

Q2FY17/18 Earnings Announcement

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+ 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

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3-Wave Strategy

1

Maintain PC Profitability
to Fuel New Businesses

2

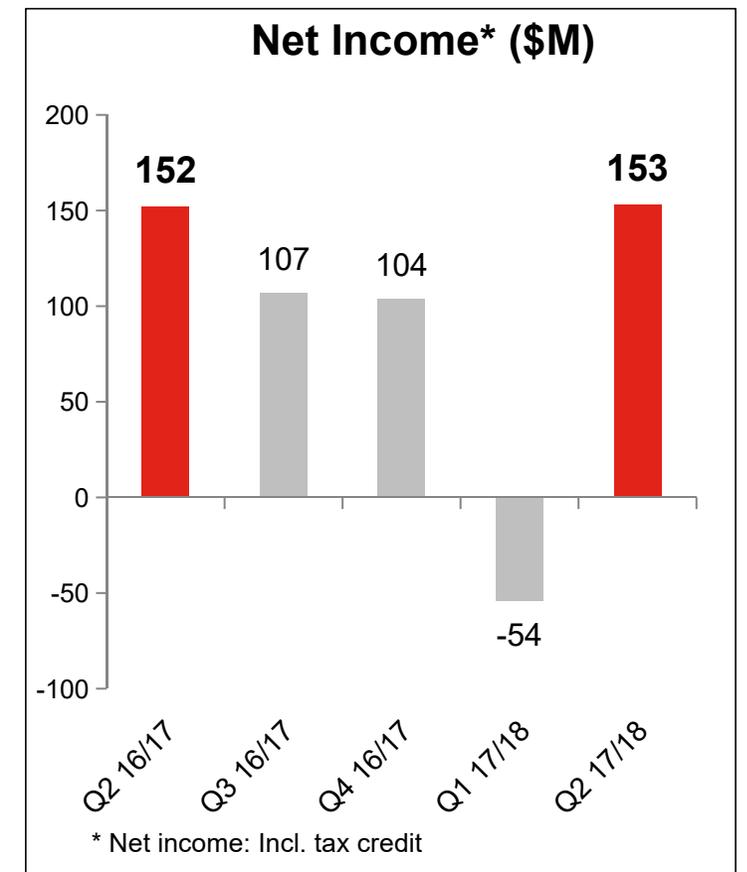
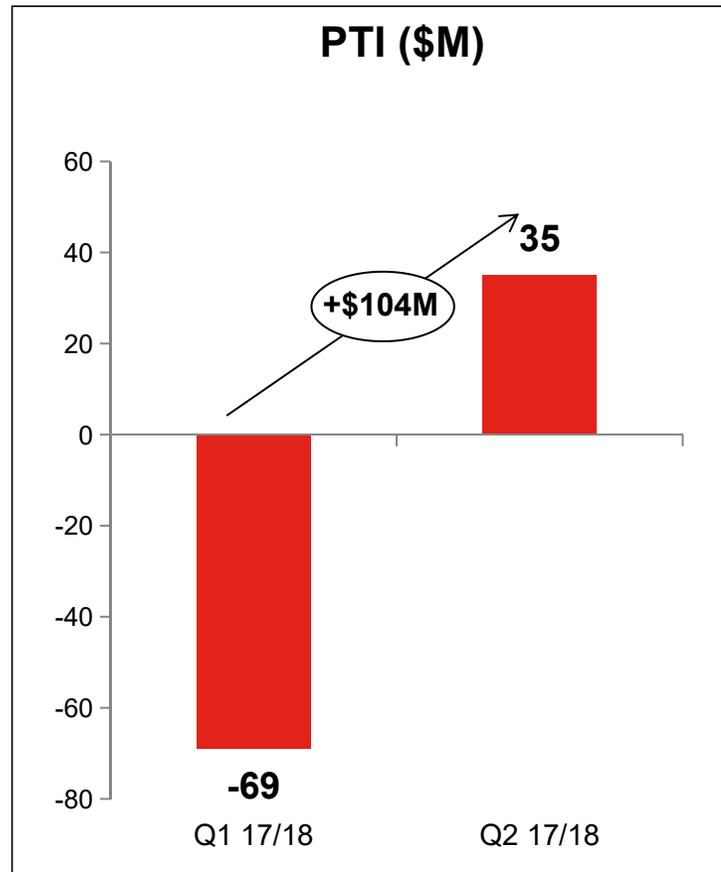
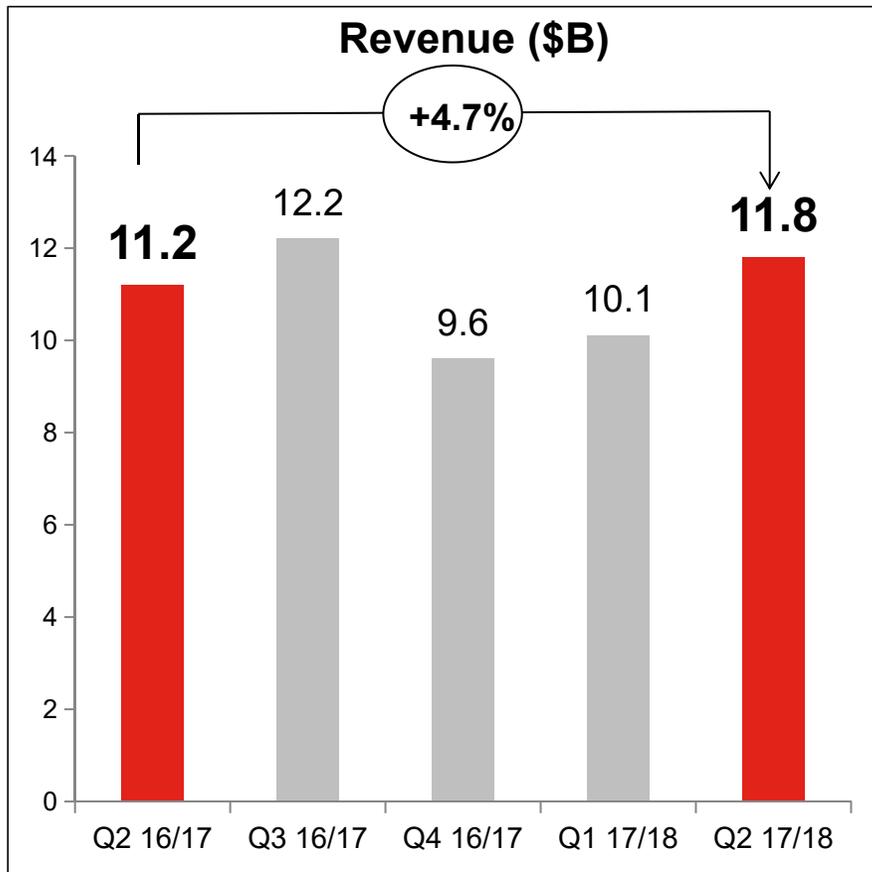
Build MBG & DCG
into New Growth Engines

