

FY15/16 Earnings Announcement

May 26, 2016





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Yuanqing Yang

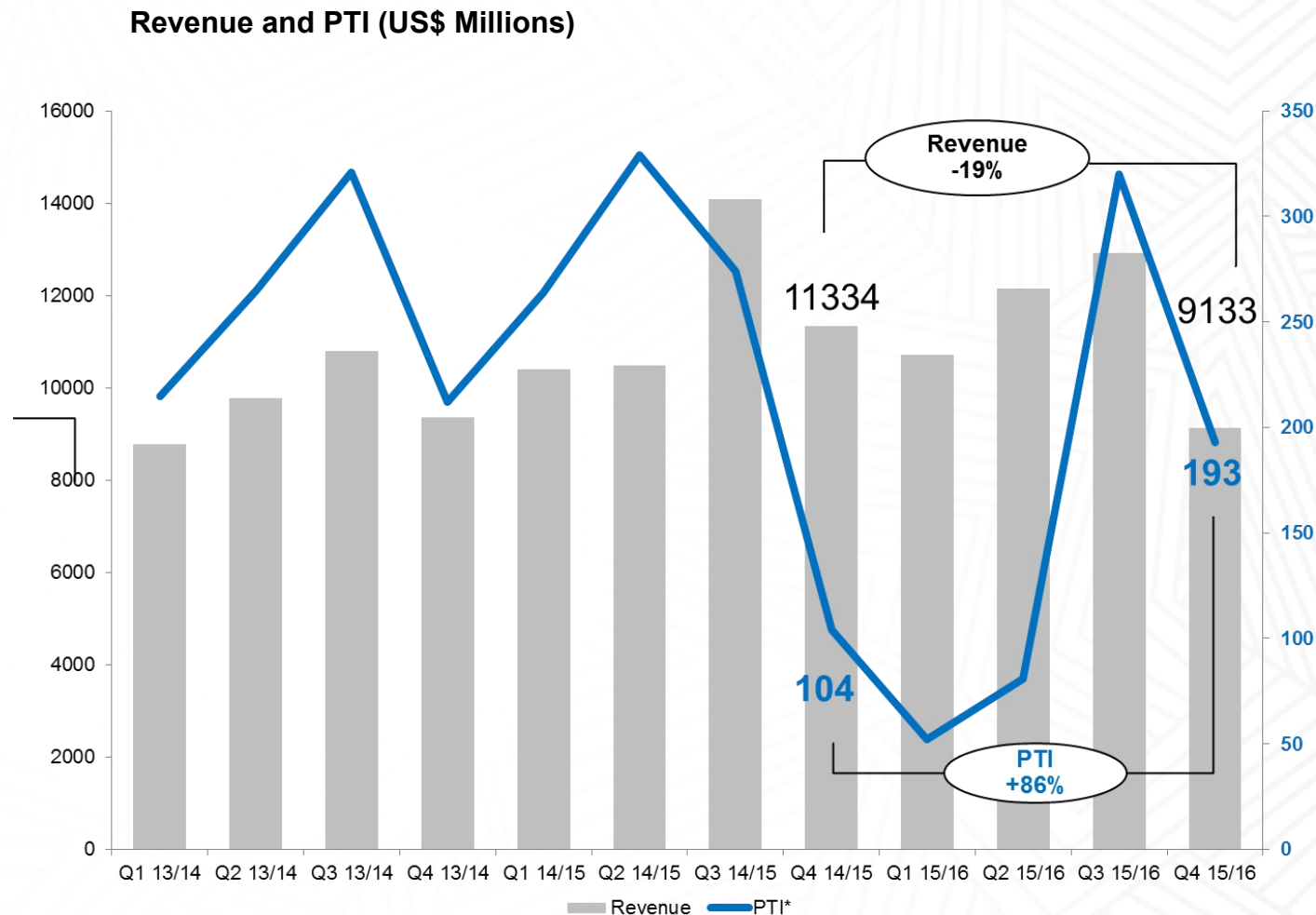
Chairman and CEO

May 26, 2016



+ Q4 Performance

- Revenue declined 19% YTY
- PTI up **86%** YTY
- Net Income up **80%** YTY

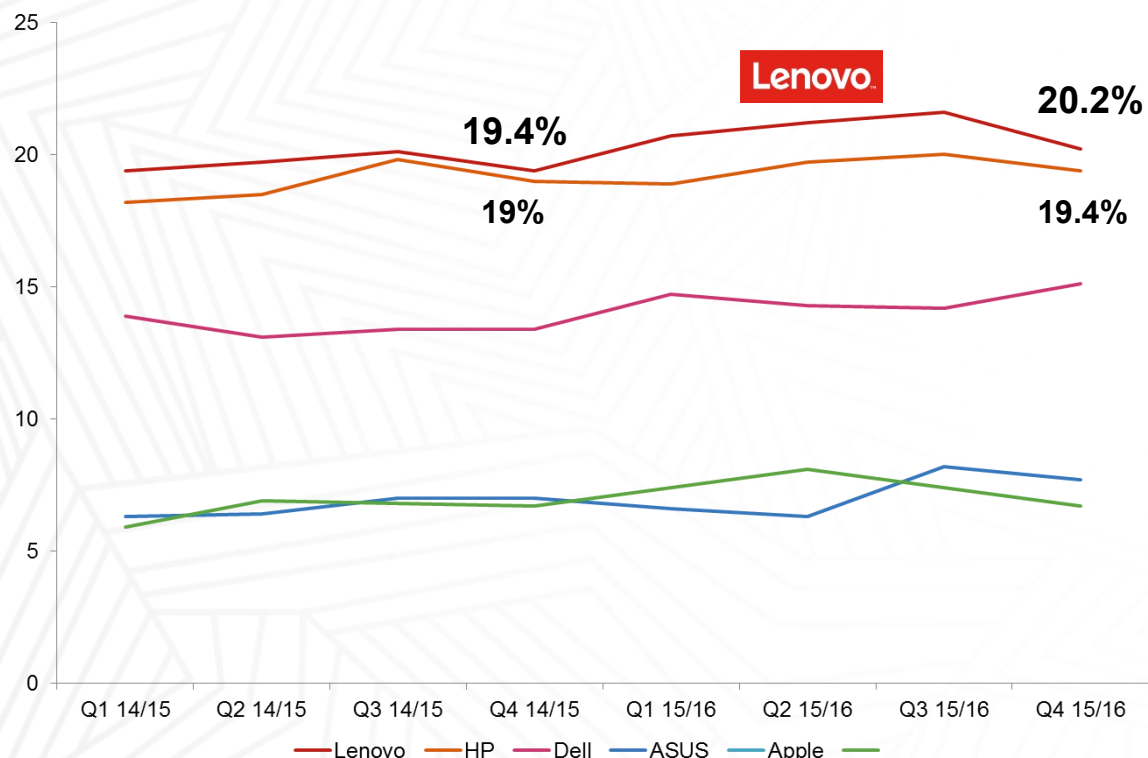


* excluding one-time restructuring costs & one-time charges of \$923M in Q2 FY 15/16

