

# Lenovo 2006/2007 Sustainability Report



**lenovo**<sup>™</sup>  
NEW WORLD. NEW THINKING.<sup>™</sup>

<b>1. Introduction to the 2007 Lenovo Sustainability Report .....</b>	<b>4</b>
1.1 Chairman/CEO Statement.....	4
<b>2 About Lenovo.....</b>	<b>6</b>
2.1 Lenovo: A Worldwide Leader in Technology .....	6
2.2 The Company.....	6
2.3 The New Lenovo – A Marriage of Visionaries.....	6
2.4 Values .....	7
2.5 A Heritage of Innovation and Excellence.....	7
2.6 Allied with IBM to Offer a Total Solutions Portfolio.....	8
2.7 Rich in Research & Development Talent.....	8
2.8 A Good Neighbor, Next Door and Around the World.....	10
2.9 An Olympic Partner for the Turin and Beijing Games .....	10
<b>3 Lenovo CSR Highlights.....</b>	<b>11</b>
3.1 Corporate Social Responsibility.....	11
3.2 Promoting product quality and safety .....	11
3.3 Focus on employee welfare .....	11
3.4 Maintaining high ethical standards .....	11
3.5 CSR Management Process.....	12
<b>4 Lenovo Economic Impact.....</b>	<b>14</b>
4.1 Chairman’s Statement.....	14
4.2 Business Review.....	15
4.3 Future Prospects.....	16
5.1 Corporate Governance .....	17
5.2 Shareholders’ Rights.....	20
5.3 Investor Relations .....	20
5.4 Intellectual Property.....	22
5.5 Business Conduct Guidelines.....	22
<b>6 Human Resources .....</b>	<b>24</b>
6.1 Data Privacy.....	24
6.2 Harassment and Inappropriate Behavior.....	24
6.3 Employee Grievance Process.....	25
6.4 Reporting Unlawful or Inappropriate Behavior .....	25
6.5 Government Relations .....	26
6.6 Labor practices for direct manufacturing employees.....	26
6.7 Lifetime Learning at Lenovo .....	27

<b>7 Diversity</b> .....	<b>28</b>
7.1 Valuing Diversity.....	28
7.2 Commitment to Diversity .....	28
7.3 Global Workforce Reflective of Lenovo’s Global Customers.....	28
7.4 Marketplace and Supplier Diversity .....	28
7.5 Diverse Business Relationships.....	29
<b>8 Occupational Health and Safety</b> .....	<b>31</b>
8.1 Employee Health and Safety.....	31
8.2 Health and Safety Activities .....	31
<b>9 Social Investments</b> .....	<b>33</b>
9.1 Hope Through Entrepreneurship.....	33
9.2 A Partner for the Olympic Games in Torino and Beijing.....	34
<b>10 Lenovo Products</b> .....	<b>35</b>
10.1 Safety and Ergonomics .....	35
10.2 Quality .....	36
<b>11 Environmental Leadership</b> .....	<b>37</b>
11.1. <i>Lenovo’s Environmental Heritage</i> .....	37
11.2. <i>Lenovo’s Environmental Policy</i> .....	38
11.3. <i>Lenovo’s Environmental Management System</i> .....	39
11.4. <i>Lenovo’s Environmentally Conscious Products Program</i> .....	41
11.5. <i>Lenovo’s Manufacturing and Supply Chain Operations</i> .....	43
11.6. <i>Waste Management</i> .....	43
11.7 <i>Operations Environmental Impact</i> .....	46
11.8 <i>Public Outreach and Industry Involvement</i> .....	49
<b>12 Global Supply Chain</b> .....	<b>51</b>
12.1 Supply Chain CSR.....	51
12.2 Procurement.....	52
12.3 Procurement Core Values .....	52
12.4 Procurement Principles and Practices .....	53
12.5 Supplier Performance Assessment.....	53
13 Global Reporting Initiative Notes.....	55

## 1. Introduction to the 2007 Lenovo Sustainability Report

Lenovo's first Sustainability Report provides a broad view of the Company's global corporate responsibility activities. Some the elements have been published previously in Lenovo's Environmental Report, Annual Report, or on the Company's Internet Web site at <http://www.lenovo.com/lenovo/us>. The Report provides baseline 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.

### 1.1 Chairman/CEO 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 J. Amelio**

President and Chief Executive Officer

## **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: productivity in business and enhancement of personal life.

### **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. and Mexico (and soon in Europe), and has sales operations in more than 50 countries world wide. As of March 31, 2007, the Company had a total of approximately 25,000 employees, 19,300 of whom were employed on the Chinese mainland, 2,000 in the U.S. and 3,800 in other countries.

### **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 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 \$14.6 billion in annual revenue in fiscal 2006/2007 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.

## 2.5 A Heritage of Innovation and Excellence

Legend’s entrepreneurial spirit and PCD’s track record of breakthroughs live on in today’s Lenovo, an IT giant with global reach, competing worldwide.

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, Lenovo commands more than one-third of the PC market, covering all segments. Its leading-edge PCs are highly acclaimed for their user-friendly, tailor-made designs and customized solutions for various customer needs, including the Tianjiao and Fengxing consumer desktops and Yangtian and Kaitian enterprise desktops. Lenovo also has a broad and expanding product line encompassing mobile handsets, servers, peripherals and digital entertainment products for the Chinese market.

## **2.6 Allied with IBM to Offer a Total Solutions Portfolio**

Lenovo and IBM have a strategic alliance designed to provide a best-in-class experience for enterprise customers. The companies have entered into 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**

Customers of the new Lenovo will benefit from the union of extraordinary research and development (R&D) capabilities. Lenovo's global 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. Its teams who have won hundreds of technology and design awards, received more than 2,000 patents, and introduced many industry firsts. Many more are on the way, as Lenovo continues to build on its reputation for having the best engineered PCs.

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, as does this sampling of recent awards for the ThinkPad notebook family:

### **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

**19<sup>th</sup> 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:

**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

## **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.

In 2003, at the height of the SARS epidemic in China, Lenovo donated funds 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.

A tradition of social responsibility and corporate philanthropy is another shared value common to both PCD and Lenovo. PCD has 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.

## **2.9 An Olympic Partner for the Turin and Beijing Games**

Lenovo also 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 and will be also for the 2008 summer games in Beijing, China.

## **3 Lenovo CSR Highlights**

### **3.1 Corporate Social Responsibility**

Lenovo is committed to building the best-engineered PCs, helping change the way people around the world use technology. Just as Lenovo is dedicated to providing innovative technologies, the Company is also devoted to ensuring that its products, employees, sites and suppliers are following the commitments it has made to socially responsible business practices.

Lenovo embraces the values of customer service, innovative and entrepreneurial spirit, and integrity. Lenovo seeks to integrate these core values into every aspect of 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.

### **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**

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

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

Lenovo is pursuing global voluntary initiatives, such as OHSAS 18000, which is an Occupation Safety and Health Management System certification.

