2019 First Quarter Results Presentation

May 15, 2019
Cautionary Note

This presentation may contain forward-looking statements relating to the forecasts, targets, outlook, estimates of financial performance, opportunities, challenges, business developments, business plans and growth strategies of Tencent Holdings Limited (the “Company” or “Tencent”) and its group companies. These forward-looking statements are based on information currently available to Tencent and are stated here on the basis of the outlook at the time that this presentation was produced. The Company undertakes no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. The forward-looking statements are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. The forward-looking statements may prove to be incorrect and may not be realized in the future. Underlying the forward-looking statements are a large number of risks and uncertainties. Therefore you should not rely on any of these forward-looking statements. Please see our various other public disclosure documents for a detailed discussion of those risks and uncertainties.

This presentation also contains some unaudited non-GAAP financial measures which should be considered in addition to, but not as a substitute for, measures of the Company’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 Company’s core operations by excluding certain non-cash items and certain impact of acquisitions. For further explanation of our non-GAAP measures and reconciliations between our GAAP and non-GAAP results, please refer to our earnings announcement.

In addition, information relating to other companies and the market in general presented in these materials has been obtained from publicly available information and other sources. The accuracy and appropriateness of that information has not been verified by Tencent and cannot be guaranteed.

The reporting currency of the company is Renminbi. For the purpose of this presentation, all figures quoted in US dollars are based on the exchange rate of US$1 to RMB6.7335 for 1Q2019.
1. Overview
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## Financial Highlights

<table>
<thead>
<tr>
<th>in billion RMB</th>
<th>1Q2019</th>
<th>1Q2018</th>
<th>YoY</th>
<th>4Q2018</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>85.5</td>
<td>73.5</td>
<td>+16%</td>
<td>84.9</td>
<td>+1%</td>
</tr>
<tr>
<td>Value Added Services</td>
<td>49.0</td>
<td>46.9</td>
<td>+4%</td>
<td>43.7</td>
<td>+12%</td>
</tr>
<tr>
<td>Social Networks</td>
<td>20.5</td>
<td>18.1</td>
<td>+13%</td>
<td>19.5</td>
<td>+5%</td>
</tr>
<tr>
<td>Online Games</td>
<td>28.5</td>
<td>28.8</td>
<td>-1%</td>
<td>24.2</td>
<td>+18%</td>
</tr>
<tr>
<td>Online Advertising</td>
<td>13.4</td>
<td>10.7</td>
<td>+25%</td>
<td>17.0</td>
<td>-21%</td>
</tr>
<tr>
<td>Media</td>
<td>3.5</td>
<td>3.3</td>
<td>+5%</td>
<td>5.2</td>
<td>-33%</td>
</tr>
<tr>
<td>Social and Others</td>
<td>9.9</td>
<td>7.4</td>
<td>+34%</td>
<td>11.8</td>
<td>-16%</td>
</tr>
<tr>
<td>FinTech and Business Services</td>
<td>21.8</td>
<td>15.2</td>
<td>+44%</td>
<td>21.6</td>
<td>+1%</td>
</tr>
<tr>
<td>Others</td>
<td>1.3</td>
<td>0.7</td>
<td>+70%</td>
<td>2.6</td>
<td>-49%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>39.8</td>
<td>37.0</td>
<td>+7%</td>
<td>35.2</td>
<td>+13%</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>36.7</td>
<td>30.7</td>
<td>+20%</td>
<td>17.3</td>
<td>+113%</td>
</tr>
<tr>
<td>Net Profit to Shareholders</td>
<td>27.2</td>
<td>23.3</td>
<td>+17%</td>
<td>14.2</td>
<td>+91%</td>
</tr>
</tbody>
</table>

### Non-GAAP*

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>28.5</td>
<td>25.3</td>
<td>+13%</td>
<td>22.4</td>
<td>+27%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>33.3%</td>
<td>34.4%</td>
<td>-1.1ppt</td>
<td>26.4%</td>
<td>+6.9ppt</td>
</tr>
<tr>
<td>Net Profit to Shareholders</td>
<td>20.9</td>
<td>18.3</td>
<td>+14%</td>
<td>19.7</td>
<td>+6%</td>
</tr>
</tbody>
</table>

* Please refer to Slide 19 for details of non-GAAP adjustments.
Online Games Platform
- #1 by users in China, both PC and smart phone
- #1 globally by revenue

