



SMIC Q4 2017 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

Feb 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 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, 2017, 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-

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 today's earnings release.

- Financial Measures





2017 Financial Highlights (unaudited)

- **Revenue was \$3.1 billion, a record high**
Compared to \$2.9 billion in 2016
6.4% growth YoY
- **Gross margin was 23.9%**
Compared to 29.2% in 2016
- **Profit attributable to SMIC was \$180 million**
Compared to \$377 million in 2016
- **EBITDA was \$1.12 billion, a record high**
Compared to \$1.06 billion in 2016
- **Revenue from China-based customers was 47.3% of overall revenue**
Compared to 49.7% in 2016



4Q17 Financial Highlights

- **Revenue was \$787 million**
Up 2.3% QoQ, compared to \$770 million in 3Q17
- **Gross margin was 18.9%**
Compared to 23.0% in 3Q17
- **Profit attributable to SMIC was \$48 million**
Up 84% QoQ, compared to \$26 million in 3Q17
23rd consecutive profitable quarter
- **EBITDA margin was 32.8%**
Compared to 33.8% in 3Q17
- **\$2.5 billion cash on hand, including other financial assets**
Compared to \$1.7 billion in 3Q17

Income Statement Highlights

(US\$ thousands)	4Q17	3Q17	QoQ	4Q16	YoY
Total Revenue	787,174	769,723	2.3%	814,802	-3.4%
Gross Profit	148,496	177,297	-16.2%	246,012	-39.6%
Gross Margin	18.9%	23.0%	-	30.2%	-
Operating Expenses	(145,323)	(154,592)	-6.0%	(196,994)	-26.2%
<i>Research & Development, net</i>	<i>(101,300)</i>	<i>(106,848)</i>	<i>-5.2%</i>	<i>(118,325)</i>	<i>-14.4%</i>
<i>General & Administrative</i>	<i>(58,201)</i>	<i>(46,104)</i>	<i>26.2%</i>	<i>(60,934)</i>	<i>-4.5%</i>
<i>Selling & Marketing</i>	<i>(6,393)</i>	<i>(9,587)</i>	<i>-33.3%</i>	<i>(9,087)</i>	<i>-29.6%</i>
<i>Other operating income (expense)</i>	<i>20,571</i>	<i>7,947</i>	<i>158.9%</i>	<i>(8,648)</i>	-
Profit from operations	3,173	22,705	-86.0%	49,018	-93.5%
Other income (expense), net	(6,086)	7,290	-	473	-
Income tax benefit (expense)	1,217	595	104.5%	8,547	-85.8%
Profit attributable to SMIC	47,718	25,899	84.2%	104,008	-54.1%
Non-controlling Interests	(49,414)	4,691	-	(45,970)	7.5%
Earnings per ADS (Basic)	0.05	0.03	-	0.12	-

- **Revenue** increased by 2.3% QoQ from \$769.7 million in 3Q17 to \$787.2 million in 4Q17 mainly due to an increase of wafer shipment in 4Q17.
- **R&D expenses** decreased by \$5.5 million QoQ to \$101.3 million in 4Q17, compared to \$106.8 million in 3Q17. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$4.1 million QoQ to \$135.1 million in 4Q17. The change was mainly due to higher level of R&D activities in 4Q17. Funding of R&D contracts from the government was \$33.8 million in 4Q17, compared to \$24.2 million in 3Q17.
- **General and administrative expenses** increased by 26.2% to \$58.2 million in 4Q17, compared to \$46.1 million in 3Q17. The change was mainly due to an increase in the government tax surcharges, accrued employee bonus and the patent expenses in 4Q17.

