive Director of the Company pursuant to the Investment Agreement dated March 30, 2005, details of which were disclosed in the Company's circular dated April 20, 2005. Mr. Grabe is related to Mr. John W. Barter III, an Independent Nonexecutive Director of the Company, in that (i) Mr. Barter serves on the board of Genpact Limited and Dice Holdings, Inc., which are portfolio companies of General Atlantic Group, and (ii) Mr. Barter is a Limited Partner Co-investor in an investment fund company managed by General Atlantic Group. In this respect, Mr. Grabe and Mr. Barter are business related by their bonds with General Atlantic Group.

The Board meets at least four times a year at approximately quarterly intervals to review the financial performance of the Group, the overall group strategy and operations with active participation of majority of directors. Board meetings were scheduled two years in advance to facilitate maximum attendance of directors. Notices of not less than 30 days prior to regular Board meetings were given to all members of the Board. For other Board meetings, directors were given as much notice as is reasonable and practiceable in the circumstances.

Meeting agendas were finalized by the Chairman in consultation with members of the Board. For regular Board meetings, directors received agendas with supporting Board papers seven days before meetings and documents with updated financial figures were provided three days prior to meetings. Minutes of Board and committee meetings were circulated to the respective Board members for comment where appropriate and duly kept in a minutes book for inspection by any director.

Board Committees

The Company has preserved four board committees ("Board Committees") with defined terms of reference (which are available upon written request to the Company Secretary)—Audit Committee, Compensation Committee, Strategy Committee and Governance Committee. The terms of reference for the Audit Committee and Compensation Committee reference the CG Code, with those set out in the CG Code prevailing from time to time. Should need arise, the Board will authorize an independent board committee comprising all the independent Nonexecutive Directors to review, approve and monitor connected transactions (including continuing connected transactions) that should be approved by the Board. Minutes of committee meetings are circulated to members of the relevant Board Committees for comment and are open for inspection by any director.

- **Audit Committee.** The Committee is responsible for assisting the Board in providing an independent review of the financial statements and internal control system. It acts in an advisory capacity and makes recommendations to the Board.
- **Governance Committee.** The Committee is to assist the Board in overseeing Board organization and senior management succession planning, developing its corporate governance principles and determining Board evaluation criteria and process.
- **Compensation Committee.** The Committee is responsible for considering and recommending to the Board the Company's compensation policy, including its long-term incentive policy. It is also responsible for the determination of the compensation level and package paid to the Chairman of the Board, Chief Executive Officer and other directors and senior management.
- **Strategy Committee.** The Committee is responsible for assisting the Board in determining the vision, the long-term strategy and intermediate targets for the Company and reviewing the annual targets of the Company. The Committee is also responsible for the assessment of the performance of the Chairman of the Board and the Chief Executive Officer and making proposals to the Compensation Committee.

All the Directors have direct access to the Company General Counsel and Company Secretary, who are responsible for advising the Board on corporate governance and compliance issues. Written procedures are also in place for directors to seek, at Company expense, independent professional advice in performing their directors' duties. No request was made by any director for such advice during FY 2008-09. The Company has arranged appropriate insurance to cover the liabilities of the directors arising from corporate activities. The insurance coverage is reviewed on an annual basis.

On a bimonthly basis, management furnished updates of the financial performance of the Company to all members of the Board. Every Board member was furnished with a copy of Nonstatutory Guidelines on Directors' Duties published by the Hong Kong Companies Registry and a comprehensive induction package on appointment to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities as a Director.

It is expressly provided in the Company's articles of association that, unless otherwise permissible in the articles of association, a Director shall not vote on any resolution of the Board approving any contract or arrangement or any other proposal in which he/she is materially interested nor shall he/she be counted in the quorum present at the meeting. Each of the Independent Nonexecutive Directors has made a confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company is of the view that all Independent Nonexecutive Directors meet the independence guidelines set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Chairman and Chief Executive Officer

The positions of the Chairman of the Board and CEO are held by separate individuals to ensure a segregation of duties in order that a balance of power and authority is achieved. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives, whereas the CEO has the delegated authority of the Board to take direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

As on September 30, 2009, the posts of Chairman and CEO were held by Mr. Liu Chuanzhi and Mr. Yang Yuanqing respectively.

There is no relationship of any kind (including financial, business, family, other material and relevant relationships) between the Chairman and the CEO.

Table 5.1 A listing of corporate governance recognition is given below:

Year	Award	Organization
2000	Overall Best Managed Company in China – Ranked 2 nd	Asiamoney Magazine
2001	Overall Best Managed Company in China – Ranked 1 st	FinanceAsia Magazine
	Overall Best Managed Company in China – Ranked 1 st	Asiamoney Magazine
	A Leader in Corporate Governance in China – Ranked 2 nd	The Asset Magazine
2002	Most Committed to Corporate Governance in China – Ranked 1 st	FinanceAsia Magazine
	Overall Best Managed Company – Ranked 1 st	Asiamoney Magazine
2003	Best Corporate Governance – Ranked 1 st	Asiamoney Magazine
	Best Corporate Governance in China – Ranked 1 st	FinanceAsia Magazine
	A Leader in Corporate Governance in 2002 – Ranked 5 th	The Asset Magazine
2004	Best Corporate Governance in China – Ranked 2 nd	FinanceAsia Magazine
2005	Best Corporate Governance in China – Ranked 3 rd	FinanceAsia Magazine
2006	Best Corporate Governance in China – Ranked 4 th	FinanceAsia Magazine
	Corporate Governance Asia Recognition Awards 2006 – Asia's Best Companies for Corporate Governance	Corporate Governance Asia
2007	Corporate Governance Asia Recognition Awards 2007 – Asia's Best Companies for Corporate Governance	Corporate Governance Asia
	Best Corporate Governance – Ranked 6 th	FinanceAsia Magazine
2008	Best Managed Company in China – Ranked 3 rd	FinanceAsia Magazine
	Best Corporate Governance in China – Ranked 3 rd	FinanceAsia Magazine
	Most Committed to a Strong Dividend Policy in China – Ranked 5 th	FinanceAsia Magazine
	Corporate Governance Asia Recognition Awards 2008 – Asia's Best Companies for Corporate Governance	Corporate Governance Asia
2009	Corporate Governance Asia Recognition Awards 2009 – Asia's Best Companies for Corporate Governance	Corporate Governance Asia

5.2 Shareholders' Rights

The Company is committed to safeguarding shareholders' interests and encouraging shareholders to attend the annual general meetings for which sufficient notices will be given. Shareholders are therefore encouraged to actively participate at such meetings. The 2009 Annual General Meeting of the Company held on July 29, 2009, was attended by, among others, the Chairman of the Board, CEO, Chief Financial Officer, Chairman of the Audit Committee, Chairman of the Compensation Committee and representatives of external auditor PwC to answer questions raised by shareholders at the meeting. Resolutions passed at the 2009 Annual General Meeting included the adoption of the Group's audited accounts for the year ended March 31, 2009, together with the directors' report and independent auditors' report, re-election of retiring directors and authorization to fix directors' fees, re-appointment of external auditor and authorization to fix auditors' fee and grant of general mandates to the Board to issue and repurchase shares of the Company. All the resolutions proposed at the 2009 Annual General Meeting were decided by way of poll voting. The poll was conducted by Tricor Abacus Limited, the Company's share registrar, as scrutineer and the results of the poll were published on the Company's website (<http://www.lenovo.com/hk/publication>) and the Exchange's website (<http://www.hkex.com.hk>).

5.3 Investor Relations

Lenovo continues to promote investor relations by maintaining regular dialogues with investors and securities analysts. During the year, management attended a number of major investment conferences and met investors around the world in non-deal roadshows, in addition to regular one-on-one investor meetings and quarterly results announcement presentations.

The Company is widely covered by securities analysts. To enhance their understanding of Lenovo's operations and strategy, the Company organized two analyst round tables during the year, in which Lenovo's Senior Executives discussed the Company's efforts on product development and improving efficiencies in its global supply chain. The events were well-attended by analysts who appreciated Lenovo's dedication to investor relations.

Lenovo's investor relations team remains committed to maintaining open and efficient communication with the investment community even in times of market uncertainty. It will continue to focus on maintaining transparency, consistency, clarity, creditability and accessibility when it communicates the latest developments of the market and Lenovo with investors.

Table 5.2 The following table lists the investor relations awards received by the Company:

Year	Award	Organization
2000	Overall Best Investor Relations in China 2000	Asiamoney Magazine
	U.K. 2000 Awards: Best Asia-Pacific Company Investor Relations in the U.K. Market	Investor Relations Magazine
2001	Overall Best Investor Relations in China 2001	Asiamoney Magazine
	Best in Commitment to Shareholder Value, China	FinanceAsia Magazine
	Highly Commended—Best Asia Pacific Company Investor Relations in the U.K. Market	Investor Relations Magazine
2002	Overall Best Investor Relations	Asiamoney Magazine
	Best Communications with Shareholders/Investors	Asiamoney Magazine
	Best Investor Relations in China	FinanceAsia Magazine
2003	Overall Best Investor Relations	Asiamoney Magazine
	Best Investor Relations in China	FinanceAsia Magazine
2004	Best Investor Relations – 1 st Runner-up	FinanceAsia Magazine
2006	Excellence in Investor Relations (China)	Investor Relations Magazine
	Highly Commended – Grand Prix for Best Overall Investors Relations (non-SOE, large cap) (China)	Investor Relations Magazine
	Best Investor Relations – 1 st	FinanceAsia Magazine
2007	Best Investor Relations – 4 th	FinanceAsia Magazine
2008	Best Investor Relations – 5 th	FinanceAsia Magazine
	Certificate of Excellence in Investor Relations	Investor Relations Magazine
	Grand Prix for Best Overall Investor Relations (by a PRC-domiciled Company Listed on the HKSE)	Investor Relations Magazine
	Best Quoted Company for Investor Relations	Thomson Reuters Extel Asia Pacific Survey 2008

The Company welcomes suggestions from investors and shareholders and invites them to share their views and suggestions by contacting its Investor Relations team at ir@lenovo.com

5.4 Intellectual Property

Lenovo respects intellectual property rights. It is the Company's policy to avoid any infringement of copyright or other intellectual property rights of other Companies and individuals in the conduct of its business. Employees are expected to obtain any necessary license or other permission that may be required.

5.5 Employee Code of Conduct

Lenovo strives always to operate in an ethical and legal manner. The Company has created a Code of Conduct to inform and to guide employees in their everyday conduct at the Company. The Code was revised and re-issued in 2009, with a new training program to promote understanding and compliance. New employees are required to review Lenovo's Code of Conduct and sign the certification statement at the end of the document. Existing employees completed a recertification process in 2009.





Human Resources:

PROMOTING A FAIR AND ETHICAL WORKING
ENVIRONMENT THROUGH CORPORATE
STRATEGIES, POLICIES AND GUIDELINES.

6.1 Data Privacy

Lenovo is committed to protecting the personal data of our employees, customers, resellers and others. Corporate strategies, policies and guidelines support this commitment to protect personal information. Managers and employees are responsible for fulfilling the general principles for collecting, using, disclosing, storing, assessing, transferring or otherwise processing personal information.

These general principles include:

- **Fairness:** Lenovo will collect and process personal information fairly and lawfully and will provide clear notice about such practices.
- **Purpose:** Lenovo will collect personal information only if it is relevant to a legitimate business purpose. Also, Lenovo will state that purpose where required by law. Additionally, we will process this personal information in a manner consistent with the purpose for which it is collected.
- **Accuracy:** Lenovo will strive to keep personal information in a form that is as accurate, complete and up-to-date as is necessary for the purpose for which it is collected.
- **Disclosure:** Lenovo will make personal information available inside or outside the company only in appropriate circumstances and in accordance with our stated practices.
- **Security:** Lenovo will implement appropriate measures to safeguard personal information, and will provide appropriate resources to fulfill this objective. Also, Lenovo will require third-parties collecting, storing or processing personal information on behalf of Lenovo, if any, to process it only in a manner consistent with our data privacy policy.
- **Access and Redress:** Lenovo will provide individuals with appropriate access to personal information about them. Also, Lenovo will implement a process to resolve questions and problems that may be raised by such individuals.



6.0 Human Resources



6.2 Harassment and Inappropriate Behavior

Lenovo is committed to providing a work environment free from harassment, including harassment based on race, color, religion, gender, gender identity or expression, national origin, ethnicity, sexual orientation, sex, age, disability or veteran status. Lenovo has a zero-tolerance level for such misconduct in the work environment.

Lenovo will investigate reports of inappropriate behavior, policy violations or alleged retaliation and take appropriate action based on the results of such investigation. Lenovo will discipline employees who violate this policy based on the severity of the misconduct.

Employees who engage in harassment or inappropriate behavior are subject to disciplinary action ranging from informal counseling to discharge. The relative seriousness of the misconduct and any prior warnings given to the employee will be considered.

Employees who believe they have been the victim of harassment are encouraged to report the misconduct to management or the human resource department. Complaints will be investigated promptly and dealt with appropriately. Threats or acts of retaliation or retribution by any manager or other supervisory personnel against employees for use of Lenovo's communications channels or appeals process will not be tolerated.

6.3 Employee Grievance Process

From time to time, an employee may have a problem, question or concern that cannot be resolved by working with the employee's immediate manager. Lenovo has a grievance process, which allows employees to raise such issues outside their line management. The intent of the process is to ensure an objective and thorough review of the issues and ensure that all employees are treated fairly. Any issue except policy decisions or operational business issues is eligible under this process.

6.4 Reporting Unlawful or Inappropriate Behavior

Employees must report to their managers, human resources or the local Lenovo Legal Department any evidence of:

- Fraud by or against Lenovo.
- Unethical business conduct.
- A violation of laws.
- Substantial and specific danger to health and safety.
- A violation of Lenovo's corporate policies and guidelines, in particular its Employee Code of Conduct.

Lenovo will not tolerate harassment, retaliation, discrimination or other adverse action against an employee who:

- Makes an internal report under this policy.
- Provides information or assists in an investigation regarding such a report.
- Files, testifies or participates in a legal or administrative proceeding related to such matters.

Managers are required to report and help resolve suspected violation of this policy. Complaints of alleged retaliation will be promptly addressed and investigated.

