



Semiconductor Manufacturing International Corporation

# SMIC Q4 2014 Financial Presentation

**NYSE: SMI      HKSE: 981**

SMIC Investor Relations

Feb 2015



# 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 “1Q 2015 Guidance”, and “2015 Capex Guidance” are based on SMIC’s current assumptions, expectations and projections about future events. SMIC uses words like “believe,” “plan,” “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 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 the global economic slowdown, orders or judgments from pending litigation, intensive intellectual property lawsuits in semiconductor industry and financial stability in end markets.

Investors should consider the information contained in SMIC’s filings with the U.S. Securities and Exchange Commission (SEC), including its annual report on 20-F filed with the SEC on April 14, 2014, especially the consolidated financial statements, and such other documents that SMIC 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 SMIC’s 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**

To supplement SMIC’s consolidated financial results presented in accordance with IFRS, SMIC uses in this presentation non-GAAP measures of operating results that are adjusted to exclude wafer shipments from Wuhan Xinxin Semiconductor Manufacturing Corporation (“Wuhan Xinxin”), which SMIC began gradually phasing out in 3Q13. There were no wafer shipments from Wuhan Xinxin from 1Q14 onwards. This presentation includes non-GAAP revenue, non-GAAP gross margin, and non-GAAP operating expenses which consists of total operating expenses as adjusted to exclude the effect of employee bonus accrual, government funding and gain from the disposal of living quarters. It also includes first quarter 2015 guidance for non-GAAP operating expenses. The presentation of non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS.

SMIC believes that use of these non-GAAP financial measures facilitates investors’ and management’s comparisons to SMIC’s historical performance. The Company’s management regularly uses these non-GAAP financial measures to understand, manage and evaluate the Company’s business and make financial and operational decisions.





# 2014 Financial Highlights (unaudited)

- **2014 total revenue was \$1.97 billion**
  - Compared to \$2.07 billion in 2013
  - Non-GAAP revenue without Wuhan Xinxin was a record high
  
- **Gross margin was 24.5%, the highest in the last nine years**
  - Compared to 21.2% in 2013
  - Compared to 22.2% of non-GAAP gross margin without Wuhan Xinxin in 2013
  
- **Profit attributable to SMIC was \$153.0 million**
  - Compared to \$173.2 million in 2013
  - Profit excluding gain from disposal of living quarters was \$140.0 million, a record high
  
- **Capital expenditure was \$1.01 billion**
  - Compared to \$770 million in 2013



# 2014 Financial Highlights (unaudited)

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- **Cash and cash equivalent ended at \$603.0 million**
  - Compared to \$462.5 million in 2013
  
- **Gross debt to equity ended at 39.0%**
  - Compared to 45.2% in 2013
  
- **Revenue from China-based customers increased to 43.3% of overall revenue, an all time high**
  - Compared to 40.4% in 2013
  
- **Successfully completed the public fund raising**
  - \$200 million equity placements
  - \$95 million further convertible bonds
  - \$500 million bonds



# 4Q14 Financial Highlights

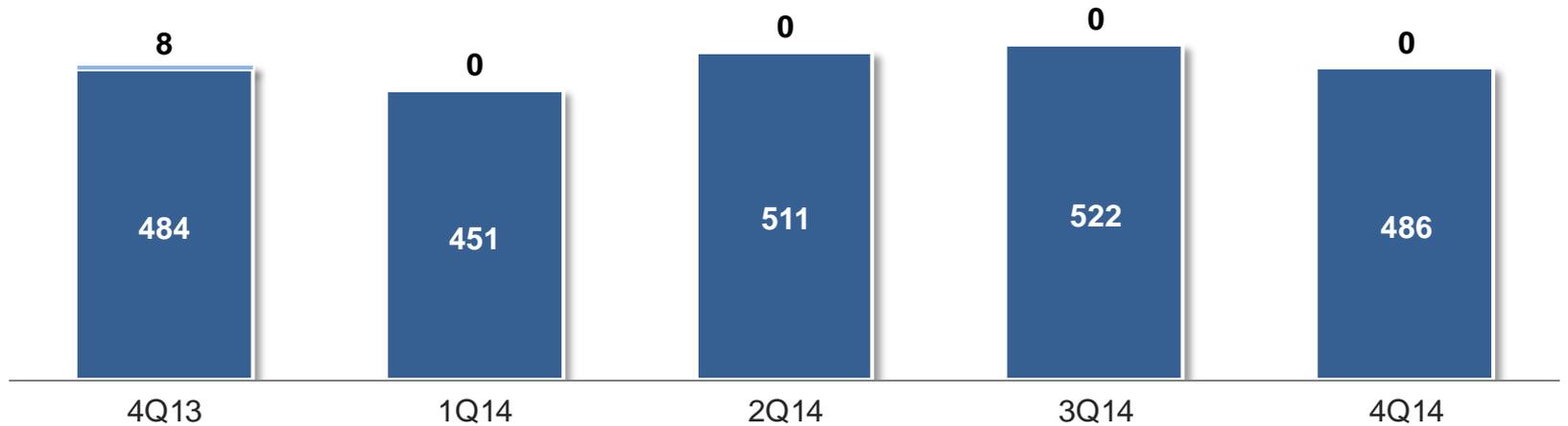
- **Revenue was \$485.9M**
  - Compared to \$521.6 million in 3Q14
  - Compared to \$491.8 million in 4Q13
- **Gross profit was \$109.3 million**
  - Compared to \$134.9 million in 3Q14
  - Compared to \$92.9 million in 4Q13
- **Gross margin was 22.5%**
  - Compared to 25.9% in 3Q14
  - Compared to 18.9% in 4Q13
- **Profit attributable to SMIC was \$28.4M**
  - Compared to \$47.5M in 3Q14
  - Compared to \$14.7M in 4Q13
  - Eleventh consecutive profitable quarter

