

SMIC Q2 2018 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

August 2018



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Under the Private Securities Litigation Reform Act of 1995

This presentation contains, in addition to historical information, "forward-looking statements" within the meaning of the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements, including statements under "Third Quarter 2018 Guidance", "Capex Summary" and the statements contained in the quotes of our Co-Chief Executive Officers are based on SMIC's current assumptions, expectations and projections about future events. SMIC uses words like "believe," "anticipate," "intend," "estimate," "expect," "project," "target" and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the best judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclical and market conditions in the semiconductor industry, intense competition in the semiconductor industry, SMIC's reliance on a small number of customers, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity, financial stability in end markets, orders or judgments from pending litigation, intensive intellectual property litigation in semiconductor industry, general economic conditions and fluctuations in currency exchange rates.

In addition to the information contained in this presentation, you should also consider the information contained in our other filings with the SEC, including our annual report on Form 20-F filed with the SEC on April 27, 2018, especially in the "Risk Factors" section and such other documents that we may file with the SEC or The Hong Kong Stock Exchange Limited ("SEHK") from time to time, including current reports on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this presentation may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated or, if no date is stated, as of the date of this presentation. Except as may be required by law, SMIC undertakes no obligation and does not intend to update any forward-looking statement, whether as a result of new information, future events or otherwise.

About Non-

- Financial Measures

During this presentation, references to financial measures of SMIC will include references to non-GAAP financial measures, including non-GAAP operating expenses and adjusted EBITDA, and EBITDA margin. For an explanation to the most directly comparable GAAP financial measures, see earnings release.





2Q18 Financial Highlights

- **Revenue was \$891 million**
 - Up 7.2% QoQ, compared to \$831 million in 1Q18
- **Revenue was \$838 million, excluding Licensing Revenue**
 - Up 15.8% QoQ, compared to \$723 million in 1Q18
- **Gross margin was 24.5%**
 - Compared to 26.5% in 1Q18
- **Gross margin was 19.7%, excluding Licensing Revenue**
 - Compared to 15.6% in 1Q18
- **Profit attributable to SMIC was \$52 million**
 - Compared to \$29 million in 1Q18



1H18 Financial Highlights (unaudited)

- **Revenue was \$1,722 million, a record high**
 - Compared to \$1,544 million in 1H17
- **Gross profit was \$438 million, a record high**
 - Compared to \$415 million in 1H17
- **EBITDA was \$637 million, a record high**
 - Compared to \$599 million in 1H17
- **EBITDA margin was 37.0%**
 - Compared to 38.8% in 1H17
- **\$2.7 billion cash on hand, including financial assets**
 - Compared to \$1.4 billion in 1H17

Income Statement Highlights

(US\$ thousands)	2Q18	1Q18	QoQ	2Q17	YoY
Total Revenue	890,713	831,044	7.2%	751,193	18.6%
Gross Profit	217,833	220,176	-1.1%	194,132	12.2%
Gross Margin	24.5%	26.5%	-	25.8%	-
Operating Expenses	(198,697)	(177,914)	11.7%	(172,500)	15.2%
<i>Research & Development, net</i>	<i>(147,177)</i>	<i>(122,995)</i>	<i>19.7%</i>	<i>(111,158)</i>	<i>32.4%</i>
<i>General & Administrative</i>	<i>(48,801)</i>	<i>(51,506)</i>	<i>-5.3%</i>	<i>(54,199)</i>	<i>-10.0%</i>
<i>Selling & Marketing</i>	<i>(8,139)</i>	<i>(8,513)</i>	<i>-4.4%</i>	<i>(9,441)</i>	<i>-13.8%</i>
<i>Other operating income (expense)</i>	<i>5,420</i>	<i>5,100</i>	<i>6.3%</i>	<i>2,298</i>	<i>135.9%</i>
Profit from operations	19,136	42,262	-54.7%	21,632	-11.5%
Other income (expense), net	14,955	776	1827.2%	14,540	2.9%
Income tax benefit (expense)	(2,426)	(15,958)	-84.8%	(2,856)	-15.1%
Profit attributable to SMIC	51,599	29,377	75.6%	36,271	42.3%
Non-controlling Interests	(19,934)	(2,297)	767.8%	(2,955)	574.6%
Earnings per ordinary share (Basic)	0.01	0.01	-	0.01	-

