SMIC Q4 2015 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

Feb 2016

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Under the Private Securities Litigation Reform Act of 1995

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(SEC), including its annual report on 20-F filed with the SEC on April 28, 2015, especially the consolidated financial statements, and such other nt reports on Form 6-
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SMIC uses in this presentation 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 1Q 2016 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- ical performance. The management regularly uses these non

2015 Financial Highlights (unaudited)

- **2015 total revenue was $2.24 billion, a record high**
  - Compared to $1.97 billion in 2014
  - 13.5% growth YoY
- **Gross margin was 30.5%, a record high**
  - Compared to 24.5% in 2014
- **Profit attributable to SMIC was $253.4 million, a record high**
  - Compared to $153.0 million in 2014
- **Net profit margin was 11.3%, a record high**
  - Compared to 7.8% in 2014
- **Capital expenditure was $1.57 billion**
  - Compared to $1.01 billion in 2014

2015 Financial Highlights (unaudited)

- **$1.3 billion cash on hand, including other financial assets**
  Compared to $1.2 billion in 2014

- **Gross debt to equity ended at 33.8%**
  Compared to 39.0% in 2014

- **Revenue from China-based customers increased to 47.7% of overall revenue, an all time high**
  Compared to 43.3% in 2014

- **Utilization rate was 100.7%, a record high**
  Compared to 91.0% in 2014

4Q15 Financial Highlights

- **Revenue was $610.1 million, a record high**
  - Compared to $569.9 million in 3Q15
  - Compared to $485.9 million in 4Q14
- **Gross profit was $173.9 million**
  - Compared to $182.4 million in 3Q15
  - Compared to $109.3 million in 4Q14
- **Gross margin was 28.5%**
  - Compared to 32.0% in 3Q15
  - Compared to 22.5% in 4Q14
- **Profit attributable to SMIC was $38.6 million**
  - Compared to $

4Q15 Financial Highlights

- **$1.3 billion cash on hand, including other financial assets**
  - Compared to $1.2 billion in 3Q15
  - Compared to $1.2 billion in 4Q14

- **Gross debt to equity ended at 33.8%**
  - Compared to 26.6% in 3Q15
  - Compared to 39.0% in 4Q14

- **Utilization rate was 100.4%**
  - Compared to 100.5% in 3Q15
  - Compared to 93.0% in 4Q14

Income Statement Highlights

(US$ thousands)	4Q15	3Q15	QoQ	4Q14	YoY
Total Revenue	**610,148**	**569,854**	**7.1%**	**485,893**	**25.6%**
Gross Profit	173,937	182,351	-4.6%	109,339	59.1%
Gross Margin	**28.5%**	**32.0%**	**-**	**22.5%**	**-**
Operating Expenses	(132,340)	(108,125)	22.4%	(107,691)	22.9%
Research & Development, net	*(66,121)*	*(62,381)*	*6.0%*	*(53,113)*	*24.5%*
General & Administrative	*(67,253)*	*(51,387)*	*30.9%*	*(46,039)*	*46.1%*
Selling & Marketing	*(12,358)*	*(11,154)*	*10.8%*	*(9,436)*	*31.0%*
Other operating income (expense)	*13,392*	*16,797*	*-20.3%*	*897*	*1393.0%*
Profit from operations	**41,597**	**74,226**	**-44.0%**	**1,648**	**2424.1%**
Other income (expense), net	(5,749)	(3,459)	66.2%	10,259	-
Income tax benefit (expense)	(5,770)	(1,793)	221.8%	(10,446)	-44.8%
Profit attributable to SMIC	**38,604**	**82,626**	**-53.3%**	**28,387**	**36.0%**
Non-controlling Interests	(8,526)	(13,652)	-37.5%	(26,926)	-68.3%
Earnings per ADS (Basic)	**0.05**	**0.10**	**-**	**0.04**	**-**