Weixin & WeChat
- #1 smart phone community
- MAU at 1,112m

QQ & Qzone
- QQ smart devices MAU at 700m
- Qzone smart devices MAU at 572m

Video
- #1 by mobile DAU and subscription revenue

News
- #1 news services by MAU

Music
- #1 music services platform

Literature
- #1 online content library and publishing platform

Mobile Payment
- #1 by MAU & DAU

App Store
- #1 by MAU

Mobile Security
- #1 by MAU

Mobile Browser
- #1 by MAU

*All rankings above refer to China market, unless otherwise stated. Company data as of March 31 2019.
1. Overview

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### FinTech and Business Services

**New revenue segment marks the milestone for new business development**

- Rapidly-emerging demand for digital payment, financial services and enterprise solutions
- Synergies with our existing consumer services
- Robust scale and operational expertise built up via substantial organic investments
- Expand Tencent capabilities and broaden revenue base

#### FinTech Services

<table>
<thead>
<tr>
<th>Revenue Streams</th>
<th>Payments:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Take-rate on commercial transactions collected from merchants</td>
<td></td>
</tr>
<tr>
<td>- Cash withdrawal fee and credit card repayment charges collected from users</td>
<td></td>
</tr>
<tr>
<td>- Other FinTech services: fees and commissions from financial institution partners</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Dynamics</th>
<th>Social payment fees recover costs; seasonally lower in 1Q due to less cash withdrawals</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Commercial payment generates reasonable gross margin, bears marketing costs</td>
<td></td>
</tr>
<tr>
<td>- Micro-loans and wealth management products contribute additional profit</td>
<td></td>
</tr>
<tr>
<td>- Operating in a highly regulated environment</td>
<td></td>
</tr>
</tbody>
</table>

#### Business Services

| Cloud: charges enterprise customers for IaaS, PaaS and SaaS products, and technology solutions |
| Smart Industry solutions: service fees from partners |

| IaaS and PaaS have low margins, and capital-intensive |
| SaaS and tailored technology solutions generate healthy margins, currently at small scale |
| Smart industry solutions at nascent stage, but carry long-term potential |
FinTech Services
Long term investment and risk-conscious growth

- **Payments technology**: launched Tenpay on PC in 2005; Weixin expedited transition to mobile payment and expanded user adoption
- **Consumer adoption**: massive user activation via social payment, e.g., red envelope gifting, then extended to consumer payment in commercial transactions; strengthening stickiness via more use cases
- **Merchant adoption**: expand ecosystem via strategic business partnerships and channel cooperation; additional benefit from investee companies’ merchant networks; deepen penetration in multiple verticals
- **Innovative tools**: QR codes and Mini Programs enable online and offline convergence
- **Other FinTech services**: upsell consumer finance products, e.g., personal wealth management and insurance, and provide micro-loan products; complete transaction using Weixin Pay
- **Risk management**: strong focus on risk management, growing business at measured pace
Business Services
Supporting enterprises to upgrade to Industrial Internet

➢ **Infrastructure:** Internal cloud requirement already at substantial scale, even before serving external customers

➢ **Technology:** integrated our own capabilities such as security, AI, LBS, etc., into our external cloud-based solutions to assist the digital transformation of enterprises

➢ **Differentiation:** connect developers and enterprises to the vast and active user bases on Weixin, QQ, Official Accounts, Mini Programs, payment, WeChat Work

➢ **Competitive offerings:**
  - Over 200 IaaS, PaaS and SaaS products, more than 90 industry-specific solutions
  - 53 availability zones from 25 geographic regions worldwide
  - Secure, stable and scalable services maximize value for enterprise IT budget

➢ **Breakthrough in verticals:**
  - Internet: games, video, eCommerce, other internet services
  - Smart industries: finance, retail, municipal services, tourism, healthcare and other industries

- **2010**
  - Provide cloud infrastructure to web game developers

- **2013**
  - Officially launched

- **2016**
  - Expanded to **Smart Industries:** Financial
  - Market leader in **Games** and **Video** verticals; deepening penetration to **other Internet** verticals

- **2017**
  - A showcase in **Tourism** vertical in Yunnan Province

- **2018**
  - **WeChat Work** integrates with Weixin
  - Established **CSIG**
  - Expanded to **Retail** and **Healthcare**
  - Digital Guangdong supporting **Municipal Services**
  - Expanded to **Retail** and **Healthcare**
  - Digital Guangdong supporting **Municipal Services**

