

Environmental, Social and Governance Report

OVERVIEW

This report provides information on the Group's environmental, social and governance ("ESG") performance for the year of 2016. It should be read in conjunction with this annual report, in particular the Corporate Governance Report contained in this annual report, as well as the sections headed "Corporate Governance" and "Culture" on the Company Website.

SCOPE OF THIS REPORT

This report aims to provide a balanced representation of the Group's ESG performance in terms of environment, workplace, community, supply chain management and product responsibility. We will focus on each of these areas in turn in this report, in particular those economic, environmental and social issues that could have a material impact on the sustainability of our operations and that are of interest to stakeholders.

ESG STRATEGY, MANAGEMENT APPROACH, PRIORITIES AND OBJECTIVES

We believe that it is important to formulate effective strategies to balance the economic, environmental and social benefits of our activities with our other business aims. We have fully integrated ESG considerations into our operations as part of our corporate development strategy, with a particular focus on fostering closer connections with our stakeholders, listening to the voices of our users, working openly with partners to overcome challenges, caring for and growing with employees, and taking on more responsibility within society.

At the heart of our ESG strategy is our vision to become the most respected Internet company. In pursuit of this vision, we embrace the principle of sustainability, uphold integrity and promote shared growth and development within the industry; environmental protection, staff development and community welfare are always at the forefront. We conduct and review our ESG strategy in five dimensions as detailed below.

Five Dimensions of our ESG Strategy

1. Business operations
 - Operate in compliance with applicable laws and regulations
 - Operate with integrity and protect shareholders' interests
 - Care for employees and provide them with training and development opportunities
 - Establish a diverse corporate culture



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2. Users
 - Consistently listen to the voices of our users, concurrently enhancing product and service quality
 - Be honest to users and protect their interests
 - Prioritise users' interests in business decision-making
3. Business partners (including suppliers and investee companies)
 - Ensure our partners receive fair treatment and benefit from their collaboration with us
 - Allow investee companies to maintain autonomy for their business development and meet them on a regular basis for exchange of industry knowledge and know-how
 - Hold regular meetings with our partners to review their performance and explore possible collaboration opportunities
 - Combat behaviours which are harmful to the interest of our partners by setting up an independent steering group on business ethics and anti-bribery practice
4. Community
 - Establish a platform for charity donations
 - Promote innovation and the establishment of a legal framework to protect IP rights
 - Contribute to the industry and continue to provide an open platform
5. Environment
 - Make protection of the environment one of our priorities
 - Adopt a sustainable investment strategy
 - Remain committed to environmental sustainability

Through this approach we are able to create a favourable environment that will enable us to provide quality services to Internet users and promote the positive development of wider society.

Our ESG Direction

Our ESG strategy requires the participation of all of our product lines and platforms, and participation from across the wider Internet industry. We will continue to place more emphasis on ESG, encouraging every individual, enterprise and organisation to take part in the implementation of our ESG strategy.



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“Internet+” has significant implications for our ESG initiatives. Important changes can be achieved through connecting millions of Internet users as well as developing their modes of communication and living, and creating more exciting opportunities for society. In addition, through the “smart living” system in QQ and Weixin/WeChat, people and public services can be digitally connected, facilitating developments in transport, healthcare, environmental protection, public safety and other social arenas. This is important for optimising the distribution of societal resources, driving innovation in public services, improving service quality, breaking down communication barriers and ultimately benefiting the wider community. We will leverage our core capability in the Internet, technology and communication spheres to develop innovative approaches to resolving social issues, promoting social development and protecting the interests of the public. We also aim to drive ESG awareness in society, through collaborating with our stakeholders and other industry players.

Going forward, we will continue to enhance our corporate management system and integrate ESG considerations into our operations. We will closely cooperate with our stakeholders with the aim of creating a better future.

ENVIRONMENT

We recognise the importance of environmental protection and conservation of natural resources in our business operations. Starting from our office buildings in Shenzhen, we have implemented a number of energy-saving measures and we plan to adopt the same in our office spaces in other locations. We have also strived to build our data centres with environmental considerations as one of our key priorities.