- **Revenue** increased by 7.2% QoQ from \$831.0 million in 1Q18 to \$890.7 million in 2Q18, including the recognition of the technology licensing revenue of \$52.8 million (the "Licensing Revenue"). The technology licensing internally developed and not capitalized was authorized to a related party (an associate of the Group) with no related cost of sales recognized by the Group in 2Q18.
- **Revenue** increased by 15.8% QoQ from \$723.4 million in 1Q18 to \$837.9 million excluding the effect of the Licensing Revenue in 2Q18, mainly due to an increase in wafer shipment in 2Q18.
- **Gross margin** was 24.5% in 2Q18, compared to 26.5% in 1Q18. Excluding the recognition of the Licensing Revenue, gross margin was 19.7% in 2Q18, compared to 15.6% in 1Q18, primarily due to increased utilization and product-mix change in 2Q18.
- **R&D expenses** increased by \$24.2 million QoQ to \$147.2 million in 2Q18, compared to \$123.0 million in 1Q18. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$22.1 million QoQ to \$164.1 million in 2Q18. The change was mainly due to higher level of R&D activities in 2Q18. Funding of R&D contracts from the government was \$19.0 million in 2Q18, compared to \$16.9 million in 1Q18.

Balance Sheet Highlights

(US\$ thousands)	As of	
	June 30, 2018	Mar 31, 2018
Cash and cash equivalent	1,414,260	1,008,483
Restricted Cash-current	349,974	311,550
Restricted Cash-non current	8,528	13,826
Financial assets at fair value through profit or loss-current (1)	60,412	105,693
Financial assets at amortised cost (2)	1,235,633	1,165,930
Trade and other receivables	919,490	783,450
Inventories	697,021	699,820
Assets classified as held-for-sales	18,546	26,704
Other Assets	8,179,985	7,914,510
Total Assets	12,883,849	12,029,966
Short-term borrowings	781,134	523,434
Long-term borrowings	1,532,739	1,740,722
Medium-term notes	225,996	237,604
Convertible bonds	410,819	407,074
Corporate bonds	497,609	497,144
Total Debt	3,448,297	3,405,978
Net Debt (3)	737,992	1,125,872
Total Liabilities	5,269,093	5,240,938
Total Equity	7,614,756	6,789,028
Total Debt/Equity Ratio (4)	45.3%	50.2%
Net debt/Equity Ratio (5)	9.7%	16.6%

1. Financial assets at fair value through profit or loss current mainly contains financial products sold by bank.

2. Financial assets at amortised cost mainly contains bank deposits over 3 months.

3. Net debt is total debt minus cash and cash equivalent, financial assets at fair value through profit or loss and financial assets at amortised cost.

4. Total debt divided by equity

5. Net debt divided by equity.

Cash Flow Highlights

(US\$ thousands)