Balance Sheet Highlights

(US\$ thousands)	As of	
	Dec 31, 2017	Sept 30, 2017
Cash and cash equivalent	1,838,300	1,119,149
Restricted Cash-current	336,043	339,596
Restricted Cash-non current	13,438	13,228
Other financial assets-current ⁽¹⁾	683,812	607,258
Trade and other receivables	616,308	609,849
Inventories	622,679	625,283
Assets classified as held-for-sales	37,471	38,942
Other Assets	7,770,400	7,501,072
Total Assets	11,918,451	10,854,377
Short-term borrowings	440,608	437,375
Long-term borrowings	1,743,939	1,573,150
Medium-term notes	228,483	224,755
Convertible bonds	403,329	406,357
Corporate bonds	496,689	496,234
Total Debt	3,313,048	3,137,871
Net Debt ⁽²⁾	790,936	1,411,464
Total Liabilities	5,197,116	4,857,948
Total Equity	6,721,335	5,996,429
Total Debt/Equity Ratio ⁽³⁾	49.3%	52.3%
Net debt/Equity Ratio ⁽⁴⁾	11.8%	23.5%

(1) Other financial assets – current mainly contain financial products sold by bank and bank deposits over 3 months.

(2) Net debt is total debt minus cash and cash equivalent, and other financial assets

(3) Total debt divided by equity

(4) Net debt divided by equity.



Cash Flow Highlights

(US\$ thousands)

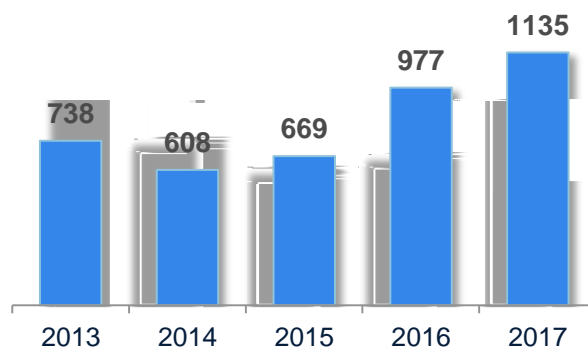
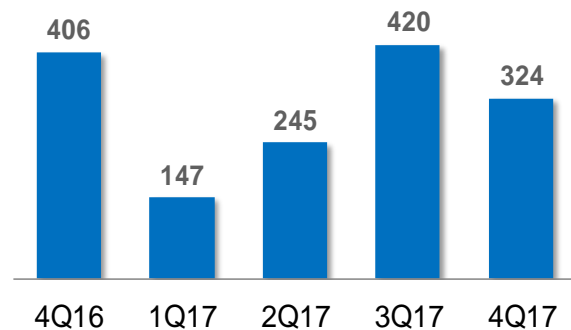
For the three months ended

Dec 31, 2017

Sept 30, 2017

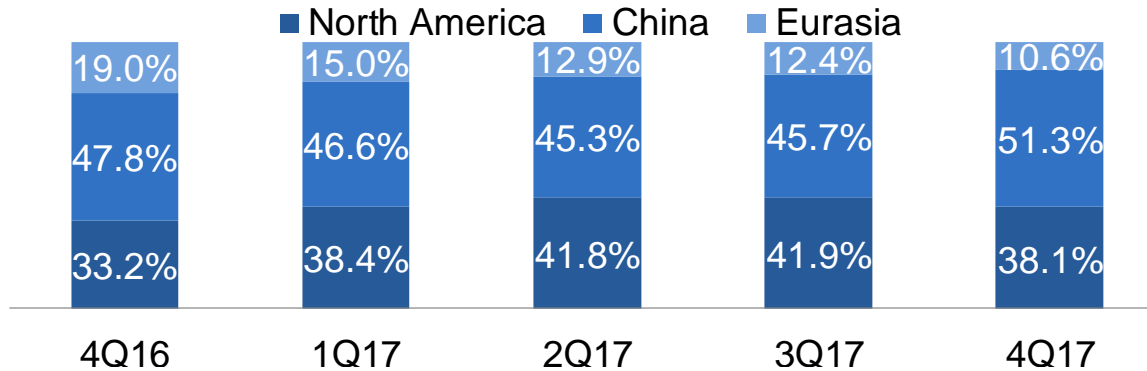
	Dec 31, 2017	Sept 30, 2017

Cash Flow from Operations (US\$ millions)



