

SMIC Q1 2017 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

May 2017

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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 CapEx 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-

- 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 today's earnings release.





1Q17 Financial Highlights

- **Revenue was \$793.1 million**
Down 2.7% QoQ, compared to \$814.8 million in 4Q16
Up 25.0% YoY, compared to \$634.3 million in 1Q16
- **Gross margin was 27.8%**
Compared to 30.2% in 4Q16
Compared to 24.2% in 1Q16
- **Operating margin was 9.8%**
Compared to 6.0% in 4Q16
Compared to 10.4% in 1Q16
- **Profit attributable to SMIC was \$69.8 million**
Down 32.9% QoQ, compared to \$104.0 million in 4Q16
Up 13.6% YoY, compared to \$61.4 million in 1Q16
20th consecutive profitable quarter
- **EBITDA was \$312.4 million, a record high**
Up 13.9% QoQ, compared to \$274.3 million in 4Q16
Up 42.8% YoY, compared to \$218.7 million 1Q16
- **EBITDA margin was 39.4%**
Compared to 33.7% in 4Q16
Compared to 34.5% in 1Q16

Income Statement Highlights

(US\$ thousands)	1Q17	4Q16	QoQ	1Q16	YoY
Total Revenue	793,085	814,802	-2.7%	634,312	25.0%
Gross Profit	220,819	246,012	-10.2%	153,752	43.6%
Gross Margin	27.8%	30.2%	-	24.2%	-
Operating Expenses	(143,433)	(196,994)	-27.2%	(87,616)	63.7%
<i>Research & Development, net</i>	<i>(107,805)</i>	<i>(118,325)</i>	<i>-8.9%</i>	<i>(53,498)</i>	<i>101.5%</i>
<i>General & Administrative</i>	<i>(39,394)</i>	<i>(60,934)</i>	<i>-35.3%</i>	<i>(27,492)</i>	<i>43.3%</i>
<i>Selling & Marketing</i>	<i>(10,375)</i>	<i>(9,087)</i>	<i>14.2%</i>	<i>(9,710)</i>	<i>6.8%</i>
<i>Other operating income (expense)</i>	<i>14,141</i>	<i>(8,648)</i>	<i>-</i>	<i>3,084</i>	<i>358.5%</i>
Profit from operations	77,386	49,018	57.9%	66,136	17.0%
Other income (expense), net	(12,371)	473	-	(13,636)	-9.3%
Income tax benefit (expense)	(802)	8,547	-	(738)	8.7%
Profit attributable to SMIC	69,791	104,008	-32.9%	61,418	13.6%
Non-controlling Interests	(5,578)	(45,970)	-87.9%	(9,656)	-42.2%
Earnings per ADS (Basic)	0.08	0.12	-	0.07	-

- **Revenue** decreased by 2.7% QoQ from \$814.8 million in 4Q16 to \$793.1 million in 1Q17 mainly due to a product-mix change in 1Q17 and quotes.
- **R&D expenses** decreased by \$10.5 million QoQ to \$107.8 million in 1Q17, compared to \$118.3 million in 4Q16. Excluding the funding of R&D contracts from the government, R&D expenses decreased by \$19.1 million QoQ to \$121.9 million in 1Q17. The change was mainly due to higher level of R&D activities in 4Q16. Funding of R&D contracts from the government was \$14.1 million in 1Q17, compared to \$22.7 million in 4Q16.
- **General and administrative expenses** decreased by 35.3% to \$39.4 million in 1Q17, compared to \$60.9 million in 4Q16. The change was mainly due to a decrease in accrued employee bonus in 1Q17.

