

SMIC Q3 2018 Financial Presentation

NYSE: SMI HKSE: 981


SMIC Investor Relations

Nov 2018



Safe Harbor Statements

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 "Fourth 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 cyclicity 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 our earnings release.



3Q18 Financial Highlights

- **Revenue was \$851 million**
 - Down 4.5% QoQ, compared to \$891 million in 2Q18
 - Up 1.5% QoQ, compared to \$838 million excluding Licensing Revenue in 2Q18

- **Gross margin was 20.5%**
 - Compared to 24.5% in 2Q18
 - Compared to 19.7% excluding Licensing Revenue in 2Q18

- **Profit attributable to SMIC was \$27 million**
 - Compared to \$52 million in 2Q18

- **\$3.0 billion cash on hand, including financial assets**
 - Compared to \$2.7 billion in 2Q18



Income Statement Highlights

| (US\$ thousands) | 3Q18 | 2Q18 | QoQ | 3Q17 | YoY |
|------------------|---------|---------|--------|---------|-------|
| Total Revenue | 850,662 | 890,713 | -4.5% | 769,723 | 10.5% |
| Gross Profit | 174,543 | 217,833 | -30.9% | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

- **Revenue** was \$850.7 million in 3Q18, compared to \$890.7 million (\$837.9 million, excluding technology licensing revenue) in 2Q18. Revenue, excluding the technology licensing revenue, increased in 3Q18 mainly due to an increase in wafer shipment in 3Q18.
- **Gross margin** was 20.5% in 3Q18, compared to 24.5% (19.7%, excluding technology licensing revenue) in 2Q18.
- **R&D expenses** increased by \$5.8 million QoQ to \$153.0 million in 3Q18, compared to \$147.2 million in 2Q18. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$6.1 million QoQ to \$172.3 million in 3Q18. The change was mainly due to higher level of R&D activities in 3Q18. Funding of R&D contracts from the government was \$19.3 million in 3Q18, compared to \$19.0 million in 2Q18.



Balance Sheet Highlights

| (US\$ thousands) | As of | |
|---|-------------------|-------------------|
| | Sept 30, 2018 | June 30, 2018 |
| Cash and cash equivalent | 822,619 | 1,414,260 |
| Restricted Cash-current | 586,086 | 349,974 |
| Restricted Cash-non current | 8,468 | 8,528 |
| Financial assets at fair value through profit or loss-current (1) | 47,945 | 60,412 |
| Financial assets at amortized cost (2) | 2,082,233 | 1,235,633 |
| Trade and other receivables | 926,317 | 919,490 |
| Inventories | 697,964 | 697,021 |
| Assets classified as held-for-sales | 12,912 | 18,546 |
| Other Assets | 8,183,153 | 8,179,985 |
| Total Assets | 13,367,697 | 12,883,849 |
| Short-term borrowings | 728,097 | 781,134 |
| Long-term borrowings | 1,465,548 | 1,532,739 |
| Medium-term notes | 217,554 | 225,996 |
| Convertible bonds | 414,706 | 410,819 |
| Corporate bonds | 498,075 | 497,609 |
| Total Debt | 3,323,980 | 3,448,297 |
| Net Debt (3) | 371,183 | 737,992 |
| Total Liabilities | 5,398,281 | 5,269,093 |
| Total Equity | 7,969,416 | 7,614,756 |
| Total Debt/Equity Ratio (4) | 41.7% | 45.3% |
| Net debt/Equity Ratio (5) | 4.7% | 9.7% |

1. Financial assets at fair value through profit or loss current mainly contains financial products sold by bank.
2. Financial assets at amortized 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 amortized cost.
4. Total debt divided by equity
5. Net debt divided by equity.

