LENOVO Q3 2014/15 RESULTS EXCEED CONSENSUS ESTIMATES WITH STRONG CORE BUSINESS AND FAST TRACTION IN NEW INVESTMENTS

Powered by new smartphone and enterprise engines, profitability set to expand

- US$14.1 billion in revenue
- Pre-tax income before non-cash, M&A-related accounting charges* of US$348 million and pre-tax income of US$274 million
- Net income before non-cash, M&A-related accounting charges* of US$327 million and net income of US$253 million
- Achieved record high milestone of 20 percent PC market share**
- M&A delivers more balance: 65 percent of revenue now from PCs, 24 percent from Mobile and 9 percent from Enterprise vs. one year ago when PCs were 81 percent
- Basic EPS of 2.32 US cents, or 17.99 HK cents
- Net cash reserves of US$1.3 billion (as of December 31, 2014)

HONG KONG, February 3, 2015 – Lenovo Group today announced consensus-beating results for its third fiscal quarter ended December 31, 2014, showing a strong PC business and fast traction in the integration of its Motorola Mobility (Motorola) and former IBM System x, x86 server (System x) investments. Quarterly revenue was US$14.1 billion, a 31 percent increase year-over-year.

Third quarter pre-tax income before non-cash M&A-related accounting charges was US$348 million, up 8 percent year-over-year. These non-operational, non-cash, M&A-related expenses totaled US$74 million and included charges such as intangible asset amortization and interest on promissory notes related to the Motorola and System x investments. Including these expenses, pre-tax income was US$274 million, down 15 percent year-over-year. Similarly, third quarter net income was US$253 million, down 5 percent, while net income before non-cash, M&A-related accounting charges was US$327 million, up 23 percent.

Lenovo's core PC business remains strong even as it drives a significant transformation and diversification with the addition of the Motorola and System x businesses. Balance has become a major strength for Lenovo: PCs now account for 65 percent of the company's revenue, while Mobile delivers 24 percent and Enterprise contributes 9 percent. Just a year ago, PCs accounted for 81 percent of Lenovo's business.

"This quarter, we are at the starting line of a new race, but the results show that we have the right strategy, we made the right acquisitions and we executed well globally, so I am confident we are ready to win," said Yuanqing Yang, chairman and CEO of Lenovo. "Our core PC business maintained its leading position and further improved profitability. The two newly acquired businesses are achieving great momentum in their first quarter of integration. They are definitely becoming our growth engines. Motorola is already a global strength: for the first time it sold more than 10 million units in the quarter and it is now re-entering the China market. Meanwhile, we have a strong start with the System x integration, even while we further refine and develop it, leveraging Lenovo's operational excellence and efficiency to be even more competitive. I remain fully confident we will meet all of our financial commitments this year, and also that we are on the right track to win in the long term."

The Company's gross profit for the third fiscal quarter increased 54 percent year-over-year to US$2.1 billion, with gross margin at 14.9 percent. Operating profit for the quarter decreased 3 percent year-over-year to US$325 million. Basic earnings per share for the third fiscal quarter was 2.32 US cents, or 17.99 HK cents. Net cash reserves as of December 31, 2014, totaled US$1.3 billion.

Innovation in Lenovo continues to drive business model transformation and deliver impressive products that drive sales and profitability. In October, the company executed a major global consumer product launch, announcing a new family of Yoga convertible PCs and tablets. Lenovo won a record 77 awards at the Consumer Electronics Show in early January across every category – PC (where Lenovo's lightest ever LaVie laptop won top honors at the show), tablet, smartphone, applications, software and peripherals – demonstrating its unique breadth and depth of product innovation.

BUSINESS GROUP OVERVIEW***

In the **PC Group or PCG**, which includes PCs and Windows tablets, Lenovo sales were US$9.2 billion with a record high pre-tax income (PTI) of US$494 million. Lenovo shipped 16 million PCs in the quarter, up 4.9 percent year-over-year, for a total market share of 20 percent. Going forward, consolidation trends favor this business. Lenovo sold its 100 millionth ThinkPad laptop PC, marking a historic milestone for this legendary brand.

In the **Mobile Business Group or MBG**, which includes products from the Motorola investment, Lenovo-branded mobile phone business, Android tablets and TVs, Lenovo sales were US$3.4 billion generating PTI of negative US$89 million. Motorola shipped more than 10 million units, up 118 percent year-over-year, adding US$1.9 billion to MBG's revenues. Soon to re-enter China, Motorola is on track to be profitable within 4-6 quarters of close.

Combining shipments of Motorola and Lenovo-branded devices made Lenovo a truly global player, the third largest vendor of smartphones behind Samsung and Apple and their most credible challenger. Together, the two brands had nearly 6.6 percent market share, up 78 percent year-on-year. Global tablet market share was 4.8 percent, with 3.7 million shipments, up 9 percent year-over-year, powered by the launch of our latest Yoga tablet.

