



Semiconductor Manufacturing International Corporation

# SMIC Q2 2015 Financial Presentation

**NYSE: SMI      HKSE: 981**

SMIC Investor Relations

Aug 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 “3Q 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 cyclical nature of the semiconductor industry, changes in demand for our products, competition in our markets, our reliance on a small number of customers, 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 28, 2015, 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, and non-GAAP operating expenses which consist 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 third 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 Group’s management regularly uses these non-GAAP financial measures to understand, manage and evaluate the Group’s business and make financial and operational decisions.



# 2Q15 Financial Highlights

- **Revenue was \$546.6M, a record high**
  - Compared to \$509.8 million in 1Q15
  - Compared to \$511.3 million in 2Q14
  
- **Gross margin was 32.3%, a record high**
  - Compared to 29.4% in 1Q15
  - Compared to 28.0% in 2Q14
  
- **Profit attributable to SMIC was \$76.7M**
  - Compared to \$55.5M in 1Q15
  - Compared to \$56.8M in 2Q14
  - Thirteenth consecutive profitable quarter
  - Record high profit if excluding the gain of commitment to grant shares and warrants in 2Q10
  
- **Revenue from China-based customers increased to 51.1% of overall revenue, an all time high**
  - Compared to 47.0% in 1Q15
  - Compared to 44.4% in 2Q14



# 2Q15 Financial Highlights

- **\$1.3B cash on hand, including other financial assets**
  - Compared to \$1.0B in 1Q15
  - Compared to \$0.9B in 2Q14
  
- **Gross debt to equity ended at 28.2%**
  - Compared to 32.9% in 1Q15
  - Compared to 39.7% in 2Q14
  
- **Utilization rate was 102.1%**
  - Compared to 99.7% in 1Q15
  - Compared to 94.6% in 2Q14

# Income Statement Highlights

(US\$ thousands)	2Q15	1Q15	QoQ	2Q14	YoY
<b>Total Revenue</b>	<b>546,615</b>	<b>509,798</b>	<b>7.2%</b>	<b>511,344</b>	<b>6.9%</b>
Gross Profit	176,405	149,927	17.7%	143,053	23.3%
<b>Gross Margin</b>	<b>32.3%</b>	<b>29.4%</b>	-	<b>28.0%</b>	-
<b>Operating Expenses</b>	<b>(115,728)</b>	<b>(104,423)</b>	<b>10.8%</b>	<b>(84,861)</b>	<b>36.4%</b>
<i>Research &amp; Development, net</i>	<i>(55,202)</i>	<i>(53,453)</i>	<i>3.3%</i>	<i>(45,080)</i>	<i>22.5%</i>
<i>General &amp; Administrative</i>	<i>(52,051)</i>	<i>(42,486)</i>	<i>22.5%</i>	<i>(35,528)</i>	<i>46.5%</i>
<i>Selling &amp; Marketing</i>	<i>(9,159)</i>	<i>(9,205)</i>	<i>-0.5%</i>	<i>(9,018)</i>	<i>1.6%</i>
<i>Other operating income (expense)</i>	<i>684</i>	<i>721</i>	<i>-5.1%</i>	<i>4,765</i>	<i>-85.6%</i>
<b>Profit from operations</b>	<b>60,677</b>	<b>45,504</b>	<b>33.3%</b>	<b>58,192</b>	<b>4.3%</b>
Other income (expense), net	11,943	6,125	95.0%	(1,105)	-
Income tax benefit (expense)	(924)	(54)	1611.1%	93	-
<b>Profit attributable to SMIC</b>	<b>76,704</b>	<b>55,477</b>	<b>38.3%</b>	<b>56,801</b>	<b>35.0%</b>
Non-controlling Interests	(5,008)	(3,902)	28.3%	379	-
<b>Earnings per ADS (Basic)</b>	<b>0.10</b>	<b>0.08</b>	-	<b>0.09</b>	-