Energy Saving Measures taken in our Office Buildings

In order to reduce the energy consumption in our Shenzhen headquarter, we have optimised the air conditioning system, upgraded the building automation system, and installed equipment with new functions for better efficiency. These optimisations have enabled us to efficiently reduce energy consumption for the air conditioning system and for the whole building, and to reduce our CO₂ emissions. This energy saving project has been certified by the China Academy of Building Research and accredited by Shenzhen local authority. We are among the first companies which were granted subsidies from the Ministry of Housing and Urban-Rural Development of the PRC for the energy saving efforts. The project has set a good precedent not only for our other office buildings but also for other office buildings in Shenzhen.

In addition, we have installed a direct drinking water system in our Shenzhen headquarter in replacement of bottled water. It reduces the use of plastic packaging materials and indirectly reduces the CO₂ emissions generated from the delivery of bottled water. This effective energy saving measure will also be implemented in our offices in other PRC cities in the future.

We are also actively involved in the design of our new office building in Shenzhen and have taken energy saving considerations into account during the process.



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Energy Saving Measures taken in our Data Centres

We endeavour to fulfil our responsibility to protect the environment by applying innovative technology to our data centres.

Our T-block west lab is the fourth generation of our data centres and it is the most innovative. It has adopted: (i) photovoltaic + HVDC technology for electrical design which offers a clean and effective energy source; (ii) indirect evaporative cooling units to cool down entire block modules; and (iii) machine-learning automated system which monitors the energy level for rack space and minimises the power usage effectiveness (the index of which is lower when it is more effective). These technologies tremendously improve the energy efficiency of the data centre. For example, our T-block west lab now only needs 70% of previously required energy for the same capability.

In our Shanghai Qingpu CCHP (Combined Cooling Heating and Power) project, we have built a distributed power station that uses a natural gas generator and flue gas hot water type lithium bromide unit as the core component for electricity and cooling capability required by the data centre. The natural gas-fired distributed power system enables energy cascading. We use high-quality natural gas with high efficiency to generate high-quality electricity. Steam and condensation produced from the power generation are re-used for cooling. The overall energy utilisation can be increased by up to approximately 80%.

For our Qingpu data centre, we have one of the largest photovoltaic grids used by a data centre in the PRC which provides 100% clean energy. In phase one of the project, we have built 3,000 square metres of photovoltaic grid which produces 300Mwh electricity and reduces CO₂ emission by 200 tonnes on an annual basis. The solar panel on the rooftop is also thermally insulated so it helps save energy in summer.

WORKPLACE

Employee Development and Training

We have a well-established performance management system. A performance assessment for each employee is conducted by that employee's supervisor every six months and employees are required to work with their supervisors to set a performance target after each assessment. Supervisors are encouraged to provide constructive feedback from time to time to assist the personal growth of each employee.

As employees are one of our most important assets, we have been investing heavily in employee development and training. In 2007, we founded our own corporate university, Tencent Academy. Throughout 2016, the number of the average in-house training hours per employee was 26.1 while the number of online trainings completed by our employees in total was 157,753. Tencent Academy offers different training programmes for each stage of an employee's career, including an induction, on-the-job training and leadership training. It has also set up an online learning platform and a mobile learning system in order to allow employees to learn anytime and anywhere. We also intend to open up our training resources to our business partners and industry players in order to enhance the market standard.



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Equal Opportunities and Diversity

We have a full-time staff of 38,775 as at 31 December 2016. Our employment practice is in compliance with applicable laws and regulations (including but not limited to those which prohibit child and forced labour) and does not discriminate on the grounds of gender, ethnicity, race, disability, age, religious belief, sexual orientation or family status. Diversity is well supported in our corporate culture.

Compensation and Benefits

Compensation

We offer competitive pay and employee benefits to attract and retain talent. The remuneration and bonus system is performance-based and designed to reward employees with high performance and great potential.

Benefits

The basic benefits system was built and is maintained in accordance with relevant laws, regulations and market practice. In addition, certain special benefits are created to motivate employees and advance our strategy.

