

For Immediate Release

TENCENT ANNOUNCES 2018 THIRD QUARTER RESULTS

Hong Kong, November 14, 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 third quarter (“3Q2018”) ended September 30, 2018.

3Q2018 Key Highlights

Revenues: +24% YoY, non-GAAP Profit attributable to equity holders of the Company: +15% YoY

- Total revenues were RMB80,595 million (USD11,716 million¹), an increase of 24% over the third quarter of 2017 (“YoY”).
- Operating profit was RMB27,861 million (USD4,050 million), an increase of 22% YoY. Operating margin broadly stable at 35%.
- Profit for the period was RMB23,405 million (USD3,402 million), an increase of 30% YoY. Net margin increased to 29% from 28% last year.
- Profit attributable to equity holders of the Company for the quarter was RMB23,333 million (USD3,392 million), an increase of 30% YoY.
- Basic earnings per share were RMB2.469. Diluted earnings per share were RMB2.440.
- On a non-GAAP² basis, which excludes certain non-cash items and certain impact of M&A transactions:
 - Operating profit was RMB22,563 million (USD3,280 million), an increase of 4% YoY. Operating margin decreased to 28% from 33% last year.
 - Profit for the period was RMB20,423 million (USD2,969 million), an increase of 19% YoY. Net margin decreased to 25% from 26% last year.
 - Profit attributable to equity holders of the Company for the quarter was RMB19,710 million (USD2,865 million), an increase of 15% YoY.
 - Basic earnings per share were RMB2.085. Diluted earnings per share were RMB2.061.

“During the third quarter of 2018, we registered strong operating results in our businesses and maintained healthy financial metrics.” said Mr. Ma Huateng, Chairman and CEO of Tencent. “Our advertising, digital content, payment and cloud services sustained robust activity and revenue growth, and now account for the majority of our revenue. For our game business, we implemented stringent self-imposed limitations on games playing by minors, which we believe put the game industry on a healthy and more solid foundation for future development. At the end of the quarter, we upgraded our organisation to help enterprises and various industries to benefit from the new trend of industrial internet through digitisation and technology innovation, and to provide consumers with better integrated entertainment and social experiences, as well as to unify our advertising sales platforms. We believe this strategic organisational upgrade will position us well for future long-term growth.”

¹ Figures stated in USD are based on USD1 to RMB6.8792

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

3Q2018 Financial Review

Revenues increased by 24% year-on-year, primarily benefiting from growth in payment-related services, online advertising, digital content sales and cloud services.

Revenues from our VAS business increased by 5% to RMB44,049 million for the third quarter of 2018 on a year-on-year basis. Online games revenues decreased by 4% to RMB25,813 million, mainly reflecting a decline in revenues from our PC client games, partially offset by an increase in revenues from our smart phone games. Social networks revenues increased by 19% to RMB18,236 million, primarily driven by revenue growth from digital content services such as live broadcast services and video streaming subscriptions.

Revenues from our online advertising business increased by 47% to RMB16,247 million for the third quarter of 2018 on a year-on-year basis. Social and others advertising revenues grew by 61% to RMB11,157 million. The increase mainly reflected more advertising inventories for properties such as Weixin Moments and new advertising format such as Mini Programs, as well as growth in revenues from our mobile advertising network and QQ KanDian. Media advertising revenues increased by 23% to RMB5,090 million. The growth was primarily driven by higher advertising revenues from Tencent Video due to successful drama series and self-commissioned variety shows.

Revenues from our other businesses increased by 69% to RMB20,299 million for the third quarter of 2018 on a year-on-year basis, mainly driven by higher contributions from our payment-related and cloud services.

Operating profit increased by 22% year-on-year. Non-GAAP operating profit increased by 4% year-on-year.

Profit attributable to equity holders of the Company increased by 30% year-on-year, mainly due to higher net other gains generated from investment related items compared to the same period last year. Non-GAAP profit attributable to equity holders increased by 15% year-on-year.

Other Key Financial Information for 3Q2018

Share-based compensation was RMB2,011 million, up 23% YoY.

EBITDA was RMB27,568 million, up 15% YoY. Adjusted EBITDA was RMB29,577 million, up 15% YoY.

Capital expenditure was RMB5,974 million, up 71% YoY.

Free cash flow was RMB26,354 million, down 4% YoY.

As at 30 September, 2018, net debt position totalled RMB29,227 million. Fair value of our stakes in listed investee companies (excluding subsidiaries) totalled RMB273,104 million as at 30 September 2018.