### **3.4 Maintaining high ethical standards**

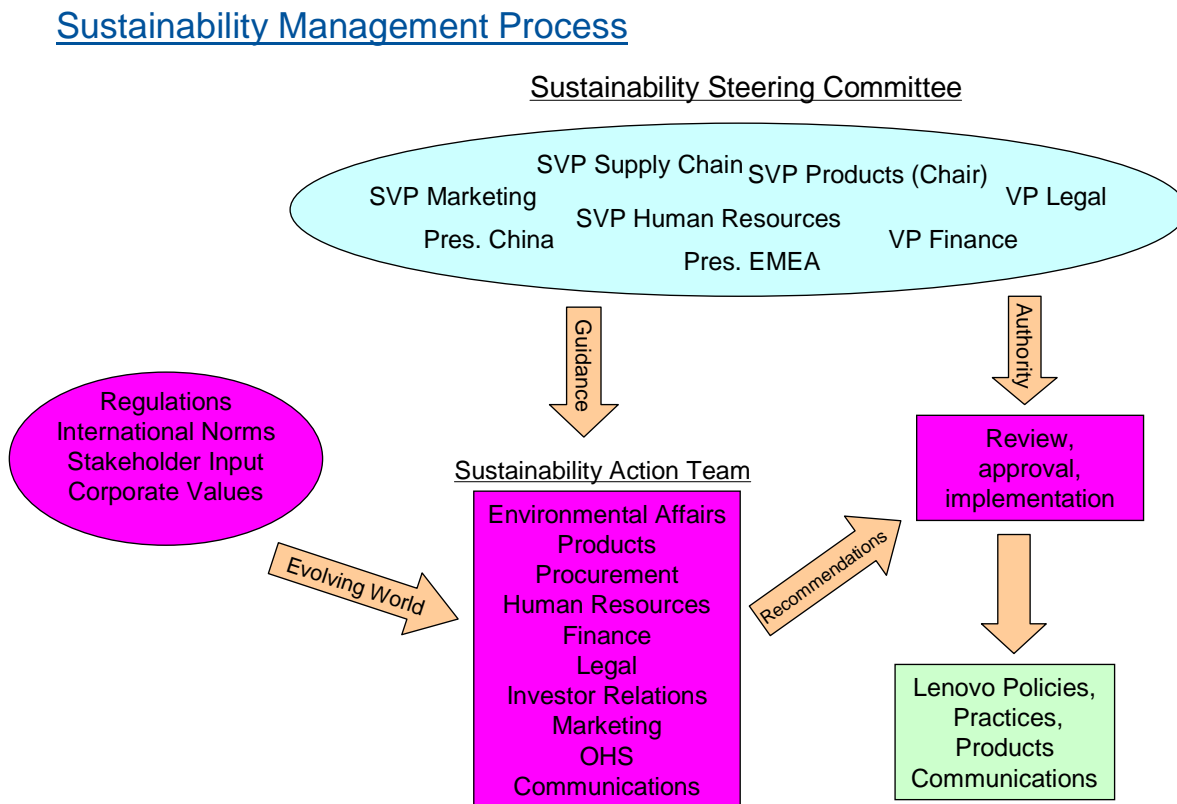
Lenovo is committed to the highest standards of integrity and responsibility. Lenovo provides guidance to its employees on a wide range of ethical issues, such as reporting unlawful or inappropriate conduct, respecting and protecting intellectual property, trading in securities and complying with governmental 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. Lenovo helped lead the way in fighting piracy in China. In mid-2005, the Company began collaborating with Microsoft on an initiative to promote the use and benefits of validly licensed Microsoft software products through new and innovative joint sales, marketing and training programs in China. Lenovo was the first PC supplier to take this important step, and this action compelled other market leaders in China to follow suit.

### 3.5 CSR Management Process

Lenovo has instituted a formal process for overseeing the identification and management of sustainability activities, and ensuring the adherence to regulatory and selected international standards and codes of conduct as depicted below:



Lenovo Confidential | © 2006 Lenovo



The highest level oversight is provided by the Sustainability Steering Committee, consisting of the CEO's direct reports with the largest impact capability and ownership of the implementation of sustainability principles. The committee is chaired by the senior vice president of the product group, who is also the executive with oversight of Lenovo's environmental affairs. The steering

committee has set in place a standing action team, consisting of senior professionals representing the functional areas responsible for the breadth of Corporate Social Responsibility. The action team is chaired by the Director of Environmental Affairs. The action team 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.

## 4 Lenovo Economic Impact

### 4.1 Chairman's Statement

It has been two years since Lenovo completed its acquisition of IBM's PC Division. In the past 2006/07 fiscal year, Lenovo started to implement a global action plan to improve efficiency through restructuring and further integration. During the year, Lenovo had a number of accomplishments against its goal to drive profitable growth. In the China PC market, Lenovo reported a record high market share again. We also successfully rolled out our transaction business model in many regions of the world. At the same time, Lenovo strengthened its relationship model for further development. Lenovo's performance in the fourth quarter of the fiscal year clearly demonstrated the effectiveness of our measures to improve our business outside of China.

Lenovo's achievements in the past year have also strengthened our confidence in the successful execution of our strategies in the future. In the coming years, the key growth drivers in the worldwide PC market remain notebook, small- and medium-sized business (SMB), consumer and emerging markets. Lenovo will utilize its proven competitive strengths to forge ahead, based on its two existing strategic directions. We will continue to strengthen our PC business in China and the relationship business that mainly services large enterprises outside of China. At the same time, we will accelerate the roll-out of the transaction model across the globe, focusing on capturing growth opportunities in the SMB, consumer and emerging markets.

Lenovo's outstanding performance in China last year truly reflected the strengths of the dual business model which enables us to effectively address every customer segment. Together with seamless end-to-end integration of product development, marketing, sales, manufacturing and customer service, Lenovo is able to respond promptly to the dynamic market. Lenovo was able to achieve higher-than-market growth for a number of consecutive quarters even under intense market competition, reporting record high market share while maintaining strong profitability.

Lenovo's strong advantages – the dual business model, branding and operational efficiency – will ensure our continuous remarkable development in the fast-growing China market, providing support for building our PC business with core competence in every market of the world. In the last year, although Lenovo's mobile handset business faced some challenges in further development, it showed improvement in every operational indicator while maintaining strong profitability. The slowdown in the large enterprise market outside China limited Lenovo's progress in that area last year. Meanwhile, our sales team smoothly completed the transition of sales support from IBM's sales team, and adopted a more efficient approach which will help us better grow our business with large enterprise customers. At the same time, our expansion into SMB and emerging markets saw encouraging results in the pilot roll-out of the transaction model in India, Hong Kong and Germany.

Lenovo will take advantage of these initial successes and leverage our accumulated experience to accelerate the roll-out of the transaction model in other regions of the world to generate more growth. In the past year, Lenovo also introduced consumer PC products in several pilot regions with good market response. We have set up a dedicated consumer team which will actively map out plans to launch PC products and a targeted sales approach that addresses the consumer segment in more regions to capture the opportunities in this growing segment.

In addition to its achievements in business expansion, Lenovo also gained ground in building a world wide team last year. I am pleased with the quick assimilation of the management team and expect the increasingly integrated Lenovo culture to be the driving force that will help us win in the marketplace.

In the past year, the management team's significant efforts to enhance competitiveness and operational excellence began to bear fruit. However, we will constantly face challenges in many ways in the competitive PC market. Looking forward, Lenovo has to actively grow the business under our defined core strategies; at the same time, we must ensure more efficient use of our resources and lower our expense-to-revenue ratio. That will help Lenovo strengthen its market competitiveness, achieve sustainable profitable growth, and ultimately become an outstanding company with sustained high performance.

