

2016/17 Q2 Earnings Announcement



+ Forward Looking Statement

This presentation contains “forward-looking statements” which are statements that refer to expectations and plans for the future and include, without limitation, statements regarding Lenovo’s future results of operations, financial condition or business prospects as well as other statements based on projections, estimates and assumptions. In some cases, these statements can be identified by terms such as "expect," "intend," "plan," "believe," "estimate," "may," "will," "should" and comparable words (including the negative of such words). These forward-looking statements, reflect the current expectations and plans of the directors and management of Lenovo, which may not materialize or may change. Many risks, uncertainties and other factors, some of which are unpredictable and beyond Lenovo’s control, could affect the matters discussed in these forward-looking statements. These factors include, without limitation, economic and business conditions globally and in the countries where we operate, Lenovo’s ability to predict and respond quickly to market developments, consumer demand, pricing trends and competition; changes in applicable laws and regulations (including applicable tax and tariff rates). Any variance from the expectations or plans on which these forward-looking statements are based could cause Lenovo’s actual results or actions to differ materially from those expressed or implied in these statements. These forward-looking statements are not guarantees of future performance and you are cautioned not to place undue reliance on these statements. Lenovo undertakes no obligation to update any forward-looking statements in this presentation, whether as a result of new information or any subsequent change, development or event. All forward-looking statements in this presentation are qualified by reference to this paragraph.

Yuanqing Yang

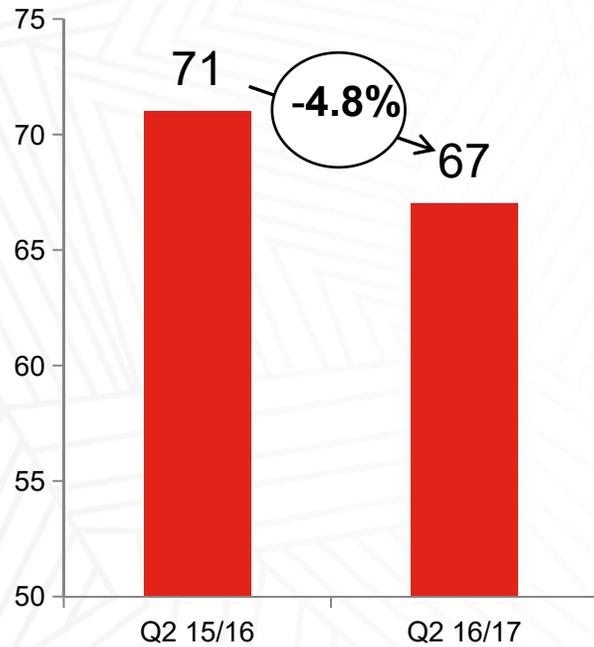
Chairman and CEO



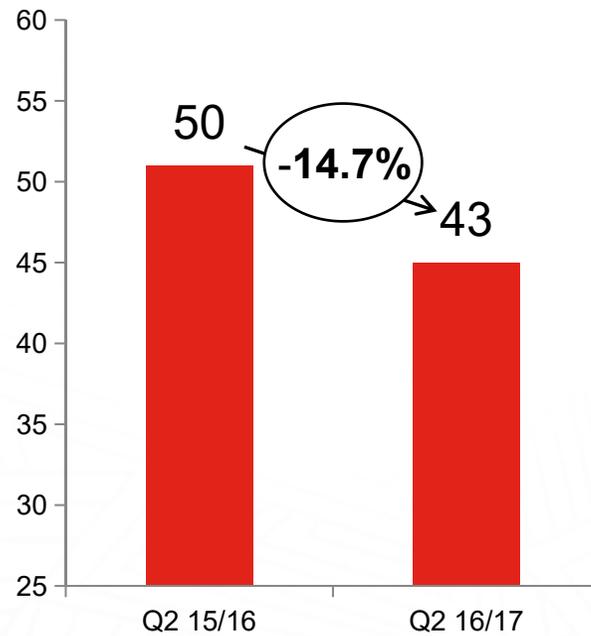
+ Markets Remain Challenging

- PC, Tablet markets declined YTY
- Smartphone only modest growth YTY

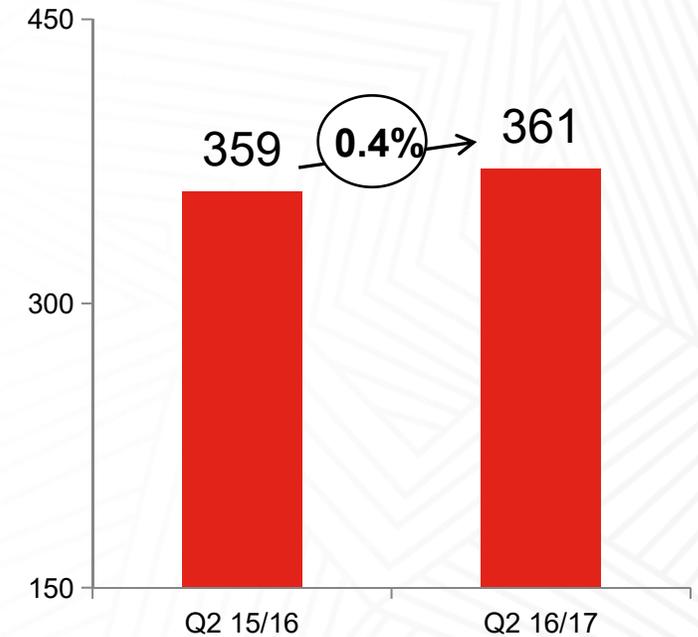
PC Market Volume (M units)



