

For Immediate Release

TENCENT ANNOUNCES 2017 THIRD QUARTER RESULTS

Hong Kong, NOVEMBER 15, 2017 – 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 (“3Q2017”) ended September 30, 2017.

3Q2017 Key Highlights - Revenues: +61% YoY, non-GAAP net profit: +45% YoY

- Total revenues were RMB65,210 million (USD9,825 million¹), an increase of 61% over the third quarter of 2016 (“YoY”).
- Operating profit was RMB22,746 million (USD3,427 million), an increase of 57% YoY. Operating margin was 35%, down from 36% last year.
- Profit for the period was RMB18,047 million (USD2,719 million), an increase of 67% YoY. Net margin was 28%, increased from 27% last year.
- Profit attributable to equity holders of the Company for the period was RMB18,006 million (USD2,713 million), an increase of 69% YoY.
- Basic earnings per share were RMB1.912. Diluted earnings per share were RMB1.888.
- On a non-GAAP² basis, which excludes certain non-cash items and certain impact of M&A transactions:
 - Operating profit was RMB21,614 million (USD3,257 million), an increase of 44% YoY. Operating margin decreased to 33% from 37% last year.
 - Profit for the period was RMB17,174 million (USD2,588 million), an increase of 44% YoY. Net margin decreased to 26% from 30% last year.
 - Profit attributable to equity holders of the Company for the period was RMB17,070 million (USD2,572 million), an increase of 45% YoY.
 - Basic earnings per share were RMB1.812. Diluted earnings per share were RMB1.790.

Chairman and CEO of Tencent, Mr. Ma Huateng, said, “During the third quarter of 2017, we recorded strong business and revenue growth across multiple business lines including games, digital content, online advertising and payment related services. In particular, our video platform gained audience and revenue market share, we believe it has become China’s top online video platform in terms of mobile daily active users and subscriptions. We believe this success reflects our increasing investment in self-commissioned video content, our improved selection of licensed video content, and our scheduling and audience management initiatives. The listing of our online literature platform, China Literature, in November also reflects the value of our years of investment in the business. We believe our multi-faceted digital content businesses are synergistic with each other, and allow us to deliver unique content to our users.”

¹ Figures stated in USD are based on USD1 to RMB6.6369²

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

3Q2017 Financial Review

Revenues from our Value Added Services (VAS) business increased by 51% to RMB42,124 million for the third quarter of 2017 on a year-on-year basis. Online games revenues grew by 48% to RMB26,844 million. The increase mainly reflected contributions from our smart phone games, including existing titles such as Honour of Kings, and new titles such as the China version of Contra Return and Legacy TLBB Mobile. Revenues from PC client games also increased, benefiting from our key titles such as DnF and LoL. Social networks revenues increased by 56% to RMB15,280 million. The increase was primarily driven by revenue growth from digital content services such as live broadcast and subscription video on-demand, as well as from virtual item sales.

Revenues from our online advertising business increased by 48% to RMB11,042 million for the third quarter of 2017 on a year-on-year basis. Media advertising revenues increased by 29% to RMB4,122 million, primarily due to growth in revenues from our mobile media platforms such as Tencent Video, but decreased versus the high base effect from the Olympics Games a year ago. Social and others advertising revenues grew by 63% to RMB6,920 million, mainly reflecting higher advertising revenues derived from Weixin (primarily Weixin Moments and Weixin Official Accounts) and other mobile apps³.

Revenues from our other businesses increased by 143% to RMB12,044 million for the third quarter of 2017 on a year-on-year basis. The increase primarily reflected higher revenues from our payment related and cloud services.

Other Key Financial Information for 3Q2017

Share-based compensation was RMB1,632 million, up 44% YoY.

EBITDA was RMB24,024 million, up 51% YoY. Adjusted EBITDA was RMB25,632 million, up 51% YoY.

Capital expenditure was RMB3,492 million, down 4% YoY.

Free cash flow was RMB27,462 million, up 94% YoY.

As at September 30, 2017, net cash position totalled RMB18,862 million. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB 171.1 billion as at September 30, 2017.