Balance Sheet Highlights

(US\$ thousands)	As of	
	Mar 31, 2017	Dec 31, 2016
Cash and cash equivalent	1,552,043	2,126,011
Restricted Cash-current	280,771	337,699
Restricted Cash-non current	18,278	20,080
Other financial assets ⁽¹⁾	557,040	31,543
Trade and other receivables	705,265	645,822
Inventories	503,801	464,216
Assets classified as held-for-sales	45,421	50,813
Other Assets	6,699,496	6,439,094
Total Assets	10,362,115	10,115,278
Short-term borrowings	204,973	209,174
Long-term borrowings	1,369,482	1,233,594
Shor-term notes	87,097	86,493
Medium-term notes	216,172	214,502
Convertible bonds-current	-	391,401
Convertible bonds-non current	398,879	395,210
Corporate bonds	495,344	494,909
Total Debt	2,771,947	3,025,283
Net Debt ⁽²⁾	662,864	867,729
Total Liabilities	4,471,225	4,712,051
Total Equity	5,890,890	5,403,227
Total Debt/Equity Ratio ⁽³⁾	47.1%	56.0%
Net debt/Equity Ratio ⁽⁴⁾	11.3%	16.1%

(1) Other financial assets 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

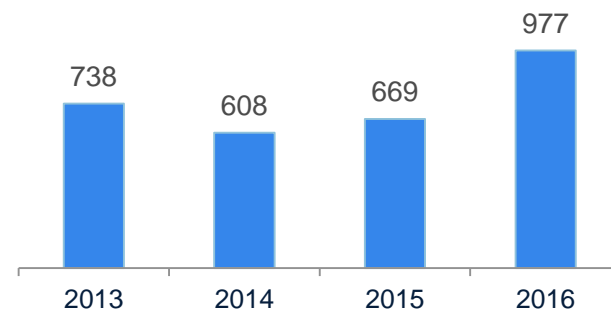
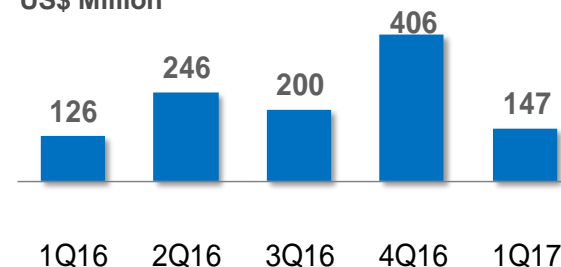
(US\$ thousands)

For the three months ended

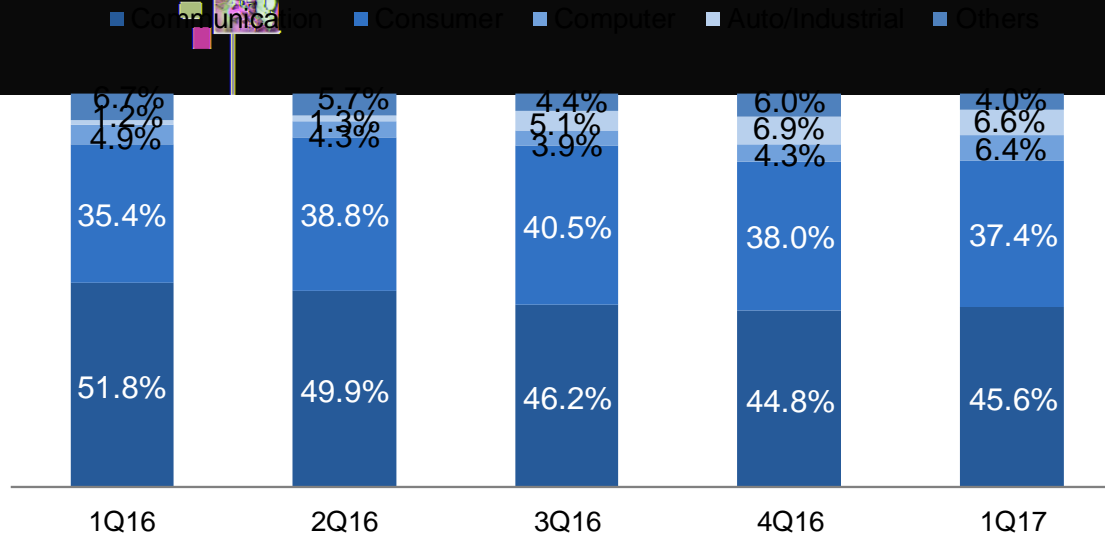
	Mar 31, 2017	Dec 31, 2016
Cash and cash equivalent, beginning of period	2,126,011	1,634,752
Net cash from operating activities	146,923	405,516
Net cash used in investing activities	(848,870)	(128,199)
Net cash from (used in) financing activities	125,920	231,016
Net increase (decrease) in cash and cash equivalent	(573,968)	491,259
Cash and cash equivalent, end of period	1,552,043	2,126,011