Tablet Market Volume (M units)



SP Market Volume (M units)

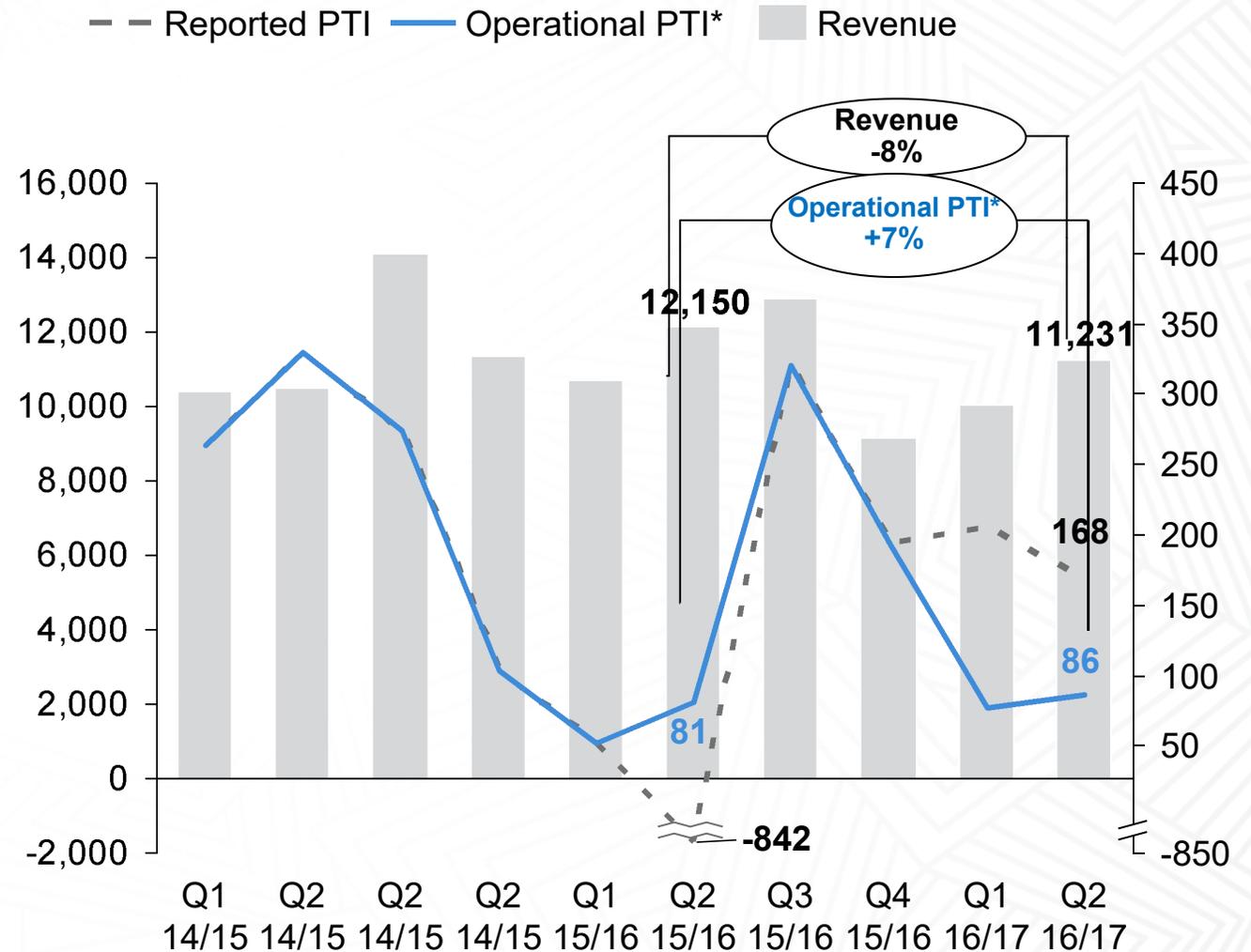


+ Q2 Group Performance

- Revenue dropped 8% YTY, but up **12%** QTQ
- Reported PTI: **\$168M**, vs. **-\$842M** in Q2 FY15/16; Operational PTI* up **7%** YTY

