

SMIC Q4 2014 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

Feb 2015

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Under the Private Securities Litigation Reform Act of 1995

This presentation identifies forward-looking statements, although not all forward-looking statements contain these words. These forward-looking statements include 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.

including its annual report on 20-F filed with the SEC on April 14, 2014, especially the consolidated financial statements, and such other documents on Form 6- 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.

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About Non-Generally Accepted Accounting Principles (“Non-

SMIC uses in this presentation non-GAAP measures of operating results that are adjusted to exclude wafer shipments from Wuhan Xinxin Semiconductor Manufacturing 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 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)

- **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

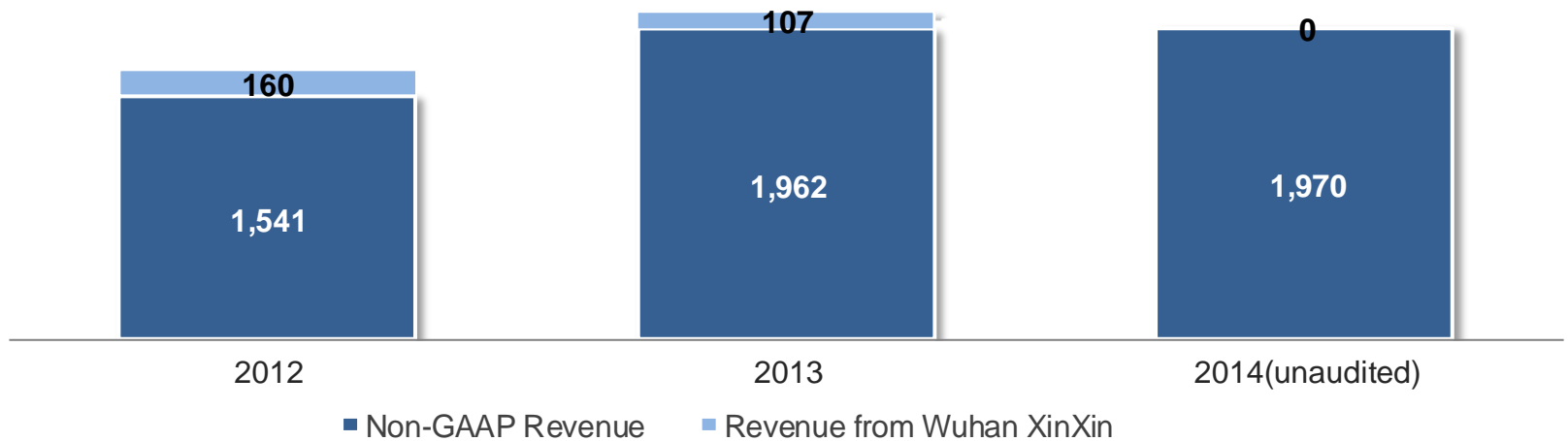
(US\$ thousands)	4Q14	3Q14	QoQ	4Q13	YoY
Total Revenue	485,893	521,646	-6.9%	491,797	-1.2%
Gross Profit	109,339	134,942	-19.0%	92,939	17.6%
Gross Margin	22.5%	25.9%	-	18.9%	-
Operating Expenses	(107,691)	(94,122)	14.4%	(84,840)	26.9%
<i>Research & Development, net</i>	<i>(53,113)</i>	<i>(54,887)</i>	<i>-3.2%</i>	<i>(46,256)</i>	14.8%
<i>General & Administrative</i>	<i>(46,039)</i>	<i>(34,668)</i>	<i>32.8%</i>	<i>(36,610)</i>	<i>25.8%</i>
<i>Selling & 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>
Profit from operations	1,648	40,820	-96.0%	8,099	-79.7%

- **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 -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
Total Assets	5,769,379	4,787,933
Short-term borrowings	162,054	376,978
Long-term borrowings	256,200	217,000
Convertible bonds	379,394	355,362
Corporate bonds	491,579	-
Total Debt	1,289,227	949,340
Total Liabilities	2,461,657	1,843,163
Total Equity	3,307,722	2,944,770
Debt/Equity Ratio*	39.0%	32.2%