We have been voted as one of the best employers in the PRC for five consecutive years since 2012 in a survey jointly conducted by zhaopin.com and the Institute of Social Science Survey, Peking University. We care for the well-being of our employees. For example, we celebrate special occasions of our employees (e.g. anniversary of joining us, wedding and festivities) by giving them different employee benefits. We strive to create work-life balance and a safe and comfortable work environment for employees. Employees have the flexibility to choose the most suitable insurance plans for themselves and their families.

Promotion

Employees may apply for promotion during their interim and year-end performance reviews, provided that they satisfy the requirements with regards to the length of service and performance. Depending on the practice area, the promotion will be reviewed and considered by different internal committees. The promotion review process is fair and open – there is a formal channel for our employees to provide and receive feedback. The promotion review is conducted in compliance with applicable laws and regulations.



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Employee Departure

We value our relationship with our employees and handle employee departure (whether by resignation or dismissal) strictly in accordance with applicable laws and regulations.

Work-Life Balance

We have implemented various initiatives such as flexi-time arrangements and volunteer service leave to help employees strike a good work-life balance. The leave scheme allows employees to enjoy annual leave, fully-paid sick leave, half-paid leave of absence and fully-paid special Chinese New Year leave which are above the statutory standard. Also, female employees are entitled to take fully-paid maternity leave, while male employees are also entitled to take fully-paid paternity leave. Employees can also apply for one day of fully-paid volunteer service leave per year.

We also organise a wide variety of recreational and leisure activities (e.g. running, photography, music, dance, language classes) for employees.

Occupational Health and Safety

We strive to provide a safe and comfortable work environment for our employees. There are well-established security and fire service systems and food safety monitoring system.

We have a designated team in charge of the physical and mental health of employees. We arrange annual medical checkups for employees and organise health seminars, fitness sessions, on-site medical consultations as well as face-to-face and telephone counselling from time to time.

Our contribution to social insurance in the PRC is in compliance with applicable laws and regulations and we offer various supplemental insurance benefits to employees and their families (including medical insurance, critical illness insurance, accident insurance and life insurance).

Communication

We strive to create a casual yet sophisticated communication channel with customised content for our employees. There are annual rallies for employees and management, face-to-face discussion forums, featured magazines and social media platforms. The corporate strategy and culture are communicated and reinforced through these products and communication channels.



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COMMUNITY

Community Investment

We set up the Tencent Charity Foundation (the “Tencent Foundation”) on 26 June 2007. It is a non-public fundraising foundation incorporated in the PRC and a separate legal entity. We commit to donating certain portion of our profits to the Tencent Foundation every year for the purpose of supporting charitable works including but not limited to developing an online charity platform, poverty relief, disaster relief and education development. As the first charity foundation set up by an Internet company in the PRC, the Tencent Foundation promotes the idea of “Charity 2.0” (i.e. everyone can participate in the charity work anytime and anywhere, and even small donations count).

In June 2007, the Tencent Foundation leveraged on our Internet technical capabilities and online platforms to build the first online public fundraising platform. It is designed, developed and operated by the Tencent Foundation while we provide server, broadband and other technical support for free. The platform is open for eligible charitable organisations free of charge. It allows charitable works to be performed more conveniently, smoothly and transparently. This is a good example of the application of the concept of “Internet+”.

Over 4,000 charitable organisations have joined our online charity platform and initiated more than 20,000 charity projects in different locations with different focuses. The total number of donations made by the Internet users is approximately 91 million and the total amount of the funds raised is over RMB1.57 billion.

As of 31 December 2016, our Group and our employees have donated over RMB1.9 billion and RMB60 million in total to the Tencent Foundation respectively since its establishment. During the year 2016, our Group and our employees have donated RMB570 million and RMB10.5 million to the Tencent Foundation respectively.

In addition to operating the online charity platform, the Tencent Foundation is also actively involved in charity work in the following areas: (i) disaster relief; (ii) rural development; (iii) education; (iv) ecological conservation and cultural preservation; (v) community development; and (vi) medical care.



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Disaster relief

In response to recent natural disasters in the PRC as well as globally, the Tencent Foundation has created a multifaceted disaster relief model by combining our various products including online platforms, instant messengers, online payment and Internet search to help the public follow the latest news, participate in rescue efforts and make donations. In addition, the Tencent Foundation has made donations to support the rescue missions and post-disaster reconstructions. For example, the Tencent Foundation donated RMB2 million for the earthquake in Nepal in 2015 and paid the transportation costs of RMB100,000 for the relief supplies. In 2016, it donated approximately RMB4 million to support the emergency rescue missions in the PRC floods.

