

Semiconductor Manufacturing International Corporation

# SMIC Q1 2018 Financial Presentation

**NYSE: SMI      HKSE: 981**

SMIC Investor Relations

May 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 "Second 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-Generally Accepted Accounting Principles ("non-GAAP") 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.





# 1Q18 Financial Highlights

- **Revenue was \$831 million**
  - Up 5.6% QoQ, compared to \$787 million in 4Q17
- **Gross margin was 26.5%**
  - Compared to 18.9% in 4Q17
- **Profit attributable to SMIC was \$29 million**
  - Compared to \$48 million in 4Q17
  - 24<sup>th</sup> consecutive profitable quarter
- **EBITDA was \$325 million, record high**
  - Compared to \$258 million in 4Q17
- **\$2.3 billion cash on hand, including other financial assets**
  - Compared to \$2.5 billion in 4Q17

# Income Statement Highlights

(US\$ thousands)	1Q18	4Q17	QoQ	1Q17	YoY
<b>Total Revenue</b>	<b>831,044</b>	<b>787,174</b>	<b>5.6%</b>	<b>793,085</b>	<b>4.8%</b>
Gross Profit	220,176	148,496	48.3%	220,819	-0.3%
<b>Gross Margin</b>	<b>26.5%</b>	<b>18.9%</b>	-	<b>27.8%</b>	-
<b>Operating Expenses</b>	<b>(177,914)</b>	<b>(145,323)</b>	<b>22.4%</b>	<b>(143,433)</b>	<b>24.0%</b>
<i>Research &amp; Development, net</i>	<i>(122,995)</i>	<i>(101,300)</i>	<i>21.4%</i>	<i>(107,805)</i>	<i>14.1%</i>
<i>General &amp; Administrative</i>	<i>(51,506)</i>	<i>(58,201)</i>	<i>-11.5%</i>	<i>(39,394)</i>	<i>30.7%</i>
<i>Selling &amp; Marketing</i>	<i>(8,513)</i>	<i>(6,393)</i>	<i>33.2%</i>	<i>(10,375)</i>	<i>-17.9%</i>
<i>Other operating income (expense)</i>	<i>5,100</i>	<i>20,571</i>	<i>-75.2%</i>	<i>14,141</i>	<i>-63.9%</i>
<b>Profit from operations</b>	<b>42,262</b>	<b>3,173</b>	<b>1231.9%</b>	<b>77,386</b>	<b>-45.4%</b>
Other income (expense), net	776	(6,086)	-	(12,371)	-
Income tax benefit (expense)	(15,958)	1,217	-	(802)	1889.8%
<b>Profit attributable to SMIC</b>	<b>29,377</b>	<b>47,718</b>	<b>-38.4%</b>	<b>69,791</b>	<b>-57.9%</b>
Non-controlling Interests	(2,297)	(49,414)	-95.4%	(5,578)	-58.8%
<b>Earnings per ADS (Basic)</b>	<b>0.03</b>	<b>0.05</b>	-	<b>0.08</b>	-

- **Revenue** increased by 5.6% QoQ from \$787.2 million in 4Q17 to \$831.0 million in 1Q18, including the recognition of the technology licensing revenue of \$107.6 million (the "Licensing Revenue").
- **Revenue** decreased by 8.1% QoQ from \$787.2 million in 4Q17 to \$723.4 million excluding the effect of the Licensing Revenue in 1Q18, mainly due to product-mix change, a lower average selling price and a decrease in wafer shipment in 1Q18.
- **Gross margin** was 26.5%, and 15.6% excluding the effect of the Licensing Revenue in 1Q18, compared to 18.9% in 4Q17.
- **R&D expenses** increased by \$21.7 million QoQ to \$123.0 million in 1Q18, compared to \$101.3 million in 4Q17. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$4.8 million QoQ to \$139.9 million in 1Q18. The change was mainly due to higher level of R&D activities in 1Q18. Funding of R&D contracts from the government was \$16.9 million in 1Q18, compared to \$33.8 million in 4Q17.