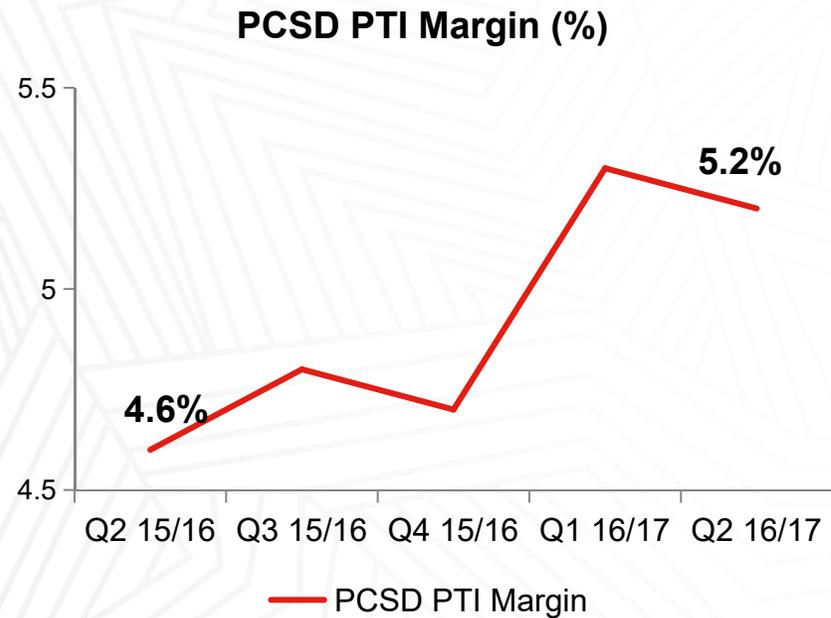
**Excluding gains and expenses from one-time actions*

Revenue and PTI (US\$ Millions)

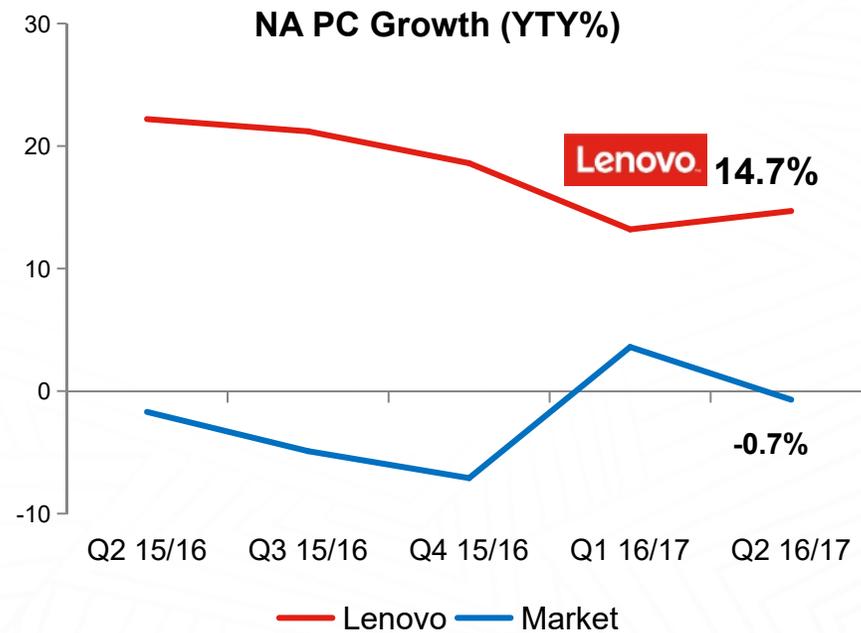


+ PCSD: Strong Performance

- Improved PTI margins by more than **half a point** YTY to **5.2%**
- North America: Outgrew market by **15.4 points**, PTI margin of **6.6%**
- Strong growth in fast growing segments driven by competitive products
 - Gaming: Grew **36%** YTY, Detachables: Grew **52%** YTY, Millennial PCs: Grew over **200%** YTY