Rural development

In 2009, the Tencent Foundation donated no less than RMB50 million on an experimental charity project in Yunnan for the purpose of rediscovering the value of villages and connecting villagers by increasing Internet penetration in rural areas.

Education

The Tencent Foundation has set up scholarships to promote education in the PRC, Hong Kong and other countries throughout the years. There are also specific donations for different education initiatives. For example, it donated RMB100 million to support the future education reform in a secondary school in Shenzhen. In 2013, it also set up a RMB1 million fund to sponsor the five-year development programme of a secondary school in Sichuan after the earthquake of that year. In 2016, it donated RMB5.35 million in aggregate in the education related projects.

Ecological conservation and cultural preservation

The Tencent Foundation is keen on environmental protection and cultural preservation. For example, it donated RMB6.1 million to the Sichuan Western Nature Preservation Foundation in 2015 and RMB12.5 million to the China Foundation for Cultural Heritage Conservation for the establishment of “Great Wall Funds” in 2016.



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Community development

The Tencent Foundation has sponsored charitable organisations such as the China Charity Foundation Development Centre, the China Foundation for Development of Financial Education and the China Charity Alliance.

Medical care

The Tencent Foundation has donated approximately RMB13 million in aggregate to help underprivileged children with medical conditions (such as autism and cerebral palsy) in developing areas. For example, in 2016, it donated RMB5 million to the Ai You Foundation to set up two child focused medical care centres for orphaned patients in Chongqing and Urumqi. It also donated RMB200,000 to the Shenzhen Children's Hospital to build an interactive activity room "Vcare" for children patients.

Volunteering

In 2006, some of our employees founded the Tencent Volunteers' Association on their own initiative in response to our corporate vision of being "the most respected Internet company". Since then, the Tencent Volunteers' Association has contributed more than 100,000 hours of voluntary services. We launch more than 200 volunteering activities with more than 5,000 participants every year. In 2016, the Tencent Volunteers' Association was awarded a spot in the list of Top 10 Best Volunteer Organisations in Guangdong Province.

There are eight sub-divisions under the Tencent Volunteers' Association in various cities including Beijing, Shanghai, Chengdu and Guangzhou. These sub-divisions include poverty support, scholarship, environmental protection, care for children with special needs and green network. The Tencent Volunteers' Association works closely with the Tencent Foundation in relation to the funding of the projects.

The Tencent Volunteers' Association combines its expertise in technology to help the community. For example, it has set up an online platform to help search for missing persons with the assistance of our marketing and advertising resources and technology. As at the date of this report, more than 40 missing children have been found through our platform.

In order to encourage employees to participate in volunteer service, employees, since April 2012, have been granted one day of fully-paid volunteer service leave per year.



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Anti-Corruption

In 2005, we formulated the Sunshine Code based on the core value of the Group –“Integrity”. All employees of the entire Group are required to follow and to strictly comply with the Sunshine Code. It expressly prohibits all kinds of fraudulent activity, bribery, and any other activities which are not in compliance with applicable laws and regulations. To ensure our employees comply with the requirements stipulated in the Sunshine Code, all employees are required to complete e-learning programmes and attend various face-to-face training programmes introducing the rules and standards of the Sunshine Code on a regular basis.

Concurrently, in order to protect and safeguard the interests of the Group and to maintain integrity in the Group’s business dealings, we have adopted an Anti-fraud and Whistleblowing Policy (the “Policy”), which clearly conveys the message of zero-tolerance in relation to fraudulent activity to all the employees and suppliers/business partners. All employees and suppliers/business partners are encouraged to report genuine concerns about any potential fraudulent activities. The Policy outlines the multiple whistleblowing channels and how the Group should deal with such concerns, so that employees and suppliers/business partners can report their good faith concerns without fear of reprisal or potential retaliation.

