



lenovo®

Sustainability Report FY 2007/08
for year ending March 31, 2008

RELEASED FEBRUARY 1, 2009

CEO and Chairman's Statement

At Lenovo we define sustainability in a simple and elegant way; we merely ask ourselves, "Is the world better off because Lenovo exists?" Asking this question consistently and at all major corporate decision points captures the essence of sustainability and the triple bottom line. Lenovo customers, shareholders, employees, as well as the global community should all benefit from Lenovo's success and the manner in which the Company conducts itself.

Throughout our corporate history we have been at the forefront of progressive and transparent business practices. We were the first major firm in China, for example, to offer significant employee benefits and compensation structures that rewarded employees for corporate success. We were also the first to offer free recycling for all of our products, the first to vigorously protect the intellectual property rights of our global software partners, and the first to become a global partner in the Olympics movement.

When Lenovo merged with the IBM PC Division in 2005, the Lenovo emphasis on social responsibility dovetailed perfectly with IBM's heritage of leadership in sustainable global business practices. 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. Going forward, it will be among the "guiding lights" of our decision making process, as it has been throughout our corporate history.

It is a new world, one in which business, as arguably the most powerful institution on the planet, must accept its responsibility to address the challenges we all face. From environmental degradation and the prospect of global climate change to high profile corporate scandals to extreme poverty, disease, and exploitation, business can and should play a significant role in meeting the challenges of this new world. Lenovo aims to be a new world company that leads others in finding sustainable solutions to these challenges.

Our strategy in sustainability is for Lenovo to be:

Innovative

We will explore uncommon responses to global challenges

Trustworthy

We will do what we say we will do. We will be transparent.

International

We will implement best practices in all regions

Efficient & Easy to do Business With

We will implement solutions that most efficiently meet our sustainability goals

We will be responsive to stakeholders and customers

Our intent is to adhere to the most stringent global standards and adopt the best business practices wherever we do business, including emerging markets. With roots in emerging markets Lenovo embraces its unique opportunity to provide an example for others to follow, an example to be generous, responsible, and innovative global citizens.



Yang Yuanqing
Chairman of the Board



William Amelio
President and Chief Executive Officer

Table of Contents

CEO AND CHAIRMAN'S STATEMENT	2
TABLE OF CONTENTS.....	3
1 INTRODUCTION.....	6
2 ABOUT LENOVO	7
2.1 Lenovo: A Worldwide Leader in Technology	7
2.2 The Company.....	7
2.3 The New Lenovo – A Marriage of Visionaries	7
2.4 Values.....	8
2.5 A Heritage of Innovation and Excellence	8
2.6 Matching a legacy of high quality and comprehensive solutions.....	9
2.7 Rich in Research & Development Talent.....	9
2.8 A Good Neighbor, Next Door and Around the World.....	11
2.9 Gold Medal Olympic Partnership	11
3 LENOVO CSR HIGHLIGHTS	13
3.1 Corporate Social Responsibility	13
3.2 Promoting product quality and safety	13
3.3 Focus on employee welfare	14
3.4 Maintaining high ethical standards.....	14
3.5 CSR Management Process	14
4 LENOVO ECONOMIC IMPACT.....	16
4.1 Chairman's Statement.....	16
4.2 Business Review	17
4.3 Future Prospects	19
5 CORPORATE GOVERNANCE.....	20

5.1 Corporate Governance.....	20
5.2 Shareholders' Rights.....	24
5.3 Investor Relations.....	24
5.4 Intellectual Property.....	26
5.5 Business Conduct Guidelines.....	26
6 HUMAN RESOURCES	28
6.1 Data Privacy.....	28
6.2 Harassment and Inappropriate Behavior.....	28
6.3 Employee Grievance Process	29
6.4 Reporting Unlawful or Inappropriate Behavior	29
6.5 Government Relations.....	29
6.6 Labor practices for direct manufacturing employees	30
6.7 Lifetime Learning at Lenovo	30
7 DIVERSITY	32
7.1 Valuing Diversity	32
7.2 Commitment to Diversity	32
7.3 Global Workforce Reflective of Lenovo's Global Customers.....	32
7.4 Marketplace and Supplier Diversity	33
7.5 Diverse Business Relationships.....	33
8 OCCUPATIONAL HEALTH AND SAFETY	35
8.1 Employee Health and Safety.....	35
8.2 Health and Safety Activities.....	35
9 SOCIAL INVESTMENTS	37
9.1 Lenovo's Social Investment Commitment	37
9.2 Hope Through Entrepreneurship.....	37
9.3 "Base of the Pyramid" Investments	37
9.4 Regional Community Outreach.....	38

10 LENOVO PRODUCTS	40
10.1 Safety and Ergonomics.....	40
10.2 Quality	41
11 ENVIRONMENTAL SUSTAINABILITY	42
11.1 Lenovo’s Environmental Commitment.....	42
11.2. Lenovo’s Environmental Policy.....	42
11.3. Lenovo’s Environmental Management System.....	43
11.4. Lenovo’s Environmentally Conscious Products Program	47
11.5. Waste Management	49
11.6 Environmental Impact of Operations	54
11.7 Public Outreach and Industry Involvement.....	62
11.8 Summary	62
12 SUPPLY CHAIN.....	64
12.1 Supply Chain CSR.....	64
12.2 Procurement.....	65
12.3 Procurement Core Values	65
12.4 Procurement Principles and Practices	66
12.5 Supplier Performance Assessment	67
13 GLOBAL REPORTING INITIATIVE NOTES	68

1 Introduction

Lenovo's second annual Sustainability Report provides a broad view of the Company's global environmental and social responsibility programs, baseline data, and achievements. It covers our fiscal year 2007/2008 which began April 1, 2007 and continued through March 31, 2008. Some of the elements of this report were published previously in Lenovo's Environmental Report, Annual Report, or on the Company's Internet Web site at <http://www.lenovo.com/lenovo/us>.

This Report organizes information based on the Global Reporting Initiative (GRI) guidelines. A cross reference to GRI is provided in 13 Global Reporting Initiative Notes, enabling the reader to relate the information in the Report to the standard disclosures as defined by GRI.

2 About Lenovo

2.1 Lenovo: A Worldwide Leader in Technology

Lenovo is an innovative, international technology company formed as a result of the acquisition by the Lenovo Group of the IBM Personal Computing Division in 2005. A global leader in the PC market, Lenovo develops, manufactures and markets cutting-edge, reliable, high-quality PC products and offers value-added professional services that provide customers around the world with smarter ways to be productive and competitive.

Lenovo bases its success on customers achieving their goals including productivity in business, education, entertainment, and connectivity in personal life, and association with socially responsible people and businesses.

Lenovo's business model is built on innovation, operational efficiency and customer satisfaction as well as a focus on investment in emerging markets.

2.2 The Company

Lenovo is a global company with major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Research Triangle Park, North Carolina (U.S.); and primary operational hubs in Beijing, Research Triangle Park, Singapore and Paris. Lenovo operates manufacturing and/or assembly facilities in China, India, the U.S., Mexico, and Poland, and has sales operations in more than 60 countries world wide. As of March 31, 2008, the Company had a total of 24,000 employees globally, 17,200 of whom were employed on the Chinese mainland, 3,300 in the Americas, 1600 in Asia-Pacific, and 1800 in Europe, Middle East, and Africa (EMEA).

2.3 The New Lenovo – A Marriage of Visionaries

In 1981, IBM envisioned computing at a new level – a personal level – to extend the power and the productivity of information technology from the mainframe to the individual, at home and at work. That vision led to the founding of a new unit within IBM, the Personal Computing Division, which virtually invented personal computing. PCD advanced the state-of-the-art with a series of innovations ranging from the very first notebook computers to the latest high-security technologies, such as the built-in “air-bag” that protects data, and biometric identification that protects user identity. PCD created the icon of notebook computing, the ThinkPad notebook and the unique software tools, known as ThinkVantage Technologies, which increase user productivity.

In 1984, not long after PCD was founded, 11 computer scientists in Beijing, China also had a vision – to create a company that would bring the advantages of information technology to the Chinese people. With RMB200,000 (US\$25,000) in seed money and the determination to turn their research into successful products, the 11 engineers and researchers set up shop in a loaned space – a small, one-story bungalow in Beijing. The company they founded, Legend, opened the new era of consumer PCs in China.

Since it was established, the Company has affected the lives of millions of Chinese: It first introduced PCs to households and then promoted PC usage in China by establishing retail shops nationwide. It also developed the pioneering Legend Chinese Character Card that

RELEASED FEBRUARY 1, 2009

translated English operating software into Chinese characters and achieved breakthroughs like PCs with one-button access to the Internet.

By 1994, Legend was trading on the Hong Kong Stock Exchange; four years later, it produced its one-millionth personal computer. In 2003, Legend changed its brand name to Lenovo, taking the “Le” from Legend, a nod to its heritage, and adding “novo,” the Latin word for “new,” to reflect the spirit of innovation at the core of the Company. The Company name changed from Legend to Lenovo a year later.

In 2003, Lenovo introduced a self-developed collaborative application technology, which heralds the important role Lenovo is going to play in the 3C era (computer, communications and consumer electronics). These and other market-leading personal computing products catapulted Legend to the leadership position in China for ten consecutive years, now commanding a market share of over one third of the Greater China PC market.

Today, these two visionary companies are united under the Lenovo name. The new Lenovo is a leader in the global PC market, with US \$16.4 billion in annual revenue in fiscal 2007/2008 and products serving enterprises and consumers the world over.

2.4 Values

Lenovo's core values are as follows:

- **Serving Customers:** We are dedicated to the satisfaction and success of every customer.
- **Innovation and Entrepreneurial Spirit:** We pursue innovation that matters to our customers, and our company, created and delivered with speed and efficiency.
- **Trust and Integrity:** We strive for trust, honesty and personal responsibility in all relationships.
- **Teamwork across Cultures:** We seek to understand each other, value our diversity, and take a world view across cultures.

Lenovo is rapidly developing a new world culture, one that celebrates Ideas Everywhere and draws upon talents, visions, and concerns of socially responsible citizens globally. Sustainability is integral in our product design, operations, procurement, supply chain, customer relations and community relations.

2.5 A Heritage of Innovation and Excellence

Lenovo's entrepreneurial spirit and track record of breakthroughs paved a path for unsurpassed innovation and excellence that characterize the Company and its products and services today.

Globally, the Company offers customers the award-winning ThinkPad notebooks and ThinkCentre desktops, featuring the ThinkVantage Technologies software tools, as well as ThinkVision monitors and a full line of PC accessories and options. The Think family is consistently ranked as the undisputed premium-brand leader in the global PC industry, with products rated “best-in-class” and “number one” in survey after survey. No other family of personal computers has won as much recognition.

In China, one out of every three PCs sold is a Lenovo. Our leading-edge PCs are highly acclaimed for their user-friendly, tailor-made designs and customized solutions for various

customer needs, including the Yangtian and Kaitian enterprise desktops and the Tianjiao and Fengxing consumer desktops. Lenovo discontinued mobile handsets and continued to offer servers, peripherals and digital entertainment products for the Chinese market.

Lenovo's products continue to evolve along two themes – smaller form and more environmentally responsible.

2.6 Matching a legacy of high quality and comprehensive solutions.

ThinkPad's role in mobile computing established the foundation of a best-in-class experience for enterprise customers. Lenovo was determined to uphold the high quality while developing its own product lines and marketing strategies as well as product and service solutions in all geographic regions.

Lenovo and IBM continue significant, long-term agreements that give customers preferred access to IBM's world-class customer service organization and global financing offerings and that enable Lenovo to take advantage of IBM's powerful worldwide distribution and sales network. Lenovo's customers are able to count on the entire IBM team – including sales, services and financing – for access to IBM's legendary end-to-end IT solutions. As part of a multi-year commitment, IBM will also provide Lenovo with warranty services and offer Lenovo customers leasing and financing arrangements. Through this long-term relationship, customers will receive the best products with the lowest total-cost-of-ownership.

2.7 Rich in Research & Development Talent

Lenovo's research and development centers in China, Japan and the US have produced some of the world's most important advances in PC technology. The Company is rich in talent including 1700 designers, engineers, and scientists. Our R&D teams who have won hundreds of technology and design awards have received more than 2000 patents and introduced many industry firsts. Lenovo continues to create exceptionally engineered solutions to personal computing needs for executives, designers, and families.

The goal of Lenovo's R&D team is ultimately to improve the overall experience of PC ownership while driving down total cost of ownership. In turn, this commitment distinguishes Lenovo from its competitors and attracts PC customers who demand the increased productivity that real innovation provides.

Recurring accolades from renowned IT experts and major new contracts with large global companies reflect the widespread enthusiasm for Lenovo PCs.

Building the Perfect PC.

