

For Immediate Release

TENCENT ANNOUNCES 2018 FIRST QUARTER RESULTS

Hong Kong, May 16, 2018 – Tencent Holdings Limited (“Tencent” or the “Company”, 00700.HK), a leading provider of Internet value added services in China, today announced the unaudited consolidated results for the first quarter of 2018 (“1Q2018”).

1Q2018 Key Highlights

Revenues: +48% YoY, non-GAAP Profit attributable to equity holders of the Company: +29% YoY

- Total revenues were RMB73,528 million (USD11,693 million¹), an increase of 48% over the first quarter of 2017 (“YoY”).
- Operating profit was RMB30,692 million (USD4,881 million), an increase of 59% YoY. Operating margin increased to 42% from 39% last year.
- Profit for the period was RMB23,973 million (USD3,812 million), an increase of 65% YoY. Net margin increased to 33% from 29% last year.
- Profit attributable to equity holders of the Company for the quarter was RMB23,290 million (USD3,704 million), an increase of 61% YoY.
- Basic earnings per share were RMB2.470. Diluted earnings per share were RMB2.435.
- On a non-GAAP² basis, which excludes certain non-cash items and certain impact of M&A transactions:
 - Operating profit was RMB25,272 million (USD4,019 million), an increase of 36% YoY. Operating margin decreased to 34% from 37% last year.
 - Profit for the period was RMB19,130 million (USD3,042 million), an increase of 33% YoY. Net margin decreased to 26% from 29% last year.
 - Profit attributable to equity holders of the Company for the quarter was RMB18,313 million (USD2,912 million), an increase of 29% YoY.
 - Basic earnings per share were RMB1.942. Diluted earnings per share were RMB1.915.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “In the first quarter of 2018, we launched the popular tactical tournament mobile games and enhanced the capabilities of widely-used services such as our Weixin Mini Programs, deepening engagement across our social, games and media platforms. We drove adoption of our infrastructure services, seeing notable progress in areas such as mobile payment, cloud services, online financial services, and smart retail. We will continue to invest in improving our own products as well as enabling services for our partners, in order to fulfill our mission of enhancing the quality of life through Internet services.”

1Q2018 Financial Review

Revenues from our VAS business increased by 34% to RMB46,877 million for the first quarter of 2018 on a year-on-year basis. Online games revenues grew by 26% to RMB28,778 million. The increase was mainly driven by

¹ Figures stated in USD are based on USD1 to RMB6.2881

² Non-GAAP adjustments excludes share-based compensation and M&A related impact such as net (gains)/losses from investee companies, amortisation of intangible assets and impairment provision

revenue growth from our smart phone games, including existing titles such as Honour of Kings, and newly launched titles such as MU Awakening and QQ Speed Mobile. Revenues from our PC client games were broadly stable. Social networks revenues increased by 47% to RMB18,099 million. The increase primarily reflected growth in revenues from digital content services such as live broadcast, video streaming subscriptions and our music service namely WeSing, as well as from in-game virtual item sales.

Revenues from our online advertising business increased by 55% to RMB10,689 million for the first quarter of 2018 on a year-on-year basis. Social and others advertising revenues grew by 69% to RMB7,390 million, mainly benefiting from an expanded advertiser base boosting advertising fill rates in Weixin Moments, and higher CPC for our mobile advertising network. Media advertising revenues increased by 31% to RMB3,299 million, primarily driven by revenue growth from Tencent Video due to an increase in video views, and new advertising formats within original productions.

Revenues from our other businesses increased by 111% to RMB15,962 million for the first quarter of 2018 on a year-on-year basis. The increase primarily reflected contributions from our payment related and cloud services as a result of the expansion of our business scale.

Other Key Financial Information for 1Q2018

Share-based compensation was RMB1,632 million, up 22% YoY.

EBITDA was RMB29,247 million, up 46% YoY. Adjusted EBITDA was RMB30,856 million, up 45% YoY.