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Source: IDC



Y710 Cube Game



Miix 510



Millennial PC

Lenovo

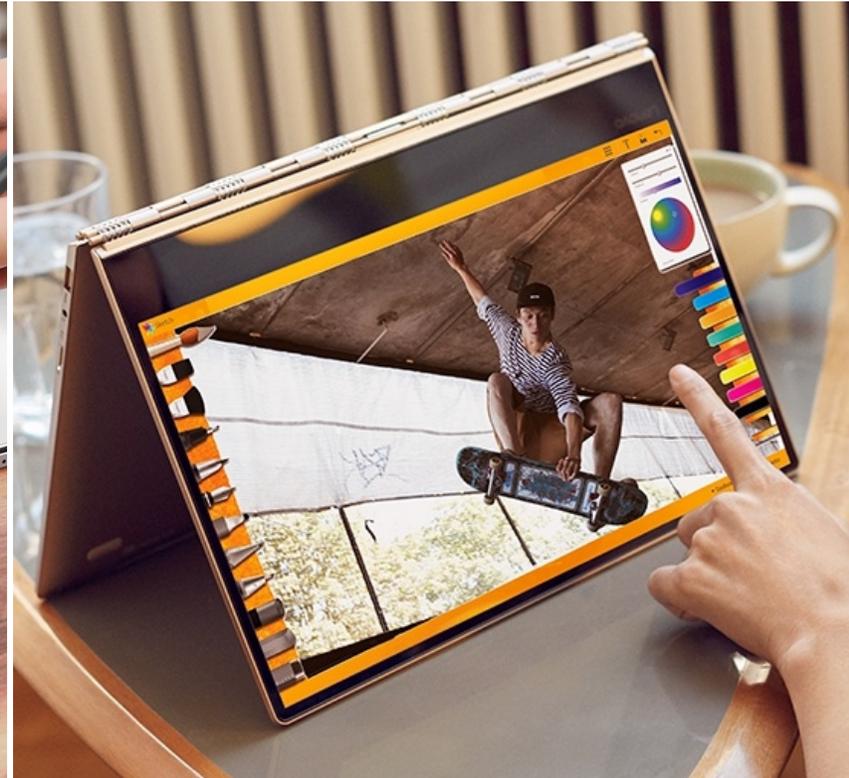
+ PCSD: Strong Performance

- New Yoga Book is one-of-a-kind product
- Award winning Yoga 910, Yoga Tablet 3 Plus