Reports of inappropriate behavior, policy violations or alleged retaliation will, to the extent permitted by law and consistent with an effective investigation, be kept anonymous and confidential.

6.5 Government Relations

Lenovo maintains good relationships with local governments around the world and strives to be a responsible corporate citizen in the countries in which it operates. Lenovo strives to adhere to the highest standards of integrity and accountability when dealing with government rules and regulations.

Employees must be truthful and accurate in all correspondence with all government authorities. They are to comply with those requirements at all times and avoid potential conflict-of-interest situations for Lenovo employees holding government offices, including the appearance of conflict of interest even if an actual conflict of interest may not exist.

Lenovo will comply with all applicable laws and regulations governing lobbying and related activities.

6.6 Labor Practices for Direct Manufacturing Employees

Lenovo employs more than 5,000 direct laborers in four assembly plants in China, where Lenovo is considered an employer of choice. Lenovo also has a plant in Pondicherry, India, that employs more than 275 direct laborers. Lenovo has a fulfillment center in North Carolina, United States, that employs 50 employees. Centro Tecnológico in 7. Monterrey, Mexico, employs 180 direct employees and a maximum of 1,000 contractors.

Lenovo human resource policies strictly comply with labor laws and government regulations and also provide competitive rewards, equity policies and development opportunities.

Some elements of Lenovo Labor Practices include:

- Lenovo does not recruit or hire persons who are under 18 years of age. Internal monitoring processes are in place to ensure consistent adherence to this practice.
- Lenovo does not discriminate against candidates with disabilities.
- Direct laborers are offered competitive total rewards including base pay, performance bonus and other cash allowances. No Lenovo employee is paid less than the minimum wage specified by the government. Salary is paid monthly on time according to the agreement in the individual's labor contract.
- Overtime is paid to direct laborers according to government regulations. An internal overtime control process is in place to ensure a healthy work environment.
- Social insurance is enrolled for each direct laborer, which includes pension, injury insurance, unemployment insurance, medical insurance and maternity insurance.
- Supplemental significant disease insurance and accident insurance are offered to direct laborers.
- Lenovo also offers annual leave, a department activity fund and an employee club to enable direct laborers to have a good work and life balance.
- Employees are encouraged to use the internal appeal channels. This system is set up to ensure healthy employee relationships.

6.7 Lifetime Learning at Lenovo

Lenovo University is the company's personal educational development initiative designed to give employees the opportunity to acquire core competencies and skills needed for the future, while helping Lenovo retain a competitive global work force. With a growing list of innovative educational offerings, Lenovo University offers various programs ranging from online training to individual development planning to multicultural e-Pals.

Lenovo employees, on average, receive eight hours of training during the year. One hundred percent of employees receive performance appraisals or career reviews on an annual basis at a minimum.

Lenovo also supports an active employee mentoring program. Mentoring relationships are an excellent way to grow an employee's skills and knowledge in order to develop his or her full potential. Mentees and mentors both gain from participation in a mentoring relationship. Mentees can increase their understanding in the targeted subject area, and mentors can sharpen their leadership and coaching skills. To aid employees in the mentoring process, Lenovo provides an online book, "A Guide for Mentoring at Lenovo".

Lenovo Learning welcomes new employees with the Lenovo New Employee Guide, which helps new employees find answers to questions on a wide variety of topics—Lenovo's history, culture, business practices and policies as well as all the tools and resources available to the employee.



Diversity:

DRIVING INNOVATION AND CREATIVITY BY FOSTERING
A GLOBAL, MULTICULTURAL WORK ENVIRONMENT.



7.1 Valuing Diversity

As a global company, with a rich heritage of Eastern and Western cultures, valuing and respecting diversity has been instrumental to Lenovo's success. By leveraging the rich diversity of our work force, Lenovo is able to delight customers, attract and retain top talent and create a workplace where employees achieve their greatest potential. Lenovo bases our corporate policies on four key core values: customer service, innovative and entrepreneurial spirit, teamwork across cultures, and trustworthiness and integrity. Lenovo's diversity policy is also grounded in these core values, seeking to drive innovation and creativity at Lenovo by leveraging both the similarities and differences of our diverse, talented, global work force to support strong business performance.

7.2 Commitment to Diversity

Lenovo values the strength of our global work force and recognizes that by bringing together employees with different perspectives and experiences, we spark innovation and better decision making, which contribute to our long-term success.

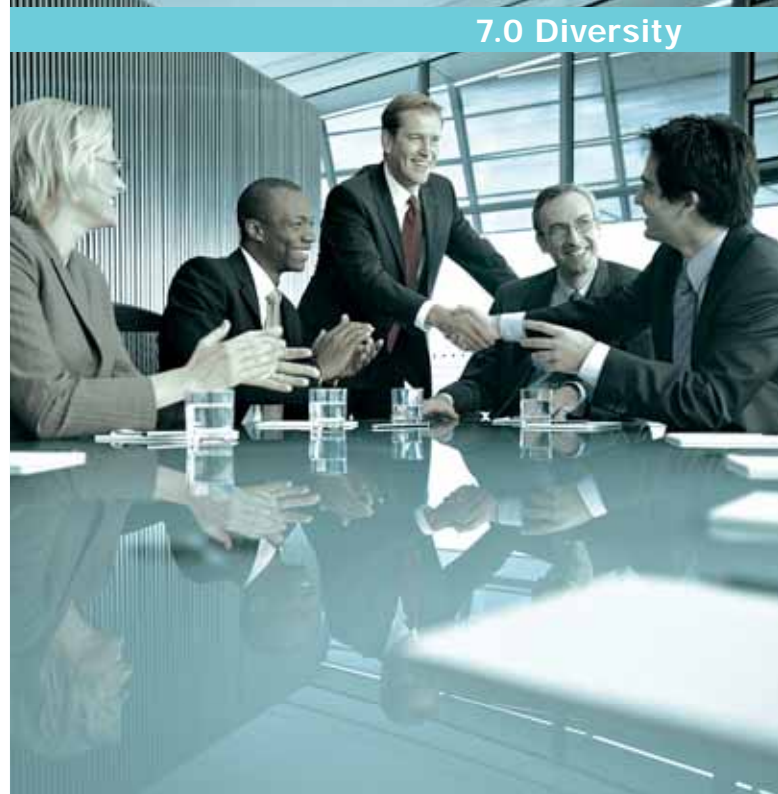
Lenovo has a globally dispersed, multicultural management team with broad expertise that sponsors key culture initiatives. Some of the key Diversity Executives are noted below:

- Rory Read, President and Chief Operating Officer, serves as Executive Diversity Sponsor.
- Yolanda Conyers, who serves as Chief Diversity Officer, launched Lenovo's department of Global Integration and Diversity in January 2007. In the U.S., Yolanda Conyers was featured on the NBC morning "Today" show and represented Lenovo as we were selected by Working Women magazine as one of its top three companies to work for.
- Fran O'Sullivan, Senior Vice President of our Think Product Group, serves as executive sponsor of Women in Lenovo Leadership (WILL)—a global women's initiative within our company.

Lenovo also partners with external organizations including Working Mother Media and Women in Technology International (WITI) to support gender inclusion efforts. Lenovo has sponsored and supported international meetings of the Women's Forum for the Economy and Society, which convenes top businesswomen from around the world for networking and sharing ideas. During the 2008 Women's Forum edition, Lenovo also supported the "SciTechGirls" initiative which aimed at encouraging female students to join scientific and technological careers.

Additionally, Lenovo is a leading member of InterElles, a French Society created in 2001 that promotes gender diversity in IT companies. Monthly meetings and a symposium on Women's Day, held annually on March 8, aims to analyze work conditions and barriers in IT companies and to share best practices in overcoming obstacles. Other member organizations include France Télécom, IBM France, Schlumberger, GE Healthcare, AREVA and Air Liquide et EDF.

Lenovo Spain is the winner of the National Flexible Company Award 2008 in its category. These awards are part of the 7th Campaign for Work-Life Balance that aims to identify the best business practices that leverage work-life balance in order to promote the adoption of these measures among other companies in the Spanish territory. These awards are supported by the Council of Labor and Women of the Regional Government of Madrid, leading Spanish business schools and key business media. As a result, Lenovo is considered one of the three most flexible companies in Spain from among the 1,800 companies that applied for this award in 2008.



Lenovo France signed the “Charte de la Diversité” with the French Government in 2008. The aim of this declaration, which is submitted annually to the government, is to demonstrate Lenovo’s ongoing commitment to social responsibility, accountability and diversity, as well as our support for the struggle against discrimination.

7.3 Global Work Force Reflective of Lenovo’s Global Customers

Lenovo has approximately 21,000 employees across the globe, with approximately 9 percent located in the U.S. Among its U.S. employees, 43 percent of professional/technical employees are women or people of color.

By attracting and developing top employees from around the world, we’ve assembled a best-of-breed global work force, empowered to produce the best quality and most innovative products.

Lenovo also supports diverse global observances such as Hispanic Heritage Month, International Women’s Day and Black History Month and we celebrate global national holidays, such as Lunar New Year and other key holidays in countries where our employees live and work.

Lenovo continues to focus on global inclusion and cultural diversity training for all managers. The purpose of this training is to reinforce understanding and relationship-building skills to work effectively with employees and customers from all backgrounds.

7.4 Marketplace and Supplier Diversity

Lenovo also strives to promote diversity in the companies we choose to partner with as subcontractors. Lenovo is continuing to refine our U.S. marketplace and supplier diversity strategy, which will focus on three key goals: increasing access to diverse talent, increasing access to a diverse supplier base and supporting entrepreneurship in local communities.

In spring 2009, Lenovo donated computers to Freedom Calls, a project that provides free videoconferencing to soldiers at bases in Iraq. The service enables service personnel to virtually see and speak with their families on a regular basis and participate in parent-teacher conferences, and it even enabled one soldier to participate in child adoption interviews with his wife.

Lenovo is a key sponsor of the Girls in Engineering program and the Global Marathon, which provides education and awareness to encourage girls to consider careers in engineering and technical fields.

In partnership with the NBA and NBA Legends, Lenovo donated computers to the first of 10 NBA Cares Learn and Play Centers. Additional donations are planned for centers in the U.S., Asia, Europe and Africa.

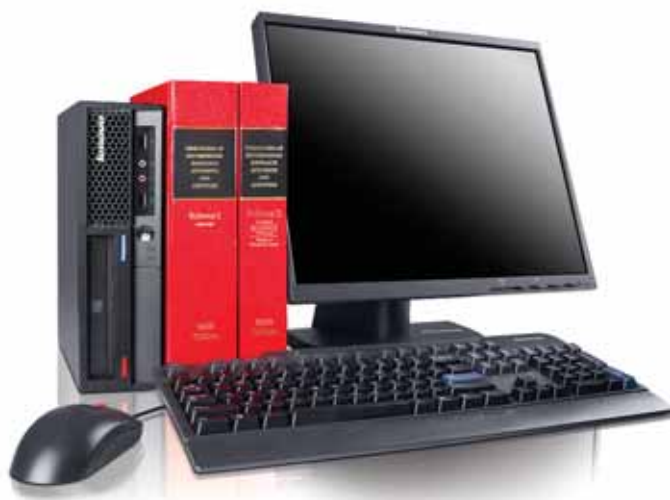
In North Carolina, the company’s operational hub in the U.S., Lenovo provided US\$100,000 in computers to North Carolina’s New Schools Project. The computers are used in Camden County, which is an underserved district in the state.

Lenovo also partnered with the Kramden Institute, a nonprofit organization that provides donated, refurbished home computers to low-income school-aged children.

7.5 Diverse Business Relationships

Lenovo is committed to promoting diversity in our business relationships, including fostering the utilization and development of qualified small, disadvantaged, women-owned, HUBZone, and service-disabled veteran-owned businesses. This commitment is fulfilled through the procurement of products and services. Lenovo’s corporate strategies, policies and guidelines are aligned to support this commitment to diverse business relationships.

In FY 2008-09, Lenovo’s U.S. operations continued to promote supplier diversity in the community as well as best-practice sharing by partnering with local organizations such as the Carolina’s Minority Supplier Development Council (CMSDC) and Greater Raleigh Chamber of Commerce. Internally, Lenovo educated our procurement team on supplier diversity and offered additional industry tools to locate minority- and women-owned businesses. In addition, the diversity team completed its first internal cross-functional diversity report covering supplier diversity progress.





Occupational Health and Safety:

ESTABLISHING WORLD-CLASS STANDARDS
AND PROCEDURES TO PROMOTE A SAFE
AND HEALTHY WORKPLACE.

8.1 Employee Health and Safety

At Lenovo, our worldsourcing approach means using the best talent, leadership, innovation and suppliers available worldwide. Clearly, fostering a safe and healthy working environment for Lenovo employees located in more than 60 countries is essential to our productivity and values.

Corporate Policy 3, "Responsibility for Employee Health and Safety", focuses on creating and maintaining a workplace that provides for the health and safety of all employees and reinforces the importance Lenovo places on health and safety at every location in which we do business.

Under this policy, all employees share a responsibility to:

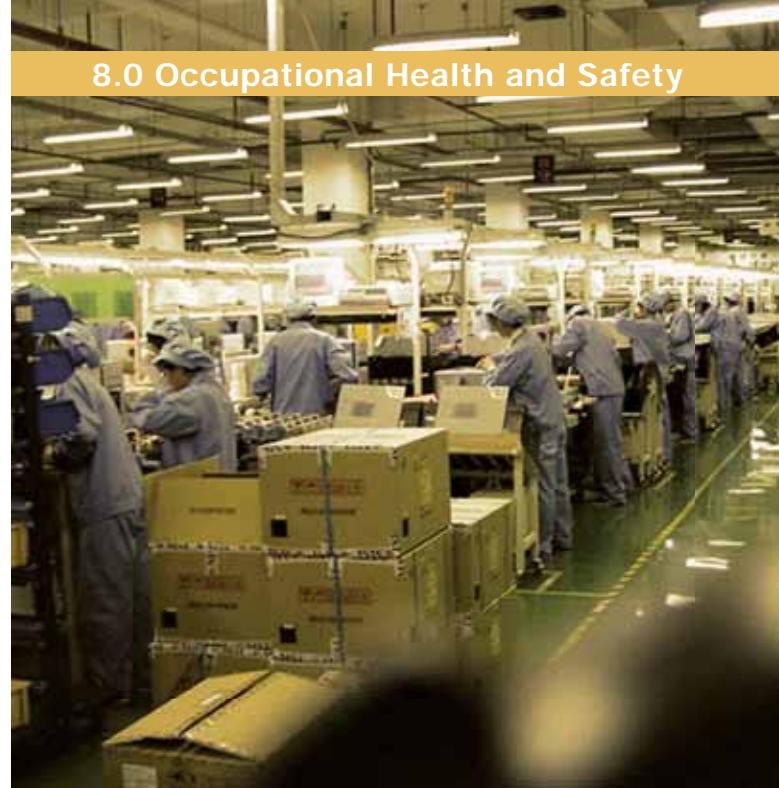
- Provide a safe and healthy workplace for other employees.
- Meet applicable legal requirements and voluntary practices, to which Lenovo subscribes.
- Incorporate employee health and safety requirements in business strategies, plans, reviews and product offerings.
- Implement and strive to improve processes and controls for preventing work-related accidents, injuries and illnesses.
- Provide appropriate resources to meet these objectives.
- Periodically report on safety initiatives and incidents to Senior Executive Management.