# Balance Sheet Highlights

(US\$ thousands)	As of	
	Mar 31, 2018	Dec 31, 2017
Cash and cash equivalent	1,008,483	1,838,300
Restricted Cash-current	311,550	336,043
Restricted Cash-non current	13,826	13,438
Other financial assets-current <sup>(1)</sup>	1,289,064	683,812
Trade and other receivables	783,450	616,308
Inventories	699,820	622,679
Assets classified as held-for-sales	26,704	37,471
Other Assets	7,897,069	7,770,400
<b>Total Assets</b>	<b>12,029,966</b>	<b>11,918,451</b>
Short-term borrowings	523,434	440,608
Long-term borrowings	1,740,722	1,743,939
Medium-term notes	237,604	228,483
Convertible bonds	407,074	403,329
Corporate bonds	497,144	496,689
<b>Total Debt</b>	<b>3,405,978</b>	<b>3,313,048</b>
<b>Net Debt <sup>(2)</sup></b>	<b>1,108,431</b>	<b>790,936</b>
<b>Total Liabilities</b>	<b>5,240,938</b>	<b>5,197,116</b>
<b>Total Equity</b>	<b>6,789,028</b>	<b>6,721,335</b>
Total Debt/Equity Ratio <sup>(3)</sup>	50.2%	49.3%
Net debt/Equity Ratio <sup>(4)</sup>	16.3%	11.8%

(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.



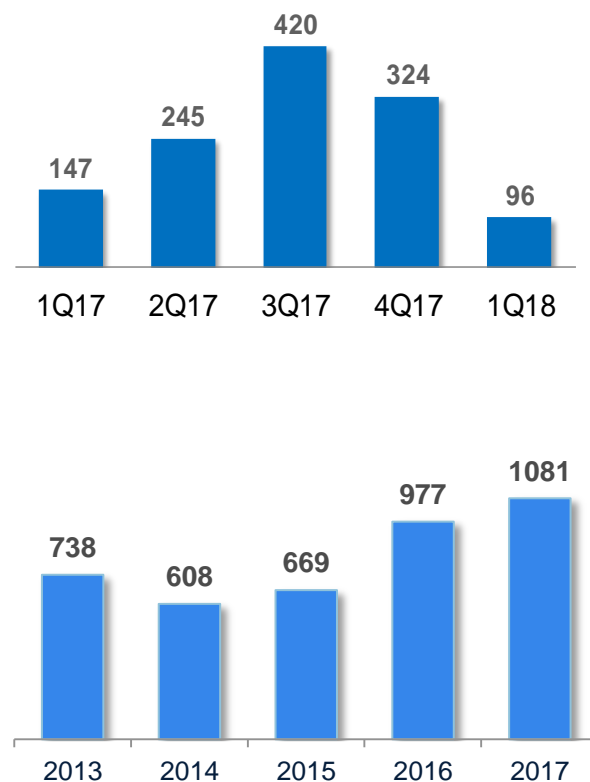
# Cash Flow Highlights

(US\$ thousands)

For the three months ended

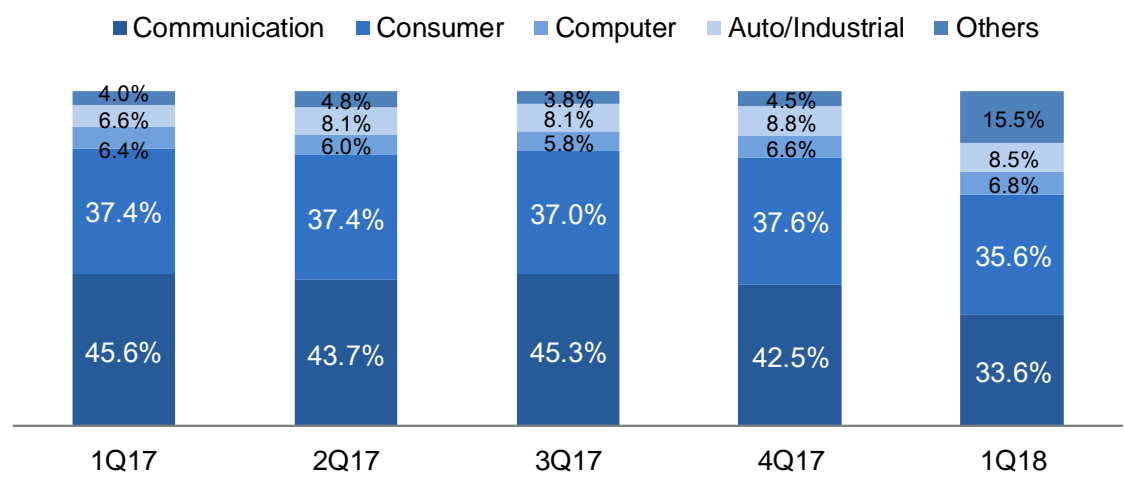
	Mar 31, 2018	Dec 31, 2017
Cash and cash equivalent, beginning of period	1,838,300	1,119,149
<b>Net cash from operating activities</b>	<b>95,808</b>	<b>323,698</b>
Net cash used in investing activities	(964,836)	(467,541)
Net cash from (used in) financing activities	9,490	847,250
Net increase (decrease) in cash and cash equivalent	(829,817)	719,151
Cash and cash equivalent, end of period	1,008,483	1,838,300