Unlike many smaller mobile phone players that rely almost completely on a slowing China market, Lenovo now drives about 60 percent of its mobile phone volumes outside China, having entered 67 countries in the last two years. Lenovo has built the scale, distribution, brand assets and IP portfolio required to compete around the world and challenge the top two players. And, as smartphone trends move from premium to mainstream, and mature to emerging markets, Lenovo is in the best position to capture these next waves of growth and deliver its stated profitability commitments in the Motorola business.

In the **Enterprise Business Group or EBG**, which includes servers, storage, software and services sold under both the Lenovo ThinkServer brand and the System x business unit, sales were US$1.2 billion. Sales of the System x unit were US$986 million. Only 90 days into the integration of System x, EBG delivered positive operational PTI, although its standard PTI – which included non-cash, M&A-related items – was negative US$42 million. It is solidly on track to be a US$5 billion business with better margins than PC in 1 year.

Combined shipments of Lenovo ThinkServer and System x servers made Lenovo number 3 worldwide, with 10.4 percent market share. Despite the intense competitive fire in the year since Lenovo said it planned to acquire System x, its business is stabilizing, with rapid success in China making it number one in that market, while benefiting from access to new opportunities in 160 countries that were previously unavailable to IBM or Lenovo.

GEOGRAPHIC OVERVIEW

Lenovo's **China geography** totaled US$4.1 billion in revenue in the third fiscal quarter, an increase of 1 percent year-over-year, which accounted for 29 percent of the Company's worldwide revenue, while operating margin improved by 0.3 points year-over-year to 5.7 percent. During the third quarter, Lenovo protected its PC leadership with 38.2 percent share. Fierce competition in the China mobile phone business was a drag on the performance of Lenovo-brand smartphones.

In the **Asia Pacific geography**, Lenovo's revenue totaled US$1.7 billion for the third quarter, or 12 percent of the Company's worldwide revenue, up 7 percent year-over-year, with record high operating margin of 5.4 percent, up 3.9 points year-over-year and record high PC market share at 16.1 percent, up 0.2 points year-over-year. Strong volumes in smartphone shipments were seen across the ASEAN region.

Lenovo's revenue in the **Europe/Middle East/Africa (EMEA) geography** during the third fiscal quarter saw continued growth and increased profitability with revenue up US$1.6 billion, a 40 percent increase, to reach US$4 billion, while margin improved by 1.2 points year-on-year to 3 percent. Powered by strong consumer performance, this success drove a record-setting contribution to Lenovo's worldwide revenue of 29 percent. During the quarter, Lenovo had record PC market share of 19.6 percent in EMEA, up nearly 4.4 points. Lenovo achieved the number 1 position in PC across 13 EMEA countries, further improving its number two position in the EMEA PC market.

The **Americas geography** revenue was US$4.3 billion for the third fiscal quarter, up 88 percent year-over-year, comprising 30 percent of the Company's worldwide revenue, mainly due to the inclusion of Motorola and System x in the geography's results. The Americas geography saw PC market share of 11.1 percent. Lenovo maintained the number four position in the US while avoiding fierce price competition in lower end, low profit devices to protect profitability. The North America region saw strong revenue and shipment growth and solid profit improvements, while the Company is taking decisive action to reverse challenges in Brazil, which impacted the geography's overall performance.

* These figures are provided for greater transparency and to aid further analysis of the business.
** see IDC data 4Q 2014
*** Previously, the company provided financial breakdowns by product. With the acquisitions of Motorola and System x, management believes reporting by business groups best reflects the Company's performance.

ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) is a $39 billion global Fortune 500 company and a leader in providing innovative consumer, commercial, and enterprise technology. Our portfolio of high-quality, secure products and services covers PCs (including the legendary Think and multimode YOGA brands), workstations, servers, storage, smart TVs and a family of mobile products like smartphones (including the Motorola brand), tablets and apps. Join us on LinkedIn, follow us on Facebook or Twitter (@Lenovo) or visit us at www.lenovo.com.

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LENOVO GROUP
FINANCIAL SUMMARY
For the fiscal quarter ended December 31, 2014

(in US$ millions, except per share data)

	Q3 14/15	Q3 13/14	Y/Y CHG
Revenue	14,092	10,789	31%
Gross profit	2,097	1,363	54%
Gross profit margin	14.9%	12.6%	2.3 pts
Operating expenses	(1,772)	(1,029)	72%
Expenses-to-revenue ratio	12.6%	9.5%	3.1 pts
Operating profit	325	334	-3%
Other non-operating expenses	(51)	(13)	287%
Pre-tax income	274	321	-15%
Taxation	(17)	(56)	-69%
Profit for the period	257	265	-3%
Non-controlling interests	(4)	-	1557%
Profit attributable to equity holders (net income)	253	265	-5%
EPS (US cents)			
Basic	2.32	2.56	(0.24)
Diluted	2.30	2.52	(0.22)