



SMIC Q3 2019 Financial Presentation

HKSE: 981

OTCQX: SMICY

SMIC Investor Relations

November 2019

Forward-Looking Statements

This presentation contains, in addition to historical information, forward-looking statements. These forward-looking statements, including statements under “Fourth Quarter 2019 Guidance”, “Capex Summary” and the statements contained in the quotes of our Co-Chief Executive Officers are based on SMIC's current assumptions, expectations, beliefs, plans, objectives, and projections about future events or performance. SMIC uses words like "believe," "anticipate," "intend," "estimate," "expect," "project," "target," "going forward", "continue", "ought to", "may", "seek", "should", "plan", "could", "vision", "goals", "aim", "aspire", "objective", "schedules", "outlook" and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessary estimates reflecting 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 the 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 Hong Kong Stock Exchange Limited ("SEHK") from time to time. 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 required by applicable laws, SMIC undertakes no obligation and does not intend to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events after the date on which such statement is made or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or otherwise.

About Non-International Financial Reporting Standards (“non-IFRS”) Financial Measures

During this presentation, references to financial measures of SMIC will include references to non-IFRS financial measures, including non-IFRS operating expenses and adjusted EBITDA, and EBITDA margin. For an explanation to the most directly comparable IFRS financial measures, see our earnings release.

3Q19 Financial Highlights

▪ Revenue was \$816 million

- Up 3.2% QoQ, compared to \$791 million in 2Q19
- Down 4.0% YoY, compared to \$851 million in 3Q18
- Excluding the contribution from the Avezzano fab, revenue was \$803 million, up 6.1% QoQ, compared to \$757 million in 2Q19

▪ Gross margin was 20.8%

- Compared to 19.1% in 2Q19
- Compared to 20.5% in 3Q18
- Excluding the contribution from the Avezzano fab, gross margin was 21.1% in 3Q19, compared to 20.8% in 2Q19

▪ Profit attributable to SMIC was \$115 million

- Compared to \$19 million in 2Q19
- Compared to \$27 million in 3Q18

▪ \$3.8 billion cash on hand, including financial assets

- Compared to \$3.7 billion in 2Q19
- Compared to \$3.0 billion in 3Q18

Income Statement Highlights

(US\$ thousands)	3Q19	2Q19	QoQ	3Q18	YoY
Total Revenue	816,452	790,882	3.2%	850,662	-4.0%
Gross Profit	169,815	151,158	12.3%	174,543	-2.7%
Gross Margin	20.8%	19.1%	-	20.5%	-
Operating Expenses	(122,665)	(193,988)	-36.8%	(180,371)	-32.0%
<i>Research & Development⁽¹⁾</i>	<i>(185,019)</i>	<i>(182,207)</i>	<i>1.5%</i>	<i>(172,246)</i>	<i>7.4%</i>
<i>General & Administrative</i>	<i>(70,041)</i>	<i>(64,578)</i>	<i>8.5%</i>	<i>(50,337)</i>	<i>39.1%</i>
<i>Selling & Marketing</i>	<i>(5,900)</i>	<i>(8,852)</i>	<i>-33.3%</i>	<i>(6,102)</i>	<i>-3.3%</i>
<i>Other operating income⁽¹⁾</i>	<i>140,047</i>	<i>62,276</i>	<i>124.9%</i>	<i>48,512</i>	<i>188.7%</i>
Profit (loss) from operations	47,150	(42,830)	-	(5,828)	-
Other income (expense), net	41,537	18,379	126.0%	17,843	132.8%
Income tax benefit (expense)	(4,061)	(1,366)	197.3%	(4,424)	-8.2%
Profit (loss) attributable to SMIC	115,135	18,539	521.0%	26,559	333.5%
Non-controlling Interests	(30,509)	(44,356)	-31.2%	(18,968)	60.8%
Earnings per ADS (Basic)	0.11	0.02	-	0.02	-

- **Revenue** was \$816.5 million in 3Q19, an increase of 3.2% QoQ from \$790.9 million in 2Q19. Revenue increased in 3Q19 was mainly due to the increase of wafer shipment in 3Q19.
- **Gross margin** was 20.8% in 3Q19, compared to 19.1% in 2Q19.
- **R&D expenses**, increased by 1.5% to \$185.0 million in 3Q19, compared to \$182.2 million in 2Q19. The change was mainly due to higher level of R&D activities in 3Q19.

