

SOLID LENOVO 1ST QUARTER FY16-17 IN FACE OF INDUSTRY & CURRENCY HEADWINDS

- Revenue was US\$10.1 billion, down 6% (down 4% excluding foreign exchange impacts) YoY
- Pre-tax income of US\$206 million, up 297% YoY
- Net income of US\$173 million, up 64% YoY
- Positive developments across every business show transformation strategy's traction
- Disruptive innovation balanced with operational efficiency accelerates Lenovo's transformation into a high-growth, "Device + Cloud" company
- Basic EPS of 1.57 US cents, or 12.19 HK cents

HONG KONG, August 18, 2016 – Lenovo Group (HKSE: 992) (ADR: LNVGY) today announced results for its first fiscal quarter ended June 30, 2016. Quarterly revenue was US\$10.1 billion, a six percent decrease year-over-year (or four percent decrease in constant currency). Quarter-to-quarter, this represented a 10 percent increase. First quarter pre-tax income increased 297 percent year-over-year to US\$206 million. Net income increased 64 percent year-over-year to US\$173 million.

Lenovo's first quarter financial performance occurred during a period when the core markets saw either slow growth or year-over-year industry declines: PCs were down 4.1 percent and tablet shipments fell 11.1 percent, while server industry shipments were essentially flat with smartphone markets growing 0.7 percent. At the same time, the RMB continued its depreciation, capping overall growth potential during the quarter.

"Although the macro-economy and our industries remain challenging, causing a decline in our revenue, we significantly improved our profit year-on-year through innovative products and strong execution. Our PC business delivered strong profits and our smartphone business stabilized compared to last quarter," said Yuanqing Yang, Chairman and CEO of Lenovo. "Going forward, in PCs we will focus on high growth segments and leverage industry consolidation to resume growth. In smartphones, we will leverage innovative, differentiated products and continue to shift to higher price bands to drive growth and turn around this business. In data centers, we will continue to expand in hyperconverged technology, and improve profitability in the hyperscale business."

The Company's gross profit for the first fiscal quarter decreased 7 percent year-over-year to US\$1.5 billion, with gross margin at 15.3 percent. Operating PTI for the quarter increased 97 percent year-over-year to US\$281 million. Basic earnings per share for the first fiscal quarter was 1.57 US cents, or 12.19 HK cents. Net debt as of June 30, 2016, totaled US\$1.2 billion.

Business Group Overview

In the **PC and Smart Device Business Group, or PCSD**, which includes PCs and tablets, Lenovo's quarterly sales were US\$7 billion, down seven percent year-over-year. Pre-tax income was US\$370 million, an increase of 2.4 percent year-over-year. Pre-tax income margin was strong at 5.3 percent, improving 0.5 points year-over-year, aided by good margins in China and increased profitability of the Latin America and Brazil PC businesses. Lenovo remained #1 worldwide for the 13th consecutive quarter with 21.1

percent market share, with gains in every geography except EMEA. It shipped 13.2 million PCs in the quarter, a 2.3 percent decline, which represented a 1.8 point premium to the overall market, which saw a 4.1 percent decline. The tablet business was profitable with a double-digit growth premium to market. Lenovo continues to make steady progress towards its goal of achieving 30 percent worldwide PC market share.

In the **Mobile Business Group, or MBG**, which includes products from Motorola and Lenovo-branded mobile phones, Lenovo quarterly sales were US\$1.7 billion, down 6 percent year-over-year, but nearly flat in constant currency. MBG's total pre-tax loss was US\$206 million, with a pre-tax profit margin of negative 12.1 percent. The transition to higher priced products drove pre-tax profit margin up 2.9 points year-over-year.

In mainstream price bands, MBG is streamlining costs and expenses, while at the high end it is focusing on innovation. Overall, the group is strengthening its cohesiveness and building a more consistent culture within its global team. With the enhanced product portfolio that includes Moto Z and Moto Mods and further expanding channels in China, the Mobile business is making steady progress.