- **Revenue** increased 7.2% QoQ from \$509.8 million in 1Q15 to \$546.6 million in 2Q15 mainly because of an increase of wafer shipments in 2Q15
- **Gross margin** was 32.3% in 2Q15, up from 29.4% in 1Q15, primarily due to an increase in fab utilization in 2Q15.
- **R&D expenses** increased to \$55.2 million in 2Q15, compared to \$53.5 million in 1Q15. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$6.8 million QoQ to \$65.6 million in 2Q15. Funding of R&D contracts from the government was \$10.4 million in 2Q15, compared to \$5.3 million in 1Q15.
- **General and administrative expenses** increased to \$52.1 million in 2Q15, up 22.5% QoQ from \$42.5 million in 1Q15, mainly because of 1) the expansion expenses 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 2Q15.

# Balance Sheet Highlights

(US\$ thousands)	As of	
	June 30, 2015	March 31, 2015
Cash and cash equivalent	766,165	402,378
Restricted Cash	105,791	229,500
Other financial assets (1)	568,886	586,047
Trade and other receivables	489,675	454,383
Inventories	365,332	340,889
Other Assets	3,869,174	3,527,966
<b>Total Assets</b>	<b>6,165,023</b>	<b>5,541,163</b>
Short-term borrowings	119,727	192,775
Long-term borrowings	85,484	39,087
Convertible bonds	385,947	382,668
Corporate bonds	492,383	491,976
<b>Total Debt</b>	<b>1,083,541</b>	<b>1,106,506</b>
<b>Net Debt (2)</b>	<b>(251,510)</b>	<b>118,081</b>
<b>Total Liabilities</b>	<b>2,318,999</b>	<b>2,176,899</b>
<b>Total Equity</b>	<b>3,846,024</b>	<b>3,364,264</b>
Total Debt/Equity Ratio(3)	28.2%	32.9%
Net Debt/Equity Ratio (4)	N/A (5)	3.5%

(1) Other financial assets contain financial products sold by bank and bank deposit 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

(5) The ratio was not applicable due to the negative net debt in 2Q15.



# Cash Flow Highlights

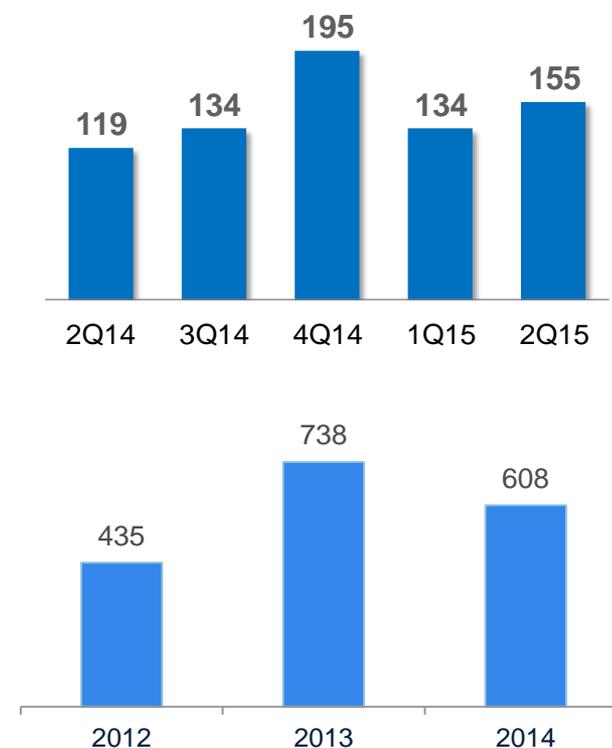
(US\$ thousands)

