



SMIC Q3 2017 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

Nov 2017



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 2017 Guidance", "CapEx Summary" and the statements contained in the quotes of 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, 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 ET-4(7-4(i)5(m)-3(e)60(r)-4(o)19(t)



3Q17 Financial Highlights

- Revenue was \$770 million
 - Up 2.5% QoQ

Income Statement Highlights

| (US\$ thousands) | 3Q17 | 2Q17 | QoQ | 3Q16 | YoY |
|------------------|---------|---------|------|---------|-------|
| Total Revenue | 769,723 | 751,193 | 2.5% | 774,845 | -0.7% |
| Gross Profit | 177,297 | 194,132 | | | |
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- Revenue** increased by 2.5% QoQ from \$751.2 million in 2Q17 to \$769.7 million in 3Q17 mainly due to an increase of wafer shipment in 3Q17.
- R&D expenses** decreased by \$4.3 million QoQ to \$106.8 million in 3Q17, compared to \$111.2 million in 2Q17. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$3.8 million QoQ to \$131.0 million in 3Q17. The change was mainly due to higher level of R&D activities in 3Q17. Funding of R&D contracts from the government was \$24.2 million in 3Q17, compared to \$16.1 million in 2Q17.
- General and administrative expenses** decreased by 14.9% to \$46.1 million in 3Q17, compared to \$54.2 million in 2Q17. The change was mainly due to 1) less share-based compensation payment accrued in 3Q17 and 2) the reversal of allowance for doubtful debts in 3Q17.



Balance Sheet Highlights

| (US\$ thousands) | As of | |
|---|-------------------|-------------------|
| | Sept 30, 2017 | June 30, 2017 |
| Cash and cash equivalent | 1,119,149 | 876,118 |
| Restricted Cash-current | 339,596 | 344,100 |
| Restricted Cash-non current | 13,228 | 12,788 |
| Other financial assets-current ⁽¹⁾ | 607,258 | 516,002 |
| Trade and other receivables | 609,849 | 722,911 |
| Inventories | 625,283 | 577,179 |
| Assets classified as held-for-sales | 38,942 | 49,654 |
| Other Assets | 7,495,181 | 7,702,898 |
| Total Assets | 10,848,486 | 10,801,650 |
| Short-term borrowings | 437,375 | 305,898 |
| Long-term borrowings | 1,573,150 | 1,456,108 |
| Medium-term notes | 224,755 | 219,370 |
| Convertible bonds | 406,357 | 402,549 |
| Corporate bonds | 496,234 | 495,789 |
| Total Debt | 3,137,871 | 2,879,714 |
| Net Debt ⁽²⁾ | 1,411,464 | 1,487,594 |
| Total Liabilities | 4,857,948 | 4,856,566 |
| Total Equity | 5,990,538 | 5,945,084 |
| Total Debt/Equity Ratio ⁽³⁾ | 52.4% | 48.4% |
| Net debt/Equity Ratio ⁽⁴⁾ | 23.6% | 25.0% |

(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

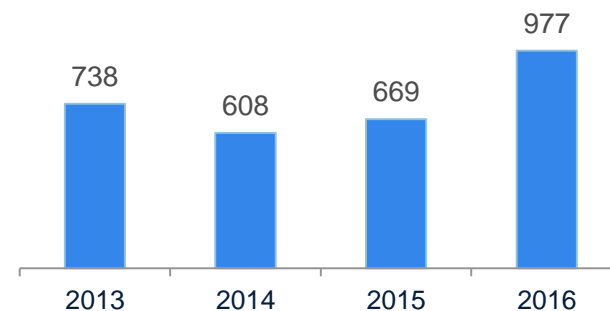
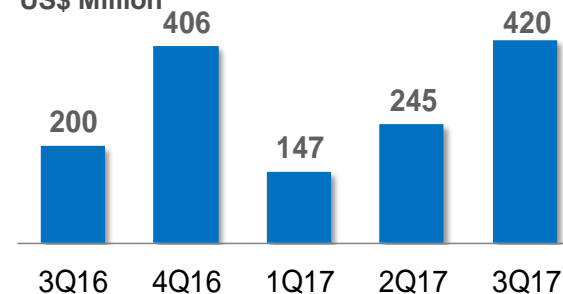
(US\$ thousands)