## Cash Flow from Operations (US\$ millions)



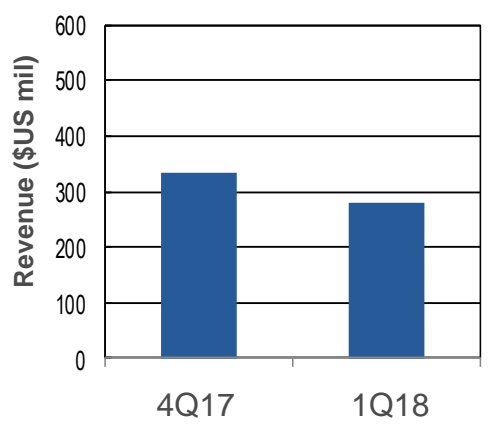


# Total Revenue Breakdown by Applications

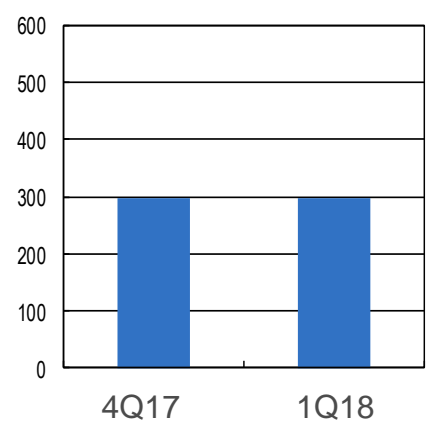


## 1Q18 vs. 4Q17

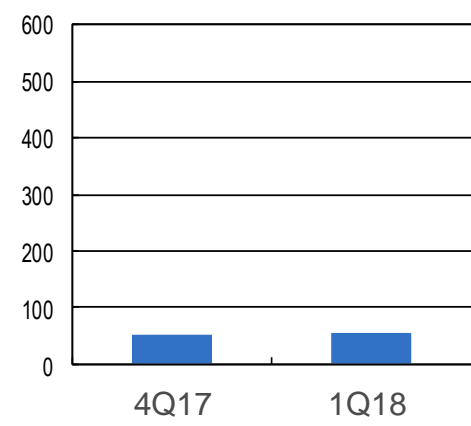
### Communications



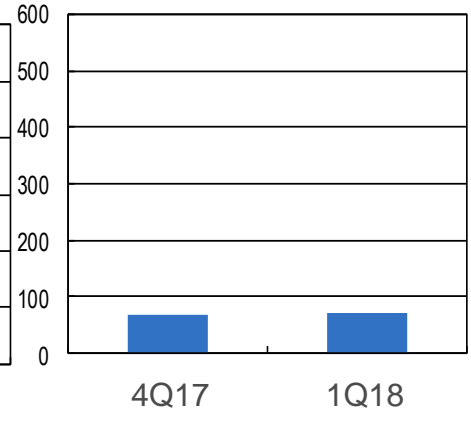
### Consumer



### Computer

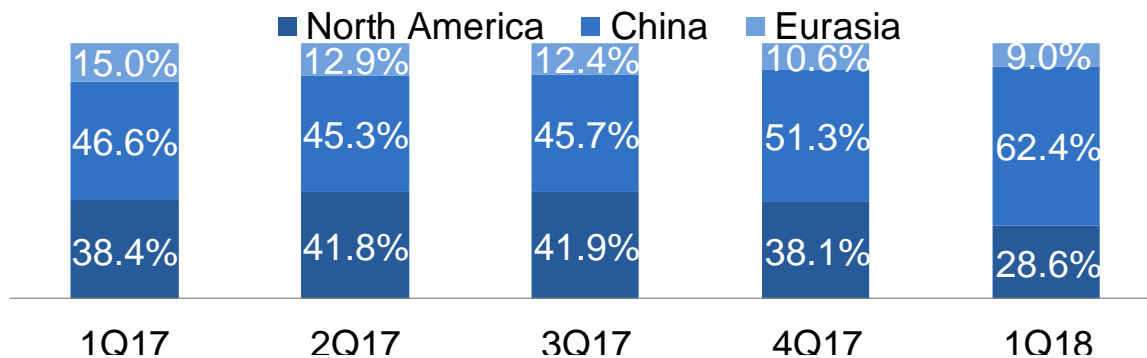


### Auto/Industrial



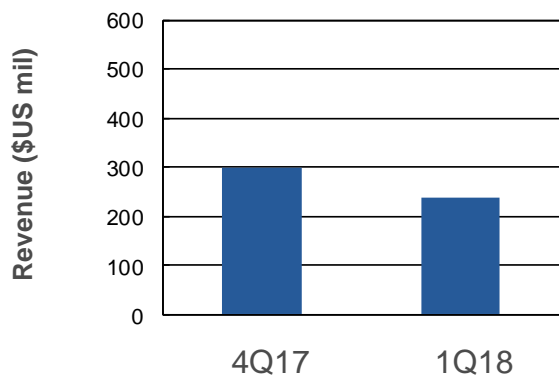


# Total Revenue Breakdown by Geography

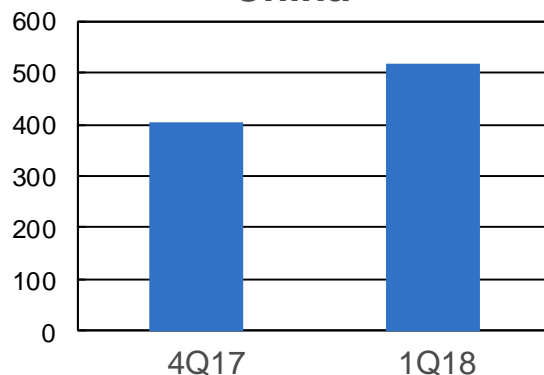


## 1Q18 vs. 4Q17

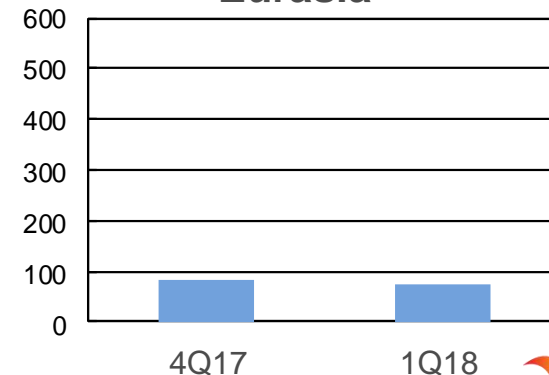
### North America



### China



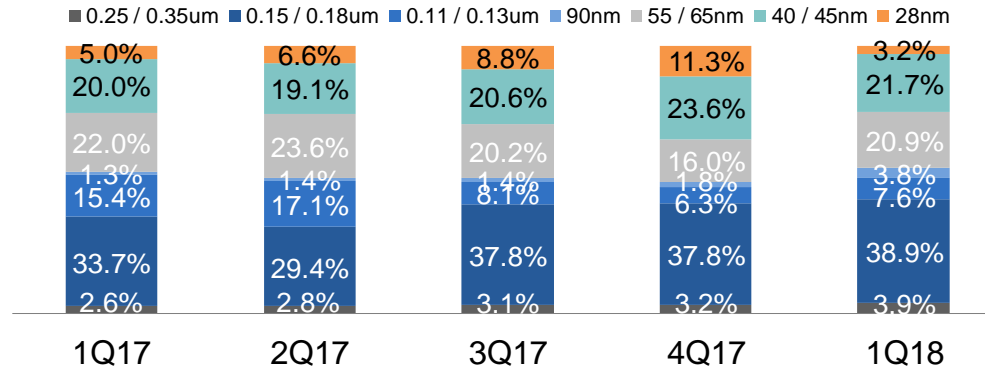
### Eurasia



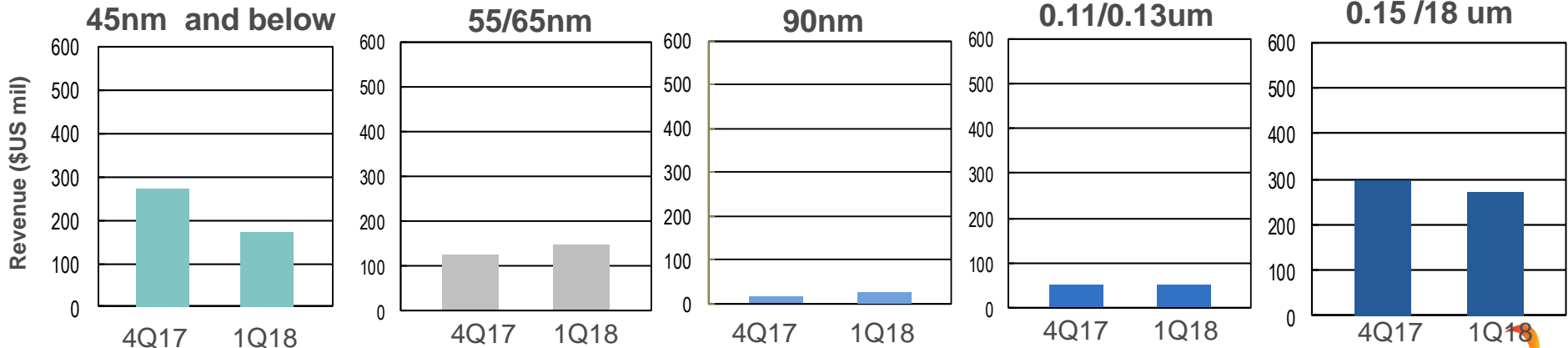




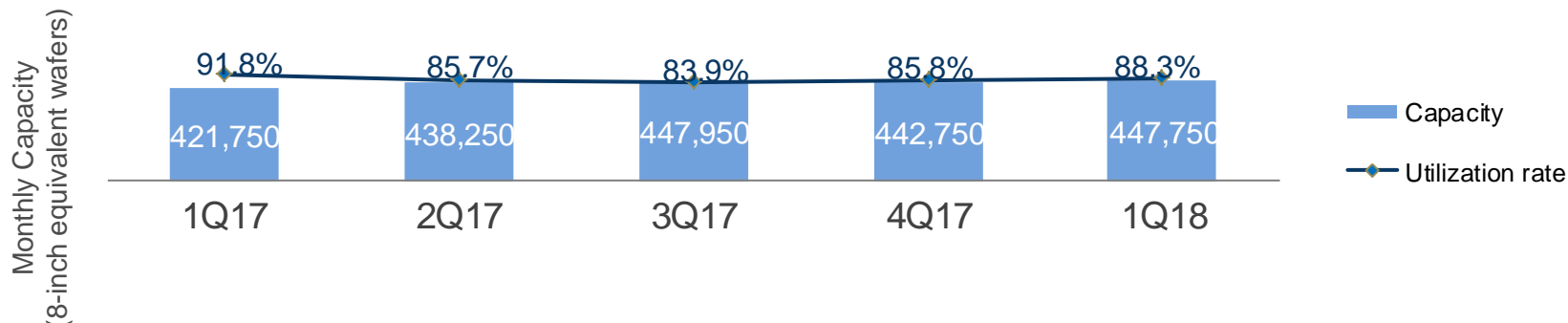
# Wafer Revenue Breakdown by Technology



## 1Q 18 vs. 4Q 17



# Capacity, Utilization and Shipment

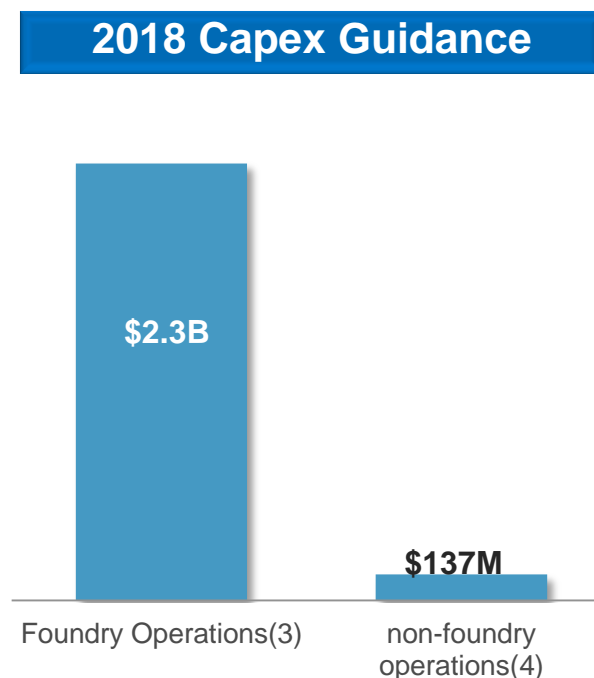