My expectation for Lenovo's management in the next few years is to focus on expanding the PC business, achieve profitable growth ahead of the market, and explore new growth opportunities in order to lay a solid foundation for our long-term development. Lenovo will endeavor to realize all strategic objectives, and bring sustainable long-term returns to shareholders. Last but not least, I would like to take this opportunity to thank our shareholders, fellow board members, customers and employees for their continuous support of Lenovo.



**Yang Yuanqing** Chairman of the Board

Hong Kong, May 23, 2007

## **4.2 Business Review**

In the second year after the acquisition of IBM's personal computer business, Lenovo focused its efforts on taking the necessary steps to grow its business faster than the industry as well as driving its global operational efficiency. At the same time, the Group's highly visible brand promotion programs and marketing campaigns significantly increased Lenovo brand awareness around the world.

For the fiscal year ended March 31, 2007, Lenovo's consolidated turnover increased 9.9 percent year-on-year to approximately US\$14,590 million. (The prior year figure contains only 11 months' contribution from the PC business acquired from IBM.) The gross profit margin for the year was 14.0 percent. With steady improvement in the second half of the fiscal year, the Group's profit before taxation (excluding the cost of strategic restructuring actions), increased significantly by 29 percent to US\$200 million. Profit attributable to shareholders totaled US\$161 million, up 626 percent from US\$22 million in the previous year.

### ***Performance of Geographies***

The robust demand for notebook computer and growth in consumer, small business, and emerging markets drove the worldwide PC market shipments to increase 10 percent during the 2006/07 fiscal year. Lenovo's worldwide PC shipments increased 12 percent during the same period. The Group gained 0.1 percentage points in worldwide market share, accounting for approximately 7.3 percent and ranking number three for the year ended March 31, 2007.

### ***Greater China***

Lenovo Greater China enjoyed strong growth in its PC business, which accounted for 38 percent of Lenovo's overall revenue during the 2006/07 fiscal year. The Group further strengthened its leading position in China by achieving 24 percent year-on-year growth in PC shipments. Lenovo's market share in China reached a new height of 34.6 percent in the 2006/07 fiscal year, representing a gain of 0.7 percentage points over the Group's record made last year.

### ***Americas***

Americas accounted for approximately 28 percent of the Group's revenue during the 2006/07 fiscal year. Lenovo's performance in this geography was impacted by weaker enterprise market demand and its relatively low penetration in the higher growth segments, SMB and consumer segments.

### ***Europe, Middle East and Africa (EMEA)***

EMEA contributed approximately 21 percent to the Group's revenue during the 2006/07 fiscal year. The market demand in EMEA was driven primarily by the growth in consumer and small business segments as well as emerging markets throughout the region. Lenovo's overall market share in EMEA was impacted as the Group's presence in high growth segments was very limited in the first half of the fiscal year.

### ***Asia Pacific (excluding Greater China)***

Asia Pacific (excluding Greater China) accounted for approximately 13 percent of the Group's revenue during the 2006/07 fiscal year. Lenovo's performance in this geography was boosted by strong performance in India and the ASEAN countries but partially offset by negative growth in Japan's PC market.

In India, Lenovo achieved nearly 30 percent growth in PC shipments, higher than market average during the 2006/07 fiscal year. During that same period, Lenovo's brand awareness level in India doubled to over 70 percent.

### **4.3 Future Prospects**

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

In the 2007/08 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 fiscal year 2006/07, 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”) in Appendix 10 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 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.

During the fiscal year of 2006/07, there were twelve Board members, of whom three are executive directors, five are non-executive directors and four are independent non-executive directors. The biographies and responsibilities of directors and senior management are set out on pages 58 to 61 of the Company's 2006/2007 annual report. Mr. Wong Wai Ming and Mr. John W. Barter III, both independent non-executive directors of the Company during the year, have the appropriate professional qualifications, or accounting or related financial management expertise as required under the Listing Rules. On May 23, 2007, Ms. Ma Xuezheng has been re-designated from an executive director to a non-executive director of the Company while Mr. Wong Wai Ming has resigned as an independent non-executive director of the Company. On August 2, 2007, Mr. Tian Suning was appointed as an independent non-executive director of the Company. Accordingly, there are twelve Board members, of whom two are executive directors, six are non-executive directors and four are independent non-executive directors.

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:** This 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:** This 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:** This Committee is responsible for considering and recommending to the Board the Company’s remuneration policy, including its long-term incentive policy. It is also responsible for the determination of the remuneration level and package paid to the Chairman of the Board, Chief Executive Officer and other directors and senior management.
- **Strategy Committee:** This 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.

Table 1 lists corporate governance recognition.

**Table 1 Corporate governance recognition**

Year	Award	Organization
2000	<ul style="list-style-type: none"> <li>Overall Best Managed Company in China – ranked 2<sup>nd</sup></li> </ul>	<i>Asiamoney Magazine</i>
2001	<ul style="list-style-type: none"> <li>Overall Best Managed Company in China – ranked 1<sup>st</sup></li> </ul>	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> <li>A Leader in Corporate Governance in China – ranked 2<sup>nd</sup></li> </ul>	
2002	<ul style="list-style-type: none"> <li>Most Committed to Corporate Governance in China – ranked 1<sup>st</sup></li> </ul>	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> <li>Overall best managed company – ranked 1<sup>st</sup></li> </ul>	<i>Asiamoney Magazine</i>
2003	<ul style="list-style-type: none"> <li>Best Corporate Governance - ranked 1<sup>st</sup></li> </ul>	<i>Asiamoney Magazine</i>
	<ul style="list-style-type: none"> <li>Best Corporate Governance in China – ranked 1<sup>st</sup></li> </ul>	<i>FinanceAsia Magazine</i>
	<ul style="list-style-type: none"> <li>A Leader in Corporate Governance in 2002 – ranked 5<sup>th</sup></li> </ul>	<i>The Asset Magazine</i>
2004	<ul style="list-style-type: none"> <li>Best Corporate Governance in China – ranked 2<sup>nd</sup></li> </ul>	<i>FinanceAsia Magazine</i>
2006	<ul style="list-style-type: none"> <li>Best Corporate Governance in China – ranked 4<sup>th</sup></li> </ul>	<i>FinanceAsia Magazine</i>
2007	<ul style="list-style-type: none"> <li>Corporate Governance Asia Recognition Awards 2007 – Asia’s Best Companies For Corporate Governance</li> </ul>	<i>Corporate Governance Asia</i> A bi-monthly Journal <a href="http://www.corporategovernanceasia.com">www.corporategovernanceasia.com</a>
	<ul style="list-style-type: none"> <li>Best Corporate Governance – ranked 6<sup>th</sup></li> </ul>	<i>FinanceAsia Magazine</i>

## 5.2 Shareholders' Rights

The Company is committed to safeguard shareholders' interests and encourage shareholders to attend the annual general meeting. Shareholders are therefore encouraged to actively participate at such meetings. The 2007 Annual General Meeting of the Company held on July 20, 2007 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, two independent non-executive directors and representatives of external auditors, PricewaterhouseCoopers to answer questions raised by shareholders at the meeting. Resolutions passed at the Company's 2007 Annual General Meeting included: adoption of the Group's audited accounts for the year ended March 31, 2007 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 2007 Annual General Meetings were decided by way of poll voting. The poll is conducted by Abacus Share Registrars Limited, the Company's share registrar, as scrutineer and the results of the poll were published on the Company's Web site ([www.lenovo.com/hk/publication](http://www.lenovo.com/hk/publication)) and the Hong Kong Stock Exchange's Web site ([www.hkex.com.hk](http://www.hkex.com.hk)).