For the three months ended

	June 30, 2015	March 31, 2015
Cash and cash equivalent, beginning of period	402,378	603,036
<b>Net cash from operating activities</b>	<b>154,577</b>	<b>134,273</b>
Net cash used in investing activities	(170,372)	(148,888)
Net cash from (used in) financing activities	379,423	(185,819)
Net increase (decrease) in cash and cash equivalent	363,787	(200,658)
Cash and cash equivalent, end of period	766,165	402,378

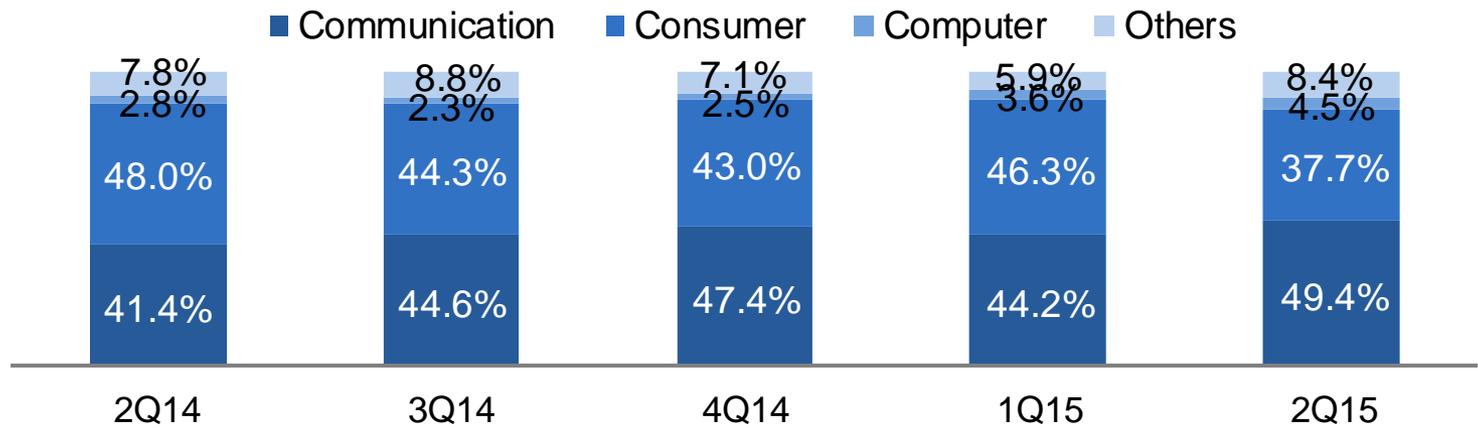
## Cash Flow from Operations

US\$ Million



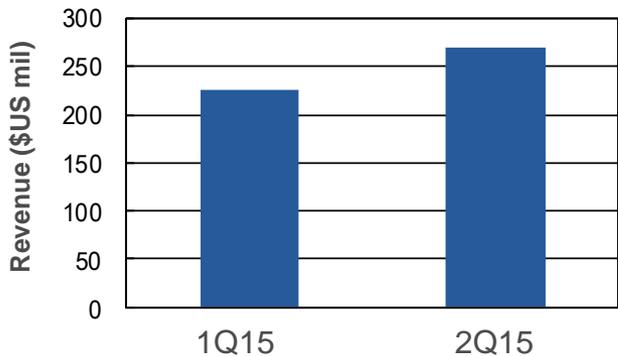


# Total Revenue Breakdown by Applications

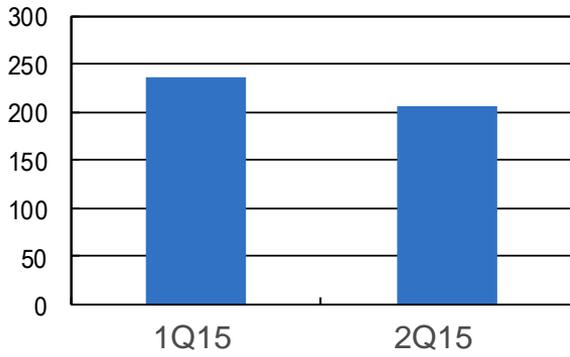