Cash Flow from Operations

US\$ Million

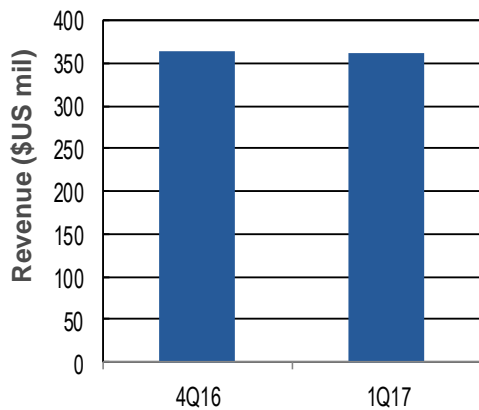


Total Revenue Breakdown by Applications

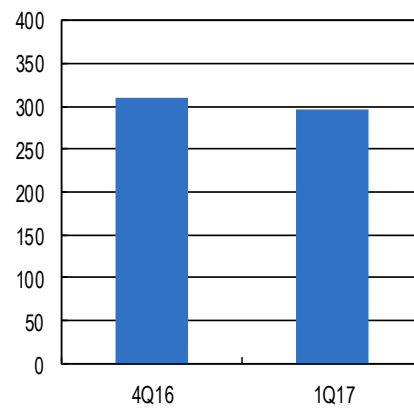


1Q17 vs. 4Q16

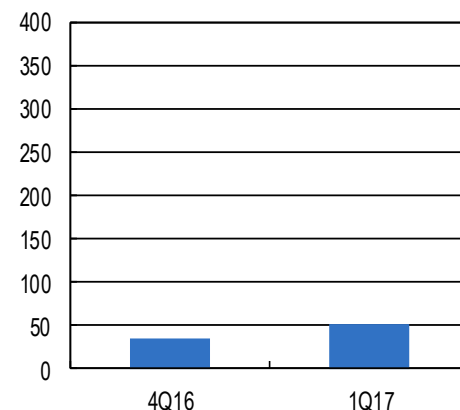
Communications



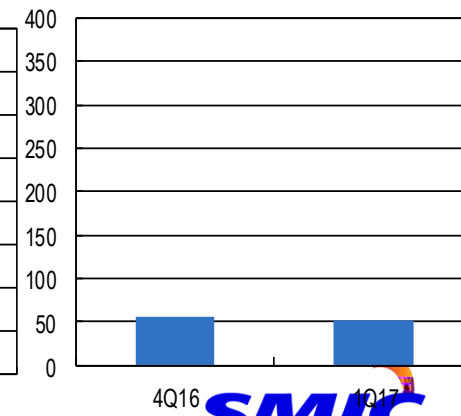
Consumer



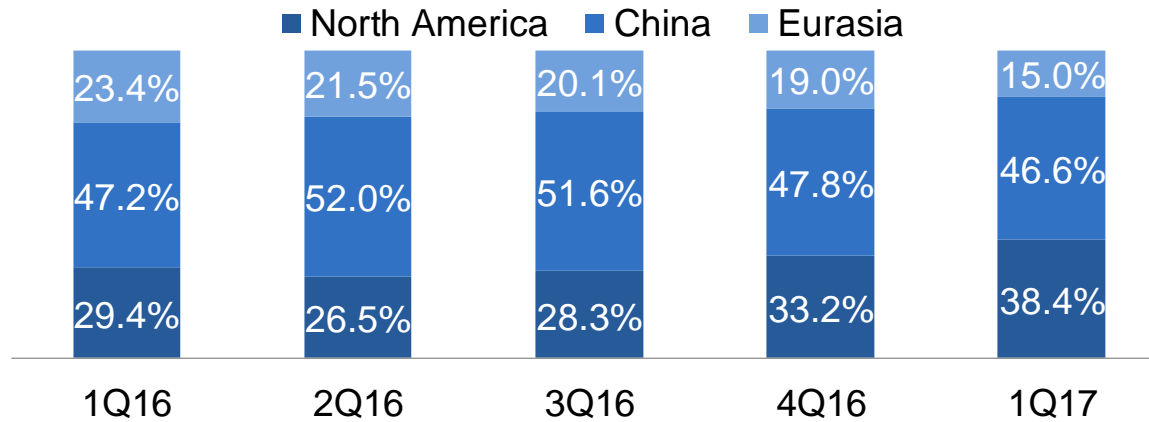
Computer



Auto/Industrial

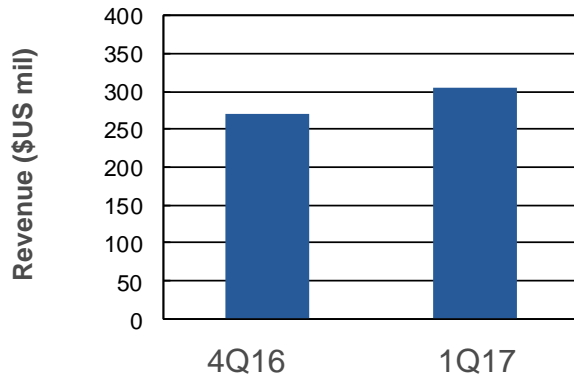


Total Revenue Breakdown by Geography

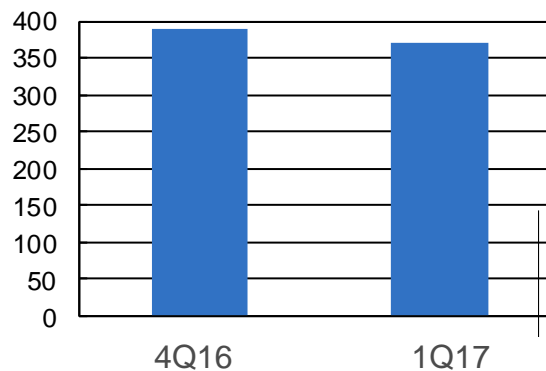


1Q17 vs. 4Q16

North America



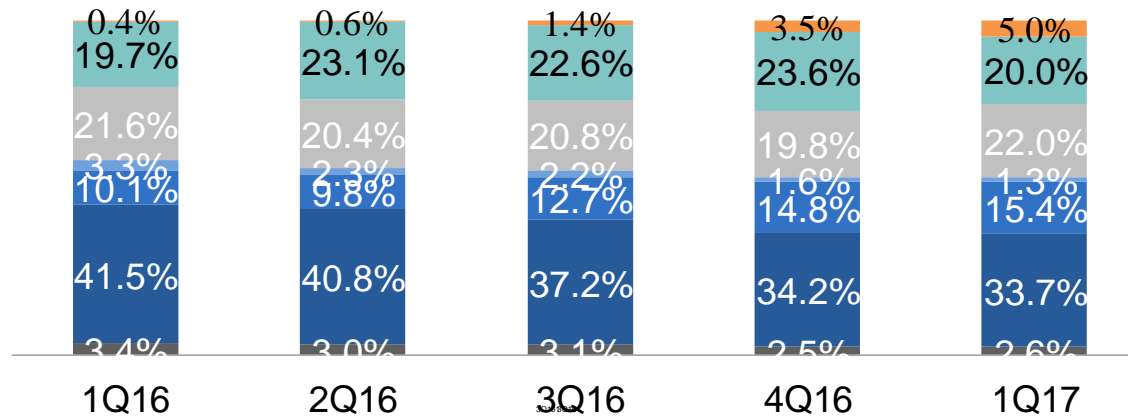
China



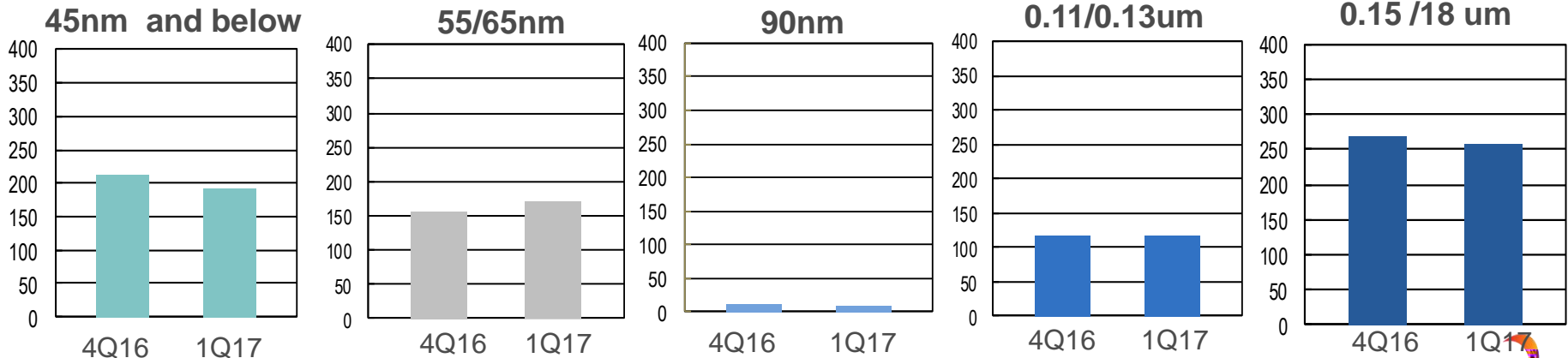
Eurasia



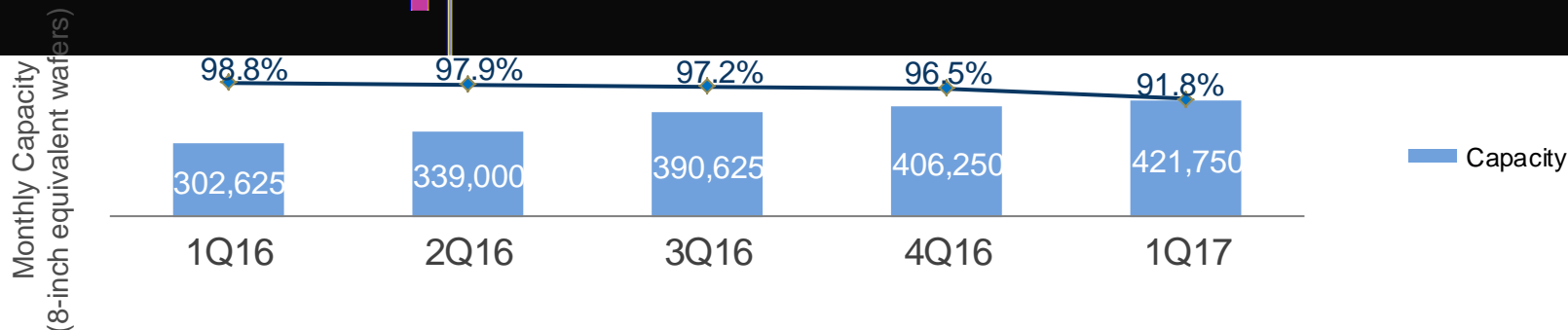