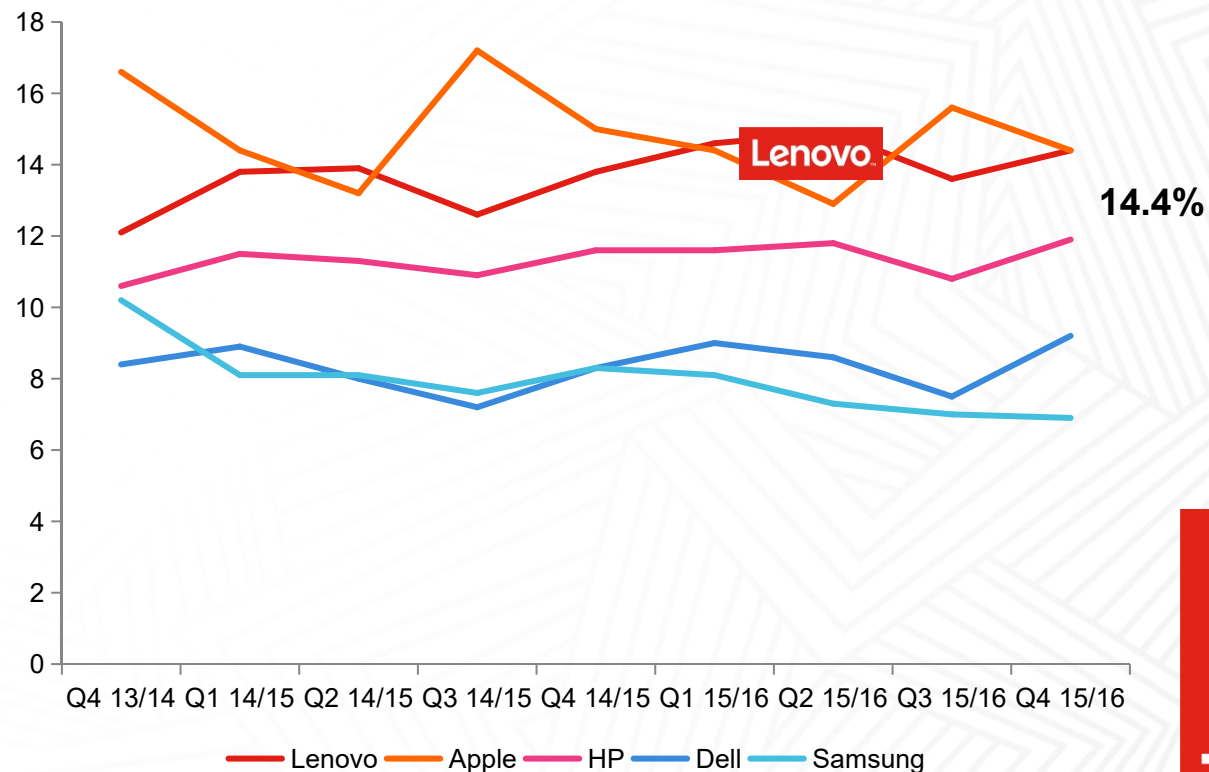
+ Q4 Performance: PC

- Strengthened **#1** position with PTI margins at **5%**
- PC + Tablet: Now tied for **#1** with **14.4%** worldwide share

WW PC Market Share (%)



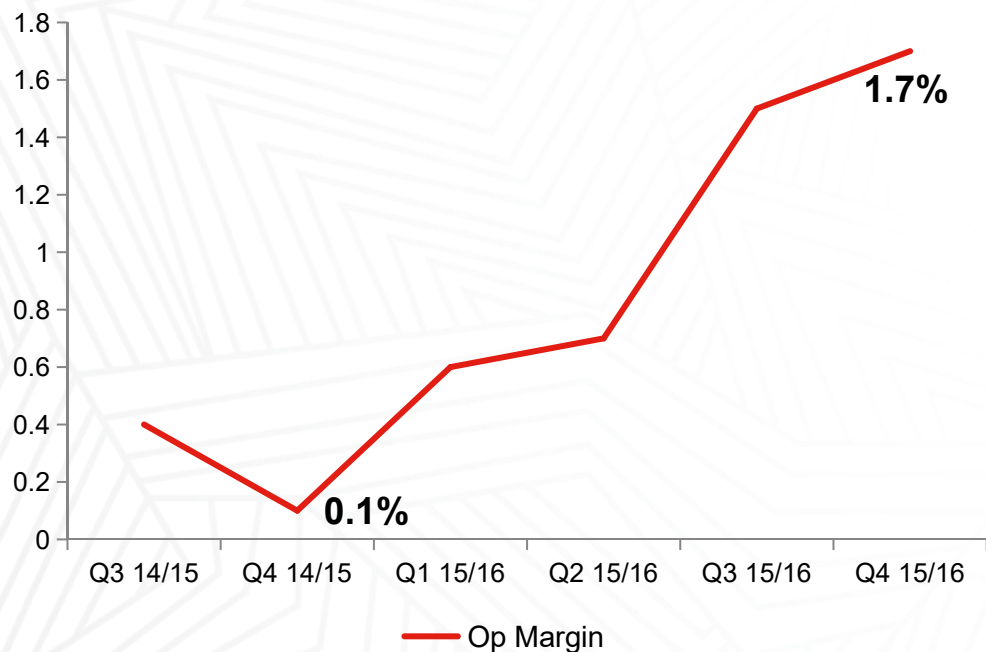
WW PC+Tablet Share (%)



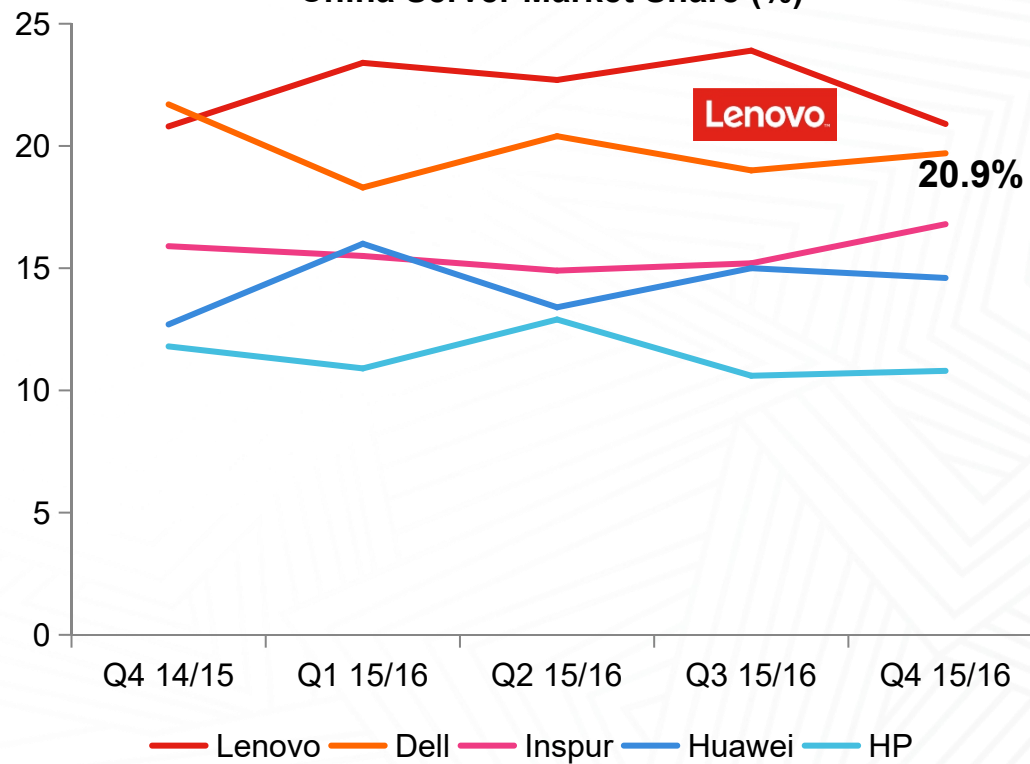
+ Q4 Performance: EBG

- Operational margin up to **1.7%**
- **#1** in China with **20.9%** share, and **8%** YTY revenue growth

EBG Operational PTI Margin (%)