## 2Q 15 vs. 1Q 15

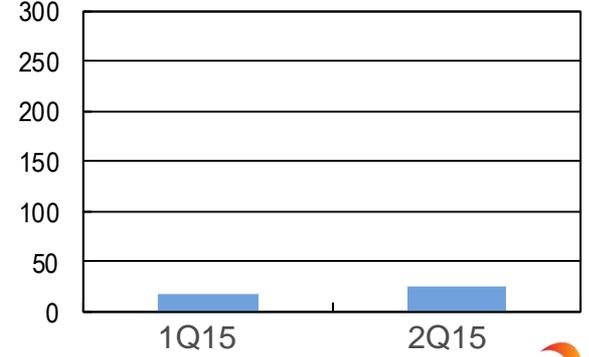
### Communications



### Consumer

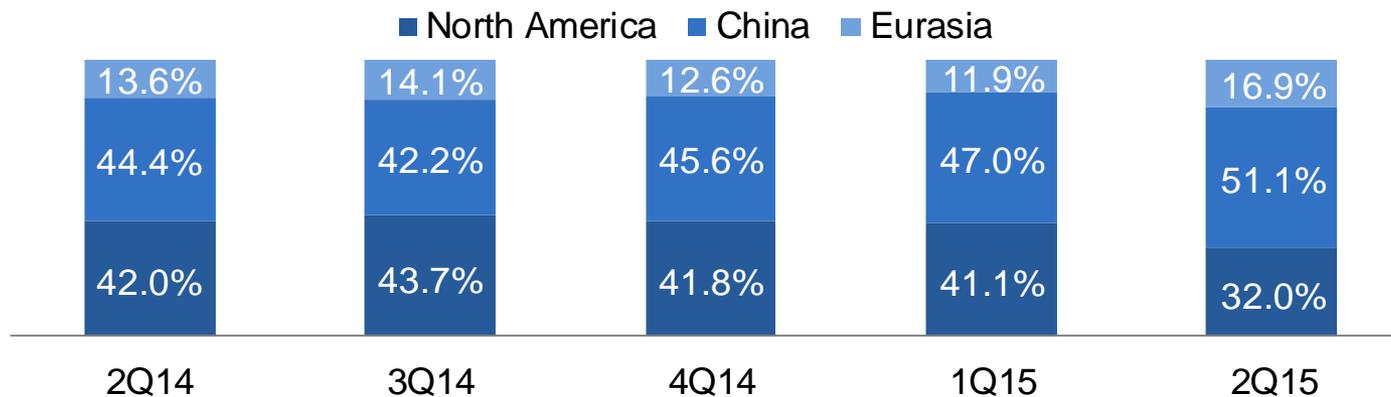


### Computer



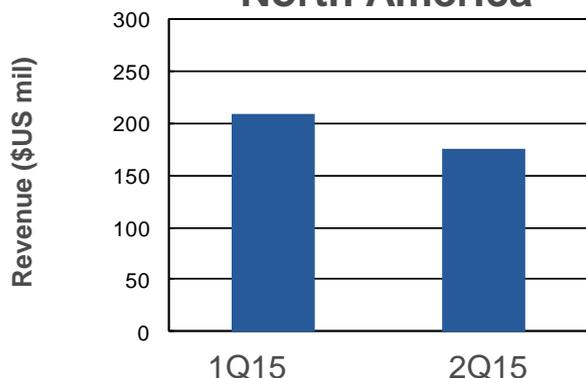


# Total Revenue Breakdown by Geography

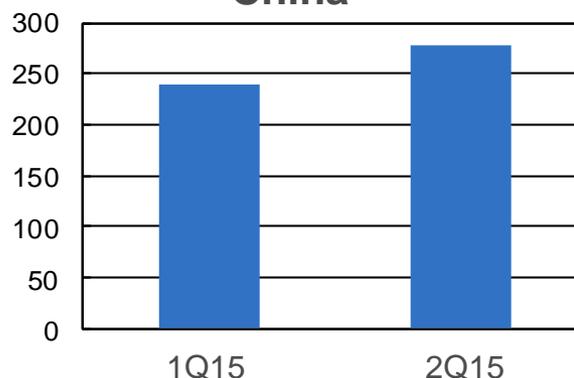


## 2Q 15 vs. 1Q 15

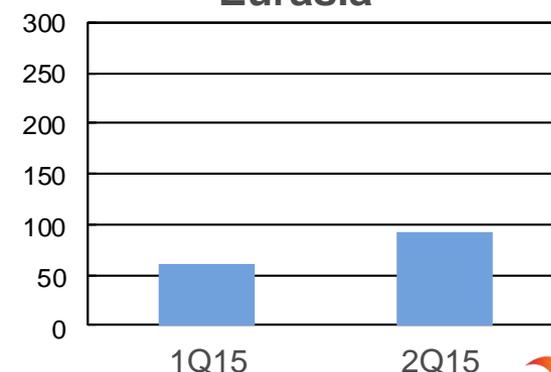
### North America



### China

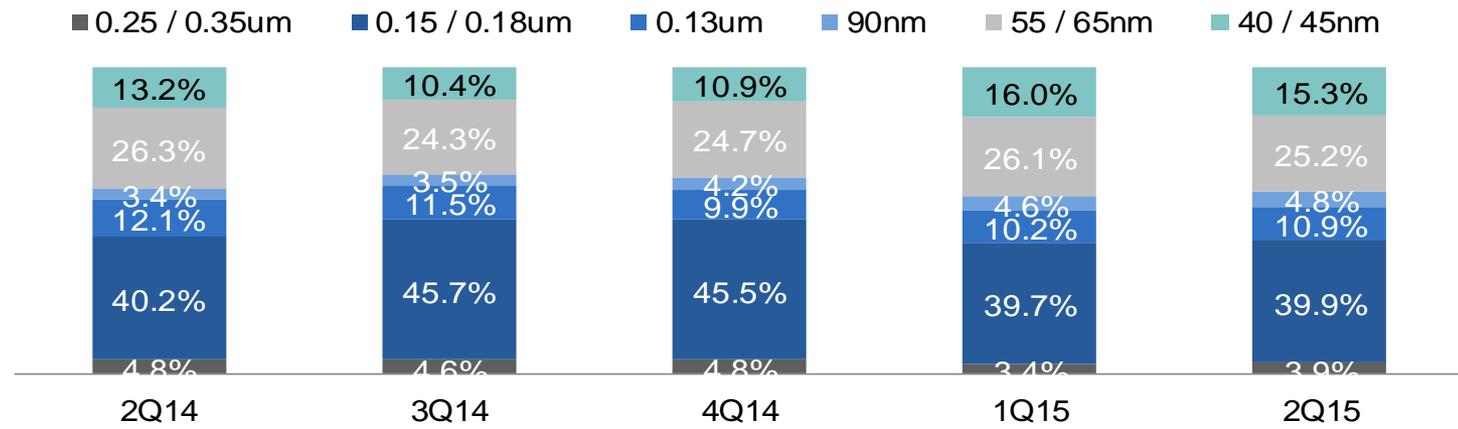


### Eurasia

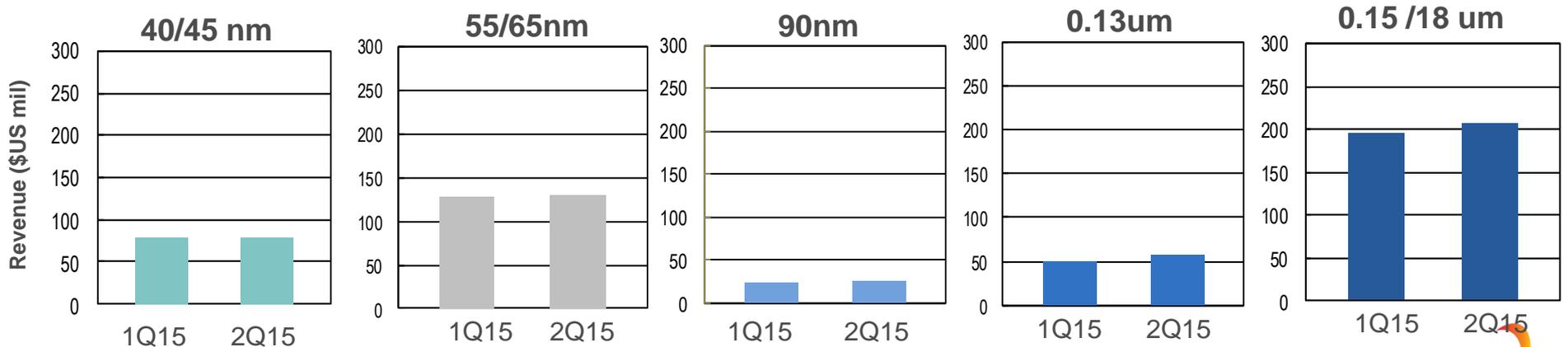




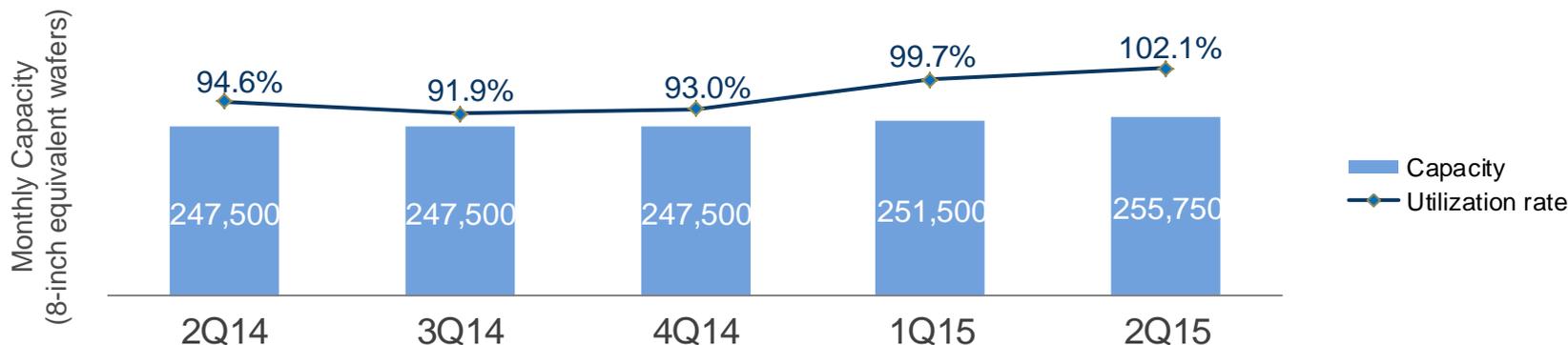
# Wafer Revenue Breakdown by Technology



## 2Q 15 vs. 1Q 15



# Capacity, Utilization and Shipment



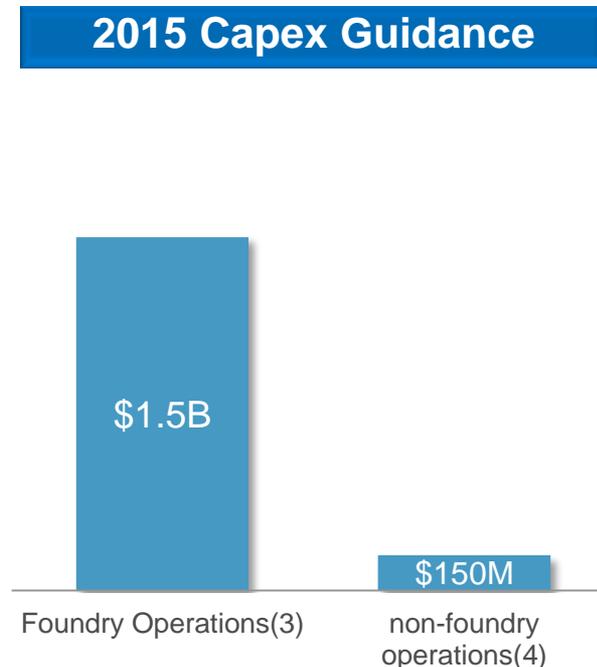
