

## LENOVO DELIVERS SOLID REVENUE GROWTH IN SECOND QUARTER FY 2017/18

- Revenue was US\$11.8 billion, up 5 percent year-over year, up 18 percent quarter-to-quarter
- Pre-tax income improved US\$104 million quarter-to-quarter to US\$35 million
- Market conditions remain challenging and Lenovo is strongly executing its 3-wave strategy
- Lenovo finalized its joint venture with Fujitsu
- Basic earnings per share of 1.26 US cents or 9.85 HK cents

**TOKYO**, November 2, 2017 – **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced results for its second fiscal quarter ended September 30, 2017. Revenue was US\$11.8 billion, a 5 percent increase year-over-year, and an 18 percent increase over the first fiscal quarter. Quarter-to-quarter revenue gains were achieved in all three of its main businesses, namely data center, mobile, and PCs and smart devices, demonstrating that strong execution of Lenovo’s three-wave strategy is producing consistently improving results across its portfolio. In the second fiscal quarter, Lenovo’s pre-tax income grew by US\$104 million, rebounding significantly from the previous quarter’s loss.

Following last quarter’s launch of the most comprehensive portfolio lineup in its history, Lenovo’s Data Center Group (DCG), supported by a revamped channel structure and recorded year-over-year revenue gains outside China most notably in Europe and North America for the second quarter in a row. With new Moto phones performing well in key markets, Lenovo’s Mobile Business Group (MBG) also saw year-over-year revenue improvements, with strong shipments momentum in West Europe, North America, and Latin America, and generated solid overall revenue growth for the third consecutive quarter.

And Lenovo’s PC/Smart Devices Group (PCSD), which was again profitable in all geographies, saw a record-high 21.3 percent market share in its Europe/Middle East and Africa region; launched *Star Wars: Jedi Challenges*, a new AR product partnership with Disney, and celebrated the 25<sup>th</sup> anniversary of the iconic ThinkPad at the close of the quarter.

Additionally, Lenovo today finalized a joint venture agreement with Fujitsu, wherein the two companies will combine resources - leveraging Fujitsu’s capabilities in global sales, customer support, R&D and manufacturing, together with Lenovo’s global scale and presence.

As Lenovo continues to pursue high-growth opportunities and new partnerships, particularly in key markets, this new joint venture will strengthen Lenovo’s PC leadership worldwide, and help support continued profitable growth.

“In the last quarter we continued to make progress in transforming our business by executing our 3-wave strategy. We maintained industry leading profitability in our PC business and outgrew the market year-on-year. In our Data Center business our transformation is taking effect with a strengthened sales force, new global channel structure and programs, and new product competitiveness. Our mobile business turnaround is still in progress, and in most markets we saw strong premium to market growth,” said Yang Yuanqing, Lenovo Chairman and CEO. “The combination of strong execution and building solid foundations continue to be Lenovo’s strength. The turnaround of our business in Brazil is a good example of that. We will continue to invest in

building foundation and core competence for the two new growth engines, which will bring stable and sustainable returns.”

The Company’s gross profit increased 0.3 percent year-over-year to US\$1.6 billion, which was a 18.2 percent improvement quarter-to-quarter. Gross margin was 13.7 percent a slight quarterly increase. Operating profit increased by US\$94 million quarter-to-quarter. Basic earnings per share was 1.26 US cents or 9.85 HK cents. Lenovo’s Board of Directors declared an interim dividend of 6.0 HK cents per share.

## **BUSINESS GROUP OVERVIEW**

Lenovo’s **PC and Smart Devices (PCSD)** business group recorded an impressive year-over-year revenue increase of seven percent, up 20 percent quarter-to-quarter to US\$8.4 billion. The average selling price for our PCSD products was up six percent year-over-year, as Lenovo continued to focus on innovation, a higher-value product portfolio, and de-emphasize lower-value offerings.

PCSD which includes PCs, tablets and smart devices, was again profitable in all geographies, maintaining its industry-leading profitability at 4.4 percent, as customers continued to take advantage of Lenovo’s improved product mix which led to the quarter’s improved results. Lenovo’s PC shipments were 14.5 million units, flat year-over-year, compared to a slight dip for the overall market. Lenovo’s tablet shipments were up 8.9 percent year-over-year to 2.97 million units, in a market that fell 9.4 percent.