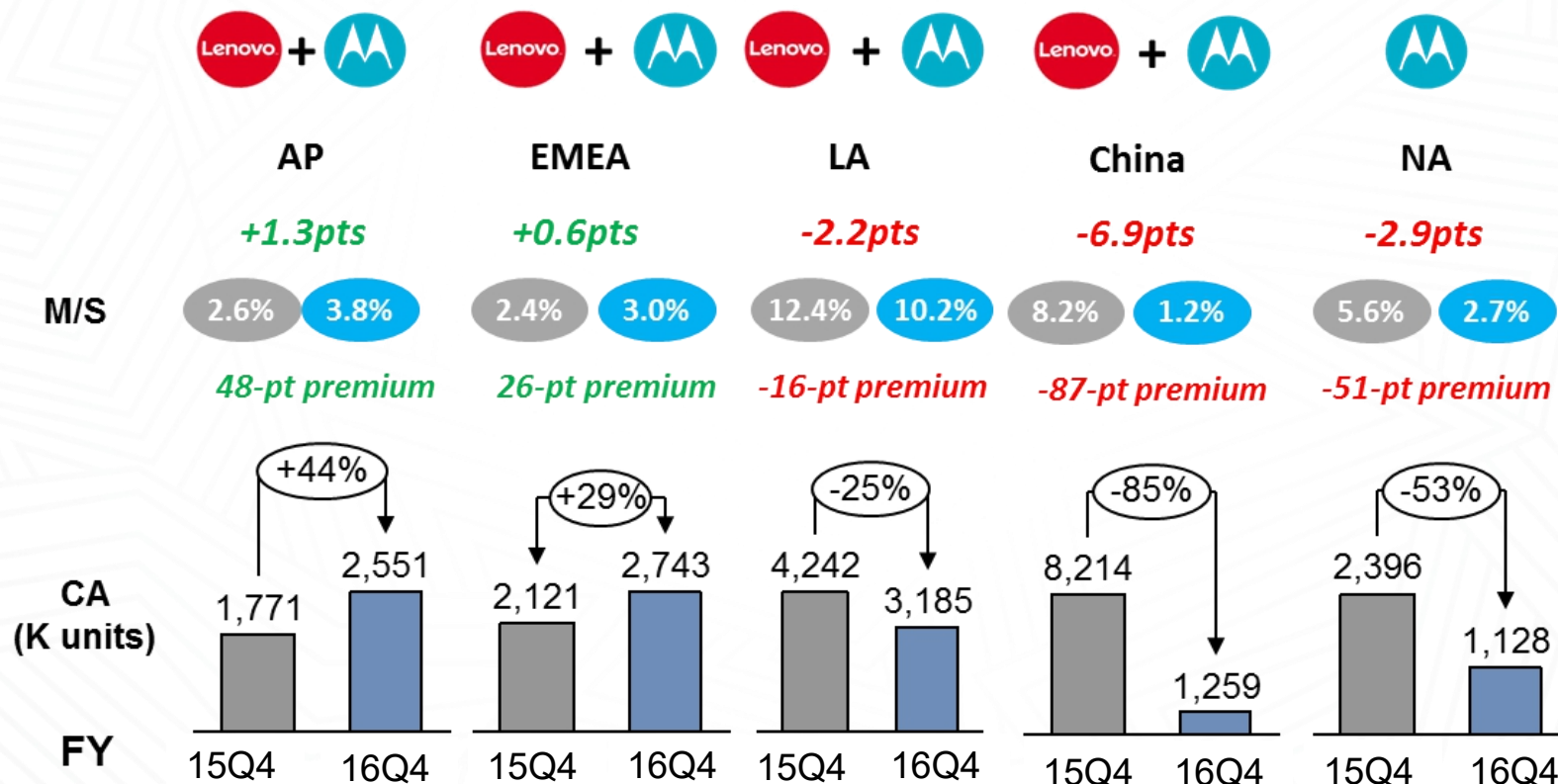
China Server Market Share (%)



+ Q4 Performance: MBG

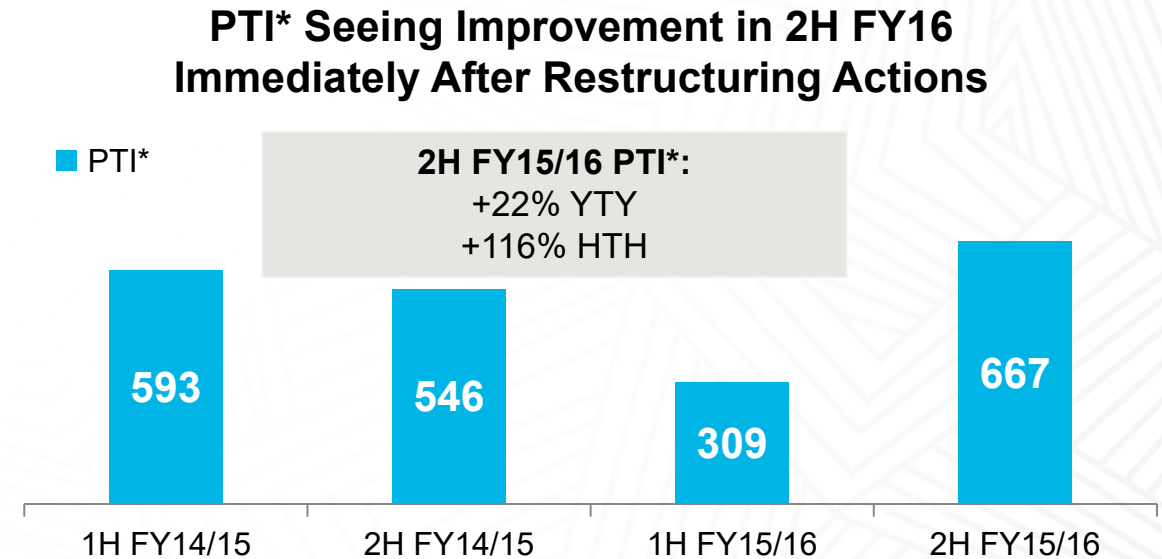
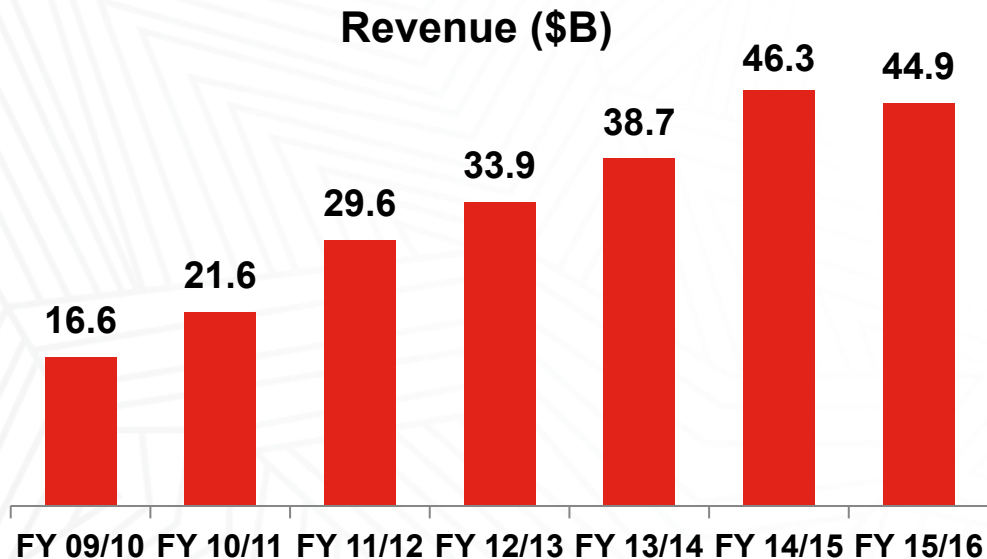
- Outgrew market in AP and EMEA, maintained strong LA position
- China volume dropped due to market shift