8.2 Health and Safety Activities

Lenovo's Global Occupational Health and Safety (OHS) organization has standardized its approach across our operations with the deployment of a global OHS Manual that has helped establish world-class standards and procedures to ensure employee workplace safety and prevent work-related injuries and illnesses.

As Lenovo expands our global operations, OHS is involved to ensure the appropriate level of health and safety measures are put in place for all employees and that regulatory compliance is maintained. With expansion and growth, OHS is fully prepared to deploy additional technical resources at all future locations.

At Lenovo, all manufacturing and select field locations have established safety committee-type programs. The goal of these committees is to provide a mechanism for employees to



bring forward potential safety concerns and participate in the necessary corrective action.

For 2008, Lenovo's manufacturing incident rates are well below comparable industry averages. There have been no significant accidents involving Lenovo employees reported over the past several years.

Lenovo has comprehensive safety and health programs in place to prevent and control workplace exposures. In 2007, Lenovo obtained OHSAS 18001 certification from Bureau Veritas, a leading independent certification body, at all global manufacturing locations. The OHS team conducts rigorous corporate and internal audits to ensure compliance and continually drive processes and program improvements. In addition, informational resources are made available to assist employees on various wellness matters and disease prevention.

Health and safety information/requirements are available and shared with non-Lenovo employees on a needs basis. Manufacturing employees receive mandatory safety training and are required to follow all Lenovo safety and health requirements.

To monitor progress, Lenovo established a system of formal and informal reviews of a variety of health and safety operations to ensure effective implementation of these minimum expectations. Lenovo also conducts formal audits of manufacturing locations and safety and health building reviews at select large real estate locations.

8.0 Occupational Health and Safety

In support of business continuity planning, Lenovo has developed and activated comprehensive pandemic plans and procedures to limit the potential impact of health-related concerns, such as the H1N1 virus at our manufacturing locations.

Additionally, Lenovo engages in a number of comprehensive wellness initiatives, and provides employee assistance programs and medical consulting services to promote overall employee health. For instance, Lenovo Morrisville opened a Power Up Fitness Center in January 2009. The facility is professionally managed by MediFit and enrollment is available to all Lenovo U.S. regular and supplemental employees. The fitness center's Motivation website includes an array of helpful health, fitness and lifestyle-related tools that employees may use to start and maintain a health and fitness plan. Examples of other employee health promotion offerings include health risk assessments, influenza immunization clinics and a wellness program that rewards employees for engaging in healthy behaviors and activities.

Lenovo's Shenzhen facility has been recognized by the Futian Free Zone for "Manufacturing Safety Excellence in the Workplace" for four consecutive years, from 2005-2008. The Shenzhen facility was also recognized by the local government for low work-related injury rates for the calendar years 2007 and 2008. Additionally, Shenzhen received the "Model Medical Unit" award for 2007 and 2008.

At Lenovo's Morrisville hub, the North Carolina Department of Labor recognized the location with its fourth consecutive Gold Award for our low injury/illness record in 2008. In addition, Lenovo's Fulfillment Center in Whitsett, N.C., was presented with a Gold Award for 2008 by the North Carolina Department of Labor.



A woman with long brown hair, wearing a dark top and a beaded necklace, is smiling and looking down at a young girl. The girl, with dark hair and wearing a red shirt, is looking up at the woman. A young boy with dark hair, wearing a light blue t-shirt, is standing behind the girl, also smiling and looking at the woman. They are gathered around a table with an open book and some papers. The background is softly blurred, suggesting an indoor setting like a library or a study area.

Social Investments:

ENCOURAGING BUSINESS DEVELOPMENT AND
SOCIAL ENTREPRENEURSHIP THROUGH CORPORATE
PROGRAMS AND INITIATIVES.

9.1 Lenovo's Social Investment Commitment

During FY 2008-2009, Lenovo committed 1 percent of our pre-tax income to programs and initiatives that serve society. Therefore, the size of our programs will grow as the company grows. The more success we achieve, the more we will be able to share that success with those around us.

As a global corporation with employees, customers and vendors all over the world, we realize that our "neighborhood" is everywhere. So, we seek to address issues in areas of great need, no matter where those areas or issues happen to be.

9.2 Hope Through Entrepreneurship

"Hope Through Entrepreneurship", our flagship Social Investment initiative, is consistent with the story of Lenovo's corporate history. In 1984, 11 entrepreneurs in Beijing had a vision to create a company that would bring the advantages of information technology to the Chinese people. With approximately US\$25,000 in seed money and the determination to turn their research into successful products, this team of entrepreneurs opened their business in a loaned space—a small, one-story bungalow in Beijing. Today, that business is one of the largest technology firms in the world.

Now, Lenovo is encouraging people around the world to build businesses and social ventures that will transform their lives and their communities. To do this, Lenovo supports organizations that encourage business development and social entrepreneurship. Our goal is to support more than 100,000 entrepreneurs in distressed communities around the world by the end of 2010.

One way we do this is through microfinance. We support institutions such as Opportunity International, Kiva and PlaNet Finance, which bring much needed capital in the form of microloans to entrepreneurs in Africa, Asia, Latin America and Eastern Europe. These loans, sometimes as small as \$50,



can dramatically change the lives of poor entrepreneurs and produce a ripple effect to help families and communities.

Lenovo is also helping grow Small-to-Medium Businesses around the world by sponsoring business education programs and business plan competitions with the help of organizations such as TechnoServe, the National Foundation for Teaching Entrepreneurship and the Allan Houston Foundation. Through these programs, Lenovo will provide technology, startup grants, mentorship and access to consulting and other business services to entrepreneurs in distressed communities around the world.

9.3 "Base of the Pyramid" Investments

In addition to helping other entrepreneurs build better lives for themselves and those around them, Lenovo has launched an initiative that will explore how to design new products and new business models that help bridge the digital divide, potentially bringing the benefits of technology to people who currently have no access to it. Our initial "Base of the Pyramid" investments include collaborative programs with universities, NGOs and for-profit companies to develop solutions to common problems of language support, access to power and connectivity that have made PCs less useful to rural populations.



9.4 Regional Community Outreach

Each Lenovo regional office has extensive relationships with particular communities and NGOs and supports environmental, social or entrepreneurial activities in their areas. A sample of activities is provided below.

Americas

Lenovo's U.S.-based employees pledged more than \$562,000 for the Lenovo "Employees Care" U.S. charitable giving campaign in 2008. The Lenovo Employees Care program provides an opportunity for employees to make personal donations through payroll deduction to local, national and international nonprofit organizations providing social, health, educational and environmental services.

Lenovo also continued to support the Kramden Institute during 2008-09. Lenovo donates used computers and computer parts to Kramden Institute and organizes employees to volunteer. In October, at Lenovo's new fulfillment center in Whitsett, N.C., more than 130 volunteers worked together to refurbish computers for kids in need. As a result, this "Geek-A-Thon" contributed 40 refurbished computers to local children during this single event. Kramden's mission is to refurbish and distribute computers to deserving students in homes with limited financial means. Lenovo is a founding sponsor of the Kramden Institute.

Lenovo employees also contributed volunteer hours in support of Habitat for Humanity during 2008-09. In the local Raleigh, N.C., community, Lenovo employees volunteered 750 hours to support local projects. Habitat for Humanity is an international, nongovernmental, nonprofit organization devoted to building "simple, decent and affordable" housing. Homes are built using volunteer labor and are sold at no profit.

More than 400 Lenovo employees from the U.S., Canada and Latin America contributed more than 1,200 volunteer hours in the largest single community outreach program to date during an Americas Group education conference in Orlando, Fla., in May 2008. Over a two-day period, Lenovo employees painted, cleaned, pruned and stained wood fences at Give Kids the World (GKTW) Village in Kissimmee, Fla., GKTW Village is a 70 acre resort complete with more than 138 villa accommodations, entertainment attractions, whimsical venues and fun specifically designed for children with special needs. Organizations like the Make-A-Wish Foundation provide children from all 50 states and 65 countries with opportunities to visit GKTW Village. Lenovo also presented GKTW Village with a donation of five ThinkPad, five ThinkCentre and ThinkVision® products as part of this community outreach event.

Asia Pacific

Lenovo India's CSR initiative, called "Matrubhasha", which was launched on March 12, 2009, is a vernacular computing initiative that empowers school children to gain computer proficiency through their mother tongue, without depending on English. The Matrubhasha project is part of Lenovo's commitment to corporate social responsibility and includes the donation of 150 new Lenovo H Series desktops, pre-installed with a unique vernacular computing software application called LooKeys. Beneficiaries in this program include 38 Akshara Foundation libraries in 35 Kannada government schools and three Urdu government schools across Bangalore. The alliance is the first of its kind in India.

The LooKeys-enabled Lenovo PCs donated to government school libraries will allow children to learn computing programs in 13 Indian languages—Hindi, Bengali, Urdu, Tamil, Kannada, Gujarati, Marathi, Telugu, Malayalam, Konkani, Punjabi and English. The children can also use other applications like chat, word processing, PowerPoint, e-mail and be able to browse the web using the language of their choice as the medium.

Lenovo participated in the launch of the Climate Savers initiative in Australia with alliance partners Google and Intel® on World Environment Day, June 5, 2008. As members of the board and with some of the most environmentally friendly PC in the industry, Lenovo is the best-positioned computing vendor to help the "mission possible" locally—1 million users in Australia committed to slowing global warming with smart computing power management.

Lenovo employees in Yamato, Japan, have participated in monthly voluntary neighborhood cleanups for more than a decade.

Greater China

Lenovo's Greater China region focuses its community involvement in four key areas: diminishing the digital divide, environmental-protection, education and relief for the impoverished and disaster-ravaged populations. Lenovo is actively working to boost the growth of Greater China's charitable causes while helping build greater overall harmony in society.

The Lenovo China Volunteers Association (LCVA) was established to help further unify the efforts of Lenovo's employees in the Greater China region. LCVA advocates mutual respect and assistance and actively coordinates various employee volunteer activities throughout the greater China region.

In 2008, LCVA organized a number of employee volunteer activities including tree plantings, book donations, Red Cross training, support for Paralympics and blood donations following the Wenchuan earthquake. LCVA has more than 1,600 Lenovo employees participating in these volunteer activities, which make the LCVA one of the most active members of the Beijing Volunteers Association.

On May 13, 2008, immediately following the catastrophic Wenchuan earthquake, Lenovo announced the donation of US\$1.5 million to support the earthquake area. In addition, more than 600 Lenovo employees gave blood, while Lenovo donated server hardware and services to support the reconstruction efforts. Lenovo also donated more than US\$725,000 to a local middle school to support reconstruction.

Lenovo China is also a major supporter of the local China nonprofit community. In 2007, Lenovo officially launched our NGO empowerment program, a new approach to facilitating development of nonprofit organizations in China. The first phase of the NGO empowerment program provided US\$435,000 in financial aid to 16 NGOs across the country. In January 2009, Lenovo started implementing the second phase of the program and provided US\$250,000 in financial aid to 10 other outstanding nonprofit organizations that support the environment.

Western Europe

Lenovo considers microfinance and IT solutions as our most efficient combination of tools to fight poverty. Lenovo Western Europe's partnership with PlaNet Finance aims at selecting innovative projects from young entrepreneurs in France and Europe, promoting microfinancing in business environments, and optimizing technical and financial support coming from diverse populations and emerging markets. In 2007, PlaNet Finance launched two initiatives in France, "Entreprendre en Banlieue" and "FinanCités", which are both aimed at supporting economic development in French-sensitive urban zones. The success of these programs in France has led PlaNet Finance to promote these initiatives at a European level, with France being joined by Belgium, Germany, Italy and the United Kingdom.



Lenovo Products:

CREATING EXCEPTIONALLY ENGINEERED
PRODUCTS THAT EXCEED INDUSTRY STANDARDS
IN QUALITY AND RELIABILITY.



10.1 Quality

Lenovo has a well-earned industry reputation for delivering superior quality products. Lenovo's global Quality Management System, which has received ISO 9001 (International Organization for Standardization) certification, ensures the continual delivery of design improvements into Lenovo's current and future products.

ISO 9001 is the international standard for achieving overall quality in business process management. ISO 9001 requirements create the foundation for conducting business in a manner that enables companies to realize the highest caliber of workmanship and customer satisfaction. The framework comprises the entire span of product or service delivery, from the purchase of raw materials or components, contract review, quality control product inspection, design, development, handling, delivery, employee training and customer service and support. Lenovo strongly embraces the ISO 9001 commitment to an effective quality management system and is dedicated to exceeding industry standards when it comes to detail, product quality and product reliability.

Building upon our company's heritage, Lenovo combines the talents of the innovation-driven China Legend team and the quality heritage from the former IBM Personal Computing Division, including some of the industry's top PC engineers to create a powerful global company focused on exceptionally engineered products. Product managers are responsible for establishing objectives and measuring results to drive continual improvement in quality and customer satisfaction throughout the organization and by every company employee.



Lenovo's comprehensive product development process includes prototype development, product testing and focus groups to make sure the company meets the diverse needs of our global customers. For instance, Lenovo proactively seeks input on design and product features from customers and partners. Prototypes are extensively evaluated and final products are put through stringent testing to ensure that they meet stringent standards specific to their application and use before they are cleared for shipment.