3

Invest in “Device + Cloud”
and “Infrastructure +
Cloud” Powered by A.I.

+ 3-Wave Strategy Guiding Improved Performance

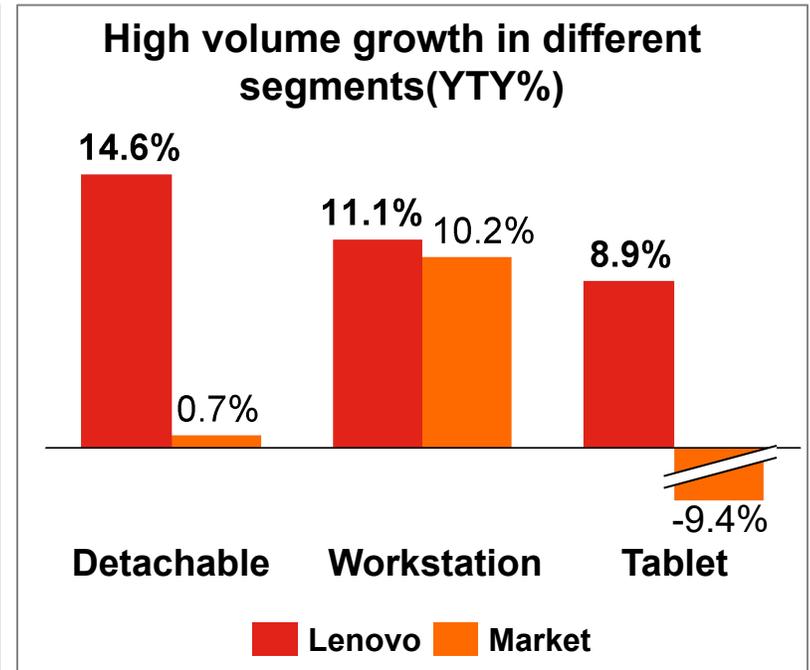
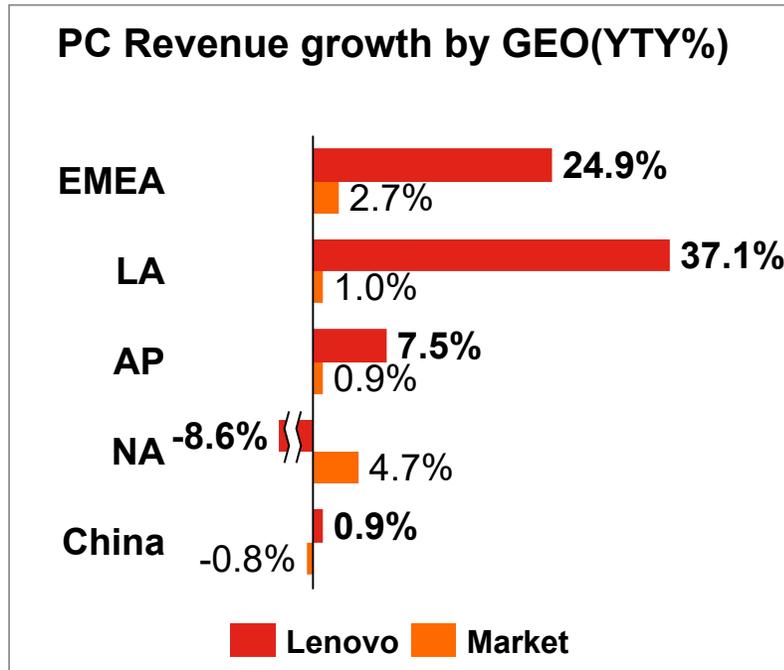
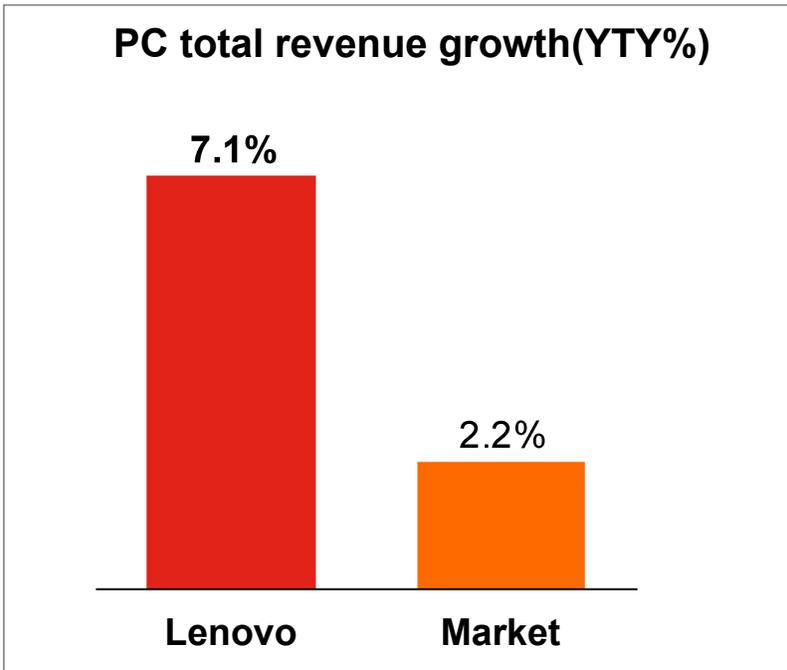
- Revenue **\$11.8** billion, grew almost **5%** year-on-year
- PTI **\$35** million, improved **\$104** million quarter-to-quarter
- Net income* **\$153** million, flat year-on-year