ThinkPad 300X, *Business Week*, February 14, 2008

Most Popular Notebook Computer Award

ThinkPad T60, *NotebookReview.com*, Oct. 2006

Built-To-Last Award

ThinkPad T60, *Laptop Magazine*, Oct. 2006

Reviewers Choice Award

ThinkPad X60s, *Government Computer News*, Sept. 2006

Top 5 Ultraportable (Laptop) Award

ThinkPad X60s, *PC World*, Sept. 2006

Editors' Choice Award

ThinkPad X60s, *XYZ Computing*, Sept. 2006

Editor's Choice: Top Home Thin-and-Light Laptops

ThinkPad Z60t, *CNet*, Aug. 2006

Best home Midsize Laptop Award

ThinkPad Z60m, *CNet*, Aug. 2006

19th Annual Readers Choice Award

ThinkPad TP Family, *PC Magazine*, Aug. 2006

Long-Life Laptop Champion

ThinkPad X60s, *San Francisco Chronicle*, Aug. 2006

Top Work Midsize and Desktop Replacement Award

ThinkPad R60, *CNet*, Aug. 2006

In addition to the ThinkPad awards, Lenovo has received recognition for innovation and design for a number of other products. A sample of recent awards is listed below:

Best in Show Award

IdeaPad U110, Computer Electronics Show, 2008

Annual Global Technical Excellence Award

LTT (Lenovo Trust Technology), *PC Magazine*, 2006

Recommended product

Lenovo Wireless projector C400W, *Laptop Magazine*, 2006

Linux Journal Editor's Choice international award

ThinkPad T60p, 2006

Second Prize of the National Development of Science and Technology

Lenovo ShenTeng 6800 super computer, China, 2005

Intel Technology Innovation Award

Two-way/rack Server, Intel, 2005;

Red dot design award

TianYi laptop, 2006

IF design award

TianYi Laptop, 2006

CIDF (China Industrial Design)

TianYi Laptop, 2005

Red dot concept design award

Lenovo concept PC design and concept laptop design, 2006

2008 Beijing Olympic Torch Design

Lenovo IDC, 2007

ThinkPad T60p

2.8 A Good Neighbor, Next Door and Around the World

Lenovo is committed to being a responsible and active corporate citizen, consistently working to improve its business while contributing to the development of society. Lenovo believes that business has an important role to play in advancing social interests and it is dedicated to working together with its employees and local communities to improve the quality of life at work and at home.

As a Chinese heritage company, Lenovo is witness to modern information technology being the cornerstone for knowledge management in China and around the world. Technology can be especially meaningful to underdeveloped countries or areas within developing countries. For China's regional markets, Lenovo manufactured and marketed popular affordable computers to meet the basic information processing needs to fill the digital gap at a lower cost.

A tradition of social responsibility and corporate philanthropy is expressed often as donations of Lenovo technology and time to organizations in our communities. Lenovo, and formerly IBM PCD, have donated ThinkPad notebooks and ThinkCentre desktops to a wide variety of nonprofit organizations around the world, and its employees have also donated thousands of volunteer hours to local causes.

Lenovo at times has been a good neighbor through cash contributions for emergency relief. In 2003, at the height of the SARS epidemic in China, Lenovo donated \$1.4 million USD to support the prevention of the disease, with employees voluntarily raising additional donations for this important cause. And, in 2005, the Company donated funds to South Asian countries devastated by the tsunami.

In January 2008, the worst winter disaster in five decades hit 19 of 31 provinces in South China, resulting in more than 60 deaths and the forced relocation of 1.76 million people. Blackouts, failure of utility facilities, and lack of tap water caused disruption of work, travel, and otherwise normal family life.

Lenovo donated 3 million RMB Yuan (\$428,000 USD) to the Ministry of Civil Affairs of the People's Republic of China to help with disaster relief efforts in provinces suffering from the storms.

2.9 Gold Medal Olympic Partnership

Lenovo has been a major supporter of sports and physical fitness in China. In 1999, the Company sponsored the Chinese national women's soccer team and two years later sponsored Beijing's successful bid to host the 2008 Olympic Games.

Thinking globally, in 2004, Lenovo became the first Chinese company to join the Olympic Partner Program. As a worldwide sponsor with the International Olympic Committee, the Company was a major sponsor and supplier of computing equipment – such as desktop and notebook computers and servers – for the 2006 winter games in Turin, Italy as well as the 2008 Summer Games in Beijing, China. Heading into summer 2008, Lenovo was positioned to have 30,000 pieces of equipment and 600 engineers and company representatives on-site for important functions including accreditation, transportation, sports entries, qualifications and staff, volunteer deployment and athlete use in the internet lounges.

3 Lenovo CSR Highlights

3.1 Corporate Social Responsibility

Lenovo is dedicated to building exceptionally engineered PCs for customers everywhere and helping change the way people around the world use technology. Lenovo’s corporate social responsibility is carried out in the Company’s product design and manufacturing, corporate practices, health and welfare of our employees, supplier engagement, and employee education.

Lenovo embraces the values of customer service, innovative and entrepreneurial spirit, and integrity. Lenovo seeks to integrate these core values into every aspect of its 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 had many of these policies in place before acquiring IBM’s PC division in 2005, and now incorporates the best of Lenovo and IBM’s practices. Lenovo employees and contractors work together to promote these values, policies and procedures.

Year	Award	Organization
2004	“Green Product” award for desktop PC “Green Innovation” award for Lenovo Innovation Center building	China Environment Protection Foundation
2005	“Green Product” award for desktop PC	China Environment Protection Foundation
2007	Financial Times’ 2007 Top 10 Chinese Global Brands Survey – Social Responsibility Overseas Ranked 1 st	Financial Times
2007	Best example of corporate social responsibility	China Newsweek and Red Cross Society of China

3.2 Promoting product quality and safety

Product quality and safety are important to Lenovo, and the Company is continually raising the bar by developing and evaluating new safety initiatives.

Lenovo is focused on the safety of its products throughout their entire lifecycle, from manufacturing, transportation and installation to use, service and disposal. Lenovo strives to ensure that its products meet all applicable legal requirements and voluntary safety and ergonomics practices to which the Company subscribes wherever its 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 Focus on employee welfare

At Lenovo, world sourcing means using the best talent, leadership, innovation, and suppliers available worldwide. Clearly, fostering a safe and healthy working environment for Lenovo employees in more than 60 countries is essential to the Company's productivity and values.

Lenovo is recognized as a leading employer around the world, offering competitive compensation packages, abiding by applicable minimum wage requirements in every country and region where it operates.

Lenovo meets all required health and safety regulations in the countries and jurisdictions in which it manufactures. In 2007, the Company's global supply chain was officially OHSAS 18001 certified.

3.4 Maintaining high ethical standards

Lenovo is committed to the highest standards of integrity and responsibility. Lenovo provides guidance to its 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 relations.

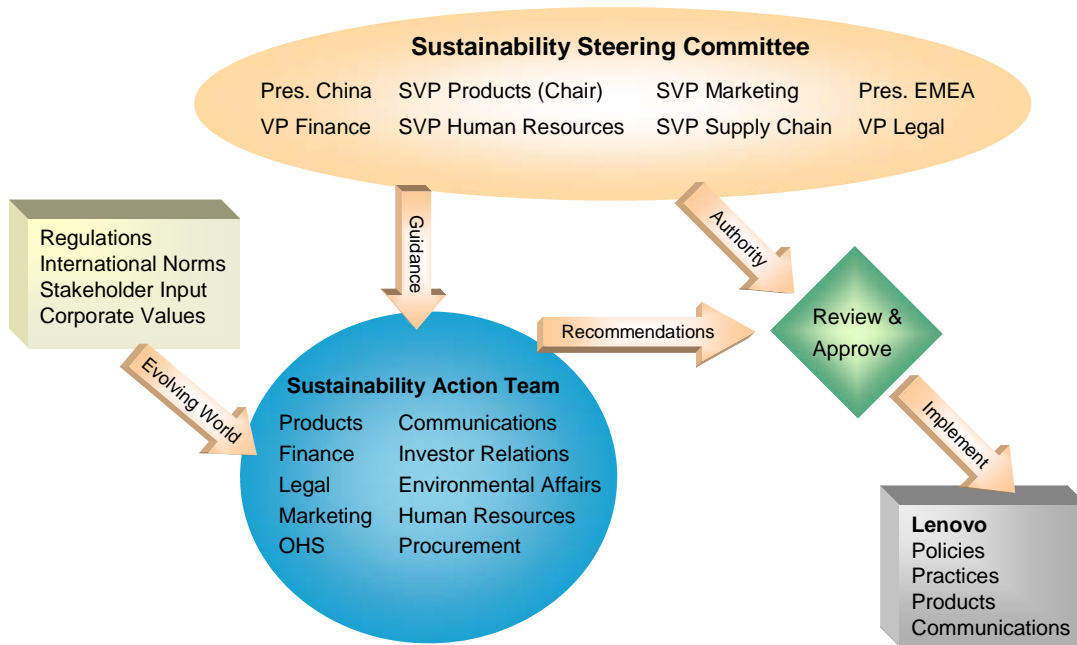
Employees are required to report any evidence of fraud, unethical business conduct, a violation of laws, danger to health or safety or any other violation of corporate policies.

Lenovo respects the intellectual property rights of other companies and individuals. Since 2005, when Lenovo collaborated with Microsoft to jointly promote the use and benefits of validly licensed Microsoft software products, Lenovo has helped lead the way in fighting piracy in China. The Company's actions demonstrated a best practice in observing intellectual property rights in China.

3.5 CSR 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.

Sustainability Management Process



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 Design Group, who is also the executive with 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.

RELEASED FEBRUARY 1, 2009

4 Lenovo Economic Impact

4.1 Chairman's Statement

Lenovo has focused on implementing our well-defined strategies since we completed the acquisition of IBM's PC Division. By the 2007/08 fiscal year, Lenovo had achieved all the major targets set before the acquisition. We expanded from a US\$3 billion company to a US\$17 billion multi-national company. We returned the acquired business to profitability, with overall profit in the 2007/08 fiscal year triple that prior to the acquisition. We also formed a world class international management team and saw increasing awareness of the Lenovo brand. As a result of these accomplishments – and more – it is clear that our acquisition of IBM's PC Division has proved to be a successful transaction. Lenovo's aspirations to expand our base of business through the acquisition, remove the ceiling on our growth, and generate enhanced returns for our shareholders are becoming a reality.

Lenovo continued to make a number of accomplishments under our defined strategies in the past fiscal year. On one hand, we successfully strengthened our existing business in China and the relationship business in other geographies. On the other hand, we also achieved breakthroughs in developing our transaction business in various geographies. In the past fiscal year, Lenovo generated higher-than-market growth in both PC shipments and sales, enabling the Group's business outside Greater China returned to profitability with good growth momentum. At the same time, Lenovo's relentless efforts to innovate strengthened the competitiveness of our products, with the launch of cutting-edge and well-received products such as the IdeaPad and ThinkPad X300. The completion of restructuring actions has allowed Lenovo to use our global resources more efficiently, boost the competitiveness of our desktop business and reduce end-to-end supply chain costs. Lenovo's brand-building efforts have also effectively increased the awareness of the Lenovo brand, allowing us to transition our products to the Lenovo/Think brand ahead of schedule.

Lenovo has embarked on its next stage of profitable growth upon the completion of the integration. Looking forward, we will strive to strengthen our existing core business – the China business and relationship business in other geographies – while seizing opportunities in the market to generate additional growth. Lenovo will focus its efforts in three areas: developing business in emerging markets; growing the transaction business which includes our consumer business; and expanding in the notebook computer market. In addition, Lenovo will continue to actively develop profitable new businesses, such as the high value-added peripherals, accessories and extended services.

The Board of Directors is satisfied with Lenovo's performance in the past year and is confident in our ability to execute our strategy. Lenovo builds its past and future success on choosing the right strategy and then executing that strategy effectively. Our successes in replicating the transaction model around the world and significantly improving the performance of our desktop business has given us great confidence in management's execution capability. Furthermore, we believe the great emphasis that Lenovo's international management team places on technology and business model innovation and worldsourcing will result in sustained improvement in Lenovo's competitiveness.

My expectation for Lenovo in the next few years is that we will continue our focus on our PC business to achieve profitable growth at higher-than-industry levels as we take up a new position in the global PC market. No matter how the market environment will change, Lenovo endeavors to realize our strategic objectives and to enhance competitiveness to

bring sustainable long-term returns to investors. Last but not least, I would like to express my sincere thanks to our shareholders, my fellow board members, customers and employees for their continuous support of Lenovo over the years.



Yang Yuanqing Chairman of the Board

Hong Kong, May 22, 2008

4.2 Business Review

Lenovo made significant progress against its goal of growing faster and more profitably than the industry during the 2007/08 fiscal year. Lenovo's financial performance was outstanding thanks to solid execution of its key initiatives, including rolling out the transaction model in additional geographies, improving global supply chain, enhancing competitiveness in desktop computers, and building a global brand.