Lenovo's Technical Evaluation Center provides information and recommendations to Lenovo Engineering. Lenovo's Lessons Learned feedback loop aids in refinement and the maturation of our processes and elimination of recurring problems. As a result, Lenovo's product repair action rates are among the lowest in the industry.

Lenovo leaders are responsible for establishing objectives and using measurements to drive continual improvement in quality and customer satisfaction. All Lenovo employees are expected to contribute to the continual improvement as an integral part of our quality management system.

Additional information on Lenovo's corporate quality policy is available at: <http://www.lenovo.com/quality>

Customer-focused Testing

Once the product development phase is completed and before production, Lenovo products undergo a series of customer-driven tests. These include ongoing customer simulation evaluations and Customer Simulation Audits (CSA) to evaluate product quality by removing systems from the box and setting them up in typical customer configurations. In addition, extended customer simulation tests are conducted on a sample basis with various configurations of product options and software. This last evaluation simulates the performance of the product through various standard customer applications. Consequently, Lenovo has developed a quality system that meets the requirements specified by ISO 9001 standards, with failure rates lower than ever.

Lenovo has continued to enhance our customer-focus program by sending technical teams to support installations at the customers' premises.

During and after the rollout of the installation, there is ongoing dialogue between the customer and Lenovo, providing timely feedback on installation progress, allowing corrective actions to be rapidly implemented and preempting potential issue areas that may impact other customers. This has proved highly advantageous during new product release as corrective actions can be easily identified in the product delivery cycle.

10.2 Safety and Ergonomics

Lenovo is committed to ensuring that our products are safe throughout their lifecycle, including manufacturing, transportation, installation, use, service and disposal. Corporate strategies, policies and guidelines have been designed to support this commitment for product safety. Each employee bears a personal responsibility to advance the following objectives:

- Meet all applicable legal requirements and voluntary safety and ergonomics practices to which Lenovo subscribes wherever we sell products.
- Select suppliers that demonstrate a similar commitment to safety and provide customers with adequate information to enable them to safely use Lenovo's products.
- Foster employee involvement and provide appropriate resources to develop and implement successful product safety initiatives.
- Continually improve product safety initiatives.
- Investigate product safety incidents and take prompt remedial actions to protect Lenovo's customers and employees.
- Periodically report on safety initiatives and incidents to senior executive management.



Lenovo strives to ensure that our products meet all applicable legal requirements and voluntary safety and ergonomics practices to which Lenovo subscribes wherever our products are sold.

The following table depicts the process for product development and assessment for safety at various life cycle points:

Assessment Requirements at Life Cycle Points:

Development of product concept	No
R&D	Yes
Certification	Yes
Manufacturing and production	Yes
Marketing and promotion	No
Storage distribution and supply	No
Use and service	Yes
Disposal, reuse or recycling	Yes

Through stringent emphasis on product safety and quality, Lenovo is achieving high customer satisfaction and delivering quality products, solutions and services.

In FY 2008-09, there were no incidents that were subject to the reporting criteria of government safety regulations and voluntary safety agencies concerning the health and safety impacts of Lenovo products and services.



Environmental Management:

UTILIZING SUSTAINABLE BUSINESS PRACTICES
THAT MINIMIZE ENVIRONMENTAL IMPACT
THROUGHOUT OUR PRODUCTS' LIFECYCLE AND
REDUCE THE COMPANY'S CARBON FOOTPRINT.



11.1 Lenovo's Environmental Commitment

Lenovo is committed to providing leadership in environmental affairs in all of our business activities. Lenovo follows applicable regulations around the globe. In addition, Lenovo exceeds regulatory requirements in many instances as part of the continual improvement of our environmental performance. For instance, Lenovo participated in a number of voluntary environmental initiatives in Fiscal Year (FY) 2008-09 and is continually evaluating potential opportunities to further reduce our environmental impact. Voluntary initiatives in which Lenovo participated in FY 2008-09 include:

- ◆ EPEAT™ (Electronic Products Environmental Assessment Tool).
- ◆ ENERGY STAR™.
- ◆ EICC (Electronic Industry Citizenship Coalition).
- ◆ iNEMI (International Electronics Manufacturing Initiative)
 - Efforts to develop industry-standard approaches to BFR/PVC phaseout.
- ◆ VESA (Video Electronics Standards Association)
 - Development of energy-efficient interface standards for monitors.
- ◆ Carbon Disclosure Project.
- ◆ R2 (Responsible Recycling) – Larger stakeholder review of U.S. EPA and smaller stakeholder group's development of R2 standard for electronics recyclers.

Lenovo has a proud history of being recognized for our environmental performance and leadership, including:

- **2001** – Lenovo China achieved ISO 14001 certification.
- **2002 and 2003** – Lenovo's desktop commercial PCs and desktop consumer PCs awarded the supreme award for PC design, the "2002 Autumn Innovative PC Award".
 - ◆ Among them, the Kaitian 6800 PC pioneered the PC miniaturization design in China, with the use of plastics and hardware materials less than 50 percent of those used in traditional PCs. After two years of continual promotion, this model increased the market share of PCs with a small form factor from less than 2 percent to 20 percent in China, having dramatically reduced the raw materials consumption in the PC industry.
- **2004 and 2005** – Lenovo China received "Green Product" award for desktop PC from China Environmental Protection Foundation. Additionally, Lenovo also received the "Green Innovation" award for Lenovo Innovation Center building.
- **2005** – All Lenovo's commercial products met China's energy savings targets.
- **2006** – Lenovo China and Lenovo International (the former IBM PC Division) realized the comprehensive integration of environmental management systems, standards and product specifications.
- **2007** – Building upon our history of ENERGY STAR™ program participation, Lenovo introduced a complete line



of notebook and desktop computers complying with the latest U.S. EPA ENERGY STAR™ requirements. Lenovo also introduced our smallest, most energy-efficient desktop to date, the ThinkCentre A61e.

- **2008** – In May 2008, the Lenovo ThinkVision L174 and L197 wide monitors won seven awards:
 - ◆ "China IT Coalition" awarded by Computer World.
 - ◆ "Green Energy-efficient Product" awarded by CWEEK.
 - ◆ "Strongly Recommended Product" awarded by CWEEK.
 - ◆ "Green Power-saving Model" awarded by PC Info.
 - ◆ "Green Energy-efficient Product" awarded by IT 168.
 - ◆ "Green Certificate" awarded by PC Magazine.
 - ◆ "Editor Recommended Product" awarded by CHIP.
- **2008** – In August 2008, the Lenovo ThinkVision L196 wide and L2240p wide monitors won two awards:
 - ◆ "Recommended Green Product" awarded by PC Magazine.
 - ◆ "The Energy-efficient Champion" awarded by PC Magazine.

- 2009 – Lenovo Norway awarded Eco-Lighthouse certification.
- 2009 – In January 2009, Greenpeace produced the report “Green Electronics: The search continues,” and awarded the Lenovo ThinkVision L2440x wide monitor as the “Best Product Overall”.

Lenovo's long-term, comprehensive approach encompasses everything from site operations to product design to recycling. Corporate strategies, policies and guidelines support this environmental-responsibility, and each manager and employee, as well as any contractor working on a Lenovo site, bears a personal obligation to Lenovo's environmental commitments. The following sections describe in greater detail Lenovo's environmental policy, programs and commitments.

11.2. Lenovo's Environmental Policy

Lenovo's corporate environmental policy applies to all Lenovo manufacturing and development operations and forms the foundation of Lenovo's Environmental Management System (EMS). This policy is available online at http://www.lenovo.com/social_responsibility/us/en/environmental_policy.html

Corporate Policy 5 Environmental Affairs

Effective Date: June 1, 2009

Lenovo is committed to exhibiting leadership in environmental affairs in all of our business activities. The requirements listed below apply to Lenovo's worldwide operations. Every Lenovo organization must support this policy, and each manager and employee, as well as any contractor performing work on behalf of Lenovo, shall bear a personal responsibility for the following objectives:

Compliance

- Meet or exceed all applicable environmental requirements for all Lenovo activities, products and services, including legal requirements, standards and voluntary commitments to which Lenovo subscribes.

Prevention of Pollution

- Use sustainable business practices and processes that minimize waste and prevent pollution, conserve energy and minimize Lenovo's carbon footprint, minimize health and safety risks, and dispose of waste safely and responsibly.

Product Environmental Leadership

- Conserve natural resources by developing products and packaging that minimize materials usage, use recycled and environmentally preferable materials, and that maximize reuse and recycling opportunities at the end of the product's life.

- Develop, manufacture and market products that are energy-efficient and that minimize their impact on the environment.

Continual Improvement

- Strive to continually improve Lenovo's environmental management system and performance.
- Work with Lenovo's supply chain to improve environmental protection and promote the use of environmentally preferable technologies.
- Be an environmentally responsible neighbor in the communities where we operate and act promptly and responsibly to correct conditions that may endanger health, safety or the environment.
- Provide appropriate resources to fulfill these objectives.

Corporate strategies, policies and guidelines must support this commitment to leadership in environmental affairs. Every employee and contractor of Lenovo must follow this policy and report any environmental, health or safety concerns to Lenovo management, who must take prompt corrective action.



Yuanqing Yang,
Chief Executive Officer

11.3. Lenovo's Environmental Management System

Lenovo's Environmental Management System (EMS) is ISO 14001 certified and covers Lenovo's global manufacturing, research, product design and development activities for personal computers and related products, servers, and digital and peripheral products. As part of Lenovo's ISO 14001 certification, Bureau Veritas audits all major operations and product development areas globally. Lenovo's legacy China sites are also audited by CESI, the China Electronics Standardization Institute, in addition to audits performed on these sites by Bureau Veritas.

In addition to these external audits, Lenovo conducts regular internal audits to ensure the EMS is functioning properly, tracking progress toward objectives and targets, and identifying and implementing actions supporting continual improvement.

Lenovo sets environmental goals for sites and products annually. These objectives and targets are established and driven in association with the management of our significant environmental aspects.

For FY 2009-10, Lenovo has identified the following areas as significant environmental aspects within the EMS:

- Product materials, including use of recycled plastics and environmentally sensitive materials.
- Supplier environmental performance for product life cycle management.
- Site waste recycling/reuse and nonhazardous waste disposition.
- Packaging.
- GreenHouse Gas (GHG)/carbon emissions factors, including product energy use and operational green house gas emissions.

All sites and product business units are expected to perform their own significant environmental aspect evaluation process and may have different aspects, depending on their operations.

Lenovo has set worldwide objectives and targets for each of these significant environmental aspects, and each site or business unit with influence on the aspects is expected to develop objectives and targets to support the global goals.

Lenovo's EMS objectives and targets for FY 2009-10 are listed below. Progress towards these goals is monitored at a global level through periodic reporting and internal and external EMS audits.

Table 11.1 Lenovo FY 2009-10 Environmental Aspects and Associated Objectives and Targets.

Aspects/Objectives	Targets
Product Materials: <ul style="list-style-type: none"> • Develop sustainable products using materials that are safe during production, use and disposal. • Develop products that are environmentally preferable along with increased recycled content. 	Recycled Plastics: <ul style="list-style-type: none"> • Identify suppliers and qualify grades of post-consumer recycled content plastic resins for use in Lenovo IT products. • Identify product applications for use of post-consumer recycled content plastic resins. • Applies to monitors, notebooks, desktops, servers and workstations. • Each business unit must develop a plan to improve upon FY 2008-09 performance. Environmentally Sensitive Materials: <ul style="list-style-type: none"> • Each BU must develop a phase-out plan for materials of concern. • GEA to provide BU advance notice on upcoming requirements for materials of concern.
Supplier Environmental Performance: <ul style="list-style-type: none"> • Minimize potential environmental impact of Lenovo's Category-3 recycling suppliers. 	<ul style="list-style-type: none"> • Achieve 100 percent audit coverage for pre-audit evaluations and maintain at least 80 percent on-site audit coverage for all currently active Category-3 recycling suppliers by year-end FY 2009-10. • Complete audits of high-risk Category-2 supplier facilities identified by procurement and local environmental team (ongoing).
Product End-of-Life Management: <ul style="list-style-type: none"> • Reduce Lenovo customers' dependence on use of landfills for disposal of IT equipment and maximize the reutilization and recycling of their products, parts and materials. 	<ul style="list-style-type: none"> • Increase the total weight of customer returned IT equipment processed by Lenovo suppliers or financed by Lenovo through consortia by 10 percent over the previous year's performance.
Site Waste Recycling/Disposition: <ul style="list-style-type: none"> • Minimize amount of site-related waste sent to landfill by maximizing recycling and reuse activities. 	<ul style="list-style-type: none"> • Maintain average global recycling rate for nonhazardous solid waste of more than 95 percent.
Packaging: <ul style="list-style-type: none"> • Minimize consumption of packaging material while driving the use of environmentally sustainable materials. 	<ul style="list-style-type: none"> • Drive packaging improvements that result in a reduction of 125 tons of packaging material worldwide. • Global Packaging to assist business units in identifying sustainable packaging materials, including recycled content materials. • Each business unit to develop a plan to reduce overall use of packaging and increase the percentage of recycled materials used.
GHG/Carbon Emission Factors – Product Energy: <ul style="list-style-type: none"> • Minimize climate change impact of Lenovo products by developing sustainable products with improved efficiency and/or reduced energy consumption. 	<ul style="list-style-type: none"> • Participate in ENERGY STAR™ 4.0 and 5.0 programs and Japan Energy-saving Law across all applicable product groups. • Each business unit to qualify at least as many 5.0 products as 4.0 products.
GHG/Carbon Emission Factors – Operational GHG Emissions: <ul style="list-style-type: none"> • Minimize GHG/carbon emissions associated with the operation of Lenovo facilities worldwide. 	<ul style="list-style-type: none"> • Increase carbon efficiency by 10 percent by FY 2012-13 relative to FY 2007-08.

¹Category-3 suppliers provide hazardous waste, special waste or other managed waste management services, or Product End-of-Life Management (PELM) services.

²GHG is GreenHouse Gas

A SUMMARY OF PROGRESS TOWARDS FY 2008-09 OBJECTIVES AND TARGETS ARE INCLUDED BELOW.