# Income Statement Highlights

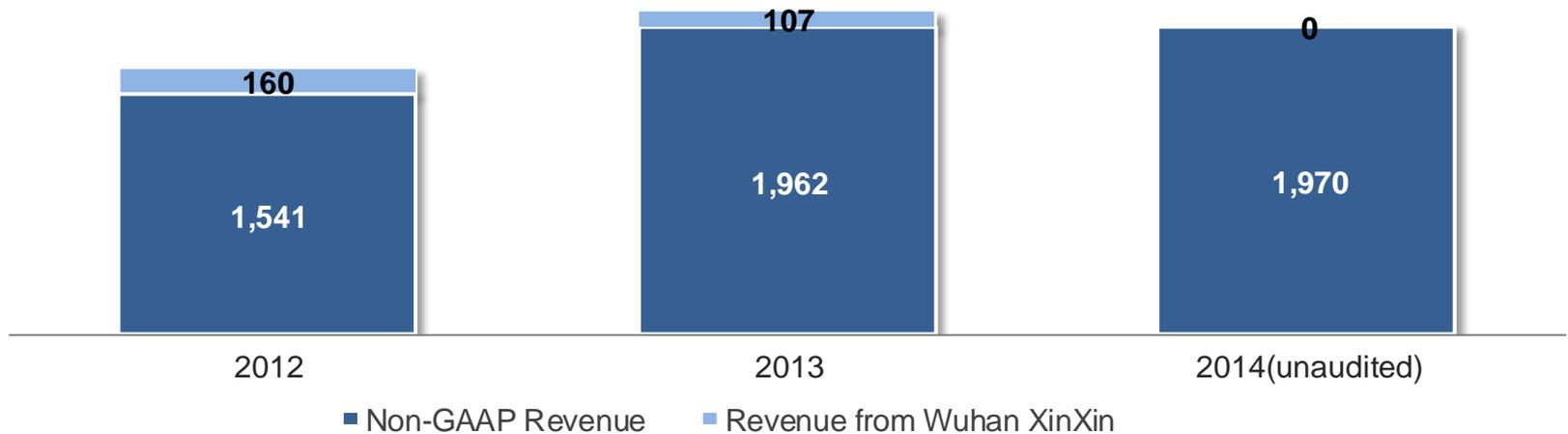
| (US\$ thousands)                        | 4Q14             | 3Q14            | QoQ           | 4Q13            | YoY           |
|---|------------------|-----------------|---------------|-----------------|---------------|
| <b>Total Revenue</b>                    | <b>485,893</b>   | <b>521,646</b>  | <b>-6.9%</b>  | <b>491,797</b>  | <b>-1.2%</b>  |
| Gross Profit                            | 109,339          | 134,942         | -19.0%        | 92,939          | 17.6%         |
| <b>Gross Margin</b>                     | <b>22.5%</b>     | <b>25.9%</b>    | <b>-</b>      | <b>18.9%</b>    | <b>-</b>      |
| <b>Operating Expenses</b>               | <b>(107,691)</b> | <b>(94,122)</b> | <b>14.4%</b>  | <b>(84,840)</b> | <b>26.9%</b>  |
| <i>Research &amp; Development, net</i>  | <i>(53,113)</i>  | <i>(54,887)</i> | <i>-3.2%</i>  | <i>(46,256)</i> | <i>14.8%</i>  |
| <i>General &amp; Administrative</i>     | <i>(46,039)</i>  | <i>(34,668)</i> | <i>32.8%</i>  | <i>(36,610)</i> | <i>25.8%</i>  |
| <i>Selling &amp; Marketing</i>          | <i>(9,436)</i>   | <i>(10,090)</i> | <i>-6.5%</i>  | <i>(8,385)</i>  | <i>12.5%</i>  |
| <i>Other operating income (expense)</i> | <i>897</i>       | <i>5,523</i>    | <i>-83.8%</i> | <i>6,411</i>    | <i>-86.0%</i> |
| <b>Profit from operations</b>           | <b>1,648</b>     | <b>40,820</b>   | <b>-96.0%</b> | <b>8,099</b>    | <b>-79.7%</b> |
| Other income (expense), net             | 10,259           | 7,840           | 30.9%         | 7,756           | 32.3%         |
| Income tax benefit (expense)            | (10,446)         | 18              | -             | (170)           | 6,044.7%      |
| <b>Profit attributable to SMIC</b>      | <b>28,387</b>    | <b>47,520</b>   | <b>-40.3%</b> | <b>14,681</b>   | <b>93.4%</b>  |
| Non-controlling Interests               | (26,926)         | 1,158           | -             | 1,004           | -             |
| <b>Earnings per ADS (Basic)</b>         | <b>0.04</b>      | <b>0.07</b>     | <b>-</b>      | <b>0.02</b>     | <b>-</b>      |

