



## LENOVO DELIVERS SOLID 2<sup>nd</sup> QUARTER FY15-16 OPERATIONAL RESULTS

*Restructuring completed, driving traction in Mobile and Enterprise; PC business is strong as ever*

- Revenue was US\$12.2 billion, up 16% year-over-year, up 23 percent in constant currency
- Lenovo grew its PC market share for record high 21.2% share\*
- Lenovo is successfully executing its business realignment plan and is on track to deliver US\$ 650 million in the second half of the year and US\$ 1.35 billion annually
- As announced in Q1 earnings report, Lenovo incurred US\$599 million in restructuring costs and a US\$324 million one-time charge to clear smartphone inventory in Q2
- Run rate pre-tax income\*\* was US\$166 million, up 16% quarter-to-quarter; a strong operational performance
- Hong Kong Financial Reporting Standards (HKFRS) pre-tax loss\*\* of US\$842 million driven by restructuring costs and one time charges
- Basic loss per share of 6.43 US cents, or 49.84 HK cents

**HONG KONG, November 12, 2015** – Lenovo Group (HKSE: 992) (ADR: LNVGY) today announced results for its second fiscal quarter ended September 30, 2015. Quarterly revenue was US\$12.2 billion, a 16 percent year-over-year increase or 23 percent year-over-year in constant currency. Second quarter run rate pre-tax income\*\*, which excludes restructuring costs, one time charges, and non-cash, M&A-related accounting charges, was US\$166 million, up 16 percent quarter-to-quarter, while Lenovo's official reported Hong Kong Financial Reporting Standards (HKFRS) pre-tax loss was US\$842 million\*\*. Second quarter net loss was US\$714 million.

Lenovo's second quarter run rate pre-tax income shows a strong operational performance. The official HKFRS losses were driven by the realignment plans Lenovo disclosed during its Q1 results, including worldwide expense reduction actions across all businesses, the integration of the System x Business, the organization and brand alignment of Motorola and the Lenovo Mobile Business Group and clearance of smartphone inventory. Going forward these actions are intended to drive meaningful run-rate cost savings of about \$650 million in the second half of this year and about \$1.35 billion on an annual basis. Lenovo's cost structure, across all of its core businesses, is now among the most competitive in the industry. The company is in a position to invest in new areas, while aggressively attacking competition.

"With strong execution, Lenovo acted swiftly and decisively to address challenges, while still delivering better-than-previous-quarter results," said Yuanqing Yang, Lenovo chairman and CEO. "Now, not only are we building a more competitive business model, but we are growing. In PC we hit record share with good profitability. In mobile, our strategy to shift our growth focus to outside of China continued to pay off, and we gained share and improved margin. The realignment of our organization and the restructuring of our cost structure will deliver results in the 2nd half of the year. In Enterprise, we reached an important milestone, growing revenue for the first time since our acquisition of System x. Digesting acquisitions and making transformations take time, but I am greatly encouraged by our strong results, and confident in both our near and long-term future."

The Company's gross profit for the second fiscal quarter increased 8 percent year-over-year to US\$1.6 billion, while gross margin stood at 13 percent. Operating loss for the quarter was US\$784 million. Basic loss per share for the second fiscal quarter was 6.43 US cents, or 49.84 HK cents. Net debt reserves as of September 30, 2015, totaled US\$140 million. Lenovo's Board of Directors declared an interim dividend of 6 HK cents per share, the same level as last year.

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### Business Group Overview\*\*\*

In the **PC Group, or PCG**, which includes PCs and Windows tablets, Lenovo's quarterly sales were US\$8.1 billion, with pre-tax income of US\$406 million, down 17 percent year-over-year with

foreign exchange fluctuations hurting demand in EMEA and Brazil. Pre-tax income margin of 5 percent, was comparatively stable, declining 0.6 points year-over-year, showing Lenovo's operational strengths.