## 5.3 Investor Relations

Effective communication with shareholders has long been a Lenovo priority. The channels by which the Company communicates with its shareholders include quarterly results announcements, interim and annual reports, face to face meetings, and via conference calls. The Company also makes use of the Company's Web site ([http://www.pc.ibm.com/ww/lenovo/investor\\_relations.html](http://www.pc.ibm.com/ww/lenovo/investor_relations.html)) to post statutory announcements and financial and other information to shareholders and the public. In addition, the Company also reports to its shareholders through the shareholders' meetings during which Board members and the executive team communicate directly with its shareholders.

Lenovo regards open communications with existing and potential investors as vital to its success. To this end, the Company is committed to enhancing corporate transparency and timely communication with the investment community. In the second year after its acquisition of IBM's PC business, Lenovo focused on communicating its growth strategies and progress of integration to investors worldwide.

Lenovo has attracted significantly more attention from the global investment community as it moves forward with building a global business, and the Company has made efforts in developing investor relations programs to facilitate communications with the investment community. Among others, Lenovo hosted its first securities analyst meetings in both Hong Kong and New York in June 2006, to which it invited analysts from the sell-side and the buy-side. The Company also actively participated in investment conferences organized by securities houses as well as regular one-on-one meetings to meet with investors. Lenovo will continue to make use of various platforms and tools to communicate efficiently with the investment community.

Lenovo's commitment and continuing efforts to enhance investor relations was recognized by global investors at the IR Magazine Awards – China in December 2006. The Company was

awarded the “Excellence in Investor Relations” and was highly commended for the prestigious “Grand Prix for Best Overall Investors Relations (non-SOE, large cap).”

Table 2 lists recent investor related recognition.

**Table 2 Investor related recognition**

<b>Year</b>	<b>Award</b>	<b>Organization</b>
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 <sup>st</sup> 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 <sup>st</sup>	<i>FinanceAsia Magazine</i>
2007	▪ Best Investor Relations – 4 <sup>th</sup>	<i>FinanceAsia Magazine</i>

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](mailto: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
- 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).

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.

Mary Ma, former CFO & currently non-executive Vice Chairman of the Board of Directors, and Fran O'Sullivan, SVP Product Group, serve as executive sponsors of Women in Lenovo Leadership (WILL) – a global women's initiative in the Company.

### **7.3 Global Workforce Reflective of Lenovo's Global Customers**

Lenovo has approximately 25,000 employees across the globe, with approximately 10% in the U.S. Of the U.S. employees, 44% are women or people of color.

Lenovo is an international company with 42% of the global leadership team comprised of women or people of color.

Lenovo is in the process of creating a robust diverse recruitment strategy. In 2007, Lenovo will participate in two major diverse recruiting events, the National Association of Asian American Professionals (NAAAP) and the Association of Latino Professionals in Finance and Accounting (ALPFA).

The Company will launch mandatory diversity training for all employees in 2007 to ensure employees recognize diversity as one of the Company's greatest assets.

In March 2007, Lenovo announced its commitment to recognizing and celebrating key observances including International Women's Day, Black History Month, Asian American Heritage Month, Hispanic Heritage Month, Chinese New Year and Gay Pride Month.

### **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**

Lenovo addresses the importance of health and safety throughout the Company in Corporate Policy 3, “Responsibility for Employee Health and Safety”. This policy 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.

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 continues to implement programs that establish a high standard for employee workplace safety and preventing injuries and illnesses. Lenovo is establishing a global integrated OHS organization to respond to health and safety concerns and emerging issues on a worldwide basis. Lenovo is in the process of implementing an OHS management system consistent with OHSAS 18001 requirements and is pursuing external certification in the near future. 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 in 2005 and 2006. 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

## **9 Social Investments**

### **9.1 Hope Through Entrepreneurship**

“Hope Through Entrepreneurship” tells not just the story of Lenovo’s corporate social investments, but the Company’s own history. In 1984, 11 computer scientists 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, Lenovo is encouraging people around the world to make an impact. As Lenovo’s technology helps bridge the physical gap among different parts of the world, the Company’s goal is to do the same through its social investments.

Given Lenovo’s history and the nature of its business, the Company focuses on helping people around the world transform their lives and their communities. To do this, Lenovo supports organizations that encourage business development and social entrepreneurship. Through microfinance institutions such as Opportunity International, Lenovo is helping provide crucial loans to help disadvantaged people in countries such as 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. In 2006, Opportunity International named Lenovo “Corporate Philanthropist of the Year.

Lenovo is also helping grow small-to-medium businesses in South Africa and Kenya by sponsoring a business plan competition in 2007 with the help of TechnoServe. Through this venture, Lenovo will help introduce 20 new businesses in these countries by funding initial start-up costs and providing access to consulting and other business services.

Lenovo supports the Dikembe Mutombo Foundation with its new hospital in Kinshasa in the Congo through donating the Internet technology infrastructure for the facility and by sponsoring a fellowship for University of North Carolina at Chapel Hill medical residents to serve the hospital.

Through Lenovo’s partnership with the National Basketball Association, NBA Cares and Lenovo are helping to establish and equip reading and learning centers across the U.S.

Lenovo also recognizes the importance of charitable giving when disasters strike. When Hurricane Katrina devastated Louisiana in 2005, Lenovo donated 1,500 PCs to help in the recovery efforts. Lenovo donated half a million dollars to help people in disaster-stricken areas from the tsunami in Indonesia in 2005 and more than one million dollars to help fight the spread of SARS in 2003.

Lenovo has also teamed with former NBA star Allan Houston to help young entrepreneurs create new businesses in distressed urban communities. Lenovo will begin this effort in Harlem, New York in September when it will launch the Allan Houston / Lenovo Small Business Incubator. Lenovo will review business plans created by individuals enrolled in the Allan Houston Foundation's Business Education and Development program and choose several to receive a cash grant, office space, computer equipment and continuing education. Lenovo is working with Citigroup to also provide low-cost financing and computer equipment to all graduates, not just the business plan competition winners. As a result, dozens of "Lenovo Entrepreneurs" will start businesses to help transform a historically vibrant, yet struggling community in New York City.

Later in the year Lenovo will replicate this program in New Orleans, another historically vibrant, but struggling urban community. Lenovo will sponsor both the business education phase as well as the incubator in an effort to help rebuild New Orleans through entrepreneurship. This program will launch in time for the NBA All Star Game in New Orleans, where it will be an integral component of our presence during All-Star Weekend. Lenovo intends to follow these "Lenovo Entrepreneurs" throughout their careers, tracking the progress of the seeds of hope being planted today.

## **9.2 A Partner for the Olympic Games in Torino and Beijing**

In 2005, Lenovo became the first Chinese company to join The Olympic Partner's Program. As a worldwide sponsor with the International Olympic Committee, the Company completed supporting the Torino 2006 Olympic Winter Games by supplying 5,000 desktop PCs, 350 servers and 1,000 notebook computers. The hardware supported the four major applications of Olympic operations — Games Management Systems, Games INFO2006, Venue and Central Results System, and Commentator Information System.