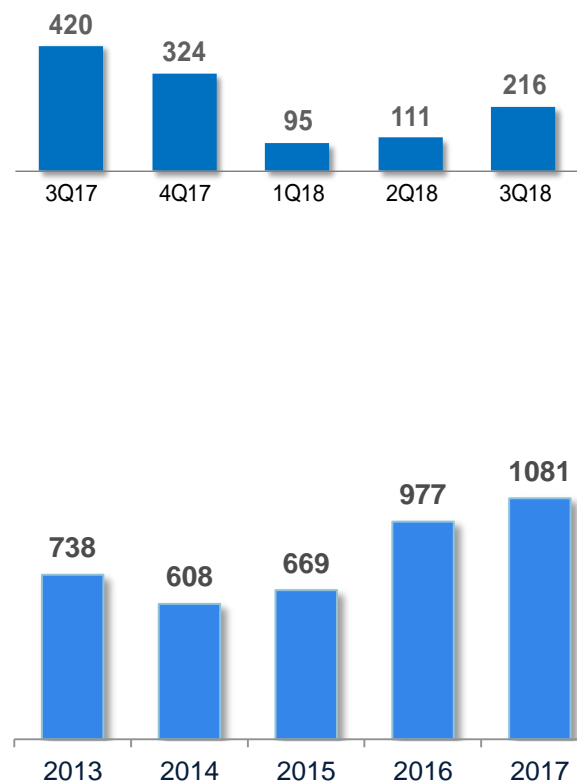
Cash Flow Highlights

(US\$ thousands)

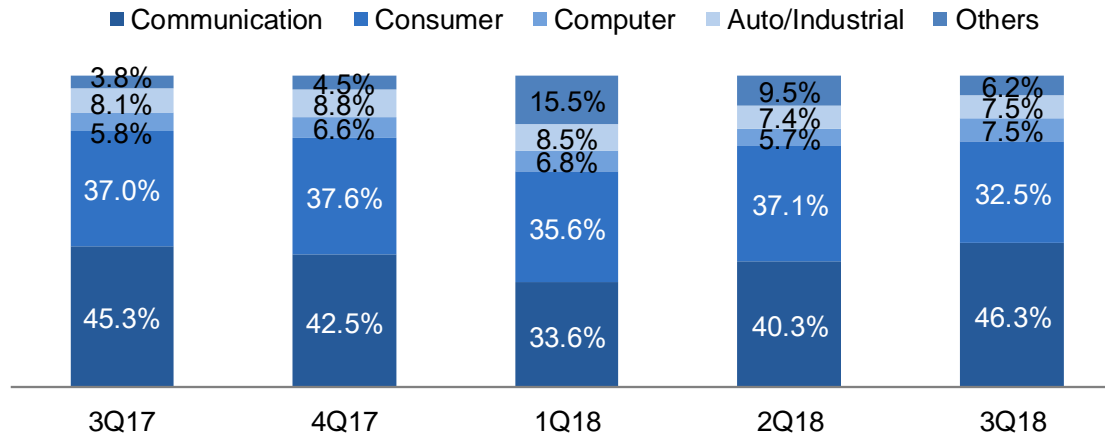
For the three months ended

| | Sept 30, 2018 | June 30, 2018 |
|---|---------------|---------------|
| Cash and cash equivalent, beginning of period | 1,414,260 | 1,008,483 |
| Net cash from operating activities | 216,487 | 110,731 |
| Net cash used in investing activities | (1,086,068) | (647,929) |
| Net cash from (used in) financing activities | 308,802 | 958,474 |
| Net increase (decrease) in cash and cash equivalent | (591,641) | 405,777 |
| Cash and cash equivalent, end of period | 822,619 | 1,414,260 |

Cash Flow from Operations (US\$ millions)