	2Q14	3Q14	4Q14	1Q15	2Q15
Shanghai Mega Fab (8")	96,000	96,000	96,000	97,000	99,000
Shanghai 12-inch Fab (12")	14,000	14,000	14,000	14,000	14,000
Beijing Mega Fab (12")	36,000	36,000	36,000	36,000	37,000
Tianjin Fab (8")	39,000	39,000	39,000	42,000	42,000
<b>Monthly Capacity <sup>(1)</sup> (8-inch equivalent wafers)</b>	<b>247,500</b>	<b>247,500</b>	<b>247,500</b>	<b>251,500</b>	<b>255,750</b>
Wafer Shipments	648,764	668,811	660,049	692,131	731,730
Utilization Rate <sup>(2)</sup>	94.6%	91.9%	93.0%	99.7%	102.1%

(1) Our new 8-inch fab in Shenzhen and 12-inch fab in Beijing have reached an installed capacity of 10,000 and 600 wafers per month but not entered into mass production at the end of 2Q15.

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

# 3Q 2015 Guidance and 2015 Capex Guidance

	3Q 2015 Guidance
Revenue	+1% to +3% QoQ \$552 to \$563 million
Gross Margin	28% to 30%
Non-GAAP Operating Expenses (1)	\$134 to \$139 million
Non-controlling interests <sup>(2)</sup>	\$11 to \$13 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 are expected to range from positive \$11 million to positive \$13 million (losses to be borne by non-controlling interests).
