

For Immediate Release

TENCENT ANNOUNCES 2019 THIRD QUARTER RESULTS

Revenues increased by 21% YoY

Non-IFRS¹ Profit attributable to equity holders of the Company increased by 24% YoY

Hong Kong, November 13, 2019 – Tencent Holdings Limited (“Tencent” or the “Company”, 00700), a leading provider of Internet value added services in China, today announced the unaudited consolidated results for the third quarter (“3Q2019”) ended September 30, 2019.

3Q2019 Highlights

- **Total revenues** were RMB97,236 million (USD13,748 million²), an increase of 21% over the third quarter of 2018 (“YoY”).
- **On a non-IFRS basis**, which is intended to reflect core earnings by excluding certain one-time and/or non-cash items:
 - **Operating profit** was RMB28,544 million (USD4,036 million), an increase of 27% YoY. Operating margin increased to 29% from 28% last year.
 - **Profit for the period** was RMB25,086 million (USD3,547 million), an increase of 23% YoY. Net margin increased to 26% from 25% last year.
 - **Profit attributable to equity holders of the Company** for the quarter was RMB24,412 million (USD3,451 million), an increase of 24% YoY.
 - **Basic earnings per share** were RMB2.577. **Diluted earnings per share** were RMB2.548.
- **On an IFRS basis:**
 - Operating profit was RMB25,827 million (USD3,652 million), a decrease of 7% YoY. Operating margin decreased to 27% from 35% last year.
 - Profit for the period was RMB20,976 million (USD2,966 million), a decrease of 10% YoY. Net margin decreased to 22% from 29% last year.
 - Profit attributable to equity holders of the Company for the quarter was RMB20,382 million (USD2,882 million), a decrease of 13% YoY.
 - Basic earnings per share were RMB2.151. Diluted earnings per share were RMB2.127.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “Since the founding of Tencent, we have always sought to provide the best products and best experiences to our users. Now, as the Internet becomes more pervasive in everyday life, we believe it is important to explicitly state our values and motivations, so our colleagues, partners, and users understand the standards to which we aspire. Consequently, we have just announced our new corporate mission: “Value for Users, Tech for Good”. We believe these are not new principles but rather a reiteration of what we have always believed and how we have always sought to behave.

During the third quarter we experienced sustained healthy growth rates in our operating and financial metrics.

¹ Non-IFRS (formerly referred to as non-GAAP) adjustments excludes share-based compensation, M&A related impact such as net (gains)/losses from investee companies, amortisation of intangible assets and impairment provision, as well as income tax effects.

² Figures stated in USD are based on USD1 to RMB7.0729

Notably, our FinTech and Business Services and Advertising segment revenues each increased at double digit percentage rates from the second quarter thanks to rising user activity and improved advertising technology, demonstrating the strength of our new businesses and increasing the diversity of our business mix. Our non-IFRS net income grew at a faster year-on-year rate versus the prior quarter. Looking forward, we will continue investing in our products, technology and services as we seek to provide value to our users and do good for society.”

3Q2019 Financial Review

Revenues from VAS increased by 15% to RMB50,629 million for the third quarter of 2019 on a year-on-year basis. Online games revenues grew by 11% to RMB28,604 million. The increase primarily reflected revenue growth from smart phone games in both domestic and overseas markets, including key titles such as Honour of Kings, PUBG MOBILE and Peacekeeper Elite, partly offset by lower revenue from PC client games such as DnF. Social networks revenues increased by 21% to RMB22,025 million. The increase was mainly driven by greater contributions from digital content services such as live streaming, video streaming subscriptions and music streaming services.

Revenues from FinTech and Business Services increased by 36% to RMB26,758 million for the third quarter of 2019 on a year-on-year basis. The increase primarily reflected greater revenues from commercial payments due to both increased daily active consumers and number of transactions per user, as well as revenue growth from cloud services as a result of penetration in key verticals.

Revenues from Online Advertising increased by 13% to RMB18,366 million for the third quarter of 2019 on a year-on-year basis. Social and others advertising revenues increased by 32% to RMB14,716 million. The increase was mainly due to advertising revenue growth from Weixin Moments as a result of its increased inventories and impressions, as well as contributions from our mobile advertising network. Media advertising revenues decreased by 28% to RMB3,650 million. The decrease was primarily driven by lower revenues from our media platforms including Tencent Video due to the challenging macro environment and unpredictability in scheduling major content releases.

Other Key Financial Information

EBITDA was RMB35,378 million, up 28% YoY. Adjusted EBITDA was RMB38,123 million, up 29% YoY.

Capital expenditure was RMB6,632 million, up 11% YoY.

Free cash flow* was RMB37,732 million, up 36% YoY.

