Press Release

Lenovo Announces Fourth Quarter and Full Year 2015/16 Results

Core PC business solid and profit stable, even as internal and external challenges hit revenue

- Full year revenue US$44.9 billion, down 3% YoY; Q4 US$9.1 billion, down 19% YoY
- Restructuring delivered US$690 million in 2nd half of the year, preserving profit
- Full year pre-tax loss US$277 million; Q4 pre-tax income of US$193 million, up 86% YoY
- Full year net loss of US$128 million; Q4 net income of US$180 million, up 80% YoY
- Full year basic loss per share of 1.16 US cents, or 9.00 HK cents

HONG KONG, May 26, 2016 – Lenovo Group today announced results for its fourth fiscal quarter and full-year ended March 31, 2016. Lenovo strengthened its core PC business, enhanced its cost structure and protected its profit, despite facing internal and external challenges that impacted revenue, which was US$9.1 billion, down 19 percent year-over-year, while annual revenue was US$44.9 billion, down 3 percent year-over-year. At the same time, the largest restructuring program in Lenovo's history delivered a better cost structure with US$690 million of savings in the 2nd half of the year, sending 4th quarter PTI up 86 percent year-over-year to US$193 million. Annual loss before tax was US$277 million. Fourth quarter net income was up 80 percent year-over-year to US$180 million, while full year net loss was US$128 million, even after US$330 million in non-cash M&A related accounting charges.

"Last quarter, despite challenging economic and industry conditions that hurt our top line, the decisive actions we took mid-year allowed us to protect our profitability. We kept our core PC business strong, continuously improved profitability in enterprise and saw positive momentum in some key smartphone markets." said Yang Yuanqing, Lenovo Chairman and CEO. "Facing the operational issues in the businesses, we have already taken a number of proactive actions, including making key decisions in organization, leadership, products and channels to get back to growth in mobile, and adopting a new multi-business operating system to unleash the productivity and creativity of each business. At the same time, we will integrate our traditional strength in end-user devices with our new capabilities in cloud and infrastructure to attack the balanced Device + Cloud opportunities."

Even while facing internal and external challenges, and working through major restructuring and reorganization programs, Lenovo still delivered these operational and financial achievements:

- Strengthened position as **global PC leader** with strong profits and record market share, up 1.3 pts to 21 percent.*
- Record market share in tablets, out growing the market, ranking #3 with nearly 11 million units shipped in the year
- **Enterprise** saw 73 percent year-over-year annual revenue growth, a 6th straight quarter of operational profit, and strong China and Emerging Market performance
- A truly global **mobile business** with FY double digit growth in emerging markets – 96 percent in Asia Pacific, 83 percent in EMEA and 46 percent in Latin America – with operational break even in the third quarter, hitting the goal to do so within 4-6 quarters of the Motorola investment
- Record performance by **Ecosystem and Cloud Services Group** with Monthly Average Users tripling to more than 200 million and annual revenue reaching more than $200 million
- Interbrand named **Lenovo one of the world's Top 100 brands**
- **Real innovation in great products –** that powered the businesses, winning 66 awards at the Consumer Electronics Show and 23 awards at Mobile World Congress

Gross profit for the full year was US$6.6 billion, a decrease of 1 percent year-over-year. Fourth quarter gross profit was US$1.5 billion, down 15 percent. Gross margin was 14.8 percent and 16.6 percent for the year and quarter, respectively. Operating loss for the full fiscal year was US$62 million and profit of US$248 million for the quarter, up 95 percent over the fourth quarter of last year. Basic earnings per share in the fourth fiscal quarter was 1.63 US cents, or 12.67 HK cents; basic loss per share was 1.16 US cents, or 9.00 HK cents for the full fiscal year. Lenovo's Board of Directors declared a final dividend of 2.64 US cents, or 20.5 HK cents per share for the fiscal year ended March 31, 2016.

Business Group Overview

In the **PC Group or PCG**, which includes PCs and Windows tablets, Lenovo's quarterly sales were US$6.2 billion, with pre-tax income of US$312 million, down 20 percent year-over-year. Lenovo will attack new growth areas – such as gaming and detachables – in the expanded PC market and continue to take advantage of consolidation to strengthen revenue performance. Pre-tax income margin was maintained at five percent in the quarter. Lenovo shipped 12.1 million PCs in the quarter for a total market share of 20.2 percent in the quarter and 21 percent for the full year. In Q4, Lenovo tied with Apple for #1 in the expanded PC market, which includes traditional PCs, detachables and slate tablets. Lenovo saw particularly strong performances in North America where it had 19 percent growth and remained #3.

In the **Mobile Business Group or MBG**, which includes products from the Motorola investment, Lenovo-branded mobile phone business, Android tablets and smart TVs, Lenovo quarterly sales were US$1.7 billion. Lenovo had 10.9 million smartphone shipments in Q4 and 66.1 million in the full year. For the full year, markets outside China saw robust 63 percent growth hitting 51 million smartphone devices shipped. In tablets, Lenovo outpaced the market and continued to grow with nearly 11 million units shipped, and 5.4 percent market share. Motorola contributed nearly 5 million units in the quarter to Lenovo's total, while adding US$1.0 billion to Lenovo's MBG revenues.