When a report of suspected fraudulent activities is received, the anti-fraud investigation team, which consists of professionals with profound knowledge in fraud risk management and solid fraud investigation experiences, is assigned to handle the investigation independently. After an investigation has been completed, the employee found and proven to have committed such fraud shall be subject to immediate dismissal, and corrective actions shall be taken in response to the findings at the same time. In the event that any fraudulent activity violates any relevant laws or regulations, such cases shall be reported to government authorities.



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Anti-Money Laundering

In 2016, the Group strictly abided by all applicable laws and regulations on anti-money laundering and anti-terrorism financing, and fulfilled its social responsibilities and legal obligations on anti-money laundering.

We treat financial security as the lifeline of our business and have implemented sound financial crime control mechanisms in our business development. We have robust systems and measures to detect, deter and protect our business from involvement in financial crimes such as money laundering and terrorist financing. Our protective measures include, but are not limited to, the following:

Three lines of defence

Our first line of defence is the product team and the business development team. The risk management team and anti-money laundering team serve as the second line while the internal audit team acts as the third line of defence.

Anti-money laundering and internal control systems

We have: (i) formulated a set of anti-money laundering policies based on the applicable anti-money laundering laws and regulations; (ii) implemented an anti-money laundering monitoring system; and (iii) set up a dedicated anti-money laundering team, which is solely responsible for compliance management, anti-money laundering name screening and suspicious transaction monitoring.

Other control measures

We have further improved the anti-money laundering compliance and internal risk control mechanisms by: (i) recruiting more anti-money laundering professionals for suspicious transaction review and analysis in order to enhance the effectiveness and specialisation level of anti-money laundering; (ii) strengthening the requirements for the know-your-customer procedures; (iii) enhancing the overall monitoring system of suspicious transaction and manual analysis; (iv) cooperating with regulators and law enforcement on anti-money laundering investigation; (v) actively participating in the strike on terrorism and corruption internationally, in order to prevent money laundering and upstream criminal activities; and (vi) carrying out various forms of training, education, and public relation activities on anti-money laundering.



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SUPPLY CHAIN MANAGEMENT

Our supply chain management programme attaches supreme importance to managing the ethics risk associated with the relationship between our procurement employees and our business partners. It also focuses on teaching those employees who are involved in procurement to recognise and mitigate the inherent risks.

To enhance the social responsibility awareness of our employees, we have formulated a code of conduct which those employees engaging in procurement activities must adhere to. To minimise the ethics risks, such employees are also required to declare any relationship they may have with our suppliers in writing.

In the course of supplier engagement, potential suppliers are required to conduct self-assessment on their commitment, amongst other things, to environmental protection, social responsibility, and health and safety at work (the “Self-Assessment”). Suppliers which are formally engaged by us are also required to agree to the terms of a declaration and undertaking in relation to anti-commercial bribery in doing business with our Group (the “Anti-commercial Bribery Declaration”).

During the year ended 31 December 2016, all suppliers which were formally engaged have completed the Self-Assessment and signed the Anti-commercial Bribery Declaration. We are not aware of any of our suppliers engaging in commercial bribery, or being materially and adversely affected by issues relating to environmental and social responsibility.

PRODUCT RESPONSIBILITY

We strive to provide the best user experience and pay high attention to the quality of our products and services. We conduct strict reviews of our product and service offerings and related sales and marketing strategies and materials to ensure their compliance with applicable laws and regulations. We also build in safeguards on user privacy, product safety and IP rights as described below.

User Privacy

To uphold our dedication to value creation for our users, amongst other user specific aims, one of our important missions is to protect the privacy of user data and other sensitive information. We comply with all the applicable laws on privacy protection, and incorporate applicable legal and regulatory requirements on privacy protection into our internal compliance policies taking into account the specific features of our products and services.

We have a dedicated privacy team within the Legal Department which is responsible for handling data protection matters. We have devised specific procedures to collect and process user data to ensure that we provide our products and services in accordance with applicable legal requirements. We evaluate specific products from the perspective of privacy protection on a regular basis and perform privacy risk assessments before the launch of new products to ensure that our products are not exposed to the risk of privacy infringement or leakage of user data.