During the fiscal year, Lenovo achieved faster than industry growth in both PC shipments and sales, with solid performance in both the China PC market and the large enterprise business outside China. It also made significant inroads into emerging markets as well as the small- and medium-sized business (SMB) and consumer markets, through the roll-out of the transaction business model outside China. For the fiscal year ended March 31, 2008, Lenovo increased its worldwide PC shipments by approximately 22 percent, healthily outpacing the industry average growth of 16 percent.

In order to allow the Group to better focus on its core PC business, Lenovo completed the sale of its entire interest in its mobile handset business in March 2008. The Group recorded approximately US\$65 million as a pre-tax gain on disposal. Lenovo's continuing business (excluding mobile handset business) improved strongly in its financial performance. During the 2007/08 fiscal year, Lenovo's sales grew 17 percent year-on-year to approximately US\$16,352 million. The gross profit margin for the year improved to 15.0 percent from 13.5 percent. The Group's profit before taxation (excluding the cost of strategic restructuring actions) for its continuing operations surged 237 percent to approximately US\$560 million with pre-tax operating margin improved to 3.3 percent from 1.2 percent in the previous year. Including the net profit of US\$20 million from discontinued operations, the Group's profit attributable to shareholders increased significantly by 201 percent year-on-year to US\$484 million this year.

Performance of Geographies

Lenovo's improvement in market competitiveness positioned it to take advantage of a rising PC market and deliver a solid year across all geographies. All of the Group's geographies posted double-digit PC shipment increases and were profitable for the year. During the year ended March 31, 2008, Lenovo gained 0.4 percentage points in market share, accounting for approximately 7.6 percent of the overall market, making it the number four company in the worldwide PC market.

Greater China

Lenovo Greater China continued to be the largest contributor to the Group's overall sales, accounting for approximately 37 percent in the 2007/08 fiscal year. The PC market in China enjoyed another year of robust growth on the back of continuous strong economic growth in the country, which increased disposable income, as well as increased rates of notebook

adoption. Building on the market traction of its well-established dual business model in China, the success of Olympic marketing, and continuous improvement in market coverage, the Group recorded approximately 27 percent growth in PC unit shipments during the fiscal year. Lenovo increased its share of the China market to 28 percent, leading the world's second largest PC market for 11 consecutive years.

Lenovo's continuous efforts to enhance coverage of SMB and consumer segments enabled it to further expand its lead in China. During the 2007/08 fiscal year, Lenovo further expanded its retail channel coverage and developed its network of local retail stores to cover over 2,000 cities. The Group also boosted its notebook sales by growing the number of notebook category stores and focusing on the SMB market. During the 2007/08 fiscal year, Lenovo also enhanced its position in the large enterprise segment to complement its established strengths in the public sector. Through better use of its business management system for relationship business, the Group improved customer account development and was able to expand its share of the large enterprise segment, in particular the insurance and banking sector.

Americas

During the 2007/08 fiscal year, Lenovo delivered solid performance improvement in the Americas, which accounted for approximately 28 percent of overall sales. PC shipments increased 13 percent year-on-year, in line with the market. Lenovo's sales in the Americas grew 9 percent driven by strong growth in the transaction business and in Latin America. With the higher growth in sales and improved operational efficiencies, the geography improved its profitability during the 2007/08 fiscal year, contributing to the Group's profitable growth. Despite weak market demand in the large enterprise segment, along with aggressive competition during the year, Lenovo was able to improve its market position thanks to the well-established leadership of Think brand products, as well as strengthened sales resources and execution. The Group's increased efforts in mid-market business development activities also delivered good results in both unit shipments and profitability.

In its second year of implementing the transaction model in the Americas, Lenovo achieved profitable growth with strong unit shipment. This was attributable to the Group's IdeaPad Y710 consumer notebook success in building up a mixed channel structure, including channel partners, retail and Teleweb. The creation of Club Lenovo, a new loyalty rewards program for SMB resellers in the United States and Canada, further demonstrated the Group's commitment to the SMB market and resulted in significant progress in penetrating the segment in North America.

Europe, Middle East and Africa (EMEA)

During the 2007/08 fiscal year, Lenovo delivered strong growth and profits in the Europe, Middle East and Africa (EMEA), benefiting from the robust PC market and the Group's strong performance in the commercial segment of the market. EMEA expanded the roll-out of the transaction model, launched mid-market and consumer businesses, all while maintaining steady progress in large enterprise business. Lenovo gained market share in EMEA by posting 23 percent increase in PC shipments for the fiscal year. EMEA accounted for 22 percent of the Group's overall sales with an 18 percent year-on-year increase.

The growth in EMEA was attributable to improved sales to large enterprises and growth in the mid-market segment through a strengthening of the Group's sales resources. Lenovo increased its new account acquisition rate and options and service attach rates, delivering improved customer satisfaction and profitability.

During the year, the continuous success in the deployment and expanded roll-out of the transaction business model in more countries drove significant growth in PC shipments for the geography. Lenovo capitalized market potential by further penetrating emerging markets in Eastern Europe and expanding its partner network. In the last quarter of the fiscal year, the Group launched consumer PCs in France and South Africa to better address market demand.

Asia Pacific (excluding Greater China)

The PC market in Asia Pacific (excluding Greater China) continued its strong growth, mainly driven by India, Australia, New Zealand and the ASEAN countries. Lenovo's PC shipments in this geography increased 18 percent year-on-year, outpacing the market growth of 12 percent in Asia Pacific (excluding Greater China). Sales increased 15 percent, accounting for 13 percent of the Group's overall sales during the 2007/08 fiscal year. Lenovo progressed steadily in its relationship business in the geography by enhancing sales force coverage of the large enterprise and mid-market segments. The changes that Lenovo introduced in its Japan operation also have started to pay off, leading to improvement in both shipments and profitability in the country during the 2007/08 fiscal year.

The Group continued to see strong momentum of its transaction business in Asia Pacific (excluding Greater China). Lenovo boosted unit shipment by expanding retail store networks and strengthening its product lineup for both the SMB and consumer segments. The launch of IdeaPad and IdeaCentre products in early 2008 added further excitement and completed the full-range of offerings in India, Australia, New Zealand and the ASEAN countries.

The Group also seized the opportunity to invest appropriately in this fast growing geography during the 2007/08 fiscal year in order to capture even more growth. Lenovo outpaced the market growth in India and gained further share with shipments increasing approximately 28 percent year-on-year through its successful penetration into both commercial and consumer segments

4.3 Future Prospects

Lenovo's aspiration is to grow faster and more profitably than the industry by providing the exceptionally engineered PCs and unequalled ownership experience for its customers. This aspiration reflects the Company's beliefs that growth is critical and delivering unequalled customer experience is the basis on which Lenovo differentiates itself against the competition.

In the 2008/09 fiscal year, the Group will continue to focus on driving global operational excellence. It will continue to leverage its leadership position and proven competitive strengths in China, and in the large enterprise customer segment outside of China. At the same time, it will drive new growth by expanding its product portfolio and moving more quickly and more deeply into the SMB and consumer segments outside of China as well as other emerging markets.

5 Corporate Governance

5.1 Corporate Governance

The Company is committed to attaining and upholding a high standard of corporate governance and maintains sound and well-established corporate governance practices in order to protect the interests of shareholders, customers and staff. The Company abides strictly by the laws and regulations of the jurisdictions where it operates, and observes the guidelines and rules issued by regulatory authorities. It also keeps its corporate governance system under constant review to ensure that it is in line with international and local best practices.

Corporate Governance Practices

During the 2007/08 fiscal year, the Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation under Code A.4.1 which is explained below.

Code A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term. Non-executive directors of the Company do not have a specific term of appointment. However, non-executive directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same purpose as a specific term of appointment.

The Company has met the recommended best practices under the CG Code in various areas of its corporate governance practices. In particular, the Company has published quarterly financial results and business review within 45 days after the end of the relevant quarter in addition to the interim results and annual results. The information disclosed in quarterly financial results enables the shareholders to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the same accounting policies applied to the annual accounts.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") to the Listing Rules to govern the directors' securities transactions. In response to a specific request, all the directors of the Company have confirmed their compliance with the required standard during the 2007/08 fiscal year. The Company has also adopted its own Trading in Securities Policy which is on terms no less exacting than the required standard as set out in the Model Code. This policy also applies to designated senior management of the Company.

Board of Directors

The board of directors (the "Board") 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 day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Board has formulated a clear written policy, which stipulate the circumstances under which the 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 Board has reserved for its decision or consideration matters covering 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. Each director has a duty to act in good faith in the best interests of the Company.

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 auditors' responsibilities to shareholders are set out in the Independent Auditor's Report on page 75 of the Company's 2007/08 Annual Report.

As at June 30, 2008, there are eleven Board members consisting of two executive directors, five non-executive directors and four independent non-executive directors. Mr. John W. Barter III, an independent non-executive 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 56 to 59 of the Company's 2007/08 Annual Report.

Each of the independent non-executive 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 non-executive 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.

The positions of the Chairman of the Board and Chief Executive Officer are held by separate individuals to ensure a segregation of duties in order that a balance of power and authority is achieved.

Board Committees

The Board has established four board committees ("Board Committees") with defined terms of reference (available upon written request to the Company Secretary); they are Audit Committee, Compensation Committee, Strategy Committee and Governance Committee. The terms of reference of the Audit Committee and the Compensation Committee are on no less exacting terms than those set out in the CG Code. Should the need arise, the Board will authorize an independent board committee comprising all the independent non-executive directors to review, approve and monitor connected transactions (including the continuing connected transactions) that should be approved by the Board. Minutes of meetings are circulated to members of the relevant Board Committee 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.

A listing of corporate governance recognition is given below:

Year	Award	Organization
2000	<ul style="list-style-type: none"> ▪ Overall Best Managed Company in China – ranked 2nd 	<i>Asiamoney Magazine</i>
2001	<ul style="list-style-type: none"> ▪ Overall Best Managed Company in China – ranked 1st 	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> ▪ Overall Best Managed Company in China – ranked 1st 	<i>Asiamoney Magazine</i>
	<ul style="list-style-type: none"> ▪ A Leader in Corporate Governance in China – ranked 2nd 	<i>The Asset Magazine</i>
2002	<ul style="list-style-type: none"> ▪ Most Committed to Corporate Governance in China – ranked 1st 	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> ▪ Overall best managed company – ranked 1st 	<i>Asiamoney Magazine</i>
2003	<ul style="list-style-type: none"> ▪ Best Corporate Governance – ranked 1st 	<i>Asiamoney Magazine</i>
	<ul style="list-style-type: none"> ▪ Best Corporate Governance in China – ranked 1st 	<i>FinanceAsia Magazine</i>
2004	<ul style="list-style-type: none"> ▪ Best Corporate Governance in China – ranked 2nd 	<i>FinanceAsia Magazine</i>
2006	<ul style="list-style-type: none"> ▪ Best Corporate Governance in China – ranked 4th 	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> ▪ Corporate Governance Asia Recognition Awards 2006 – Asia's Best Companies For Corporate Governance 	<i>Corporate Governance Asia</i>
2007	<ul style="list-style-type: none"> ▪ Corporate Governance Asia Recognition Awards 2007 – Asia's Best Companies For Corporate Governance 	<i>Corporate Governance Asia</i>
	<ul style="list-style-type: none"> ▪ Best Corporate Governance – ranked 6th 	<i>FinanceAsia Magazine</i>
2008	<ul style="list-style-type: none"> ▪ Best Managed Company in China – ranked 3rd 	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> ▪ Best Corporate Governance in China – ranked 3rd 	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> ▪ Corporate Governance Asia Recognition Awards 2008 – Asia's Best Companies For Corporate Governance 	<i>Corporate Governance Asia</i>

5.2 Shareholders' Rights

The Company is committed to safeguard shareholders' interests and encourage shareholders to attend the annual general meeting for which at least 21 days' notice is given. Shareholders are therefore encouraged to actively participate at such meetings. The 2008 Annual General Meeting of the Company held on July 25, 2008 was attended by Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chairman of the Audit Committee, Chairman of the Compensation Committee, Non-executive Vice Chairman, an independent non-executive director and representatives of external auditors, PricewaterhouseCoopers to answer questions raised by shareholders at the meeting. Resolutions passed at the Company's 2008 Annual General Meeting included: adoption of the Group's audited accounts for the year ended March 31, 2008 together with the directors' report and auditors' report, declaration of final dividend, re-election of retiring directors and authorization to fix directors' fees, re-appointment of external auditors and authorization to fix auditors' fees and grant of a general mandate to the Board to issue and repurchase shares of the Company. All the resolutions proposed at the 2008 Annual General Meetings were decided by way of poll voting. The poll is 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 (www.lenovo.com/hk/publication) and the Hong Kong Stock Exchange's website (www.hkex.com.hk).

5.3 Investor Relations

Lenovo is committed to enhancing relationships and communications with its existing and potential investors. The Company continues its proactive approach to communicate with investors in a timely manner by using various platforms such as webcast, conference calls, and face-to-face meetings. Lenovo maintains regular meetings with investors and is widely covered by investment analysts.