- (3) The planned 2015 capital expenditures for foundry operations are approximately \$1.5 billion.
- (4) The planned 2015 capital expenditures for non-foundry operations, mainly for the construction of living quarters, are approximately \$150 million. The Group plans to rent out or sell these living quarter units to employees in the future.



# Appendix

# 2Q15 Results Vs Original Guidance

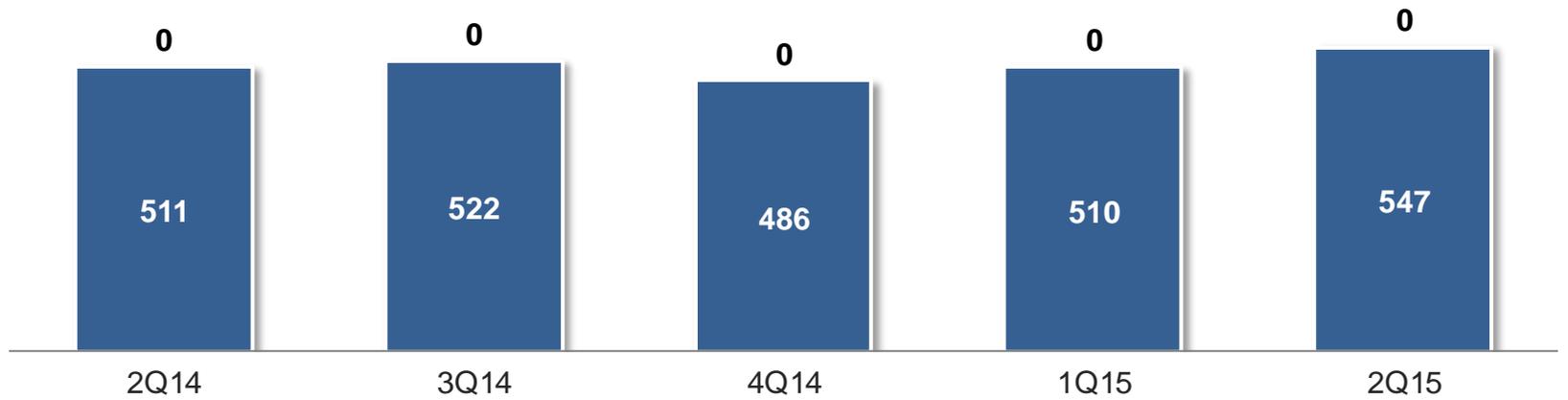
	2Q 2015 Guidance	2Q 2015 Results
Revenue	+2% to +5% QoQ	+7.2% QoQ
Gross Margin	27% to 29%	32.3%
Non-GAAP Operating Expenses <sup>(1)</sup>	\$120 to \$125 million	\$ 110.9 million
Non-controlling interests	\$5 to \$7 million	\$5.0 million