	1Q17	2Q17	3Q17	4Q17	1Q18
Shanghai 200mm Fab	110,000	112,000	114,000	109,000	109,000
Shanghai 300mm Fab	20,000	20,000	18,000	17,000	17,000
Beijing 300mm Fab	48,000	50,000	50,000	46,000	46,000
Tianjin 200mm Fab	45,000	45,000	47,000	50,000	50,000
Shenzhen 200mm Fab	31,000	32,000	32,075	30,000	35,000
Shenzhen 300mm Fab	-	-	-	3,000	3,000
Majority-Owned Beijing 300mm Fab	19,000	23,000	27,500	29,000	29,000
Majority-Owned Avezzano 200mm Fab	40,000	40,000	40,000	40,000	40,000
<b>Monthly Capacity (8-inch equivalent wafers)</b>	<b>421,750</b>	<b>438,250</b>	<b>447,950</b>	<b>442,750</b>	<b>447,750</b>
Wafer Shipments	1,095,761	1,014,158	1,076,039	1,124,821	1,083,630

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

# 2Q 2018 Guidance and 2018 Capex Guidance

	2Q 2018 Guidance
<b>Revenue</b> (including the forecast to recognize the technology licensing revenue estimated at \$56 million)	<b>+7% to +9% QoQ \$889 to \$906 million</b>