Business Review and Outlook

1. Company Strategic Highlights

In October 2018, we announced a strategic organisational upgrade in order to enhance our utilisation of internal resources and our competitive advantages, so as to better capture growth opportunities emerging from the new Internet era.

The upgrade involves the formation of two new business groups, the Platform and Content Group (PCG), and the Cloud and Smart Industries Group (CSIG), and of a new business line, Advertising and Marketing Services (AMS), from the reorganisation of three existing business groups – the Mobile Internet Group (MIG), the Online Media Group (OMG) and the Social Network Group (SNG).

Given users' increasing demand for multimedia content and content creators' need for content distribution platforms, we are pairing our digital content services together with our social and other high traffic platforms in the PCG.

We believe we can provide advanced technologies and capabilities including cloud computing, big data, AI, security, and location-based services (LBS) to traditional industries undergoing digital transformation via our CSIG.

We are consolidating our advertising operations into the AMS line, within our Corporate Development Group (CDG), in order to leverage our integrated resources in social, video, news and information media, and to bring greater value to advertisers.

2. Company Business Highlights

Operating Information

	As at 30 September 2018	As at 30 September 2017 <small>(in millions, unless specified)</small>	Year- on-year change	As at 30 June 2018	Quarter- on-quarter change
MAU of QQ	802.6	843.2	-4.8%	803.2	-0.1%
Smart device MAU of QQ	697.9	652.9	6.9%	708.6	-1.5%
Combined MAU of Weixin and WeChat	1,082.5	980.0	10.5%	1,057.7	2.3%
Smart device MAU of Qzone	531.1	551.8	-3.8%	542.7	-2.1%
Fee-based VAS registered subscriptions	154.1	125.3	23.0%	153.9	0.1%

Communication and Social

- **QQ:** Smart device MAU increased by 6.9% year-on-year to 697.9 million. We continued to expand our young user base and enhanced engagement with this targeted group via new entertainment-driven features and enriched video content. MAU and DAU for users aged 21 years or below grew year-on-year and quarter-on-quarter, and smart device MAU for young users climbed 16% year-on-year. Young users' time spent within Mobile QQ increased steadily year-on-year and quarter-on-quarter, mainly driven by increased consumption of video content and new interactive features. We reached 7 billion daily short and mini content video views across Tencent platforms, in particular QQ KanDian, our newsfeed service within Mobile QQ.
- **Weixin and WeChat:** MAU reached 1,082.5 million, up 10.5% year-on-year. We saw healthy growth in user engagement benefiting from the increasing use cases offered by Mini Programs and Weixin Pay. Mini Programs deepened penetration across different industries, such as transportation and healthcare. User activity within Weixin benefited from strong growth in social video content viewing, with hundreds of millions of daily social video uploads.

Online Games

Smart phone games revenues (including smart phone games revenues attributable to our social networks business) grew 7% year-on-year and 11% sequentially to RMB19.5 billion, mainly due to the contributions from new games. We released 10 new titles, including Free Fantasy Online Mobile, MT4 and Saint Seiya during the quarter. Benefiting from positive seasonality and new avatar personalisation items, Honour of Kings' paying users increased sequentially, resulting in increased revenues quarter-on-quarter. Honour of Kings continued to be the leading game in China in terms of MAU and DAU. During the quarter, we further increased our smart phone games market share by user and time spent.

We have 15 games with monetisation approval, mostly RPG and action titles based on established IPs, in our game pipeline.

In international market, our PUBG MOBILE title became the 2nd most popular smart phone game globally (excluding China) by MAU, according to AppAnnie.

PC client games revenues were down by 15% year-on-year and down by 4% quarter-on-quarter to RMB12.4 billion. The year-on-year revenue decline was due to users' migration to mobile games and the high base in the same quarter last year. While our reported revenues declined quarter-on-quarter, our cash sales (before deferral) increased, benefiting from favourable seasonality and content updates for CrossFire, Dungeon & Fighter and our sports titles. In November 2018, League of Legends achieved viewership records for its World Championship final, at which Invictus Gaming became the first mainland China team to win the Championship.

As the leading game company in China, we are seeking to create a healthy game environment for children. We implemented stringent self-imposed limitations on game playing by minors and recently introduced measures, such as real-ID verification process and face recognition check, to enhance the implementation. We believe the initiatives put the game industry on a more sustainable foundation for future development.

Digital Content

Our fee-based VAS subscriptions were up by 23% year-on-year to 154 million subscriptions, mainly attributable to growth in video subscriptions, in turn due to popular premium content, such as drama series Ruyi's Royal Love in the Palace and anime series Land of Warriors. Digital content revenues grew at a double-digit percentage rate year-on-year and at a high single-digit percentage rate quarter-on-quarter, benefiting from increased monetisation of our live broadcast services, significant uptake of our video subscriptions, and more sales of music and literature products.