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

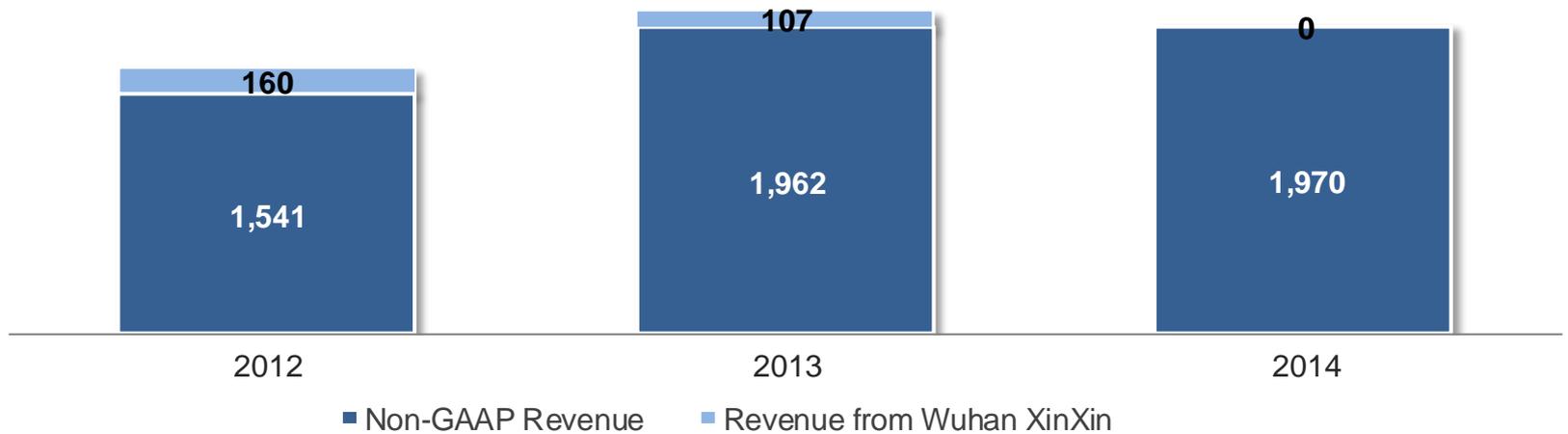
# Capital Expenditures & Depreciation

<i>(US\$ millions)</i>	2Q14	3Q14	4Q14	1Q15	2Q15
<b>Capex</b>	142	282	482	145	368
<b>Depreciation &amp; Amortization</b>	138	139	135	125	125

# Non-GAAP Revenue and Revenue from Wuhan Xinxin



(\$mm)



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



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# Thank you

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