<b>Gross Margin</b>	<b>23% to 25%</b>
<b>Non-GAAP Operating Expenses</b> <sup>(1)</sup>	<b>\$227 to \$233 million</b>
<b>Non-controlling interests</b> <sup>(2)</sup>	<b>\$17 to \$19 million</b>



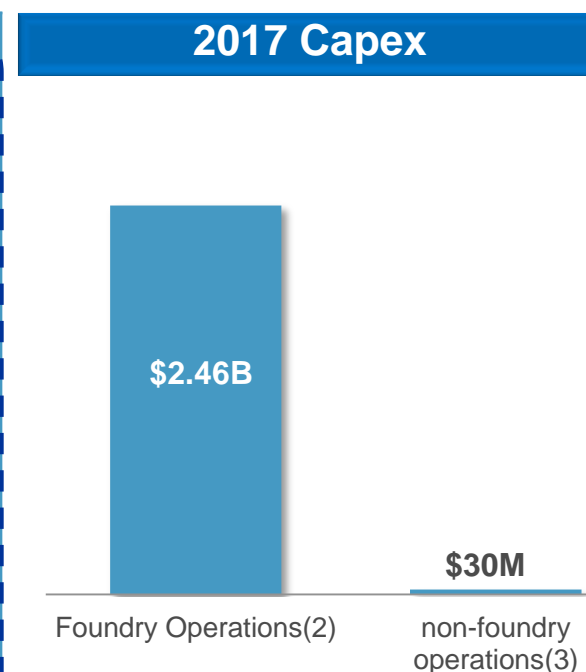
- (1) Exclude the effect of employee bonus accrual, government funding, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters.
- (2) Non-controlling interests of our majority-owned subsidiaries to range from positive \$17 million to positive \$19 million (losses to be borne by non-controlling interests)
- (3) The planned 2018 capital expenditures for foundry operations are approximately \$2.3 billion, an increase from \$1.9 billion previously guided in the 4Q17 Earnings Release. The increase of \$0.4 billion is mainly expected to be used for R&D equipment and the expansion of capacity in our 200mm fabs in Tianjin and Shenzhen.
- (4) The planned 2018 capital expenditures for non-foundry operations are approximately \$136.7 million, mainly for the construction of employee's living quarters and our new headquarter.



# Appendix

# Results Vs Original Guidance

	1Q 2018 Guidance	1Q 2018 Results
Revenue	+7% to +9% QoQ \$842 to \$858 million	+5.6% QoQ \$831 million
Gross Margin	25% to 27%	26.5%
Non-GAAP Operating Expenses (1)	\$212 to \$218 million	\$ 196 million
Non-controlling interests	\$15 to \$17 million	\$2 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.
- (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>	1Q17	2Q17	3Q17	4Q17	1Q18
<b>Capex</b>	727	782	451	499	322
<b>Depreciation &amp; Amortization</b>	235	241	243	252	269



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# Thank you

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