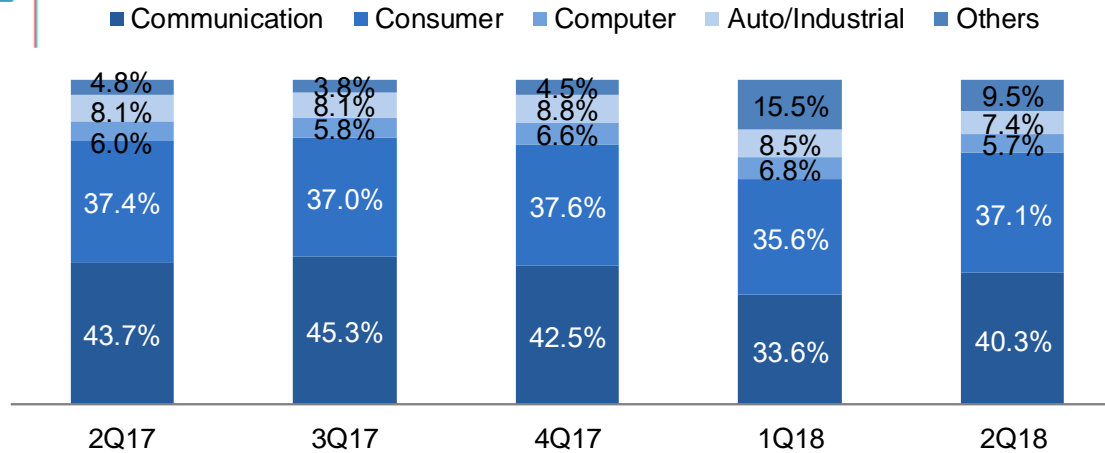
For the three months ended

	June 30, 2018	Mar 31, 2018
Cash and cash equivalent, beginning of period	1,008,483	1,838,300
Net cash from operating activities	110,731	94,684
Net cash used in investing activities	(647,929)	(963,712)
Net cash from (used in) financing activities	958,474	9,490
Net increase (decrease) in cash and cash equivalent	405,777	(829,817)
Cash and cash equivalent, end of period	1,414,260	1,008,483

Cash Flow from Operations (US\$ millions)

