

Q3FY17/18 Earnings Announcement

Lenovo™

+ Forward Looking Statement

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Yuanqing Yang

Chairman & CEO

Lenovo™

3-Wave Strategy

1

Maintain PC Profitability

2

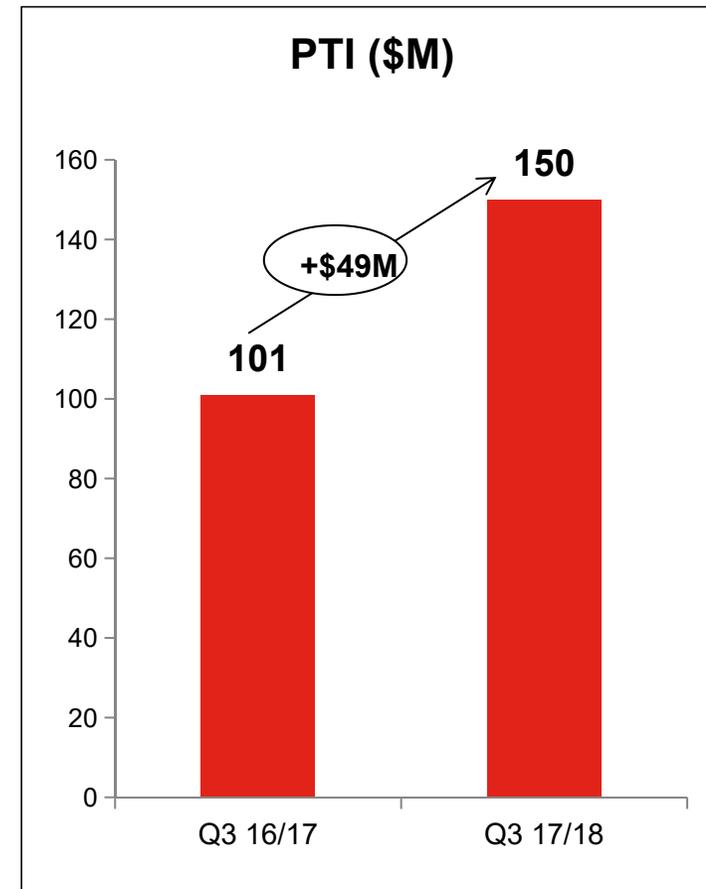
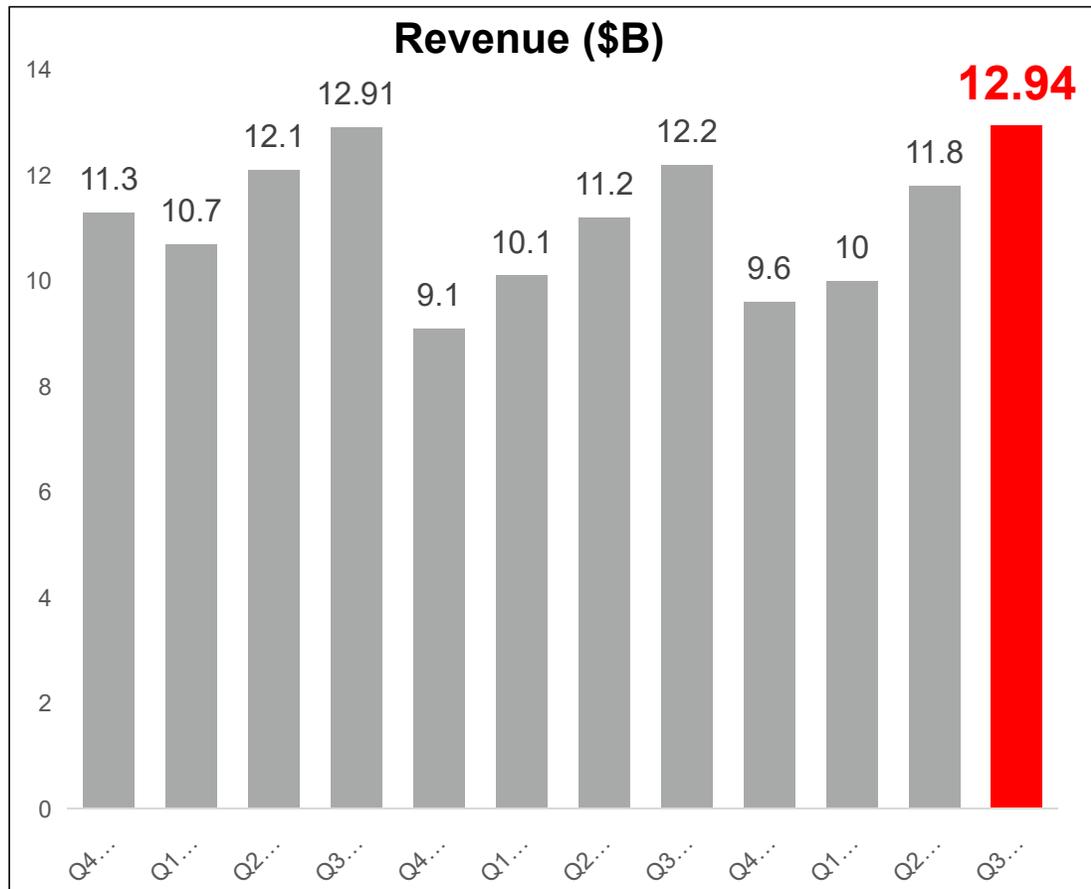
Build MBG & DCG
into New Growth Engines