- **Revenue** increased by 7.1 % QoQ from $569.9 million in 3Q15 to $610.1 million in 4Q15 mainly due to an increase of wafer shipments in 4Q15.
- **Gross margin** was 28.5% in 4Q15, as compared to 32.0% in 3Q15. The decline in gross margin was primarily due to the ramp-up costs associated with the new Beijing and Shenzhen fabs.
- **R&D expenses** increased by $3.7 million QoQ to $66.1 million in 4Q15, compared to $62.4 million in 3Q15. Excluding the funding of R&D contracts from the government, R&D expenses increased by $3.2 million QoQ to $75.2 million in 4Q15. The change was mainly due to higher number of R&D activities in 4Q15. Funding of R&D contracts from the government was $9.1 million in 4Q15, compared to $9.6 million in 3Q15.
- **General and administrative expenses** increased to $67.3 million in 4Q15, up 30.9% QoQ from $51.4 million in 3Q15, mainly due to 1) an increase of accrued employee bonus in 4Q15, 2) an increase of government tax surcharges in 4Q15 and 3) the start-up cost relating to our majority-owned fab project for bumping services in Jiangyin.

Balance Sheet Highlights

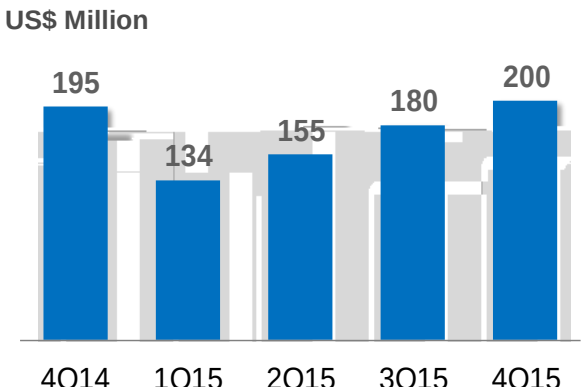
(US$ thousands)	As of	
	Dec 31, 2015	Sept 30, 2015
Cash and cash equivalent	1,005,201	741,576
Restricted Cash	302,416	88,685
Other financial assets (1)	282,880	462,280
Trade and other receivables	499,846	466,130
Inventories	387,326	398,987
Assets classified as held-for-sales	72,197	111,374
Other Assets	4,565,481	3,937,782
Total Assets	**7,115,347**	**6,206,814**
Short-term borrowings	113,068	57,499
Long-term borrowings	416,036	108,557
Convertible bonds	392,632	389,268
Corporate bonds	493,207	492,790
Total Debt	**1,414,943**	**1,048,114**
Net Debt (2)	**126,862**	**(155,742)**
Total Liabilities	**2,925,092**	**2,263,916**
Total Equity	**4,190,255**	**3,942,898**
Total Debt/Equity Ratio(3)	33.8%	26.6%

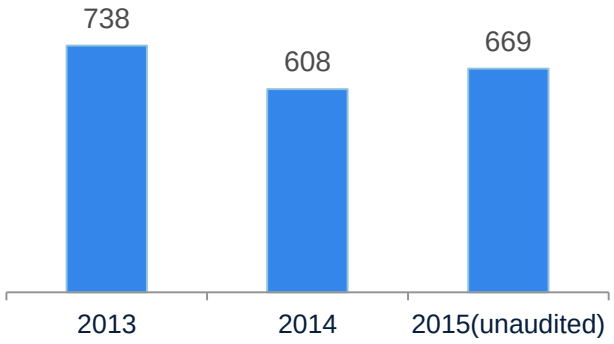
(1) Other financial assets mainly contain financial products sold by bank and bank deposits over 3 months
(2) Net debt is total debt minus cash and cash equivalent, and other financial assets
(3) T5( )-2029c[>>D4324d9(e)4(q)4ide)6(e(a)4(s)-o)4(ld)-3()-5(s)-6( )]TEB41 0 0 1 98.16 [h eoy024 Tm[ )]TE EMCID 102>>BDC 8.04 T197 42 0 1 98.16