Business Review and Outlook

In the third quarter of 2017,

We achieved 61% year-on-year revenue growth, driven primarily by smart phone games and PC games, payment related services, digital content subscriptions and sales, and online advertising. Operating profit grew by 57% year-on-year. Profit attributable to equity holders of the Company increased by 69% year-on-year. Non-GAAP profit attributable to equity holders of the Company increased by 45% year-on-year. Free cash flow

³ Since the first quarter of 2017, we have reclassified online advertising revenues. Before reclassification, performance-based advertising revenues increased by 61% to RMB7,017 million and brand display advertising revenues increased by 31% to RMB4,025 million for the third quarter of 2017 on a YoY basis

grew by 94% year-on-year.

Operating Information

- Monthly active user accounts (“MAU”) of QQ was 843 million, a decrease of 3.8% YoY.
- Smart device MAU of QQ was 653 million, a decrease of 2.5% YoY.
- Peak concurrent user accounts (“PCU”) of QQ (for the quarter) was 272 million, an increase of 8.9% YoY.
- Combined MAU of Weixin and WeChat were 980 million, an increase of 15.8% YoY.
- MAU of Qzone was 568 million, a decrease of 10.0% YoY.
- Smart device MAU of Qzone was 552 million, a decrease of 8.1% YoY.
- Fee-based VAS registered subscriptions were 125 million, an increase of 19.3 % YoY

Social and Communication

- **QQ:** Smart device MAU was down by 2.5% year-on-year to 652.9 million while PCU, including PC and mobile, increased by 8.9% year-on-year to 272.2 million. Smart device MAU for users aged 21 years or below increased year-on-year and their time spent per user remained high as we enhanced features which appealed to younger users. Daily active users and time spent on the KanDian news feeds service continued to grow. We introduced “Topics” within KanDian to help users discover trending content.
- **Qzone:** Smart device MAU was down 8.1% year-on-year to 551.8 million. We expanded the Campus Qzone to cover more high schools and colleges, strengthening engagement among student users.
- **Weixin and WeChat:** Combined MAU reached 980.0 million, representing year-on-year growth of 15.8%. Daily messages sent amounted to approximately 38 billion, representing year-on-year growth of 25%. Monthly active Official Accounts amounted to 3.5 million while monthly active followers of Official Accounts amounted to 797 million, representing year-on-year growth of 14% and 19% respectively. We have been enriching features of Weixin and WeChat to bring more convenience to our users’ daily lives. We rolled out Weixin Smart Transport, a solution which enables users to pay instantly for public transport fares by scanning QR codes, even without Internet access at the point of transaction. We will introduce more smart solutions for different verticals to better serve the social and eCommerce needs of our users and merchants.

Online Games

PC client games achieved approximately RMB14.6 billion in revenue, representing 27% year-on-year revenue growth, benefiting from key titles including DnF and LoL. We focused on retaining core users and enhancing engagement through initiatives such as the LoL World Championship 2017 event held in China and a DnF-themed cartoon series. We launched anniversary and seasonal content updates which were well-received by gamers. As a result, ARPUs increased both year-on-year and quarter-on-quarter.

Smart phone games grew by 84% year-on-year to approximately RMB18.2 billion in revenue (including smart phone games revenue attributable to our social networks business). Revenue growth in smart phone games was contributed by existing and newly launched game titles such as Honour of Kings in the MOBA genre, the China version of Contra Return in the Action genre, and Legacy TLBB Mobile, Legend of XuanYuan Mobile and Journey to the Fairyland Mobile in the RPG genre. The launch of our self-developed strategy game, Kings of Chaos, also contributed to revenue growth and expanded our leadership into this mobile game genre. In November 2017, we started the pre-registration process for a licensed survival shooter game, Glorious Mission, and CrossFire Mobile's update called "Deserted Island". Both received overwhelming registration responses. We will continue to enhance our in-house R&D capability and identify attractive licensing opportunities to further diversify our game portfolio.