For the three months ended

| | Sept 30, 2017 | June 30, 2017 |
|--|------------------|--------------------|
| Cash and cash equivalent, beginning of period | 876,118 | 1,552,043 |
| Net cash from operating activities | 419,540 | 245,219 |
| Net cash used in investing activities | (399,015) | (1,001,407) |
| Net cash from (used in) financing activities | 217,493 | 80,928 |
| Net increase (decrease) in cash and cash equivalent | 243,031 | (675,925) |
| Cash and cash equivalent, end of period | 1,119,149 | 876,118 |

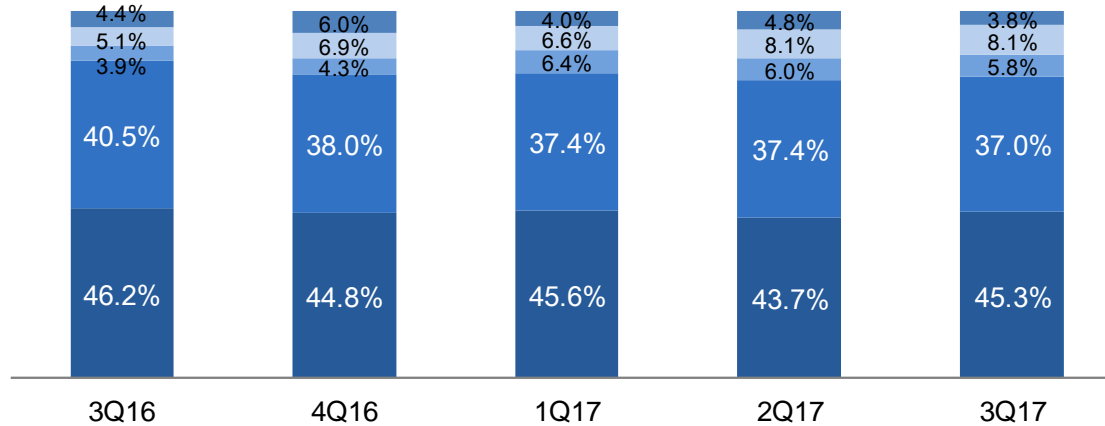