In the **Data Center Business Group, or DCG**, which includes servers, storage, software and services sold under both the Lenovo ThinkServer and the System x brands, sales were US\$1.1 billion, up 1 percent. DCG's reported PTI – which included non-cash, M&A-related accounting charges – was negative US\$64 million with a pre-tax profit margin of negative 5.9 percent. DCG continues to face stiff challenges in mature markets, but it strengthened its #1 market share position in China, increasing revenue 14 percent year-over-year, driven by growth in the hyperscale business. DCG's global accounts sales group, which services Fortune 500 clients, saw a 45 percent year-over-year increase in revenue, driven by a significant increase in customers who had not previously purchased from Lenovo.

DCG will deploy strategic investments in sales force capabilities, marketing, channel programs and portfolio partners to drive future growth opportunities, while improving its financial footing with better cost competitiveness and an increased attach rate of storage, networking, services and options.

Geographic Overview

In China, consolidated sales in the first fiscal quarter, declined 9.8 percent year-over-year to US\$2.9 billion, accounting for 28.4 percent of the Company's worldwide sales. Pre-tax profit margins were flat at 4.8 percent amidst softening PC demand. The mobile business is successfully shifting the portfolio to higher price bands and improving user experiences, while the successful launch of the ZUK Z2 model received good initial market feedback. China data center revenues grew at 14 percent year-over-year – a premium to the market – supported by growth from hyperscale and contributions from the new partnership approach.

In the **Asia Pacific** region, Lenovo achieved sales of US\$1.7 billion, or 16.7 percent of Lenovo's worldwide sales, while pre-tax profit margins were down 1.2 points to 1 percent, mainly due to contraction in the Japan PC market and the impact of currency fluctuation. The Asia Pacific business saw continued PC market share gains, up 0.4 points to reach

16.4 percent. The mobile business outgrew the market in key countries, including India and Indonesia, while the data center group continues to work on improving profitability. New leadership and business management systems in the data center business delivered stable revenues.

Lenovo in **Europe, Middle East & Africa** had consolidated sales in the first quarter of US\$2.5 billion, a year-over-year decline of 7.3 percent driven by a mix of operational and macroeconomic challenges. EMEA accounted for 24.5 percent of Lenovo's total worldwide sales. Pre-tax profit margin was negative 2 percent, a decrease of 3.5 points year-over-year. In PCs, the Company took action to improve channel inventory to address challenging conditions and return to future growth. Mobile saw traction over the previous quarter as a result of new products coming to market. The data center business remained challenging with a year-over-year revenue and margin decline.

In **the Americas**, Lenovo saw consolidated sales decline 6.6 percent year-over-year to approximately US\$3 billion in the first quarter, driven by the product transition in the mobile business. This represented 30.4 percent of Lenovo's total worldwide sales. PC market share was up 1.4 points year-over-year to 14.4 percent, driven by strong growth in North America and improvement in Latin America, especially Brazil. Mobile shipments declined in North America due to product transition, but stabilized in Latin America. The data center business worked on building the right sales model, while strong competition put pressure on the business.

* see IDC data 2Q 2016

About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a \$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 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 June 30, 2016
(in US\$ millions, except per share data)

| | Q1 16/17 | Q1 15/16 | Y/Y CHG |
|--|---------------------|---------------------|--------------------|
| Revenue | 10,056 | 10,716 | -6% |
| Gross profit | 1,534 | 1,647 | -7% |
| Gross profit margin | 15.3% | 15.4% | -0.1pts |
| Operating expenses | (1,289) | (1,551) | -17% |
| Expenses-to-revenue ratio | 12.8% | 14.5% | -1.7pts |
| Operating profit | 245 | 96 | 157% |
| Other non-operating expenses | (39) | (44) | -9% |
| Pre-tax income | 206 | 52 | 297% |
| Taxation | (38) | 50 | N/A |
| Profit for the period | 168 | 102 | 65% |
| Non-controlling interests | 5 | 3 | 62% |
| Profit attributable to equity holders | 173 | 105 | 64% |
| EPS (US cents) | | | |
| Basic | 1.57 | 0.95 | 0.62 |
| Diluted | 1.56 | 0.94 | 0.62 |