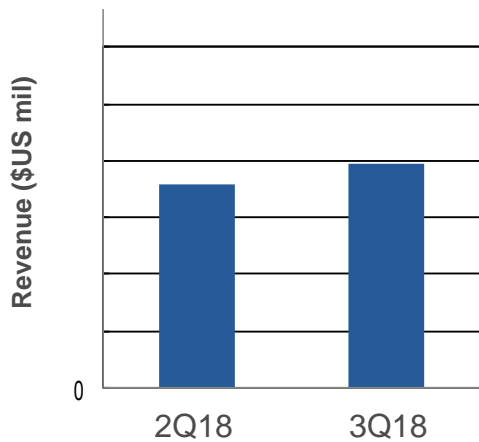


Total Revenue Breakdown by Applications

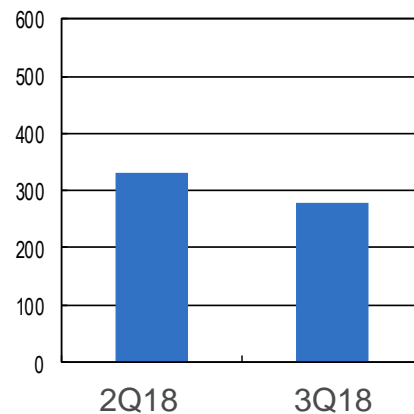


3Q18 vs. 2Q18

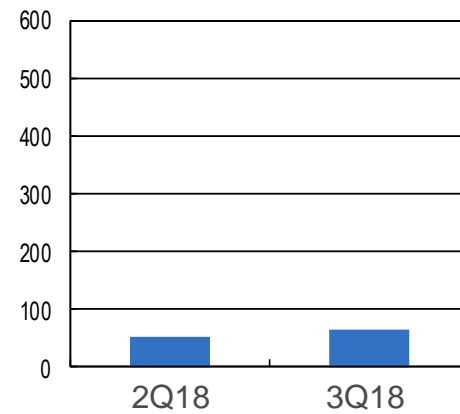
Communications



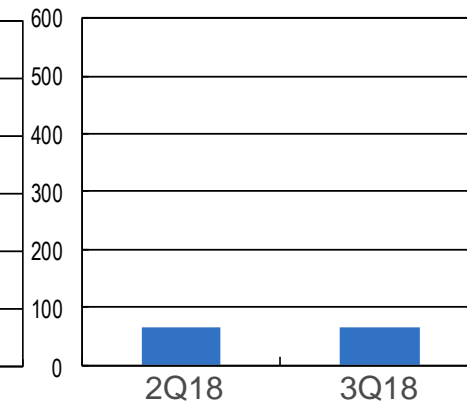
Consumer



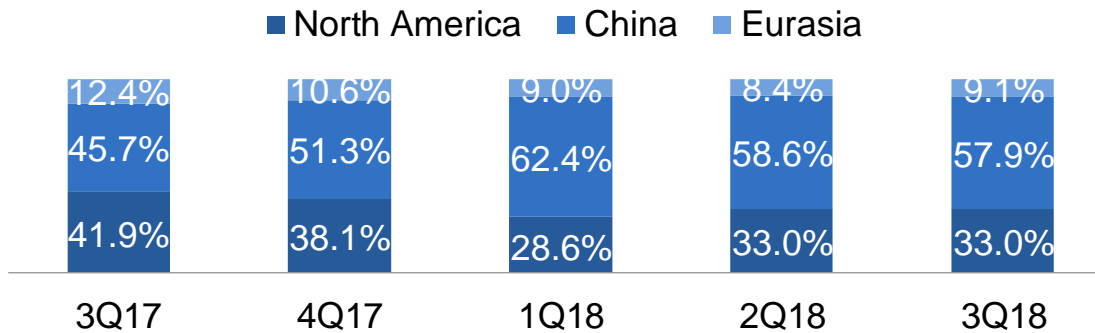
Computer



Auto/Industrial

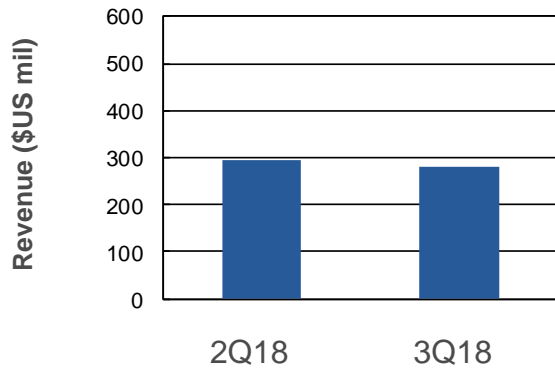


Total Revenue Breakdown by Geography