SP Performance Across 5 Geos



+ FY 15/16 Performance

- Revenue: \$44.9B, -3% YTY
 - Up **3%** YTY excluding currency impact
- Decisive actions improved profitability
 - PTI in second half **116%** higher than first half, and **22%** higher YTY

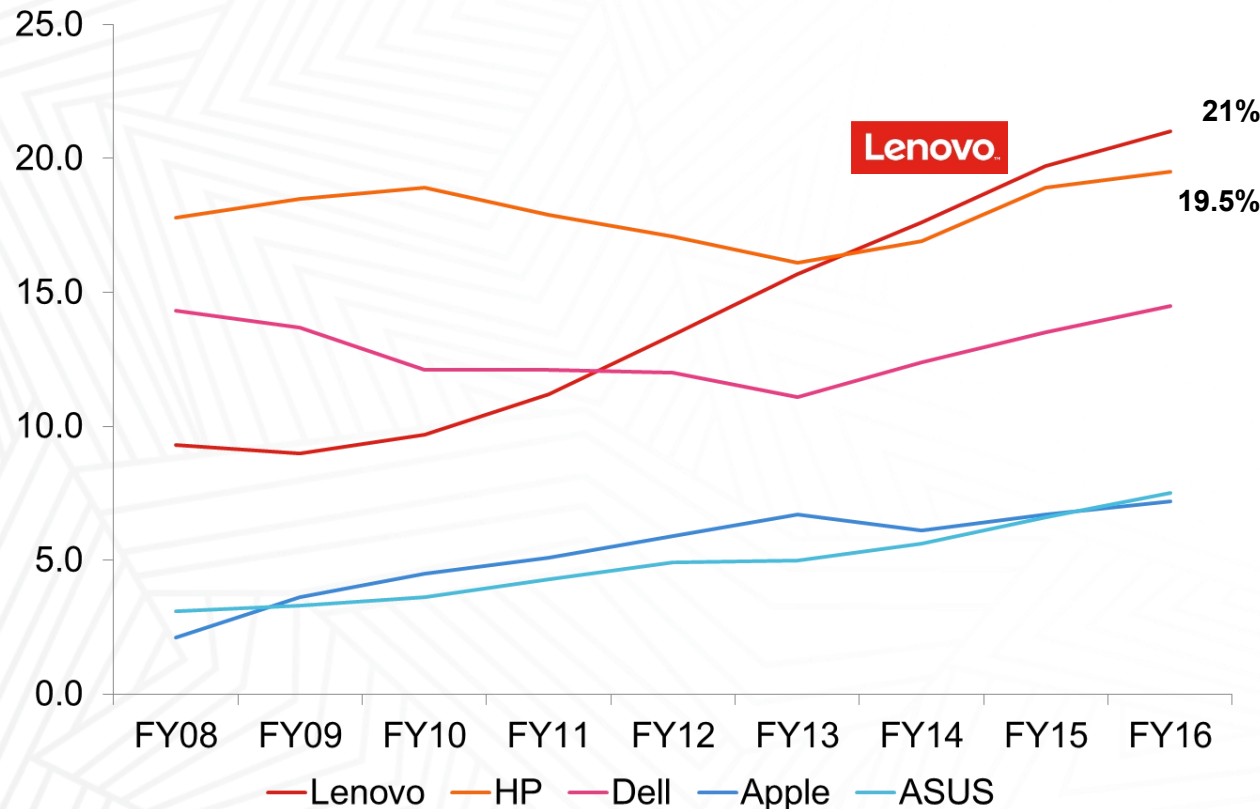


* excluding restructuring charges & one-time costs, and non-cash M&A accounting charges

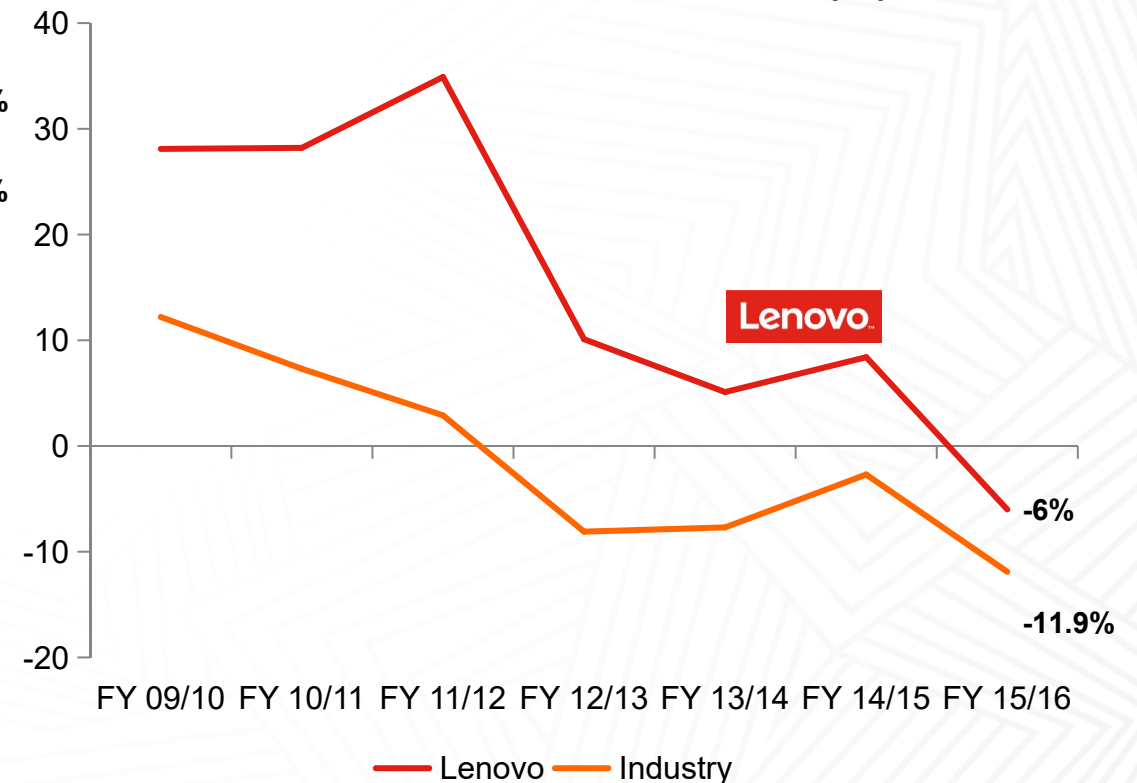
+ FY 15/16 Performance: PC

- Kept **#1** position for 3 years
- Record market share of **21%**
- Outperformed market by almost **6** points, maintained strong PTI margin of **5%**

WW PC Market Share for FY (%)