* Net income: Incl. tax credit

+ 1st Wave: PC Delivers Strong Performance

- Revenue outgrew the market while maintaining industry leading profitability
- Strong growth in Latin America, Asia Pacific, EMEA; China returning to growth
- All geographies profitable
- Maintained growth in high-growth segments
- Tablet grew in the shrinking market, reached record high market share
- Leverage market consolidation, invest in high-growth segments & emerging areas



+ 2nd Wave: Data Center Transformation on Track

- Maintained leadership in High Performance Computing, traditional data center infrastructure.
- Strengthened technology & products in Software Defined, Hyperscale, storage and networking.
- Investment in sales force took effect: North America & EMEA revenue and profitability improved.
- China had quarter-to-quarter revenue improvement, a sign of turning around
- Business on track to return to profitable growth; will continue to invest

ThinkSystem



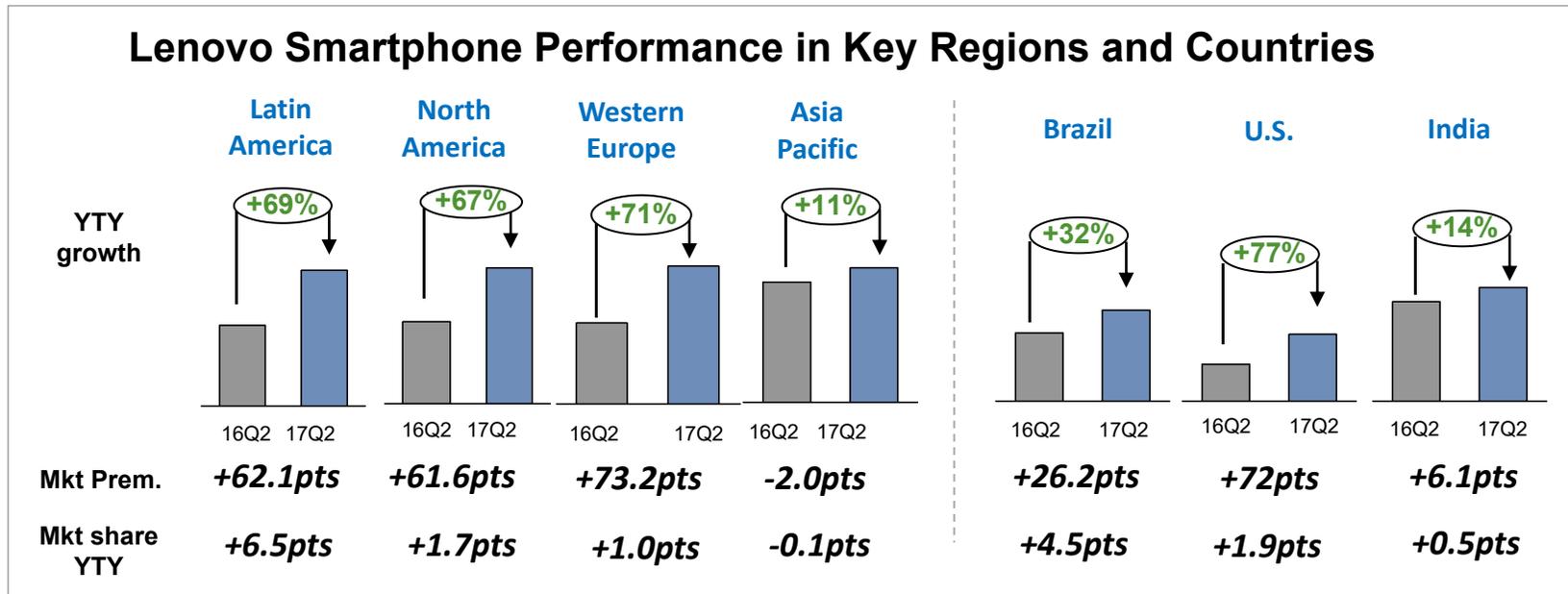
ThinkAgile



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+ 2nd Wave: Mobile Transformation Well in Process