Cash Flow from Operations

US\$ Million



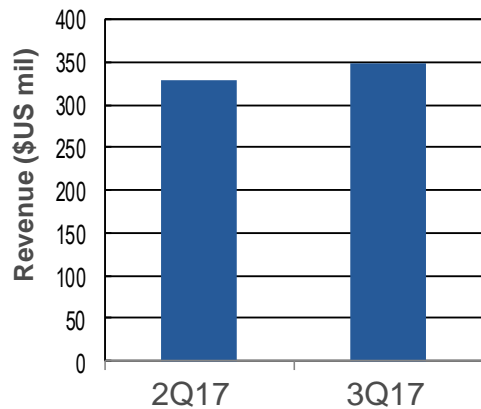
Total Revenue Breakdown by Applications

■ Communication ■ Consumer ■ Computer ■ Auto/Industrial ■ Others

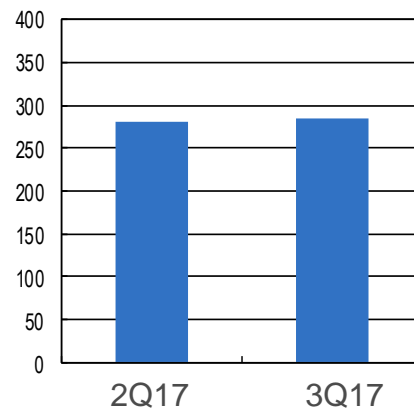


3Q17 vs. 2Q17

Communications



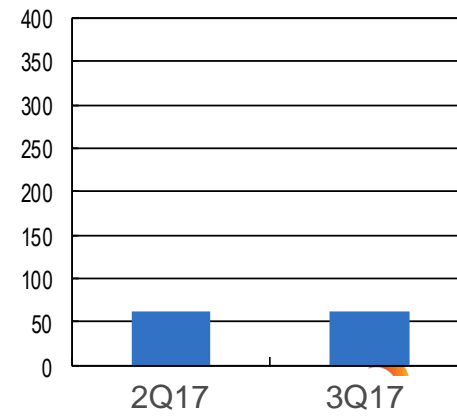
Consumer



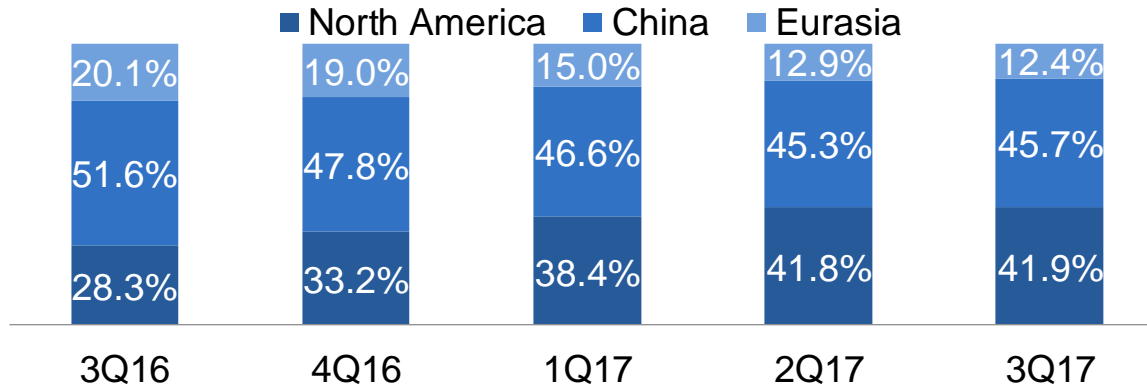
Computer

2Q17 3Q17

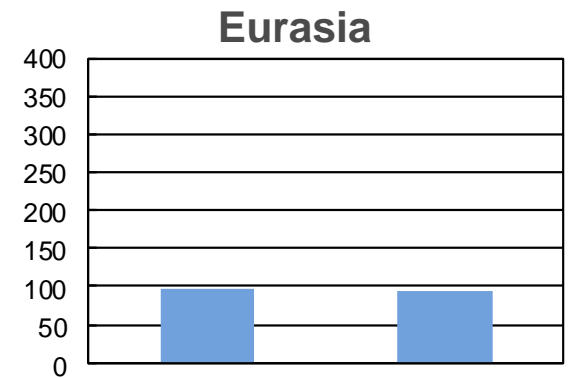
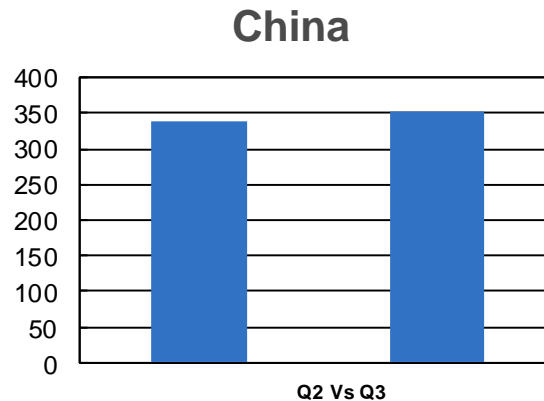
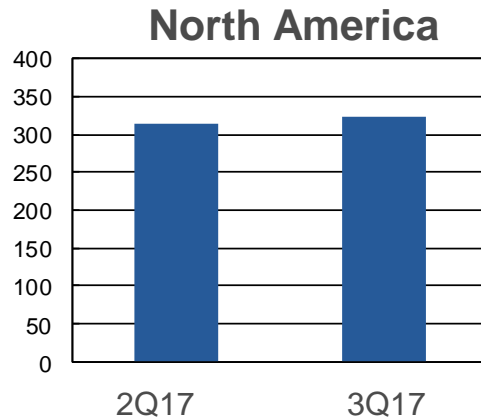
Auto/Industrial