(1) In 3Q19, the Group has changed its accounting policy regarding the presentation of certain government funding in consolidated statement of comprehensive income. Previously, certain government funding is deducted in reporting the related expense. To make the presentation more comparable to other companies in the foundry sector, the Group decided to present such government funding as income in the profit or loss under other operating income. Comparative figures have also been reclassified to conform to the current period presentation

Balance Sheet Highlights

(US\$ thousands)	As of	
	Sep 30, 2019	Jun 30, 2019
Cash and cash equivalent	1,182,479	1,518,578
Restricted Cash	833,502	1,157,668
Financial assets at fair value through profit or loss-current (1)	37,850	25,161
Financial assets at amortized cost (2)	2,612,702	2,205,246
Trade and other receivables	1,498,375	904,077
Inventories	645,821	647,154
Assets classified as held-for-sales	14,229	250,670
Other Assets	9,329,417	9,397,191
Total Assets	16,154,375	16,105,745
Short-term borrowings	338,479	756,162
Long-term borrowings	2,179,017	1,849,016
Lease Liabilities	215,246	239,402
Short-term notes	494,833	218,191
Medium-term notes	211,314	217,336
Convertible bonds	430,399	426,365
Corporate bonds	500,000	499,513
Total Debt	4,369,288	4,205,985
Net Debt (3)	536,257	457,000
Total Liabilities	6,510,452	6,508,157
Total Equity	9,643,923	9,597,588
Total Debt/Equity Ratio (4)	45.3%	43.8%
Net debt/Equity Ratio (5)	5.6%	4.8%

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, total current financial assets

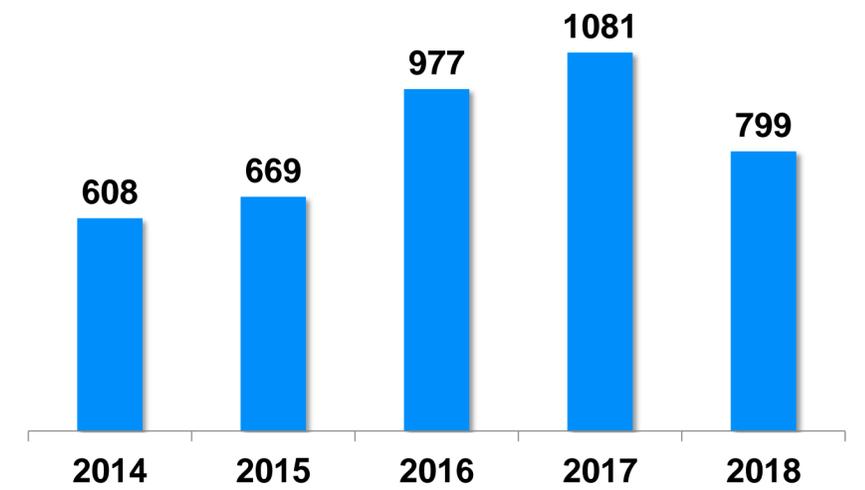
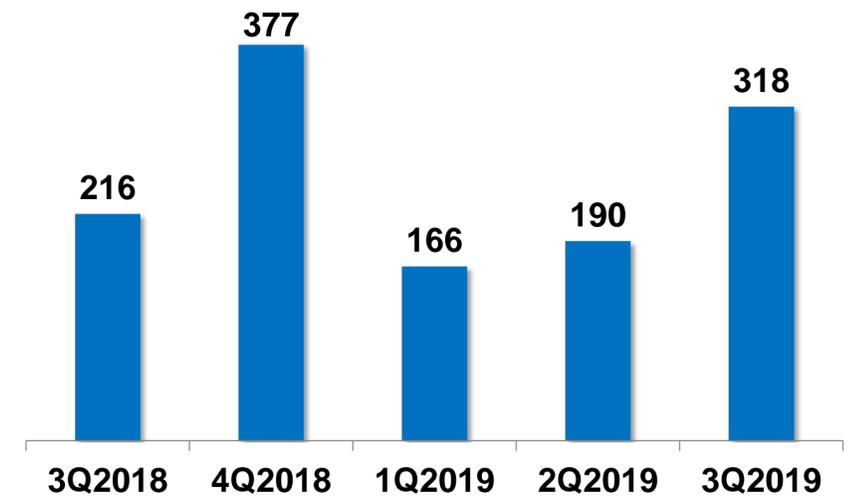
4. Total debt divided by equity