- **Revenue** decreased 6.9% QoQ from \$521.6 million in 3Q14 to \$485.9 million in 4Q14 mainly due to a one-time adjustment relating to the turnkey services.
- **Gross margin** was 22.5% in 4Q14, down from 25.9% in 3Q14. The change was mainly due to a one-time adjustment relating to the turnkey services. Excluding the above adjustment, the gross margin in 4Q14 stayed relatively flat compared to 3Q14.
- The change in **income tax benefit (expense)** was mainly due to the payment of land value-added tax.
- The change in **non-controlling interests** was mainly because Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC", the Company's majority owned subsidiary in Beijing) shared part of SMIC group's advance-technology R&D expenses in 4Q14.

# Non-GAAP Revenue and Revenue from Wuhan Xinxin



(\$mm)



- There were no wafer shipments from Wuhan Xinxin from 1Q14 onwards.

# Balance Sheet Highlights

| (US\$ thousands)            | As of            |                  |
|-----------------------------|------------------|------------------|
|                             | Dec 31, 2014     | Sept 30, 2014    |
| Cash and cash equivalent    | 603,036          | 362,239          |
| Restricted Cash             | 238,051          | 159,118          |
| Other financial assets      | 644,071          | 336,793          |
| Trade and other receivables | 456,388          | 490,910          |
| Inventories                 | 316,041          | 315,364          |
| Other Assets                | 3,511,792        | 3,123,509        |
| <b>Total Assets</b>         | <b>5,769,379</b> | <b>4,787,933</b> |
| Short-term borrowings       | 162,054          | 376,978          |
| Long-term borrowings        | 256,200          | 217,000          |
| Convertible bonds           | 379,394          | 355,362          |
| Corporate bonds             | 491,579          | -                |
| <b>Total Debt</b>           | <b>1,289,227</b> | <b>949,340</b>   |
| <b>Total Liabilities</b>    | <b>2,461,657</b> | <b>1,843,163</b> |
| <b>Total Equity</b>         | <b>3,307,722</b> | <b>2,944,770</b> |
| Debt/Equity Ratio*          | 39.0%            | 32.2%            |

\* Calculated based on (Total Debt) / (Total Equity)