- Most markets saw premium to market growth
- Building competitiveness in high-end segment
- Continue to execute clear strategy:
 - Latin America: Strengthen leading position and profitability
 - Mature Markets: Drive breakthrough
 - Emerging Markets: Maintain healthy growth with controlled investments



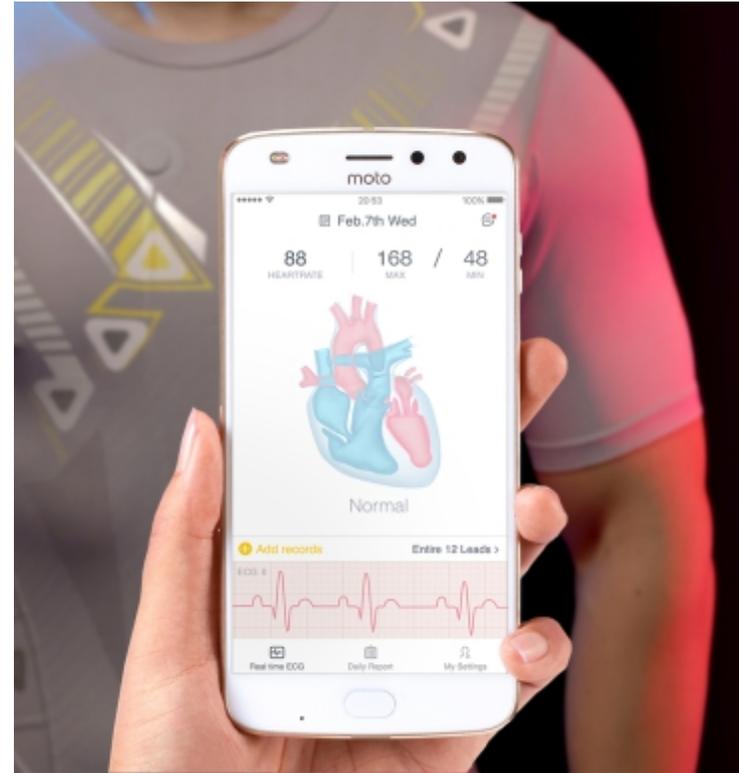
Moto Z2 with Amazon Alexa Mod

+ 3rd Wave: Good Progress in “Device+Cloud”

- Continue to invest in Artificial Intelligence, smart office, smart home and AR/VR
- Star Wars AR headset on shelf for holiday season