As at September 30, 2019, net debt position totalled RMB7,173 million. Fair value of our stakes in listed investee companies (excluding subsidiaries) totalled RMB352,656 million as at 30 September 2019. During the period from August 28 to October 11, 2019, the Company repurchased approximately 3.5 million shares on the Stock Exchange for an aggregate cost of approximately USD148 million.

** Starting from the first quarter of 2019, we have reclassified interest paid in cash flow presentation from operating activities to financing activities in order to reflect the nature of business. Comparative figures have been reclassified to conform with the current period presentation.*

Business Review and Outlook

1. Company Strategic Highlights

This quarter marked the first anniversary of our strategic organizational upgrade. While we believe that the upgrade will generate its desired results over the next several years, we are pleased to report some initial progress and results. For example:

- We consolidated our efforts to help various industries reap the benefits of digitalization, supporting important rapid revenue growth and reached substantial scale for our Cloud Services.
- We reinforced our historic leadership in long form content activities such as drama series, variety shows, anime series, music, literature and comics via upstream integration. We established significant market share in newsfeed services, where the competitive landscape has stabilized, and are seeking to similarly capture share in short and mini video, where the competitive landscape is still fast-changing.
- We pioneered and then proliferated Mini Programs, fostering a vibrant ecosystem with a large number of mid-to-long tail Mini Programs, as well as better online and offline integration. We have exceeded 300 million DAU for Mini Programs, and now feature vertical Mini Programs via Weixin Pay entry points for healthcare, mobility and smart retail services.
- We have made encouraging progress toward globalizing our activities, particularly for online games, where we created, published and/or operated some of the most popular mobile games outside China, such as PUBG MOBILE and Call of Duty Mobile; international markets contributed a teens percentage of our games revenue in the quarter.
- We have streamlined our operations for agility, resulting in, for example, a reduction in our selling and marketing expenses to revenue ratio in recent quarters.

We recently announced “Value for Users, Tech for Good” as our company mission and vision. We have always sought to provide the best products and services and in so doing best serve our users. However, given the increasing prominence of the Internet in everyday life, we believe it is important that we state our guiding principles explicitly, and to better guide our employees in their daily actions; to achieve the higher aspiration of “Tech for Good”.

2. Company Financial Performance

In the third quarter of 2019, revenues increased by 21% year-on-year, primarily driven by commercial payment services and other FinTech services, smart phone games, as well as social and others advertising.

Operating profit decreased by 7% year-on-year. Non-IFRS operating profit increased by 27% year-on-year. Profit attributable to equity holders of the Company decreased by 13% year-on-year.

Non-IFRS profit attributable to equity holders of the Company increased by 24% year-on-year..

increasing contributions from overseas titles drove the growth.

Sequentially, smart phone games revenues grew 9%. In China, Peacekeeper Elite's summer content update enhanced user engagement. Peacekeeper Elite contributed to cash receipts for the full quarter, but is still in the early-stage of deferred revenue recognition. DAU of Honour of Kings remained healthy and more users purchased season passes. New role-playing and strategy games also contributed to the quarterly revenue growth. Internationally, PUBG MOBILE doubled its MAU year-on-year, and we co-developed the Call of Duty Mobile game with Activision Blizzard, which exceeded 100 million downloads within a month of launch, making it one of the biggest ever smart phone game launches.

Our PC client games revenues decreased 7% year-on-year and 2% quarter-on-quarter to RMB11.5 billion, due to reduced revenue from DnF, whose recent 11th anniversary content update resulted in fewer paying users than the year-ago update. League of Legends' (LoL's) auto-chess mode Teamfight Tactics (TFT) established global leadership in the emerging auto chess genre by leveraging the core MOBA's strong IP and engaged user base. TFT enhanced LoL's user time spent and increased its revenue internationally. In China, LoL's active users and cash receipts also grew year-on-year.

We have proactively implemented our Healthy Gameplay System since 2017 and upgraded it last year, in order to foster balanced game playing habits among younger players. As a result, we believe the recent regulations that limit younger players' game play will have limited additional impact to our business.

Digital Content

Fee-based VAS subscriptions increased 11% year-on-year to 170.6 million, mainly attributable to video and music subscriptions. Tencent Video subscriptions grew 22% year-on-year to 100.2 million. Music subscriptions increased 42% year-on-year to 35.4 million as our paid content library expanded.

Daily views of short and mini videos distributed via our Penguin Media Content Platform grew rapidly, benefitting from more sophisticated content curation and more targeted distribution to our high DAU platforms including Tencent Video, QQ KanDian and QQ Mobile Browser.

Online Advertising

Online advertising revenues were RMB18.4 billion, up 13% year-on-year. Strong advertiser demand from the games, education, and eCommerce verticals offset weakness from the automobile sector.

Media advertising revenues were RMB3.7 billion, down 28% year-on-year, and down 17% quarter-on-quarter due to uncertain content scheduling and lower sponsorship advertising revenues. Resilient mobile video DAU and higher advertising loads drove rapid growth of in-feed advertising in Tencent Video.