With the help of 60 Lenovo engineers onsite, the systems ran flawlessly for more than 360 hours over 16 days. In collaboration with other technology sponsors, Lenovo computing equipment distributed data and results from more than 200 competitions and events in real-time to media and Olympic Games audiences throughout the world. Sixty-two of these competitions, including the Opening and Closing Ceremonies, operated using Lenovo products outside in sub-zero temperatures, including 60 events in mountain venues.

In addition to providing hardware for overall Olympic operations in Torino, Lenovo supplied the technology infrastructure for other partners and sponsors, including NBC networks, Visa and Bank of America. Lenovo also hosted seven Internet i.lounges for athletes, trainers, coaches and journalists in three athlete villages, as well as the Main Olympic Media Center in Torino. On average, the i.lounges attracted more than 1,800 visitors a day.

Lenovo will replicate its work in Torino at the 2008 Olympic Games in Beijing, which are in scale several times larger than the 2006 Olympic Winter Games.

A tradition of social responsibility and corporate philanthropy is a value common to Lenovo employees and management wherever the Company does business. Lenovo donates notebook and desktop PCs to a wide variety of nonprofit organizations around the world, and its employees have also devoted thousands of volunteer hours to local causes.

## 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.

Table 3 shows the process for product development requires assessment for safety at various life cycle points.

**Table 3 Assessment requirements at life cycle points**

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

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

## 10.2 Quality

Lenovo is committed to delivering products of superior quality.

Lenovo 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 combines the quality heritage from the former IBM PC Division (including some of the top engineers in the PC business) plus the innovation-driven Legend team to create a powerful global company focused on continuous quality improvements. Lenovo has a global Quality Management System 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 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 will be made available for sale to customers.

Lenovo constantly strives for best practice. Lenovo's Technical Evaluation Center provides information and recommendations to Lenovo Engineering. The Company's Lessons Learned feedback loop continually helps to refine and mature Lenovo processes to prevent 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 Leadership

### 11.1. Lenovo's Environmental Heritage

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

#### *IBM Heritage:*

- 1989** - Began offering product take back programs in Europe
- 1990** - Published first corporate environmental report. Established packaging environmental guidelines, including prohibition on ozone depleting chemicals
- 1991** - Established Environmentally Conscious Products program
- 1992** - Charter member of U.S. EPA Energy Star Computers Program
- 1993** - Eliminated manufacturing use of Class 1 ozone depleting substances. Used recycled content plastics in energy efficient PC
- 1994** - Converted manuals to recycled paper. Began packaging PCs in corrugated packaging, minimizing foam inserts
- 1995** - One of three manufacturing companies to begin voluntary reporting of greenhouse gas emissions
- 1996** - Developed internal tool for rating products on "design for the environment"
- 1997** - First major multinational company to earn single global ISO 14001 registration. Released corporate standard for environmentally conscious product design
- 1998** - U.S. EPA Energy Star "Computer Partner of the Year." Grand prize in Japan Environmental Agency Action Plan. Society of Plastics Engineers' Recycler of the Year. Electronic Industries Associations' Special Recognition for Environmental Progress. Established Product Environmental Profiles internal database for tracking product environmental attributes.
- 1999** - First company to produce computer using 100 percent recycled resin for major plastic parts. Awarded U.S. EPA Energy Star "Computer Partner of the Year"
- 2001** - Awarded U.S. EPA's Energy Star "Excellence in Corporate Commitment" award
- 2003** - Processed 68,831 metric tons of end of life products with only 1.62 percent being land filled
- 2004** - Used 97.8 percent powder coatings on decorative metal finished products, avoiding estimated 871,000 pounds of volatile organic compound (VOC) emissions

#### *Lenovo China Heritage:*

- 2001** - Achieved ISO 14001 certification
- 2004 and 2005** - Received "Green Product" award for desktop PC from China Environment Protection Foundation. Received "Green Innovation" award for Lenovo Innovation Center building.
- All Lenovo commercial products meet China's energy savings targets
- 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 so on.

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 doing more. Lenovo has already implemented a number of voluntary programs, and is continually evaluating potential opportunities. 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](http://www.pc.ibm.com/ww/lenovo/about/environment/cp5.html).

### **11.3. Lenovo's Environmental Management System**

Lenovo's EMS is based on systems that existed at IBM and Lenovo prior to the acquisition. The systems are ISO 14001 certified and cover all manufacturing, product design and development activities for Lenovo. Lenovo is currently integrating the two systems into one common system, a task which is targeted for completion in 2007. As part of Lenovo's ISO 14001 certification, an external registrar audits all major operations and product development areas annually. 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 locations and products annually. These objectives and targets are established and driven in association with the management of our significant environmental aspects. Lenovo's goals for the 2007/2008 fiscal year cover product materials, product end-of-life management, site energy consumption, product energy efficiency, design for reuse and recycling, non-hazardous materials transportation, site waste recycling, and product chemical emissions. Lenovo monitors progress towards these goals at a global level through periodic reporting and internal and external EMS audits.

Lenovo's EMS goals for fiscal year 2006/2007 ending March 31, 2007, covered Lenovo manufacturing sites and Lenovo products. A summary of these goals progress made in meeting these goals is listed below. Highlights related to Lenovo's EMS goals include the following:

- **Environmentally Preferable Finishes**
  - In Fiscal Year 06/07 alone, Lenovo desktop products used over 1 million pounds of powder finishes rather than solvent-based finishes, avoiding the emission of over 564,000 pounds of Volatile Organic Chemicals (VOCs).
  - Since Lenovo acquired IBM's Personal Computer Division in May 2005, Lenovo desktop products have used over 2 million pounds of powder coatings avoiding over 1 million pounds of VOC emissions.

- **Use of Recycled Materials:** In 2006, almost a quarter million pounds of recycled content materials were used in manufacturing ThinkPad parts alone, with a net recycled plastic usage in ThinkPad parts of over 60,000 lbs.
- **Site Non-Hazardous Waste Recycling:** Lenovo’s manufacturing sites each recycled over 97% of the non-hazardous solid waste generated at the site.
- **Product Energy Efficiency:** In 2006, 100% of Lenovo notebooks, desktops, and TFT monitors were ENERGY STAR 3.0 compliant. In addition, all Lenovo desktop and laptop products met the requirements of the Japan Energy Savings Law.

Several goals were established as stretch goals to challenge product groups and locations to make extraordinary strides towards environmental improvements. In many cases, these goals were achieved; however, in some cases such as energy efficiency for the sites, certain sites that experienced increases in production were not able to meet an absolute (non-indexed) energy reduction target. Lenovo will maintain focus on these areas and strives to continually improve and challenge itself in the area of environmental performance. Table 4 shows the status of meeting significant environmental objectives.