We achieved 82 million video subscriptions, up 79% year-on-year and 10% quarter-on-quarter. Three drama series (Legend of Fuyao, Ruyi's Royal Love in the Palace and Sand Sea), and the anime series (Land of Warriors), contributed substantially to the subscription growth.

Online Advertising

Our online advertising business achieved 47% year-on-year and 15% quarter-on-quarter growth in revenues.

Media advertising revenues grew by 23% year-on-year and 8% quarter-on-quarter. For video advertising, revenues growth of 34% year-on-year and 13% quarter-on-quarter benefited from commercially successful drama series and increased sponsorship advertising for self-commissioned variety shows. For news advertising, revenues increased year-on-year due to higher ad-fill rates, but decreased slightly quarter-on-quarter due to fewer sports events in the third quarter compared to the second quarter.

Social and others advertising revenues grew by 61% year-on-year mainly driven by Weixin Moments, Mini Programs, mobile advertising network and QQ KanDian. Social and others advertising revenues grew by 19% sequentially due primarily to increased impressions and click-throughs of Mini Programs advertisements, and more impressions of Weixin Moments advertisements. We have been expanding our long-tail advertiser base for Weixin Moments through cooperating with local advertising agencies and converting Weixin Pay merchants to advertisers.

Others

We recorded 69% year-on-year and 16% quarter-on-quarter revenue growth for our other businesses, mainly contributed by our payment-related services, and by our cloud services.

We maintained our leadership in China's mobile payment market in terms of MAU and DAU. Our daily

transaction volume increased over 50% year-on-year, within which our offline daily commercial payment transaction volume grew 200% year-on-year. We strengthened our payment infrastructure to ensure safer and more convenient payment services and largely completed our transition to the NetsUnion Clearing Corporation's centralised clearing and settlement system. In October 2018, we launched the first of its kind Cross-Border Mobile Payment services, allowing WeChat Pay HK users to conduct RMB-denominated transactions with Hong Kong dollars in Mainland China. Leveraging our large-scale payment platform and core technologies, we expanded our FinTech services in areas including wealth management, micro-loans and insurance. LiCaiTong added pension funds to its fund offering and its aggregated customer assets surpassed RMB500 billion at the end of the quarter. WeBank-originated WeiLiDai loan balances grew rapidly while their non-performing loan rate remained at below-industry level, benefiting from our advanced risk prediction models and user targeting.

Our cloud services revenues more than doubled year-on-year and increased at a double-digit percentage rate quarter-on-quarter. Revenues for the first three quarters of the year exceeded RMB6 billion. We sustained our leading cloud services position in the games and live broadcast sectors, and enlarged our presence in other sectors, such as finance and retail. The number of cloud paying customers grew at a triple-digit percentage rate year-on-year.

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	
	3Q2018	3Q2017	3Q2018	2Q2018
Revenues	80,595	65,210	80,595	73,675
VAS	44,049	42,124	44,049	42,069
Online advertising	16,247	11,042	16,247	14,110
Others	20,299	12,044	20,299	17,496
Cost of revenues	(45,115)	(33,529)	(45,115)	(39,229)
Gross profit	35,480	31,681	35,480	34,446
<i>Gross margin</i>	<i>44%</i>	<i>49%</i>	<i>44%</i>	<i>47%</i>
Interest income	1,082	1,017	1,082	1,072
Other gains, net	8,762	3,918	8,762	2,506
Selling and marketing expenses	(6,573)	(4,812)	(6,573)	(6,360)
General and administrative expenses	(10,890)	(9,058)	(10,890)	(9,857)
Operating profit	27,861	22,746	27,861	21,807
<i>Operating margin</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>30%</i>
Finance costs, net	(1,492)	(524)	(1,492)	(1,151)
Share of profit of associates and joint ventures	264	818	264	1,526
Profit before income tax	26,633	23,040	26,633	22,182
Income tax expense	(3,228)	(4,993)	(3,228)	(3,602)
Profit for the period	23,405	18,047	23,405	18,580
<i>Net margin</i>	<i>29%</i>	<i>28%</i>	<i>29%</i>	<i>25%</i>
Attributable to:				
Equity holders of the Company	23,333	18,006	23,333	17,867
Non-controlling interests	72	41	72	713
Non-GAAP profit attributable to equity holders of the Company	19,710	17,070	19,710	19,716
Earnings per share for profit attributable to equity holders of the Company				
(in RMB per share)				
- basic	2.469	1.912	2.469	1.893
- diluted	2.440	1.888	2.440	1.868