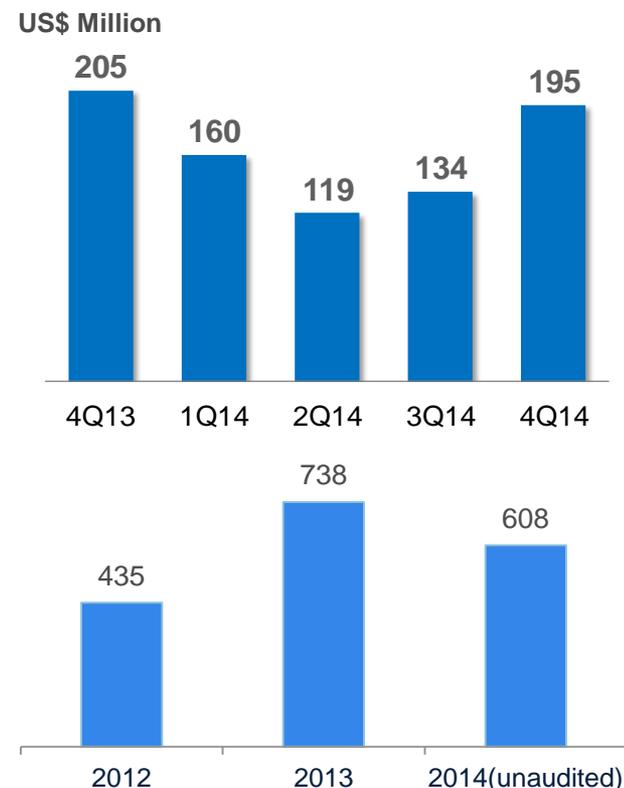
# Cash Flow Highlights

(US\$ thousands)

For the three months ended

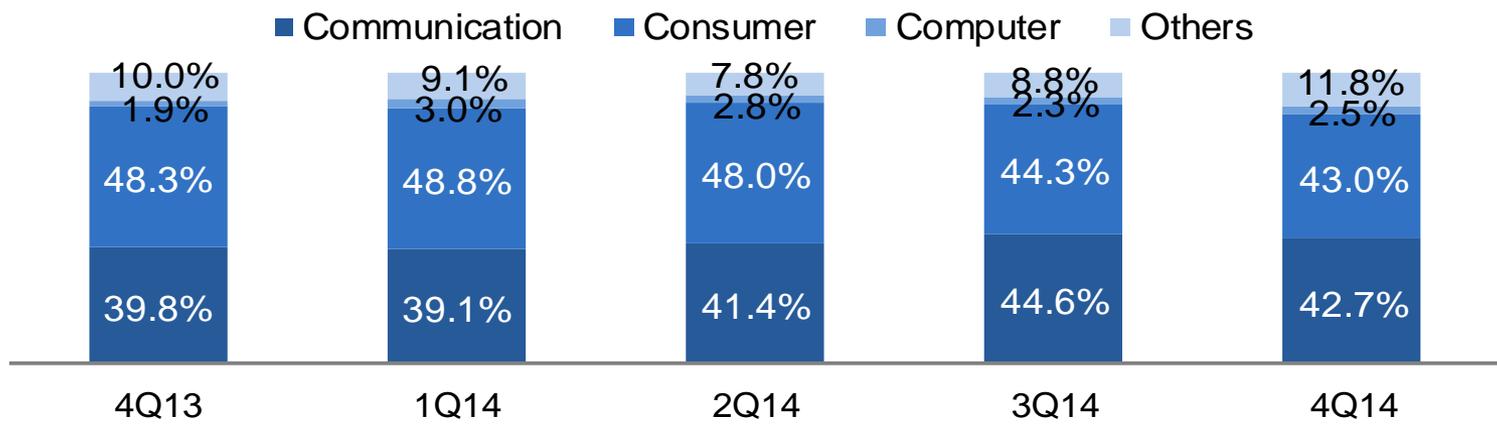
|   | Dec 31, 2014   | Sept 30, 2014  |
|---|----------------|----------------|
| Cash and cash equivalent, beginning of period       | 362,239        | 573,332        |
| <b>Net cash from operating activities</b>           | <b>195,218</b> | <b>134,210</b> |
| Net cash used in investing activities               | (644,783)      | (144,006)      |
| Net cash from (used in) financing activities        | 690,163        | (202,312)      |
| Net increase (decrease) in cash and cash equivalent | 240,797        | (211,093)      |
| Cash and cash equivalent, end of period             | 603,036        | 362,239        |