**Table 4 Lenovo status of meeting environmental objectives**

<b>Significant Environmental Aspect</b>	<b>Objective</b>	<b>Status</b>
Energy Efficiency of Products	Develop products with improved efficiency and/or reduced energy consumption	Met target
Product Chemical Emissions	Meet all applicable laws with respect to product chemical emissions	Met target
Materials Used in Products	Develop products using materials that are safe during manufacture, use, and disposal, and increase the use of recycled materials	Met target for design requirements and use of environmentally preferable finishes; fell short of target for use of recycled plastics
Product Design for Recyclability and Reuse	Develop products with consideration of their re-use and recycling at end of life and develop products with consideration of their upgradeability to extend life	Met target
Solid Waste (Manufacturing Sites)	Continue to improve the recycling rate of non-hazardous solid waste	Exceeded target
Product End of Life Management	Comply with all applicable laws and regulations	Met target

Energy (Manufacturing Sites)	Decrease the overall use of electricity	Results varied by sites with some sites exceeding target and one site not meeting target due to increases in production
------------------------------	-----------------------------------------	-------------------------------------------------------------------------------------------------------------------------

#### 11.4. Lenovo's Environmentally Conscious Products Program

IBM established in 1991 a corporate-wide program for environmentally conscious product (ECP). Prior to the IBM acquisition, 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. More recently, Lenovo has developed a Lenovo ECP program based on the best attributes of the IBM and Lenovo programs.

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 banning 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 in advance of the directive in specific applications. 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](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) above 1,000 parts per million (ppm), or any usage of 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 of more than 25 grams. Lenovo's target for elimination of all use of PVC is 2009.

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 prohibits BFRs from intentional addition to any newly released parts except printed circuit cards, cables and electrical assemblies. Lenovo's target for elimination of BFRs from intentional addition to all remaining parts is 2009.

These phase-out plans are dependent upon the availability of economically viable, safe alternatives, particularly for PVC-free cables and BFR-free 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, upon request. 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. In the fiscal year ending March 2007, Lenovo suppliers used 1,081,795 pounds of powder to finish Lenovo desktop products, avoiding the emission of over **564,000 pounds of Volatile Organic Compounds**.

Most Lenovo desktops and notebooks meet the U.S. EPA's and U.S. Department of Energy's Energy Star labeling program, at ES3 level. Energy Star qualified computers use less electricity than computers without enabled power management features. On July 20, 2007, EPA's criteria changed to Energy Star 4. Most new laptops currently being introduced meet this new, more stringent standard, while many desktop products offer models that comply as well.

Many Lenovo notebook, desktop and monitor products have been registered to the Electronic Product Environmental Assessment Tool (EPEAT) criteria. EPEAT assesses several 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. Lenovo's Manufacturing and Supply Chain Operations**

Lenovo continues to assess current operations to ensure compliance with all local and national legal requirements and permits.

Suppliers of materials, parts and products to Lenovo must adhere to Lenovo's Engineering Specification "Baseline Environmental Requirements for Materials, Parts and Products for Lenovo Products," which includes requirements for banned or restricted materials, reportable substances, labeling and others. All assembly and major sub-assembly suppliers are encouraged to be ISO 14001 certified. Preference may be given to ISO 14001 certified suppliers. Suppliers can access Lenovo's environmental requirements at [www.pc.ibm.com/ww/lenovo/procurement/](http://www.pc.ibm.com/ww/lenovo/procurement/). In addition to these specific environmental requirements for suppliers, Lenovo is a member of the Electronics Industries Code of Conduct (EICC) and supports its goals. "The Electronic Industry Code of Conduct" outlines standards to ensure that working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity and that manufacturing processes are environmentally responsible as outlined on its Web site at <http://www.eicc.info/index.html>. Lenovo's existing policies and processes relevant to the environment, health and safety, labor, ethics and other issues are consistent with the requirements of the EICC and are fully compliant with international 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. Lenovo expects its employees and suppliers to keep the letter and spirit of all agreements, build long-term relationships on trust, honesty and candor and never compromise Lenovo's overall best interest in the pursuit of local or divisional interests.

Lenovo's membership in EICC illustrates commitment to these requirements. In 2007, Lenovo also required all of its suppliers to commit in writing to follow the EICC, including a grant of audit rights. Lenovo works diligently with its supply base to ensure full compliance with this Code and expects suppliers to have the same stringent expectations of their extended sources of supply engaged in the production of goods and services for Lenovo.

### **11.6. Waste Management**

Lenovo supports efforts to reduce the volume of electronic products being disposed in landfills

and to reduce the need for raw materials by increasing the beneficial reuse or recycling of materials. **Lenovo supports legislation assigning financial responsibility for end-of-life management to the individual producers.** Given the complex nature of the needed recovery systems, Lenovo supports a recovery and recycling infrastructure in which all the major stakeholders – manufacturers, retailers, government, non-governmental organizations, users and recyclers – participate based on their unique expertise and capabilities. The goal of these institutional stakeholders should be to develop an efficient collection and recycling infrastructure that is convenient for the individual consumer. Producer responsibility legislation must address all classes of producers, including retailers distributing under their own house brands. Lenovo encourages its customers to reuse or recycle products at the end of their useful lives. Lenovo offers consumers and/or commercial clients recycling options for end of life products, batteries and product packaging worldwide through voluntary programs and/or country, province or state programs.

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>. Information about the location of components such as batteries that may require special handling at the product's end of life can be found in the product manual or by contacting [environment@us.lenovo.com](mailto:environment@us.lenovo.com).

In China, where Lenovo is a mobile phone supplier, China Mobile and eight major domestic cell phone manufacturers, including Lenovo Mobile, have cooperated in offering a "Green Box" scheme for recycling end of life cell phones and its accessories to help protect the environment. In this scheme, cell phone consumers can dispose of their cell phones and accessories in recycling boxes located at China Mobile business halls in 40 cities across China and at manufacturer sales and service sites. Lenovo Mobile is currently establishing recycling boxes in its authorized service centers. Since these reclaimed end-of-life articles contain heavy metals, professional companies will manage them for safe treatment and recycling. In addition to end of life cell phones and accessories, other electronic products and accessories that consumers put in these boxes (excluding ordinary dry cell batteries) will also be recycled.

In December 2006, Lenovo announced in China, free take back and recycling of Legend and Lenovo branded PCs, laptops, monitors and servers, and ThinkPad laptops, ThinkCentre PCs, and ThinkVision Monitors, whether produced by Lenovo or IBM. Lenovo will ensure that recovery, reuse, recycling and disposal of these returned products comply with regulatory and Lenovo standards.

Customer access information for these solutions as well as recycling options for batteries and packaging waste can be accessed through the Lenovo environmental Web site at [www.pc.ibm.com/ww/lenovo/about/environment/index.html](http://www.pc.ibm.com/ww/lenovo/about/environment/index.html). Additional asset recovery solutions are also offered through IBM for a large number of countries globally. The links for these services in the Americas, Asia Pacific and Europe/Middle East/Africa are also listed on this Web site.

When Lenovo procures product refurbishing, remanufacturing, product end of life management, hazardous waste and disposal services from suppliers, the local Geographic and Country Environmental Affairs Focal Points and Lenovo Global Environmental Affairs must approve these suppliers prior to their use to ensure their compliance with applicable legal and Lenovo environmental requirements.