*Timeline:* 2010, 2013, 2016, 2017, 2018
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Starting 1Q19, we move “FinTech and Business Services” revenues out of the Others segment to form a new segment. Please refer to Slide 16 for retrospective figures.
Value Added Services

Social Networks

➢ Virtual gift sales in live streaming services and video subscriptions contributed to revenue growth; in-game item sales also boosted QoQ revenue growth

➢ Total VAS subscriptions increased 13% YoY to 165 million, mainly due to video and music services. Video subs counts at 89 million, up 43% YoY and stable QoQ

Online Games

➢ Total cash receipts grew 10% YoY, while reported revenue dipped 1%, the difference was a result of our deferral policy. PC client games revenue was down 2% YoY to RMB 13.8 billion; total smart phone games revenue* was down 2% YoY to RMB 21.2 billion, due to fewer games released

➢ Favourable seasonality and content updates in key titles benefitted sequential revenue growth. PC client games revenue was up 24% QoQ, total smart phone games revenue increased 11% QoQ

*Total smart phone games revenue Includes smart phone games revenue booked under Online Games and related platform revenue booked under Social Networks.
Enrich features and use cases to increase social interaction and time spent

- Social video: Weixin’s and Mobile QQ’s in-app camera facilitates users recording and sharing with-friends samples of their daily lives, resulting in hundreds of millions videos uploaded per day

- Content video: Tencent Video and WeiShi produced appealing content that prompted young people to watch and vote within the apps, as well as share with Weixin and QQ social graph

- Weixin Mini Programs distributed via Weixin chat groups enable social recommendation of products and services, e.g., community group buying

- Released Mobile QQ Version 8.0 in April, with features for young users such as recommending new friends based on similar interests, and upgraded technical architecture to support Mini Programs & Mini Games
VAS - Online Games

Smart Phone Games

➢ Total DAU rose; paying users grew QoQ
  • HoK content update increased user engagement, paying users and revenue
  • Perfect World Mobile, released in early Mar, contributed to DAU and cash receipts, less so to quarterly revenue
  • PUBG MOBILE exceeded 100 million* international MAU; new Royale Pass during anniversary activities drove monetization

➢ Multiple initiatives to revitalize growth
  • New mid/hard core game releases in 2Q, e.g., Peacekeeper Elite
  • Introduced Season Passes in key games in China, e.g., CFM, HoK, QQ Speed Mobile
  • Identifying new games suitable for publishing in international markets

PC Client Games

➢ Core users’ activity levels in key titles remained healthy QoQ
  • LoL user engagement grew, following introduction of more popular skins; cash receipts increased
  • DnF released a major content update with higher level cap in late Jan; Chinese New Year promotional packages increased paying users QoQ

* Source: App Annie
Online Advertising

健康的年度同比增长，考虑到庞大的基数和充满挑战的宏观经济环境。

序列为，由于1Q的较弱季节性，收入下降。

媒体广告收入同比增长，主要受增长的瀑布流广告推动，部分被减少的预卷广告所抵消，因为顶级电视剧的重新安排。

社交广告收入同比增长，由于更高的广告填充率和广告负载，以及整体用户体验；将重点放在优化广告商回报上，而不是追求短期收入最大化。

继续以可控制的速度增长，实现广告负载和用户体验之间的平衡，”

Media                   Social and Others   (in billion RMB)

1Q18                      1Q19                      4Q18          1Q19

10.7                      13.4                      17.0          13.4

3.3                      3.5                      5.2           3.5

7.4                      9.9                      11.8          9.9

+25% YoY                  -21% QoQ                  +5%           -33%

+34%                      -33%                      +25%          -16%

➢ Healthy revenue growth YoY, given large base and challenging macro environment. Sequentially, revenue decreased due to weak seasonality in 1Q

➢ Media ad revenue slightly increased YoY, mainly driven by growth of in-feed ads, partially offset by reduced pre-roll ads due to rescheduling of top-tier drama series

➢ Social ad revenue increased YoY due to higher ad fill rates and ad loads across inventories. Sequentially, bidding intensity reduced from eCommerce high season last quarter, pushing CPC down

➢ Continue to grow business at a measured pace, striking a balance between ad load and overall user experience; focus on optimizing advertiser returns rather than maximizing short-term revenues
FinTech and Business Services