3

Invest in “Device + Cloud”
and “Infrastructure +
Cloud” Powered by A.I.

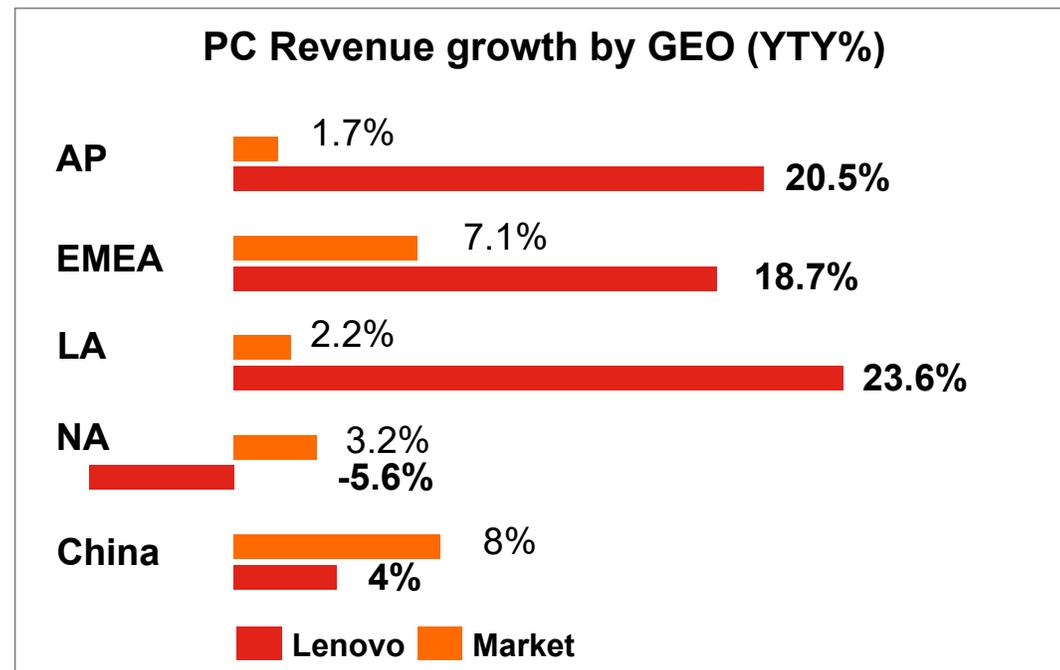
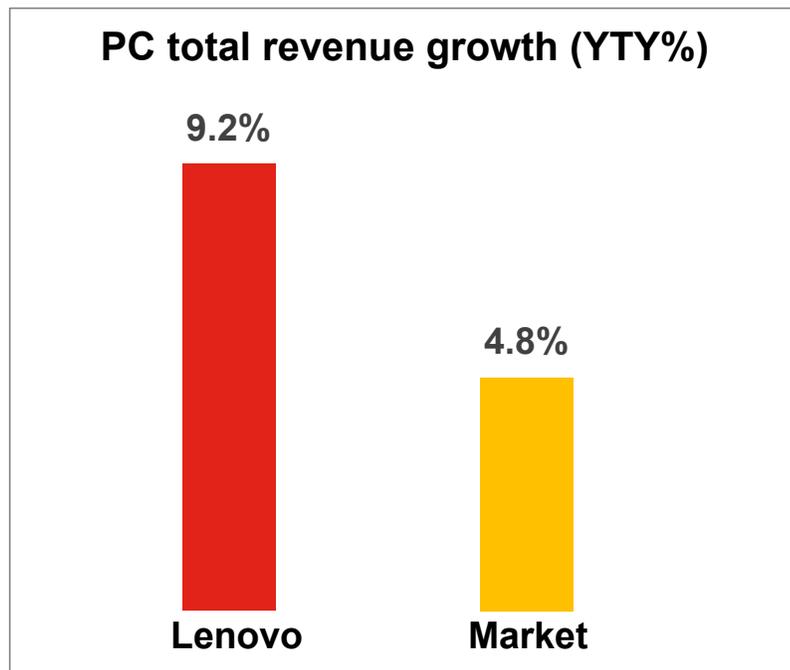
+ Stronger Performance Guided by 3-Wave Strategy