## Cash Flow from Operations



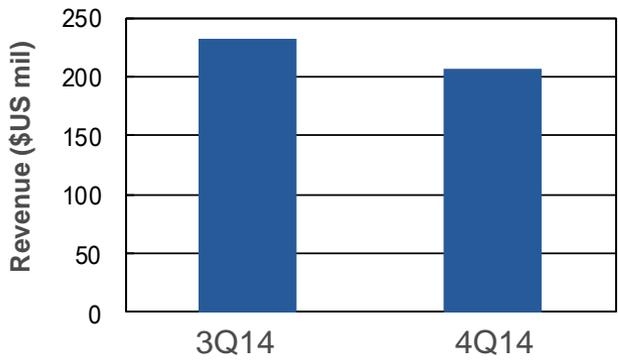


# Total Revenue Breakdown by Applications

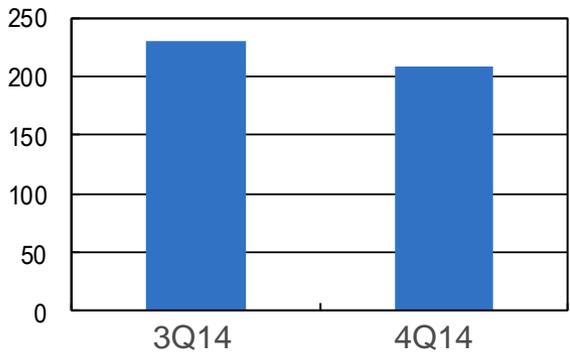


## 4Q 14 vs. 3Q 14

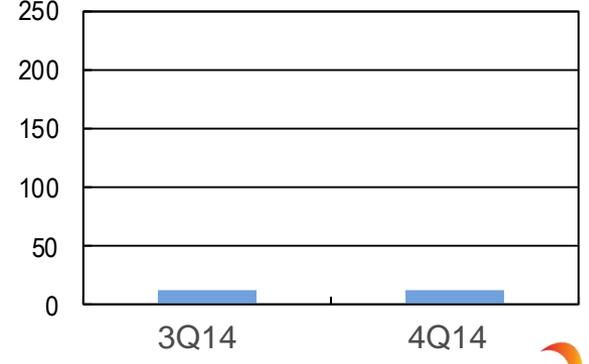