During the 2007/08 fiscal year, Lenovo actively participated in various major investment conferences, and organized a number of non-deal investor roadshows to meet with investors around the world. The Company continued its efforts in organizing an annual securities analyst meeting in Hong Kong in June 2007, enabling its management team to elaborate company strategies in details with the investment community. The event was well attended by both buy-side and sell-side investors. To further facilitate communication with investor, the Company newly introduced in early 2008 an Investor Relations section on its Chinese corporate website (www.lenovo.com.cn) in addition to the English website (www.lenovo.com).

The following table lists the investor relations awards received by the Company.

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Year	Award	Organization
2000	▪ Overall Best Investor Relations in China 2000	<i>Asiamoney Magazine</i>
	▪ UK 2000 Awards: Best Asia-Pacific Company Investor Relations in the UK Market	<i>Investor Relations Magazine</i>
2001	▪ Overall Best Investor Relations in China 2001	<i>Asiamoney Magazine</i>
	▪ Best in Commitment to Shareholder Value, China	<i>FinanceAsia Magazine</i>
	▪ Asia 2001 Awards: Honorable Mention - Runner-up Grand Prix for Best Overall Investor Relations by a Small-Cap Company	<i>Investor Relations Magazine</i>
	▪ Highly Commended - Best Asia-Pacific Company Investor Relations in the UK Market	<i>Investor Relations Magazine</i>
	▪ A Leader in Corporate Governance	<i>The Asset Magazine</i>
2002	▪ Overall Best Investor Relations	<i>Asiamoney Magazine</i>
	▪ Best Communications with Shareholders/Investors	<i>Asiamoney Magazine</i>
	▪ Best Investor Relations in China	<i>FinanceAsia Magazine</i>
2003	▪ Overall Best Investor Relations	<i>Asiamoney Magazine</i>
	▪ Best Investor Relations in China	<i>FinanceAsia Magazine</i>
2004	▪ Best Investor Relations, 1 st Runner-up	<i>FinanceAsia Magazine</i>
2005	▪ Best Investor Relations in China	<i>FinanceAsia Magazine</i>
2006	▪ Excellence in Investor Relations (China)	<i>Investor Relations Magazine</i>
	▪ Highly Commended – Grand Prix for Best Overall Investors Relations (non-SOE, large cap) (China)	<i>Investor Relations Magazine</i>
	▪ Best Investor Relations - 1 st	<i>FinanceAsia Magazine</i>
2007	▪ Best Investor Relations – 4 th	<i>FinanceAsia Magazine</i>
2008	▪ Best Investor Relations – 5 th	<i>FinanceAsia Magazine</i>

RELEASED FEBRUARY 1, 2009

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 necessary license or other permission that may be required.

5.5 Business Conduct Guidelines

Lenovo strives always to operate in an ethical and legal manner. The Company has created a set of Business Conduct Guidelines to inform and to guide employees in their everyday conduct at the Company. New employees are required to review Lenovo's Business Conduct Guidelines and sign the certification statement at the end of the document.

Sample topics covered in Lenovo BCGs:

- Workplace Environment
 - Safety and Health
 - Productive Work Environment
 - Prohibited Conduct
- Employee Privacy
 - Personal Information
 - Privacy in the Workspace
- Protection and Proper Use of Lenovo Assets
- Conducting Lenovo's Business
 - Avoiding Misrepresentation
 - Dealing with Suppliers
 - Avoiding Reciprocal Dealings
 - Competing in the Field
 - Avoiding False and Misleading Statements about Competitors
 - Relationships with Other Organizations
- Acquiring and Using Information about Others
 - Acquiring Competitor Information
 - Maintaining Privacy of Third Party Information
- Gifts, Bribes and Amenities
 - Business Amenities
 - Receiving Gifts
 - Referral Fees
 - Giving Gifts
- Relationships with the Government
 - Gifts to Government Employees
 - Public Official and Campaign Visits, Speaking Engagements and Honoraria
 - Public Sector Procurement
 - Lobbying
- Complying with Laws
 - Antitrust/Competition
 - Import/Export Controls and Anti-boycott
 - The Environment

RELEASED FEBRUARY 1, 2009

- Accounting and Financial Reporting Laws
- On Your Own Time
- Conflicts of Interest
- Insider Trading
- Public Service
- Participation in Political Life
- Speaking Out
- Reporting Unlawful or Unethical Conduct

6 Human Resources

6.1 Data Privacy

Lenovo is committed to protecting the personal data of its employees, customers, resellers, and others. Corporate strategies, policies, and guidelines must support this commitment to protecting 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:** The Company will collect and process personal information fairly and lawfully and will provide clear notice about such practices.
- **Purpose:** The Company will collect personal information only if it is relevant to a legitimate business purpose. Also, the Company will state that purpose where required by law. Additionally, the Company will process this personal information in a manner consistent with the purpose for which it is collected.
- **Accuracy:** The Company 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:** The Company will make personal information available inside or outside the Company only in appropriate circumstances and in accordance with its stated practices.
- **Security:** The Company will implement appropriate measures to safeguard personal information, and will provide appropriate resources to fulfill this objective. Also, the Company will require third parties collecting, storing, or processing personal information on behalf of the Company, if any, to process it only in a manner consistent with the Company's data privacy policy.
- **Access and Redress:** The Company will provide individuals with appropriate access to personal information about them. Also, the Company will implement a process to resolve questions and problems that may be raised by such individuals.

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. The Company has a zero tolerance level for such conduct in the work environment.

Employees who engage in harassment or inappropriate behavior are subject to a range of discipline, from informal counseling to discharge. The relative seriousness of the conduct and any past warnings given to the employee will be considered. In certain circumstances, it may be appropriate to transfer the offender to another department or location. If requested by the victim, he or she may be transferred to another department or location.

Employees who believe they have been the victim of harassment are encouraged to report the conduct 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 an Open Door 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 insure the employee is treated fairly. Any issue except policy decisions or operational business issues are eligible under this process.

6.4 Reporting Unlawful or Inappropriate Behavior

Employees must report to their managers, or to the Company Executive Director of Compliance, or the local Lenovo Legal Department, any evidence of:

- Fraud by or against the Company
- Unethical business conduct
- A violation of laws
- Substantial and specific danger to health and safety
- A violation of the Company's corporate policies and guidelines, in particular its Business Conduct Guidelines

The Company 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.

Disciplinary Action

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

6.5 Government Relations

Lenovo maintains good relationships with governments around the world and strives to be a good corporate citizen everywhere it operates. The Company strives to adhere to the highest standards of integrity and responsibility when dealing with any government entity.

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

The Company 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 six assembly plants in China, where Lenovo is considered an employer of choice. Lenovo also has a plant in Pondicherry, India that employs over 275 direct laborers. In the summer of 2007, Lenovo also announced plans for three new manufacturing facilities: in Baddi, India; Monterrey, Mexico and a site to be determined in Central or Eastern Europe, as well as a fulfillment center in North Carolina, the U.S. When all of the facilities are completed, they will employ more than 1,900 direct laborers. 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 in China:

- Lenovo does not recruit or hire persons who are under 18 years old and 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. There is no person who is paid under 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 balance of the direct laborers' work and health.
- 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 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's People Enrichment Program (PEP) is the company's personal development initiative designed to give employees the opportunity to acquire the core competencies and skills needed for the future, ensuring that Lenovo retains its competitive edge. With a full range of innovative programs, PEP offers everything from online training (PEP School) and individual career planning (PEP Plan) to multicultural e-Pals (PEP Pals).

Lenovo employees on average received 8 hours of training during the year. 100% of employees receive performance appraisals or career reviews on an annual basis at a minimum.

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. In order for employees to learn more, Lenovo provides an on-line book, *A Guide for Mentoring at Lenovo*. Lenovo Learning welcomes new employees to the Company with the *Lenovo New Employee Guide*, which helps new employees find answers to questions on a wide variety of topics – the Company's history, culture, business practices and policies as well as all the employee tools and resources available to the employee.

Books 24x7

Books 24x7 offers unobstructed access to the complete unabridged contents of a wide spectrum of technology, business, engineering, finance and government titles to support employees' everyday business activities. One hundred and fifty new books are added on average every week.

ITPro

ITPro was designed by and for IT professionals who need to keep pace with the accelerating speed of technology and innovation. With thousands of books, ITPro provides both broad and deep coverage of over 100 different technology topics including the latest programming languages, coding methodologies, network security, telecom protocols, IT asset management strategies, to name just a few.

BusinessPro

BusinessPro is suitable for every corporate professional, provides instant guidance on a range of practical topics that drive business results. Topics range from leadership to writing business plans and from interviewing skills to project management.

OfficeEssentials

OfficeEssentials provides fingertip access to the latest information on standard office software such as Microsoft Word, Excel and more in plain, easy-to-understand language. OfficeEssentials is also an ideal product for supporting major corporate software migrations.

7 Diversity

7.1 Valuing Diversity

As a global company, with rich heritage of East and West, valuing and respecting diversity is key to Lenovo's success. By leveraging the rich diversity of its workforce, the Company will be able to delight customers, attract and retain top talent and create a workplace where employees achieve their greatest potential. Lenovo bases its corporate policies on four key company values: customer service, innovative and entrepreneurial spirit, accuracy and truth-seeking and trustworthiness and integrity. These values are integrated into corporate policies and procedures. Lenovo's diversity policy is also grounded in these core values, seeking to drive innovation and creativity at Lenovo by leveraging the similarities and differences of its talented, diverse, global workforce to support business goals.

7.2 Commitment to Diversity

Lenovo values the strengths of all its employees and recognize that this diversity contributes to the Company's success. Bill Amelio, CEO, serves as executive diversity sponsor.

Bill Amelio and Ken DiPetro, SVP of Human Resources, appointed Yolanda Conyers as Chief Diversity Officer and launched the department of Global Integration and Diversity in January, 2007.

Fran O'Sullivan, SVP Product Group, serves as executive sponsor of Women in Lenovo Leadership (WILL) – a global women's initiative in the Company.

Lenovo has sponsored and supported international meetings of the Women's Forum for the Economy and Society which convenes top businesswomen from regions and around the world for networking and sharing ideas. Lenovo has provided featured speakers including SVP of product design Fran O'Sullivan and EMEA's Chief Marketing Officer, Catherine Ladousse, as well as top women from Lenovo China, including Ms. Lin Lynn, executive director, Global Infrastructure Service for Lenovo China.

In 2007-08, EMEA prepared to host the Women's Forum for the Economy and Society in Deauville, France, and to launch "SciTechGirls", aimed at encouraging female students to join scientific and technological careers.

InterElles -- Lenovo is a leading member of InterElles, a French Society which promotes women diversity in IT companies. InterElles was created in 2001. Monthly meetings and a symposium on Women's Day (March 8 each year) aims to analyze work conditions and barriers evolving in IT companies and to share best practices in overcoming obstacles. Other members are France Télécom, IBM France, Schlumberger, GE Healthcare, Agence spatiale européenne (ESA), Air Liquide et EDF. Other companies have shown interest in joining the network, such as EADS or Alcatel."

7.3 Global Workforce Reflective of Lenovo's Global Customers

Lenovo has approximately 24,000 employees across the globe, with approximately 10% in the U.S. Of the U.S. employees, 45% are women or people of color.

Lenovo has a multicultural management team with broad expertise, globally dispersed, that sponsors key culture initiatives.

Lenovo has a robust diverse strategy. The company partners with external organizations including Working Mother Media and Women in Technology International (WITI) to support

our inclusion efforts. We support diverse recruiting efforts such as the National Black MBA Association.

The company also supports diverse global observances such as Hispanic Heritage Month, International Women's Day, Black History Month and celebrates global holidays such as Lunar New Year and other key holidays in countries where our employees live and work.

This year Lenovo also launched global inclusion and diversity training for all managers. The course, *Managing Across Cultures* highlights understanding and building skills to work effectively with employees and customers from all backgrounds.

7.4 Marketplace and Supplier Diversity

Lenovo also has a robust global marketplace strategy. Lenovo participates in Hope Through Entrepreneurship programs—a strategy that provides social advancement and community transformation opportunities through individual or small business loans in Asia, Latin America, Africa, and Eastern Europe.

Lenovo is defining its U.S. marketplace and supplier diversity strategy. The strategy will focus on three key goals: increasing access to diverse talent; increasing access to diverse supplier and supporting entrepreneurship in local communities.

In the spring, Lenovo donated computers to Freedom Calls, a project that provides free videoconferencing to soldiers at bases in Iraq. The service allows them to see their families on a regular basis, participate in parent teacher conferences and recently even allowed one soldier to attend 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 ten NBA Cares Learn and Play Centers. Additional donations will be made to centers in the US, Asia, Europe and Africa.

In North Carolina, Lenovo's operational hub in the U.S., Lenovo provided \$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 form diverse business relationships around the world. The Company will follow the local laws and customs of the countries in which it operates, and will actively seek to establish close working relationships with diverse businesses in those countries. Corporate strategies, policies, and guidelines support this commitment to diverse business relationships.