- Revenue **\$12.9** billion, highest in **3** years
- Pre Tax Income **\$150** million, up **48%** year-on-year, first year-on-year growth in **5** quarters



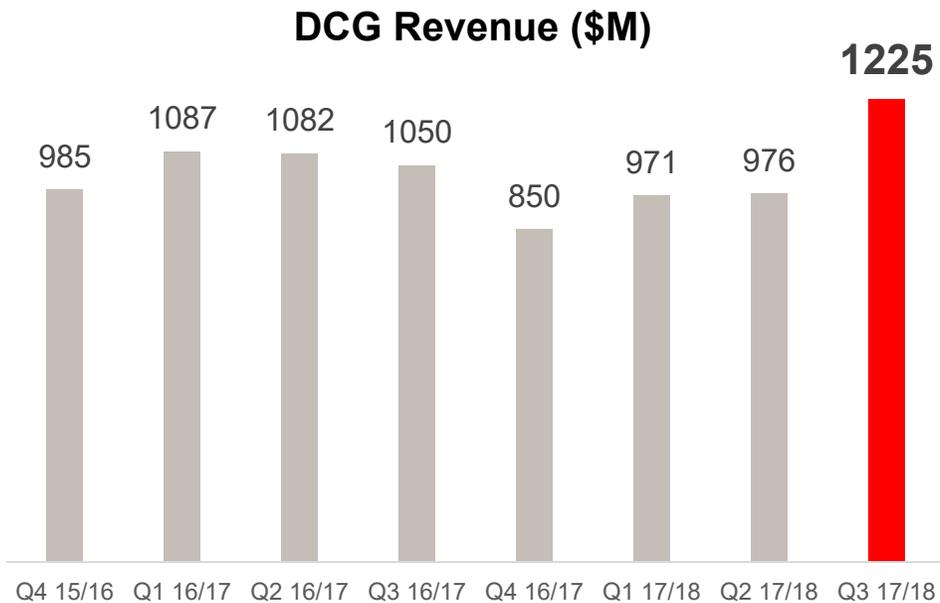
+ 1st Wave: PC Delivers Solid Performance

- Revenue growth continued at a premium to market year-on-year: **+4.4** pts vs. the market
 - Strong revenue growth in Asia Pacific, Latin America and EMEA
- Maintaining industry leading profitability
 - All geographies profitable for second straight quarter
- Will continue to invest in innovative products & high-growth segments, further drive revenue growth while maintaining industry leading profitability



+ 2nd Wave: Data Center Progress Better Than Expected

- Revenue highest in 2 years while further improving profitability
 - Strong growth year-on-year for 3rd consecutive quarter in North America, Europe
 - Double-digit growth year-on-year in China, Asia Pacific
 - Triple-digit growth year-on-year in Software Defined Infrastructure and Hyperscale segments
- Foundation building taking effect
 - Hyperscale: Improved in-house design, in-house manufacturing, provided customized solutions, and we won 6 of top 10 hyperscale customers in the world
- Will continue to invest in focused areas, remain confident in returning to profitable growth



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+ 2nd Wave: Mobile Continue Transformation Execution

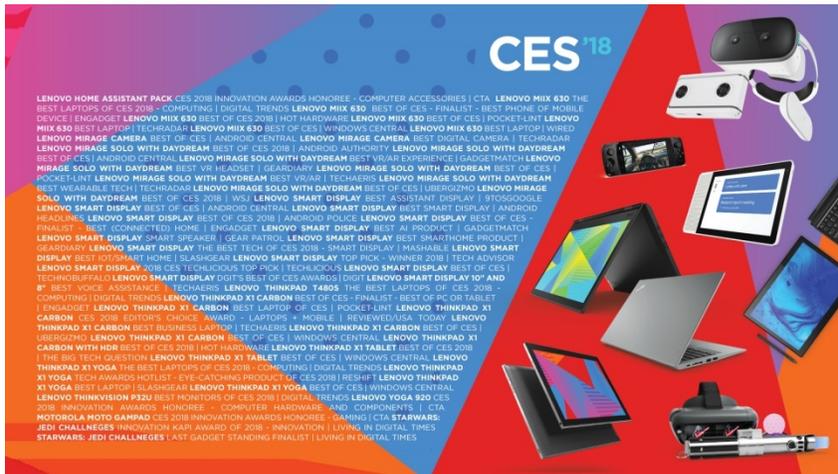
- Strong performance in Latin America, **37%** revenue growth year-on-year, good profit
- North America volume outgrew market by **90** points year-on-year
- Emerging markets fine tuning brand, product strategy to fit local markets
- Continue to execute clear strategy:
 - Latin America: Strengthen leading position and profitability
 - Mature Markets: Drive breakthrough
 - Emerging Markets: Maintain healthy growth with controlled investments