- Revenue increased rapidly YoY, while broadly stable QoQ:
  - YoY: commercial payment, other FinTech services, and cloud services, grew robustly
  - QoQ: growth in commercial payment and cloud services offset absence of interest income from custodian cash accounts

- Within FinTech Services, commercial payment volume increased YoY driven by more transactions per user. Per user transactions benefited from monthly active merchants more than doubling YoY

- Within Business Services, cloud services sustained rapid YoY revenue growth; paying customer base grew quickly, supported by enhanced and broader offerings in IaaS and PaaS

*Segment revenue was RMB15,182 million in 1Q2018, RMB16,666 million in 2Q2018, RMB19,693 million in 3Q2018 and RMB21,597 million in 4Q2018.
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# Income Statement

<table>
<thead>
<tr>
<th>in million RMB</th>
<th>1Q2019</th>
<th>1Q2018</th>
<th>YoY</th>
<th>4Q2018</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>85,465</td>
<td>73,528</td>
<td>+16%</td>
<td>84,896</td>
<td>+1%</td>
</tr>
<tr>
<td>COPS</td>
<td>(45,645)</td>
<td>(36,486)</td>
<td>+25%</td>
<td>(49,744)</td>
<td>-8%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>39,820</td>
<td>37,042</td>
<td>+7%</td>
<td>35,152</td>
<td>+13%</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,408</td>
<td>1,065</td>
<td>+32%</td>
<td>1,350</td>
<td>+4%</td>
</tr>
<tr>
<td>Other gains/(losses), net</td>
<td>11,089</td>
<td>7,585</td>
<td>+46%</td>
<td>(2,139)</td>
<td>N/A</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(15,575)</td>
<td>(15,000)</td>
<td>+4%</td>
<td>(17,075)</td>
<td>-9%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>36,742</td>
<td>30,692</td>
<td>+20%</td>
<td>17,288</td>
<td>+113%</td>
</tr>
<tr>
<td>Finance costs, net</td>
<td>(1,117)</td>
<td>(654)</td>
<td>+71%</td>
<td>(1,372)</td>
<td>-19%</td>
</tr>
<tr>
<td>Share of (losses)/profits of associates &amp; JV</td>
<td>(2,957)</td>
<td>(319)</td>
<td>+827%</td>
<td>16</td>
<td>N/A</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(4,812)</td>
<td>(5,746)</td>
<td>-16%</td>
<td>(1,906)</td>
<td>+152%</td>
</tr>
<tr>
<td>Net profit</td>
<td>27,856</td>
<td>23,973</td>
<td>+16%</td>
<td>14,026</td>
<td>+99%</td>
</tr>
<tr>
<td>Net profit to shareholders</td>
<td>27,210</td>
<td>23,290</td>
<td>+17%</td>
<td>14,229</td>
<td>+91%</td>
</tr>
<tr>
<td>Diluted EPS in RMB</td>
<td>2.844</td>
<td>2.435</td>
<td>+17%</td>
<td>1.489</td>
<td>+91%</td>
</tr>
</tbody>
</table>

**Non-GAAP:**

<table>
<thead>
<tr>
<th></th>
<th>1Q2019</th>
<th>1Q2018</th>
<th>YoY</th>
<th>4Q2018</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit to shareholders</td>
<td>20,930</td>
<td>18,313</td>
<td>+14%</td>
<td>19,730</td>
<td>+6%</td>
</tr>
<tr>
<td>Diluted EPS in RMB</td>
<td>2.187</td>
<td>1.915</td>
<td>+14%</td>
<td>2.065</td>
<td>+6%</td>
</tr>
</tbody>
</table>
## Non-GAAP Adjustments