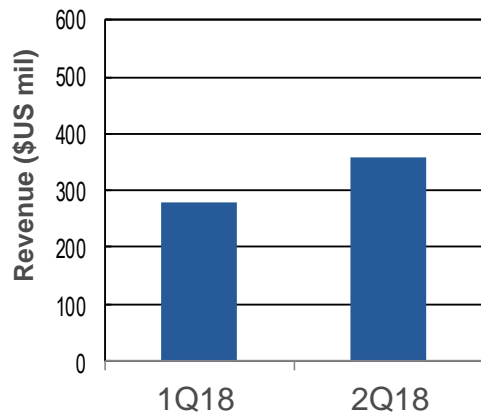


Total Revenue Breakdown by Applications

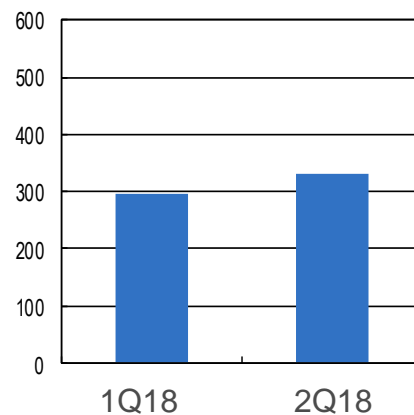


2Q18 vs. 1Q18

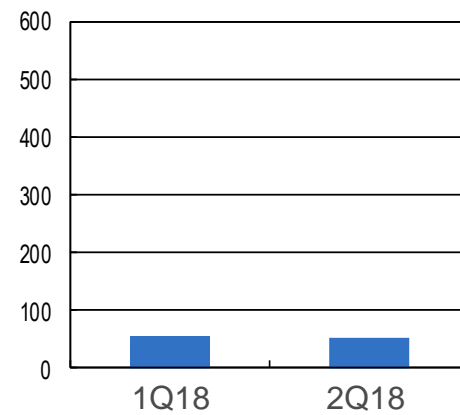
Communications



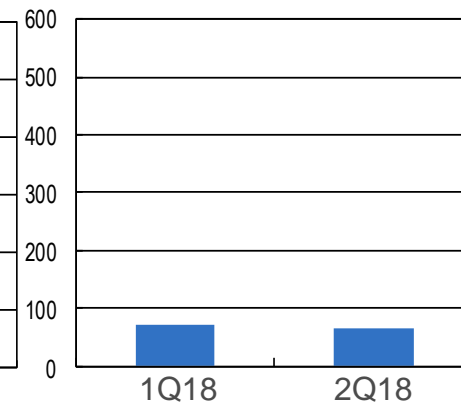
Consumer



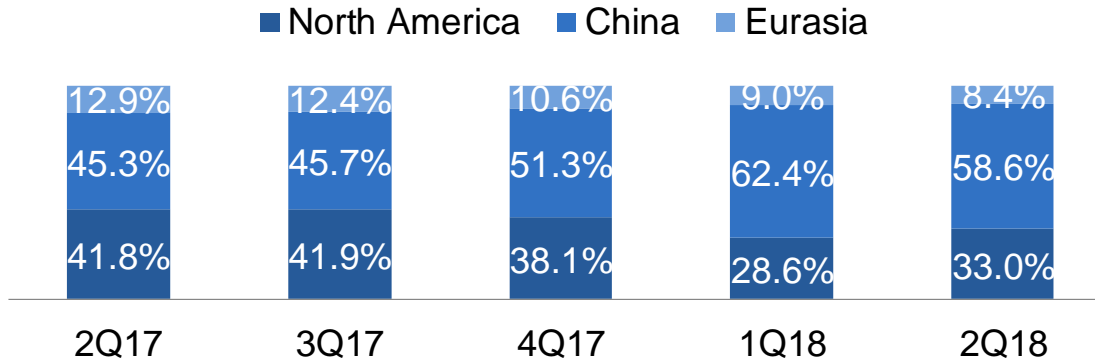
Computer



Auto/Industrial

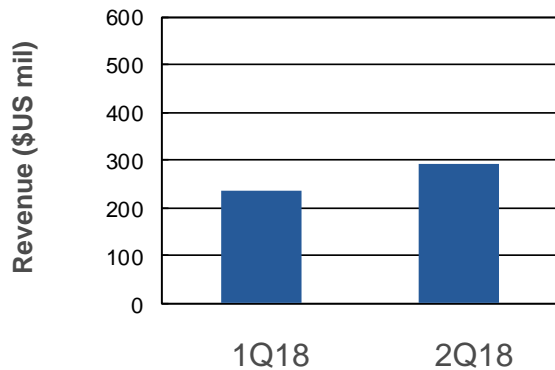


Total Revenue Breakdown by Geography

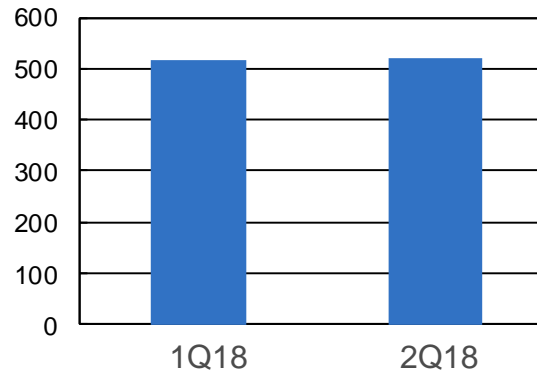


2Q18 vs. 1Q18

