

## LENOVO'S THREE-WAVE STRATEGY DELIVERS STRONG REVENUE AND EARNINGS IN THIRD QUARTER FY2017/18

- GLOBAL TECHNOLOGY LEADER IN PC, DATA CENTER AND MOBILE GREW REVENUE 6.3 PERCENT YEAR-OVER-YEAR TO US\$12.9 BILLION, HIGHEST IN 3 YEARS
- PRE-TAX INCOME QUADRUPLED TO US\$150 MILLION COMPARED TO Q2 FY2017/18
- DATA CENTER GROUP POSTS HIGHEST REVENUE IN TWO YEARS

**HONG KONG, February 1<sup>st</sup>, 2018** – **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced results for its third fiscal quarter ended December 31, 2017. Revenue was US\$12.9 billion, a 6.3 percent increase year-over-year, and 10 percent increase over the second fiscal quarter of FY2017/18. Lenovo continued to enjoy significant revenue gains in PCs and smart devices (PCSD) and the Data Center Group (DCG). Lenovo's Mobile Business Group (MBG) performed as expected for the quarter. Lenovo showed strong pre-tax income growth in the quarter, up sharply to US\$150 million, a four-fold increase from last quarter, and nearly a 50 percent jump from the same period a year earlier.

Lenovo management credited the performance to execution of its “three-wave strategy,” which emphasizes leadership in its core businesses, growth in key segments, and investment in emerging technologies. During the quarter, Lenovo drove growth in PC sales, solid data center and mobile performance, and strong momentum in the developing areas of device plus cloud and infrastructure plus cloud technologies.

“Lenovo is accelerating its transformation to become a world leader across every part of our business. We continue to see significant improvement and strong performance in some of the most exciting technology market sectors, smart devices and data center. We saw revenue, margins, profit, innovation, performance and customer experience all extend the momentum that developed during the prior quarter, and these results reaffirm the transformation strategy we are executing,” said Yang Yuanqing, Lenovo Chairman and CEO.

The company's PC and Smart Devices (PCSD) business continued to show strength in the third quarter. Lenovo tracked solid momentum in this unit and signs of the overall worldwide market trending higher. Industry numbers met expectations on the quarter, validating Lenovo's belief in taking advantage of developing high-growth opportunities in this market segment. During the quarter, the company enhanced its momentum in emerging technology areas, including Augmented Reality (AR) and Virtual Reality (VR). The flagship Star Wars: Jedi Challenges AR device in partnership with Disney is reaffirming the company's status as an emerging leader in the VR/AR space.

Lenovo's Data Center Group (DCG) continues its transformation, tracking not only to its commitments for the third consecutive quarter but also delivering its highest revenue in the last two years. This progress has been fueled by consistent momentum across all segments and all geographies.

Lenovo's Mobile Business Group (MBG) met expectations for the quarter even as the industry faces enormous competitive challenges. As the company has indicated previously,

it takes a long-term view of this business and believes that the right strategy is in place to deliver short-term improvements and sustainable growth in the long-term. Latin America continues to be a stronghold, outgrowing the market by almost 30 points year-on-year.

The Company's gross profit increased 9.8 percent year-over-year to US\$1.8 billion, which was a 8.6 percent improvement quarter-to-quarter. Gross margin was 13.5 percent, a slight increase compared to last year. Operating profit increased by US\$114 million quarter-to-quarter. Basic loss per share was 2.53 US cents or 19.72 HK cents, resulting from a one-off non-cash tax charge of US\$400 million. This follows the re-measurement of US deferred tax assets after the recently enacted US tax reform legislation. In view of this, the company believes that the lower tax rate can benefit the US operations over time.

## **ADDITIONAL BUSINESS GROUP HIGHLIGHTS**

### **PC and Smart Devices (PCSD) business group:**

- Shipped 15.7 million PC units, flat year-over-year. Revenue grew 7.6 percent compared to last year's Q3 to US\$9.3 billion, and up 10.4 percent from the prior quarter – the 5<sup>th</sup> consecutive quarter of year-to-year revenue growth. The company maintained its industry-leading margin.
- Momentum was particularly strong across the globe with double-digit revenue growth year-over-year in EMEA, Asia Pacific (AP) and Latin America (LA).
- Latin America's performance stood out with Lenovo market share now at 20% driven by strong growth in Brazil.

### **Data Center Group (DCG):**

- Highest quarter revenue in two years at US\$1.2 billion, up 16.7 percent year over year and 25.5 percent sequentially.
- All geographies achieved double-digit growth and margin improvement. North America and EMEA saw their third straight quarter of year-over-year revenue growth.
- China returned to year-over-year revenue growth and margin improvement, thanks to a stabilized Hyperscale business and success with High Performance Computing and Software Defined Infrastructure.
- Extended number one ranking in x86 customer satisfaction, according to TBR (Technology Business Research), for the 8<sup>th</sup> straight quarter. Additionally the team added 88 new world record workload benchmarks – four times more than any other industry player.

### **Mobile Business Group (MBG):**

- Revenue of US\$2.1 billion was down 5 percent from a year earlier, but flat compared to the prior quarter.
- Latin America remained the strong core of the business, seeing double-digit revenue growth (+37%) and strong profitability.
- 5 million Moto Z handsets have now been shipped globally, with activation rates for MODS up 64% year-to-year.
- Lenovo saw the Moto brand strengthen in Western Europe, with shipments up 23 percent compared to the same period a year ago.

## 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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## LENOVO GROUP FINANCIAL SUMMARY

For the fiscal quarter ended December 31, 2017

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

|                                              | Q3 17/18 | Q3 16/17 | Y/Y CHG |
|----------------------------------------------|----------|----------|---------|
| Revenue                                      | 12,939   | 12,169   | 6%      |
| Gross profit                                 | 1,751    | 1,595    | 10%     |
| Gross profit margin                          | 13.5%    | 13.1%    | 0.4pts  |
| Operating expenses                           | (1,547)  | (1,457)  | 6%      |
| Expenses-to-revenue ratio                    | 12.0%    | 12.0%    | -       |
| Operating profit                             | 204      | 138      | 48%     |
| Other non-operating expenses                 | (54)     | (37)     | 48%     |
| Pre-tax income                               | 150      | 101      | 48%     |
| Taxation*                                    | (425)    | 6        | N/A     |
| (Loss)/Profit for the period                 | (275)    | 107      | N/A     |
| Non-controlling interests                    | (14)     | (9)      | 65%     |
| (Loss)/Profit attributable to equity holders | (289)    | 98       | N/A     |
| EPS (US cents)                               |          |          |         |
| Basic                                        | (2.53)   | 0.90     | N/A     |
| Diluted                                      | (2.53)   | 0.90     | N/A     |

\* In accordance with accounting policies, a one-off non-cash tax charge of US\$400 million has been included in Q317/18 which reflects the re-measurement of US deferred tax assets after the recently enacted US tax reform legislation.