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

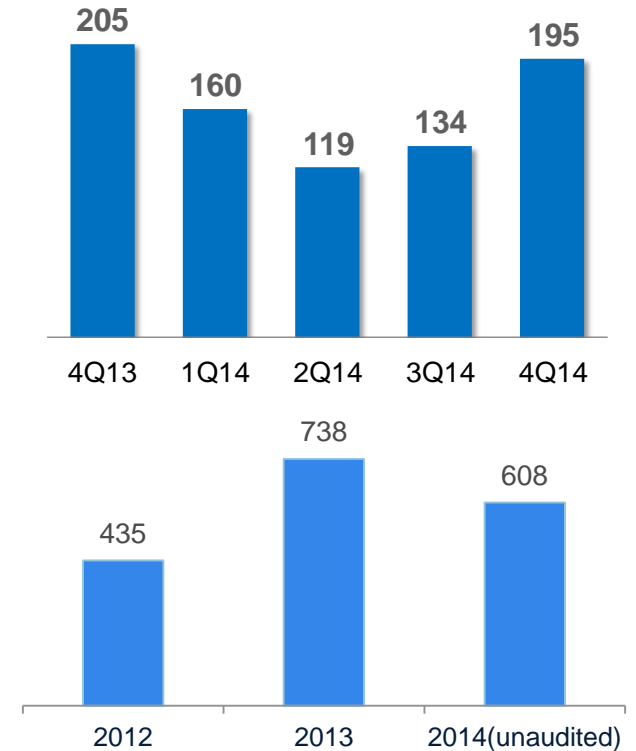
Cash Flow Highlights

(US\$ thousands)