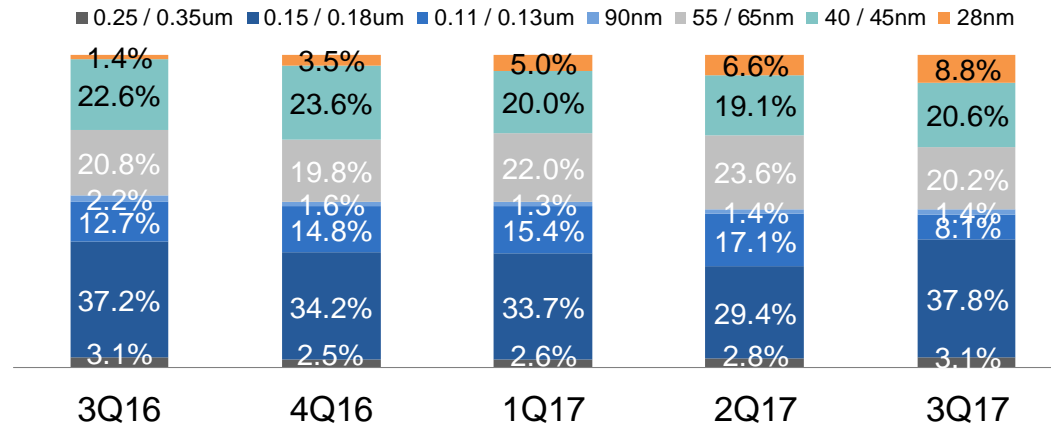
Total Revenue Breakdown by Geography



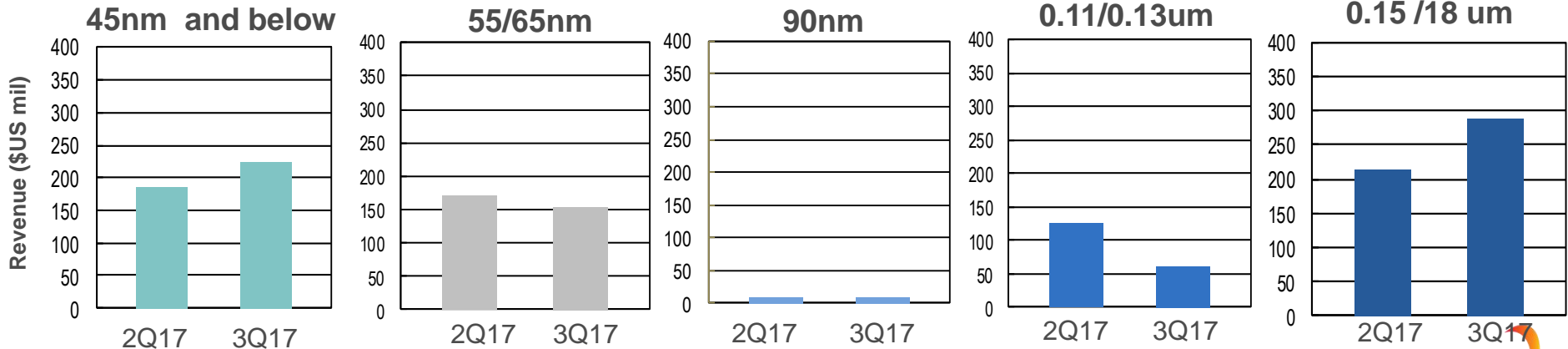
3Q17 vs. 2Q17



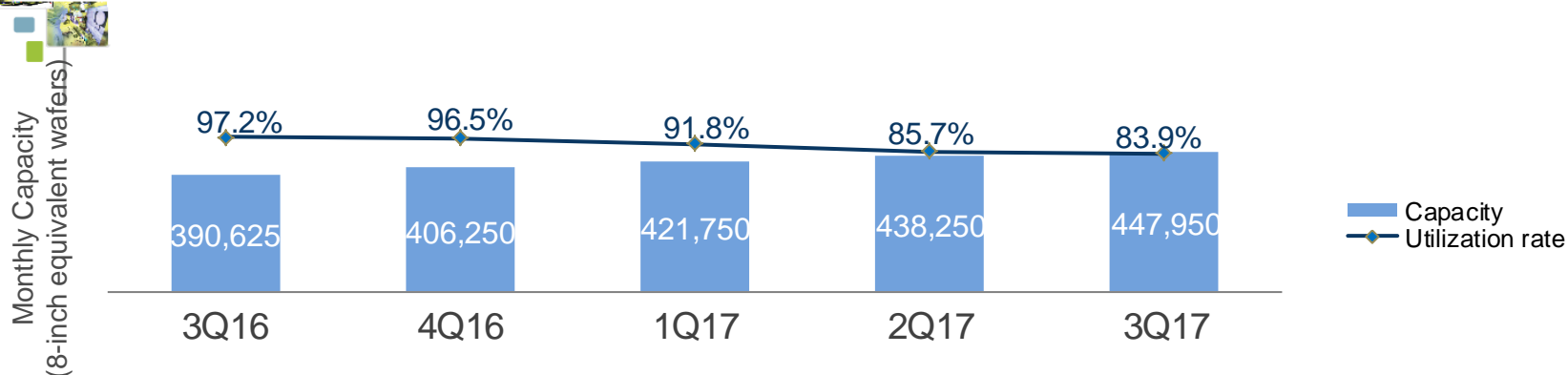
Wafer Revenue Breakdown by Technology



3Q 17 vs. 2Q 17



Capacity, Utilization and Shipment

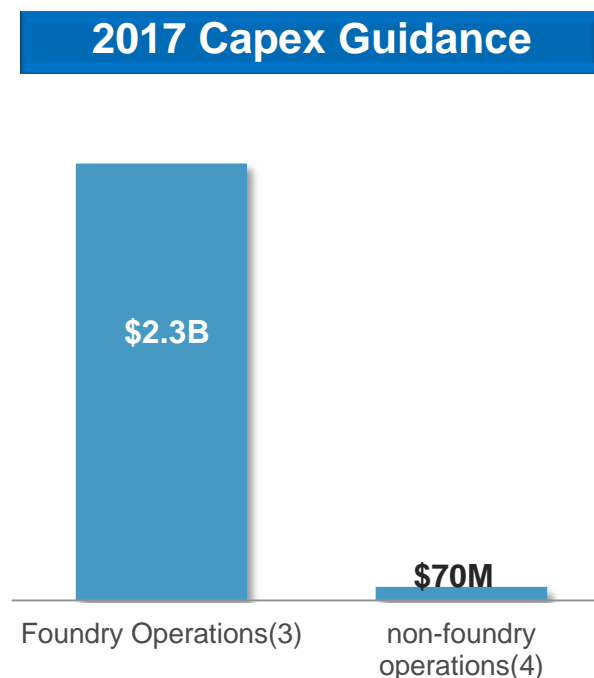


| | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 |
|--|----------------|----------------|----------------|----------------|----------------|
| Shanghai 200mm Fab | 107,000 | 108,000 | 110,000 | 112,000 | 114,000 |
| Shanghai 300mm Fab | 20,000 | 20,000 | 20,000 | 20,000 | 18,000 |
| Beijing 300mm Fab | 39,000 | 43,000 | 48,000 | 50,000 | 50,000 |
| Tianjin 200mm Fab | 45,000 | 45,000 | 45,000 | 45,000 | 47,000 |
| Shenzhen 200mm Fab | 31,000 | 31,000 | 31,000 | 32,000 | 32,075 |
| Majority-Owned Beijing 300mm Fab | 15,500 | 18,000 | 19,000 | 23,000 | 27,500 |
| Majority-Owned Avezzano 200mm Fab | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| Monthly Capacity (8-inch equivalent wafers) | 390,625 | 406,250 | 421,750 | 438,250 | 447,950 |
| Wafer Shipments | 1,058,504 | 1,096,011 | 1,095,761 | 1,014,158 | 1,076,039 |