5. Net debt divided by equity.

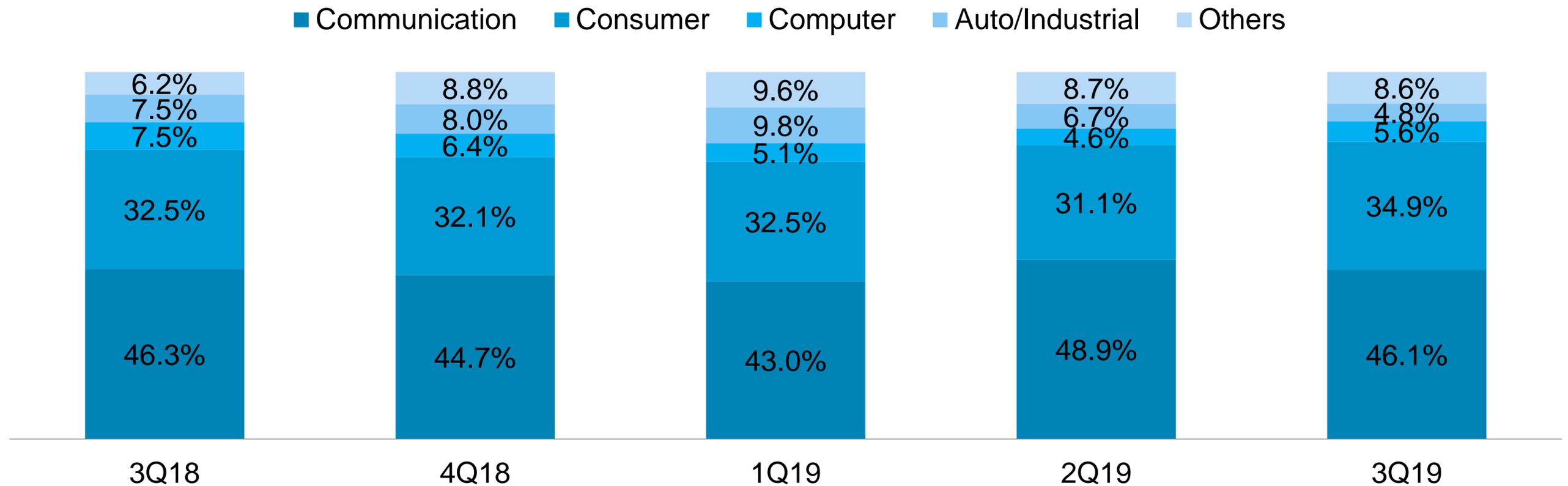
Cash Flow Highlights

<i>(US\$ thousands)</i>	For the three months ended	
	Sep 30, 2019	Jun 30, 2019
Cash and cash equivalent, beginning of period	1,518,578	1,370,041
Net cash from operating activities	317,765	190,105
Net cash used in investing activities	(367,320)	(990,060)
Net cash from (used in) financing activities	(264,235)	974,010
Net increase (decrease) in cash and cash equivalent	(336,099)	148,537
Cash and cash equivalent, end of period	1,182,479	1,518,578