Digital Content

Digital content revenue continued to record rapid growth, driven by video subscriptions and by live broadcast revenue. Tencent Video has exceeded 43 million fee-based subscriptions, which we believe represents the largest video streaming services subscriber base in China. We will continue to increase our investment in video content, especially self-commissioned video content, and to reinforce our content recommendation algorithms.

Online Advertising

Our online advertising business achieved 48% year-on-year growth in revenue.

For media advertising, our video platform grew strongly, benefiting from the popular drama series such as "Nothing Gold Can Stay" (那年花开月正圆), and self-commissioned variety shows such as "The Temptation of Dinner (Season 2)" (饭局的诱惑第二季). These and other self-commissioned and licensed video programmes generated significant growth in our video advertising revenue. News advertising revenue decreased year-on-year versus the high base of the Olympics during the same period last year and decreased quarter-on-quarter due to the reduced advertising inventory of TianTian KuaiBao while we revamped its advertising system.

For social and others advertising, Weixin properties, YingYongBao and our advertising network, were the main contributors of revenue growth. Weixin Moments' advertisement fill rate increased, driven by strong advertising demand and further expanded key accounts and long-tail advertisers.

Others

We recorded 143% year-on-year revenue growth for other businesses, which was primarily driven by the growth of payment related and cloud services. Our monthly offline payment volume increased 280% year-on-year. We empowered retailers to integrate online and offline resources including marketing, sales, payment and loyalty programmes.

Tencent Cloud expanded its global infrastructure coverage and now operates 36 availability zones around the world. We have invested in strengthening our AI cloud technologies, big data analytics and security infrastructure. Leveraging our Weixin enterprise solutions, customer relationship management and targeted marketing capability, Tencent Cloud has made rapid progress in providing end-to-end solutions for financial and eCommerce clients. We will continue to invest in our cloud business to empower the digital and smart transformation of traditional industries, and to build future drivers of revenue growth and profitability. Meanwhile, we will look for collaboration and investment opportunities which can complement our technological capability in order to provide cloud services that fit the needs of our clients. We will also open up cloud computing and AI technological capabilities to third party companies in order to build a vibrant ecosystem.

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.

For investor and media enquiries, please contact:

Catherine Chan	Tel: (86) 755 86013388 ext. 88369/ (852) 3148 5100 Email: cchan@tencent.com
Jane Yip	Tel: (86) 755 86013388 ext. 68961/ (852) 3148 5100 Email: janeyip@tencent.com
Stella Lui	Tel: (86) 755 86013388 ext. 68870/ (852) 3148 5100 Email: stellalui@tencent.com
Kennis Lau	Tel: (86) 755 86013388 ext. 68958/ (852) 3148 5100 Email: kennislau@tencent.com
PH Cheung	Tel: (86) 755 86013388 ext. 68919/ (852) 3148 5100 Email: phcheung@tencent.com

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 impact 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	
		3Q2017	3Q2016	3Q2017	2Q2017
Revenues		65,210	40,388	65,210	56,606
VAS		42,124	27,975	42,124	36,804
Online advertising		11,042	7,449	11,042	10,148
Others		12,044	4,964	12,044	9,654
Cost of revenues		(33,529)	(18,560)	(33,529)	(28,300)
Gross profit		31,681	21,828	31,681	28,306
	Gross margin	49%	54%	49%	50%
Interest income		1,017	637	1,017	959
Other gains, net		3,918	1,155	3,918	5,125
Selling and marketing expenses		(4,812)	(3,277)	(4,812)	(3,660)
General and administrative expenses		(9,058)	(5,883)	(9,058)	(8,170)
Operating profit		22,746	14,460	22,746	22,560
	Operating margin	35%	36%	35%	40%
Finance costs, net		(524)	(604)	(524)	(834)
Share of profit/(losses) of associates and joint ventures		818	(619)	818	498
Profit before income tax		23,040	13,237	23,040	22,224
Income tax expense		(4,993)	(2,461)	(4,993)	(3,970)
Profit for the period		18,047	10,776	18,047	18,254
	Net margin	28%	27%	28%	32%
Attributable to:					
Equity holders of the Company		18,006	10,646	18,006	18,231
Non-controlling interests		41	130	41	23
Non-GAAP profit attributable to equity holders of the Company		17,070	11,737	17,070	16,391
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
- basic		1.912	1.134	1.912	1.939
- diluted		1.888	1.121	1.888	1.914