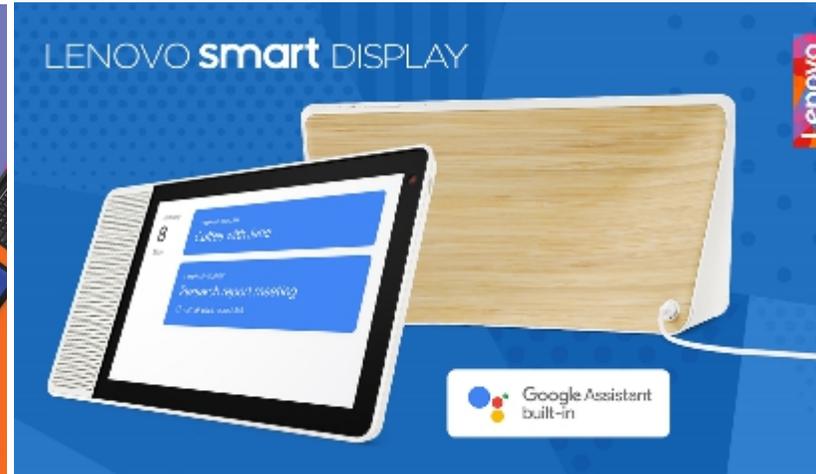
Moto G5SPlus

+ 3rd Wave: Solid Execution on “Device + Cloud” Delivers Progress

- Non-device revenue continued year-on-year growth
- Consumer Electronics Show: Won record **80** awards, **2/3** for smart devices.
- Will launch the award winning star products soon
- Star Wars Jedi Challenge AR headset, clear **#1** AR consumer device of holiday season