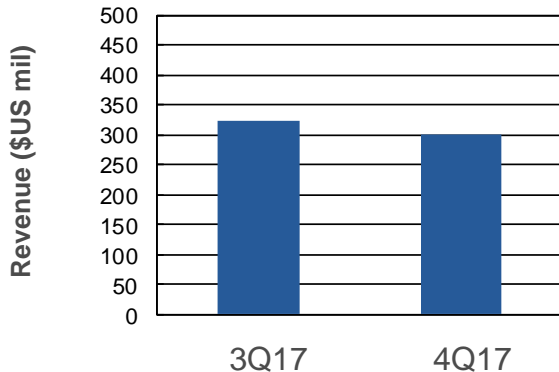


Total Revenue Breakdown by Geography

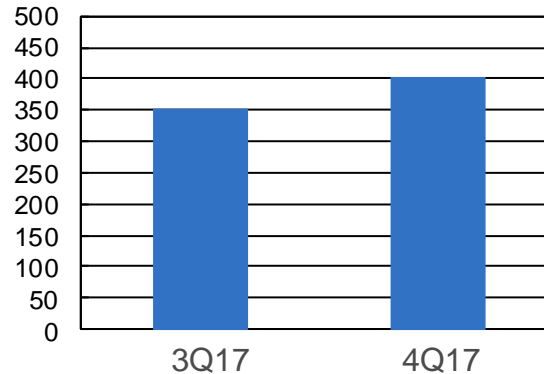


4Q17 vs. 3Q17

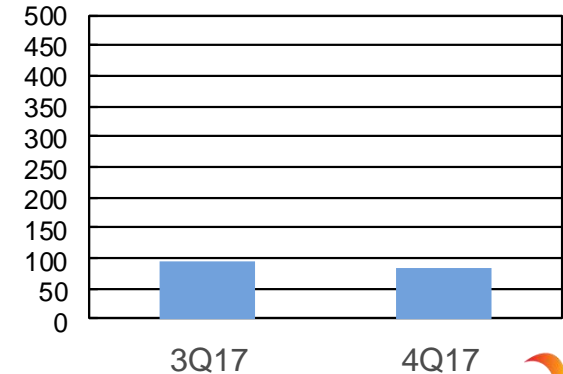
North America



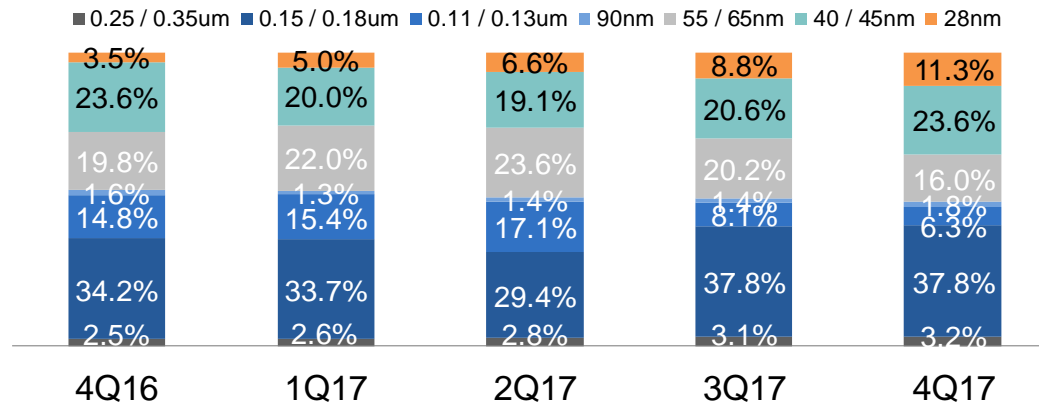