Wafer Revenue Breakdown by Technology



1Q 17 vs. 4Q 16



Capacity, Utilization and Shipment

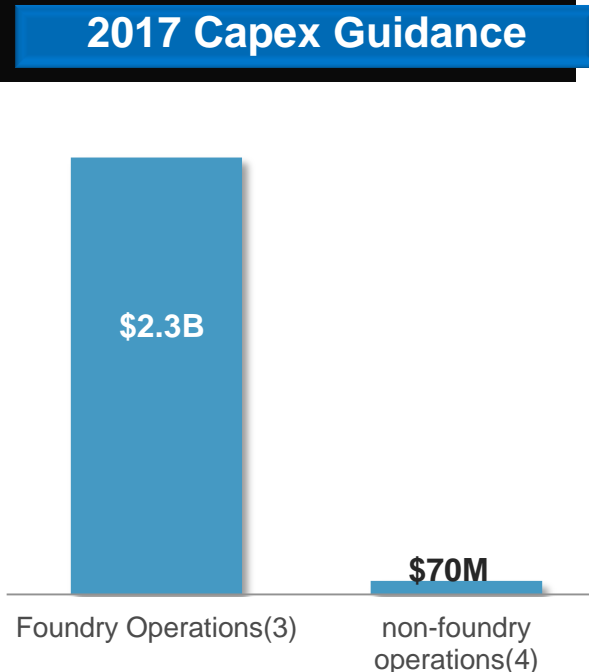


	1Q16	2Q16	3Q16	4Q16	1Q17
Shanghai 200mm Fab	101,000	106,000	107,000	108,000	110,000
Shanghai 300mm Fab	15,500	20,000	20,000	20,000	20,000
Beijing 300mm Fab	37,000	37,000	39,000	43,000	48,000
Tianjin 200mm Fab	42,000	45,000	45,000	45,000	45,000
Shenzhen 200mm Fab	19,000	26,000	31,000	31,000	31,000
Majority-Owned Beijing 300mm Fab	10,000	15,000	15,500	18,000	19,000
Majority-Owned Avezzano 200mm Fab			40,000	40,000	40,000
Monthly Capacity (8-inch equivalent wafers)	302,625	339,000	390,625	406,250	421,750