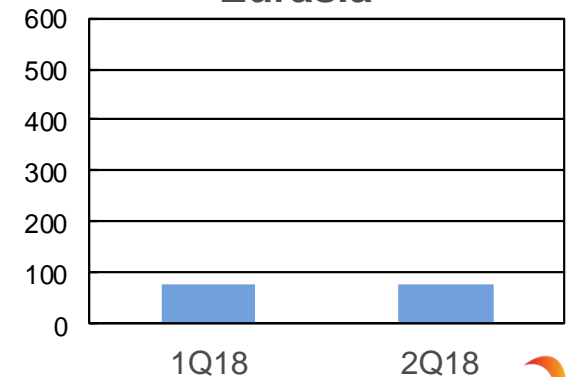
North America



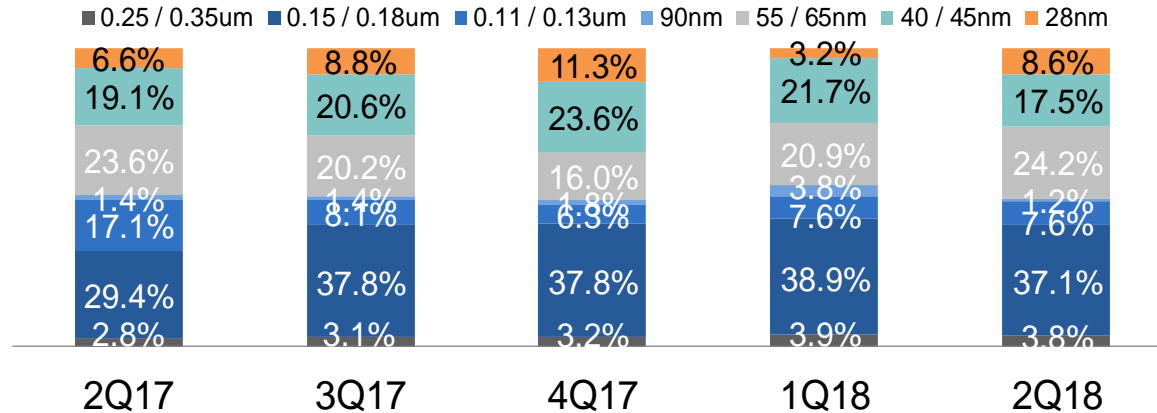
China



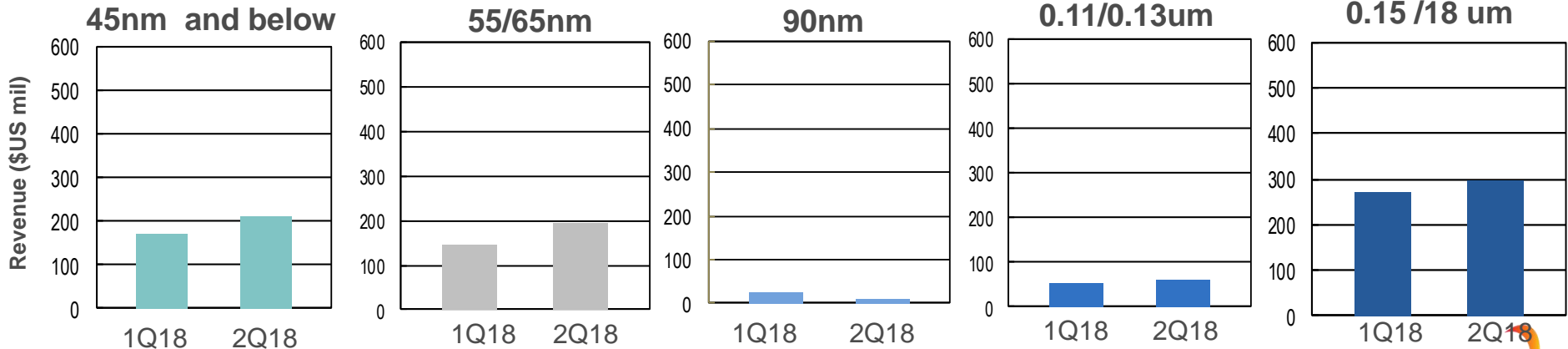
Eurasia



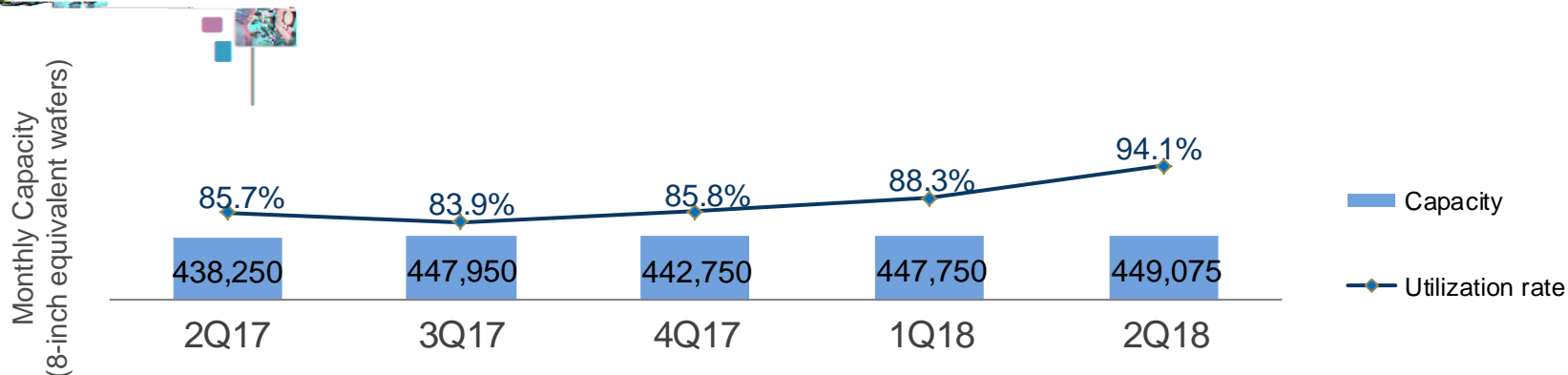
Wafer Revenue Breakdown by Technology



2Q 18 vs. 1Q 18



Capacity, Utilization and Shipment

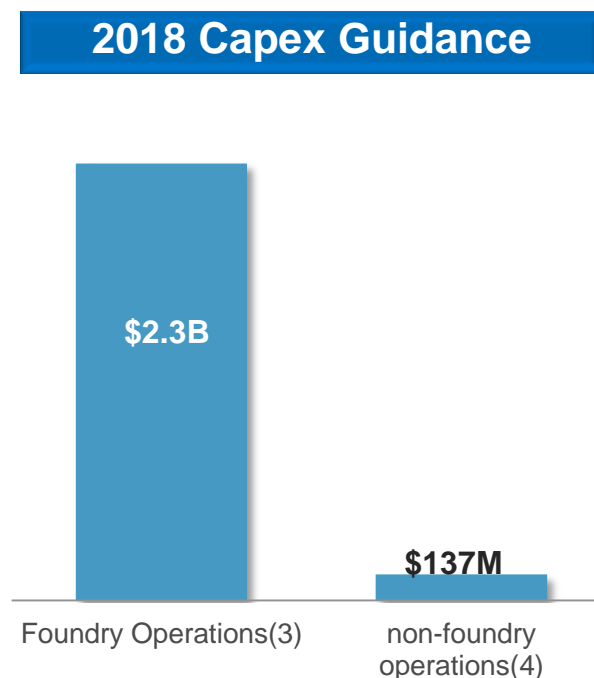


	2Q17	3Q17	4Q17	1Q18	2Q18
Shanghai 200mm Fab	112,000	114,000	109,000	109,000	108,000
Shanghai 300mm Fab	20,000	18,000	17,000	17,000	17,000
Beijing 300mm Fab	50,000	50,000	46,000	46,000	43,000
Tianjin 200mm Fab	45,000	47,000	50,000	50,000	50,000
Shenzhen 200mmFab	32,000	32,075	30,000	35,000	35,000
Shenzhen 300mmFab	-	-	3,000	3,000	3,000
Majority-Owned Beijing 300mm Fab	23,000	27,500	29,000	29,000	32,000
Majority-Owned Avezzano 200mm Fab	40,000	40,000	40,000	40,000	42,325
Monthly Capacity (8-inch equivalent wafers)	438,250	447,950	442,750	447,750	449,075
Wafer Shipments	1,014,158	1,076,039	1,124,821	1,083,630	1,258,336