TABLE 11.2 LENOVO FY 2008-09 ASPECTS AND OBJECTIVES STATUS:

Aspects	Targets	Status
Energy Efficiency of Products	Participate and qualify products to ENERGY STAR™ Participate in ENERGY STAR™ 4.0, 5.0 JESL	Target achieved ¹
Product Materials: Recycled Plastics	4 percent post-consumer recycled plastics for monitors, notebooks, desktops, servers and workstations	Target achieved ²
Product Materials: Environmentally Sensitive Materials	All business units to have at least one product announcement in 2009 supporting the PVC/BFR phase-out goal. The use of PVC and BFRs in all products shall be phased out by year-end 2010.	Target partially achieved ³
Design for Reuse and Recycling	Establish new DFE criteria and establish baseline	Target achieved ⁴
Packaging	Reduce total packaging material consumed	Target achieved ⁵
Site Waste Recycling, Reuse and Disposition	Maintain 95 percent recycling rate Evaluate reuse opportunities Establish recycling goals for major non-manufacturing sites	Target partially achieved ⁶
Operational GHG Emissions	Define process to meet 10 percent carbon intensity goal Increase energy efficiency by 5 percent at man/dev/res. sites, indexed to sales	Target partially achieved ⁷
Product End-of-Life Management	Increase weight of customer returned equipment processed by Lenovo, by 50 percent over 07-08	Below target – but improved performance year-to-year ⁸
Supplier Environmental Performance	Achieve 90 percent audit coverage for active recycling suppliers Evaluate Category-2 suppliers	Target achieved ⁹

¹Greater than 90 percent of our Think products and 100 percent of our monitors met the ENERGY STAR™ 4.0 requirements. Eighty percent of our IdeaPad products were 4.0 compliant. ENERGY STAR™ 5.0 requirements are met by 100 percent of our monitors and ThinkStation products, 80 percent of our ThinkPad products and 60 percent of our ThinkCentre and IdeaPad products. We are committed to continuing to improve energy efficiency and have more of our products meet requirements. Consistent with customer demands, we continue to provide a product portfolio that allows them to balance cost and energy efficiency.

²Lenovo demonstrated very good performance with regard to use of post-consumer recycled content (PCC). For FY 2008-09, approximately 14 million pounds (gross) of PCC was used in the manufacture of Lenovo desktop, workstation and monitor products. PCC purchases in the Visuals business were 70 percent of the business unit's total plastic purchases.

³Because of a challenging business environment and significant cost impacts associated with the total phase out of PVC and BFR across all product lines, Lenovo has re-evaluated our timetable for achieving this target. While ultimately Lenovo remains committed to this principle, the timeline was extended through 2011. We currently offer numerous PVC and BFR-free visual products and have committed to establishing achievable plans for desktop and notebook products during 2009. We are also committed to continual incremental reduction of these materials in our products. Lenovo also continues to demonstrate our concern for air quality by offering an extensive list of GREENGUARD® Indoor Air Quality Certified products.

⁴To ensure the development and marketing of environmentally friendly products, Lenovo has committed to the design criteria established by the Electronic Product Environmental Assessment Tool (EPEAT™) (<http://www.epeat.net/CompanyDetail.aspx?CompanyID=37>). Consistent with the varying requirements established by our customers to balance cost and environmental attributes, Lenovo offers products at the EPEAT™ Gold and Silver levels in many geographies.

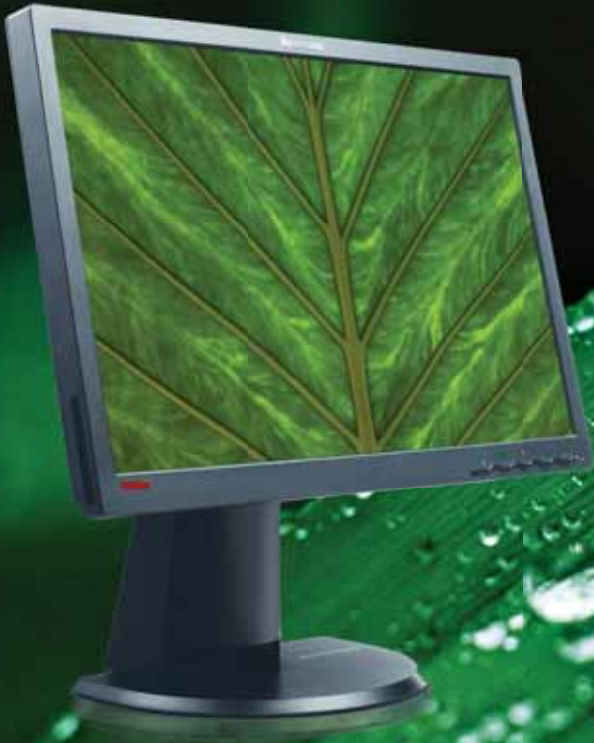
⁵At midyear our packaging target was adjusted from a focus on the use of recyclable material to an absolute reduction in total materials consumed for packaging. Lenovo reduced our use of packaging materials by 750 metric tons in FY 2008/09.

⁶Consistent with past performance, Lenovo achieved a recycling rate of 96 percent at our manufacturing and development sites worldwide. We also identified and implemented new opportunities for the reuse of pallets, packaging materials and office paper at all of these facilities.

⁷During the past year Lenovo established a process to support our commitment to improve energy and carbon efficiency. All manufacturing and development sites identified an energy champion and established energy action teams. The energy action teams drive energy and GreenHouse Gas reduction activities at the sites. The energy champions are members of a corporate energy management team that recommends strategy and targets for senior management approval and provides direction for the energy action teams. During FY 2008-09, Lenovo added manufacturing capacity and administrative and development space. The increased energy consumption associated with these facilities combined with the reduction in sales driven by the slowing economy resulted in our failure to achieve the 5 percent increase in efficiency during the year.

⁸While we did not achieve our Product End-of-Life Management goal, we did achieve significant progress in ensuring electronics products are properly dispositioned. The total weight of customer returned IT equipment during the year increased by 8 percent, short of our goal of 50 percent. The lower-than-predicted return of IT equipment is attributed to a decline in the replacement of existing equipment in conjunction with the economic downturn.

⁹At year's end, Lenovo had achieved 92 percent audit coverage for listed Category-3 (recycling and disposal) supplier facilities with the remaining suppliers audited after reporting period. We had also identified and established audit plans for all high-risk Category-2 suppliers. This performance leaves us well-positioned to achieve 100 percent audit coverage for all high-risk suppliers during the coming year.



11.4. Lenovo's Environmentally Conscious Products Program

Before becoming a global company in 2005, Lenovo developed technical specifications for PCs that included environmental attributes such as energy and all commercial products were designed to meet China's energy-savings targets. With the globalization of Lenovo's reach in 2005, the Company adopted a comprehensive Environmentally Conscious Products program aimed at leadership in the global PC business.

Lenovo is committed to eliminating potential health hazards and minimizing the environmental impact of its products. In order to implement this commitment, Lenovo's chemical and substance management policy supports a precautionary approach, ensuring Lenovo will take appropriate action even if some cause and effect relationships are not fully scientifically established.

Lenovo's priority is to use environmentally preferable materials whenever applicable. In adhering to the precautionary approach, Lenovo supports restricting the intentional addition of materials of environmental concern, when economically and technically viable alternatives exist. These restrictions may also include implementing concentration limits for incidental occurrences. For materials where economically and technically viable alternatives do not exist, Lenovo collects data on the usage of these materials, above defined concentration limits.

This data can be reported to customers or other stakeholders. Finally, we actively search for environmentally preferable materials that can be substituted.

Lenovo expects its suppliers to adhere to requirements of Lenovo's Environmentally Conscious Products Program. Lenovo supplier specifications, available at http://www.pc.ibm.com/ww/lenovo/procurement/Guidelines/Restrictions_and_Packaging.html, restrict the use of environmentally sensitive materials in our products. The specification encompasses both regulatory and Lenovo-imposed material bans and restrictions, including the prohibition of ozone depleting substances for all applications and the elimination of European Union (EU) Restriction on Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH)-restricted materials beyond those jurisdictions where regulatory requirements exist. Lenovo's implementation strategy and requirements are consistent with the requirements specified in the EU's RoHS Directive and REACH Regulation. Additional information about RoHS and REACH can be accessed at <http://www.pc.ibm.com/ww/lenovo/about/environment/RoHSCommunication.pdf> and http://www.pc.ibm.com/ww/lenovo/about/sustainability/environment/Lenovo_REACH_SVHC_Disclosure_October_2008.pdf

Lenovo requires its suppliers to report any usage of Brominated Flame Retardants (BFRs) and PolyVinyl Chloride (PVC). In recognition of the continuing concern about usage of PVC and BFRs, Lenovo is committed to a well-reasoned approach to the elimination of these materials of concern and is working with its suppliers and industry associations to phase out materials of concern, including PVC and BFR. Lenovo currently prohibits use of PVC in external cover parts and plastic parts weighing more than 25 grams. Lenovo is working with its suppliers and other industry associations to test and qualify new low halogen and halogen-free materials for use in Lenovo applications. Phase-out plans for materials of concern, specifically BFR and PVC, are dependent on the availability of economically viable, safe alternatives that meet Lenovo quality and reliability standards.

In 2008 and 2009, Lenovo began offering the ThinkVision L2440x wide and L2251x monitors that are BFR and PVC free (with the exception of power cords in certain geographies; work is being done to phase in PVC-free power cords in all geographies). These monitors are also mercury- and arsenic-free and use up to 60 percent less power than conventional LCD monitors with the same screen size and resolution. In addition, select ThinkPad T400 model notebooks are being field tested with BFR-free printed circuit cards. Lenovo will use the data obtained from these field tests to evaluate further reductions of BFRs and PVC in its products in the future. Lenovo currently prohibits PolyBrominated Biphenyls (PBBs) and PolyBrominated Diphenyl Ethers (PBDEs), including Deca-Brominated Diphenyl Ethers from intentional addition to any Lenovo parts. Lenovo also restricts BFRs and PVC from intentional addition to any new "low halogen" products.

In addition to the banned and restricted materials, Lenovo has identified a list of materials and substances of environmental interest, which may be candidates for further restrictions in the future. Lenovo holds suppliers accountable for reporting the use of these materials when present in concentrations above specified levels. Lenovo requires Supplier Material Declarations using the industry-standard IPC 1752 form for confirmation of compliance to the restrictions and for reporting the use of substances of interest. In some cases Lenovo has used the flexibility of the IPC 1752 form to include additional substances and tighter limits than called for in the industry-standard Joint Industry Guide (JIG). Lenovo informs customers about the environmental attributes of its products and compliance with applicable laws and regulations through the presentation of a completed industry-standard IT Eco Declaration (Annex B of ECMA-370 third edition, December 2008). Declarations for newly released products are posted on Lenovo's Environmental Website at http://www.lenovo.com/social_responsibility/us/en/datasheets_notebooks.html

Consistent with the precautionary approach, Lenovo analyzes the regulatory environment and considers input from customers, nongovernmental organizations and other stakeholders in evaluating potential health and environmental impacts of its products. Lenovo weighs these inputs to determine the restricted substances, as well as the substances of interest to be tracked for the purpose of reporting and for consideration for future restrictions.

In addition to Lenovo's corporate-wide implementation of reduction/elimination of the hazardous substances, corporate environmental standards and specifications require the designers of all Lenovo IT products to consider certain environmentally conscious design practices to facilitate recycling and minimize resource consumption.

For Example:

- All product lines adhere to marking of plastic parts greater than 25 grams for identification of resins for recycling.
- Products are designed to minimize the types of plastics they contain and avoid contamination of plastics by paints, glues or welded connections. Tools needed for disassembly to sub-system levels are also universally available.
- Product-specific upgradeability features are described in product literature and declarations for all Lenovo product lines.
- Recycled resins, ranging in recycled content from 10 percent to over 50 percent, are used in a number of Lenovo hardware applications and are specified as preferred materials where practical.
- New products are evaluated for chemical emissions. To minimize potential VOC emissions, nonsolvent based powder coatings are used for decorative painted parts wherever practical.

Global climate change is profoundly influencing social and economic sustainable development, and is receiving attention from different countries of the world. Lenovo views coping with climate change as an important part of its global responsibility, and attaches great importance to the energy efficiency of its products.

In 2007, Lenovo launched the Climate Savers Computing Initiative (CSCI) together with the World Wildlife Fund (WWF) and other technology companies. CSCI and its member companies advocate and promote energy-efficient computer products globally. CSCI has set the goal of reducing carbon dioxide emissions by 54 million metric tons annually before 2010, and the final goal is to lower the total energy consumption of all the computers in the world to half of the current level by 2010.

The energy efficiency performance of Lenovo products meets the efficiency requirements of China, Japan, the United States, Europe and other jurisdictions. All Lenovo notebook, desktop and monitor global models satisfy the current ENERGY STAR™ requirements, either in the basic models or as an option. The ENERGY STAR™ qualified models are listed at Home: ENERGY STAR™ - <http://www.energystar.gov>

Lenovo's history of energy-saving and emissions reduction:

- ◆ 2004 – Lenovo China received “Green Product” award for desktop PC from China Environmental Protection Foundation.
- ◆ 2005 – All Lenovo's commercial products met China's energy-saving targets.
- ◆ 2007 – Lenovo is actively participating in ENERGY STAR™ 4.0 newly released in July 2007 by the United States. All Lenovo notebook, desktop and monitor global models introduced since the effective date of ENERGY STAR™ 4.0 standard meet the new standard, either in the basic models or as an option.
- ◆ 2007 – Lenovo leads the effort in writing the General Technical Specification for China's PC industry.
- ◆ 2007 – The Lenovo Reflex® thermoformed cushion design for desktop PCs won the 2006 AmeriStar award in the electronics packaging category from the Institute of Packaging Professionals.
- ◆ 2007 – Lenovo, in cooperation with The World Wildlife Fund (WWF) and other NGO's, participated in the launch of the Climate Savers Computing Initiative (CSCI).
- ◆ 2008 – Lenovo introduced the first China Energy Efficiency Tier One monitor.
- ◆ 2008 – In April 2008 Lenovo ThinkVision monitors became the first full line of monitors to score a Gold rating in the EPEAT™ registry.
- ◆ 2009 – In January Lenovo ThinkVision monitors became the first full line-up of monitors to achieve ENERGY STAR™ 5.0 – nine months ahead of the launch of the new standard.