Social and others advertising revenues growth accelerated in the quarter, up 32% year-on-year and up 23% quarter-on-quarter to RMB14.7 billion. Weixin Moments advertising revenues grew on more inventories and increased impressions. Our mobile advertising network revenues increased as we streamlined our advertising formats and rolled out more video advertising inventories. Weixin Mini Programs advertising revenues climbed due to DAU and impressions growth, as well as new formats such as interstitial ads and pre-roll ads.

FinTech and Business Services

FinTech and Business Services revenues were RMB26.8 billion, up 36% year-on-year.

Within FinTech Services, our payment ecosystem is becoming more vibrant as user activities and money flows increase. We experienced robust growth in commercial payment transactions, especially offline, as well as commercial payments volume, due to more daily active consumers, number of transactions per user, and active merchants.

With increased loyalty, users were more willing to retain funds in our ecosystems and increasingly using more FinTech services on our platform, which resulted in improved margin for the business. For wealth management, in particular, the number of LiCaiTong users more than doubled year-on-year, boosting our aggregated customer assets.

Within Business Services, cloud revenues grew 80% year-on-year to RMB4.7 billion due to increased consumption from existing customers and an expanded customer base in the education, financial, municipal services and retail sectors. For example, Tencent Cloud contracted the digitalization of school operations in the Luohu district of Shenzhen, the largest software-only project for the education vertical in China. We also experienced rapid growth in Smart Industries solutions, notably our smart retail initiatives. We launched initiatives to foster more SaaS solutions, by facilitating collaboration between SaaS enterprises and tools from Tencent such as cloud services and WeChat Work. We enhanced our cloud services operating efficiency as our scale grew and we optimized our supply chain.

For other detailed disclosure, please refer to our website <http://www.tencent.com/en-us/investors.html>, 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 communications and social platforms, Weixin and QQ, connect users with each other and with digital content and services, both online and offline, making their lives more convenient. Our targeted advertising platform helps advertisers reach out to hundreds of millions of consumers in China. Our FinTech and business services support our partners' business growth and assist their digital upgrade.

Tencent invests heavily in talent and technological innovation, actively promoting the development of the Internet industry. Tencent was founded in Shenzhen, China, in 1998. Shares of Tencent (00700.HK) was listed on the Main Board of the Stock Exchange of Hong Kong in 2004.

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Non-IFRS Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain additional non-IFRS 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-IFRS 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-IFRS financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-IFRS 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-IFRS adjustments include relevant non-IFRS adjustments for the Group's major associates based on available published financials of the relevant major 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	
	3Q2019	3Q2018	3Q2019	2Q2019
Revenues	97,236	80,595	97,236	88,821
VAS	50,629	44,049	50,629	48,080
FinTech and Business Services	26,758	19,693	26,758	22,888
Online Advertising	18,366	16,247	18,366	16,409
Others	1,483	606	1,483	1,444
Cost of revenues	(54,757)	(45,115)	(54,757)	(49,695)
Gross profit	42,479	35,480	42,479	39,126
	Gross margin	44%	44%	44%
Interest income	1,674	1,082	1,674	1,652
Other gains, net	932	8,762	932	4,038
Selling and marketing expenses	(5,722)	(6,573)	(5,722)	(4,718)
General and administrative expenses	(13,536)	(10,890)	(13,536)	(12,577)
Operating profit	25,827	27,861	25,827	27,521
	Operating margin	27%	35%	27%
Finance costs, net	(1,747)	(1,492)	(1,747)	(1,982)
Share of profit of associates and joint ventures	234	264	234	2,370
Profit before income tax	24,314	26,633	24,314	27,909
Income tax expense	(3,338)	(3,228)	(3,338)	(3,225)
Profit for the period	20,976	23,405	20,976	24,684
	Net margin	22%	29%	22%
Attributable to:				
Equity holders of the Company	20,382	23,333	20,382	24,136
Non-controlling interests	594	72	594	548
Non-IFRS profit attributable to equity holders of the Company	24,412	19,710	24,412	23,525
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	2.151	2.469	2.151	2.550
- diluted	2.127	2.440	2.127	2.520

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in million, unless specified

	Unaudited	
	3Q2019	3Q2018
Profit for the period	20,976	23,405
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive (loss)/income of associates and joint ventures	(21)	41
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	(3)	-
Currency translation differences	2,069	4,462
Other fair value (losses)/gains	(475)	223
<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	(3,213)	(7,864)
Other fair value (losses)/gains	(96)	22
	(1,739)	(3,116)
Total comprehensive income for the period	19,237	20,289
Attributable to:		
Equity holders of the Company	18,885	19,761
Non-controlling interests	352	528