(1) Capacity utilization rate is reported based on total equivalent wafers out divided by estimated total quarterly capacity

3Q 2018 Guidance and 2018 Capex Guidance

	3Q 2018 Guidance
Revenue	-4% to -6% QoQ \$838 to \$855 million (flat to +2% QoQ, excluding Licensing Revenue)
Gross Margin	19% to 21%
Non-GAAP Operating Expenses ⁽¹⁾	\$232 to \$238 million
Non-controlling interests ⁽²⁾	\$19 to \$21 million



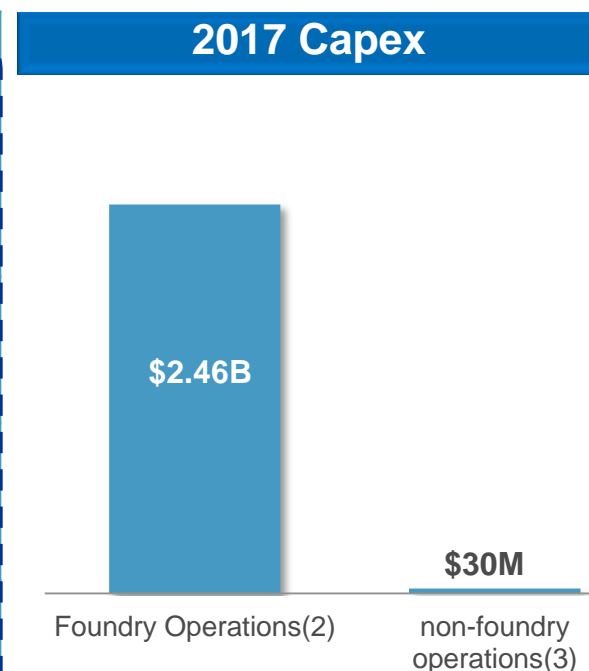
- (1) Exclude the effect of employee bonus accrual, government funding, impairment loss of machinery and equipment, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters.
- (2) Non-controlling interests of our majority-owned subsidiaries to range from positive \$19 million to positive \$21 million (losses to be borne by non-controlling interests)
- (3) The planned 2018 capital expenditures for foundry operations are approximately \$2.3 billion, of which approximately \$1.3 billion are expected to be spent for the expansion of capacity in our majority-owned Beijing 300mm fab, Tianjin 200mm fab and Shanghai 300mm fab and approximately \$0.4 billion is mainly expected to be used for R&D equipment.
- (4) The planned 2018 capital expenditures for non-foundry operations are approximately \$136.7 million, mainly for the construction of employee's living quarters.



Appendix

Results Vs Original Guidance

	2Q 2018 Guidance	2Q 2018 Results
Revenue	+7% to +9% QoQ \$889 to \$906 million	+7.2% QoQ \$891 million
Gross Margin	23% to 25%	24.5%
Non-GAAP Operating Expenses (1)	\$227 to \$233 million	\$ 217 million
Non-controlling interests	\$17 to \$19 million	\$20 million



- (1) Exclude the effect of employee bonus accrual, government funding, impairment loss of machinery and equipment, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters.
- (2) The 2017 capital expenditures for foundry operations were \$2,458.4 million, of which \$948.0 million and \$510.5 million were spent for the expansion of capacity in our majority-owned Beijing 300mm fab and in our new Shenzhen 300mm fab respectively.
- (3) The 2017 capital expenditures for non-foundry operations were \$29.5 million primarily for the construction of employees' living quarters.

Capital Expenditures & Depreciation

<i>(US\$ millions)</i>	2Q17	3Q17	4Q17	1Q18	2Q18
Capex	782	451	499	322	559
Depreciation & Amortization	241	243	252	269	268



Thank you

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