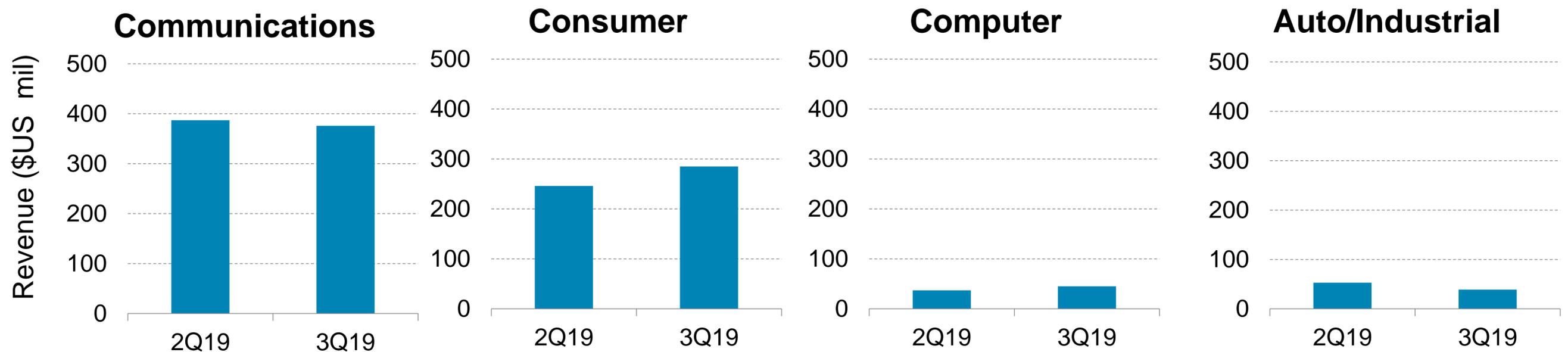
Cash Flow from Operations *(US\$ millions)*