Capital expenditure was RMB6,318 million, up 200% YoY.

Free cash flow was RMB13,000 million, down 46% YoY.

As at March 31, 2018, net debt position totalled RMB14,533 million. Fair value of our stakes in listed investee companies (excluding subsidiaries) totalled RMB212.6 billion as at 31 March 2018.

Business Review and Outlook

Operating Information

- Monthly active user accounts (“MAU”) of QQ was 805.5 million, a decrease of 6.4% YoY.
- Smart device MAU of QQ was 694.1 million, an increase of 2.4% YoY.
- Combined MAU of Weixin and WeChat were 1,040.0 million, an increase of 10.9% YoY.
- MAU of Qzone was 562.3 million, a decrease of 11.0% YoY.
- Smart device MAU of Qzone was 550.0 million, a decrease of 9.0% YoY.
- Fee-based VAS registered subscriptions were 147.1 million, an increase of 23.6% YoY

Communications and Social

- QQ: Smart device MAU was up by 2.4% year-on-year to 694.1 million and smart device MAU for users aged 21 years or below also increased year-on-year as we enriched chat features and entertainment-driven content appealing for young users. QQ KanDian, our news feed service within QQ, achieved over 80 million DAU. It

enhanced recommendation for short videos, driving video views to increase by 300% year-on-year.

- *Weixin and WeChat*: Combined MAU was 1,040.0 million, representing year-on-year growth of 10.9%. The launch of Mini Games has achieved significant success, benefiting the overall Mini Program ecosystem as a whole. We opened up the platform to third-party game developers in late March and over 500 Mini Games are now available. The increased popularity of Mini Programs has encouraged more retailers and other developers to embrace Mini Programs. For merchants, we introduced a Scan-to-Buy solution, as one of our smart retail initiatives. This solution integrates Mini Programs with Weixin Pay, allowing customers to skip the check-out queue, boosting transaction efficiency during peak hours. Supermarkets are among the early adopters of this innovative solution which enables them to achieve higher transactional efficiency.

Online Games

Together with our investee companies, we have established global leadership in the tactical tournament genre. We developed 2 mobile titles leveraging the licensed IP of PUBG game of which the initial PC and Xbox version have been launched by its licensor. The two games achieved breakout popularity in China but have yet to be monetized and we have just started to monetize in overseas markets. Fortnite, a tactical tournament game developed by our investee company Epic Games, is a global phenomenon with over 40 million MAU across PC and console. After the launch of its mobile version on the iOS platform in March, it soon jumped to be the highest grossing game in the iOS App Store in the U.S. In China, we have started the pre-registration of Fortnite's local PC version. We are cooperating with the PUBG's licensor in preparing to publish a localized PC version in China, which is currently pending government approval.

Smart phone games achieved approximately RMB21.7 billion revenues (including smart phone games revenues attributable to our social networks business), up 68% year-on-year, driven by in-house mobile titles such as Honour of Kings and QQ Speed Mobile. Revenues increased 28% sequentially due to seasonal promotional activities and new games. Honour of Kings remained as the highest grossing smart phone game in China's iOS Top Grossing Chart. Its metrics were healthy with double-digit growth in DAU and strong growth in revenues on year-on-year basis. Our new title QQ Speed Mobile became the second-highest smart phone game in China's iOS Top Grossing Chart during the first quarter. QQ Speed Mobile appealed to the existing players of the PC version, and also pulled in a substantial number of users new to the franchise, demonstrating our ability to extend successful game franchises from PC to mobile, and to expand their user base in that process. In the most recent months, our platform has been focused on growing the user bases for our non-monetized tactical tournament games. The delay in China monetization and heavy marketing expenses is expected to impact our mobile games revenues in short term.