The supplier evaluation process includes, among other things:

- An onsite inspection, documentation of the suppliers’ environmental management system and process controls
- An identification of supplier subcontractors and verification of their compliance to applicable legal and Lenovo environmental requirements
- A disclosure of how they dispose of end of life products, options, parts and materials

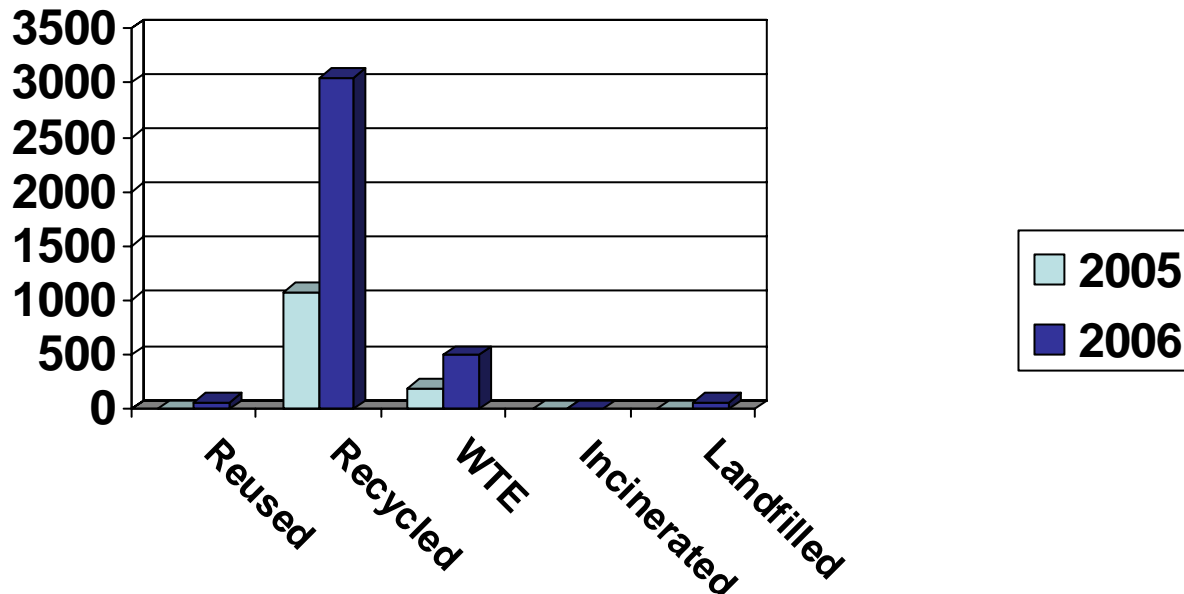
Brokers and resellers of surplus and used products, options and parts must also agree not to resell to non-Organization for Economic Co-Operation and Development countries if the broker knows or has reason to believe that the equipment and/or parts will not be used for its originally intended purpose without the need for disassembly or disposal.

**In the past year, Lenovo has participated in a number of regulatory and voluntary take back programs. During calendar year 2006, Lenovo managed or financed the proper disposal of more than 3700 metric tons of end of life or returned products from customers, with less than 1.8 percent being land filled.**

Figure 1 shows the disposition of those materials.

Figure 1 Product End of Life Disposition

### Customer End of Life Returns (Metric Tons)



\*WTE is Waste to Energy.

The recycled material from customer owned returns represents 1.5 percent of the weight of product shipped in 2006, and 11.8 percent of the weight of products shipped in 1999. Since Lenovo does not operate its own asset recovery services for large enterprises, the customer end-of-life data reported here is primarily from its contribution to EU WEEE, Japan consumer take back and other mandatory take back programs as well as Lenovo's voluntary take back offerings in the U.S. and Canada. Shipments for the 1999 normalization consider only Lenovo China shipments for that calendar year. Lenovo's target for 2007 is to increase the recycled material from customer owned returns by 25 percent.

### **11.7 Operations Environmental Impact**

Lenovo prohibits the use of ozone depleting substances in its products, processes, and the processes of its suppliers. Lenovo has not evaluated any contribution of fugitive emissions.

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. Water withdrawal and discharge for a typical manufacturing site, Shenzhen, is 75,823 Tonnes, or around 15 gallons per person per day.

During calendar year 2006, Lenovo transported within its country of origin, 163.5 metric tones of hazardous waste. Lenovo neither imported nor exported any hazardous waste. During this reporting year, there were no significant spills.

### ***Greenhouse Gas Reporting***

A greenhouse gas inventory of 31,420 metric tons is accounted for in Lenovo 2006 worldwide operations. The inventory scope includes a total of eight facilities in China, USA, Japan and India for their direct and indirect emissions. The emissions from purchased electricity, which is about 41 million KWh, account for approximately 99% of Lenovo's total emissions within this scope in 2006. The accounting method complies with the Greenhouse Gas Protocol standard and guidance.

As Lenovo has only office and light assembly operations, NO, SO and other air emissions are presumed to be minimal and are not estimated or tracked.

Within the scope of this reporting are research centers and operation offices located in the United States, India, Japan, and Singapore. In China, the Company's principal operation center is located in Beijing and its manufacturing sites worldwide include Pondicherry in India, Beijing, Shenzhen and Huiyang in China. Their operations comply with Lenovo Corporate Environmental Management System and therefore their emissions are included in the inventory project framed as the organizational boundary. Table 5 lists Lenovo key locations included for the GHG inventory report, number of employees, and the corporate function.

**Table 5 The list of Lenovo facilities included in the 2006 GHG Inventory Report**

Site/Facility	Employees & On-Site Contractors	Address	FUNCTION			
			Principle Operation	Research Center	Sales Headquarters	Manufacturing Center
Beijing	3000	No6. Chuang Ye Road, Shangdi Information Industry Base, Haidian District, Beijing China	X	X	X	X
Huiyang	1100	Lenovo Science& Technology Park, Sun City, Huiyang, Guangdong China				X
Pondicherry	463	Rs No. 19/1A, 2A Edayar Palayam Village Cuddalore Main Road Thavalakuppam Pondicherry, India				X
Morrisville	1450	1009 ThinkPlace Morrisville NC, 27560 USA	X	X		
Shanghai	2100	No. 550, Jinhai Road, Shanghai China		X		X
Shenzhen LIPC	4575	Futian Free Trade Zone Shenzhen China.		X		X
Singapore	215	151 Lorong Chuan, #02-01, New Tech Park, Singapore	X		X	
Yamato	530	1623-14 Shimotsuruma, Yamato-shi, Kanagawa-ken, 242-8502 Japan		X		

**Scope 1** shows the GHG emission calculated based on the purchased quantity of commercial fuel and using published emission factors. For the Lenovo worldwide sites, the direct emission is associated with the on-site energy generation in three sites. It includes natural gas for heating system in Yamato; diesel for electricity generation in Pondichery and Huiyang site consumed diesel for supplying hot water. The total amount of direct CO<sub>2</sub> emission, about 117 metric tons from fuel use is relatively small compared to the emission from grid electricity, about 31,300 metric tons of CO<sub>2</sub>.

**Table 6 Scope 1: Direct emission of Lenovo sites**

Year: 2006							
		A	B*	C	D*	E	F
Source description	Fuel type	Quantity of fuel consumed	Unit	CO <sub>2</sub> emission factor	kg CO <sub>2</sub> / unit	CO <sub>2</sub> emissions in kg	CO <sub>2</sub> emissions in metric tons
						E=AxC	
PONDY	Diesel	21665.00	liters	2.63	kg CO2/liters	56,979.0	56.98
HYP	Diesel	12960.00	liters	2.63	kgCO2/liter	34,084.8	34.08
YAMATO	Natural gas	13645.00	m3	1.93	kg CO2/m3	26,355.3	26.36
Step 4: Sum CO <sub>2</sub> emissions:							117.42

**Scope 2** shows the GHG emission calculated from metered electricity from grid using the international electricity emission factors. The indirect emission from the purchased electricity for all sites counts about 99 per cent of total emission. The indirect amount of CO<sub>2</sub> emission for Lenovo 2006 is about 31,300 metric tons, converted from the total electricity consumed cross all the worldwide sites of 41 million KWh.