All managers and employees are responsible for advancing the Company's objectives:

- The Company will comply with all applicable laws governing fairness and equal business opportunity.
- The Company will implement and adhere to its own stringent requirements.
- The Company will provide qualified businesses with an equal opportunity to participate in the Company's procurement and business partner activities regardless of the age, color,

gender, gender identity or expression, sexual orientation, nationality, disability, age, or military or veteran status of the individuals representing that business.

- The Company will seek opportunities to do business with business owners of diverse backgrounds.

U.S. Diverse supplier eligibility

To qualify as a minority supplier, a company must be at least 51 percent owned and controlled by one or more U.S. citizens from any of the following ethnic groups: African American, Hispanic, Native American (including Eskimo and Native Hawaiians), and Asian Americans; or is "minority controlled" by 33 percent of its voting stock, board of directors, and management. Women-owned businesses must be 51 percent owned, managed, and controlled by U.S. citizens. Gay-and lesbian-owned businesses who wish to be identified as gay- and lesbian-owned businesses can work through the designated Lenovo program manager. Businesses owned by people with disabilities must be 51 percent owned, managed and controlled by disabled or disabled veterans' organizations that employ a substantial number of people who have disabilities and are also U.S. citizens.

Lenovo accepts certifications/documentation from the following organizations:

- **Minority-owned** - The National Minority Supplier Development Council (NMSDC) and its regional affiliate councils. The Small Business Administration (SBA) and other federal government agencies, state or local (county, city) government agencies.
- **Women-owned** - The Women Business Enterprise National Council (WBENC), the National Women Business Owners Corporation (NWBOC), the Small Business Administration (SBA), and other federal government agencies.
- **Person with disability** - Copy of letter from public health department which establishes eligibility for benefits; e.g., parking placards, etc. For organizations that employ people with disabilities, documentation from a federal or state agency.
- **Veteran** - Copy of business owners DD214, which indicates honorable discharge from the armed services.
- **Disabled veteran** - Copy of business owners DD214 and letter from Veterans Affairs stating that the business owner has a service-connected disability and was honorably discharged from the armed services.
- **Gay-and lesbian-owned business** - The National Gay and Lesbian Chamber of Commerce (NGLCC) Diversity Development and Procurement Initiative (DDPI).

8 Occupational Health and Safety

8.1 Employee Health and Safety

At Lenovo, Worldsourcing means using the best talent, leadership, innovation, and suppliers available worldwide. Clearly, fostering a safe and healthy working environment for Lenovo employees in more than 60 countries is essential to the Company's 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 emphasizes the importance Lenovo places on health and safety at every location in which the Company does business.

Lenovo meets all required health and safety regulations in the countries and jurisdictions in which it manufactures. In the last year, the Company's global supply chain was officially OHSAS 18001 certified by Bureau Veritas Certification, a world renown certification body.

Under this policy, all employees share responsibility to:

- Provide a safe and healthy workplace for other employees
- Meet applicable legal requirements and voluntary practices, to which the Company 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
- Perform self-assessments of the Company's compliance with employee health and safety requirements and regularly report results to senior management
- Provide appropriate resources to meet these objectives

8.2 Health and Safety Activities

Lenovo's Global Occupational Health and Safety (OHS) organization has established world class standards for employee workplace safety and preventing injuries and illnesses. At Lenovo, all manufacturing and select field locations have established safety committee type programs, of which approximately 40% of the global workforce is represented. 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 2007, Lenovo's manufacturing incident rates are well below comparable industry averages. Specially, the total incident rate is 0.36 and lost time rate is 2.48. No significant accidents have resulted over the past several years.

Lenovo has comprehensive safety and health programs in-place to prevent and control workplace exposures. Lenovo has obtained OHSAS 18001 certification at all global manufacturing locations. In addition, resources are available to assist in providing information to employees on various wellness matters and disease prevention.

Health and safety information/requirements are made available and shared with non Lenovo employees on a needs based basis. Manufacturing employees receive safety training and are required to work according to Lenovo safety and health requirements.

Lenovo is establishing a global integrated OHS organization to respond to health and safety concerns and emerging issues on a worldwide basis. Lenovo's deployment of a global OHS Manual establishing standards and requirements across all Lenovo operations has helped the Company further improve upon its health and safety commitments.

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. For example, Lenovo regularly conducts health and hygiene reviews of cafeterias and dormitories. The Company also conducts formal audits of manufacturing locations and safety and health building reviews at new, large real estate locations.

As Lenovo expands its global manufacturing footprint, OHS is involved in the design and layout of these facilities to ensure the appropriate level of health and safety for our employees and regulatory compliance. With expansion and growth, additional OHS technical resources are being deployed at future locations.

Additionally, the Company engages in a number of comprehensive wellness initiatives, and provides employee assistance programs and medical consulting services to help employees. Examples of employee health promotion offerings include health risk assessments, immunization clinics and a physical activity rebate program.

Lenovo's Shenzhen facility has been recognized by the local government for occupational health and safety excellence in the workplace, and achieved awards three years in a row, in 2005, 2006 and 2007. Additionally, Shenzhen received the "Model Medical Unit" award in 2007.

At Lenovo's Morrisville operational hub, the Company also received special recognition in 2006 from the North Carolina Department of Labor for its low injury/illness record. The Morrisville office also received the NC Safety Awards in 2007.

9 Social Investments

9.1 *Lenovo's Social Investment Commitment*

Lenovo has committed 1% of its 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, China 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 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 over 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, when put in the hands of a poor entrepreneur, can dramatically change the lives of the individual 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, start-up 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 to 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 non-governmental organizations and supports environmental, social, or entrepreneurial activities in their areas. A sample of activities is provided below.

Greater China

In 2007 Lenovo declared its “New Village Strategy” in China, which aimed to bringing Lenovo’s IT products to China’s 10,000 villages and further attracting another 300,000 villages in three years. Thus, more than 3 million households in the rural areas would have access to “affordable” and “reliable” IT products.

Additionally, in December 2007, Lenovo launched its charitable venture capital program, which provides capital and volunteer service to charitable organizations. Lenovo is actively trying to boost the growth of China’s charitable cause and contribute to building harmony in the society. Lenovo has set aside 3 million RMB to four areas of social investment: diminishing the digital divide, environmental protection, education, and relief for the impoverished and disaster-ravaged populations.

Americas

Kramden Institute – Lenovo donates used computers and computer parts to Kramden Institute and organizes employees to volunteer with the Kramden Institute. Kramden’s mission is to refurbish and distribute computers to deserving students in homes with limited financial means. To date, Lenovo has provided more than 250 PCs, 50 monitors, and 500 volunteer hours.

Lenovo Employee Cares Campaign – Through the Triangle United Way, Lenovo employees gave more than \$300,000 annually in donations to local, national, and international non-profit organizations doing social, health, educational, environmental services. Occasionally, Lenovo employees also organize special volunteer projects of fundraising events for particular organizations.

Asia Pacific

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

In Australia, Lenovo is a founding signatory of CitySwitch Green Office – a national tenant energy management program run in partnership between the cities of Sydney, North Sydney, Parramatta, Melbourne, Perth and Adelaide and state government agencies. Representing approximately 70% of Australia’s office space, the program works with tenants to improve office energy= efficiency, thereby reducing CO2 emissions attributed to global warming.

Expecting that tenants can influence up to 50% of the total energy use in office buildings, Lenovo serves as a business case on ways to reduce one's technology footprint.

EMEA

Lenovo considers microfinance and IT solutions as its most efficient combination of tools to fight poverty. Lenovo-EMEA'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", both aimed at supporting economic development in French sensitive urban zones. The success of these programmes 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.

Promoting sports as a real builder for a better society -- In agreement with RED-DEPORTE Y COOPERACION, a very small foundation that works to benefit migrant populations in Africa, South America and Spain, Lenovo Spain sponsored and launched in January 2008 the first edition of "Sharing Sports." This yearbook features famous EMEA sports stars to raise funds for the foundation. Not merely a yearbook, "Sharing Sports" contributes to the diffusion of sport values as a catalyst for a better society. Samuel Eto'o (African football player of FC Barcelona), Carlos Jimenez (Captain of the Spanish basketball team, world cup winner in Japan 2006), Chus Rosa (Woman captain of the Spanish Hockey team) and Tommy N'kono (First African sportsman that worked in Spain in the early 80es) contributed to this initiative. Lenovo was the primary sponsor while Caixa, Puma and the Government of the Madrid province are sponsors as well. The foundation has received on loan 6 Lenovo Notebooks for administrative work.

10 Lenovo Products

10.1 Safety and Ergonomics

The Company is committed to ensuring that its products are safe throughout their lifecycle, including manufacturing, transportation, installation, use, service, and disposal. Corporate strategies, policies and guidelines need to support this commitment to 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 the Company subscribes wherever it sells products
- Select suppliers that demonstrate a similar commitment to safety
- provide customers with adequate information to enable them to use the Company products safely
- Foster employee involvement and provide appropriate resources to develop and implement successful product safety initiatives
- Continuously improve these product safety initiatives
- Perform self assessment of the Company's product safety initiatives and report results periodically to senior executive management
- Investigate product safety incidents and take prompt remedial actions to protect the Company's customers and employees

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

Error! Reference source not found. shows the process for product development requires assessment for safety at various life cycle points.

Table 10-1 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 2007/8, there were no incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services.

10.2 Quality

Lenovo is committed to delivering products of superior quality. The Company's global Quality Management System is designed to collect and drive improvements into current and future product designs. Lenovo's product repair action rates are among the lowest in the industry.

Lenovo combines the talents of the innovation-driven Legend team and the quality heritage from the former IBM PC Division including some of the top engineers in the PC business 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, and all Company employees are expected to contribute to continual quality improvement.

Lenovo proactively seeks input on design and product features from customers. Prototypes are extensively tested and products in final form are put through extreme conditions before they are made available for sale to customers.

Comment [MSOffice1]: Need to reword this

Lenovo constantly strives for best practice as well. Lenovo's Technical Evaluation Center provides information and recommendations to Lenovo Engineering. The Company's Lessons Learned feedback loop aids in refinement and maturation of Lenovo processes and elimination of recurring problems.

Customer-Focused Testing

Once development releases a product into manufacturing, Lenovo conducts a suite of customer-driven tests. These include ongoing customer simulation evaluations where products are tested as if they are in the customer environment. Customer simulation audits (CSA) evaluate the quality of the products by removing systems from the box and setting up the product the way that a customer does. 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 with the various applications that a customer may have. Lenovo has substantially improved quality and reliability over the last few years, with failure rates lower than ever.

Lenovo has continued to enhance its customer-focus program that now includes technical teams supporting installations at the customers' premises. During and after the roll out of the installation there is considerable dialogue between the customer and Lenovo. This gives timely feedback on the installation, allowing corrective actions to be rapidly implemented and pre-empting impact to other customers. This has been highly advantageous during new product release as corrective actions can be made early in the product cycle.

11 Environmental Sustainability

11.1 Lenovo's Environmental Commitment

Lenovo is committed to leadership in environmental affairs in all of its business activities by continuing to build upon its combined history of environmental achievement. Lenovo follows applicable regulations around the globe and is committed to go beyond regulatory requirements and continual improve its environmental performance. Lenovo has already implemented a number of voluntary programs, and is continually evaluating potential opportunities to further reduce its environmental impact.

Lenovo has a proud history of environmental achievements, including the following:

- 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% of those used in traditional PCs. After two years continuous promotion, this model increased the market share of PCs with a small form factor from less than 2% to 20% 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. Received "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- Lenovo introduced a complete line of notebook and desktop computers complying with the latest US EPA ENERGY STAR requirements. Lenovo also introduced its smallest, most energy efficient desktop to date, the A61e.

The Company's long-term, comprehensive approach considers 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 describes in more detail Lenovo's environmental policy, programs and commitments.

11.2. Lenovo's Environmental Policy

Lenovo's corporate environmental policy applies to all Lenovo operations and forms the foundation of Lenovo's Environmental Management System (EMS).

Corporate Policy 5

Environmental Affairs

Effective Date: October 10, 2006

Lenovo is committed to exhibit leadership in environmental affairs in all of its business activities. Corporate strategies, policies and guidelines must support this commitment to leadership in environmental affairs. Each manager and employee, as well as any contractor working on a Lenovo site, bears a personal responsibility for the following objectives:

- Conserve natural resources by reusing and recycling materials, purchasing recycled materials, and using recyclable packaging and other materials.
- Develop, manufacture, and market products that are energy efficient, protect the environment, and can be reused, recycled or disposed of safely.
- Use development and manufacturing processes that do not adversely affect the environment, minimize waste, prevent air, water, and other pollution, minimize health and safety risks, and dispose of waste safely and responsibly.
- Rely on internal operations that conserve energy, use energy efficiently, and give preference to renewable over nonrenewable energy sources when feasible.
- Participate in efforts to improve environmental protection around the world and share appropriate pollution prevention technology, knowledge and methods.
- Meet or exceed applicable government requirements and voluntary requirements to which Lenovo subscribes. Set and adhere to stringent requirements of our own.
- Strive to continually improve Lenovo's environmental management system and performance.
- Conduct self-assessments of Lenovo's compliance with this Policy and report periodically to senior executive management.
- Be an environmentally responsible neighbor in the communities where we operate.
- Act promptly and responsibly to correct conditions that may endanger health, safety, or the environment.
- Promptly report conditions that may threaten health, safety or the environment to authorities and affected parties, as appropriate.
 - Provide appropriate resources to fulfill these objectives.