Many Lenovo notebook, desktop, workstation and monitor products have been registered to the Electronic Product Environmental Assessment Tool (EPEAT™) in many geographies. EPEAT™ assesses a product's satisfaction of 23 mandatory and 28 optional criteria such as reduction/elimination of environmentally sensitive materials, material selection, design for end-of-life, product longevity/life extension, energy conservation and end-of-life management.

In 2008 Lenovo became the first Original Equipment Manufacturer (OEM) to qualify a desktop personal computer to the GREENGUARD® Indoor Air Quality protocol. The GREENGUARD® program measures chemical emissions of the product during normal use and operation. Measured emissions are then compared to an extensive list of publicly available

short term and long term health risk exposure levels available from the US Environmental Protection Agency, Occupational Safety Health Administration, the state of California, and CDC's Registry of Toxic Substances. This program was expanded in 2008 to include notebooks, workstations and displays.

11.5. Waste Management

Lenovo supports efforts to reduce the volume of end-of-life electronic products being disposed in landfills and to reduce the need for new raw materials by increasing the beneficial reuse of products and parts or recycling of materials. Lenovo supports legislation assigning financial responsibility for end-of-life management to the individual producers. Further, Lenovo advocates for legislative initiatives that allow at least the option for manufacturers to recover their own brand products, using the information gained from recycling their own brands to be fed back into the product design process, optimizing the cost for both the manufacturer and the consumer.

Lenovo encourages its customers to reuse or recycle products at the end of their lifecycle by offering consumers and/or commercial clients a range of recycling options for disposing products, batteries and product packaging worldwide through voluntary programs and/or country, province or state mandated programs.

For additional customer access information for these programs visit: http://www.lenovo.com/social_responsibility/us/en/product_recycling_program.html Additionally, information about the location of potentially hazardous components such as batteries which may require special handling at the end of a product's lifecycle can be found in the product manual or by contacting environment@lenovo.com

In the U.S. and Canada, Lenovo participates in the Rechargeable Battery Recycling Corporation's (RBRC) “Call2Recycle” Program. Rechargeable lithium-ion batteries from Lenovo products such as notebooks can be recycled free of charge at any of the RBRCs more than 30,000 drop off locations in the U.S. and Canada. For more information about the RBRC's Call2Recycle Program and to locate a battery recycling location near you, visit <http://www.rbrc.org/call2recycle/consumer/index.html> Lenovo is also a member of a number of other battery and packaging collection and recycling consortia worldwide, especially in European countries.

In December 2006, Lenovo announced a free product take-back and recycling program in China for Legend and Lenovo branded PCs, notebooks, monitors and servers and ThinkPad notebooks, ThinkCentre PCs and ThinkVision Monitors.

Additionally, Lenovo announced a free take-back and recycling program in India for the same products on Sept. 1, 2007. Both of these programs provide free collection and recycling options to consumers as well as businesses. Customers can obtain information about this service for a qualified pickup by either calling the service provider or visiting its website at <http://www.trishyiraya.com>. Lenovo upgraded its U.S. PC Recycling Service offering in 2008 to be free for all U.S. consumers with the possibility of cash back for the return of qualified products. This program is available for both Lenovo products as well as select products from other manufacturers.

Lenovo offers Asset Recovery Services (ARS) to businesses in more than 40 countries and global customers in these countries in other geographies. Customer access information for these programs in the Americas, Asia Pacific and Europe/Middle East/Africa can also be obtained at http://www.lenovo.com/services_warranty/US/en/asset_recovery.html

Lenovo has an extensive program for ensuring remarketed products and parts and the refurbishing, remanufacturing, recycling and disposal of end-of-life products owned by Lenovo or returned by customers are accomplished in an environmentally conscious and legally compliant manner. This program includes on-site environmental evaluations and approvals by Lenovo in accordance with stringent protocol. Some of the evaluation requirements include:

- An on-site inspection of facilities and processes and a review of documentation of the suppliers' environmental management system and process controls.
- Identification of supplier downstream contractors and verification of their compliance to applicable legal and Lenovo environmental requirements.
- Disclosure of a full chain of custody including how it disposes of end-of-life products, options, parts and materials.

Brokers and resellers of surplus and used products, options and parts must also agree only to resell functional units that will be used for originally intended purposes and to use Lenovo-approved recyclers for the recycling and disposal of scrap generated from refurbishing processes and the processing of non-remarketable products and parts. Additionally, Lenovo incorporates specific environmental terms and conditions into contracts and agreements with all broker management companies and recyclers.

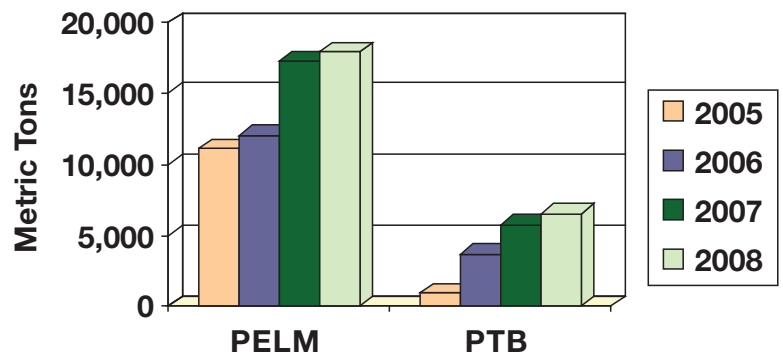
Recovery and Recycling Trends

During the 2008 calendar year, Lenovo financed or managed the processing of more than 17,662 metric tons, equivalent to more than 38.9 million pounds of Lenovo-owned and customer-returned computer equipment, with 6.24 percent

reused as products or parts, 72.61 percent recycled as materials, 5.01 percent incinerated with waste to energy recovery, 14.64 percent incinerated as disposal treatment and only 1.55 percent disposed by landfill. Since Lenovo's establishment as a global company in May 2005, Lenovo has processed more than 58,000 metric tons or 128 million pounds of computer equipment through our contracted service providers.

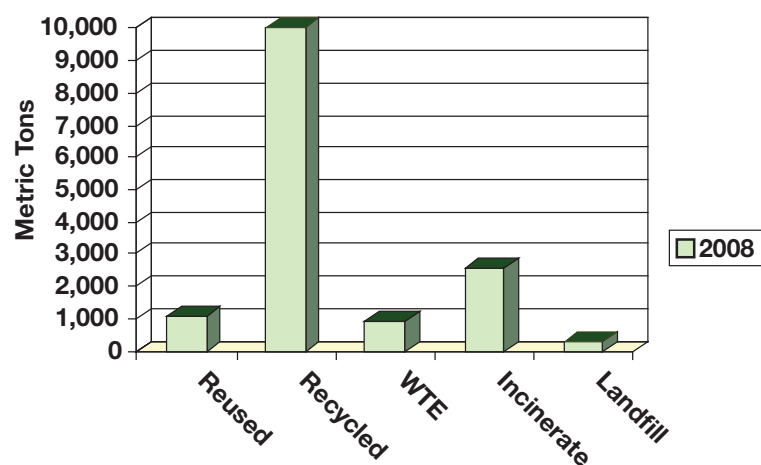
In 2008, customer returns constituted more than 6,246 metric tons or more than 13.7 million pounds of the total processed equipment, which is an 8 percent increase over the 2007 performance. This year's performance includes initial data from Lenovo's Asset Recovery Services offering for large enterprises along with data from Lenovo's other voluntary and legal product take-back programs for consumers and businesses. It should be noted that the economic downturn adversely impacted customer returns. The recycled customer returns in 2008 represents 3.88 percent of the total weight of new products shipped in 2008 and 6.39 percent of the weight of products shipped in 2001. Shipments in 2001 include only Lenovo China shipments because Lenovo did not purchase IBM's PC business until May 2005.

Figure 11.1 Recovery and Recycling Trends



PELM – Product End-of-Life Management
PTB – Product Take Back

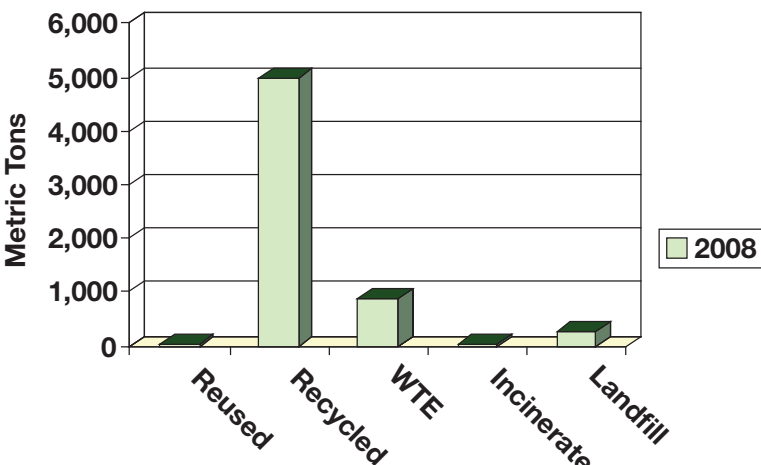
Figure 11.2 Total End-of-Life Disposition



WTE – Waste to Energy

A large percentage of 2008 customer returns continued to be received through the maturing product take-back systems in European countries. Worldwide customer-returned products recycled by Lenovo or for which Lenovo financed the recycling fall into four categories, based on reporting from the recyclers or consortia acting on Lenovo's behalf.

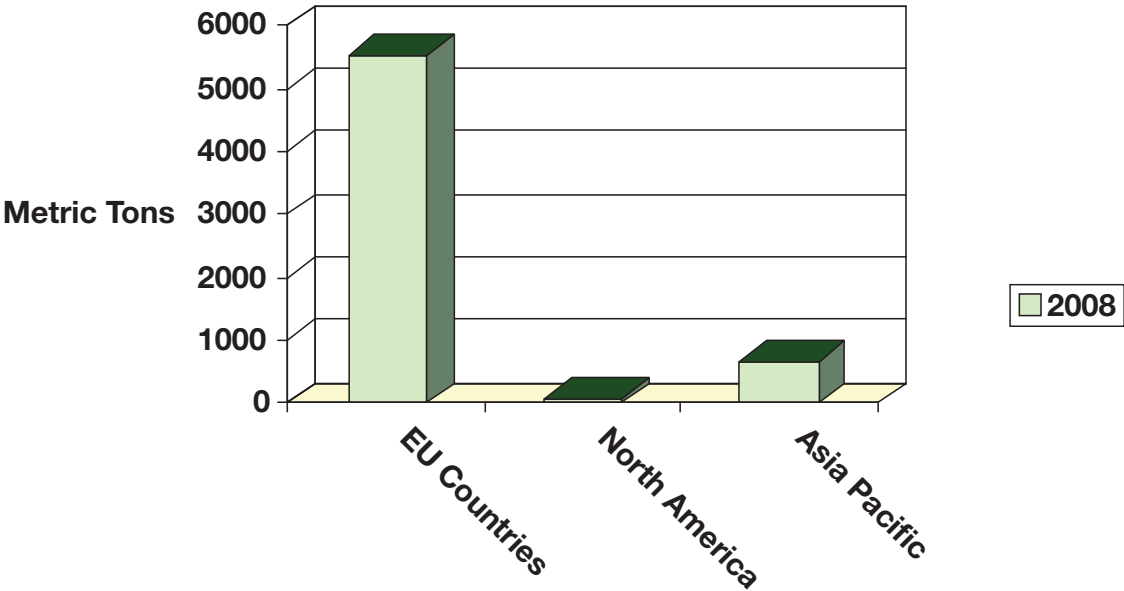
Figure 11.3 Disposition of Products Returned from Customers



WTE – Waste to Energy

1. Lenovo- or IBM- branded products that were recovered and recycled on behalf of Lenovo.
2. Mixed brand products recovered and recycled on behalf of Lenovo.
3. Products for which Lenovo financed the recycling based on current market share or other financing formulas.
4. Products from Lenovo's Asset Recovery Services offering.

Figure 11.4 Customer Returns by Geography



11.6 Environmental Impact of Operations

Lenovo's commitment to sustainable development drives the organization's proactive efforts to minimize operational environmental impacts. Ongoing efforts at Lenovo sites around the world begin with the annual review and evaluation of operational environmental aspects. Environmental metrics are established and monitored for those aspects that are identified to have real or potentially significant environmental impact. To drive continual improvement in environmental performance Lenovo annually establishes environmental objectives and targets. Lenovo's target setting process considers performance relative to the environmental metrics, the Environmental Policy, customer requirements, stakeholder input, management directives and key business processes.

Lenovo's significant operational environmental impacts were identified as waste generation and energy consumption for FY 2008-09 and FY 2009-10. As described above, objectives and targets were established for our manufacturing and development facilities relative to both of these environmental aspects.

FY 2008-09 Environmental Performance Reducing GreenHouse Gas Emissions

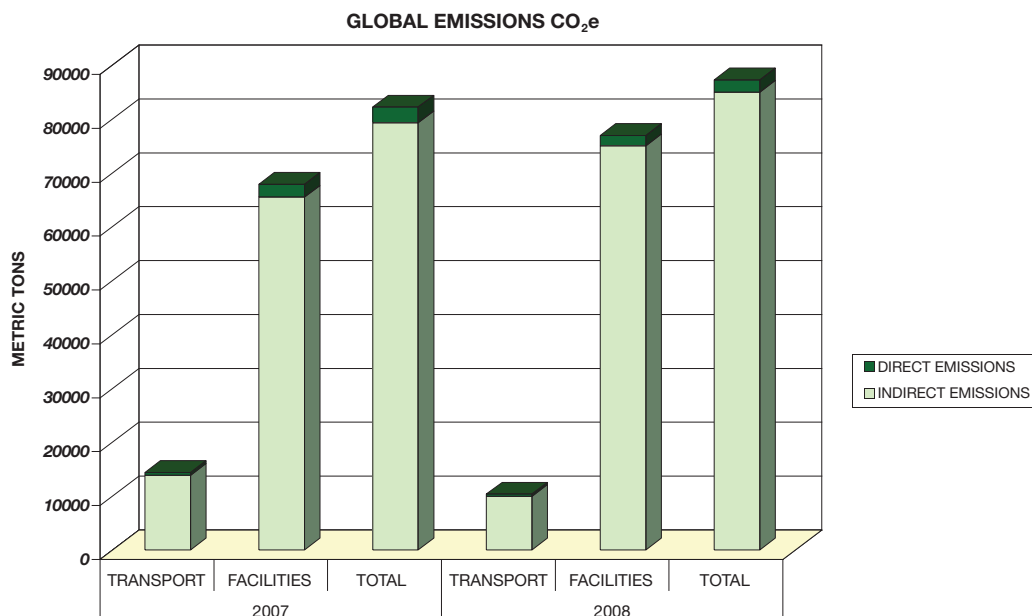
Primary to Lenovo's strategy to reduce the environmental impact of our operations is our 2007 commitment to improve

carbon efficiency by 10 percent by FY 2012-13, based upon FY 2007-08 emissions. Efficiency is measured as metric tons of carbon-generated relative revenue.

