



LENOVO CONTINUES TO GAIN MOMENTUM IN FIRST QUARTER FY 2017/18

- PC and Smart Devices business maintained industry-leading profitability; PCSD average unit selling price up 7.8 percent year-over-year
- Data Center business introduced its most comprehensive new product portfolio ever including new ThinkSystem and ThinkAgile lines; revenue grew 14.2 percent quarter-to-quarter, up in both Europe and North America
- Mobile business introduced cutting-edge new phones including Z2 Force available on all major U.S. carriers; revenue up 2.4 percent year-over-year; pre-tax income margin improved 2.2 pts.
- Revenue was US\$10 billion, flat year-over-year; up 4.5 percent quarter-to-quarter
- Operating profit improved US\$110 million quarter-to-quarter; net loss was US\$72 million
- Basic loss-per-share of 0.66 US cents or 5.15 HK cents

HONG KONG, August 18, 2017 – Behind the strength of its 3-wave strategy, Lenovo’s business transformation continued to gain traction during the first quarter, delivering solid profitability in its core PC and smart devices business, and revenue and profit improvements in targeted growth areas, including the data center and mobile businesses.

Fueled by new investments in people and products, Lenovo’s Data Center Group (DCG) introduced the most comprehensive product lineup in its history, with the new ThinkSystem and ThinkAgile portfolio, and continued to build out its end-to-end sales organization. Similarly, Lenovo’s Mobile Business Group launched significant new products led by the Moto Z2 Force, available now on all major U.S. carriers, and ramped up its branding efforts worldwide.

“In the first quarter this fiscal year, we had stable performance as we executed our 3-wave strategy with commitment. We maintained our industry leading profitability in PC, built the foundation in mobile and data center, and further invested in ‘Device + Cloud’ and ‘Infrastructure + Cloud’ powered by Artificial Intelligence,” said Yang Yuanqing, Lenovo Chairman and CEO. “We have made solid progress on every front of our strategy. Particularly MBG continued to improve, and is on track to breakeven by second half of this fiscal year. DCG gained good momentum as well. As the two new growth engines gain speed, we believe the sustainable results will soon follow.”

For its first fiscal quarter ended June 30, 2017, Lenovo’s quarterly revenue was US\$10 billion, flat year-over-year, but an increase quarter-to-quarter of 4.5 percent. First quarter pre-tax loss was US\$69 million, with a net loss of US\$72 million.

Operating profit was up US\$110 million quarter-to-quarter. The Company's gross profit for the first fiscal quarter decreased 11 percent year-over-year to US\$1.4 billion, yet remained flat quarter-to-quarter, with gross margin at 13.6 percent. Basic loss per share for the quarter was 0.66 US cents, or 5.15 HK cents.

Lenovo introduced its 3-wave strategy, namely balancing PCSD growth and profit, accelerating our DCG and MBG growth engines, and investing in non-hardware areas, to both meet today's market dynamics while positioning the Company for longer-term profitable growth. Lenovo is investing in core technology and next-generation platforms that will help customers move towards a smart internet era where all smart devices will be connected to the cloud and powered by Artificial Intelligence (AI).

While Lenovo is focused on new technologies with our 'Device + Cloud strategy', the Lenovo Capital and Investment Group (LCIG), the Company's provider of IoT solutions, reached a first quarter milestone of over three million users on its Global API platform.

In addition, as Lenovo continued to expand its ecosystem, LenovoID (a unique identification of directly reachable users across Lenovo devices) reached 225 million users in the first quarter. The progress Lenovo is making in its non-hardware businesses, such as software, services, and big data, is already gaining significant traction and winning new customers.

At its third annual Tech World event, held last month in Shanghai, Lenovo demonstrated several new consumer and commercial products, such as SmartVest wearable technology and daystAR glasses to help with industrial maintenance. Lenovo also announced a US\$1.2 billion investment in AI research and development, and is pursuing smart solutions and partnerships in the manufacturing, healthcare and transportation sectors.

Business Group Overview

In our **PC and Smart Devices (PCSD)** business group, which includes PCs, tablets and smart devices, the average selling price of our PC + tablet products improved 7.8 percent year-over-year, meaning that customers were gravitating to Lenovo's more innovative, higher-end products. Despite industry-wide component shortages and subsequent cost-hike pressures, Lenovo maintained its industry-leading profitability.

PCSD revenue was US\$7 billion, with flat growth year-over-year. However, quarter-to-quarter, PCSD revenue grew 4.8 percent. Pre-tax income was US\$291 million and pre-tax income margin fell to 4.2 percent, mainly due to the industry-wide increased component costs.

Lenovo's PC business in the first quarter recorded share gains in Asia Pacific, Europe and Latin America, and worldwide shipped 12.4 million units. In China, where Lenovo still enjoys almost 36 percent market share, the Company appointed a strong new consumer-focused leader to



run its PCSD business. In North America as well, where the PCSD business has been flat, new leadership is now in place to help boost sales.

Lenovo's **Mobile Business Group (MBG)**, which includes Moto and Lenovo-branded smartphones, saw encouraging revenue growth outside of China to US\$1.7 billion, 7.6 percent increase year-over-year. As an example of the Company's continuing momentum in this business, Lenovo achieved its publically-stated goal of selling three million Moto Z smartphones within the first 12 months.

For the second consecutive quarter MBG has continued to grow revenue and improve profitability, with revenue up two percent year-over-year to US\$1.7 billion and a pre-tax income margin improvement of 2.2 pts. during the same period.

With 11 million smartphones shipped in the first quarter, Lenovo grew 12.3 percent year-over-year outside of China, driven by significant gains in both Western Europe and Latin America, up 137 percent and 56 percent respectively year-over-year.

Lenovo's **Data Center Group (DCG)**, which includes servers, storage, software and services, continued to focus on the transformative actions that will help drive long-term DCG competitiveness, such as strengthening our sales teams, investing in the channel, revamping our product lines, building our brand strategy, and adding new partnerships.

These actions helped to stabilize the business outside of China in the first quarter with quarter-to-quarter revenue growth of 14 percent. Particularly encouraging was the year-over-year revenue growth in Western Europe and North America of 11 percent and eight percent respectively, including quarter-over-quarter revenue growth of 22 and 19 percent respectively. In both geographies, new leadership, a restructured sales organization, and new products are beginning to pay the expected dividends, and we expect that trend to accelerate into other geographies, including China, as we execute our DCG transformation worldwide.

Another positive sign in DCG was a pre-tax income margin improvement of 1.7 pts. quarter-to-quarter. In addition to these financial indicators, DCG set 42 world-record benchmarks on the new Intel platform, more than any of our competitors and Lenovo continued to be the world's fastest-growing super-computing provider, number #1 in China and under recent new leadership there, secured a major win with Peking University.



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 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, 2017
(in US\$ millions, except per share data)

	Q1 17/18	Q1 16/17	Y/Y CHG
Revenue	10,012	10,056	-
Gross profit	1,365	1,534	-11%
Gross profit margin	13.6%	15.3%	-1.7pts
Operating expenses	(1,371)	(1,289)	6%
Expenses-to-revenue ratio	13.7%	12.8%	0.9pts
Operating (loss)/profit	(6)	245	N/A
Other non-operating expenses	(63)	(39)	60%
Pre-tax (loss)/income	(69)	206	N/A
Taxation	15	(38)	N/A
(Loss)/profit for the period	(54)	168	N/A
Non-controlling interests	(18)	5	N/A
(Loss)/profit attributable to equity holders	(72)	173	N/A
EPS (US cents)			
Basic	(0.66)	1.57	N/A
Diluted	(0.66)	1.56	N/A