

LENOVO DELIVERS PROFITABLE SECOND QUARTER FY 2016/17 RESULTS

- Revenue was US\$11.2 billion, down eight percent year-over-year; up 12 percent quarter-over-quarter
- Pre-tax income was US\$168 million, compared to US\$842 million loss in second quarter last year
- Net income was US\$157 million, compared to US\$714 million loss in second quarter last year
- Market conditions remain challenging and Lenovo is strongly executing its strategy
- Three new industry leaders, experts in their fields, join the company
- Basic EPS of 1.42 US cents, or 11.01 HK cents

BEIJING, November 3, 2016 – Lenovo Group (HKSE: 992) (ADR: LNVGY) today announced results for its second fiscal quarter ended September 30, 2016. Revenue was US\$11.2 billion, an eight percent decrease year-over-year, yet a 12 percent increase over the first fiscal quarter ended June 30, 2016. Pre-tax income for the second quarter was US\$168 million, a significant turnaround from last year's second quarter loss of US\$842 million. Similarly, net income turned around from a loss of US\$714 million in the second quarter last year, to US\$157 million this year.

Lenovo's solid performance came at a challenging time in the industry, with both the PC and tablet markets down, and smartphones and servers showing only modest growth.

"Market conditions remained challenging but we delivered solid results. Our PCSD business maintained leadership and strong profitability, our Mobile business had good quarter-to-quarter volume growth and margin improvement, and our Data Center business is actively addressing its challenges," said Yang Yuanqing, Chairman and CEO, Lenovo. "We have also added several of the industry's top minds into Lenovo, and are continuing to strengthen our leadership team. We remain confident in our vision, our strategy and our team's ability to achieve new heights."

Gross profit for the second fiscal quarter increased two percent year-over-year, to US\$1.6 billion, with gross margin at 14.3 percent. Operating profit for the second quarter was US\$215 million, compared to a loss of US\$784 million at the same time last year. Basic earnings per share for the quarter was 1.42 US cents, or 11.01 HK cents. As of September 30, 2016, the Company's net debt was US\$77 million. Lenovo's Board of Directors declared an interim dividend of 6 HK cents per share.

Three new leaders join the company

Lenovo is also today announcing three executive leadership appointments designed to bolster the already strong team and continue the journey to a Device + Cloud company. **Kirk Skaugen** joins as Executive Vice President (EVP) and President of Data Center Group (DCG) – Kirk was previously Senior Vice President (SVP) of the Client Computing, Datacenter and Connected Systems groups for Intel; **Laura Quatela** as Chief Legal Officer and SVP from roles as EVP Intellectual Property at Alcatel-Lucent and as President and General Counsel of Eastman Kodak; and **Dr. Yong Rui** as Chief Technology Officer and SVP from his role as Deputy Managing Director leading Microsoft Research Asia.

With these changes Gerry Smith, currently EVP of DCG, moves to be EVP and COO PCSD (PCs & Smart Devices) using his knowledge, experience and proven track record to lead Lenovo global operations and operations for our core businesses, PCs and tablets. Xudong Chen will move from his role as Co-President & SVP of Mobile Business Group (MBG) in China to SVP of Global Services. In the last 12 months Xudong has stabilized the mobile business in China and will use his experience there to ensure we build a world-class and customer-centric service organization. Xudong will be succeeded in his MBG position by Gina Qiao who moves from SVP of HR to become Co-President & SVP of MBG. Previously Gina has headed up marketing in China and for many years was Chief Strategy Officer for the company – this background and deep insight are the ideal skill set to continue to deliver on our ambitions in a key growth market like China. Further information on the new appointments can be found [here](#).

Business Group Overview

Sales in our **PC and Smart Devices Business Group**, which includes PCs and tablets was US\$7.8 billion, a decrease of eight percent year-over-year. Pre-tax income was US\$405 million, an increase of three percent year-over-year. Pre-tax income margin increased by more than half a point year-over year, from 4.6 to 5.2 percent, boosted by strong margins in both China and North America.