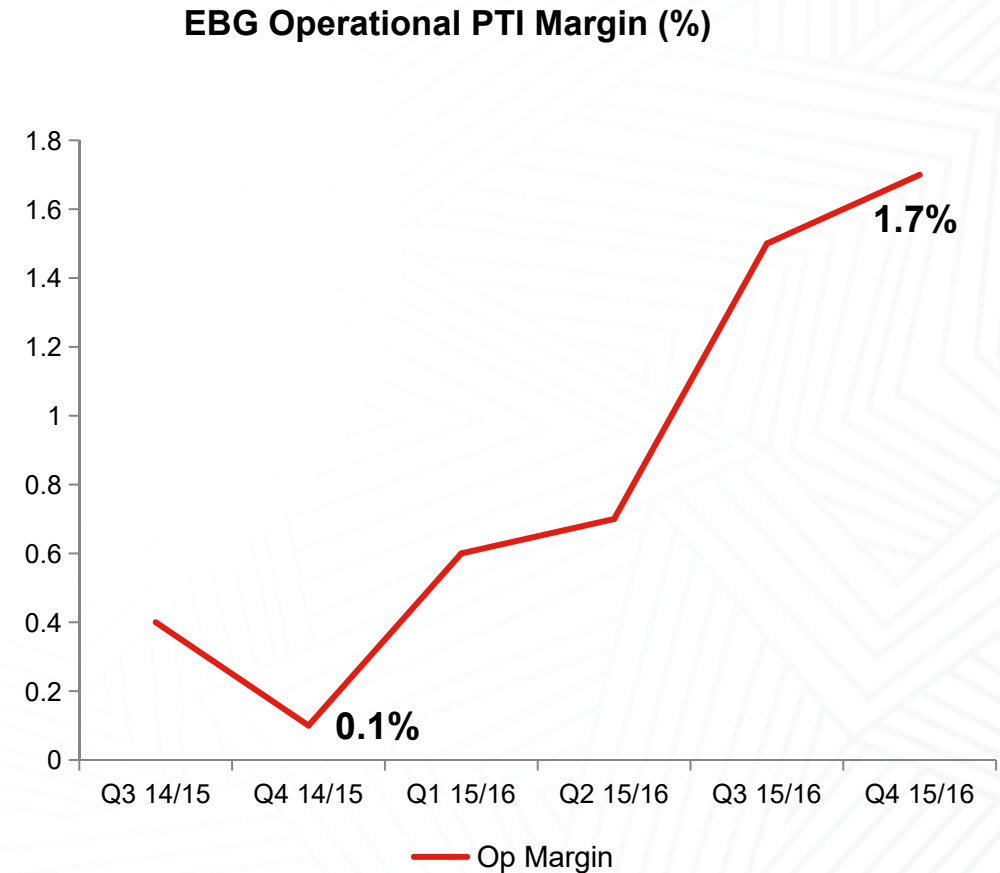
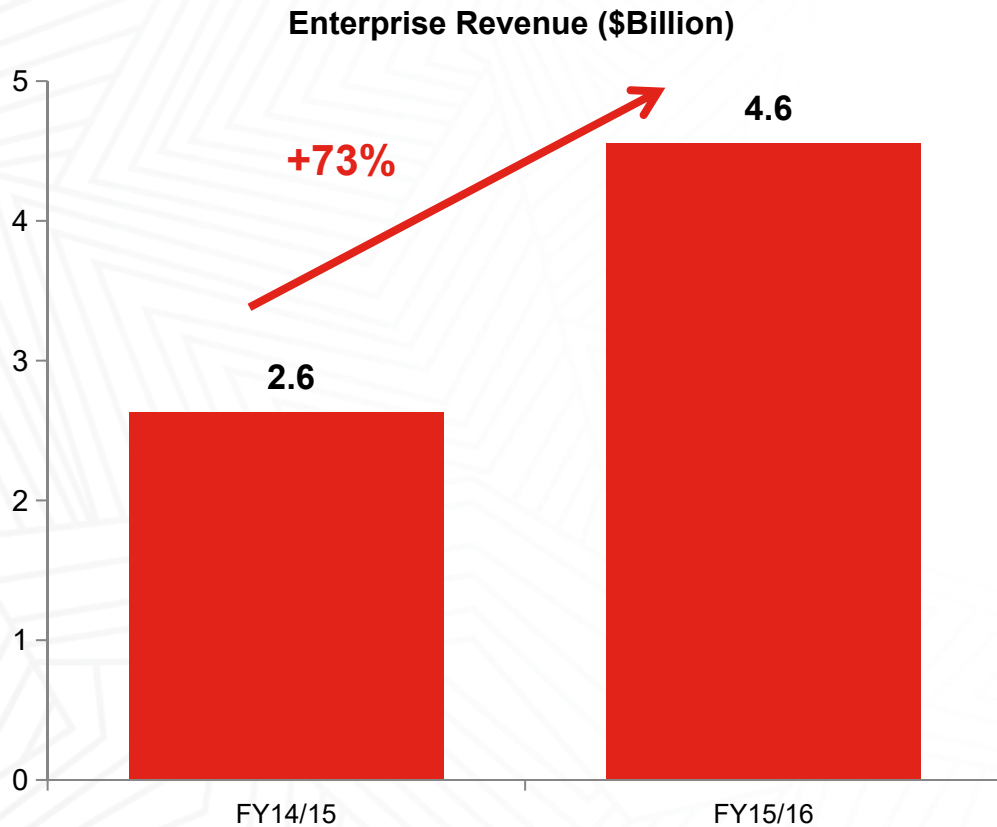


PC YTY Growth Rates (%)



+ FY 15/16 Performance: EBG

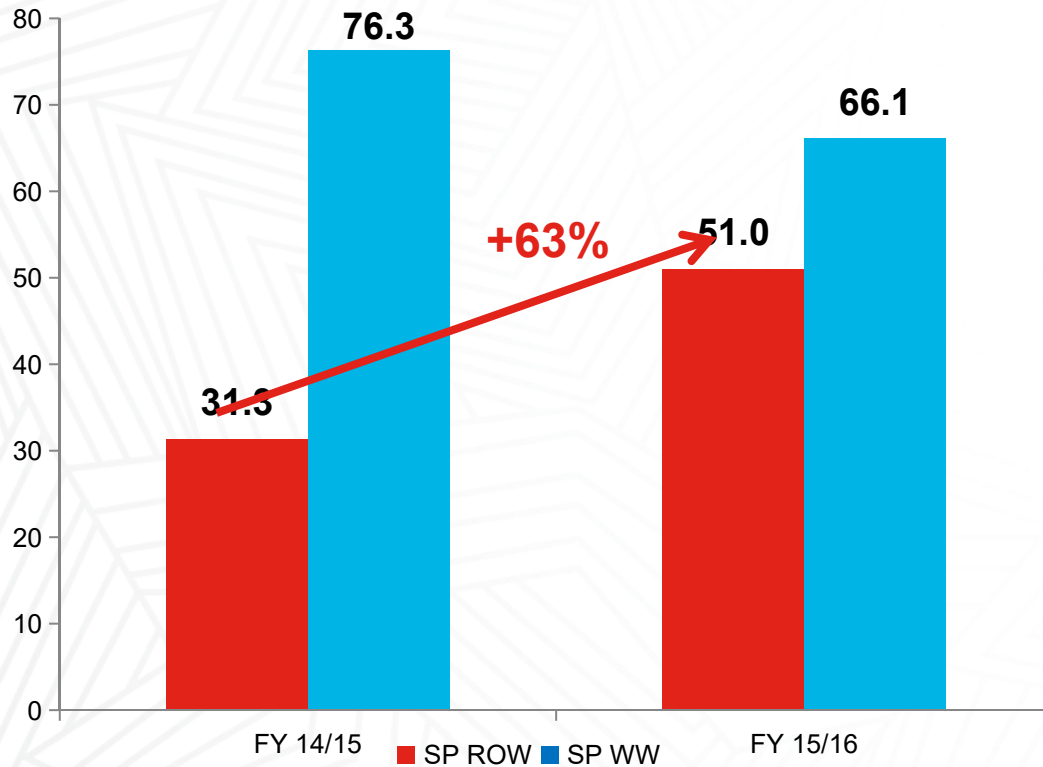
- Revenue up **73%** YTY led by China
- Operational PTI keeps improving