YOGA BOOK



YOGA 910

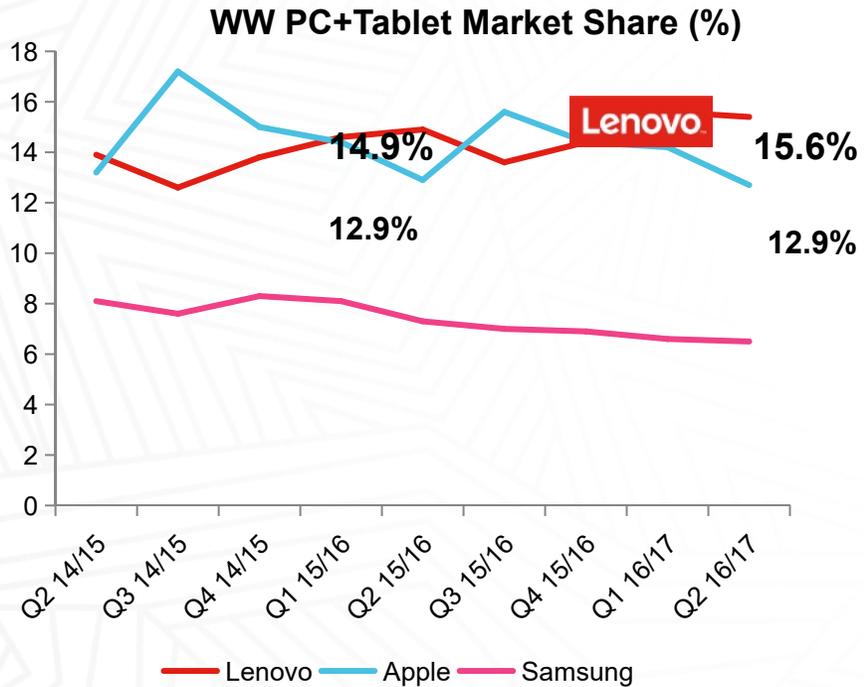


YOGA TAB 3 PLUS



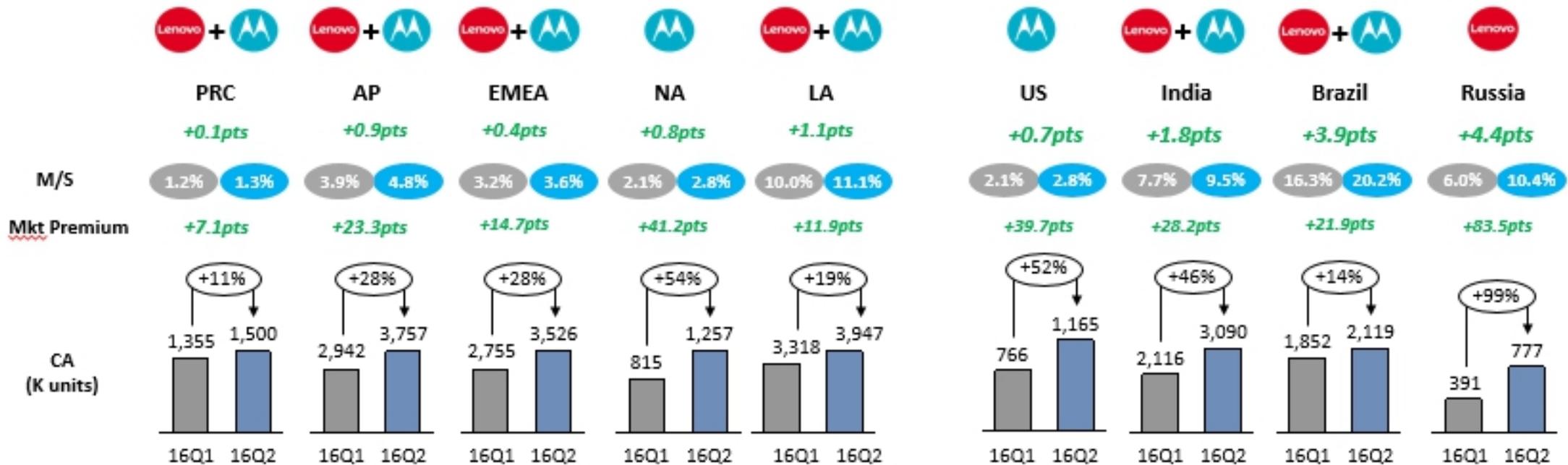
+ PCSD: Strong Performance

- PC + Tablet: Strengthened **#1** position with **15.6%** worldwide share



+ Mobile: Transformation on Track

- Volume up almost **25%** QTQ, Moto volume up **39%** QTQ
- ASP up **18%** YTY
- Operating margin up **4 percentage points** QTQ
- Almost **\$1 billion** in expense savings over last 18 months
- On track to **turn around** business in the middle of next year



* US is part of NA, India is part of AP, Brazil is part of LA and Russia is part of EMEA

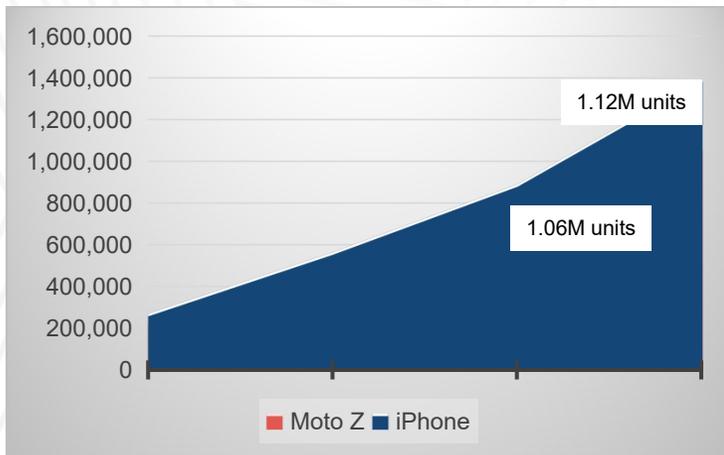


Mobile: Transformation on Track

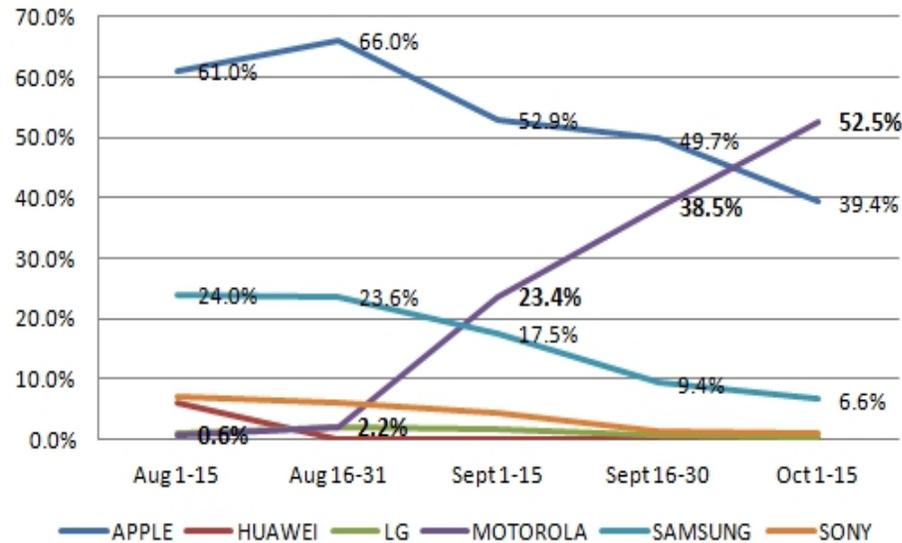
- Moto Z & Moto Mods Successful Launch
 - Ramp up to **60,000** per week
 - **60%** attach rate
 - Momentum comparable to iPhone in first 3 months of launch
 - #1 share in premium segment at AT&T in Mexico
 - Expect to sell **3 million** in first 12 months



Initial sales Moto Z v. iPhone (2007)



Market Share AT&T Mexico >\$350 (%)



Source: Internal Data, IDC



+ DCG: Fixing Challenges

- Bright spots
 - China: Revenue up **7% YTY**
 - Global Accounts up **16% YTY**
- Middle of integration and transformation
 - Insufficient direct sales, channel capabilities
 - Transitioning from server-centric to hyperconverged and software-defined solutions
- We have **belief** in and **commitment** to Data Center business
- Numerous efforts underway to fix business model and build core competence



+ Continuing to Strengthen Leadership

- Welcome 3 **industry's top minds** who **join all at once**
 - **Dr. Yong Rui**, CTO, formerly Managing Director of Microsoft's Asia Lab
 - **Kirk Skaugen**, President DCG, formerly SVP of Client Computing; Data Center and Connected Systems group, Intel
 - **Laura Quatela**, CLO, formerly President of Eastman Kodak
- Continue strengthening execution