This report uses the generic emission factor to convert the fuel use data and total utility purchased into CO<sub>2</sub> emission. A reference of emission factor is taken from the calculation tools developed by World Resources Institute: 1) Indirect CO<sub>2</sub> emissions from purchased electricity spreadsheet: The EFs national Avg. All fuel; 2) GHG emissions from service companies and office-based organizations: CO<sub>2</sub> emissions from fuel use in facilities. Source information and emission factors are given in Table 7.

**Table 7** Scope 2: Indirect emission of Lenovo facilities

Year: 2006			
	A*	B*	C
Facility / source description	Activity Data: Electricity, Heat, and/or Steam Purchase	CO <sub>2</sub> emission factor	Indirect CO <sub>2</sub> emissions in metric tons
			$C = A * B / 1,000,000$
	kWh	grams CO <sub>2</sub> / kWh	metric tons CO <sub>2</sub>
YAMATO	2200000.00	424.00	932.80
PONDY	1812720.00	942.00	1,707.58
BJP	3296385.00	851.00	2,805.22
HYP	4307051.00	851.00	3,665.30
LIPC	17025078.00	851.00	14,488.34
SHP	3250200.00	851.00	2,765.92
Morrisville	8276000.00	528.00	4,369.73
Singapore	931840.00	526.00	490.15
Sum Electricity	41099274.00		
Step 4: Sum CO <sub>2</sub> emissions (in metric tons):			31,225.04

### ***Energy Conservation Efforts***

Reduced energy consumption is a primary environmental target for Lenovo as reported in Section 11.3. The following are some examples of energy reduction programs:

- Morrisville ThinkPlace began operation from February 2007, and the facility department is monitoring the energy consumption each month in order to set the benchmark for the coming years. “Summer hours” take place in ThinkPlace since June 22, 2007 and the schedule is expected to conserve energy by shutting down the air conditioning at noon on each Friday through August.

- Lenovo has been a champion sponsor for NC Greenpower since March 2007. Annually, Lenovo purchases 800 blocks of NC Greenpower to support 960,000 Kwh of cleaner and renewable energy. It counts for approximately 10% of Morrisville's electricity consumed. The generation of this amount of renewable energy will annually offset 906 tons of CO<sub>2</sub> and makes a direct impact on North Carolina's environment and economy for power generated here. This offset is not offsetting 2006 GHG inventory and will offset for 2007 GHG inventory.
- The Shenzhen site has been monitoring the energy consumption and the total energy saved during 2006 is 747,871 KWh, 4.39 per cent of total consumption. A full execution plan and performance record has been documented since 1998. With the long operation hours every day in LIPC, lighting is the focus for 2006 conservation programs. The site replaced mercury lamps with high efficiency fluorescent light bulbs as well as optimized the lighting in the buildings.

### **11.8 Public Outreach and Industry Involvement**

Lenovo participates actively in several industry associations that are working towards environmental solutions for the electronics industry.

These include:

- Environmental Issues Council of Electronics Industry Associations - 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

Lenovo has a rich history of sharing environmental expertise. A partial list of recent presentations and papers includes:

- 2004** - "E-scrap Plastics Opportunities and Barriers from an Electronic Producer Perspective"
- 2003** - Facilitated and provided source materials for CTC Plastics Recovery Demonstration
- 2002** - "Environmental and Cost Benefits of Using Powder Coatings"
- 2001** - "An overview of IBM Product Take back Programs, Considerations for commercial and consumer returns"
- 2000** - "A Decision Methodology for Ranking Environmental Aspects of Product Design Alternatives"
- 2000** - "ECP Integration Into the Supply Chain: an IBM Perspective"
- 1999** - "Evaluation of IBM End of Life Products: Measuring DFE Effectiveness."
- 1998** - "Dynamics of Plastics Recycling in the Computer Industry"

Other recent environmental outreach activities since the IBM acquisition 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 is committed to environmentally responsible practices in the communities around the world in which it does business. Lenovo’s combined environmental history through IBM and Lenovo demonstrates a commitment to developing, continuing and advancing environmental policy and programs. Lenovo is building on this 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. By engaging stakeholders and through active participation in the PC industry, Lenovo continues its tradition of environmental commitment.

## 12 Global 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.

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/letter\\_of\\_commitment.pdf](http://www.pc.ibm.com/ww/lenovo/about/sustainability/supply-chain/letter_of_commitment.pdf). Also, Lenovo became a member of the Electronics Industry Code of Conduct (EICC) coalition. As a member of the EICC working groups, Lenovo is working together with other member companies to create a comprehensive strategy along with the 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.

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 is diligently working with its supply base to ensure full compliance with this Code and expects its direct suppliers to have the same stringent expectations of their extended sources of supply engaged in the production of goods and services for Lenovo.

## **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 it's 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 2006/2007 annual report accessible at

<http://www.hkex.com.hk/listedco/listconews/sehk/ipmpnews.asp?id=000518864>.

**GRI Section 3.1:** Data reported in this report is for Lenovo's fiscal year 2007, ending March, 2007, unless otherwise specified

**GRI Section 3.4:** For questions or other interaction about this report or its content, please contact C. Michael Pierce, Director of Sustainability and Environmental Affairs, 1009 Think Place, Morrisville, North Carolina, 27650 or email at [mpierce@us.lenovo.com](mailto:mpierce@us.lenovo.com).

**GRI Section 3.5:** As this is the first sustainability report from Lenovo, our primary focus has been establishing baselines and evaluating the benefit of reporting each element. We also surveyed 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:** As this is Lenovo's first report, 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:** This is the first Sustainability Report from Lenovo.

**GRI Section 3.11:** This is the first Sustainability Report from Lenovo.

**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	LA3	6.6
3.1	13	5	3.5	LA8	8.2
3.2	1	EC1	4.2, 2.8, 9.1	LA11	6.7
3.3	1	EC3	13	LA13	13
3.4	13	EC5	3.3, 6.6	HR2	12.1
3.5	13	EN3	11.7	HR6	6.6
3.6	13	EN4	11.7	HR7	6.6
3.7	13	EN5	11.7	SO5	11.6
3.8	13	EN6	11.7	SO6	6.5
3.9	13	EN7	11.7	PR1	10.1
3.10	13	EN8	11.7		
3.11	13	EN9	11.7		
3.12	13	EN10	11.7		

**GRI Section EC3:** Details on Lenovo’s benefit coverage is reported in the 2006/2007 annual report accessible at <http://www.hkex.com.hk/listedco/listconews/sehk/ipmpnews.asp?id=000518864>.

**GRI Section LA13: (Reference Annual Report)**

[Lenovo - Social Responsibility](#)

Lenovo, the Lenovo logo, ThinkPad, ThinkCentre  
are trademarks of Lenovo.  
©2007 Lenovo. All rights reserved.