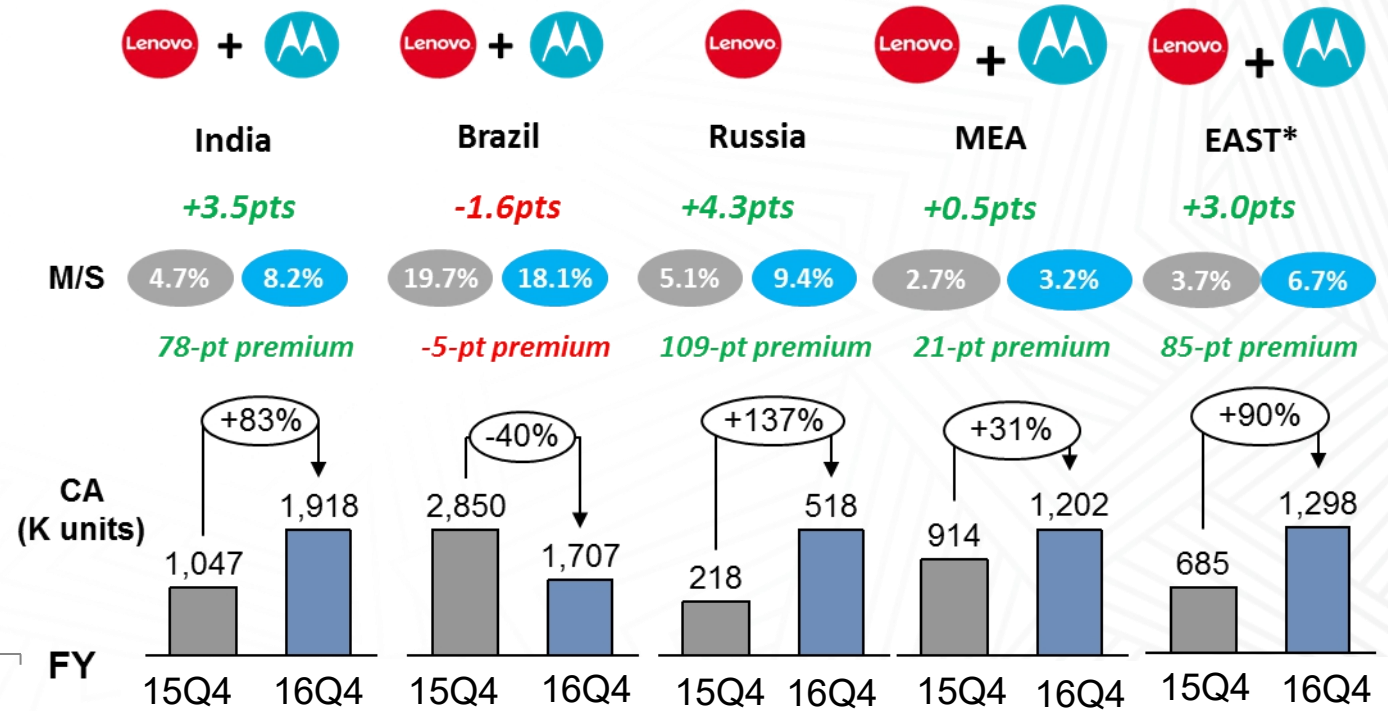
+ FY 15/16 Performance: MBG

- Smartphone volume outside China grew **63%** YTY
- Strong positions in key emerging markets

Smartphone Volume: WW and ROW (M units)



Smartphone Key Emerging Markets



* EAST region includes Russia

+ Facing our Challenges

- MBG
 - Need to resume growth in China and North America
- Data Center
 - Need to grow top line in mature markets
- We are committed to Mobile and Data Center businesses for the long term



+ Resume MBG growth

- Organizational
 - China; ROW
- Leadership
 - Dedicated Co-Presidents
- ROW
 - Keep high growth in emerging markets
 - Get US back on track
 - Invest in brand
 - Broaden channels
 - Launch innovative products
- China
 - Drive shift to open market
 - Leverage ZUK model



+ Multi-Business Operating System

- Some 100% owned by Lenovo, while some could receive external investment
- Some leverage platform more, while some more independent
- Some rewarded for profit, while some for growth

Stage of Lenovo business today

PROFIT
ENGINE

PROFITABLE
GROWTH

INVESTMENT



Synergy with Core

CORE

STRATEGIC
EXPANSION

EXPLORATORY

+ Vision for New Device + Cloud Model

- From “Device Only”, to “Device Primary and Cloud Secondary”, to “Device + Cloud” balanced model
- Protect general-purposed device business, but develop specific-purposed devices based on customer scenarios
- Lenovo Tech World, June 9th, Silicon Valley





W

Never
Stand
Still

Lenovo™

Wong Wai Ming

Chief Financial Officer

May 26, 2016



+ FY16 Financial Highlights

- Group revenue of US\$44.9B, down 3% YTY, up 3% YTY excluding currency impact
- Decisive actions to realign business in Q2 FY16 to enhance competitiveness in tough markets
- PTI (excluding restructuring charges & one-time costs, and non-cash M&A accounting charge) in 2H FY16 already seeing benefits from restructuring actions
- Restructuring savings achieved; but faster than expected decline in revenue resulted in E/R worsening in Q4 (vs. Q3)

Financial Summary

| <i>US\$ Million</i> | FY2015/16 | Y/Y% | | Q4 FY2015/16 | Q4 FY2014/15 | Y/Y% | Q/Q% |
|--|-----------|------|--|--------------|--------------|------|--------|
| Revenue | 44,912 | -3% | | 9,133 | 11,334 | -19% | -29% |
| Gross Profit | 6,624 | -1% | | 1,518 | 1,779 | -15% | -19% |
| Operating Expenses | (6,686) | 20% | | (1,270) | (1,652) | -23% | -10% |
| Operating (Loss)/Profit | (62) | NA | | 248 | 127 | 95% | -35% |
| Other Non-Operating Expenses | (215) | 56% | | (55) | (23) | 133% | -6% |
| Pre-tax (Loss) / Income | (277) | NA | | 193 | 104 | 86% | -40% |
| Taxation | 132 | NA | | (17) | (7) | 156% | -34% |
| (Loss)/Profit for the year/period | (145) | NA | | 176 | 97 | 81% | -40% |
| Non-controlling interests | 17 | NA | | 4 | 3 | 40% | -38% |
| (Loss)/Profit attributable to Equity Holders | (128) | NA | | 180 | 100 | 80% | -40% |
| EPS (US cents) | | | | | | | |
| - Basic | (1,16) | NA | | 1.63 | 0.91 | 0.72 | (1.08) |
| - Diluted | (1.16) | NA | | 1.62 | 0.90 | 0.72 | (1.08) |
| Dividend per share (HK cents) | 26.50 | - | | | | | |

| | FY2015/16 | FY2014/15 | Q4 FY2015/16 | Q4 FY2014/15 | Q3 FY2015/16 |
|---|-----------|-----------|--------------|--------------|--------------|
| Gross margin | 14.8% | 14.4% | 16.6% | 15.7% | 14.6% |
| E/R ratio | 14.9% | 12.0% | 13.9% | 14.6% | 11.7% |
| Operating margin | (0.1%) | 2.4% | 2.7% | 1.1% | 2.9% |
| PTI margin | (0.6%) | 2.1% | 2.1% | 0.9% | 2.5% |
| Net margin attributable to Equity Holders | (0.3%) | 1.8% | 2.0% | 0.9% | 2.3% |