Dr. Yong Rui
New CTO
Former Deputy
Managing Director
Microsoft's Asia
Lab



Kirk Skaugen
New DCG President
Former SVP of
Client Computing
Group; Data Center
and Connected
Systems Group,
Intel



Laura Quatela
New CLO
Former President of
Eastman Kodak



WOW

Never
Stand
Still

Lenovo™

Wong Wai Ming

Chief Financial Officer



+ Financial Highlights

- Group revenue continued to stabilize: US\$11.2B, up 12% QTQ; YTY decline by 8%. If excluding currency impact, revenue decline 6% YTY.
- Reported PTI at US\$168M; including (i) resource actions cost of US\$136M*, and (ii) one-time disposal gains of property of US\$206M and other asset of US\$12M; against a pre-tax loss of US\$842 million from last year
- Net Income at US\$157M, against a net loss of US\$714 million from last year

* Resource action to improve operating efficiency and competitiveness and expect a potential run-rate expenses savings of \$337M from headcount and others against a redundancy cost of \$136M incurred in quarter two.



Financial Summary – As Reported

US\$ Million	Q2 FY2016/17	Q2 FY2015/16*	Y/Y%	Q/Q%	Interim FY2016/17	Y/Y%
Revenue	11,231	12,150	-8%	12%	21,287	-7%
Gross Profit	1,607	1,575	2%	5%	3,142	-2%
Operating Expenses	(1,392)	(2,359)	-41%	8%	(2,682)	-31%
Operating Profit/(loss)	215	(784)	N/A	-12%	460	N/A
Other Non-Operating Expenses	(47)	(58)	-18%	20%	(87)	-14%
Pre-tax Income/(loss)	168	(842)	N/A	-18%	373	N/A
Taxation	(16)	125	N/A	-58%	(53)	N/A
Profit/(loss) for the period	152	(717)	N/A	-9%	320	N/A
Non-controlling interests	5	3	71%	-9%	10	66%
Profit/(loss) attributable to Equity Holders	157	(714)	N/A	-9%	330	N/A
EPS (US cents)						
- Basic	1.42	(6.43)	N/A	(0.15)	2.99	N/A
- Diluted	1.42	(6.43)	N/A	(0.14)	2.98	N/A

	Q2 FY2016/17	Q2 FY2015/16*	Q1 FY2016/17
Gross margin	14.3%	13.0%	15.3%
E/R ratio	12.4%	19.4%	12.8%
Operating margin	1.9%	-6.5%	2.4%
PTI margin	1.5%	-6.9%	2.0%
Net margin attributable to Equity Holders	1.4%	-5.9%	1.7%

* Including restructuring and one-time charges of total of \$923M in Q2 FY15/16



Condensed Balance Sheet

US\$ Million

	As at Sep 30, 2016	As at Jun 30, 2016
Non-current assets	11,946	11,976
Property, plant and equipment	1,281	1,344
Intangible assets	8,560	8,631
Others	2,105	2,001
Current assets	15,138	13,243
Bank deposits and cash	2,450	2,064
Trade, notes and other receivables	9,610	8,374
Inventories	2,883	2,577
Others	195	228
Current liabilities	17,830	15,750
Borrowings	39	741
Trade, notes, other payables, accruals and provisions	16,862	14,055
Others	929	954
Net current liabilities	(2,692)	(2,507)
Non-current liabilities	6,071	6,158
Total equity	3,183	3,311

+ Cash and Working Capital

US\$ Million	Q2 FY2016/17	Q2 FY2015/16	Q1 FY2016/17
Bank deposits and cash	2,450	2,953	2,064
Total Borrowings	2,527	3,093	3,231
Net Debt	(77)	(140)	(1,167)
Net cash generated from operating activities	1,559	909	8
Days Inventory	27	25	29
Days Receivable	36	35	38
Days Payable	68	61	67
Cash Conversion Cycle	-5 days	-1 days	0 days

+ Q2FY17 Performance by Business Group

PCSD

- WW PC #1; Outgrew market by 15.4pts in NA
- WW #1 in PC+Tablet; strong tablet performance in PRC
- Strong growth from AG; Remained solid in China
- Solid PTI margin at 5.2%, +0.6pts YTY

Data Center

- PRC Rev grew by 7% YTY & LA up 12% YTY
- Strong growth in Global Accounts; Hyperscale started biz in NA; Next Gen IT won new customers
- Sales capabilities strengthening through increased investment in sales training and a more dedicated sales structure to drive E2E improvement
- Product competitiveness improvement through new partnership with Nimble Storage and new ThinkAgile converged infrastructure solutions