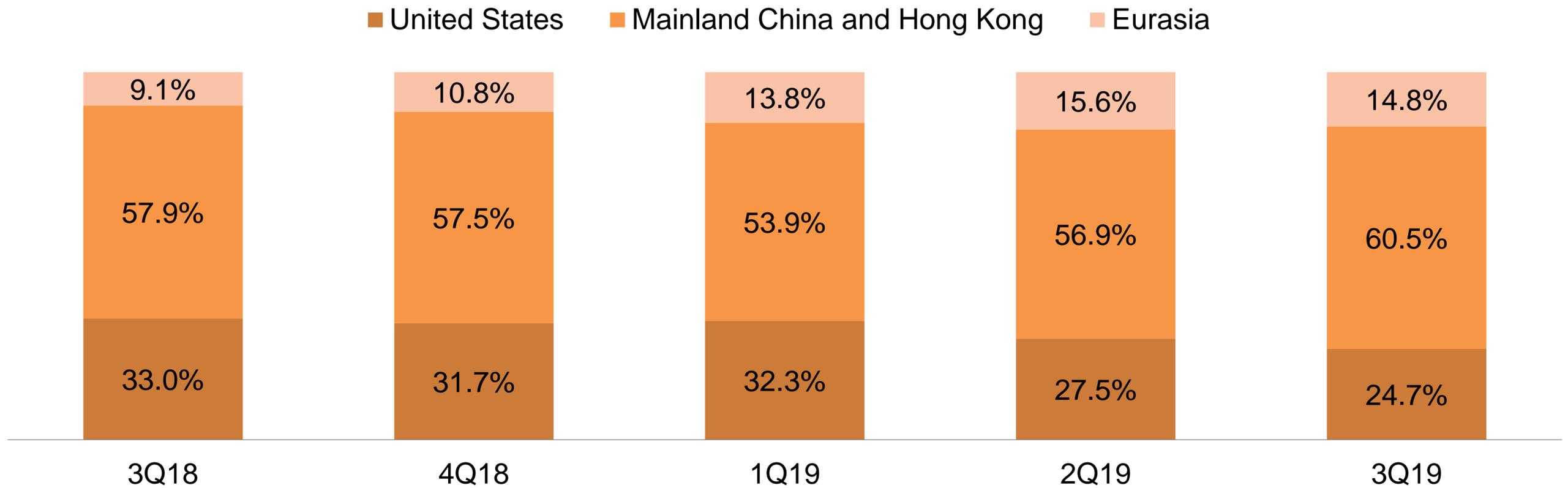
Total Revenue Breakdown by Applications



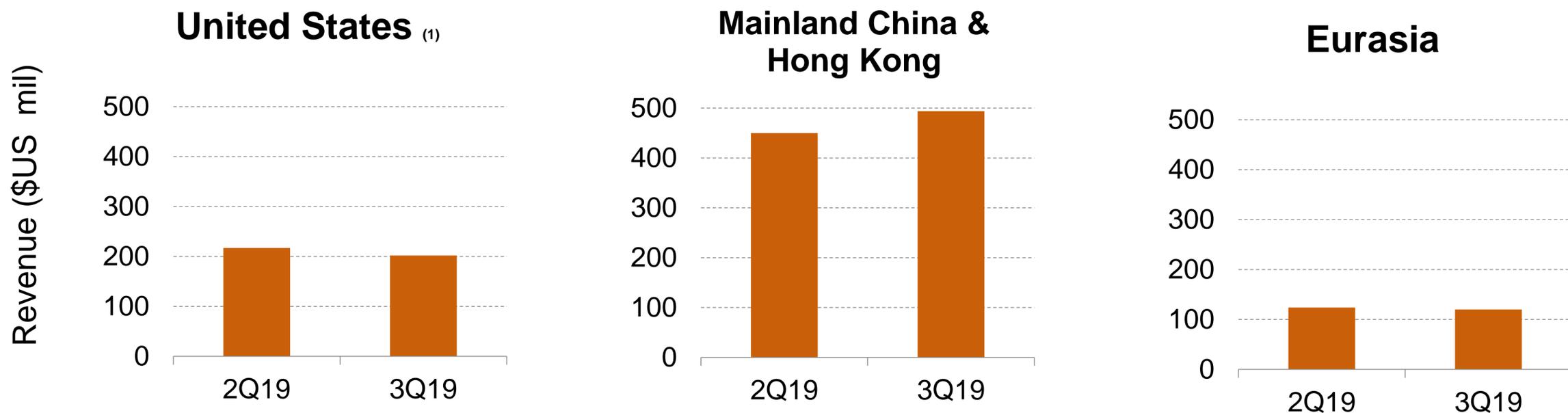
2Q19 vs. 3Q19



Total Revenue Breakdown by Geography

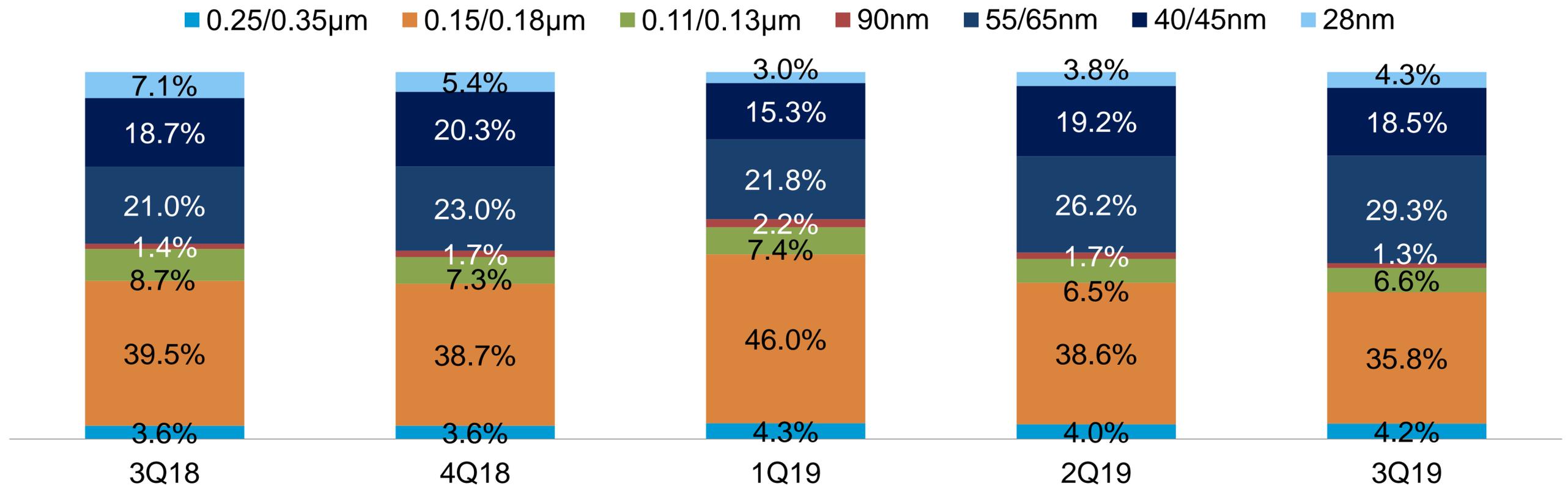