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We provide training to our employees to enhance their privacy protection awareness and build up the cultural awareness of the importance of privacy protection.

To ensure that our users understand how we protect their personal information and enhance the transparency of how we collect and process the data, we publish our privacy protection policies on our product websites and in-app products. We also provide communication channels for our users to file complaints and raise enquiries whenever they are in doubt.

We actively participate in shaping the development of the industry framework on privacy protection and we have been accredited with privacy certifications from TRUSTe for WeChat, which is the leading global data privacy management company and powers trust in the data economy by enabling businesses to safely collect and use customer data across web, mobile, cloud and advertising channels.

Healthy Environment for our Users

One of our important businesses is our online gaming business. We need to comply with the laws, regulations and policy requirements in relation to online gaming in the PRC.

The government authorities in the PRC which regulate the online gaming business include: (i) the Ministry of Culture; (ii) the State Administration of Press, Publication, Radio, Film and Television; (iii) the Ministry of Industry and Information Technology; and (iv) the State Administration for Industry & Commerce.

The laws, regulations and policies relating to online gaming mainly include: (i) “The Regulation on Internet Information Service of the People’s Republic of China” promulgated by the State Council; (ii) “The Provisions on the Administration of Online Publishing Services” promulgated by the State Administration of Press, Publication, Radio, Film and Television and the Ministry of Industry and Information Technology; and (iii) “The Interim Provisions on the Administration of Internet Culture” and “The Interim Measures for the Administration of Online Games” promulgated by the Ministry of Culture. The aims of such laws include the regulation of the qualifications of operating entities of online games, the regulation of the content of online games, the protection for the physical and mental health of online game users and adolescents and the privacy protection of the personal data of users.

We have been actively implementing various measures to ensure compliance with the relevant laws, regulations and policies. For instance, we have already obtained the relevant credentials for operating online games, for example, the Telecommunication Business Operation Permit, the Online Publishing Service Licence and the Internet Culture Business Permit. To safeguard the physical and mental health of online game users and adolescents, we have implemented the real-name system and anti-addiction system in accordance with the regulatory requirements of the PRC and strengthened the promotion of healthy gaming and anti-addiction through various channels.



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Intellectual Property Rights

We are a technology-oriented company and we stress the importance of the observation and protection of IP rights. We have established a dedicated IP team with approximately 80 employees as of 31 December 2016 that is responsible for the day-to-day management of legal matters involving trademark, patent, copyright, domain names and other IP rights.

We began a comprehensive programme for the management of IP at an early stage. We have consistently applied for the registration of IP rights since the early stages of its establishment. With the successful development of our business, we have expanded our global IP portfolio to cover more than 100 countries and regions. As of 31 December 2016, we had obtained over 10,000 officially registered trademarks and over 5,000 issued patents. Coupled with our creation of a vast amount of copyrighted content, we have accumulated IP assets of considerable value. Our IP team has developed a comprehensive database for our patents, trademarks and copyrights and our strong data analytical skills enable us to manage and monitor our IP rights in a meticulous and efficient manner. To combat infringement of IP rights, our IP team has also established a comprehensive and efficient monitoring and maintenance system, and has devised various civil, criminal and administrative enforcement measures to enforce our IP rights. Please see further details on the Company Website (<https://www.tencent.com/legal/html/en-us/property.html>).

We actively participate in public affairs and strive to promote the awareness of IP protection in the Internet industry. As members of the China National Information Technology Standardisation Committee, the China Intellectual Property Society, the Patent Protection Association of China, the World Wide Web Consortium, the International Trademark Association and the China Trademark Association, we have participated in the consultations on legislative amendments to the PRC laws and regulations relating to patents, trademarks and anti-competition and have made recommendations in the development of industry standards.

Within the past decade, we have several times been awarded “China Patent Gold Awards” by the State Intellectual Property Office of the PRC and “China Trademark Awards” jointly by World Intellectual Property Organization and the State Administration for Industry & Commerce of the PRC, signifying our contribution to the development of independent innovation of the PRC. We have also several times been awarded “National Copyright Demonstration Unit”, recognising our outstanding performance in management and protection of copyright.

Looking forward, we will continue to devote great efforts and resources to observe and protect IP rights.