Condensed Balance Sheet

US\$ Million

| | As at Mar 31, 2016 | As at Mar 31, 2015 |
|--|-------------------------------|-------------------------------|
| Non-current assets | 11,966 | 11,889 |
| Property, plant and equipment | 1,391 | 1,443 |
| Intangible assets | 8,661 | 9,226 |
| Others | 1,914 | 1,220 |
| Current assets | 12,967 | 15,507 |
| Bank deposits and cash | 2,079 | 3,026 |
| Trade, notes, other receivables, deposits, and prepayments | 8,083 | 9,205 |
| Inventories | 2,637 | 2,954 |
| Others | 168 | 322 |
| Current liabilities | 15,760 | 17,448 |
| Borrowings | 746 | 1,168 |
| Trade, notes, other payables, accruals, and provisions | 13,964 | 15,337 |
| Others | 1,050 | 943 |
| Net current liabilities | (2,793) | (1,941) |
| Non-current liabilities | 6,147 | 5,842 |
| Total equity | 3,026 | 4,106 |

+ Cash and Working Capital

| US\$ Million | FY2015/16 | FY2014/15 | Q4 FY2015/16 | Q4 FY2014/15 |
|--|-----------|-----------|--------------|--------------|
| Bank Deposits and Cash | 2,079 | 3,026 | 2,079 | 3,026 |
| Total Borrowings | 3,251 | 3,054 | 3,251 | 3,054 |
| Net Debt | (1,172) | (28) | (1,172) | (28) |
| Net Cash Generated from/ (Used in) Operating Activities | 292 | 238 | (700) | (1,103) |
| Days Inventory | 29 | 29 | 34 | 32 |
| Days Receivable | 38 | 35 | 45 | 44 |
| Days Payable | 66 | 66 | 79 | 73 |
| Cash Conversion Cycle | 1 days | -2 days | 0 days | 3 days |

+ FY16 Performance by Business Group

PC

- Record high market share of 21.0%, up 1.3pt YTY
- Premium growth to the market (Lenovo: -6.0% vs. market: -11.9% YTY)
- Record share across all GEOs; became #1 in AP & strong growth in NA & AG
- PC margin sustained at 5.0% despite market challenges

Enterprise

- Revenue grew 73% YTY; Solid China Revenue growth of 76% YTY
- Achieved Operational profitable with margin improvement for 6th consecutive quarters since acquisition closed
- Integration System X acquisition, won datacenter deals in China and established partnerships for new growth opportunities

Mobile

- Market turned softer (turned to negative growth in Q4) while competition remains fierce
- Among the 5 GEOs, we have strong growth in EMEA, AP & LA, driven by solid momentum in the fast growing emerging market regions; Actions in place to drive growth in PRC and NA

| Excluding restructuring costs & one-time charges | | Revenue US\$ Million | | Segment Pretax Income/(Loss) US\$ Million | | Segment Pretax Income Margin | |
|--|-------------|-------------------------|-------------------|--|-------------------|---------------------------------|-------------------|
| | | FY16 | FY15 [#] | FY16 | FY15 [#] | FY16 | FY15 [#] |
| PC | Operational | 29,646 | 33,346 | 1,491 | 1,772 | 5.0% | 5.3% |
| | Reported* | | | 1,491 | 1,772 | 5.0% | 5.3% |
| Enterprise | Operational | 4,553 | 2,627 | 53 | (29) | 1.2% | (1.1%) |
| | Reported* | | | (102) | (121) | (2.3%) | (4.6%) |
| Mobile | Operational | 9,779 | 9,142 | (469) | (295) | (4.8%) | (3.2%) |
| | Reported* | | | (644) | (370) | (6.6%) | (4.0%) |

Included 5 months Motorola and two quarters of System X performances

* Included non-cash M&A-related accounting charges, restructuring savings, and others

+ FY16 Performance by Geography

China

- Protected profit pool despite market challenges
- PC:** Market share continued to improve by 0.2pts to 36.5%, with strong and stable margin
- Mobile:** Actions in place to simplify product portfolios, strengthen channel partnership and brand strategy to turnaround the business; Focus on product mix and ASP improvement
- Enterprise:** #1 position with Rev growth by 76% YTY

AP

- Rev grew 9% YTY; Operating margin at 1.2%
- PC:** Attained #1 with record market share of 17.5%, up 1.7pt
- Mobile:** Strong smartphone shipments growth of 96.4% driven by SEA and India
- Enterprise:** Leveraging Lenovo channel expertise and ecosystems to accelerate business

EMEA

- Operating margin at 1.1%, with revenue at US\$11.8B
- PC:** Maintained #2, gained 0.6pt share to 20.0% leveraging on market consolidation
- Mobile:** Strong smartphone shipments growth of 83% driven by EE & MEA
- Enterprise:** Continued focus and full integration of EBG operation and new partnerships to drive opportunities

AG (Americas)

- Revenue grew 11% YTY
- PC:** Maintained #3, gained 2.0pt share to 13.7%; Strong shipments growth for NA at 17.1% YTY and became #3; Brazil profitability continued to improve
- Mobile:** Continued to pave more solid foundation for future growth
- Enterprise:** New partnerships to drive new opportunities for growth

| Excluding restructuring costs & one-time charges | Revenue US\$ Million | | Segment Pretax Income/(Loss)* US\$ Million | | Segment Pretax Income* Margin | |
|--|-------------------------|--------|---|-------|----------------------------------|-------|
| | FY16 | FY15# | FY16 | FY15# | FY16 | FY15# |
| China | 12,358 | 14,700 | 563 | 795 | 4.6% | 5.4% |
| AP | 7,155 | 6,549 | 89 | 302 | 1.2% | 4.6% |
| EMEA | 11,795 | 12,804 | 126 | 411 | 1.1% | 3.2% |
| AG | 13,604 | 12,243 | (121) | 8 | (0.9%) | 0.1% |

Included 5 months Motorola and two quarters of System X performances

* Excluded non-cash M&A-related accounting charges, restructuring savings, and others



Appendix

- ➞ - Summary : Accounting Operating Profit Vs “PTI before non-cash M&A related accounting charges” – FY16 & Q4FY16
- Performance by Business Group – Q4 FY16
- Performance by Geography – Q4 FY16
- Condensed Consolidated Income Statement
- Condensed Consolidated Cash Flow Statement

+ Summary : “PTI (As Reported) ” Vs “Run Rate PTI”

| | FY15/16 | FY14/15 | Change |
|---|--------------|--------------|--------------|
| Accounting Operating (Loss)/Profit (As-Reported) | (62) | 1,108 | NA |
| • Other Non-Operating Expenses | (215) | (137) | 133% |
| Pre-tax (Loss)/Income (As-Reported) | (277) | 971 | NA |
| • Restructuring Costs and One-time Items | 923 | - | NA |
| PTI Before restructuring and one-time items | 646 | 971 | (33%) |
| • Non-Cash M&A Related Accounting Charges | 330 | 168 | 97% |
| Run Rate PTI | 976 | 1,139 | (14%) |
| • Tax | 132 | (134) | NA |
| • Non-Controlling Interests | 17 | (8) | NA |
| • Restructuring Costs and One-time Items | (923) | - | NA |
| • Non-Cash M&A Related Accounting Charges | (330) | (168) | 97% |
| Net (Loss)/Income (As-Reported) | (128) | 829 | NA |