<table>
<thead>
<tr>
<th>in million RMB</th>
<th>GAAP 1Q2019</th>
<th>SBC</th>
<th>Net (gains)/losses from investee companies*</th>
<th>Amortisation of intangible assets</th>
<th>Impairment provision**</th>
<th>Non-GAAP 1Q2019</th>
<th>YoY change</th>
<th>QoQ change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>36,742</td>
<td>2,033</td>
<td>(10,546)</td>
<td>114</td>
<td>127</td>
<td>28,470</td>
<td>+13%</td>
<td>+27%</td>
</tr>
<tr>
<td>Net profit</td>
<td>27,856</td>
<td>2,564</td>
<td>(10,397)</td>
<td>1,061</td>
<td>589</td>
<td>21,673</td>
<td>+13%</td>
<td>+7%</td>
</tr>
<tr>
<td>Net profit to shareholders</td>
<td>27,210</td>
<td>2,477</td>
<td>(10,366)</td>
<td>1,020</td>
<td>589</td>
<td>20,930</td>
<td>+14%</td>
<td>+6%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>43.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>33.3%</td>
<td>-1.1ppt</td>
<td>+6.9ppt</td>
</tr>
<tr>
<td>Net margin</td>
<td>32.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25.4%</td>
<td>-0.6ppt</td>
<td>+1.6ppt</td>
</tr>
</tbody>
</table>

* Including net (gains)/losses on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, and other expenses incurred from equity transactions of investees.

** Impairment provision for associates, joint ventures and intangible assets arising from acquisitions.
Segment Gross Margin

VAS (%)

Online Advertising (%)

FinTech and Business Services (%)

1Q16  2Q16  3Q16  4Q16  1Q17  2Q17  3Q17  4Q17  1Q18  2Q18  3Q18  4Q18  1Q19

26.1  26.0  25.1  24.5  28.5
Operating Expenses

**S&M**
(in billion RMB)

- 1Q18: 5.6
- 1Q19: 4.2
- YoY: -24%

- 4Q18: 5.7
- 1Q19: 4.2
- QoQ: -26%

**G&A**
(in billion RMB)

- 1Q18: 9.4
- 1Q19: 11.3
- YoY: +20%
- 4Q18: 11.4
- 1Q19: 11.3
- QoQ: stable

**R&D (within G&A)**
(in billion RMB)

- 1Q18: 5.0
- 1Q19: 6.5
- YoY: +30%
- 4Q18: 6.0
- 1Q19: 6.5
- QoQ: +9%
Margin Ratios

GAAP Gross Margin (%)

Non-GAAP Operating Margin (%)

Non-GAAP Net Margin (%)

1Q16 2Q16 3Q16 4Q16 1Q17 2Q17 3Q17 4Q17 1Q18 2Q18 3Q18 4Q18 1Q19
## CAPEX, FCF and Cash Position

<table>
<thead>
<tr>
<th>in million RMB</th>
<th>1Q2019</th>
<th>1Q2018</th>
<th>YoY</th>
<th>4Q2018</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating CAPEX</td>
<td>3,870</td>
<td>3,877</td>
<td>stable</td>
<td>3,671</td>
<td>+5%</td>
</tr>
<tr>
<td>Non-operating CAPEX</td>
<td>636</td>
<td>2,441</td>
<td>-74%</td>
<td>893</td>
<td>-29%</td>
</tr>
<tr>
<td><strong>Total CAPEX</strong></td>
<td>4,506</td>
<td>6,318</td>
<td>-29%</td>
<td>4,564</td>
<td>-1%</td>
</tr>
<tr>
<td>Operating Cash Flow*</td>
<td>28,799</td>
<td>20,753</td>
<td>+39%</td>
<td>34,391</td>
<td>-16%</td>
</tr>
<tr>
<td>Less: CAPEX Paid</td>
<td>4,866</td>
<td>6,825</td>
<td>-29%</td>
<td>4,598</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong>*</td>
<td>23,933</td>
<td>13,928</td>
<td>+72%</td>
<td>29,793</td>
<td>-20%</td>
</tr>
<tr>
<td>Total Cash</td>
<td>174,677</td>
<td>142,526</td>
<td>+23%</td>
<td>167,119</td>
<td>+5%</td>
</tr>
<tr>
<td>Less: Total Debt</td>
<td>184,272</td>
<td>157,059</td>
<td>+17%</td>
<td>179,289</td>
<td>+3%</td>
</tr>
<tr>
<td><strong>Cash Position</strong></td>
<td>(9,595)</td>
<td>(14,533)</td>
<td>Improved +34%</td>
<td>(12,170)</td>
<td>Improved +21%</td>
</tr>
</tbody>
</table>

Fair value of our shareholdings in listed investee companies (excluding subsidiaries) was approximately RMB310.7 billion as at March 31, 2019

* In 2019, we have reclassified interest paid from operating to financing cash flows, with comparative figures restated accordingly.
1. Overview
2. Strategy Review
3. Business Review
4. Financial Review
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Thank you!

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