Mobile

- Group: Continued strong QTQ growth driven by new product launch & strategic shift to drive value growth
- Strong shipments of Moto G & successful launch of Moto Z and Moto Mods
- ROW: Strong shipments growth of 27% QTQ; Outgrew market in India
- China: Retail channel expansion and product portfolio enhancement progress on track demonstrated by ASP improvement
- Expense optimization program on track; Healthy trend of operating profit improvement

		Revenue US\$ Million			Segment Pretax Income/(Loss) US\$ Million			Segment Pretax Income Margin		
		Q2 FY17	Q2 FY16	Q1 FY17	Q2 FY17	Q2 FY16	Q1 FY17	Q2 FY17	Q2 FY16	Q1 FY17
PCSD	Operational	7,804	8,468	6,992	405	391	370	5.2%	4.6%	5.3%
	Reported*				405	391	370	5.2%	4.6%	5.3%
MBG	Operational	2,045	2,336	1,706	(114)	(175)	(163)	-5.6%	-7.5%	-9.6%
	Reported*				(156)	(219)	(206)	-7.7%	-9.4%	-12.1%
DCG	Operational	1,082	1,177	1,086	(108)	9	(31)	-10.0%	0.8%	-2.9%
	Reported*				(141)	(33)	(64)	-13.1%	-2.8%	-5.9%

* Included non-cash M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others

+ Q2FY17 Performance by Geography

China

- **PC:** PTI margin remained solid with market share gain amidst market softness
- **Mobile:** Successful launch of Moto Z and Moto Mods; Channel expansion and product portfolio enhancement progress on track
- **Data Center:** Protected #1 & Rev grew 7% YTY, balance between topline growth from hyperscale and margin growth from high-end servers

AP

- **PC:** #2 in AP with market share at 16.4%
- **Mobile:** Strong performance in key countries esp India
- **Data Center:** Accelerating integration to drive future profitability improvement

EMEA

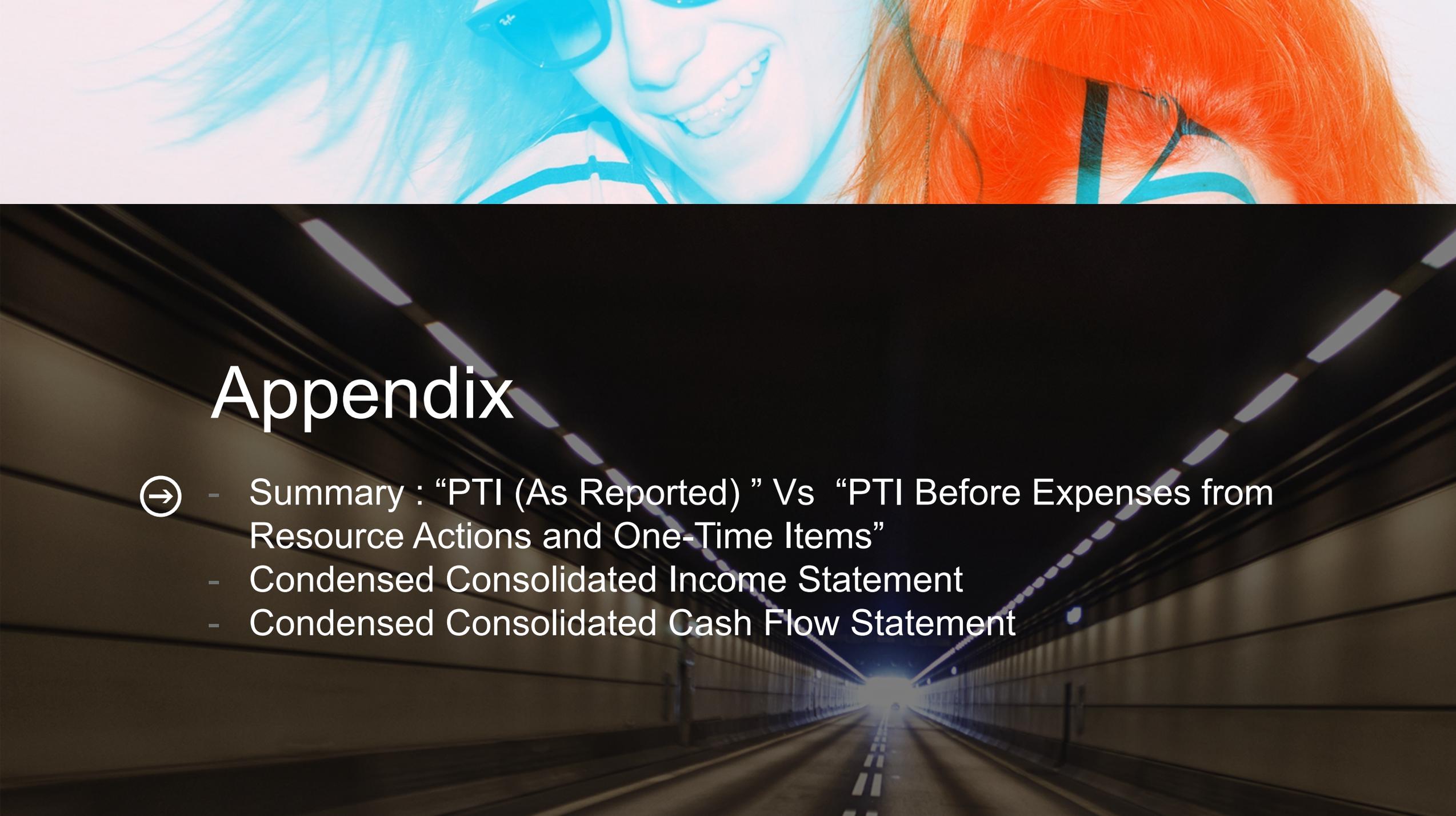
- **PC:** #2 in EMEA with market share gain by 0.2pts to 20.1%
- **Mobile:** Solid QTQ momentum
- **Data Center:** Progress to invest on sales structure/coverage and product portfolio enhancement on good track