OTHER FINANCIAL INFORMATION

RMB in million, unless specified

	Unaudited		
	3Q2019	2Q2019	3Q2018
EBITDA (a)	35,378	32,649	27,568
Adjusted EBITDA (a)	38,123	35,102	29,577
Adjusted EBITDA margin (b)	39%	40%	37%
Interest and related expenses	2,086	1,757	1,298
Net debt (c)	(7,173)	(15,766)	(29,227)
Capital expenditures (d)	6,632	4,362	5,974

Note:

- (a) EBITDA is calculated as operating profit less interest income and other gains/losses, net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, and amortisation of intangible assets. Adjusted EBITDA is calculated as EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net debt 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 licences and other contents).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in million, unless specified

	<u>Unaudited</u>	<u>Audited</u>
	<u>30-Sep-19</u>	<u>31-Dec-18</u>
ASSETS		
Non-current assets		
Property, plant and equipment	43,104	35,091
Right-of-use assets	10,820	-
Land use rights	7,136	7,106
Construction in progress	2,702	4,879
Investment properties	890	725
Intangible assets	54,422	56,650
Investments in associates	230,009	219,215
Investments in joint ventures	8,478	8,575
Financial assets at fair value through profit or loss	122,249	91,702
Financial assets at fair value through other comprehensive income	68,332	43,519
Prepayments, deposits and other assets	30,167	21,531
Other financial assets	116	1,693
Deferred income tax assets	17,832	15,755
	<u>596,257</u>	<u>506,441</u>
Current assets		
Inventories	412	324
Accounts receivable	32,069	28,427
Prepayments, deposits and other assets	24,110	18,493
Other financial assets	377	339
Financial assets at fair value through profit or loss	5,748	6,175
Term deposits	49,596	62,918
Restricted cash	2,046	2,590
Cash and cash equivalents	145,607	97,814
	<u>259,965</u>	<u>217,080</u>
Total assets	<u>856,222</u>	<u>723,521</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in million, unless specified

	<u>Unaudited</u>	<u>Audited</u>
	<u>30-Sep-19</u>	<u>31-Dec-18</u>
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	32,811	27,294
Treasury shares	(66)	-
Shares held for share award schemes	(3,988)	(4,173)
Other reserves	12,078	729
Retained earnings	363,147	299,660
	<u>403,982</u>	<u>323,510</u>
Non-controlling interests	<u>37,555</u>	<u>32,697</u>
Total equity	<u>441,537</u>	<u>356,207</u>
LIABILITIES		
Non-current liabilities		
Borrowings	90,013	87,437
Notes payable	84,474	51,298
Long-term payables	3,172	4,797
Other financial liabilities	2,597	3,306
Deferred income tax liabilities	9,461	10,964
Lease liabilities	8,534	-
Deferred revenue	4,910	7,077
	<u>203,161</u>	<u>164,879</u>
Current liabilities		
Accounts payable	71,212	73,735
Other payables and accruals	37,464	33,312
Borrowings	22,135	26,834
Notes payable	10,657	13,720
Current income tax liabilities	10,175	10,210
Other tax liabilities	1,279	1,049
Other financial liabilities	1,141	1,200
Lease liabilities	2,989	-
Deferred revenue	54,472	42,375
	<u>211,524</u>	<u>202,435</u>
Total liabilities	<u>414,685</u>	<u>367,314</u>
Total equity and liabilities	<u>856,222</u>	<u>723,521</u>

RECONCILIATIONS OF IFRS TO NON-IFRS RESULTS

RMB in million, unless specified	As reported	Adjustments					Non-IFRS
		Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Income tax effects (e)	
Unaudited three months ended September 30, 2019							
Operating profit	25,827	2,745	(1,814)	118	1,668	-	28,544
Profit for the period	20,976	3,568	(2,509)	1,544	1,981	(474)	25,086
Profit attributable to equity holders	20,382	3,475	(2,444)	1,491	1,971	(463)	24,412
Operating margin	27%						29%
Net margin	22%						26%
Unaudited three months ended June 30, 2019							
Operating profit	27,521	2,453	(4,950)	118	2,139	-	27,281
Profit for the period	24,684	2,373	(6,523)	1,486	2,492	(321)	24,191
Profit attributable to equity holders	24,136	2,296	(6,522)	1,432	2,492	(309)	23,525
Operating margin	31%						31%
Net margin	28%						27%
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	(20,718)	943	13,511	(249)	20,423
Profit attributable to equity holders	23,333	3,458	(20,694)	892	12,935	(214)	19,710
Operating margin	35%						28%
Net margin	29%						25%

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, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies
- (c) Amortisation of intangible assets resulting from acquisitions
- (d) Impairment provisions for associates, joint ventures and intangible assets arising from acquisitions
- (e) Income tax effects of non-IFRS adjustments