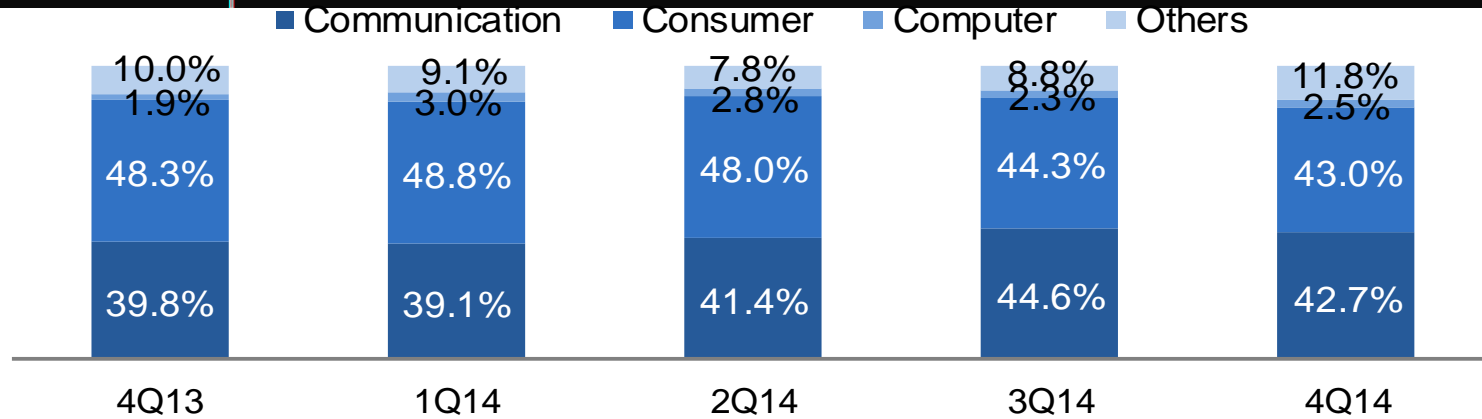
For the three months ended

Cash Flow from Operations

US\$ Million

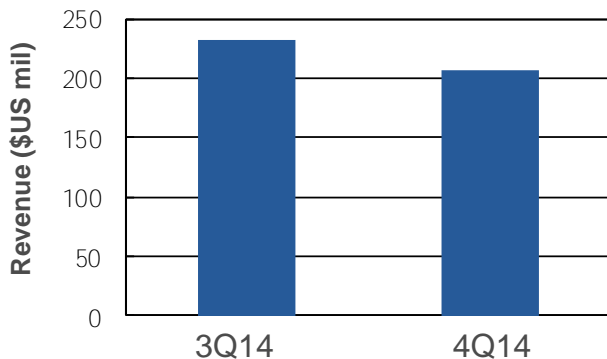


Total Revenue Breakdown by Applications

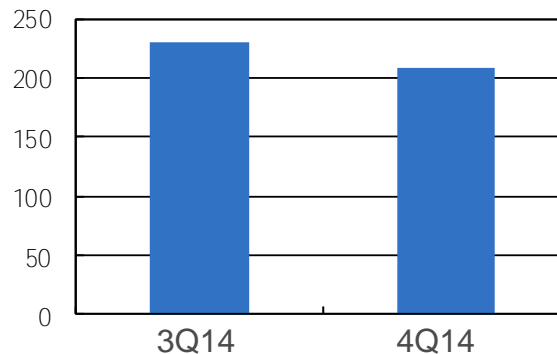


4Q 14 vs. 3Q 14

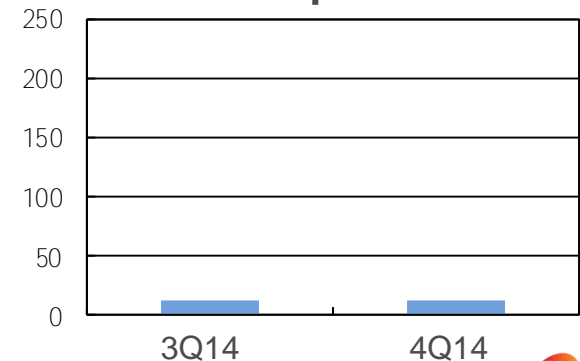
Communications



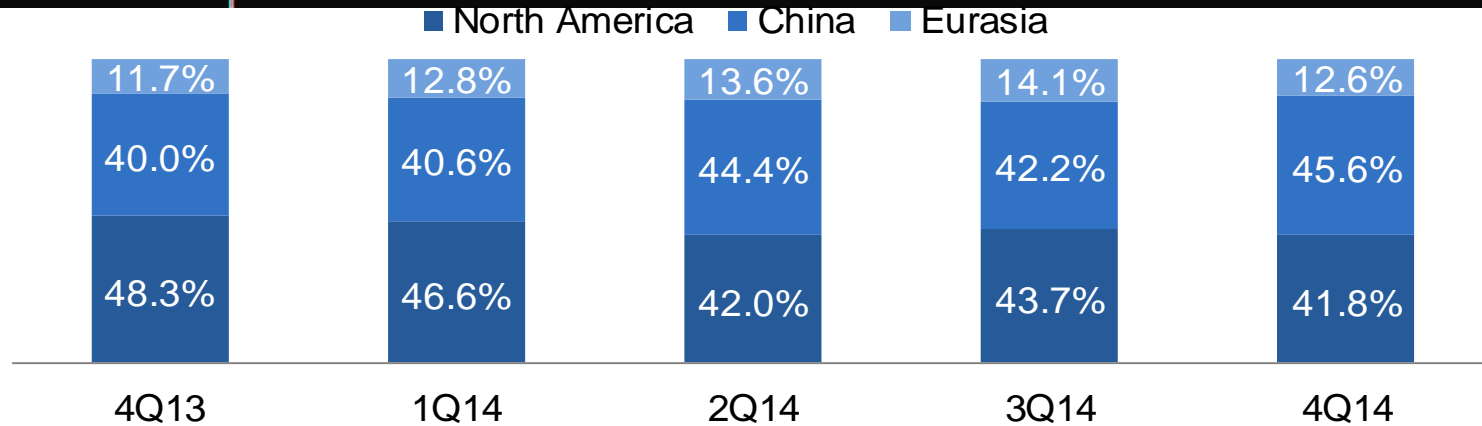
Consumer



Computer

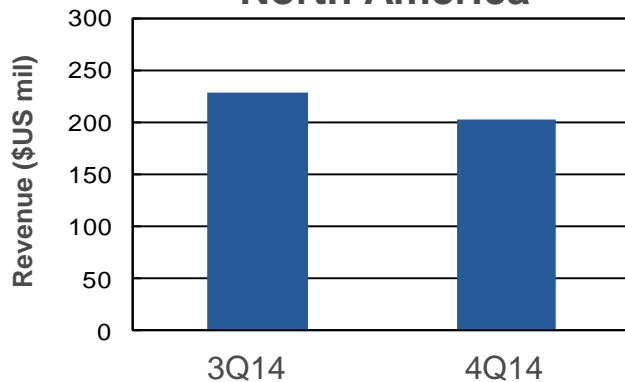


Total Revenue Breakdown by Geography

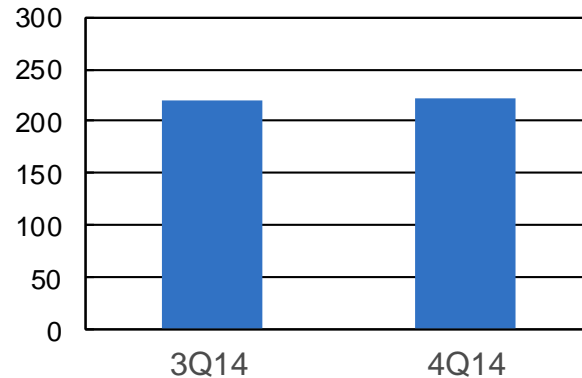


4Q 14 vs. 3Q 14

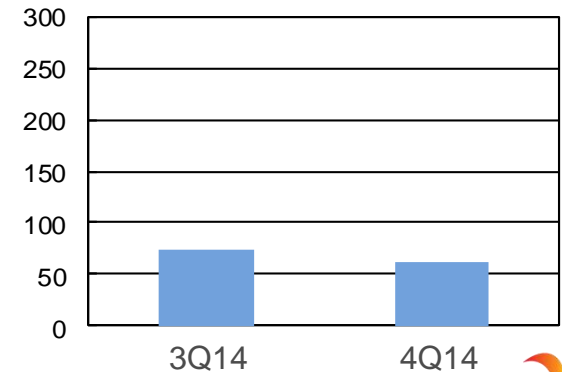