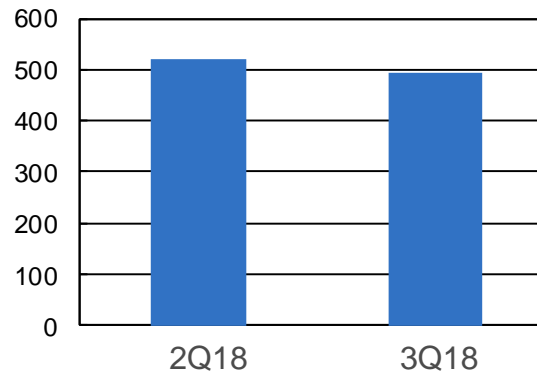


3Q18 vs. 2Q18

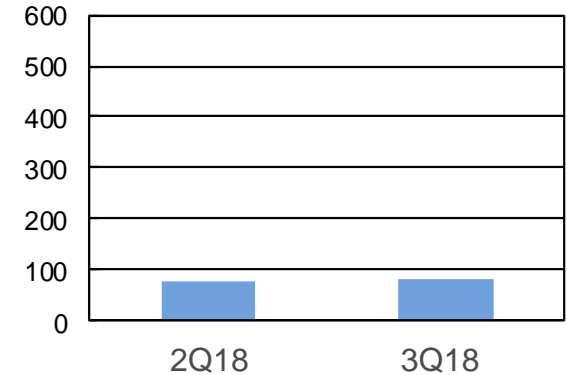
North America (1)



China

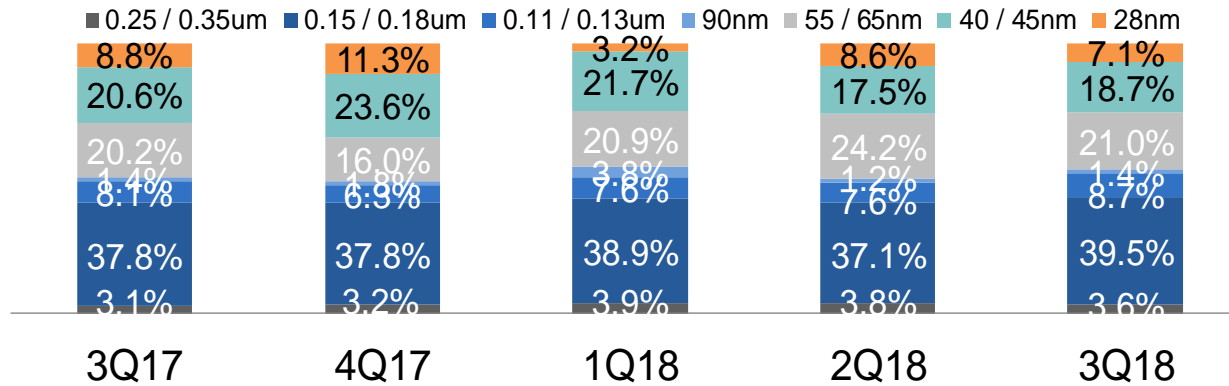


Eurasia

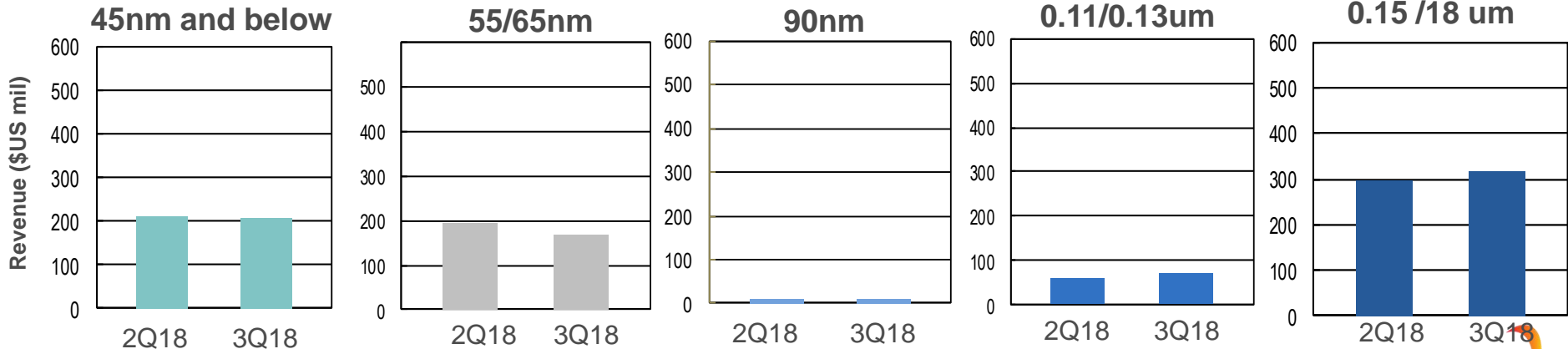


(1) Presenting the Revenue to those companies whose headquarters are in the United States, but ultimately selling and shipping the products to their global customers.

