LENOVO POSTS THIRD QUARTER 2013/14 RESULTS

Strong execution, innovative products and PC Plus growth drive another record setting quarter

- Record 32.6 million total units shipped, nearly 5 devices per second
- Continued to expand lead as number one PC maker with 18.5% market share
- New PC Plus products excite consumers and drive growth
- US$10.8 billion in revenue; passing US$10 billion milestone for first time ever
- Records of US$321 million in pre-tax income and US$265 million in earnings
- Basic EPS of 2.56 US cents, or 19.85 HK cents
- Net cash reserves of US$ 3.4 billion (as of December 31, 2013)

HONG KONG, February 13, 2014 – Lenovo Group today announced record results for its third fiscal quarter ended December 31, 2013, driven by strong global execution, an innovative product portfolio and an increasing mix of PC Plus revenues. Quarterly revenue was US$10.8 billion, a 15 percent increase year-over-year, passing the US$10 billion milestone for the first time ever. Third quarter profit grew even faster with pre-tax income increasing 30 percent year-over-year to US$321 million, while earnings also grew 30 percent year-over-year to US$265 million. Lenovo shipped a record 32.6 million devices in the quarter or nearly 5 devices every second. Lenovo’s third quarter mix of sales from its Mobile Internet and Digital Home division which develops PC Plus products such as smartphones, tablets and smart TVs, was 16 percent of total revenues, up from 11 percent one year ago and seven percent two years ago, with steadily improving profitability.

For the third straight quarter, Lenovo was the world’s largest PC vendor*, with its highest-ever quarterly market share of 18.5 percent, up 2.4 points year-over-year. Record high share in EMEA, Asia Pacific and China with number one positions in five of the seventh largest PC markets globally – supported this strong performance. Lenovo’s PC shipments for the third fiscal quarter were 15.3 million units, again making it the fastest growing of the top five PC vendors. This was also the 19th quarter in a row that Lenovo outperformed the industry as a whole, growing at a 14 point premium to the market.

Also for a third straight quarter, Lenovo’s combined shipments of smartphones and tablets – 17.3 million devices – surpassed the 15.3 million PCs it sold. It also continued to be the world’s fourth largest smartphone supplier with 4.8 percent share, growing shipments 47 percent year-over-year, driven by excellent performance of its smartphone launches in a number of new markets. In tablets, Lenovo had a record high of 3.4 million shipments, up over 300 percent year-over-year. Tablet strength was driven by the launch of the Yoga Tablet, the world’s first multimode tablet. Together, these results clearly illustrate Lenovo’s PC Plus transformation.

“Lenovo had outstanding performance last quarter, delivering both record revenue and record profit. Leveraging strong execution of our strategy, innovative products and growth in our PC Plus business, we continue delivering on our commitment to improve our profitability and we are confident we will maintain this momentum in our existing businesses,” said Yang Yuanqing, Chairman and CEO of Lenovo. “Further, the Motorola and IBM server acquisitions that we just announced are a perfect fit with our PC Plus strategy. While our top priority now is full participation in the regulatory approvals process, I am confident that from day 1 after closing, these businesses will quickly begin contributing to our performance and develop into pillars for long-term, sustainable growth.”

The Company’s gross profit for the third fiscal quarter increased 15 percent year-over-year to US$1.36 billion, with gross margin at 12.6 percent. Operating profit for the quarter grew 37 percent year-over-year to US$334 million. Basic earnings per share for the third fiscal quarter was 2.56 US cents, or 19.85 HK cents. Net cash reserves as of December 31, 2013 totaled US$3.4 billion.
GEOGRAPHIC OVERVIEW
Lenovo’s China geography totaled US$4 billion in revenue in the third fiscal quarter, relatively stable year-over-year, accounting for 37 percent of the Company’s worldwide revenue. The performance of China reflected a temporary slowdown in the local PC market which has stabilized and is seeing improved pricing, while urbanization, corporate refresh and PC Plus product innovation are driving future demand. During the third quarter, Lenovo further strengthened its PC number-one position in China, with market share in China of 37.9, a 0.5 point year-over-year gain, was number two in smartphones and number three in tablets.

In the Asia Pacific geography, Lenovo’s revenue totaled US$1.6 billion for the third quarter, or 15 percent of the Company’s worldwide revenue, up 22 percent year-over-year. Solid execution drove strong growth of smartphone sales and tablets saw hypergrowth in ASEAN countries. Lenovo also regained its number 1 position in PCs, with a record market share of 15.9 percent, up 2.0 points year-over-year and reached a milestone of selling 1 million smartphones.

Lenovo’s revenue in the Europe/Middle East/Africa (EMEA) geography saw a 25 percent increase in the third fiscal quarter to reach US$2.9 billion, representing 27 percent of Lenovo’s worldwide revenue. During the quarter, Lenovo reinforced its strong PC number 2 position with PC shipments up 27 percent, outperforming the market by 33 percentage points by protecting enterprise PC sales and attacking in SMB and consumer focused PC spaces. Lenovo is now number one in 11 EMEA countries. Notably, EMEA also led the way in driving tablet sales, increasing shipments nearly 450 percent year-over-year.