### Communications



### Consumer

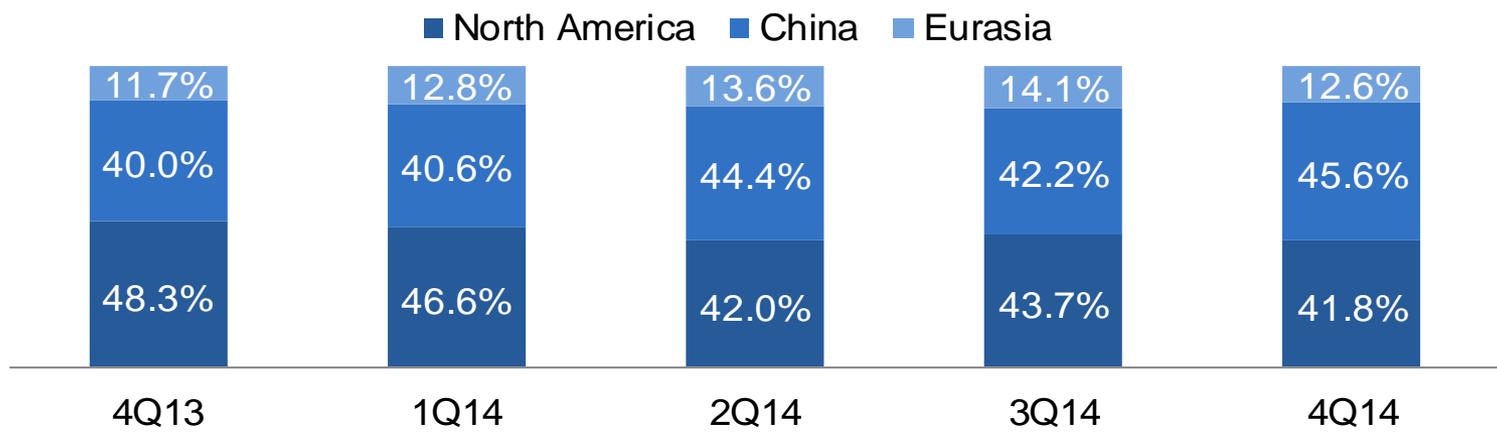


### Computer

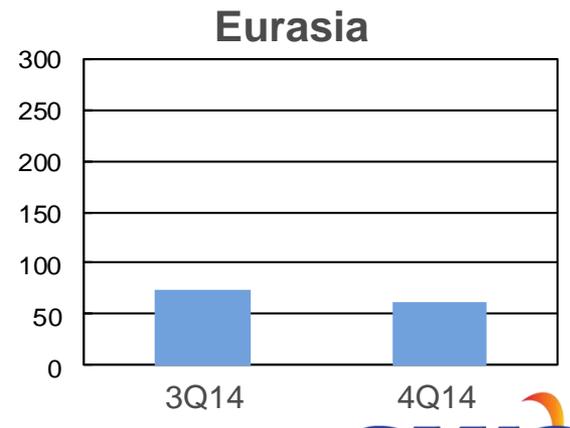
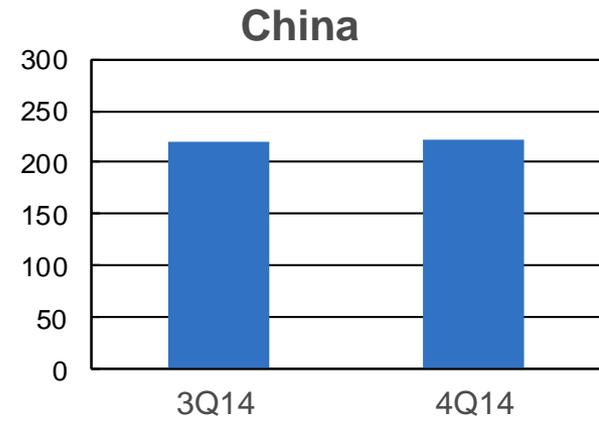
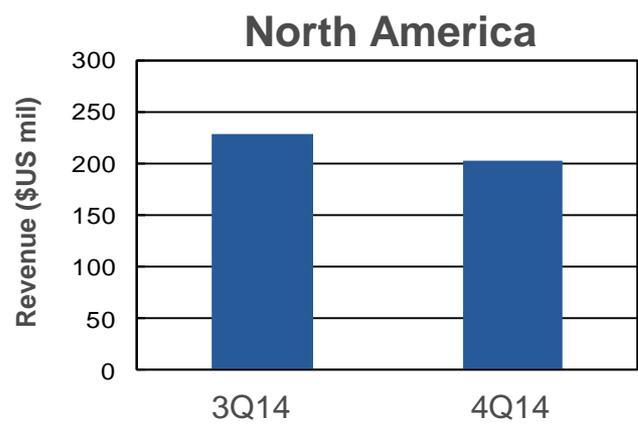