In 2008, absolute emissions increased by 6 percent, largely driven by the expansion of existing facilities and the addition of several new facilities. Lenovo added a new building to our campus in Morrisville, N.C., in the U.S.; added production lines at the Shanghai manufacturing facility; commissioned a new manufacturing facility in Monterrey, Mexico, and a new distribution facility in Whitsett, N.C. in the U.S. The operations at Monterrey and Whitsett were in-sourced from external Lenovo partners. In response to the operations that were in-sourced, the 2007 emissions inventory baseline was adjusted in accordance with World Resources Institute protocols for baseline adjustments following acquisitions.

The 2007 baseline GreenHouse Gas inventory of 73,566 metric tons increased to 82,163 metric tons. The inventory scope includes Scope 1 (direct) and Scope 2 (indirect) emissions from all manufacturing, research and development, principal operations and nonretail facilities worldwide. It also includes Scope 3 emissions associated with employee ground and air travel. The accounting methods used in compiling this data are in accordance with the World Resource Institute's GreenHouse Gas Protocol standard and guidance.

Figure 11.5 Lenovo's 2008 CO₂ Emissions inventory is detailed below:



Scope 1 CO₂ emissions are calculated based on the purchased quantity of commercial fuel and using published emission factors. For the Lenovo worldwide sites, direct emissions are associated with on-site energy generation and operation of company controlled vehicles. The worksheets "Emissions Based on Fuel Use," "Mobile Combustion CO₂ Emissions Calculation Tool," June 2003, Version 1.2 and "GHG Emissions from Fuel Use in Facilities," Version 3.0, December 2007, were used for making the calculations. The tools were developed by World Resources Institute (WRI) and copyrighted. They are available at <http://www.ghgprotocol.org>

Scope 2 CO₂ emissions are associated with the purchase of electricity from the grid. Information on emissions from all Lenovo nonretail facilities worldwide is included in this report. For facilities solely owned or operated by Lenovo, emissions were calculated using actual quantities of purchased electricity and the international electricity emission factors for the relevant country. In a few cases, actual emissions rates that were obtained from the energy provider were used to make the calculations. Lenovo emissions from shared facilities were calculated using the floor area occupied by Lenovo and international electricity emission factors for the relevant country. WRI "Worksheet 1 – Standard Method", as found in "Indirect CO₂ Emissions from Purchased Electricity", Version 3.0, was used in calculating emissions associated with purchased electricity. The "Similar Building/Facility Estimation Method" was used for facilities that are partially occupied by Lenovo operations.

Scope 3 emissions are calculated using air miles traveled by employees in commercial jets, ground miles traveled in rental cars and air miles traveled in leased jets. The WRI worksheet "Emissions Based on Distance, Mobile Combustion CO₂ Emissions Calculation Tool", June 2003, Version 1.2 was used to perform the calculations.

Energy Conservation Efforts

Improving energy efficiency is a fundamental element of Lenovo's strategy to meet its GHG reduction target. Proactive initiatives continue at facilities throughout the organization to reduce energy consumption. During 2008, several energy projects were completed that will provide continued energy reductions over the coming years. More projects have been implemented during 2009.

At the Lenovo building in Beijing, the transition to low-energy lighting and installation of local lighting controls in areas with adequate ambient light will reduce electricity purchases by more than 500,000 kilowatt hours (kWh) annually. Adjustment to heat exchanger operation will reduce steam consumption by an estimated 120,000 kWh annually.

In Shanghai, 2008 energy reduction actions included efficiency improvements to the HVAC equipment, improved climate control operating practices and installation of automatic controls on HVAC and lighting. Further energy reductions will be achieved in Shanghai during 2009 through the installation of energy-efficient lighting in the warehouse, improvements in our server rooms to increase energy efficiency and the addition of automatic controls for online testing.

At our manufacturing facility in Huiyang, China, energy reduction activities during 2008 included the installation of more energy-efficient HVAC equipment and a switch to more energy-efficient lighting. These changes will provide an estimated reduction of more than 200,000 kWh annually.

In our Monterrey, Mexico, facility, installation of energy-efficient lighting and automatic lighting controls will reduce electricity consumption by an estimated 600,000 kWh annually.

During 2009, Lenovo operational facilities maintained a continued focus on energy conservation and reduction in GHG emissions. Energy action teams at our manufacturing and development facilities maintained a focus on energy efficiency and increased efforts to identify opportunities to increase use of renewable energy.

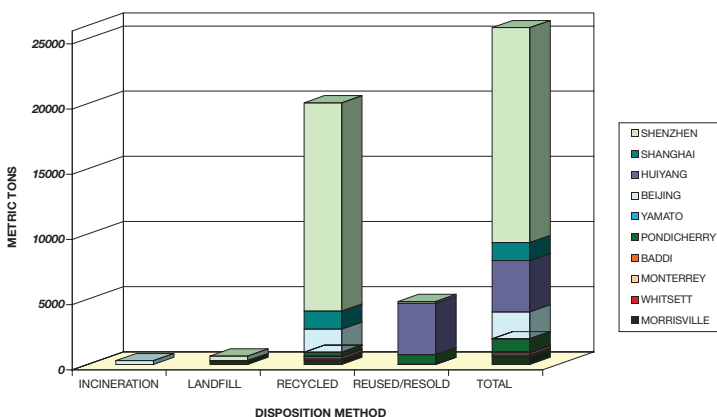
Moving Forward on Climate Change

Lenovo's corporate culture has always placed value on energy efficiency. During 2008, this long-standing commitment to energy efficiency resulted in a carbon efficiency of 5.1 metric tons of CO₂ emitted per million dollars of revenue, a rate that compares favorably with others in the IT industry. Lenovo continues to seek out and take advantage of opportunities to reduce our energy consumption. Additionally, Lenovo will have to increase our use of renewable energy to achieve emissions reductions that are consistent with levels currently identified as needed to stem the impacts of anthropogenic induced climate change. During FY 2009-10, we will complete a comprehensive evaluation of our Climate Change Strategy and commitments in hopes of establishing the road map that will allow us to commit to absolute reductions consistent with those called for by the international scientific community.

With 17 percent of electricity in China coming from renewable resources* and the high proportion of Lenovo's overall electricity usage being in China, it is estimated that more than 10 percent of Lenovo's total electricity usage is from renewable sources. During FY 2009-10, we will identify and begin to take advantage of opportunities to increase our use and support of renewable energy globally.

*Eric Martinot and Li Junfeng. Powering China's Development. Washington, DC: WorldWatch Institute, 2008.

Figure 11.6 Nonhazardous Waste Disposition:



¹Beijing NRC and Beijing Lenovo Building reported as combined total.

Operational Waste Management Managing Nonhazardous Solid Waste

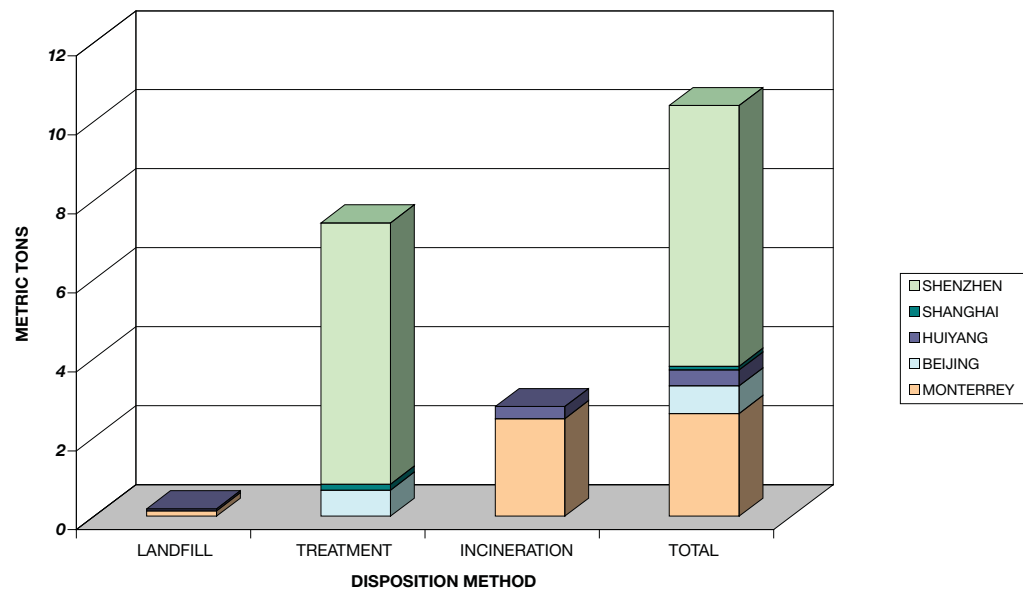
Another of Lenovo's primary environmental objectives for operational facilities involves minimizing solid waste and maximizing recycling and reuse. Lenovo manufacturing and research and development facilities worldwide achieved reuse/recycling rate of 96 percent during 2008. Detailed in Figure 11.6 is the disposition of solid waste from Lenovo manufacturing and research and development facilities.

Managing Hazardous Waste

Lenovo operations generate minimal quantities of hazardous waste. Hazardous waste generated at operational facilities includes oils, coolants, batteries, fluorescent light bulbs and ballasts. All are disposed of in accordance with local environmental regulations with reputable vendors who are

approved through a stringent audit process. During the calendar year 2008, Lenovo neither imported nor exported any hazardous waste. During this reporting year, there were no significant spills.

Figure 11.7 Hazardous Waste Disposition:

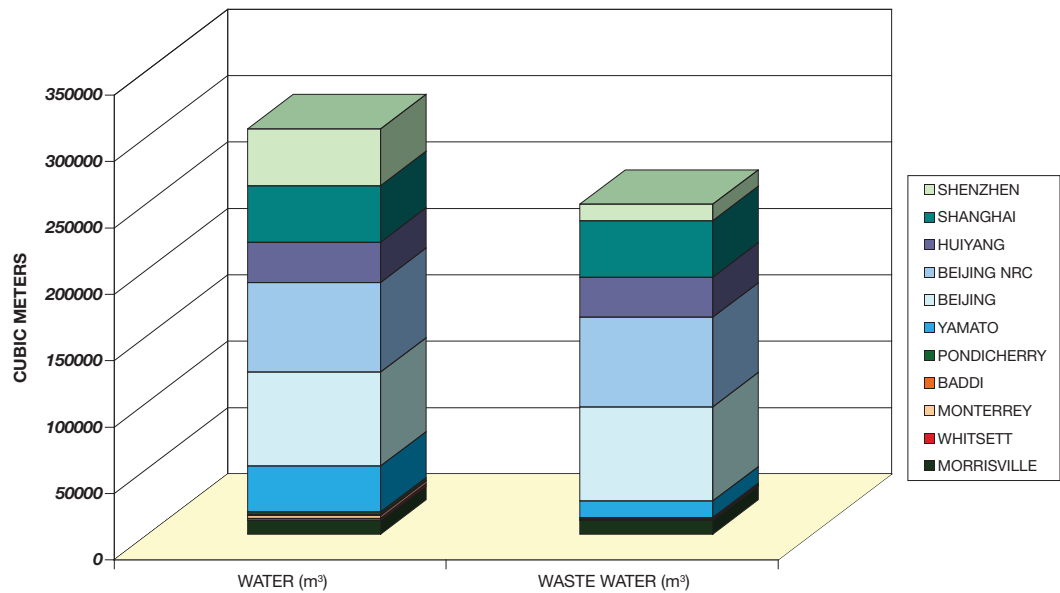


Other Environmental Aspects
Water Resources

Lenovo does not have any intentional discharge of waste water other than into waste water disposal systems. As Lenovo does not have any wet processes, Lenovo does not recycle any water. Since Lenovo only withdraws water from municipal sources, and only for human support, the

Company has no significant impact on local water sources. Water use at Lenovo's manufacturing and research and development facilities is depicted in Figure 11.8.

Figure 11.8 Global Water Use:





Lenovo ThinkPad X300
up to 90% recyclable
and reusable.

Air Emissions

Lenovo prohibits the use of ozone-depleting substances in our products, processes and the processes of our suppliers. Lenovo requires the reporting of unintentional releases of chemical substances as an environmental incident. No environmental incidents were recorded for 2008. Lenovo has not evaluated any contribution of fugitive emissions.

Lenovo uses minimal quantities of isopropyl alcohol as a cleaner in our operations areas. Evaporative losses of isopropyl alcohol are not quantified.

11.7 Public Outreach and Industry Involvement

Lenovo participates actively in several industry associations that are working toward environmental solutions for the electronics industry. These include:

- Information Technology Industry Council Environmental Leadership Council – Board Member.
- Japan Electronics and Information Technology Industries Association – Member.
- Electronics Product Stewardship Canada – Board Member.
- Australian Information Industry Association (AIIA) – Member.
- Climate Savers Computing Initiative – Sponsor.
- Washington Materials Management and Financing Authority – Board Member.
- International Electronics Manufacturing Initiative (iNEMI) – Member.
- Electronic Industry Citizenship Coalition (EICC) – Member.
- Brazilian Electrical and Electronics Industry Association (ABINEE) – Environment and Informatic Industry Committee – Member.
- The Climate Group – Member.
- Climate Savers Computing – Member.
- North Carolina Technology Association – Member.
- Best Workplaces for Commuters – Member.
- IEC TC 89 Fire hazards testing.
- IEC TC 108 Audio/Video, Information and Communication Technology Equipment – Safety Requirements.