The Americas geography revenue was US$2.3 billion for the third fiscal quarter, an increase of 36 percent year-over-year, representing 21 percent of the Company’s worldwide revenue. The Americas geography saw its PC shipments grow 28 percent, a 2.7 point share gain to reach 11 percent share, outperforming the market by 31 percentage points. Performance in Brazil – driven by strong management, scaling of a new plant and integration of CCE – resulted in PC shipment growth of 378 percent to a record 18.6 percent market share in the country. US commercial PC business continues to play a significant role in the Americas geography, with shipments up 21 percent YTY, and a 15 point premium to the market.

PRODUCT OVERVIEW
During the third fiscal quarter, Lenovo’s Laptop computers were the largest contributor to the Company’s revenue worldwide, generating 50 percent of Lenovo’s total revenue. Across the industry, laptop shipments were down 6.3 percent year-over-year. Despite this challenging environment, consolidated sales for Lenovo’s laptop PC business worldwide in the third fiscal quarter totaled US$5.4 billion, an increase of 11 percent year-over-year. The Company gained 2.7 share points and achieved a market share of 18.8 percent. During the third fiscal quarter, the Company announced the Lenovo A10, an affordable, ultra-portable, dual-mode laptop and the Company’s first to run Android 4.2 OS. Weighing less than 1kg and measuring just 17.3 mm at its thickest point, the Lenovo A10 is one of the thinnest and lightest consumer laptops in the market today.

Lenovo’s Desktop PC shipments grew 9.1 percent worldwide year-over-year during the third fiscal quarter, compared to an overall industry decrease of about 3 percent. As a result, Lenovo gained 2 share points year-over-year and achieved a market share of 18 percent. Consolidated sales of Lenovo desktop PCs in the third quarter increased by 12 percent year-over-year to US$ 3.2 billion, or 29 percent of the Company’s total revenue. During the quarter, Lenovo announced four new all-in-one desktop PCs, extending the Company’s lead in that competitive product category. Featured was the super-widescreen Lenovo B750, with its 29” display. According to IDC, Lenovo is number one in the worldwide AIO market, across both the consumer and commercial segments.
Consolidated sales of Lenovo’s Mobile Internet and Digital Home (MIDH) products, including smartphones and tablets increased 73 percent year-over-year during the third fiscal quarter to US$ 1.7 billion, representing 16 percent of the Company’s total revenue during the quarter. Tablet shipments grew by 326 percent year-over-year for a record 3.4 million units with 4.3 percent market share. During its third fiscal quarter, Lenovo announced its multimode Yoga Tablet featuring three unique modes: hold, tilt and stand, giving consumers a better way to use a tablet and an incredible 18 hours of battery life. Yoga Tablet was announced at a livestream launch event with actor Ashton Kutcher, who debuted as Lenovo’s newest product engineer. Also announced in the third quarter was Lenovo’s Miix2 8-inch tablet, a follow on from its popular predecessor, the Lenovo Miix Tablet.

LENOVO’S M&A TRACK RECORD AND RECENT ACQUISITIONS
Since closing its acquisition of IBM’s personal computer business and ThinkPad line in 2005, it has successfully managed six integrations including the joint venture with NEC in Japan, the acquisition of Medion in Germany, the acquisition of CCE in Brazil, the strategic partnership and joint venture with EMC in the US, the acquisition of Stoneware in the US and its joint venture with Compal in China. During this time, Lenovo has become the world’s number one PC company, number 2 PC + Tablet maker, number three Smart Connected Device maker, all while growing revenue and profitability many times over.

Lenovo’s recently announced investments in Motorola Mobility and the IBM server business are logical next steps in the successful “PC Plus” strategy. Upon close of the IBM server transaction, Lenovo will be the number 3 server player globally in a business with higher margins than PCs. With Motorola’s close, Lenovo becomes a strong number three smartphone maker. A range of cost saving and scaling opportunities, the iconic Motorola brand and the opportunity to expand Motorola’s global reach will quickly place this business on a path to tangible success. Upon close, Lenovo firmly believes they will accelerate the geographical reach and competitiveness of its existing smartphone, tablet and server businesses, while ensuring future growth is even stronger and more sustainable.

*see IDC data 4Q 2013

ABOUT LENOVO
Lenovo (HKSE: 992) (ADR: LNVGY) is a US$34 billion personal technology company – and the largest PC company in the world, serving customers in more than 160 countries. Dedicated to building exceptionally engineered PCs and mobile internet devices, Lenovo’s business is built on product innovation, a highly-efficient global supply chain and strong strategic execution. Formed by Lenovo Group’s acquisition of the former IBM Personal Computing Division, the company develops, manufactures and markets reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial PCs and Idea-branded consumer PCs, as well as servers, workstations, and a family of mobile internet devices, including tablets and smart phones. Lenovo, a global Fortune 500 company, has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina. For more information see www.lenovo.com.

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LENOVO GROUP
FINANCIAL SUMMARY
For the fiscal quarter ended December 31, 2013

(in US$ millions, except per share data)

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<th>Q3 13/14</th>
<th>Q3 12/13</th>
<th>Y/Y CHG</th>
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<tr>
<td>Revenue</td>
<td>10,789</td>
<td>9,359</td>
<td>15%</td>
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<tr>
<td>Gross profit</td>
<td>1,363</td>
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<td>Gross profit margin</td>
<td>12.6%</td>
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<td>Operating expenses</td>
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<tr>
<td>Expenses-to-revenue ratio</td>
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<td>Operating profit</td>
<td>334</td>
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<td>Pre-tax income</td>
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<td>Non-controlling interests</td>
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<td>Profit attributable to equity holders</td>
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