# Total Revenue Breakdown by Geography

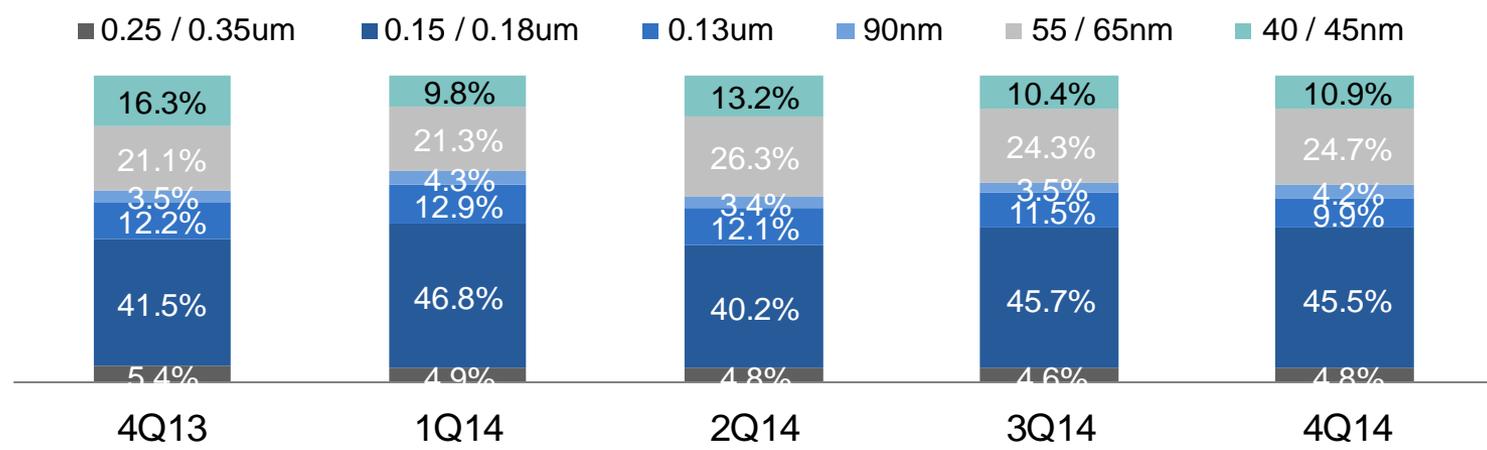


## 4Q 14 vs. 3Q 14

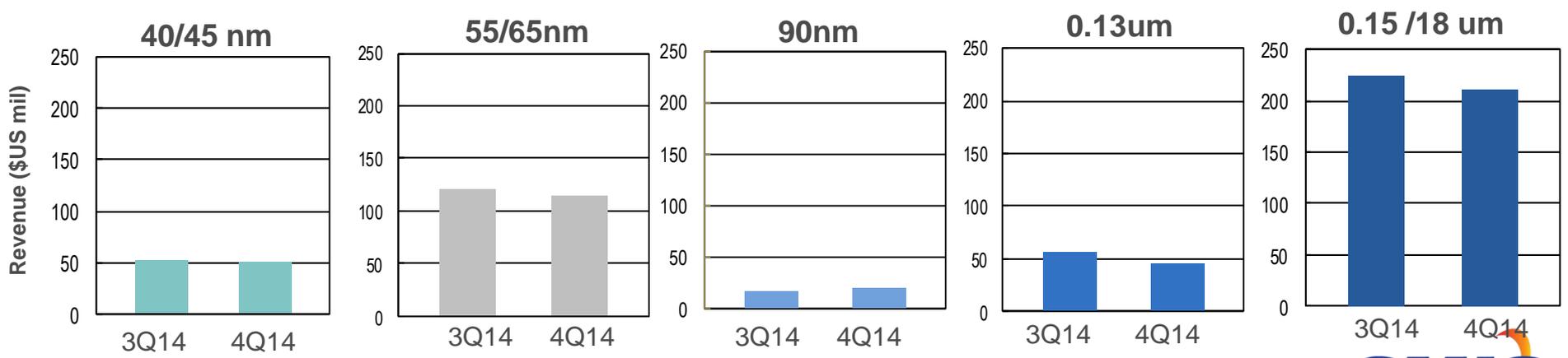




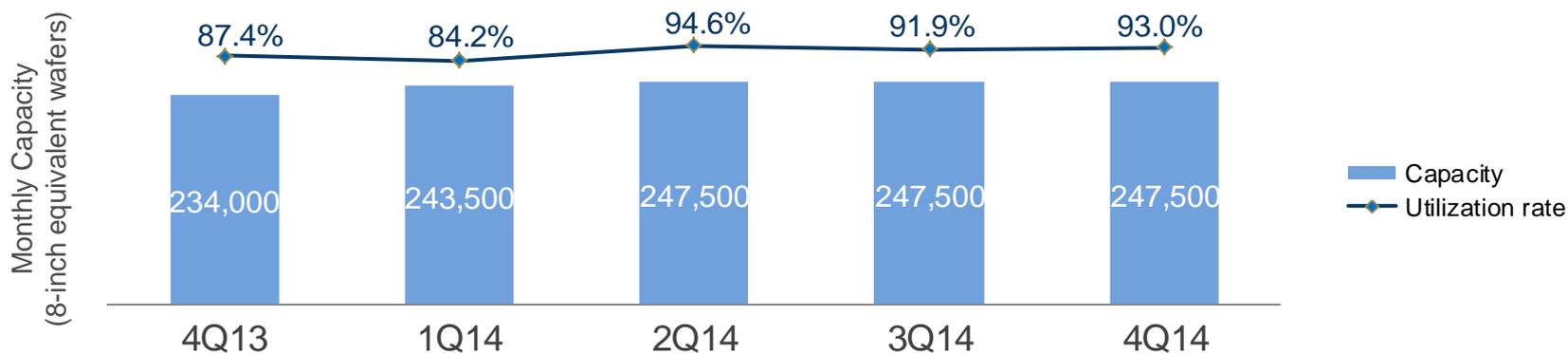
# Wafer Revenue Breakdown by Technology



## 4Q 14 vs. 3Q 14



# Capacity, Utilization and Shipment

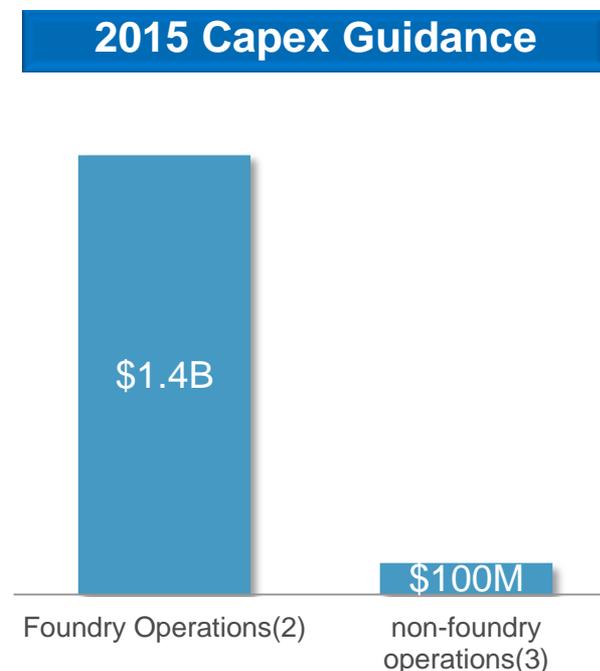


|  | 4Q13           | 1Q14           | 2Q14           | 3Q14           | 4Q14           |
|--|----------------|----------------|----------------|----------------|----------------|
| Shanghai Mega Fab (8")                             | 90,000         | 94,000         | 96,000         | 96,000         | 96,000         |
| Shanghai 12-inch Fab (12")                         | 12,000         | 14,000         | 14,000         | 14,000         | 14,000         |
| Beijing Mega Fab (12")                             | 36,000         | 36,000         | 36,000         | 36,000         | 36,000         |
| Tianjin Fab (8")                                   | 36,000         | 37,000         | 39,000         | 39,000         | 39,000         |
| <b>Monthly Capacity (8-inch equivalent wafers)</b> | <b>234,000</b> | <b>243,500</b> | <b>247,500</b> | <b>247,500</b> | <b>247,500</b> |
| Wafer Shipment                                     | 601,602        | 581,621        | 648,764        | 668,811        | 660,049        |
| Utilization Rate <sup>(1)</sup>                    | 87.4%          | 84.2%          | 94.6%          | 91.9%          | 93.0%          |

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

# 1Q 2015 Guidance and 2015 Capex Guidance

|                                    | 1Q 2015 Guidance                         |
|------------------------------------|--|
| Revenue                            | +2% to +5% QoQ<br>\$495 to \$510 million |
| Gross Margin                       | 27% to 29%                               |
| Non-GAAP Operating Expenses<br>(1) | \$123 to \$128 million                   |



- (1) Exclude the effect of employee bonus accrual, government funding and gain from the disposal of living quarters
- (2) The planned 2015 capital expenditures for foundry operations are approximately \$1.4 billion, which are mainly for 1) the expansion of capacity in SMNC's 12-inch fab and the new 8-inch fab in Shenzhen and 2) research and development equipment, mask shops and intellectual property acquisition.