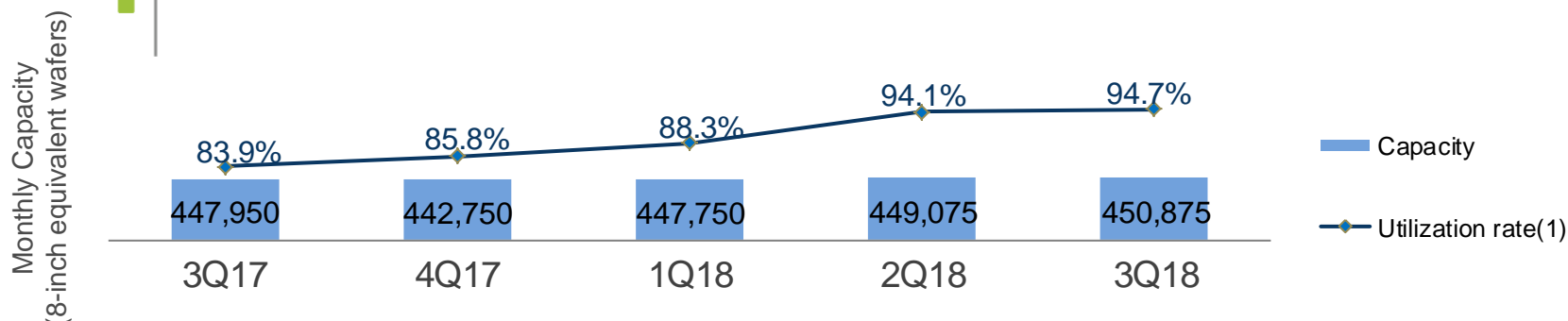
Wafer Revenue Breakdown by Technology



3Q 18 vs. 2Q 18



Capacity, Utilization and Shipment



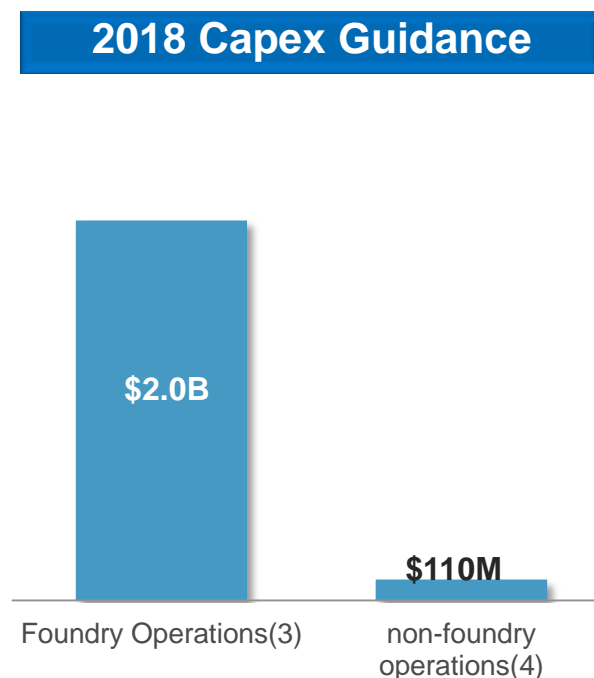
| | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 |
|--|----------------|----------------|----------------|----------------|----------------|
| Shanghai 200mm Fab | 114,000 | 109,000 | 109,000 | 108,000 | 106,000 |
| Shanghai 300mm Fab | 18,000 | 17,000 | 17,000 | 17,000 | 15,000 |
| Beijing 300mm Fab | 50,000 | 46,000 | 46,000 | 43,000 | 42,000 |
| Tianjin 200mm Fab | 47,000 | 50,000 | 50,000 | 50,000 | 53,000 |
| Shenzhen 200mm Fab | 32,075 | 30,000 | 35,000 | 35,000 | 40,300 (2) |
| Shenzhen 300mm Fab | - | 3,000 | 3,000 | 3,000 | 3,000 |
| Majority-Owned Beijing 300mm Fab | 27,500 | 29,000 | 29,000 | 32,000 | 33,000 |
| Majority-Owned Avezzano 200mm Fab | 40,000 | 40,000 | 40,000 | 42,325 | 42,325 |
| Monthly Capacity (8-inch equivalent wafers) | 447,950 | 442,750 | 447,750 | 449,075 | 450,875 |
| Wafer Shipments | 1,076,039 | 1,124,821 | 1,083,630 | 1,258,336 | 1,315,007 |