Wafer Shipments	868,309	934,861	1,058,504	1,096,011	1,095,761

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

2Q 2017 Guidance and 2017 Capex Guidance

	2Q 2017 Guidance
Revenue	-3% to -6% QoQ \$745 to \$769 million
Gross Margin	25% to 27%
Non-GAAP Operating Expenses ⁽¹⁾	\$178 to \$184 million
Non-controlling interests ⁽²⁾	\$6 to \$8 million



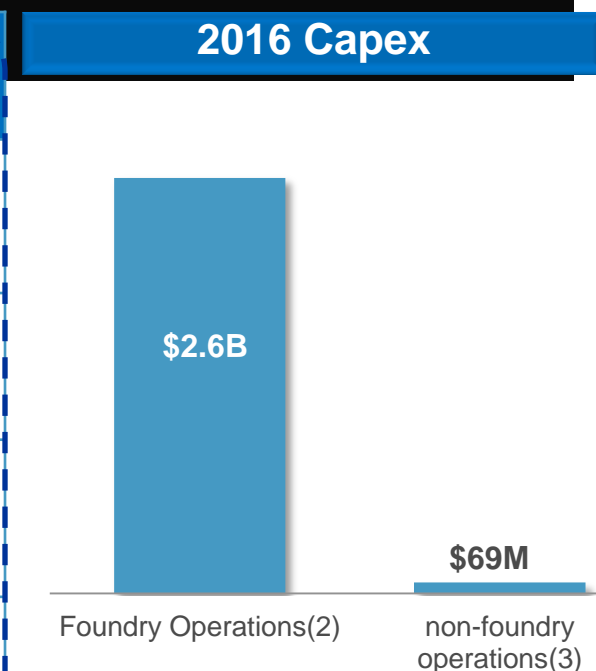
- (1) Exclude the effect of employee bonus accrual, government funding and gain from the disposal of living quarters
- (2) Non-controlling interests of our majority-owned subsidiaries to range from positive \$6 million to positive \$8 million (losses to be borne by non-controlling interests).
- (3) The 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



Appendix

Results Vs Original Guidance

	1Q 2017 Guidance	1Q 2017 Results
Revenue	-2% to -4% QoQ \$782 to \$798 million	-2.7% QoQ \$793 million
Gross Margin	25% to 28%	27.8%
Non-GAAP Operating Expenses (1)	\$158 to \$164 million	\$165 million
Non-controlling interests	\$6 to \$8 million	\$6 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

Capital Expenditures & Depreciation

<i>(US\$ millions)</i>	1Q16	2Q16	3Q16	4Q16	1Q17
Capex	751	792	671	481	727
Depreciation & Amortization	160	169	186	216	235



Thank you

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