- (3) The planned 2015 capital expenditures for non-foundry operations, mainly for the construction of living quarters, are approximately \$100 million. The Company plans to rent out or sell these living quarter units to employees in the future.



# Appendix

# 4Q14 Results Vs Original Guidance

|  | 4Q 2014 Guidance      | 4Q 2014 Results  |
|--|-----------------------|------------------|
| Revenue                                    | -5% to -9% QoQ        | -6.9% QoQ        |
| Gross Margin                               | 19.5% to 22.5%        | 22.5%            |
| Non-GAAP Operating Expenses <sup>(1)</sup> | \$99 to \$103 million | \$ 113.2 million |

- **R&D expenses** decreased to \$53.1 million in 4Q14, compared to \$54.9 million in 3Q14. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$4.8 million QoQ to \$65.5 million in 4Q14 due to higher R&D activities. Funding of R&D contracts from the government was \$12.4 million in 4Q14, compared to \$5.8 million in 3Q14.
- **General and administrative expenses** increased to \$46.0 million in 4Q14, up 32.8% QoQ from \$34.7 million in 3Q14, mainly because of 1) the start-up costs relating to the two new fab projects – the 8-inch fab in Shenzhen and the 12-inch fab in Beijing and 2) accrued employee bonus increased in 4Q14.
- **Other operating income** decreased 83.8% QoQ from \$5.5 million in 3Q14 to \$0.9 million in 4Q14, mainly because of lower gain realized from the disposal of part of the living quarters in 4Q14.

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

# 2014 Capital Expenditures & Depreciation

(unaudited)



| <i>(US\$ millions)</i>                 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 2014                 |
|--|------|------|------|------|----------------------|
| <b>Capex</b>                           | 108  | 142  | 282  | 482  | 1,014 <sup>(1)</sup> |
| <b>Depreciation &amp; Amortization</b> | 137  | 138  | 139  | 135  | 549                  |

(1) The 2014 capital expenditures for foundry operations were \$958.5 million and \$55.9 million for non-foundry operations





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# Thank you

Contact us: [ir@smics.com](mailto:ir@smics.com)