2Q19 vs. 3Q19

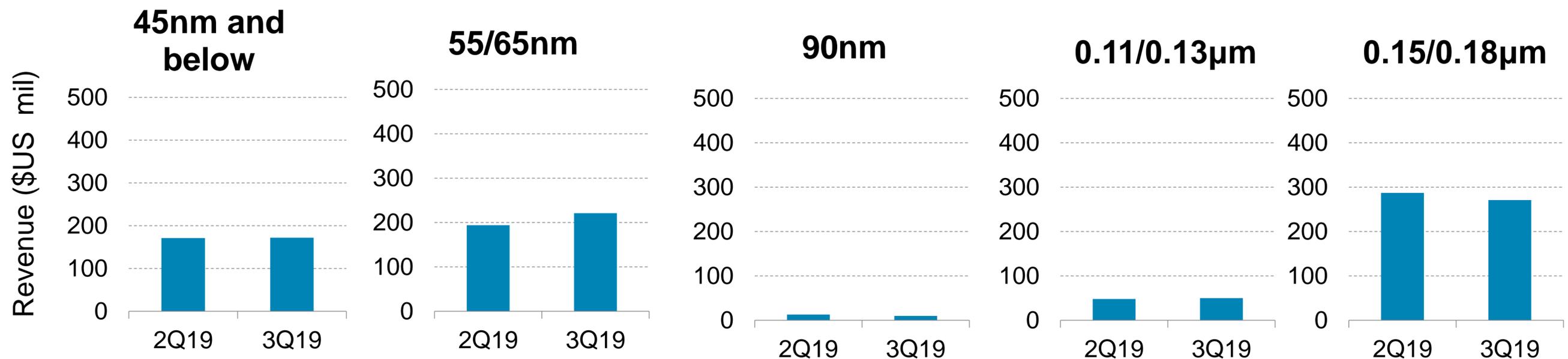


(1) Presenting the Revenue to those companies whose headquarters are in the United States, but ultimately selling and shipping the products to their global customers.