80 Award at CES

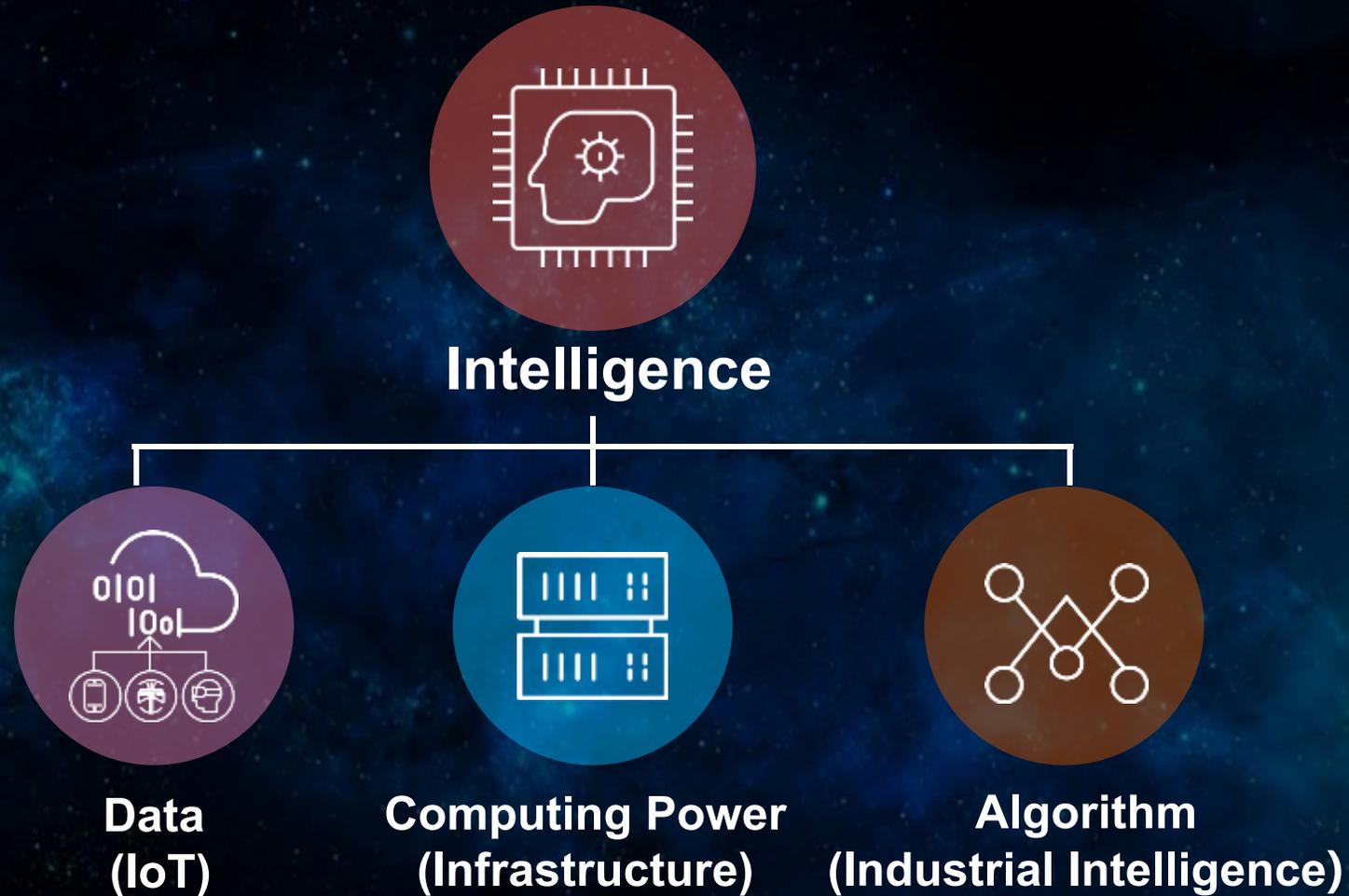


Lenovo Smart Display



Lenovo Mirage Solo & Mirage Camera

+ 3rd Wave: Strengthen Capability Around A.I.'s Three Elements



+ Looking Forward

- Further drive progress in transforming the company
- Confident in reaching a new stage of strong, sustainable growth



Wong Wai Ming

Chief Financial Officer

Lenovo™

+ Q3 FY2017/18 Highlights

Financial Highlights:

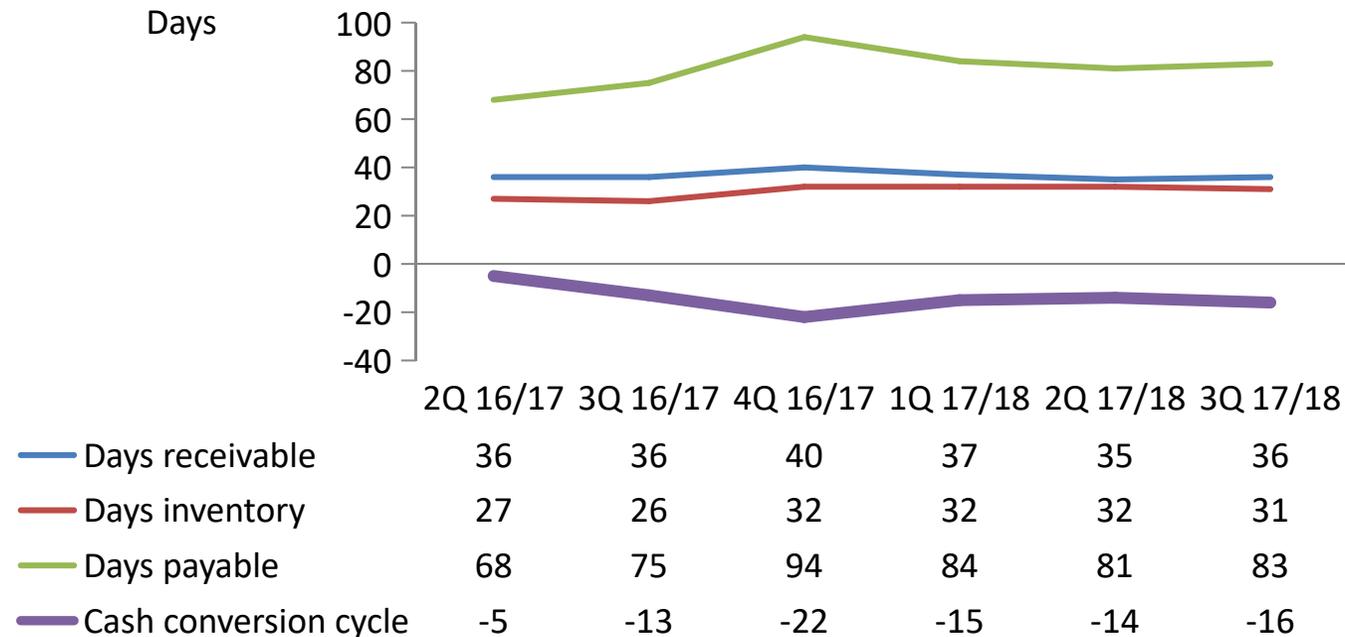
- Transformation is on track
- Highest group revenue in 3 years
- Group PTI at \$150m, up 48% YTY
- PCSD: strong revenue growth of 8% YTY with improved PTI margin QTQ
- DCG: highest revenue in 2 years with profitability improvement
- MBG: loss narrowed & core geo in Latin America remained strong

Financial Snap Shot

US\$ Million	Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18
Revenue	12,939	12,169	11,761
Gross Profit	1,751	1,595	1,613
Operating Expenses	(1,547)	(1,457)	(1,525)
Operating Profit	204	138	88
Pre-tax Income	150	101	35
Less: One-time Property Disposal Gain	(61)	-	-
Add: One-time Severance Charge	61	-	-
Add: Non-cash M&A Related Accounting Charges	62	73	63
Operational PTI	212	174	98
	Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18
Gross margin	13.5%	13.1%	13.7%
Operating margin	1.6%	1.1%	0.7%
PTI margin	1.2%	0.8%	0.3%
Operational PTI margin	1.6%	1.4%	0.8%