+ Summary : “PTI (As Reported) ” Vs “PTI Before Non-Cash M&A Related Accounting Charges”

| | Q4 FY15/16 | Q4 FY14/15 | Change (YTY) |
|---|------------|------------|--------------|
| Accounting Operating Profit (As-Reported) | 248 | 127 | 95% |
| • Other Non-Operating Expenses | (55) | (23) | 133% |
| Pre-tax Income (As-Reported) | 193 | 104 | 86% |
| • Non-Cash M&A Related Accounting Charges | 77 | 94 | -18% |
| PTI Before Non-Cash M&A Related Accounting Charges | 270 | 198 | 37% |
| • Tax | (17) | (7) | 156% |
| • Non-Controlling Interests | 4 | 3 | 40% |
| • Non-Cash M&A Related Accounting Charges | (77) | (94) | -18% |
| Net Income (As-Reported) | 180 | 100 | 80% |

+ Q4FY16 Performance by Business Group

PC

- WW share at 20.2%, up 0.8pts YTY
- Returned #1 in expanded PC market (PC, slate tablet & detachable)
- Strong shipments growth in NA
- PTI margin stayed solid at 5.0% despite market challenges

Enterprise

- PRC Rev grew by 8% YTY
- NA business remains relatively slower as we are building up field sales force through integration process while competition stayed very keen
- Some wins in the pipeline not yet reflected in Q4 are set to benefit Rev in future Qtrs
- Operational profitable for 6 straight qtrs since closing, margin improved YTY/QTQ

Mobile

- Solid momentum in fast growing EMs (e.g. EMEA, LA & AP)
- PRC declined due to continuous business transformation as planned: product transition, shifting focus to open market & higher main stream price band
- Decline in NA in Q4 due to miss of a key window of opportunity due to slower-than-expected product transition
- Better cost structure while continued to streamline product mix towards higher ASP to lay a more solid foundation to drive future growth

| | | Revenue US\$ Million | | | Segment Pretax Income/ (Loss) US\$ Million | | | Segment Pretax Income Margin | | |
|------------|-------------|-------------------------|---------|---------|---|------------|------------|---------------------------------|------------|------------|
| | | Q4 FY16 | Y/Y | Q/Q | Q4 FY16 | Q4 FY15 | Q3 FY16 | Q4 FY16 | Q4 FY15 | Q3 FY16 |
| PC | Operational | 6,188 | (972) | (1,845) | 312 | 391 | 405 | 5.0% | 5.5% | 5.0% |
| | Reported* | | | | 312 | 391 | 405 | 5.0% | 5.5% | 5.0% |
| Enterprise | Operational | 985 | (81) | (329) | 17 | 1 | 20 | 1.7% | 0.1% | 1.5% |
| | Reported* | | | | (16) | (45) | (14) | (1.6%) | (4.2%) | (1.0%) |
| Mobile | Operational | 1,737 | (1,109) | (1,508) | (62) | (171) | 14 | (3.5%) | (6.0%) | 0.4% |
| | Reported* | | | | (105) | (218) | (30) | (6.1%) | (7.7%) | (0.9%) |

* Included non-cash M&A-related accounting charges, restructuring savings, and others

+ Q4FY16 Performance by Geography

China

- **PC:** PTI margin remained stable amidst PC market softness
- **Mobile:** Actions in place to strengthen channel partnership and brand strategy to turnaround the business; Focus on product mix and ASP improvement
- **Enterprise:** Rev grew 8% YTY, continued to drive the business growth from hyperscale and new growth opportunities through partnerships

AP

- **PC:** #1 with market share at 15.6% (-0.2pt YTY)
- **Mobile:** Strong smartphone shipments growth of 44% YTY driven by strong momentum in ASEAN and India
- **Enterprise:** Wins in the pipeline; business transition in process with new DCG organization and leadership team

EMEA

- **PC:** Maintained #2 with 20.7% market share
- **Mobile:** Strong smartphone shipments growth of 29% YTY driven by strong momentum in EE & MEA
- **Enterprise:** Wins in the pipeline; business transition in process with new DCG organization and leadership team

AG (Americas)

- **PC:** Share up 3.0pt YTY to 14.8% driven by strong growth in NA & LA; Brazil profitability continued to improve
- **Mobile:** Decline due to product transition
- **Enterprise:** Remains relatively slower as building up field sales force through integration process while competition stayed very keen

| | Revenue US\$ Million | | | Segment Pretax Income/ (Loss) US\$ Million* | | | Segment Pretax Income Margin* (%) | | |
|-------|-------------------------|-------|---------|--|------------|------------|--------------------------------------|------------|------------|
| | Q4 FY16 | Y/Y | Q/Q | Q4 FY16 | Q4 FY15 | Q3 FY16 | Q4 FY16 | Q4 FY15 | Q3 FY16 |
| China | 2,351 | (720) | (1,167) | 107 | 134 | 167 | 4.5% | 4.4% | 4.7% |
| AP | 1,585 | (107) | (395) | 13 | 78 | 19 | 0.8% | 4.6% | 1.0% |
| EMEA | 2,478 | (488) | (974) | 5 | 80 | 57 | 0.2% | 2.7% | 1.7% |
| AG | 2,719 | (886) | (1,244) | 8 | (9) | 76 | 0.3% | (0.2%) | 1.9% |

* Excluded non-cash M&A-related accounting charges, restructuring savings, and others

Condensed Consolidated Income Statement

| <i>US\$ Million</i> | FY2015/16 | FY2014/15 | Q4 FY2015/16 | Q4 FY2014/15 |
|--|-----------|-----------|--------------|--------------|
| Revenue | 44,912 | 46,296 | 9,133 | 11,334 |
| Cost of sales | (38,288) | (39,614) | (7,615) | (9,555) |
| Gross profit | 6,624 | 6,682 | 1,518 | 1,779 |
| Other income - net | 2 | 1 | - | - |
| Selling and distribution expenses | (2,373) | (2,303) | (536) | (658) |
| Administrative expenses | (2,109) | (1,883) | (476) | (546) |
| Research and development expenses | (1,491) | (1,220) | (352) | (424) |
| Other operating (expense)/income - net | (715) | (169) | 94 | (24) |
| Operating (loss)/profit | (62) | 1,108 | 248 | 127 |
| Finance income | 33 | 31 | 8 | 7 |
| Finance costs | (237) | (185) | (58) | (52) |
| Share of (losses)/profits of associated companies and joint ventures | (11) | 17 | (5) | 22 |
| (Loss)/Profit before taxation | (277) | 971 | 193 | 104 |
| Taxation | 132 | (134) | (17) | (7) |
| (Loss)/Profit for the year/period | (145) | 837 | 176 | 97 |
| (Loss)/Profit attributable to: | | | | |
| Equity holders of the company | (128) | 829 | 180 | 100 |
| Non-controlling interests | (17) | 8 | (4) | (3) |
| Dividend | 379 | 380 | - | - |
| (Loss)/Earnings per share (US cents) | | | | |
| - Basic | (1.16) | 7.77 | 1.63 | 0.91 |
| - Diluted | (1.16) | 7.69 | 1.62 | 0.90 |

+ Condensed Consolidated Cash Flow Statement

| US\$ Million | FY2015/16 | FY2014/15 | Q4 FY2015/16 | Q4 FY2014/15 |
|--|--------------|-----------|--------------|--------------|
| Net cash generated from/(used in) operating activities | 292 | 238 | (700) | (1,103) |
| Net cash (used in) investing activities | (854) | (3,282) | (376) | (237) |
| Net cash (used in)/generated from financing activities | (305) | 2,143 | 426 | 334 |
| (Decrease)/Increase in cash and cash equivalents | (867) | (901) | (650) | (1,006) |
| Effect of foreign exchange rate changes | (62) | (102) | 25 | (20) |
| Cash and cash equivalents at the beginning of the period | 2,855 | 3,858 | 2,551 | 3,881 |
| Cash and cash equivalents at the end of the period | 1,926 | 2,855 | 1,926 | 2,855 |



thanks.