Lenovo Mirage AR headset



Lenovo SmartVest

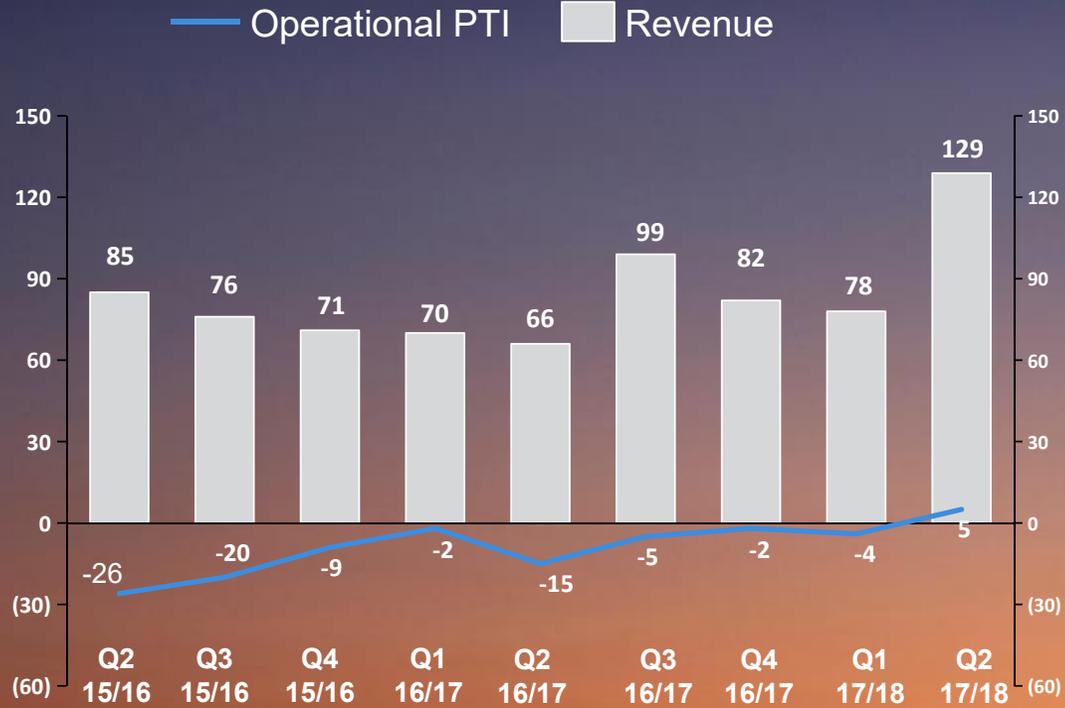
+ Persistent Execution

**Once direction set,
Persistent execution leads to
Accomplishing the goal**

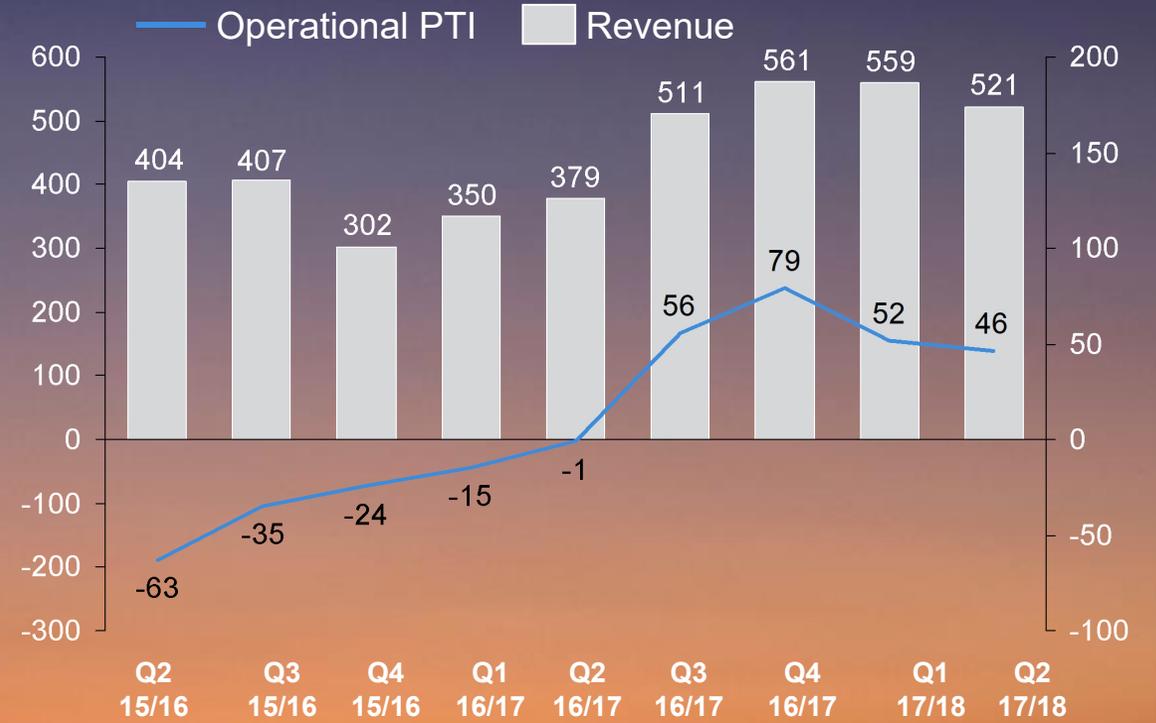


+ The Brazil Story

Brazil PC Business Rev. & Operational PTI (\$ Millions)



Brazil Mobile Business Rev. & Operational PTI (\$ Millions)



A New Phase of Growth



Wong Wai Ming

Chief Financial Officer

The Lenovo logo is positioned in the top right corner of the slide. It consists of the word "Lenovo" in white, sans-serif font, oriented vertically within a red rectangular background. A small "TM" trademark symbol is located at the top right of the word.

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Q2 FY2017/18 Highlights

Financial Highlights:

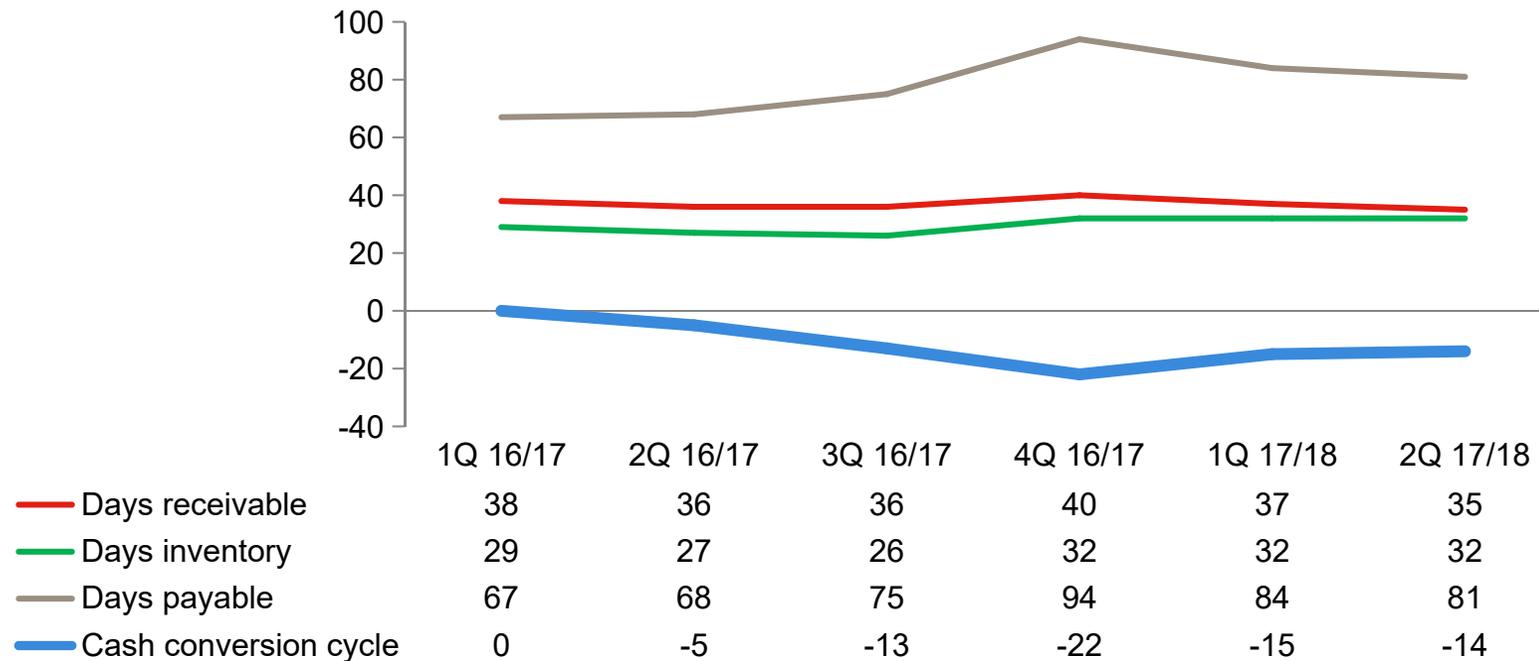
- Strong group revenue growth of 5% YTY to US\$11.8B
- Transformation is on track with group reported PTI improved by US\$104M QTQ
- PCSD: strong revenue growth of 7% YTY with improved PTI margin QTQ
- DCG: transformation on track; revenue stabilized with PTI margin improved QTQ
- MBG: transformation on track; revenue grew YTY for 3rd consecutive quarter with improved PTI margin QTQ