PC client games achieved approximately RMB14.1 billion revenues, flat compared with the prior year period. Active users declined due to the continued time shift to mobile devices while core user engagement remained largely stable. Revenues grew 10% sequentially, driven by seasonal content updates and marketing activities held during the Chinese New Year. DnF, which will celebrate the 10th anniversary of its China launch in June, delivered record quarterly revenues in the first quarter, demonstrating our capability to manage game franchises for the long term.

We will seek to expand our PC game franchises through the launch of new titles including the China PC versions tactical tournament games plus several sandbox games. We also have upgraded versions for soccer and basketball games in our pipeline. To further enhance our user engagement, we are deepening game promotions with live broadcast platforms, such as Douyu and Huya.

Digital Content

Total fee-based VAS subscriptions grew by 24% year-on-year to 147 million, primarily driven by video and music streaming services. Tencent Video reinforced its industry leadership in China by mobile DAU and subscriptions. We strengthened user engagement of our video platform, where the number of DAU and per user time spent on mobile grew rapidly year-on-year. Mobile daily video views increased by over 60% year-on-year, driven by the premium quality content from our self-commissioned and licensed productions. Total video revenues were up 75% year-on-year. Our investment in self-commissioned content successfully enhanced Tencent Video's user engagement, contributing to increased conversion to subscription rates and subscriber retention rates. We grew our video subscription revenues by 85% year-on-year.

We offered a mini video sharing app, WeiShi, to serve our users' short-session entertainment needs. WeiShi offers users a wide range of high quality PUGC (professional user generated content) from the market as well as our licensed digital content libraries covering music, games, sports and variety shows. It also distributes the content across our feed verticals, such as QQ KanDian and Mobile QQ Browser.

Online Advertising

Our online advertising business achieved 55% year-on-year growth in revenues. For media advertising, revenues grew by 31% year-on-year. Within which, video ad revenues increased 64% year-on-year due to more pre-roll ads benefiting from the growth in video views, and our enhanced capability to develop creative ad formats within original productions. Video and news revenues decreased quarter-to-quarter due to the low seasonality for advertising activity in the first quarter.

For social and others advertising, the 69% year-on-year increase in revenues was driven by an expanded advertiser base boosting ad fill rates in Weixin Moments, and higher CPC for our Mobile Ad Network. The sequential decrease in revenues was mainly due to the low seasonality in the first quarter. Amid the low seasonality, QQ KanDian revenues increased due to fast growth in traffic. To cater to the strong demand for social advertising on our platforms, Weixin Moments increased its maximum ad load to two advertisements per user day in late March. Given our ad loads for social and feeds products are only small fractions of those of industry peers, we believe there is a long runway for continued growth of our social and others advertising.

Others

Our other businesses grew revenues by 111% year-on-year, driven by our payment solution business and related financial services, as well as our cloud services business. The growth in our payment solution business was mainly

contributed by the rapidly increasing offline commercial transaction volumes and consumer cash withdrawal fees.

Our cloud services revenues more than doubled on a year-on-year basis, which was driven by the growth in games video, eCommerce and O2O industries. We rolled out new customized cloud products targeting financial, municipal and retail clients. Utilizing our advanced data analytics and AI technologies, we offered customized cloud solutions to large financial institutions, supermarkets, chain stores and leading fashion retailers, enabling them to achieve rapid sales growth and enhanced security. We will strengthen our core competencies in game and video cloud services, and our presence in categories such as financial, municipal and retail services. We will expand our global cloud infrastructure to support the overseas expansion of our external clients and internal businesses such as games.

For other detailed disclosure, please refer to our website www.tencent.com/ir, or follow us via Weixin Official Account (Weixin ID: Tencent_IR):



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About Tencent

Tencent uses technology to enrich the lives of Internet users. Our social products Weixin and QQ link our users to a rich digital content catalogue including games, video, music and books. Our proprietary targeting technology helps advertisers reach out to hundreds of millions of consumers in China. Our infrastructure services including payment, security, cloud and artificial intelligence create differentiated offerings and support our partners' business growth. Tencent invests heavily in people and innovation, enabling us to evolve with the Internet.