During the quarter Lenovo and Disney introduced to rave reviews *Star Wars: Jedi Challenges*, a new augmented reality product that allows fans to experience *Star Wars* in ways never before possible. Jedi Challenges features a smartphone powered Lenovo Mirage-AR headset, Lightsaber controller, Tracking Beacon, and hours of *Star Wars* gameplay, available this holiday season. Pre-order momentum has been very encouraging. Lenovo also celebrated the 25 anniversary of its iconic ThinkPad, with over 125 million units shipped since its introduction and still going strong with models such as the ThinkPad X1 Carbon.

In our **Data Center Group (DCG)**, which includes servers, storage, networking, software and services, we saw solid year-over-year revenue growth in both the North America, and Europe/Middle East and Africa markets. In particular, in North America we achieved a DCG revenue increase of ten percent, as investments in a revamped channel structure, a new product portfolio, sales training and new partnerships continued to drive the transformation of the data center business for the second consecutive quarter.

Lenovo also saw improvement in China with a seven percent revenue increase quarter-to-quarter. While the last few quarters in China have been challenging, the improvements that have been put in place including new leadership and an expanded sales force, are helping to turn this business around there and drive new customer wins across hyperscale, big data, and private cloud. Lenovo’s global accounts grew strongly again 18% year on year and services bookings grew over 100% year on year setting up a strong foundation for the future. Software Defined Infrastructure showed continued strong growth in the second quarter. Lenovo’s data center momentum is evidenced by recent successes in high-performance computing, with continued wins and projects from some of the world’s largest customers and universities.



Lenovo's **Mobile Business Group (MBG)**, which includes Moto and Lenovo-branded smartphones grew revenue slightly year-over year, and a notable 19 percent quarter-to-quarter, driven by strong momentum for Moto-branded smartphones and the third consecutive quarter of growth. Both Moto G and Moto E models saw year-over-year demand increase significantly, while Moto Z activation increased 18 percent quarter-to-quarter. The attach rate for Moto Mods improved to 37 percent, up from the previous quarter's 30 percent.

Worldwide, Lenovo shipped 15.3 million smartphones, a 10 percent increase year-to-year and a 37 percent increase quarter-to-quarter. Included in this total increase were strong performances in Western Europe (shipments up 71 percent), Latin America (up 69 percent) and North America (up 67 percent). In Latin America, Lenovo achieved record market share of 17.7 percent, growing by 6.5 share points year-over-year.

Lenovo continued its strategy of protecting its leading position in Latin America by expanding share and improving profit there, while attacking in mature markets such as North America, where we gained 1.7 share points year-over-year, and in Western Europe. Lenovo also continued to pursue healthy growth in key emerging markets such as India, where we grew 14 percent year-over-year and 83 percent quarter-to-quarter.

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## About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$43 billion global Fortune 500 company and a leader in providing innovative consumer, commercial, and data center technology. Our portfolio of high-quality, secure products and services covers PCs (including the legendary Think and multimode Yoga brands), workstations, servers, storage, networking, software (including ThinkSystem and ThinkAgile solutions), 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 <http://www.lenovo.com/>.

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## IR Contacts:

**Gary Ng**  
(852) 2516 4840  
[garyng@lenovo.com](mailto:garyng@lenovo.com)

**Bryan Hsu**  
(852) 2516 4843  
[bryanhhsu@lenovo.com](mailto:bryanhhsu@lenovo.com)

**Callis Cheng**  
(852) 2516 4811  
[ccheng6@lenovo.com](mailto:ccheng6@lenovo.com)

**Lisa Yang**  
(852) 2516 4804  
[wyang4@lenovo.com](mailto:wyang4@lenovo.com)

**LENOVO GROUP**  
**FINANCIAL SUMMARY**  
**For the fiscal quarter ended September 30, 2017**  
(in US\$ millions, except per share data)



	<b>Q2 17/18</b>	<b>Q2 16/17</b>	<b>Y/Y CHG</b>
Revenue	11,761	11,231	5%
Gross profit	1,613	1,607	-
Gross profit margin	13.7%	14.3%	-0.6pts
Operating expenses	(1,525)	(1,392)	10%
Expenses-to-revenue ratio	13.0%	12.4%	0.6pts
Operating profit	88	215	-59%
Other non-operating expenses	(53)	(47)	10%
Pre-tax income	35	168	-79%
Taxation	118	(16)	N/A
Profit for the period	153	152	1%
Non-controlling interests	(14)	5	N/A
Profit attributable to equity holders	139	157	-11%
EPS (US cents)			
Basic	1.26	1.42	-0.16
Diluted	1.26	1.42	-0.16