Lenovo employees should report any environmental, health, or safety concern to Lenovo management. Contractors working on a Lenovo site are expected to report any environmental, health, or safety concern to the Lenovo host or contract manager that is responsible for the contractor's work. Managers should take prompt corrective action, and to inform senior management.

Originally signed by:



William J. Amelio
President and Chief Executive Officer

A copy of the policy can also be found at
www.pc.ibm.com/ww/lenovo/about/environment/cp5.html.

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, an external registrar audits all major operations and product development areas annually. Lenovo's legacy China sites are audited by both Lenovo's international auditor as well as CESI, the China Electronics Standardization Institute. In addition to these external audits, Lenovo conducts regular internal EMS audits to ensure the EMS is functioning properly, tracks progress towards objectives and targets, and identifies possible areas for 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 the 2008/2009 fiscal year, Lenovo has identified the following areas as worldwide significant environmental aspects within the EMS:

- Product materials, including use of recycled plastics and environmentally sensitive materials
- Supplier environmental performance
- Product end of life management
- Design for reuse and recycling
- Site waste recycling/reuse and non-hazardous waste disposition
- Packaging
- Green house 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 fiscal year 2008/2008 are listed in **Table 11.1**, below. Progress towards these goals is monitored at a global level through periodic reporting and internal and external EMS audits.

Table 11.1 Lenovo 2008/2009 Aspects and Objectives

Aspects/Objectives	Targets
<p>Product Materials: Develop sustainable products using materials that are safe; which are environmentally preferable; and which have increased recycled content.</p>	<ol style="list-style-type: none"> 1) Post-consumer recycled content to constitute a specific minimum of Lenovo total plastic purchases 2) 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.
<p>Supplier Environmental Performance: Minimize potential environmental impact of Lenovo's recycling suppliers.</p>	<ol style="list-style-type: none"> 1) Achieve target audit coverage of Lenovo's currently active recycling suppliers by year end FY08/09 2) Evaluate high risk specialized suppliers
<p>Product End of Life Management: Maximize recycling of customer product waste.</p>	<p>Increase the total weight of customer returned IT equipment processed by Lenovo suppliers by 25% over the previous year's performance.</p>
<p>Product Design for Reuse and Recycling: Develop products with focus on minimizing potentially hazardous content and ease of identification/removal of potentially hazardous components.</p>	<p>Formalize new Design for Environment criteria to address these aspects and establish baseline</p>
<p>Site Waste Recycling/Disposition: Maximize site waste recycling and reuse</p>	<p>Maintain manufacturing site recycling rate of at least 95% Establish new recycling goals at all major non-manufacturing sites.</p>
<p>Packaging: Maximize use of recycled content for primary packaging components in notebook and desktop systems (corrugated components & cushioning materials).</p>	<p>Corrugated – Specific minimum total recycled content, and post consumer content Cushions – Specific minimum total recycled content by weight across all new systems. Post consumer content marked if available.</p>
<p>GHG/Carbon Emissions Factors: Product Energy: Minimize climate change impact of Lenovo products by developing sustainable products with improved efficiency and/or reduced energy consumption.</p>	<p>Participate in ES 4.0, 5.0, and Japan Energy Savings Law across all applicable product groups</p>
<p>GHG/Carbon Emissions Factors: Operational GHG Emissions: Minimize GHG / carbon emissions associated with operation of Lenovo facilities worldwide.</p>	<ol style="list-style-type: none"> 1) Decrease energy usage by specific target at manufacturing, development, and research sites, indexed to sales. 2) Define management process to reach commitment of 10% improvement in carbon efficiency by FY 2012/2013.

RELEASED FEBRUARY 1, 2009

A summary of progress towards fiscal year 2007/2008 objectives and targets are included in **Table 11.2**, below.

Table 11.2 Lenovo 2007/2008 Aspects and Objectives Status

Aspects	Targets	Status
Energy efficiency of products	1) Specific improvement generation to generation 2) Meet ENERGY STAR 3.0 3) Participate in ES 4.0, JESL	Met targets
Product chemical emissions	Test 100% of all applicable products	Met target
Materials used in products	1) Powder Coatings 2) Recycled plastics 3) Banned/restricted materials	Met target for powder & materials restrictions; did not meet for plastics
Product design for recyclability and reuse	Develop DFE criteria and establish baseline	Met target – use EPEAT criteria
Carbon Emissions	Establish baseline, define management process	Met target
Non-hazardous solid waste (manufacturing sites)	Recycling rate of >= 95%	Met target
Energy (manufacturing sites)	Specific reduction indexed to production	Met target
Product End of Life Management	25% increase in weight of customer returns	Exceeded target (>50%)

Lenovo established several environmental “stretch” goals to challenge product groups and sites to make extraordinary strides towards environmental improvements. In almost every case, these goals were achieved. The areas are indicated by green in **Table 11.2**.

However, in the case of use of recycled plastics, several of the business units fell short of the “stretch” goal. This area is indicated by yellow in **Table 11.2**

In FY 2007/2008, Lenovo’s focus shifted from post-industrial recycled plastic to post-consumer recycled plastic. This switch was challenging and required Lenovo to retrain engineers and suppliers and to work extensively with resin suppliers to ensure the new materials met Lenovo’s engineering and environmental standards, as well as the US Federal Trade Commission (FTC) definition for post-consumer recycled material. This work will form the baseline for progress in the current fiscal year towards the 2007/2008 goal. Overall, 1 % of Lenovo’s total plastic usage in 2007/08 was from recycled sources, including both post-consumer and post-industrial content. Lenovo has continued to invest time and resources into developing new sources and qualifying new types of post-consumer recycled plastics material. The goal for 2008/2009 post-consumer plastics will be measured by net recycled content as a percentage of total plastic purchased by

Lenovo. For example, one pound of resin with 25% net recycled content will only contribute 0.25 lbs towards Lenovo's goal of 4% post consumer recycled plastic usage in 2008/09.

11.4. Lenovo's Environmentally Conscious Products Program

Prior to becoming a global company in 2005, Lenovo had 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, Lenovo 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.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 some European Union (EU) Restriction on Hazardous Substances (RoHS)-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. Additional information about RoHS can be accessed at http://www.pc.ibm.com/ww/lenovo/about/environment/RoHS_Communication.pdf.

Lenovo requires its suppliers to report any usage of brominated flame retardants (BFRs) polyvinyl chloride (PVC). In recognition of the continuing concern about usage of PVC and BFRs, Lenovo is implementing a phase out plan for both of these substances. Lenovo currently prohibits use of PVC in external cover parts and plastic parts weighing more than 25 grams. Lenovo's target for phasing out PVC use in new parts is 2010.

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. Lenovo's target for phasing-out BFRs in new parts is 2010.

These phase-out plans are dependent upon the availability of economically viable, safe alternatives, particularly for circuit cards and components. Lenovo will work with industry suppliers and other interested parties to make a good faith effort to ensure economically viable and safe alternatives are available to support the phase out plan.

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 2004. Declarations for newly released products are posted on Lenovo's environmental Web site at (<http://www.pc.ibm.com/ww/lenovo/about/sustainability/environment/EnvironmentalDataSheets.html>).

Consistent with the precautionary approach, Lenovo analyzes the regulatory environment, and proactively engages customers, non-governmental 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 information technology 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 subsystem 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 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, non-solvent 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 sees coping with climate change as an important part of its global responsibility, and attaches great importance to the energy efficiency of 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's products meet the efficiency requirements of China, Japan, the United States, EU, and other jurisdictions. All Lenovo notebook, desktop and monitor global models introduced since the effective date of Energy Star 4 satisfy the current Energy Star requirements, either in the basic models or as an option. The Energy Star compliant models are listed at [Home : ENERGY STAR](#).

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 savings targets.
- 2007-Lenovo is actively participating in ENERGY STAR 4.0 newly released in July 2007 by the United States.
- 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 NGOs, participated in the launch of the Climate Savers Computing Initiative (CSCI).

On July 20, 2007, EPA's criteria changed to ENERGY STAR 4.0. All Lenovo notebook, desktop and monitor global models introduced since the effective date of Energy Star 4 satisfy the current Energy Star requirements, either in the basic models or as an option.

Many Lenovo notebook, desktop and monitor products have been registered to the [Electronic Product Environmental Assessment Tool](#) (EPEAT). 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.

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 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 regimes 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 useful lives by offering consumers and/or commercial clients a range of recycling options for end of life products, batteries and product packaging worldwide through voluntary programs and/or country, province or state mandated programs. For customer access information for these programs visit www.pc.ibm.com/ww/lenovo/about/sustainability/environment/Product_Recycling_Program.html.

Additionally, information about the location of potentially hazardous components such as batteries which may require special handling at the product's end of life 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 RBRC's 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 globally.

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. Lenovo announced a free take back and recycling program in India for the same products on September 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 their website at <http://www.trishyiraya.com/>. Lenovo also upgraded its US PC Recycling Service offering in 2007 to include a \$50 discount on the purchase of a Lenovo product when purchasing this service. A similar offering is available in Canada as well.

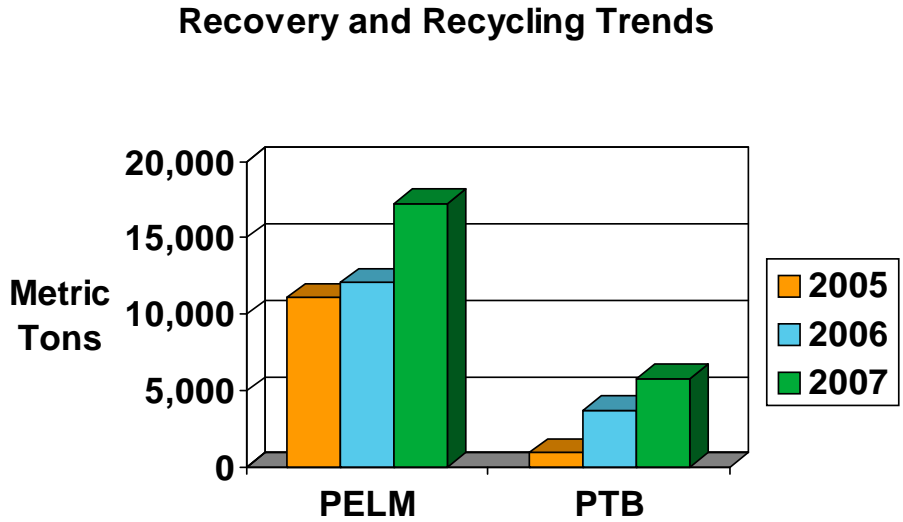
Lenovo offers asset recovery solution assistance to businesses in a large number of countries globally. Customer access information for these programs in the Americas, Asia Pacific and Europe/Middle East/Africa can also be obtained at [www.pc.ibm.com/ww/lenovo/about/sustainability/environment/Product Recycling Program.html](http://www.pc.ibm.com/ww/lenovo/about/sustainability/environment/Product_Recycling_Program.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 onsite inspection of facilities and processes and 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 full chain of custody including how they dispose 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 which will be used as 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.

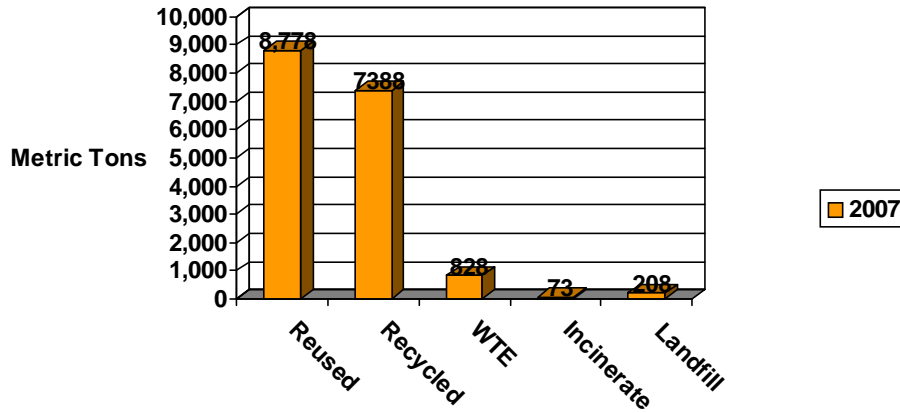
Figure 11.1 Recovery and Recycling Trends



In the past year, Lenovo financed or managed the processing of over 17,275 metric tons (38 million pounds) of Lenovo owned or customer returned computer equipment with 50.81% reused as products or parts, **42.77%** recycled as materials, **4.79%** incinerated with waste to energy recovery, **0.42%** incinerated as disposal treatment, and only **1.21%** disposed by landfill. Since Lenovo was established as a global company in May of 2005, Lenovo has processed over 40,419 metric tons (89 million pounds) of computer equipment through its contracted service providers.