Financial Snap Shot

US\$ Million	Q2 FY2017/18	Q2 FY2016/17	Q1 FY2017/18
Revenue	11,761	11,231	10,012
Gross Profit	1,613	1,607	1,365
Operating Expenses	(1,525)	(1,392)	(1,371)
Operating Profit	88	215	(6)
Pre-tax Income	35	168	(69)
Less: One-time Property Disposal Gain	-	(218)	-
Add: One-time Restructuring Charge	-	136	-
	63	75	74
Add: Non-cash M&A Related Accounting Charges			
Operational PTI	98	161	5
Gross margin	13.7%	14.3%	13.6%
PTI margin	0.3%	1.5%	-0.7%
Operational PTI margin	0.8%	1.4%	0.0%

+ Cash and Working Capital

US\$ Million	Q2 FY2017/18	Q2 FY2016/17	Q1 FY2017/18
Bank deposits and cash	1,262	2,450	1,541
Total Borrowings	2,661	2,527	2,843
Net Debt	(1,399)	(77)	(1,302)
Net cash generated from/(used in) operating activities	364	1,559	(577)



+ PC & Smart Device Business Group (PCSD)

Overview

- Strong revenue growth of up 7% YTY and 20% QTQ
- ASP improved from innovative products & better product mix, partly mitigated the impact of component cost hike
- Premium to market revenue growth from all Geos except NA
- Strong growth in fast-growing segments
- PTI at 4.4% with QTQ improvement

Highlights

- Strong EMEA revenue growth with margin expansion thanks to solid performance across Europe
- Regained momentum in China despite the continued slow market from more innovative product launch and channel enhancement

US\$ Million	Q2 FY2017/18	Q2 FY2016/17	Q1 FY2017/18
Revenue	8,382	7,804	7,005
Pre-tax Income	367	405	291
Pre-tax Income Margin (%)	4.4%	5.2%	4.2%

+ Data Center Business Group (DCG)

Overview

- Transformation on track: revenue stabilized with PTI margin improved QTQ
- 2nd consecutive quarter of rev YTY increase in NA & EMEA since System X acquisition
- China hit the bottom and on track to recover
- On track to improve profitability YTY from better product mix, but investments in sales capability and increase in component cost dragged the YTY PTI performance

Highlights

- Continued strong performance from Global Account, Software Defined Infrastructure, and High Performance Computing
- Fine tuned Hyperscale business model to further enhance competitiveness
- On-going investments in sales capabilities and channel to drive future growth

US\$ Million		Q2 FY2017/18	Q2 FY2016/17	Q1 FY2017/18
Revenue		976	1,082	971
Pre-tax Loss	Operational	(100)	(108)	(114)
	<i>Reported*</i>	<i>(131)</i>	<i>(141)</i>	<i>(144)</i>
Pre-tax Income Margin (%)	Operational	(10.3%)	(10.0%)	(11.7%)
	<i>Reported*</i>	<i>(13.4%)</i>	<i>(13.1%)</i>	<i>(14.9%)</i>

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

+ Mobile Business Group (MBG)