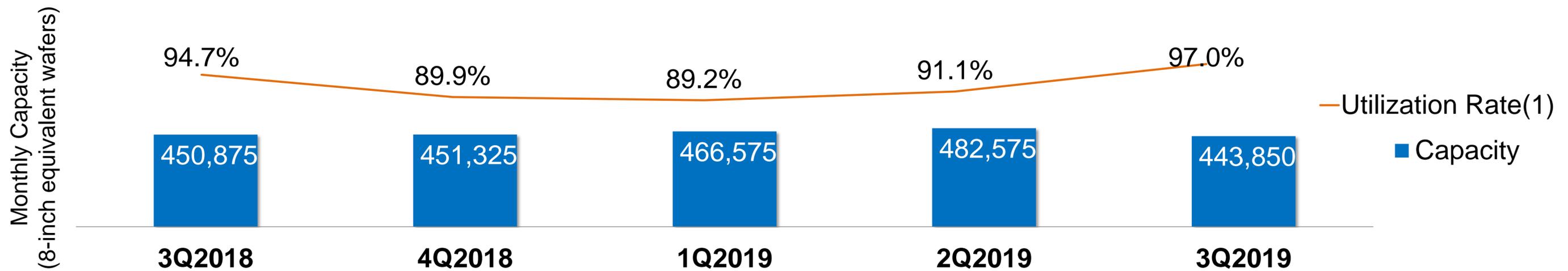
Wafer Revenue Breakdown by Technology



2Q19 vs. 3Q19



Capacity, Utilization and Shipment



	3Q18	4Q18	1Q19	2Q19	3Q19
Shanghai 200mm Fab	106,000	109,000	112,000	115,000	112,000
Shanghai 300mm Fab	15,000	10,000	10,000	8,000	8,000
Beijing 300mm Fab	42,000	42,000	47,000	50,000	50,000
Tianjin 200mm Fab	53,000	60,000	58,000	57,000	58,000
Shenzhen 200mmFab	40,300	42,000	45,000	50,000	52,000
Shenzhen 300mmFab	3,000	3,000	3,000	3,000	3,000
Majority-Owned Beijing 300mm Fab	33,000	33,000	33,000	36,000	37,600
Majority-Owned Avezzano 200mm Fab (2)	42,325	42,325	42,325	42,325	-
Monthly Capacity (8-inch equivalent wafers)	450,875	451,325	466,575	482,575	443,850
Wafer Shipments	1,315,007	1,217,690	1,089,502	1,284,451	1,315,443

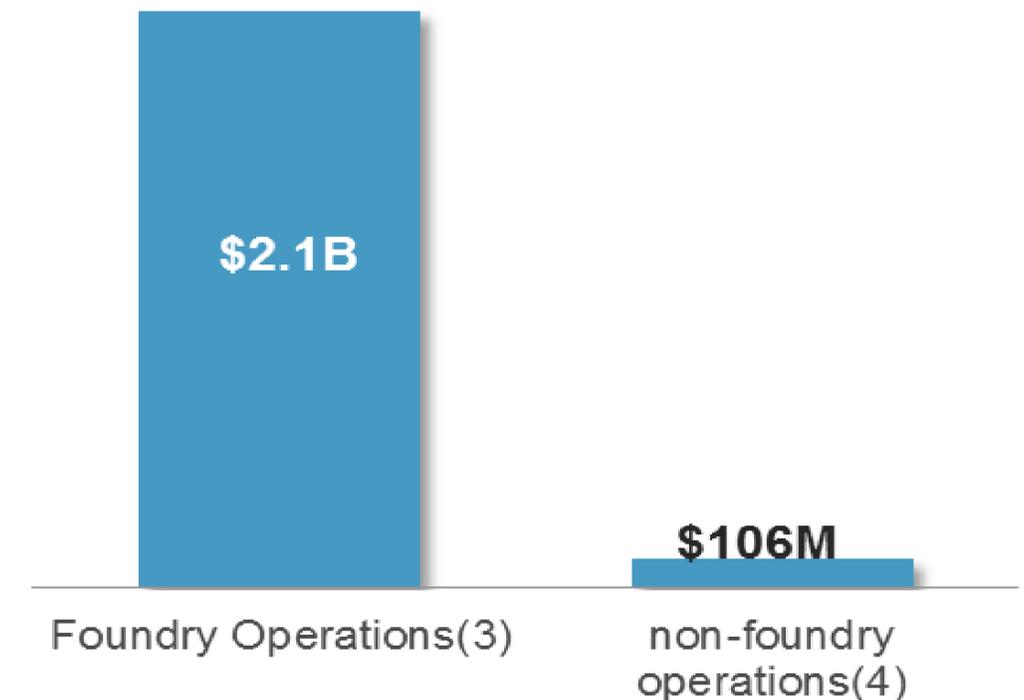
(1)Capacity utilization rate is reported based on total equivalent wafers out divided by estimated total quarterly capacity

(2)The majority-owned Avezzano 200mm fab was disposed of by the Group in 3Q19

4Q 2019 Guidance and 2019 Capex Guidance

	4Q 2019 Guidance
Revenue	2%-4% QoQ ↑ \$833 to 850 million
Revenue excluding Avezzano fab	+4%--+6% QoQ
Gross Margin	23% to 25%
Non-IFRS Operating Expenses ⁽¹⁾	\$271 to \$277 million
Non-controlling interests ⁽²⁾	\$17 to \$19 million

2019 Capex Guidance



(1) Excluding the effect of employee bonus accrual, government funding, impairment loss of tangible and intangible assets, gain or loss on the disposal of machinery and equipment, and gain from the disposal of living quarters, to range from \$271 million to \$277 million.