North America



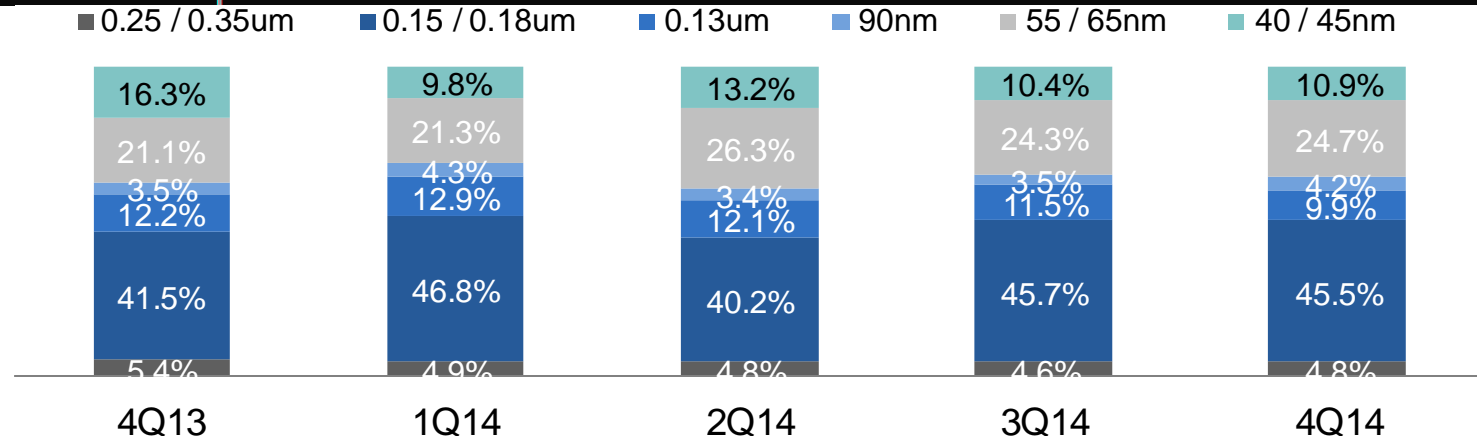
China



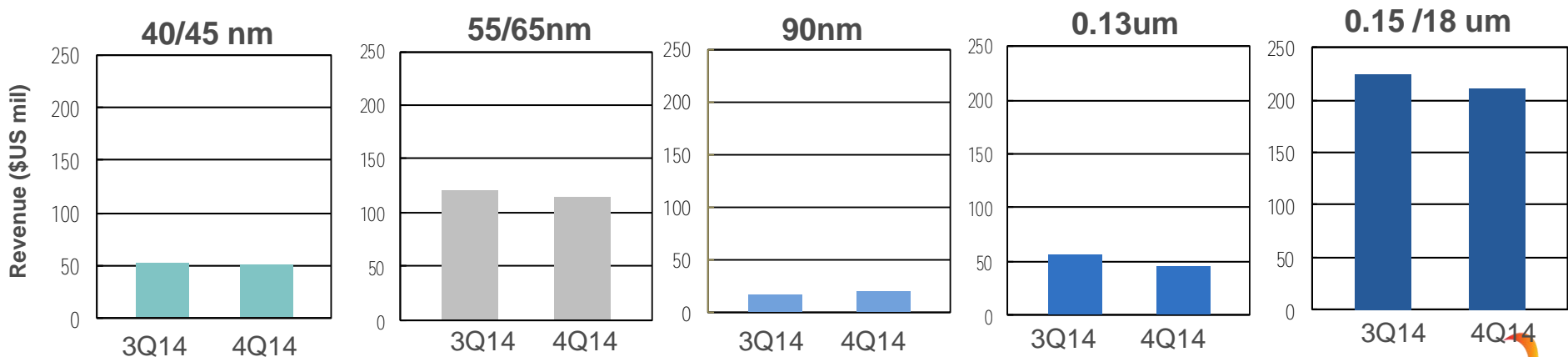
Eurasia



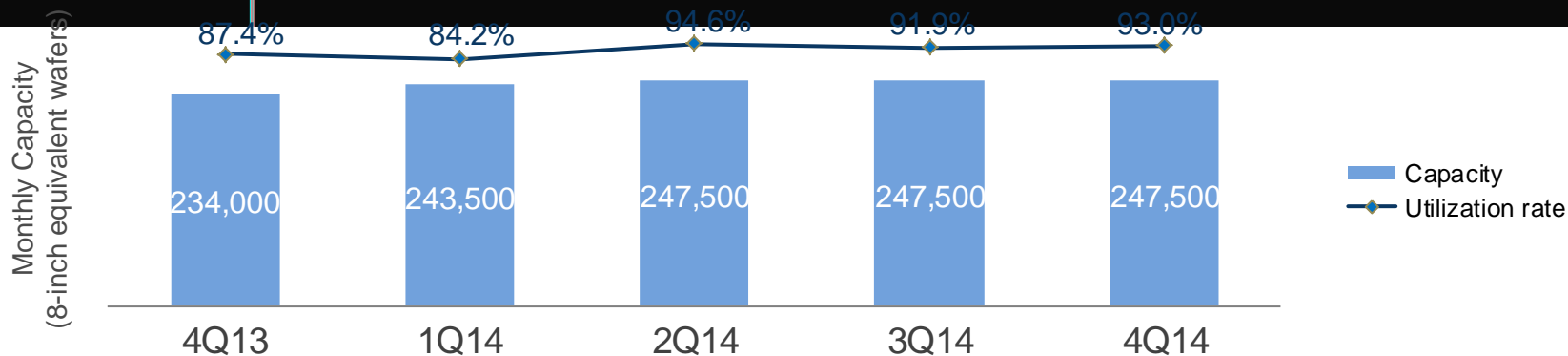
Wafer Revenue Breakdown by Technology



4Q 14 vs. 3Q 14



Capacity, Utilization and Shipment

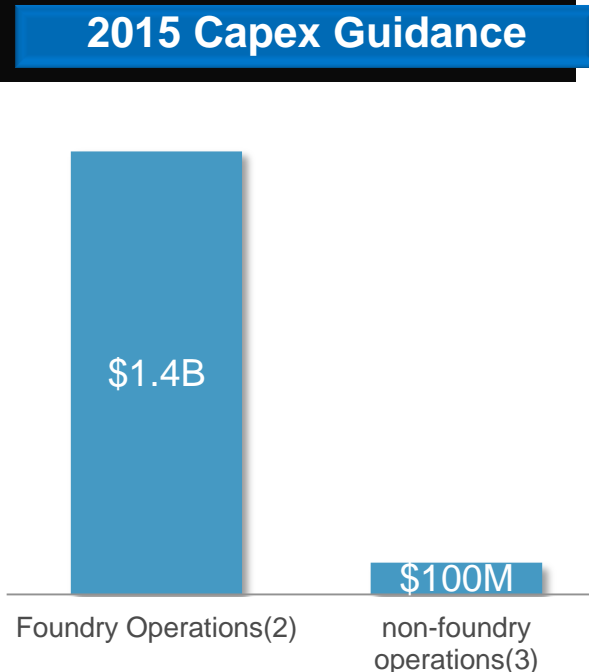


	4Q13	1Q14	2Q14	3Q14	4Q14
	90,000	94,000	96,000	96,000	96,000
Shanghai 12-	12,000	14,000	14,000	14,000	14,000
	36,000	36,000	36,000	36,000	36,000
	36,000	37,000	39,000	39,000	39,000
Monthly Capacity (8-inch equivalent wafers)	234,000	243,500	247,500	247,500	247,500
Wafer Shipment	601,602	581,621	648,764	668,811	660,049
Utilization Rate ⁽¹⁾	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 \$495 to \$510 million
Gross Margin	27% to 29%
Non-GAAP Operating Expenses (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) 8-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 ⁽¹⁾	\$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
Capex	108	142	282	482	1,014 ⁽¹⁾
Depreciation & Amortization	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



Thank you

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