AG (Americas)

- **PC:** Share up 1.6pt YTY to 15.4% led by solid NA growth
- **Mobile:** Launched Moto Z and Moto Mods in US through more diversified channels with initial good customer reviews; Solid performance in LA
- **Data Center:** Solid progress in Global Accounts and won new hyperscale deals

	Revenue US\$ Million			Segment Pretax Income/ (Loss) US\$ Million			Segment Pretax Income Margin (%)		
	Q2 FY17	Y/Y	Q/Q	Q2 FY17	Q2 FY16	Q1 FY17	Q2 FY17	Q2 FY16	Q1 FY17
China	3,195	(130)	341	158	136	138	4.9%	4.1%	4.8%
AP	1,897	(73)	217	2	22	17	0.1%	1.1%	1.0%
EMEA	2,738	(464)	271	(65)	23	(49)	-2.4%	0.7%	-2.0%
AG	3,401	(252)	346	20	(73)	38	0.6%	-2.0%	1.3%

* Excluded non-cash M&A-related accounting charges



Appendix

- ➔ - Summary : “PTI (As Reported) ” Vs “PTI Before Expenses from Resource Actions and One-Time Items”
- Condensed Consolidated Income Statement
- Condensed Consolidated Cash Flow Statement

**+ Summary : “PTI (As Reported) ” Vs
“PTI Before Expenses from Resource Actions and One-Time Items”**

	Q2 FY16/17	Q2 FY15/16	Q1FY16/17
Pre-tax Income/(Loss) (As-Reported)	168	(842)	206
• Restructuring Costs and One-time expenses	136	923	-
• One-time Gain Including Property Disposal Gain	(218)	-	(129)
PTI Before Expenses from Resource Actions and One-Time Items	86	81	77
• Tax	(16)	125	(38)
• Non-Controlling Interests	5	3	5
• Restructuring Costs and One-time Items	(136)	(923)	-
• One-time Gain Including Property Disposal Gain	218	-	129
Net Income /(Loss)(As-Reported)	157	(714)	173

+ Condensed Consolidated Income Statement

<i>US\$ Million</i>	Q2 FY2016/17	Interim FY2016/17	Q2 FY2015/16*	Interim FY2015/16
Revenue	11,231	21,287	12,150	22,866
Cost of sales	(9,624)	(18,145)	(10,575)	(19,644)
Gross profit	1,607	3,142	1,575	3,222
Other income-net	12	12	1	3
Selling and distribution expenses	(707)	(1,296)	(650)	(1,216)
Administrative expenses	(438)	(897)	(542)	(1,108)
Research and development expenses	(349)	(705)	(369)	(758)
Other operating income/ (expense) - net	90	204	(799)	(831)
Operating profit/(loss)	215	460	(784)	(688)
Finance income	6	12	8	17
Finance costs	(56)	(111)	(64)	(115)
Share of profit/(loss) of associated companies and joint ventures	3	12	(2)	(4)
Profit/(loss) before taxation	168	373	(842)	(790)
Taxation	(16)	(53)	125	175
Profit/(loss) for the period	152	320	(717)	(615)
Profit/(loss) attributable to:				
Equity holders of the company	157	330	(714)	(609)
Non-controlling interests	(5)	(10)	(3)	(6)
Dividend	-	86	-	86
Earnings/(Loss) per share (US cents)				
- Basic	1.42	2.99	(6.43)	(5.48)
- Diluted	1.42	2.98	(6.43)	(5.49)

* Including restructuring and one-time charges of total of \$923M in Q2 FY15/16

+ Condensed Consolidated Cash Flow Statement

US\$ Million	Q2 FY2016/17	Q2 FY2015/16	Q1 FY2016/17
Net cash generated from operating activities	1,559	909	8
Net cash (used in) / generated from investing activities	(201)	(188)	34
Net cash used in financing activities	(1,015)	(621)	(41)
Increase in cash and cash equivalents	343	100	1
Effect of foreign exchange rate changes	4	(58)	(22)
Cash and cash equivalents at the beginning of the period	1,906	2,719	1,927
Cash and cash equivalents at the end of the period	2,253	2,761	1,906



thanks.

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