Lenovo retained the number one worldwide market share position for the 14th consecutive quarter, with 21.5 percent market share, showing share gains in all geographies except Asia Pacific. In North America, in a market that was down 0.7 percent, Lenovo grew 14.7 percent. Lenovo shipped 14.5 million PCs in the second fiscal quarter, a 3.2 percent decrease year-over-year, in a market that decreased 4.8 percent. In a tablet market that saw declines of 14.7 percent year-over-year, Lenovo performed marginally better than the industry, highlighted by a noteworthy 19 percent growth in shipments in China.

In our **Mobile Business Group (MBG)**, which includes Motorola products and Lenovo-branded mobile phones, Lenovo's sales for the second fiscal quarter were US\$2 billion, down 12 percent year-over-year, but a significant 20 percent increase compared to last quarter. MBG showed a pre-tax loss of US\$156 million, with a pre-tax profit margin of minus 7.7 percent, an improvement of 4.4 points compared to the previous quarter.

Shipments in MBG product lines in the second quarter grew almost 25 percent compared to the previous quarter to a total of 14 million. Lenovo continued to increase mobile shipments in both Asia Pacific and India, with mobile shipments in India increasing 15 percent year-over-year. Moto shipments were up almost 40 percent from the previous quarter due to Moto G and successful launches of new Moto Z and Moto Mods.

For our **Data Center Group (DCG)**, which includes servers, storage, software and services, sales in the second fiscal quarter were US\$1.1 billion, an eight percent decrease year-over-year. However, DCG did see a seven percent revenue growth in China year-over-year, and a 12 percent growth in Latin America, as well as another strong quarter of growth in our global accounts of 16 percent. DCG recorded a pre-tax loss of US\$141million, with a pre-tax profit margin of minus 13.1percent.

Lenovo has a focused execution plan for this business: we are strengthening our field capabilities and channel engagement, investing in training and overhauling our sales structure to better engage

with our customers. We are also forging new industry partnerships and building next-generation IT to improve our competitiveness, as we have shown in our hyperscale business.

Geographic Overview

In **China**, consolidated sales in the second fiscal quarter declined four percent year-over-year to US\$3.2 billion, or 29 percent of the Company's total worldwide sales. Pre-tax income increased marginally to US\$158 million year-over-year, while pre-tax income margin gained almost a full point, to 4.9 percent.

In **Asia Pacific** in the second fiscal quarter, Lenovo booked sales of US\$1.9 billion, or 17 percent of the Company's total worldwide sales, down four percent year-over-year. Pre-tax income declined to US\$2 million, while pre-tax income margin dropped almost a full point, to 0.1 percent.

In **Europe, Middle East and Africa**, Lenovo had consolidated sales in the second fiscal quarter of US\$2.7 billion, a decrease of 14 percent year-over-year, representing 24 percent of the Company's total worldwide sales. The region had a pre-tax loss of US\$65 million and pre-tax loss margin of 2.4 percent.

In the **Americas**, consolidated sales in the second fiscal quarter declined seven percent to US\$3.4 billion, or 30 percent of the Company's total worldwide sales. Pre-tax income for the quarter was US\$20 million, compared to a loss of US\$73 million compared to last year. Pre-tax income margin was 0.6 percent.

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 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 September 30, 2016
 (in US\$ millions, except per share data)

	Q2 16/17	Q2 15/16	Y/Y CHG
Revenue	11,231	12,150	-8%
Gross profit	1,607	1,575	2%
Gross profit margin	14.3%	13.0%	1.3 pts
Operating expenses	(1,392)	(2,359)	-41%
Expenses-to-revenue ratio	12.4%	19.4%	-7.0 pts
Operating profit/(loss)	215	(784)	N/A
Other non-operating expenses	(47)	(58)	-18%
Pre-tax income/(loss)	168	(842)	N/A
Taxation	(16)	125	N/A
Profit/(loss) for the period	152	(717)	N/A
Non-controlling interests	(5)	(3)	71%
Profit/(loss) attributable to equity holders	157	(714)	N/A
EPS(US cents)			
Basic	1.42	(6.43)	N/A
Diluted	1.42	(6.43)	N/A

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