+ Cash and Working Capital

US\$ Million	Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18
Bank deposits and cash	1,747	2,685	1,262
Total Borrowings	2,674	2,530	2,661
Net (Debt)/Cash Reserves	(927)	155	(1,399)
Net cash generated from operating activities	211	345	364



+ PC & Smart Device Business Group (PCSD)

Overview

- Strong premium to market revenue growth of up 8% YTY and 10% QTQ
- ASP increase helped mitigate key component cost hike
- Smart devices taking off: leading AR device player with the “Star Wars: Jedi Challenge” AR headset
- PTI at 4.5%, improved QTQ

Highlights

- Strong double-digit revenue YTY growth in EMEA, AP and LA
- Brazil had another quarter of strong 67% YTY growth in PC shipment
- Continued to regain momentum in China with strong QTQ momentum

US\$ Million	Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18
Revenue	9,250	8,598	8,382
Pre-tax Income	416	431	367
Pre-tax Income Margin (%)	4.5%	5.0%	4.4%

+ Data Center Business Group (DCG)

Overview

- Transformation on track: highest revenue in 2 years with profitability improvement
- All geographies saw double-digit revenue YTY growth
- 3rd consecutive quarter of revenue YTY growth in NA & EMEA since System X acquisition
- China returned to YTY revenue growth with margin improvement
- Strong growth across all segments, particularly in Hyperscale and Software Defined Infrastructure (SDI) segments

Highlights

- High Performance Computing: closing the gap with #1 position on WW Top 500 HPC vendor list
- Hyperscale: strong revenue growth and margin improvement, now won 6 of the top 10 global hyperscalers
- SDI: strong revenue growth driven by growth across all partners, i.e. Nutanix, Microsoft Azure, VMWare

US\$ Million		Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18
Revenue		1,225	1,050	976
Pre-tax Loss	Operational	(56)	(94)	(100)
	<i>Reported*</i>	(86)	(124)	(131)
Pre-tax Income Margin (%)	Operational	(4.6%)	(8.9%)	(10.3%)
	<i>Reported*</i>	(7.0%)	(11.8%)	(13.4%)

* Included non-cash M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others

+ Mobile Business Group (MBG)

Overview

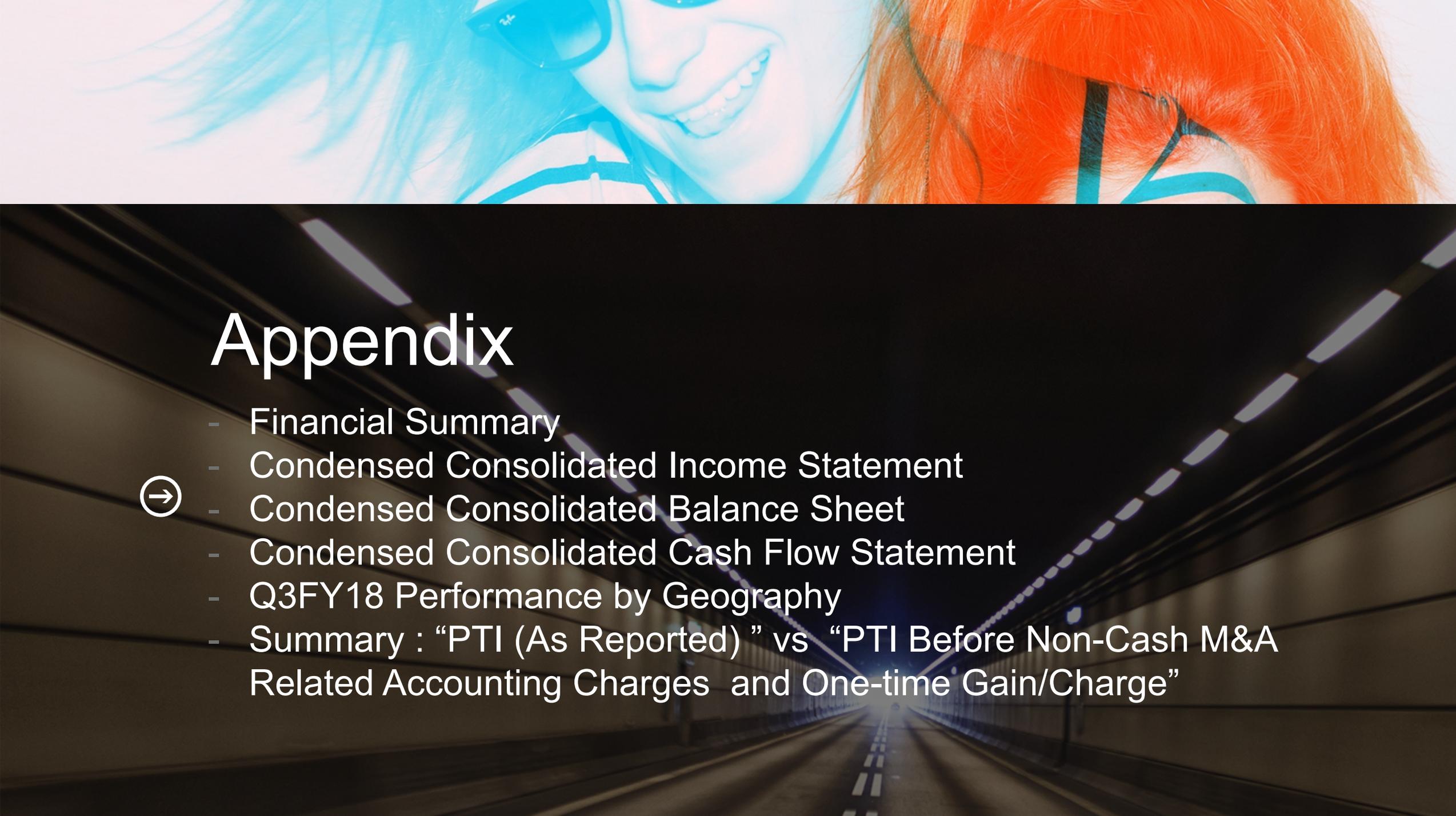
- Core geo Latin America remained strong: revenue grew double-digit YTY and maintained strong profitability
- Continued to strengthen presence with mainstream models and carrier expansion in North America and Western Europe
- Faced challenges in AP emerging markets on intense competition; brand transition in Eastern Europe was slower than expected
- ASP improved QTQ and YTY driven by better product mix
- Component cost hike remained a challenge; repositioning product strategy to fit local market