(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 2019 capital expenditures for foundry operations are approximately \$2.1 billion, which are mainly for the equipment and facility in our majority-owned Shanghai 300mm fab and FinFET R&D line.

(4) The planned 2019 capital expenditures for non-foundry operations are approximately \$105.8 million, mainly for the construction of employee's living quarters.

Appendix

Results Vs Original Guidance

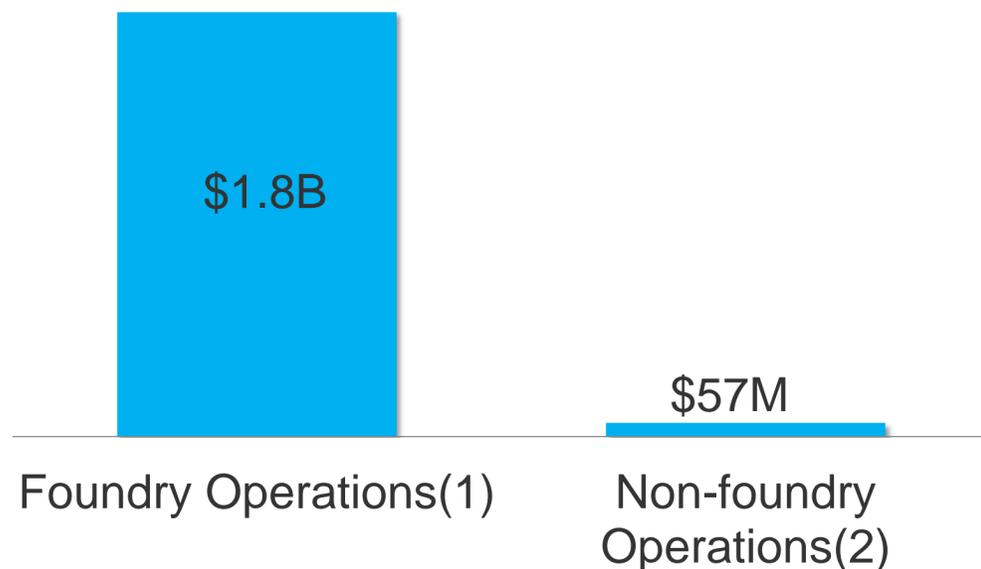
	3Q 2019 Guidance	3Q 2019 Results
Revenue	0% to +2% QoQ \$791 to \$807 million	3.2% QoQ \$816 million
Revenue excluding Avezzano fab	+2% to +4% QoQ	+6.1% QoQ
Gross Margin	19% to 21%	21%
Non-IFRS Operating Expenses ⁽¹⁾	\$294 to \$300 million	\$ 257 million
Non-controlling interests	\$25 to \$27 million	\$31 million

(1) Non-IFRS operating expenses are defined as operating expenses adjusted to exclude the effect of employee bonus accrual, government funding, gain on the disposal of subsidiaries, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters.

Capital Expenditures & Depreciation

<i>(US\$ millions)</i>	3Q18	4Q18	1Q19	2Q19	3Q19
Capex	528	405	440	908	190
Depreciation & Amortization	259	253	278	284	280

2018 Capex



(1) The 2018 capital expenditures for foundry operations were \$1,756.3 million, of which \$429.3 million, \$382.7 million and \$269.8 were spent for the expansion of capacity in our majority-owned Beijing 300mm fab, Tianjin 200mm fab and majority-owned Shanghai 300mm fab, and \$331.0 million was used for R&D equipment.

(2) The 2018 capital expenditures for non-foundry operations were \$57.1 million primarily for the construction of employees' living quarters.

Thank You!

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