Cash Flow Highlights

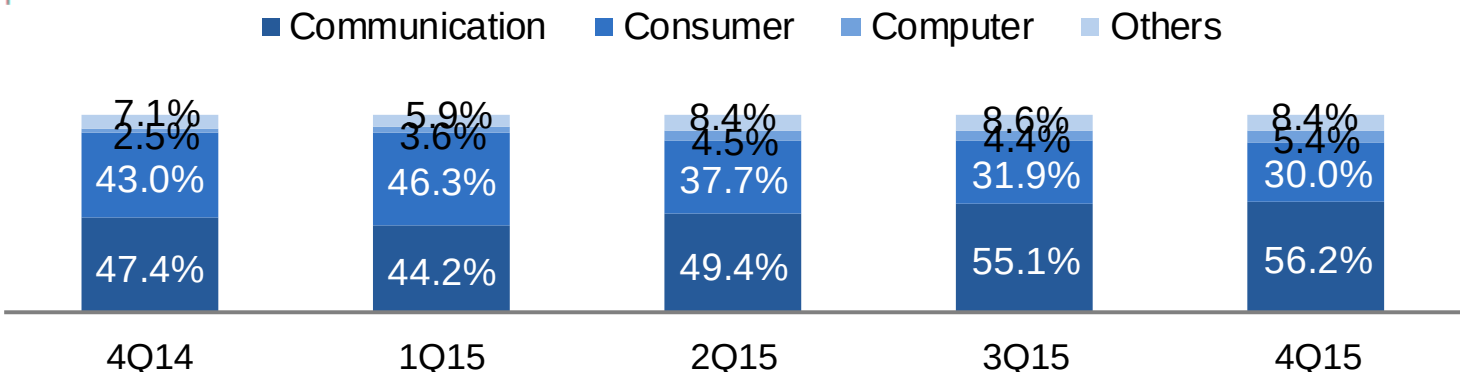
(US$ thousands)	For the three months ended	
	Dec 31, 2015	Sept 30, 2015
Cash and cash equivalent, beginning of period	741,576	766,165
Net cash from operating activities	**200,175**	**180,172**
Net cash used in investing activities	**(282,376)**	**(187,920)**
Net cash from (used in) financing activities	**352,382**	**(8,908)**
Net increase (decrease) in cash and cash equivalent	263,625	(24,589)
Cash and cash equivalent, end of period	1,005,201	741,576