Lenovo remained #1 for the tenth consecutive quarter with record high 21.2 percent market share, widening its lead over the #2 vendor. It shipped 15 million PCs in the quarter, with a 6.6 point premium to the overall market decline of 11.1 percent. In the worldwide consumer segment, Lenovo had record 19.7 percent market share. Lenovo saw record share in North America, at 13.3 percent; Asia Pacific, 19.3 percent; and Latin America at 15.3 percent; each outperforming the market by 24, 19, and 15 points, respectively. Lenovo's goal is to achieve 30 percent worldwide PC market share, while maintaining strong profitability.

In the **Mobile Business Group, or MBG**, which includes products from Motorola, Lenovo-branded mobile phones, Android tablets and smart TVs, Lenovo quarterly sales were US\$2.7 billion, up 104 percent year-over-year, due to the inclusion of revenues from Motorola. Motorola contributed US\$1.4 billion to Lenovo's MBG revenues. MBG's total pre-tax loss was US\$217 million, with a pre-tax loss margin of 8.1 percent.

In the 2<sup>nd</sup> quarter, aged inventory was cleared, the product portfolio was streamlined and new competitive products – such as the shatterproof DROID Turbo 2, Moto 360, and Vibe P1— were launched. A redesigned mobile product development cycle will ensure products will be competitive every season and every quarter. With restructuring complete, Lenovo believes the MBG business turn around remains on track to reach its break even goal in one to two quarters.

In Mobile, Lenovo volume was up 11 percent year-over-year with 18.8 million units sold, led by growth outside of China where it saw a 4.3 point increase in market share year-over-year driven by a shift in strategic focus outside of China. In the first half of this fiscal year, outside China accounted for 70 percent of volumes, while one year ago, it was only 19 percent. In key emerging markets of Indonesia, Russia, India and Brazil, Lenovo outgrew the smartphone market by 12, 175, 48 and 4 points respectively.

In the tablet market, Lenovo outgrew the market by almost 14 points with nearly 1 percent growth verses a market decline of 12.6 percent. It strengthened its worldwide #3 position with record high 6.3 percent market share, selling 3.1 million units and taking share from the #1 and #2 players.

In the **Enterprise Business Group, or EBG**, which includes servers, storage, software and services sold under both the ThinkServer and System x brands, sales were US\$1.2 billion, up 5.5 times year-over-year due to inclusion of System x this year. System x had approximately US\$900 million in sales. Overall, EBG achieved a major milestone with a two percent revenue increase, on comparable basis, for the first time since System x was acquired. In its fourth full quarter with System x, EBG delivered operational pre-tax income, although its standard PTI – which included non-cash, M&A-related accounting charges – was negative US\$33 million.

Major hyperscale wins with Alibaba, Tencent and Baidu drove breakthroughs for the business. With new partnerships, including Nutanix in hyperconverged infrastructure, and other with next generation data center technology providers that will be announced soon, Lenovo has better technologies than its competitors, a great product portfolio, and the right cost structure. Lenovo remains confident that EBG will realize \$5 billion in revenue with good margin one year after the close of the System x deal.

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## Geographic Overview

**In China**, consolidated sales in the second fiscal quarter, declined by 12 percent year-over-year to US\$3.3 billion, accounting for 28 percent of the Company's worldwide sales. Operating margins fell 1.7 points to 4.1 percent. These declines were a result of performance in mobile as the market



continued to see hyper competition, carrier subsidy cuts and continued shift to the online model. In PCs Lenovo maintained stable market share and margin performance. In Enterprise, Lenovo saw 213 percent year-over-year revenue growth driven by strong ThinkServer shipments with wins in a number of key hyperscale accounts, which allowed it to strengthen its #1 position in the China x86 server market.

In the **Asia Pacific** region, Lenovo achieved sales across the region of US\$2 billion or 16 percent of Lenovo's worldwide sales, while operating margins were down 3.3 points to 1.1 percent because of dampened Motorola performance. Lenovo Asia Pacific PC market share was up 3.2 points year-over-year to a record 19.3 percent, recapturing the #1 position. Remarkably, India grew 99 percent year-over-year, hitting an impressive record-high 27 percent share. In Enterprise, Lenovo is leveraging channel expertise to accelerate the business. In Mobile, Lenovo had strong smartphone shipment growth of 135 percent year-over-year, driven by strong momentum in India and inclusion of Moto.