These results show integration efforts did not meet expectations. In particular, China shipments declined 85% as the business shifted focus to open market and higher price bands and product transition in North America was not successful. Lenovo has learned a great deal since the close of the Motorola acquisition and is applying learnings quickly, with actions in organization, leadership and approach. The two new co-presidents focused on China and the rest of the world (RoW) now have the right focus. China is still the most competitive market and Lenovo intends to return to growth there by continuing to drive the shift from carriers to open market and leveraging its ZUK brand to rebuild its end-to-end competitiveness. In RoW, Lenovo will maintain high growth in emerging markets and get the US business back on track with a competitive product portfolio.

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$4.6 billion, up 73 percent driven by hyperscale wins in China in the full year, while quarterly revenue fell 8 percent to US$1 billion, primarily as a result of a sales force model that was not fully aligned to maximize opportunities for the company. For the sixth full quarter since the System x acquisition, EBG delivered positive operational pre-tax income with 1.7 percent operational margin, although its reported PTI – which included non-cash, M&A-related accounting charges – was negative US$16 million.

Going forward, EBG has been renamed as the Data Center Group. It will attack top line growth in mature markets with a better aligned sales model, end to end business structure and dedicated leadership focus. It will fully leverage its new partnership approach with best-in-class next gen technology partners like SAP, Nutanix, Juniper and Red Hat to capture high growth segments of the full US$87 billion-data center market.

Geographic Overview

Lenovo's **China geography** totaled US$2.3 billion in revenue in the fourth fiscal quarter, accounting for 26 percent of the Company's worldwide revenue, while operating margin grew by 0.1 points year-over-year to 4.5 percent. During the fourth quarter, Lenovo protected its PC margin and market leadership with 32 percent share, despite overall PC market slowdown by 8.5 percent. China's mobile space remained hypercompetitive and Lenovo's mobile business there declined 85 percent in the quarter because the shift from a carrier-focused to open market focused business model – where higher average sales prices prevail – was too slow. Enterprise was strong with 8 percent year-over-year revenue growth in the fourth quarter.

In the **Asia Pacific geography**, Lenovo's revenue totaled US$1.6 billion for the fourth quarter, or 17 percent of the Company's worldwide revenue, with operating margin of 0.8 percent, down 3.8 points year-over-year. Lenovo maintained a #1 position in PCs across Asia Pacific with 15.6 percent market share in Q4; and became #1 in PCs in AP for the full year with 17.5% market share. Asia Pacific had strong Q4 smartphone shipment growth, up 44 percent year-over-year driven by ASEAN. In the Enterprise business, build a good pipeline as it transitions to a new more flexible structure.

Lenovo's revenue in the **Europe/Middle East/Africa (EMEA)** geography during the fourth fiscal quarter were constrained by the falling PC market. Revenue was US$2.5 billion, while margin was 0.2 percent. EMEA accounted for 27 percent of Lenovo's worldwide revenue. During the quarter, Lenovo maintained its #2 position with 20.7 percent PC market share. Lenovo achieved the number 1 position in PCs across 15 EMEA countries. Smartphone shipments were up 29 percent driven by Eastern Europe, the Middle East and Africa, while the Enterprise business was impacted by sales force structure issues that were addressed in the creation of the new Data Center Group on April 1.

The **Americas geography** revenue was US$2.7 billion for the fourth fiscal quarter, comprising 30 percent of the Company's worldwide revenue. Margin improved with Brazil performance stabilization having a significant impact over all. The Americas geography saw record PC market share of 14.8 percent for the quarter, driven by strong shipments in North America and Latin America. Lenovo solidified its third position in the critical US market during the fourth fiscal quarter. In Mobile the Americas suffered because the planned launch of the Moto G was delayed until Q1, while the Enterprise business was impacted similar to EMEA, by the sales force structure issues that were addressed in the creation of the new Data Center Group on April 1.

* all market share data from IDC, 1Q 2016 data set

About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US$45 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 Motorola), 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 and full year ended March 31, 2016
(in US$ millions, except per share data)

	Q4 15/16	Q4 14/15	Y/Y CHG	FY15/16	Y/Y CHG
Revenue	9,133	11,334	-19%	44,912	-3%
Gross profit	1,518	1,779	-15%	6,624	-1%
Gross profit margin	16.6%	15.7%	0.9pts	14.8%	0.4pts
Operating expenses	(1,270)	(1,652)	-23%	(6,686)	20%
Expenses-to-revenue ratio	13.9%	14.6%	-0.7pts	14.9%	2.9pts
Operating profit/(loss)	248	127	95%	(62)	N/A
Other non-operating expenses	(55)	(23)	133%	(215)	56%
Pre-tax income/(loss)	193	104	86%	(277)	N/A
Taxation	(17)	(7)	156%	132	N/A
Profit/(loss) for the period/year	176	97	81%	(145)	N/A
Non-controlling interests	4	3	40%	17	N/A
Profit/(loss) attributable to equity holders	180	100	80%	(128)	N/A
Earnings/(loss) per share (US cents)					
Basic	1.63	0.91	0.72	(1.16)	N/A
Diluted	1.62	0.90	0.72	(1.16)	N/A
Dividend per share (HK cents)				26.5	-