Overview

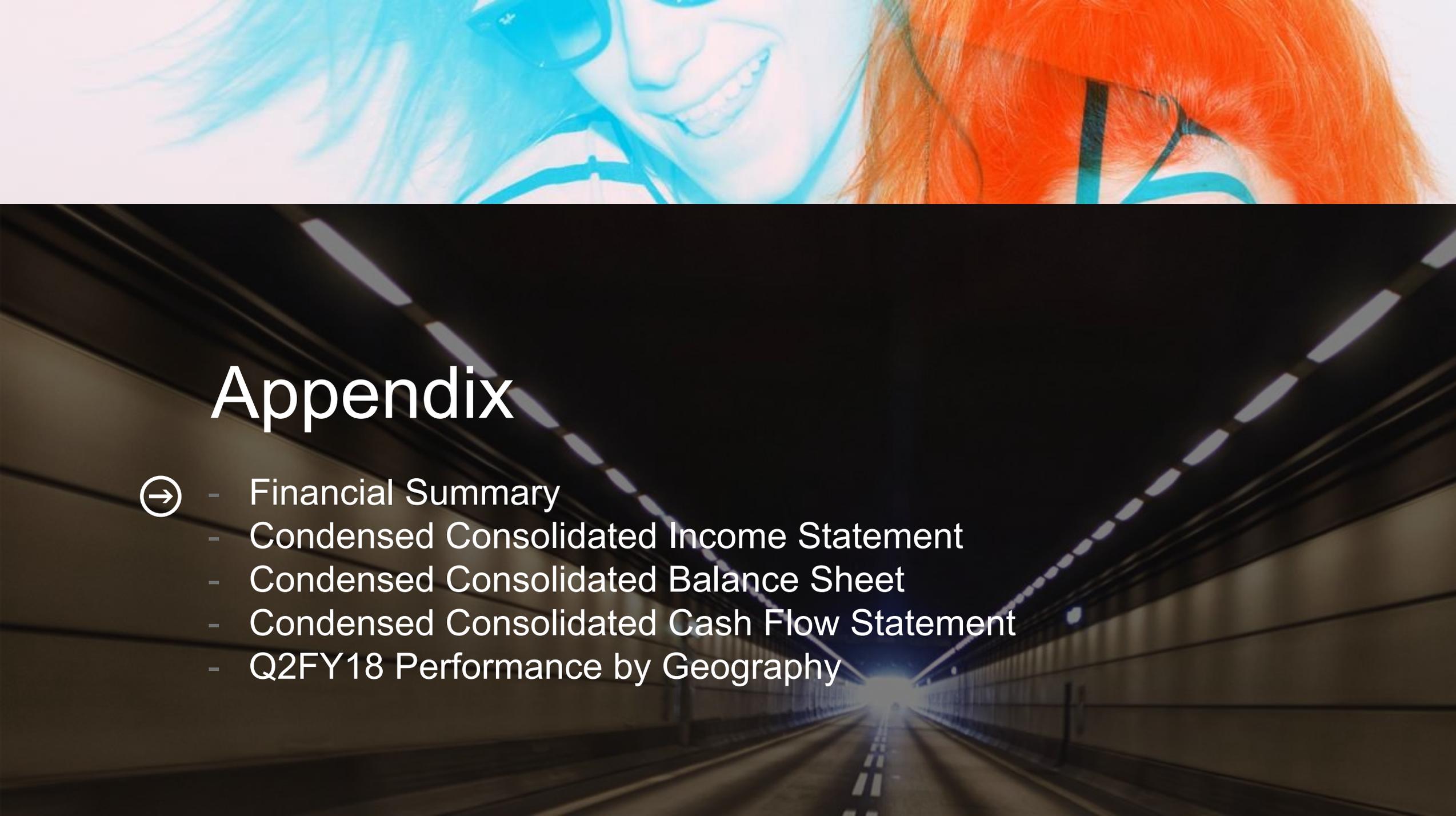
- Transformation on track: revenue grew 3rd consecutive quarter YTY
- Continued to successfully protect the strong position in LA
- Strong shipment for mainstream Moto models, i.e. Moto G & Moto E; Moto Z 2 successfully expanded to mature markets
- PTI margin improved QTQ, however increased advertising & promotion expenses on new product launches and the component cost pressure dragged the YTY margin performance

Highlights

- Maintained healthy growth in Asia Pacific with controlled investments, such as India where we regained market share
- Continued to expand in mature markets; strong momentum in Western Europe with improved ASP
- Successfully expanded to all major carriers in the U.S.
- New product roadmaps & strategy in China to drive growth

US\$ Million		Q2 FY2017/18	Q2 FY2016/17	Q1 FY2017/18
Revenue		2,076	2,045	1,746
Pre-tax Loss	Operational	(132)	(114)	(129)
	<i>Reported*</i>	(164)	(156)	(173)
Pre-tax Income Margin (%)	Operational	(6.4%)	(5.6%)	(7.4%)
	<i>Reported*</i>	(7.9%)	(7.7%)	(9.9%)

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



Appendix

- ➔ - Financial Summary
- Condensed Consolidated Income Statement
- Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement
- Q2FY18 Performance by Geography

+ Financial Summary

US\$ Million	Q2 FY2017/18	Q2 FY2016/17	Y/Y%	Q/Q%	YTD FY2017/18	Y/Y%
Revenue	11,761	11,231	5%	17%	21,773	2%
Gross Profit	1,613	1,607	0%	18%	2,977	(5%)
Operating Expenses	(1,525)	(1,392)	10%	11%	(2,896)	8%
Operating Profit	88	215	(59%)	(1534%)	81	(82%)
Other Non-Operating Expenses	(53)	(47)	13%	(16%)	(115)	33%
Pre-tax Income (Loss)	35	168	(79%)	(151%)	(34)	NA
Taxation	118	(16)	NA	665%	133	NA
Profit for the period	153	152	1%	(384%)	99	(69%)
Non-controlling interests	(14)	5	NA	(22%)	(32)	(421%)
Profit attributable to Equity Holders	139	157	(11%)	(292%)	67	(80%)
EPS (US cents)						
- Basic	1.26	1.42	(0.16)	1.92	0.61	(2.38)
- Diluted	1.26	1.42	(0.16)	1.92	0.61	(2.37)
Dividend per share (HK cents)	6	6			6	
	Q2 FY2017/18	Q2 FY2016/17	Q1 FY2017/18		YTD FY2017/18	YTD FY2016/17
Gross margin	13.7%	14.3%	13.6%		13.7%	14.8%
E/R ratio	13.0%	12.4%	13.7%		13.3%	12.6%
Operating margin	0.7%	1.9%	-0.1%		0.4%	2.2%
PTI margin	0.3%	1.5%	-0.7%		-0.2%	1.8%
Net margin attributable to Equity Holders	1.2%	1.4%	-0.7%		0.3%	1.5%