Highlights

- North America shipment grew around 80% YTY as Moto gain presence in the carriers
- Continued strength of Moto brand in Western Europe growing double-digit YTY in shipment

US\$ Million		Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18
Revenue		2,076	2,185	2,076
Pre-tax Loss	Operational	(92)	(112)	(132)
	<i>Reported*</i>	(124)	(155)	(164)
Pre-tax Income Margin (%)	Operational	(4.4%)	(5.1%)	(6.4%)
	<i>Reported*</i>	(6.0%)	(7.1%)	(7.9%)

* Included non-cash M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others



Appendix

- Financial Summary
- Condensed Consolidated Income Statement
- - Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement
- Q3FY18 Performance by Geography
- Summary : “PTI (As Reported) ” vs “PTI Before Non-Cash M&A Related Accounting Charges and One-time Gain/Charge”

+ Financial Summary

US\$ Million	Q3 FY2017/18	Q3 FY2016/17	Y/Y%	Q/Q%	YTD FY2017/18
Revenue	12,939	12,169	6%	10%	34,712
Gross Profit	1,751	1,595	9.76%	9%	4,728
Operating Expenses	(1,547)	(1,457)	6%	1%	(4,442)
Operating Profit	204	138	48%	133%	286
Other Non-Operating Expenses	(54)	(37)	48%	2%	(170)
Pre-tax Income	150	101	48%	325%	116
Taxation	(425)	6	N.A.	N.A.	(292)
(Loss)/Profit for the period	(275)	107	N.A.	N.A.	(175)
Non-controlling interests	(14)	(9)	65%	-	(47)
(Loss)/Profit attributable to Equity Holders	(289)	98	N.A.	N.A.	(222)
EPS (US cents)					
- Basic	(2.53)	0.90	N.A.	N.A.	(1.99)
- Diluted	(2.53)	0.90	N.A.	N.A.	(1.99)
Dividend per share (HK cents)					
	Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18		YTD FY2017/18
Gross margin	13.5%	13.1%	13.7%		13.6%
E/R ratio	12.0%	12.0%	13.0%		12.8%
Operating margin	1.6%	1.1%	0.7%		0.8%
PTI margin	1.2%	0.8%	0.3%		0.3%
Net margin attributable to Equity Holders	-2.2%	0.8%	1.2%		-0.6%