Figure 11.2 Total End of Life Disposition

Lenovo Total End of Life Disposition

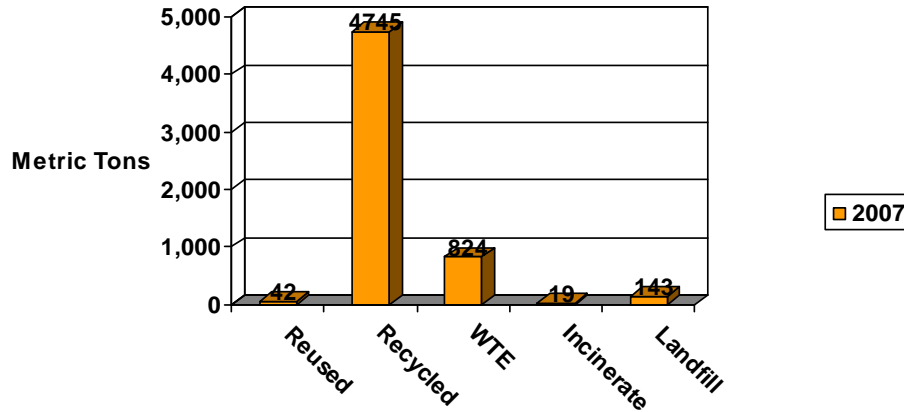


Note: WTE is Waste to Energy

In 2007, customer returns constituted over 5773 metric tons (12.7 million pounds) of the total processed equipment, a 56% increase over 2006. The recycled material from customer owned returns in 2007 represents 2.16 percent of the total weight of new products shipped in 2007 and 7.74 percent of the weight of products shipped in 2000. Since Lenovo did not operate its own asset recovery services for large enterprises during this period, the customer end-of-life data reported here is primarily from voluntary and legal product take back programs for consumers. Shipments for 2000 include only Lenovo China shipments, since Lenovo did not purchase IBM's PC business until May 2005.

Figure 11.3 Disposition of Products Returned from Customers

Customer Owned Product Disposition



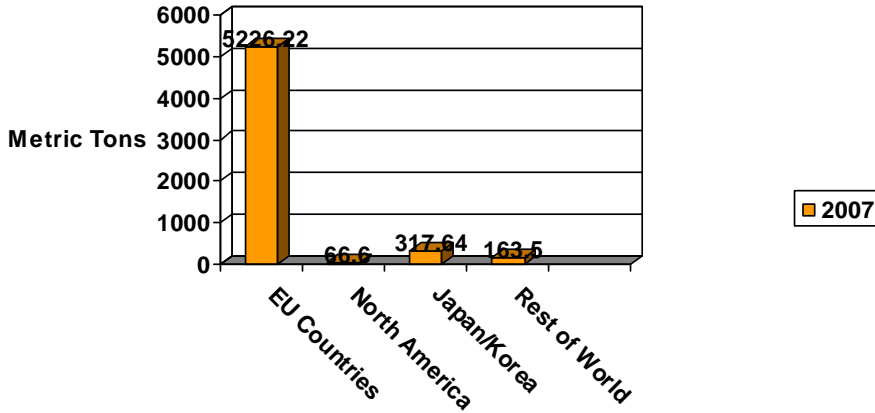
Note: WTE is Waste to Energy

The customer returned products recycled by Lenovo or for which Lenovo financed the recycling fall in to three categories, based on reporting from the recyclers or consortia acting on Lenovo's behalf.

1. Lenovo or IBM brand products which were recovered and recycled on behalf of Lenovo. In this category were 65 tonnes, representing 1.3 % of the 4745 tonnes recycled globally
2. Mixed brand products recovered and recycled on behalf of Lenovo. In this category were 1257 tonnes, representing 20.6 % of the total recycled globally.
3. Products for which Lenovo financed the recycling based on current market share or other financing formulas. This category represented 3699 tonnes, or 77.9 % of the total recycled.
4. Of the 4745 tonnes recycled, 97% was from computers and accessories, with 3% being of mixed stock, computers and consumer electronics.

Figure 11.4 Customer Returns by Geography

Customer Returns by Geography



11.6 Environmental Impact of Operations

Lenovo’s commitment to sustainable development drives the organization’s pro-active 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 which are identified to have real or potential significant environmental impact. To drive continuous improvement of environmental performance, manufacturing and development sites annually establish 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.

During 2006 Lenovo tracked environmental performance at manufacturing facilities in Beijing, Huiyang, Shanghai and Shenzhen, China, and Pondicherry, India; research and development facilities in China, Japan and the USA; and principal operation facilities in China, Singapore and the USA. Operational objectives and targets for 2006 focused on manufacturing sites,

Operational objectives and targets for 2007 were expanded to include research and development facilities as well as the manufacturing sites. The reporting scope was also expanded to include all non-retail facilities worldwide. Lenovo commissioned a new assembly facility in Baddi, India during September 2007. Energy and emissions data only for the Baddi facility are included in this report. Lenovo also occupied two new buildings at the Principal

Operations and Development site in Morrisville, North Carolina, USA. Energy, emissions, and waste data from this site are included in this report.

The 2008 environmental objectives and targets include all facilities with an employee population greater than 100. Calendar year 2008 reporting will include data from a new Customer Fulfillment Center in Whitsett, North Carolina, USA, and manufacturing facilities in Monterey, Mexico, and Legnica, Poland. A third building will be also be occupied at the Morrisville campus during 2008.

2007 Environmental Performance

Reducing Greenhouse Gas Emissions

Primary to Lenovo's strategy to reduce the environmental impact of its operations is the 2007 commitment to improve carbon efficiency. Lenovo has pledged to increase carbon efficiency by 10% by 2012 based upon 2007 emissions. The work towards accomplishing this target began in earnest during 2007 with the implementation of a comprehensive global environmental reporting process and the establishment of base year 2007 emissions data. A greenhouse gas inventory of 73,566 metric tons is accounted for in Lenovo 2007 worldwide operations. The inventory scope includes Scope 1 (direct) and Scope 2 (indirect) emissions from all manufacturing, research and development, principal operations and non-retail facilities worldwide. The inventory also includes Scope 3 emissions associated with employee ground and air travel. The emissions from purchased electricity, which is about 70 million KWh, account for approximately 80% of Lenovo's total emissions within this scope in 2007. The accounting methods used in compiling this data comply with the Greenhouse Gas Protocol standard and guidance.

Lenovo's CO₂ emissions inventory is detailed in the Tables below. **Table 11.3** presents Lenovo's global Scope 1, Scope 2 and Scope 3 emissions. **Table 11.4** details Scope 1 and Scope 2 CO₂ emissions by geographic region. **Table 11.5** details energy consumption and Scope 1 and Scope 2 CO₂ emissions by manufacturing and development sites.

Table 11.3: Global CO₂ Emissions

Scope 1 (Direct Emissions)	Metric Tons CO ₂	% Total Emissions
Transport (Employee)	516	1
Facilities	1123	2
Sub-Total	1639	2
Scope 2 (Indirect Emissions)		
Facilities w/meters	55,554	76
Facilities estimated	2,555	4
Sub-Total	58,109	80
Scope 3 (Indirect Emissions)		
Transport (Employee)	13,818	18
Sub-Total	13,818	18
Total Emissions	73,566	100

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 www.ghgprotocol.org.

Scope 2 CO₂ emissions are associated with the purchase of electricity from the grid. For 2007 emissions from all Lenovo non-retail facilities worldwide are 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 which 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 which are partially occupied by Lenovo operations.

Utilizing the Scope 1 and 2 emissions as Lenovo's measurement baseline yields a CO₂ efficiency of 0.0081 pounds/\$ Revenue, exclusive of retail operations in leased facilities, the magnitude of which is believed to not be material. The baseline will be adjusted in 2008 for inclusion of estimated impact of Lenovo's retail operations and for the movement of production from suppliers to Lenovo operated facilities during calendar year 2008.

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.

Table 11.4: Scope 1 and 2 Emissions by Geography

Region	Purchased Electricity (MWH)	Emissions (Metric Tons CO ₂)		
		Scope 1 Emissions	Scope 2 Emissions	Total
Americas	14787	198	6575	6773
Asia Pacific	6800	322	4506	4828
China	58859	816	46359	47175
EMEA	2223	303	669	972
Global	82669	1639	58109	59748

Energy data is converted to gigajoules to allow consolidated presentation of different forms of energy.

Table 11.5: Energy Consumption and Scope 1 and 2 Emissions at Manufacturing and Development Sites.

Parameter	AG	AP	AP	Chin	China	Chin	China	China	Total
	Raleigh, USA	Pondicherry, India	Yamato, Japan	Beijing	Beijing R&D	Huiyang	Shanghai	Shenzhen	
Energy (Gigajoules)									
Fuel Combustion	3715	1191	471	NA	30865	5368	815	1485	43909
Purchased Electricity	46734	7084	10751	42983	47059	17062	15910	54022	241607
Total Energy	50449	8275	11222	42983	77924	22430	16724	55508	285515
Emissions (Metric Tons)									
Scope 1 (Direct)	198	88	25	NA	199	396	60	109	1076
Scope 2 (Indirect)	6102	1856	1280	9407	10299	3734	3482	11823	47983
Total	6300	1944	1305	9407	10498	4130	3542	11932	49136

Energy Conservation Efforts

Improving energy efficiency is a fundamental element of Lenovo’s strategy to meet its GHG reduction target. Actions are being taken at facilities throughout the organization to reduce energy consumption. During 2007 these activities resulted in a 5% improvement in energy efficiency at Lenovo manufacturing facilities.

The manufacturing facility in Shenzhen, China again achieved significant energy savings with an 11.8 per cent reduction in electrical use during 2007. Energy savings actions included the addition of control timers on the HVAC system, improved energy management for online servers, and a continued focus on lighting energy management. In addition, there was a consolidation of manufacturing lines into two buildings from three, providing additional energy savings.

In Pondicherry, India, electrically driven conveyors were replaced by gravity driven systems and motion detectors have been installed to actuate conveyors where gravity feed is not practical.

Energy savings actions taken at the new buildings in Morrisville include utilization of a white membrane roof to reduce heat absorption and the resulting energy consumption used for cooling, the installation of energy efficient windows which also reduces energy used for heating and cooling, the installation of programmable lighting and HVAC systems, and the installation of light sensor motion detectors in conference rooms, hallways and restrooms. Local management has also taken actions to encourage employees to personally contribute to energy consumption reductions by installing bike racks so employees can to bike to work and by providing the means and opportunity for employees to telecommute when business needs allow. A “Summer Hours” program that compacts employee work hours into the first four days and Friday morning of each work week will again be implemented during 2008. This program conserves energy by cutting back on HVAC and lighting demand on Friday afternoons.

During 2008 Lenovo operational facilities are asked to maintain a continued focus on energy conservation and reduction in GHG emissions. Energy surveys designed to identify further opportunities for reductions will be carried out at all manufacturing, research and development, and principal operation facilities. Lenovo has set a target for FY 2008/09 to increase energy efficiency by a similar amount as that achieved in 2007. indexed to sales. The target of 10% improvement in carbon efficiency by 2012 is baselined against the improvements already achieved in 2004-2007.

Renewable Energy

Lenovo continues as a champion sponsor for NC Greenpower. During 2007, Lenovo purchased 800 blocks of NC Greenpower to support 800,000 Kwh of cleaner and renewable energy. During 2008, Lenovo will purchase 20% more, accounting for approximately 7.5% of Morrisville's electricity consumption. The generation of this amount of renewable energy will annually offset 906 tons of CO₂ and makes a direct impact on North Carolina's environment and economy for power generated here.

With 17 % of electricity in China coming from renewable resources¹, and the high proportion of Lenovo's overall electricity usage being in China, it is estimated that more than 10% of Lenovo's total electricity usage is from renewable sources.

Operational Waste Management

Managing Non-Hazardous 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 98% during 2007. Detailed below in **Table 11.6** is the disposition of solid waste from Lenovo manufacturing and research and development facilities.

¹ Eric Martinot and Li Junfeng. Powering China's Development. Washington, DC: WorldWatch Institute, 2008.

Table 11.6: Disposition of Non-Hazardous Solid Waste

Parameter		AG	AP	AP	China	China	China	China	China	Total
		Raleigh, USA	Pondicherry, India	Yamato, Japan	Beijing	Beijing R&D	Huiyang	Shanghai	Shenzhen	
Non-Haz Solid Waste (Metric Tons)	Landfill	37							346	383
	Recycled	132	1227	11	0.14	17			14860	16248
	Reused/ Resold				2326.4		5385	2002	129	9842
	Total	169	1227	11	2327	17	5385	2002	15336	26474
	% Recycled, Reused, or Resold	78	100	100	100	100	100	100	100	98

During 2008/09 waste management will continue to be a focus area for Lenovo. The scope of the waste management objective and target is expanded to include all major facilities worldwide. Manufacturing and research and development facilities are asked to achieve a recycling and reuse rate in excess of 95% for all non-hazardous solid waste for 2008. All other major facilities are asked to track solid waste disposition and establish reuse and recycle targets before the end of FY 2008/09.