+ Condensed Consolidated Income Statement

<i>US\$ Million</i>	Q2 FY2017/18	Interim FY2017/18	Q2 FY2016/17	Interim FY2016/17
Revenue	11,761	21,773	11,231	21,287
Cost of sales	(10,148)	(18,795)	(9,624)	(18,146)
Gross profit	1,613	2,977	1,607	3,141
Other income-net	-	-	12	12
Selling and distribution expenses	(796)	(1,461)	(707)	(1,296)
Administrative expenses	(387)	(847)	(438)	(896)
Research and development expenses	(311)	(603)	(349)	(705)
Other operating (expense)/ income - net	(31)	15	90	204
Operating profit	88	81	215	460
Finance income	8	17	6	12
Finance costs	(60)	(131)	(56)	(111)
Share of (loss)/profit of associated companies and joint ventures	(1)	(1)	3	13
Profit/(loss) before taxation	35	(34)	168	374
Taxation	118	133	(16)	(54)
Profit for the period	153	99	152	320
Profit attributable to:				
Equity holders of the company	139	67	157	330
Perpetual securities holders	13	26	-	-
Other non-controlling interests	1	6	(5)	(10)
Dividend	85	85	86	86
Earnings/(Loss) per share (US cents)				
- Basic	1.26	0.61	1.42	2.99
- Diluted	1.26	0.61	1.42	2.98



Condensed Consolidated Balance Sheet

US\$ Million

	As at Sep 30, 2017	As at Jun 30, 2017
Non-current assets	12,891	12,477
Property, plant and equipment	1,284	1,273
Intangible assets	8,448	8,317
Others	3,159	2,887
Current assets	16,033	14,150
Bank deposits and cash	1,262	1,541
Trade, notes and other receivables	10,920	9,182
Inventories	3,600	3,178
Others	251	249
Current liabilities	20,295	18,053
Borrowings	70	264
Trade, notes, other payables, accruals and provisions	18,443	16,072
Others	1,782	1,717
Net current liabilities	(4,262)	(3,903)
Non-current liabilities	4,440	4,396
Total equity	4,189	4,178

+ Condensed Consolidated Cash Flow Statement

US\$ Million	Q2 FY2017/18	Q2 FY2016/17	Q1 FY2017/18
Net cash generated from/(used in) operating activities	364	1,792	(577)
Net cash (used in) investing activities	(93)	(434)	(744)
Net cash used in financing activities	(526)	(1,015)	(67)
(Decrease)/Increase in cash and cash equivalents	(255)	343	(1,388)
Effect of foreign exchange rate changes	12	4	20
Cash and cash equivalents at the beginning of the period	1,387	1,906	2,755
Cash and cash equivalents at the end of the period	1,144	2,253	1,387

+ Q2FY18 Performance by Geography

China

- **PCSD:** Regained momentum in a slow market via more innovated product launch and channel enhancement
- **Mobile:** Continued to focus on building efficient foundation
- **Data Center:** Sales establishment started to bring new customers and improved the product mix to drive long term growth

AP

- **PCSD:** Strong share gained across most of the market
- **Mobile:** Outgrow market with strong revenue and shipment momentum; India: mkt share at 10%; continue to invest in channel expansion
- **Data Center:** Regained revenue growth momentum QTQ

EMEA

- **PCSD:** Strong revenue growth with margin expansion thanks to continued solid performance across the region
- **Mobile:** Continue attacking WE, and seeking healthy growth in the emerging regions
- **Data Center:** Revenue continued to grow YTY thanks to momentum across hyperscale and infrastructure business

AG (Americas)

- **PCSD:** Slower progress due to focus on strengthen channel structure and improve its efficiency in NA
- **Mobile:** Strong momentum in LA; marketing investment in new product launches
- **Data Center:** Revenue continued its YTY growth helped by time-to-market product capability bring customers win across segments

	Revenue US\$ Million			Segment Pretax Income/ (Loss) US\$ Million			Segment Pretax Income Margin (%)		
	Q2 FY18	Y/Y	Q/Q	Q2 FY18	Q2 FY17	Q1 FY18	Q2 FY18	Q2 FY17	Q1 FY18
China	3,018	(177)	503	115	158	83	3.8%	4.9%	3.3%
AP	2,028	131	455	(13)	2	(42)	(0.6%)	0.1%	(2.6%)
EMEA	3,152	414	449	(2)	(65)	(41)	(0.1%)	(2.4%)	(1.5%)
AG	3,563	162	342	(59)	20	41	(1.6%)	0.6%	1.3%

thanks.

Different is better

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