China



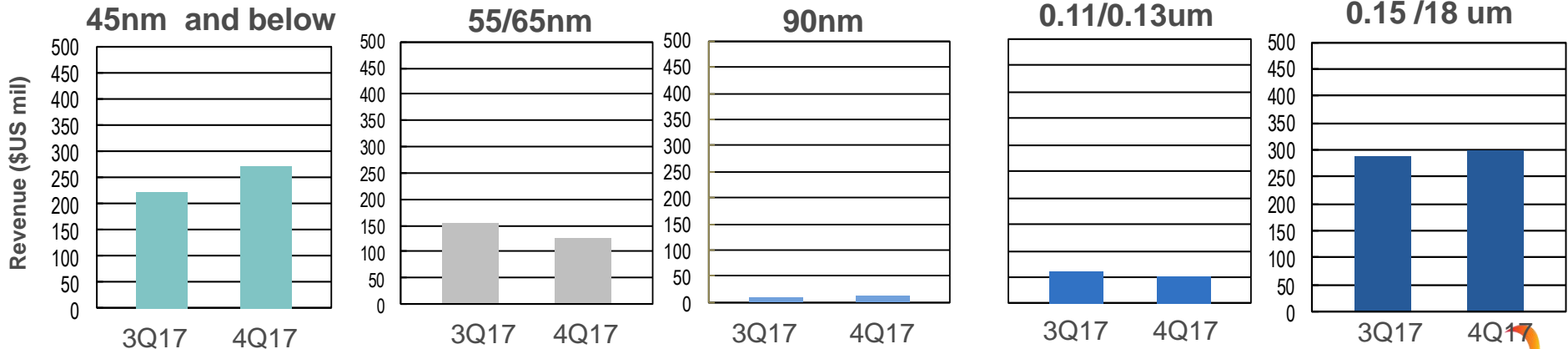
Eurasia



Wafer Revenue Breakdown by Technology

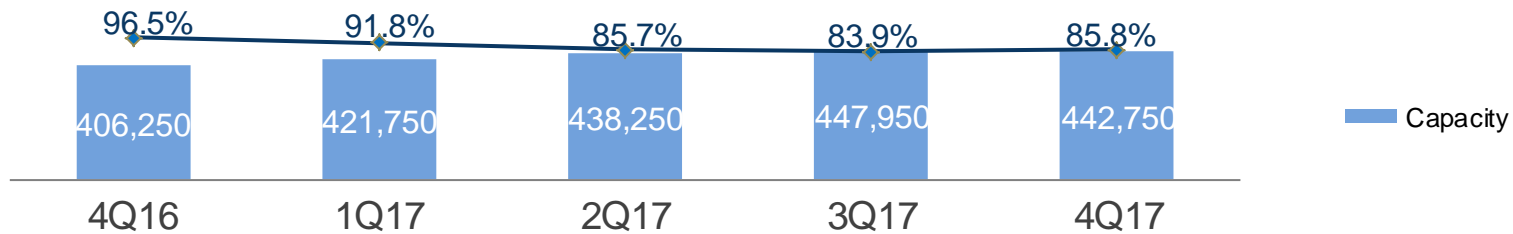


4Q 17 vs. 3Q 17



Capacity, Utilization and Shipment

Monthly Capacity
(8-inch equivalent wafers)