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 calendar year 2007, Lenovo neither imported nor exported any hazardous waste. During this reporting year, there were no significant spills. **Table 11.7** below details the disposition of hazardous waste by Lenovo for 2007.

Table 11.7: Lenovo Operational Hazardous Waste Disposition

Parameter	AG	AP	AP	Chin	China	Chin	China	China	Total	
	Raleigh, USA	Pondicherry, India	Yamato, Japan	Beijing	Beijing R&D	Huiyang	Shanghai	Shenzhen		
Haz. Waste Note: WTE is Waste to Energy	Landfil				1.24	0.27	0.05	0.95	2.50	
	Treat				0.04			3.72	3.76	
	Recycl	0.20			0.95	0.17	0.01		1.33	
	Total	0.20	0.0	0.00	0.00	2.23	0.68	0.16	4.67	7.92
Waste (Metric Tons)	% Recycled	100				43	26	6	0	17

Other Environmental Aspects

Water Resources

Lenovo does not have any intentional discharge of waste water other than into municipal 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. Detailed below in **Table 11.8** is water use at Lenovo’s manufacturing and research and development facilities.

Table 11.8: Lenovo Water Consumption

Parameter	AG	AP	AP	Chin	China	Chin	Chin	Chin	Total
	Raleigh, USA	Pondicherry, India	Yamato, Japan	Beijing	Beijing R&D	Huiyang	Shanghai	Shenzhen	
Water (m3)	25387	3018	19412	65604	68325	28159	35062	64346	309313

Other Air Emissions

Lenovo prohibits the use of ozone depleting substances in its products, processes, and the processes of its suppliers. Lenovo requires the reporting of unintentional releases of chemical substances as an environmental incident. No environmental incidents were recorded for 2007. Lenovo has not evaluated any contribution of fugitive emissions.

Lenovo uses minimal quantities of isopropyl alcohol as a cleaner in its 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 towards 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
- Alliance for Communication and Information Technologies - Member
- Australian Information Industry Association (AIIA) - Member
- Climate Savers Computing Initiative – Board Member
- Washington Materials Management and Financing Authority – Board Member

Recent environmental outreach include the following:

- In January 2006 Lenovo was an invited participant in an EPA led initiative on “e-cycling” addressing standards for waste electronic equipment recyclers.
- Lenovo is an invited member of US Department of Energy peer review team for Mid-Atlantic Recycling Center for End of Life Electronics.
- Lenovo has contributed to the development of the EPA sponsored EPEAT standard and program.
- Lenovo presented an invited paper titled “Impact of Global WEEE legislation on Lenovo Products” at RECCON 05 Global Electronic Recycling Solutions. conference in Morgantown, West Virginia, and at World Recycling Shanghai 05.
- Lenovo China represents the PC industry as a member of the Restriction of Hazardous Substances (RoHS) and Waste Electrical and Electronic Equipment (WEEE) implementation advisory group.
- A Lenovo representative is serving as chairman of the group writing the general technical specification for China PCs. The specification includes environmental attributes such as low radiation, noise, energy, and others.

By engaging stakeholders and through active participation in the PC industry, Lenovo continues its tradition of environmental commitment.

11.8 Summary

Lenovo is committed to environmentally responsible practices in the communities around the world in which it does business, demonstrating a commitment to developing, continuing and advancing environmental policy and programs. Lenovo is building on its 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 employees.

Lenovo's history is one of respect for the environment with attention to the environmental attributes of its operations and products. Lenovo's ISO 14001 compliant Environmental Management System, includes a robust Environmental Policy instituted by its CEO. Lenovo's

Environmentally Conscious Products program focuses efforts to minimize the environmental impact of our product from inception through manufacturing, their use in our 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 the management system to drive to that goal. Lenovo practices transparency in reporting of our policies and practices, and our programs and results.

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

12 Supply Chain

12.1 Supply Chain CSR

Lenovo is committed to being a responsible and active corporate citizen, consistently working to improve its business while contributing to the development of society through improvements in the quality of life at work and at home.

The Electronics Industry Citizenship Coalition (EICC) established a Code of Conduct, posted at www.eicc.info, for electronics suppliers.

Major elements addressed by the EICC are as follows:

Labor

- Freely Chosen Employment
- Child Labor Avoidance
- Working Hours
- Wages and Benefits
- Humane Treatment
- Non-Discrimination
- Freedom of Association

Health and Safety

- Occupational Safety
- Emergency Preparedness
- Occupational Injury and Illness
- Industrial Hygiene
- Physically Demanding Work
- Machine Safeguarding
- Dormitory and Canteen

Environmental

- Environmental Permits and Reporting
- Pollution Prevention and Resource Reduction
- Hazardous Substances
- Wastewater and Solid Waste
- Air Emissions
- Product Content Restrictions

Management System

- Company Commitment
- Management Accountability and Responsibility
- Legal and Customer Requirements
- Risk Assessment and Risk Management
- Performance Objectives with Implementation Plan and Measures
- Training
- Communication
- Worker Feedback and Participation
- Audits and Assessments
- Corrective Action Process
- Documentation and Records

Ethics

- Business Integrity
- No Improper Advantage
- Disclosure of Information

Intellectual Property
Fair Business, Advertising and Competition
Protection of Identity
Community Engagement

Lenovo's commitment to social responsibility in its supply chain operations is reflected in a letter from Qiao Song, Senior Vice President & Chief Procurement Officer, accessible at http://www.pc.ibm.com/ww/lenovo/about/sustainability/supply-chain/Lenovo_EICC_Membership_Letter_2008.pdf

Lenovo has been a member of the Electronics Industry Citizenship Coalition (EICC) (<http://www.eicc.info/>) since June 2006. As a member, Lenovo has adopted the EICC Code of Conduct, implemented a Supplier Self-Assessment Questionnaire (SAQ) for Tier 1 production suppliers and participated in the EICC and Global e-Sustainability Initiative (GeSI) joint audit program. Ninety-eight percent of Lenovo's Tier-1 production suppliers have agreed to comply with the EICC, have completed detailed Self-Assessment Questionnaires (SAQs) about their performance, and have agreed to be audited by third-party EICC-approved auditors.

In FY2008–2009, Lenovo will host a Supplier Conference in May, SVP and Chief Procurement Officer, Qiao Song, will review Lenovo's supplier EICC compliance expectations. All Tier 1 suppliers will be asked to strengthen their written EICC commitments by signing formal contract amendments. These amendments will require all Tier 1 suppliers to (1) submit their SAQs online using the EICC E-TASC tool and (2) conduct compliance audits using third-party EICC-approved auditors.

Further, Lenovo has outlined an aggressive Tier 2 compliance program for FY2008/2009. Tier 2 suppliers are also being required to complete EICC Self-Assessment Questionnaires (SAQs) using the EICC E-TASC tool, and conduct EICC compliance audits.

Lenovo leverages its membership of the Electronics Industry Citizenship Coalition (EICC) to work together with other member companies to create a comprehensive strategy as well as tools to monitor suppliers' performance across several areas of social responsibility. These areas include labor practices, health and safety, ethics, and protection of the environment. By establishing common approaches, we can potentially reduce inefficiency and duplication, and make performance easier to audit.

12.2 Procurement

Lenovo Global Procurement is responsible for buying products such as computer parts and services. The Company strives to balance cost, quality, technology and innovation to provide the greatest value to its customers. Procurement is guided by the Company'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.

12.3 Procurement Core Values

Customer Service

Vigorously seek a full understanding of the capabilities, wants and needs of the entire supply chain, Lenovo's customers, its internal clients, its suppliers and its suppliers' suppliers. Actively articulate both Lenovo's and its 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 the Company's business decisions are based on carefully understood facts.

Trustworthiness and Integrity

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

12.4 Procurement Principles and Practices**Integrity and ethical standards**

It is Lenovo's policy to conduct itself ethically and fairly in relation to its suppliers and all others with whom Lenovo does business.

Reciprocity

Lenovo's goal is to buy goods and services that have the best prices, quality, delivery schedule and technology. Lenovo has a policy against reciprocal buying arrangements, as those arrangements can interfere with this goal.

Confidentiality

Lenovo considers its business relationships with each of its suppliers and potential suppliers to be a private matter between the two parties. Lenovo will treat information received from suppliers in a responsible fashion, and expects suppliers to treat information received from Lenovo in the same manner. Further, Lenovo does not wish to receive from a supplier any information that is considered to be confidential in nature unless the supplier and Lenovo have entered into a confidential disclosure agreement that covers such information.

Patents

Lenovo does not knowingly infringe the patent rights of others. Conversely, Lenovo requires patent indemnification on all procured materials. Lenovo will discuss ideas or inventions with outside individuals and, where necessary, will contract for the development of special products. In all such cases, appropriate contractual arrangements must be made in advance.

Gifts and gratuities

Lenovo employees and members of their families may not solicit or accept gratuities from suppliers or prospective suppliers. Only gifts of US\$25 or less may be accepted by employees.

Business meals and entertainment

Lenovo employees who deal with suppliers may accept customary business amenities such as meals and entertainment, provided the expenses involved are kept at a reasonable level and are not prohibited by law or known supplier business practices. Lenovo employees are expected to reciprocate and share these costs equally over time.

12.5 Supplier Performance Assessment

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 feedback to core and strategic suppliers on a regular basis. Supplier performance feedback will be accomplished through Lenovo issuing formal performance reviews, Lenovo participation in supplier performance programs, or through normal business communication channels. Lenovo and each of its suppliers work together to develop an action plan. Lenovo conducts quarterly supplier performance evaluations of their performance against their action plans that include a corrective action mechanism. Corporate Social Responsibility was added to the assessment process during the second quarter of 2007.

Performance will be measured in the key area of quality, delivery/flexibility, technology and cost reduction. 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 Lenovo's performance as a customer. This information will become the basis for discussions on improving the business relationship.

13 Global Reporting Initiative Notes

GRI Section 2.9: Details on Lenovo's financial structure are reported in the 2007/2008 annual report accessible at http://www.pc.ibm.com/ww/lenovo/annual-interim_report.html

GRI Section 3.1: Data reported in this report is for Lenovo's fiscal year 2008, ending March, 2008, unless otherwise specified

GRI Section 3.4: For questions or other interaction about this report or its content, please contact Cyndy Yu-Robinson, Manager of Corporate Social Responsibility Communications, 1009 Think Place, Morrisville, North Carolina, 27650 or email at cyndy@us.ibm.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: Data bases 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	G3 Section	Lenovo Report Section	G3 Section	Lenovo Report Section
1.1	1.1	4.1	5.1	EN16	11.7
1.2	13	4.2	5.1	EN17	11.7
2.1	2.1	4.3	5.1	EN18	11.7
2.2	2.5	4.4	5.2	EN19	11.7
2.3	2.4, 4.2	4.6	5.1	EN20	11.7
2.4	2.2	4.8	2.4, 2.8, 3.1, 3.2, 3.3, 3.4,	EN21	11.7
2.5	2.2	4.9	3.5	EN23	11.7
2.6	5.1	4.11	11.4	EN24	11.6
2.7	4.2	4.12	11.5, 11.7	EN25	11.7
2.8	2.2, 4.2	4.13	11.8	EN26	11.4
2.9	13	4.14	11.5, 11.8	EN27	11.6
2.10	2.7	4.17	11.8	LA1	1.2, 7.1
3.1	13	5	3.5	LA3	6.6
3.2	1	EC1	4.2, 2.8, 9.1	LA6	8.2
3.3	1	EC3	13	LA7	8.2
3.4	13	EC5	3.3, 6.6	LA8	8.2
3.5	13	EN3	11.7	LA9	8.2
3.6	13	EN4	11.7	LA10	8.2
3.7	13	EN5	11.7	LA11	6.7
3.8	13	EN6	11.7	LA13	13
3.9	13	EN7	11.7	HR2	12.1
3.10	13	EN8	11.7	HR6	6.6
3.11	13	EN9	11.7	HR7	6.6
3.12	13	EN10	11.7	SO5	11.6
				SO6	6.5
				PR1	10.1

GRI Section EC3: Details on Lenovo's benefit coverage is reported in the 2006/2007 annual report accessible at http://www.pc.ibm.com/ww/lenovo/pdf/07_08/Lenovo_2007-08_Annual_Report_Final_E.pdf

GRI Section LA13: Details on Lenovo's governance bodies and breakdown of employees per category may be found in the Lenovo 2007/08 Annual Report at http://www.pc.ibm.com/ww/lenovo/pdf/07_08/Lenovo_2007-08_Annual_Report_Final_E.pdf