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

4Q 2017 Guidance and 2017 Capex Guidance

| | 4Q 2017 Guidance |
|--|--|
| Revenue | +1% to +3% QoQ \$777 to \$793 million |
| Gross Margin | 18% to 20% |
| Non-GAAP Operating Expenses ⁽¹⁾ | \$204 to \$210 million |
| Non-controlling interests ⁽²⁾ | \$48 to \$50 million |



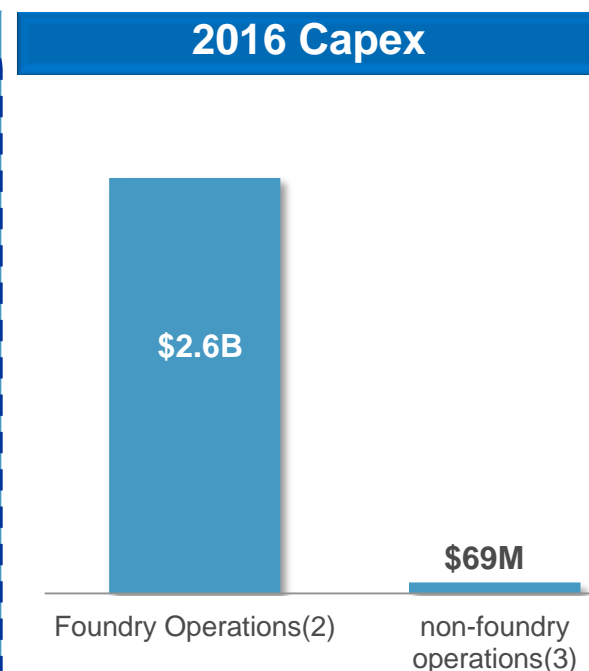
- (1) Exclude the effect of employee bonus accrual, government funding and gain from the disposal of living quarters
- (2) Non-controlling interests of our majority-owned subsidiaries to range from positive \$48 million to positive \$50 million (losses to be borne by non-controlling interests)
- (3) The planned 2017 capital expenditures for foundry operations are approximately \$2.3 billion, of which approximately \$0.9 billion is expected to be spent for the expansion of capacity in our majority-owned Beijing 300mm fab.
- (4) The planned 2017 capital expenditures for non-foundry operations are approximately \$70 million, mainly for the construction of employees' living quarters.



Appendix

Results Vs Original Guidance

| | 3Q 2017 Guidance | 3Q 2017 Results |
|---------------------------------|---|----------------------------|
| Revenue | flat to +3% QoQ \$751 to \$774 million | +2.5% QoQ \$770 million |
| Gross Margin | 22% to 24% | 23.0% |
| Non-GAAP Operating Expenses (1) | \$179 to \$185 million | \$ 184 million |
| Non-controlling interests | \$0 to \$3 million | -\$5 million |



(1) Exclude the effect of employee bonus accrual, government funding and gain from the disposal of living quarters

(2) The 2016 capital expenditures for foundry operations were \$2,626.2 million, of which \$1,239.7 million was spent for the expansion of capacity in our majority-owned Beijing 300mm fab. The 2016 capital expenditures for non-foundry operations were \$68.5 million primarily for the construction of employees' living quarters.

Capital Expenditures & Depreciation

| <i>(US\$ millions)</i> | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 |
|--|------|------|------|------|------|
| Capex | 671 | 481 | 727 | 782 | 451 |
| Depreciation & Amortization | 186 | 216 | 235 | 241 | 243 |



Thank you

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