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

(2) Includes 5.3K MOSFET capacity

4Q 2018 Guidance and 2018 Capex Guidance

| | 4Q 2018 Guidance |
|--|--|
| Revenue | -7% to -9% QoQ \$773 to \$789 million |
| Gross Margin | 15% to 17% |
| Non-GAAP Operating Expenses ⁽¹⁾ | \$226 to \$230 million |
| Non-controlling interests ⁽²⁾ | \$20 to \$22 million |



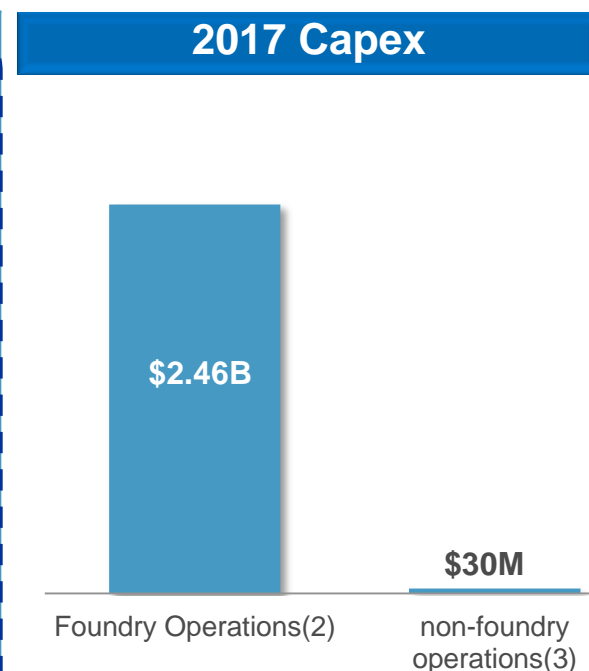
- (1) Exclude the effect of employee bonus accrual, government funding, impairment loss of machinery and equipment, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters.
- (2) Non-controlling interests of our majority-owned subsidiaries to range from positive \$20 million to positive \$22 million (losses to be borne by non-controlling interests)
- (3) The planned 2018 capital expenditures for foundry operations decreased from approximately \$2.3 billion to approximately \$2.0 billion, of which approximately \$1.2 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 \$0.3 billion is mainly expected to be used for R&D equipment.
- (4) The planned 2018 capital expenditures for non-foundry operations are approximately \$110.3 million, mainly for the construction of employee's living quarters.



Appendix

Results Vs Original Guidance

| | 3Q 2018 Guidance | 3Q 2018 Results |
|---------------------------------|---|---|
| Revenue | -4% to -6% QoQ \$838 to \$855 million (flat to +2% QoQ, excluding Licensing Revenue) | -4.5% QoQ \$851 million (+1.5% QoQ, excluding Licensing Revenue) |
| Gross Margin | 19% to 21% | 20.5% |
| Non-GAAP Operating Expenses (1) | \$232 to \$238 million | \$ 228 million |
| Non-controlling interests | \$19 to \$21 million | \$19 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> | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 |
|--|------|------|------|------|------|
| Capex | 451 | 499 | 322 | 559 | 528 |
| Depreciation & Amortization | 243 | 252 | 269 | 268 | 259 |



Thank you

Contact us: ir@smics.com