Tencent was founded in Shenzhen, China, in 1998. Shares of Tencent (00700.HK) are traded on the Main Board of the Stock Exchange of Hong Kong.

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Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain additional non-GAAP financial measures (in terms of, operating profit, operating margin, profit for the period, net margin, profit attributable to equity holders of the Company, basic EPS and diluted EPS), have been presented in this press release. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impacts of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

Forward-Looking Statements

This press release contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Company. These forward-looking statements are based on information currently available to the Company and are stated herein on the basis of the outlook at the time of this press release. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying the forward-looking statements is a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents on our corporate website.

CONSOLIDATED INCOME STATEMENT

RMB in million, unless specified

	Unaudited		Unaudited	
	1Q2018	1Q2017	1Q2018	4Q2017
Revenues	73,528	49,552	73,528	66,392
VAS	46,877	35,108	46,877	39,947
Online advertising	10,689	6,888	10,689	12,361
Others	15,962	7,556	15,962	14,084
Cost of revenues	(36,486)	(24,109)	(36,486)	(34,897)
Gross profit	37,042	25,443	37,042	31,495
	<i>Gross margin</i>	<i>50%</i>	<i>51%</i>	<i>47%</i>
Interest income	1,065	808	1,065	1,156
Other gains, net	7,585	3,191	7,585	7,906
Selling and marketing expenses	(5,570)	(3,158)	(5,570)	(6,022)
General and administrative expenses	(9,430)	(7,012)	(9,430)	(8,811)
Operating profit	30,692	19,272	30,692	25,724
	<i>Operating margin</i>	<i>42%</i>	<i>39%</i>	<i>39%</i>
Finance costs, net	(654)	(691)	(654)	(859)
Share of profit/(loss) of associates and joint ventures	(319)	(375)	(319)	(120)
Profit before income tax	29,719	18,206	29,719	24,745
Income tax expense	(5,746)	(3,658)	(5,746)	(3,123)
Profit for the period	23,973	14,548	23,973	21,622
	<i>Net margin</i>	<i>33%</i>	<i>29%</i>	<i>33%</i>
Attributable to:				
Equity holders of the Company	23,290	14,476	23,290	20,797
Non-controlling interests	683	72	683	825
Non-GAAP profit attributable to equity holders of the Company	18,313	14,211	18,313	17,454
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	2.470	1.540	2.470	2.206
- diluted	2.435	1.522	2.435	2.177

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in million, unless specified

	Unaudited	
	1Q2018	1Q2017
Profit for the period	23,973	14,548
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income of associates and joint ventures	95	111
Net gains from changes in fair value of available-for-sale financial assets	-	7,226
Transfer to profit or loss upon disposal of available-for-sale financial assets	-	(1,832)
Currency translation differences	(5,379)	(985)
Other fair value gains	861	59
<i>Items that may not be subsequently reclassified to profit or loss</i>		
Net gains from changes in fair value of financial assets at fair value through comprehensive income	1,070	-
Other fair value losses	(41)	(343)
	(3,394)	4,236
Total comprehensive income for the period	20,579	18,784
Attributable to:		
Equity holders of the Company	20,144	18,717
Non-controlling interests	435	67

OTHER FINANCIAL INFORMATION

RMB in million, unless specified

	Unaudited		
	1Q2018	4Q2017	1Q2017
EBITDA (a)	29,247	23,278	19,995
Adjusted EBITDA (a)	30,856	25,127	21,300
Adjusted EBITDA margin (b)	42%	38%	43%
Interest expense	1,067	839	667
Net (debt)/ cash (c)	(14,533)	16,332	27,572
Capital expenditures (d)	6,318	4,975	2,108

Note:

- (a) EBITDA consists of operating profit less interest income and other gains/losses, net, and plus depreciation of property, plant and equipment as well as investment properties, and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net (debt)/ cash represents period end balance and is calculated as cash and cash equivalents, plus term deposits and others, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding media contents, game licenses and other contents).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in million, unless specified

	<u>Unaudited</u>	<u>Audited</u>
	<u>31-Mar-18</u>	<u>31-Dec-17</u>
ASSETS		
Non-current assets		
Property, plant and equipment	25,884	23,597
Construction in progress	3,325	3,163
Investment properties	771	800
Land use rights	6,883	5,111
Intangible assets	41,239	40,266
Investments in associates	135,118	113,779
Investments in redeemable instruments of associates	-	22,976
Investments in joint ventures	5,598	7,826
Financial assets at fair value through profit or loss	111,471	-
Financial assets at fair value through other comprehensive income	70,622	-
Available-for-sale financial assets	-	127,218
Prepayments, deposits and other assets	12,977	11,173
Other financial assets	2,118	5,159
Deferred income tax assets	10,369	9,793
Term deposits	5	5,365
	<u>426,380</u>	<u>376,226</u>
Current assets		
Inventories	285	295
Accounts receivable	20,627	16,549
Prepayments, deposits and other assets	22,349	17,110
Other financial assets	466	465
Financial assets at fair value through profit or loss	5,022	-
Term deposits	20,287	36,724
Restricted cash	1,694	1,606
Cash and cash equivalents	117,072	105,697
	<u>187,802</u>	<u>178,446</u>
Total assets	<u><u>614,182</u></u>	<u><u>554,672</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in million, unless specified

	Unaudited	Audited
	31-Mar-18	31-Dec-17
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	23,551	22,204
Shares held for share award schemes	(4,095)	(3,970)
Other reserves	15,937	35,158
Retained earnings	242,150	202,682
	277,543	256,074
Non-controlling interests	23,512	21,019
Total equity	301,055	277,093
LIABILITIES		
Non-current liabilities		
Borrowings	78,695	82,094
Notes payable	59,528	29,363
Long-term payables	4,939	3,862
Other financial liabilities	1,898	2,154
Deferred income tax liabilities	8,808	5,975
Deferred revenue	3,592	2,391
	157,460	125,839
Current liabilities		
Accounts payable	53,890	50,085
Other payables and accruals	27,433	29,433
Borrowings	18,037	15,696
Notes payable	799	4,752
Current income tax liabilities	8,748	8,708
Other tax liabilities	1,552	934
Deferred revenue	45,208	42,132
	155,667	151,740
Total liabilities	313,127	277,579
Total equity and liabilities	614,182	554,672

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

RMB in million, unless specified	As reported	Adjustments				Non-GAAP
		Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
Unaudited three months ended March 31, 2018						
Operating profit	30,692	1,632	(7,788)	100	636	25,272
Profit for the period	23,973	1,682	(7,765)	531	709	19,130
Profit attributable to equity holders	23,290	1,585	(7,766)	495	709	18,313
Operating margin	42%					34%
Net margin	33%					26%
Unaudited three months ended December 31, 2017						
Operating profit	25,724	1,874	(6,281)	112	424	21,853
Profit for the period	21,622	2,146	(6,229)	474	358	18,371
Profit attributable to equity holders	20,797	2,084	(6,189)	442	320	17,454
Operating margin	39%					33%
Net margin	33%					28%
Unaudited three months ended March 31, 2017						
Operating profit	19,272	1,339	(2,747)	153	503	18,520
Profit for the period	14,548	1,530	(2,717)	500	511	14,372
Profit attributable to equity holders	14,476	1,483	(2,717)	458	511	14,211
Operating margin	39%					37%
Net margin	29%					29%

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Including net (gains)/losses on deemed disposals, disposals of investee companies and businesses, and fair value changes arising from investments
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, joint ventures, AFS and intangible assets arising from acquisitions