- TCO Development interface.
- Nordic Swan interface.
- ITF, IT Foretagen/Almega, Sweden. Manufacturer association, environmental counsel.
- WEEE consortia, El-Kretsen Environmental counsel.
- Swedish environmental management counsel. Representing ITF i e Swedish ICT industry.
- Federal Association for Information Technology, Telecommunications and New Media Germany (BITKOM).

Recent environmental outreach efforts include the following:

- Participation in the ongoing development of the EPEAT™ standard and program.
- Promoting development of energy efficiency standards for monitors through participation in Video Electronics Standards Association (VESA) interface standards development process.
- Participation in Industry Stakeholder workgroup in the development of ENERGY STAR™ Version 5.0 Specification for Computers. Large stakeholder review participant R2 standard for certifying electronic recyclers developed by U.S. EPA and small stakeholder group.
- Participation in INEMI projects with respect to BFR/CFR reduction.
- Promoted Green Olympics in 2008 as part of Lenovo's Olympic participation.
- Climate Southeast.
- GreenHouse Gas Protocol Initiative – Product and Supply Chain.
- Participation in a workgroup to provide German public purchasers at federal, state and community level with a reliable and intelligible tool for their information and communications technology procurement including sustainability aspects.
- Participation in the ongoing development of the German GS standard for IT products.

Lenovo continues our tradition of environmental commitment by engaging stakeholders and through active participation to improve energy efficiency and reuse in the PC industry.

11.8 Summary

Lenovo is committed to environmentally responsible practices in the communities around the world in which we do business, demonstrating a commitment to developing, continuing and advancing environmental policy and programs. Lenovo is building on our history with a long-term, comprehensive environmental approach focused on product design, management and supply chain operations, product end-of-life management, and the health and wellness of our employees.

Lenovo's history is one of respect for the environment with attention to the environmental attributes of our operations and products. Lenovo's ISO 14001 compliant Environmental Management System includes a robust Environmental Policy instituted by the company CEO. Lenovo's Environmentally Conscious Products program focuses efforts to minimize the environmental impact of our products from inception through manufacturing, their use in customers' homes and businesses, and finally in their disposition at end-of-life. Recognizing the importance of climate change, Lenovo has set a carbon efficiency improvement goal and has instituted a management system to drive toward that goal. Lenovo practices transparency in reporting our policies and practices and our programs and results.

For additional information about Lenovo's environmental policies, practices and results, e-mail environment@lenovo.com



Global Supply Chain:

ENSURING A SMOOTH, SUSTAINABLE AND COST-EFFECTIVE
BUSINESS PROCESS THAT COVERS EVERYTHING FROM
LOGISTICS TO SITE OPERATIONS, PACKAGING, SUPPLIER
RELATIONSHIPS AND PROCUREMENT.





Global Supply Chain (GSC) delivered solid results in FY 2008-09 against our sustainability objectives. Focus areas for the year were in the key areas of Logistics, GSC Site Operations, Packaging and Production Supplier Engagement. Details on each area are provided below.

12.1 Logistics

Lenovo joined SmartWay, a voluntary partnership with the U.S. Environmental Protection Agency (EPA). Through this partnership, Lenovo measured and improved our Canada and U.S. shipping efficiency. The lessons learned through SmartWay also transfer to other parts of our global operations. In addition, the Global Logistics team measured and drove shifts from higher-carbon air shipments to more environmentally friendly ocean shipments. In FY 2008-09, Lenovo delivered a 7 percent increase in lower-carbon product transport. Finally, the Logistics team completed a risk assessment of its international shipping suppliers for Electronic Industry Code of Conduct (EICC) compliance.

For FY 2009-10 the Global Logistics team will maintain its membership and involvement with SmartWay, continue to measure and drive higher levels of lower carbon shipments, and expand its risk assessments against EICC compliance. The Logistics team plans detailed risk assessments of its China transportation suppliers during FY 2009-10.

12.2 GSC Site Operations

Lenovo is committed to setting a strong example of EICC compliant operations in our own manufacturing facilities. In FY 2008-09, independent third-party EICC audits were conducted at Lenovo's established facilities in China and India (five plants in total). These audits examined 150 key areas at each site across environmental, labor practices, ethics and management systems. All Lenovo facilities had greater than 90 percent compliance, with any identified shortfalls immediately addressed.

In FY 2008-09, baseline and reduction targets were set at all sites for power usage and waste recycling. In calendar year 2008, GSC sites recycled 96 percent of their 24.3k tons of solid waste.



12.3 Packaging Material Reduction

Lenovo's aggressive packaging reduction effort eliminated 750 tons of packaging material in FY 2008-09 through design optimization. In addition, the GSC Packaging teams have qualified 100 percent recycled thermoformed PolyEthylene (PE) packaging for Lenovo's Think products (laptops, desktops and options).

Bulk package shipping options were also developed in FY 2008-09 for Lenovo's Think offerings.

12.4 Supplier Engagement

Lenovo is actively engaged with our suppliers as a responsible corporate citizen to promote improvements in our entire supply chain that improve the quality of life at work and at home. As part of this effort, Lenovo has been a member of the Electronic Industry Citizenship Coalition (<http://www.eicc.info/Home.html>) since 2006 and adopted the EICC code, which consists of best practices in supplier engagement that provide guidelines for performance and compliance in the following five areas:

- Labor
- Health and safety
- Environment
- Management system
- Ethics

Lenovo leverages our membership in the EICC to work together with other member companies to create a comprehensive strategy as well as tools to monitor supplier performance. By establishing common approaches, we can potentially reduce inefficiency and duplication and make performance easier to audit.

Supplier compliance to the EICC code is a continual improvement process. The EICC Supplier Engagement Model (SEM), depicted in Table 12.1, has helped guide our strategy development and supports use of industry tools and processes to effectively roll out the code internally and within our supply chain.

Table 12.1 EICC Supplier Engagement Model

(CAPABILITY BUILDING AND DEVELOPMENT PROCESS)

PERFORMANCE MEASUREMENT – CONTINUOUS IMPROVEMENT				
STAKEHOLDERS: Brands, Supplier Owners, Managers and Workers, Auditors, NGOs, Governments and Consumers				
Phase 1: Introduction	Phase 2: Assessing	Phase 3: Validation	Phase 4: Reporting	Phase 5: Sustaining
Initial Assessment and Code Requirements	Self Assessment and Up Front Improvement	Performance Improvement	Risk Data and Trend Analysis	Innovation and Leadership

Lenovo continually initiates requests to our Tier 1 suppliers to strengthen their commitment to EICC by signing formal contract amendments, as well as completing self-assessment questionnaires online using the industry tool E-TASC (Electronics Tool for Accountable Supply Chains), conducting compliance audits using third-party EICC auditors and requiring similar requirements of their suppliers.

The recent results showed that:

- 93 percent of Tier 1 suppliers signed agreements.
- 34 percent of Tier 1 suppliers uploaded assessments in E-TASC.
- We established Tier 2 requirements.

Following this initial request, 93 percent of Lenovo Tier 1 direct or parts suppliers signed agreements and supported our approach within their supply chains. We are continuing to educate and build capability with the remaining suppliers to increase the EICC completion percentage.

In FY 2008-09, Lenovo continued to participate and support various EICC workgroups focused on communications and stakeholder engagement, E-TASC development, working hours, extractives or metal sourcing in the electronics industry and environmental or GreenHouse Gas (GHG) emissions. In addition, Lenovo participated in an EICC-hosted supplier training session in Shenzhen, China.

Also, we use the EICC Risk Assessment 1 (RA1) to help analyze potential high-risk supplier facilities. In previous years, Lenovo suppliers completed the soft-copy version of the EICC Risk Assessment 2 (RA2), which determines risk potential and covers all sections of the code. The completion rate at that time was more than 90 percent. That assessment has been integrated into the web-based tool E-TASC, which establishes a uniform approach to compliance.

E-TASC helps guide suppliers in determining where improvements and/or enhancements are needed to drive continual improvements, share assessment results with other customers in a secure environment and quickly assess supplier risk potential for noncompliance. Because of the global economic downturn, our supplier use of E-TASC was slower than anticipated, at 34 percent. However, we expect supplier participation to increase as the economy recovers.

Similar to Lenovo's strategy to use EICC third-party auditors to audit our internal facilities, we have the same expectations of our suppliers. In addition, Lenovo supports the EICC and GeSI (Global E-Sustainability Initiative) third-party shared audit programs where a single supplier audit can be shared with multiple customers. During the past several years, EICC has been piloting its audit program with a small number of member companies and suppliers in China. We anticipate that the number of audits should greatly increase later in 2009-10.

on trust, honesty and candor. Never compromise Lenovo's overall best interests in the pursuit of local or divisional interests. Expect teamwork, integrity, respect and excellence from each other.

Lenovo supplier audit results reveal that "working hours" is the most prevalent area of nonconformance to the EICC code. This is consistent with the EICC and GeSI shared audit findings as well. Lenovo is working with all suppliers to put corrective actions in place to reduce excessive overtime in addition to participating in EICC workgroup activities to better understand the root causes and developing tools to help mitigate and control excessive worker overtime.

Lenovo will continue to work with our supply chain on audits and any resulting corrective actions required because this is key to understanding, validating performance and driving sustainable improvements within the supply chain. However, we realize that auditing alone will not generate sustained improvement. As a result, Lenovo is committed to promoting and fostering capability building among our supplier community that will drive innovation and leadership in this area.

12.5 Procurement

Lenovo Global Procurement is responsible for buying products such as computer parts and services. Lenovo strives to balance cost, quality, technology and innovation to provide the greatest value to our customers. Procurement is guided by Lenovo's core values, principles and practices as outlined below.

Lenovo Procurement embodies Lenovo's core values of customer service, an innovative and entrepreneurial spirit, accuracy and truth-seeking, and trustworthiness and integrity.

12.6 Procurement Core Values

Customer Service

Vigorously seek a full understanding of the capabilities, wants and needs of the entire supply chain, Lenovo's customers, our internal clients, our suppliers and our suppliers' suppliers. Actively articulate both Lenovo's and our suppliers' viewpoints and facilitate communication at all levels and functions.

Innovative and Entrepreneurial Spirit

Continually seek to improve and never be satisfied with anything less than a competitive advantage in technology, price, quality delivery, responsiveness, speed and efficiency.

Accuracy and Truth-seeking

Firmly believe in and insist upon true cross-functional participation to ensure Lenovo's business decisions are based on carefully understood facts.

Trustworthiness and Integrity

Ensure both Lenovo and our suppliers keep the letter and spirit of all agreements. Build long-term relationships with suppliers based

12.7 Supplier Performance Management

Lenovo's standard purchase order terms and conditions stipulate supplier compliance to environmental specifications, material declaration processes and full compliance with all applicable laws including export and import and product safety. Suppliers must also implement and maintain documented quality and environmental management systems that meet ISO 9001 and ISO 14001 certification standards.

Procurement evaluates supplier performance regularly to ensure that the best products and services are provided to Lenovo. Lenovo's goal is to measure performance and provide regular feedback to core and strategic suppliers. Supplier performance feedback is accomplished through formal performance reviews, participation in supplier performance programs and normal business communication channels. Lenovo and each of our suppliers work together to develop an action plan. Lenovo conducts quarterly supplier performance evaluations that review a supplier's progress against its action plan and includes a corrective action mechanism. Corporate social responsibility was added to the assessment process during the second quarter of 2007.

Supplier performance is measured in key areas including quality, delivery/flexibility, technology, cost reduction and service. The intent of the measurement is to provide the supplier with Lenovo's view on how well the supplier is meeting Lenovo's business needs. We encourage suppliers to provide Lenovo with assessments of our performance as a customer. This information serves as the basis for mutual discussions on improving the business relationship.



Global Reporting Initiative Notes:

DETAILING LENOVO'S WORLDWIDE BUSINESS OPERATIONS.





GRI Section 2.9: Details on Lenovo's financial structure are reported in the 2008-09 Annual Report and are available at http://www.lenovo.com/ww/lenovo/annual-interim_report.html

GRI Section 3.1: Data reported in this report is for Lenovo's FY 2009, ending March 2009, unless otherwise specified.

GRI Section 3.4: For questions or other interaction about this report or its content, please contact Douglas Augustine, Manager of Corporate Social Responsibility Communications, 1009 Think Place, Morrisville, N.C. 27650 or e-mail at daugust@lenovo.com

GRI Section 3.5: Lenovo's primary focus has been on updating the baselines established in our first report and evaluating the benefit of reporting additional elements. We continue to survey industry practices for our industry as well as the history of inquiries by customers and other stakeholders.

GRI Section 3.6: This report covers the worldwide operations of Lenovo. Individual reporting items may indicate limitations on the reporting scope for that particular item.

GRI Section 3.7: While this report addresses the worldwide operations of Lenovo, some of the specific items may focus on the activities that impact the particular indicator being reported.

GRI Section 3.8: There are no organizational or other changes impacting comparability of the report.

GRI Section 3.9: Databases are addressed in the section where the data is reported.

GRI Section 3.10: There are no material restatements in this report.

GRI Section 3.11: There are no material changes in the scope, boundary or measurement methods applied in the report.

GRI Section 3.12:

G3 Section	Lenovo Report Section
1.1	1.0
1.2	4.1, 5.1
2.1	2.0
2.2	2.0
2.4	2.0
2.5	2.0, 4.2
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4.2	5.0
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4.12	11.5, 11.7
4.13	7.2, 7.5
4.16	5.2
EN2	11.5
EN26	11.0
LA1	6.6
LA2	7.3
LA7	8.0
LA8	2.1, 6.7
LA10	6.7
SO1	9.0
PR1	10.1
PR3	10.1
EC1	9.0

GRI Section EC3: Details on Lenovo's benefit coverage is reported in the Lenovo 2008-09 Annual Report at http://www.lenovo.com/ww/lenovo/pdf/report/E_099220090626a.pdf

GRI Section LA13: Details on Lenovo's governance bodies and breakdown of employees per category may be found in the Lenovo 2008-09 Annual Report at http://www.lenovo.com/ww/lenovo/pdf/report/E_099220090626a.pdf





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