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in million, unless specified

	Unaudited	
	3Q2018	3Q2017
Profit for the period	23,405	18,047
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	41	336
Net gains from changes in fair value of available-for-sale financial assets	-	1,895
Transfer to profit or loss upon disposal of available-for-sale financial assets	-	(176)
Currency translation differences	4,462	(2,338)
Other fair value gains	223	270
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	(7,864)	-
Other fair value gains	22	241
	(3,116)	228
Total comprehensive income for the period	20,289	18,275
Attributable to:		
Equity holders of the Company	19,761	18,248
Non-controlling interests	528	27

OTHER FINANCIAL INFORMATION

RMB in million, unless specified

	Unaudited		
	3Q2018	2Q2018	3Q2017
EBITDA (a)	27,568	26,409	24,024
Adjusted EBITDA (a)	29,577	28,139	25,632
Adjusted EBITDA margin (b)	37%	38%	39%
Interest and related expenses	1,298	1,188	794
Net (debt)/ cash (c)	(29,227)	(35,301)	18,862
Capital expenditures (d)	5,974	7,085	3,492

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

	Unaudited	Audited
	30 September 2018	31 December 2017
ASSETS		
Non-current assets		
Property, plant and equipment	33,740	23,597
Construction in progress	4,386	3,163
Investment properties	736	800
Land use rights	7,033	5,111
Intangible assets	48,663	40,266
Investments in associates	214,178	113,779
Investments in redeemable instruments of associates	-	22,976
Investments in joint ventures	8,624	7,826
Financial assets at fair value through profit or loss	92,214	-
Financial assets at fair value through other comprehensive income	48,477	-
Available-for-sale financial assets	-	127,218
Prepayments, deposits and other assets	16,630	11,173
Other financial assets	2,923	5,159
Deferred income tax assets	13,850	9,793
Term deposits	-	5,365
	491,454	376,226
Current assets		
Inventories	456	295
Accounts receivable	25,736	16,549
Prepayments, deposits and other assets	26,208	17,110
Other financial assets	415	465
Financial assets at fair value through profit or loss	6,152	-
Term deposits	32,805	36,724
Restricted cash	2,306	1,606
Cash and cash equivalents	105,394	105,697
	199,472	178,446
Total assets	690,926	554,672

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in million, unless specified

	Unaudited	Audited
	30 September 2018	31 December 2017
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	25,767	22,204
Treasury shares	(102)	-
Shares held for share award schemes	(4,299)	(3,970)
Other reserves	7,063	35,158
Retained earnings	285,952	202,682
	314,381	256,074
Non-controlling interests	28,381	21,019
Total equity	342,762	277,093
LIABILITIES		
Non-current liabilities		
Borrowings	82,578	82,094
Notes payable	51,410	29,363
Long-term payables	6,072	3,862
Other financial liabilities	1,403	2,154
Deferred income tax liabilities	9,881	5,975
Deferred revenue	4,741	2,391
	156,085	125,839
Current liabilities		
Accounts payable	69,439	50,085
Other payables and accruals	30,482	29,433
Borrowings	25,965	15,696
Notes payable	13,747	4,752
Current income tax liabilities	9,511	8,708
Other tax liabilities	946	934
Deferred revenue	41,989	42,132
	192,079	151,740
Total liabilities	348,164	277,579
Total equity and liabilities	690,926	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 September 30, 2018						
Operating profit	27,861	2,011	(20,949)	127	13,513	22,563
Profit for the period	23,405	3,531	(20,840)	916	13,411	20,423
Profit attributable to equity holders	23,333	3,458	(20,819)	876	12,862	19,710
Operating margin	35%					28%
Net margin	29%					25%
Unaudited three months ended June 30, 2018						
Operating profit	21,807	1,798	(4,010)	99	2,564	22,258
Profit for the period	18,580	2,562	(4,033)	813	2,577	20,499
Profit attributable to equity holders	17,867	2,478	(3,986)	779	2,578	19,716
Operating margin	30%					30%
Net margin	25%					28%
Unaudited three months ended September 30, 2017						
Operating profit	22,746	1,632	(3,169)	110	295	21,614
Profit for the period	18,047	1,851	(3,475)	395	356	17,174
Profit attributable to equity holders	18,006	1,816	(3,475)	367	356	17,070
Operating margin	35%					33%
Net margin	28%					26%

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 investee companies
- (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