Lenovo in **Europe, Middle East & Africa** had consolidated sales in the second quarter of US\$3.2 billion, a year-over-year increase of six percent, hit by foreign exchange moves and a soft PC market. EMEA accounted for 26 percent of Lenovo's total worldwide sales. Operating profit margin was 0.7 percent, a 3.1 points decrease year-over-year. Lenovo was a solid #2 in the PC market overall, growing market share to 19.9 percent, up 0.6 percent year-over-year. In consumer PCs, it was #1 for the seventh consecutive quarter, clocking 21.5 percent share. In Mobile, smartphone shipments registered very strong 101.8 percent year-over-year growth for the combined business, when including Motorola in the quarter one year ago for comparison purposes (when not including Motorola in the quarter one year ago, year-over-year growth was 176.7 percent).

In **the Americas**, Lenovo saw consolidated sales grow 70 percent year-over-year to approximately US\$3.7 billion in the second quarter, driven by the inclusion of the two acquisitions. This represented 30 percent of Lenovo's total worldwide sales. Operating margin improved to negative 2 percent, driven by improving Motorola performance. In PCs, Lenovo Americas share was up 2.5 points year-over-year to 13.8 percent. Lenovo North America and Latin America had record 13.3 percent and 15.3 percent share, respectively. In Mobile, new Motorola phones drove quarter-to-quarter shipment improvements in North America, with 39 percent growth. In Enterprise, Lenovo is entering attack mode with recently signed partnerships, which will capture opportunities by offering technologies that disrupt entrenched computing models.

\* see IDC data 3Q 2015

\*\* As a Hong Stock Exchange-listed company, Lenovo's official results are presented using the Hong Kong Financial Reporting Standards (HKFRS). This press release also contains a "run rate pre-tax income" figure, which excludes the following items: Q2 restructuring costs of US\$599 million; one time charges to clear smartphone inventories of US\$324 million; and non-cash, M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others of US\$85 million. This "run rate pre-tax income" is provided as a supplemental metric to enable analysis of the "like-to-like" performance of the underlying business. It is historical in nature, and not meant to predict the rate of future performance.

\*\*\* The Company provided financial breakdowns by product through the FY14/15 Q2 results announcement. After the Motorola and System x investments closed during Lenovo's FY14/15 Q3, Lenovo began reporting by business group in order to aid understanding of the performance of these businesses.

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## About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a \$46 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](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  
[bryanhsu@lenovo.com](mailto:bryanhsu@lenovo.com)

**Katie Kung**  
(852) 2516 4811  
[katiekung@lenovo.com](mailto:katiekung@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, 2015**  
(in US\$ millions, except per share data)



	<b>Q2 15/16</b>	<b>Q2 14/15</b>	<b>Y/Y CHG</b>
Revenue	12,150	10,475	16%
Gross profit	1,575	1,457	8%
Gross profit margin	13.0%	13.9%	-0.9pts
Operating expenses	(2,359)	(1,092)	116%
Expenses-to-revenue ratio	19.4%	10.4%	9.0pts
Operating (loss) / profit	(784)	365	N/A
Other non-operating expenses	(58)	(36)	60%
Pre-tax (loss) / profit	(842)	329	N/A
Run rate pre-tax income*	166*	329*	-50%
Taxation	125	(57)	N/A
Net profit / (loss) for the period	(717)	272	N/A
Non-controlling interests	3	(10)	N/A
Profit / (loss) attributable to equity holders	(714)	262	N/A
Earnings / (Loss) Per Share (US cents)			
Basic	(6.43)	2.52	(8.95)
Diluted	(6.43)	2.49	(8.92)

*\*run rate pre-tax income for Q2 excludes restructuring costs of US\$599 million, charges to clear aged smartphone inventory of US\$324 million and non-cash M&A related accounting charges of US\$85 million. Run rate pre tax income for Q1 only excluded non-cash M&A related accounting charges of US\$91 million.*