+ Condensed Consolidated Income Statement

<i>US\$ Million</i>	Q3 FY2017/18	YTD FY2017/18	Q3 FY2016/17	YTD FY2016/17
Revenue	12,939	34,712	12,169	33,456
Cost of sales	(11,188)	(29,984)	(10,574)	(28,720)
Gross profit	1,751	4,728	1,595	4,736
Other (loss)/ income-net	-	-	(1)	11
Selling and distribution expenses	(741)	(2,201)	(727)	(2,023)
Administrative expenses	(453)	(1,301)	(446)	(1,342)
Research and development expenses	(344)	(947)	(318)	(1,023)
Other operating (expense)/Income - net	(9)	7	35	239
Operating profit/(loss)	204	286	138	598
Finance income	7	24	6	18
Finance costs	(60)	(191)	(53)	(164)
Share of (loss)/Profit of associated companies and joint ventures	(1)	(3)	10	23
Profit/(Loss) before taxation	150	116	101	475
Taxation	(425)	(291)	6	(48)
(Loss)/Profit for the period	(275)	(175)	107	427
(Loss)/Profit attributable to:				
Equity holders of the company	(289)	(222)	98	428
Perpetual securities holders	13	40	-	-
Other non-controlling interests	1	7	9	(1)
Earnings/(Loss) per share (US cents)				
- Basic	(2.53)	(1.99)	0.90	3.88
- Diluted	(2.53)	(1.99)	0.90	3.88



Condensed Consolidated Balance Sheet

US\$ Million

	As at Dec 31, 2017	As at Sep 30, 2017
Non-current assets	12,554	12,891
Property, plant and equipment	1,279	1,284
Intangible assets	8,416	8,448
Others	2,859	3,159
Current assets	16,945	16,033
Bank deposits and cash	1,747	1,262
Trade, notes and other receivables	10,992	10,920
Inventories	3,983	3,600
Others	223	251
Current liabilities	20,589	20,295
Borrowings	57	70
Trade, notes, other payables, accruals and provisions	18,724	18,443
Others	1,808	1,782
Net current asset/(liabilities)	(3,644)	(4,262)
Non-current liabilities	4,534	4,440
Total equity	4,376	4,189

+ Condensed Consolidated Cash Flow Statement

US\$ Million	Q3 FY2017/18	Q3 FY2016/17	Q2 FY2017/18
Net cash generated from operating activities	211	345	364
Net cash (used in)/generated from investing activities	(103)	93	(93)
Net cash generated from/(used in) financing activities	395	(118)	(526)
Increase/(Decrease) in cash and cash equivalents	503	321	(255)
Effect of foreign exchange rate changes	13	(51)	12
Cash and cash equivalents at the beginning of the period	1,144	2,253	1,387
Cash and cash equivalents at the end of the period	1,660	2,523	1,144

+ Q3FY18 Performance by Geography

China

- **PCSD:** Regained momentum for 2nd consecutive quarter via innovative products and channel enhancement
- **Data Center:** Returned to YTY rev growth with margin improvement, driven by a more stabilized Hyperscale biz and success in HPC & SDI
- **Mobile:** Continue to refine strategy to cater for local demand

AP

- **PCSD:** Strong double-digit YTY revenue growth with share gain
- **Data Center:** Strong revenue rebound of double-digit YTY growth
- **Mobile:** Faced intense competition, but continue to seek healthy growth now based on a more nimble structure to adopt new tech faster and more balanced channels

EMEA

- **PCSD:** Strong double-digit YTY revenue growth driven by commercial demand
- **Data Center:** Revenue continue to grow YTY for 3rd consecutive quarter driven by HPC, SDI and Hyperscale
- **Mobile:** Strong Moto brand growth in WE but offset by the brand transition in East Europe, Middle East and Africa

AG (Americas)

- **PCSD:** Saw operational improvement YTY as it continues to enhance product mix to drive profitable growth
- **Data Center:** Revenue continue to grow YTY for 3rd consecutive quarter driven by HPC, SDI and Hyperscale
- **Mobile:** LA remained the strong core with strong profitability; continued to strengthen presence with mainstream models & carrier expansion in NA

	Revenue US\$ Million			Segment Pretax Income/(Loss) US\$ Million			Segment Pretax Income/(Loss) Profit Margin		
	Q3 FY18	Y/Y	Q/Q	Q3 FY18	Q3 FY17	Q2 FY18	Q3 FY18	Q3 FY17	Q2 FY18
China	3,550	86	532	204	180	115	5.7%	5.2%	3.8%
AP	1,816	114	(212)	(60)	(41)	(13)	(3.3%)	(2.4%)	(0.6%)
EMEA	3,580	221	428	(11)	(102)	(2)	(0.3%)	(3.0%)	(0.1%)
AG	3,993	349	430	26	39	(59)	0.7%	1.1%	(1.6%)

+ Summary : “PTI (As Reported) ” vs “PTI Before Non-Cash M&A Related Accounting Charges and One-time Gain/Charge”

	Q3 FY17/18	Q3 FY16/17	Q2 FY17/18
Pre-tax Income (As-Reported)	150	101	35
• Non-Cash M&A Related Accounting Charges	62	73	63
PTI Before Non-Cash M&A Related Accounting Charges	212	174	98
• One-time Gain Including Property Disposal Gain	(61)	-	-
• One-time Restructuring Charge	61	-	-
PTI Before Non-Cash M&A Related Accounting Charges and One-time Gain/Charge	212	174	98

thanks.

Different is better

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