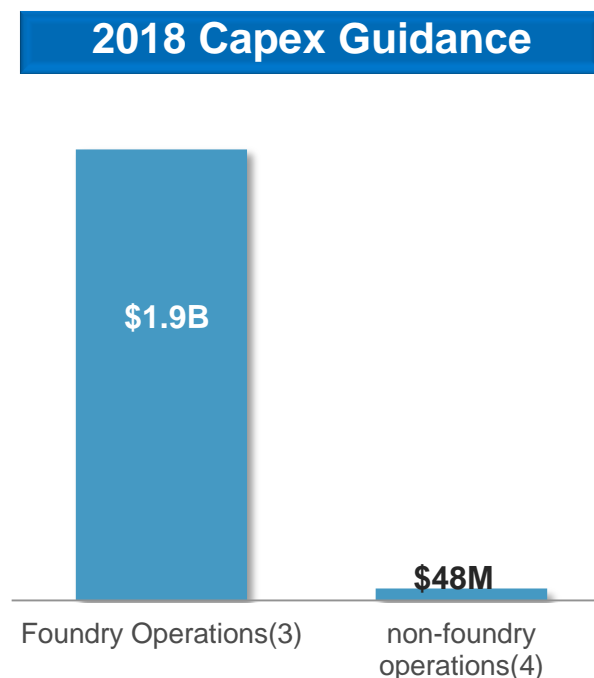


	4Q16	1Q17	2Q17	3Q17	4Q17
Shanghai 200mm Fab	108,000	110,000	112,000	114,000	109,000
Shanghai 300mm Fab	20,000	20,000	20,000	18,000	17,000
Beijing 300mm Fab	43,000	48,000	50,000	50,000	46,000
Tianjin 200mm Fab	45,000	45,000	45,000	47,000	50,000
Shenzhen 200mm Fab	31,000	31,000	32,000	32,075	30,000
Shenzhen 300mm Fab	-	-	-	-	3,000
Majority-Owned Beijing 300mm Fab	18,000	19,000	23,000	27,500	29,000
Majority-Owned Avezzano 200mm Fab	40,000	40,000	40,000	40,000	40,000
Monthly Capacity (8-inch equivalent wafers)	406,250	421,750	438,250	447,950	442,750
Wafer Shipments	1,096,011	1,095,761	1,014,158	1,076,039	1,124,821

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

1Q 2018 Guidance and 2018 Capex Guidance

	1Q 2018 Guidance
Revenue (including the forecast to recognize one-time technology licensing revenue estimated at \$150 million)	+7% to +9% QoQ \$842 to \$858 million
Gross Margin	25% to 27%
Non-GAAP Operating Expenses ⁽¹⁾	\$212 to \$218 million
Non-controlling interests ⁽²⁾	\$15 to \$17 million



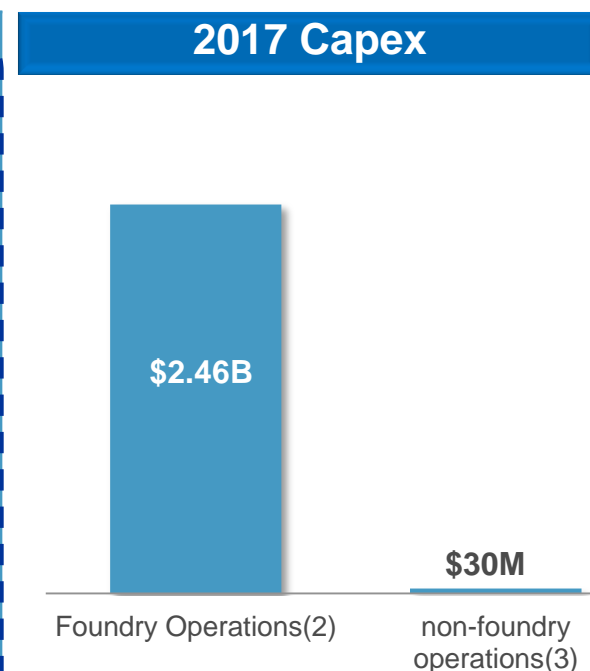
- (1) Exclude the effect of employee bonus accrual, government funding, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters
- (2) Non-controlling interests of our majority-owned subsidiaries to range from positive \$15 million to positive \$17 million (losses to be borne by non-controlling interests)
- (3) The planned 2018 capital expenditures for foundry operations are approximately \$1.9 billion, of which approximately \$0.5 billion and \$0.4 billion are expected to be spent for the expansion of capacity in our majority-owned Beijing 300mm fab and in our new project in Tianjin respectively. The planned 2018 capital expenditures for non-foundry operations are approximately \$47.7 million, j fki d oqeb l kqqr qf k l cbj ml bbb ifskd nr apq+



Appendix

Results Vs Original Guidance

	4Q 2017 Guidance	4Q 2017 Results
Revenue	+1% to +3% QoQ \$777 to \$793 million	+2.3% QoQ \$787 million
Gross Margin	18% to 20%	18.9%
Non-GAAP Operating Expenses (1)	\$204 to \$210 million	\$ 201 million
Non-controlling interests	\$48 to \$50 million	\$49 million



- (1) Exclude the effect of employee bonus accrual, government funding, 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. The 2017 capital expenditures for non-foundry operations were \$30 million.

Capital Expenditures & Depreciation

<i>(US\$ millions)</i>	4Q16	1Q17	2Q17	3Q17	4Q17
Capex	481	727	782	451	499
Depreciation & Amortization	216	235	241	243	252



Thank you

Contact us: ir@smics.com