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in million, unless specified

Unaudited	
3Q2017	3Q2016
Profit for the period	10,776
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	214
Net gains from changes in fair value of available-for-sale financial assets	1,042
Transfer to profit or loss upon disposal of available-for-sale financial assets	-
Currency translation differences	688
Other fair value gains	149
<i>Items that may not be subsequently reclassified to profit or loss</i>	
Other fair value gains	225
Total comprehensive income for the period	13,094
Attributable to:	
Equity holders of the Company	12,953
Non-controlling interests	141

OTHER FINANCIAL INFORMATION

RMB in million, unless specified

Unaudited		
	3Q2017	2Q2017
EBITDA (a)	24,024	22,427
Adjusted EBITDA (a)	25,632	23,802
Adjusted EBITDA margin (b)	39%	42%
Interest expense	794	760
Net cash (c)	18,862	21,267
Capital expenditures (d)	3,492	3,010

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 cash represents period end balance and is calculated as cash and cash equivalents, 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 licences and other contents).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in million, unless specified

	Unaudited 30 September 2017	Unaudited 30 June 2017
ASSETS		
Non-current assets		
Property, plant and equipment	17,159	15,874
Construction in progress	6,175	5,346
Investment properties	815	846
Land use rights	5,138	5,165
Intangible assets	39,194	38,891
Investments in associates	81,415	74,202
Investments in redeemable instruments of associates	23,489	23,789
Investments in joint ventures	948	715
Available-for-sale financial assets	123,965	107,117
Prepayments, deposits and other assets	12,809	8,261
Other financial assets	5,666	4,033
Deferred income tax assets	9,871	8,076
Term deposits	5,364	5,364
	332,008	297,679
Current assets		
Inventories	312	297
Accounts receivable	15,567	14,448
Prepayments, deposits and other assets	17,857	18,013
Other financial assets	1,753	1,974
Term deposits	57,371	61,474
Restricted cash	1,407	1,327
Cash and cash equivalents	87,343	70,301
	181,610	167,834
Total assets	513,618	465,513

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in million, unless specified

	Unaudited	Unaudited
	30 September 2017	30 June 2017
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	20,661	19,793
Shares held for share award schemes	(3,903)	(3,513)
Other reserves	33,875	33,996
Retained earnings	182,401	164,398
	233,034	214,674
Non-controlling interests	11,871	11,724
Total equity	244,905	226,398
LIABILITIES		
Non-current liabilities		
Borrowings	81,383	70,460
Notes payable	29,819	31,294
Long-term payables	4,417	4,459
Other financial liabilities	2,442	2,468
Deferred income tax liabilities	5,647	5,171
Deferred revenue	2,195	1,886
	125,903	115,738
Current liabilities		
Accounts payable	41,850	36,982
Other payables and accruals	26,155	21,224
Borrowings	15,907	10,779
Notes payable	4,826	4,059
Current income tax liabilities	8,938	6,332
Other tax liabilities	1,247	1,041
Deferred revenue	43,887	42,960
	142,810	123,377
Total liabilities	268,713	239,115
Total equity and liabilities	513,618	465,513

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 30 September 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%
Unaudited three months ended 30 June 2017						
Operating profit	22,560	1,408	(5,619)	115	1,572	20,036
Profit for the period	18,254	1,553	(5,691)	472	1,899	16,487
Profit attributable to equity holders	18,231	1,492	(5,670)	439	1,899	16,391
Operating margin	40%					35%
Net margin	32%					29%
Unaudited three months ended 30 September 2016						
Operating profit	14,460	1,132	(2,404)	139	1,710	15,037
Profit for the period	10,776	1,293	(2,309)	426	1,743	11,929
Profit attributable to equity holders	10,646	1,257	(2,297)	389	1,742	11,737
Operating margin	36%					37%
Net margin	27%					30%

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, available-for-sale financial assets, and intangible assets arising from acquisitions