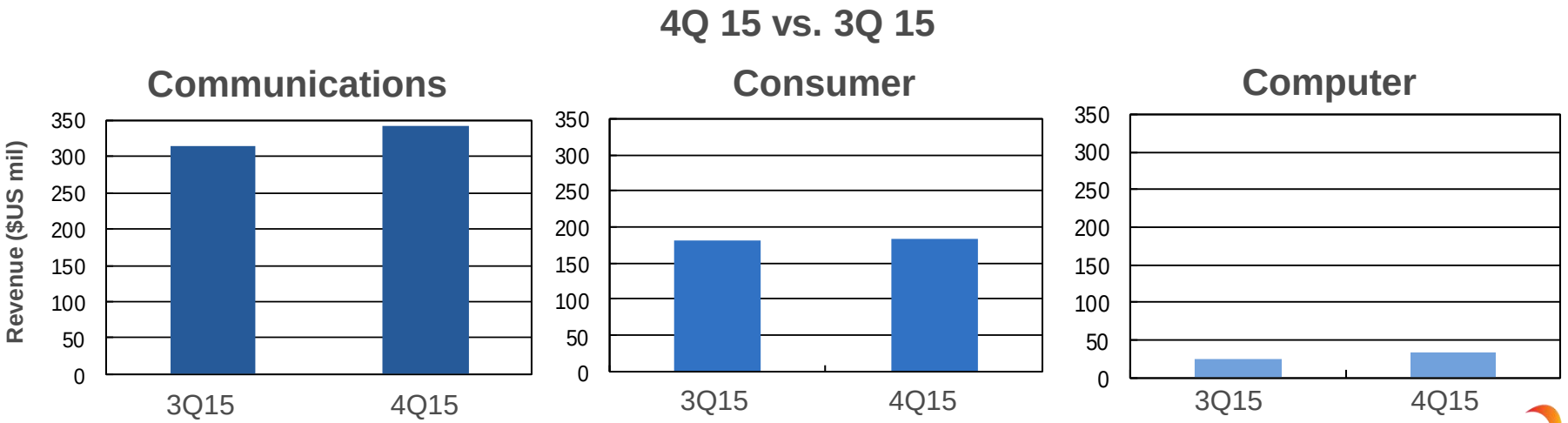
Cash Flow from Operations



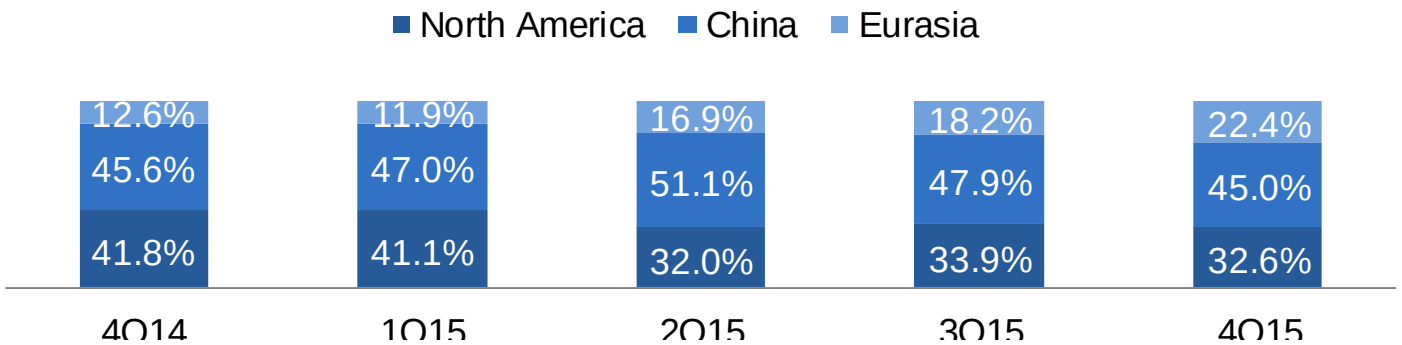


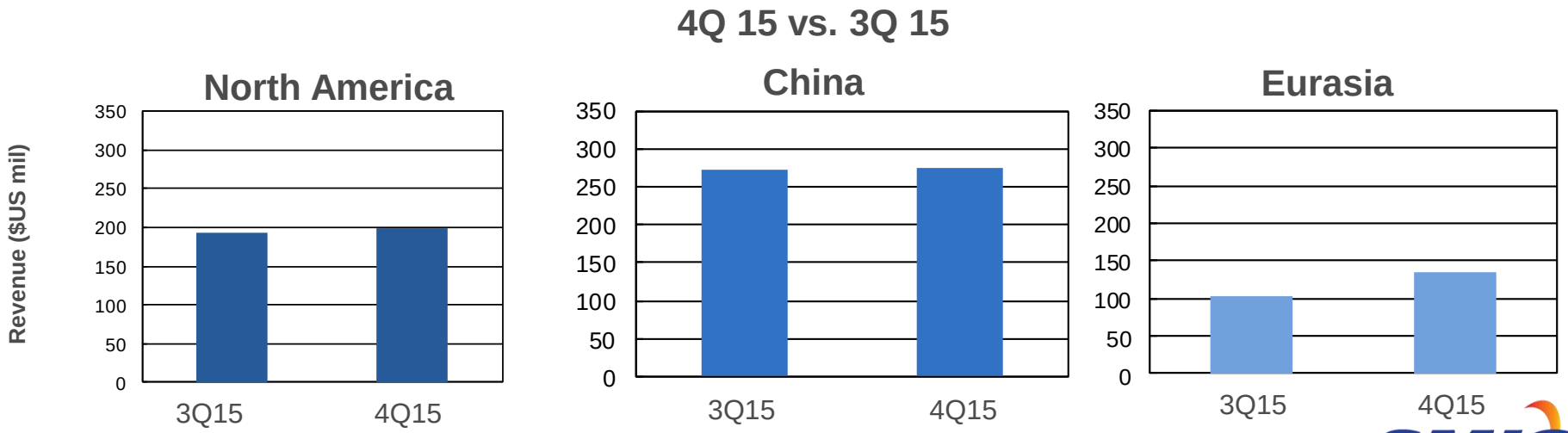
Total Revenue Breakdown by Applications



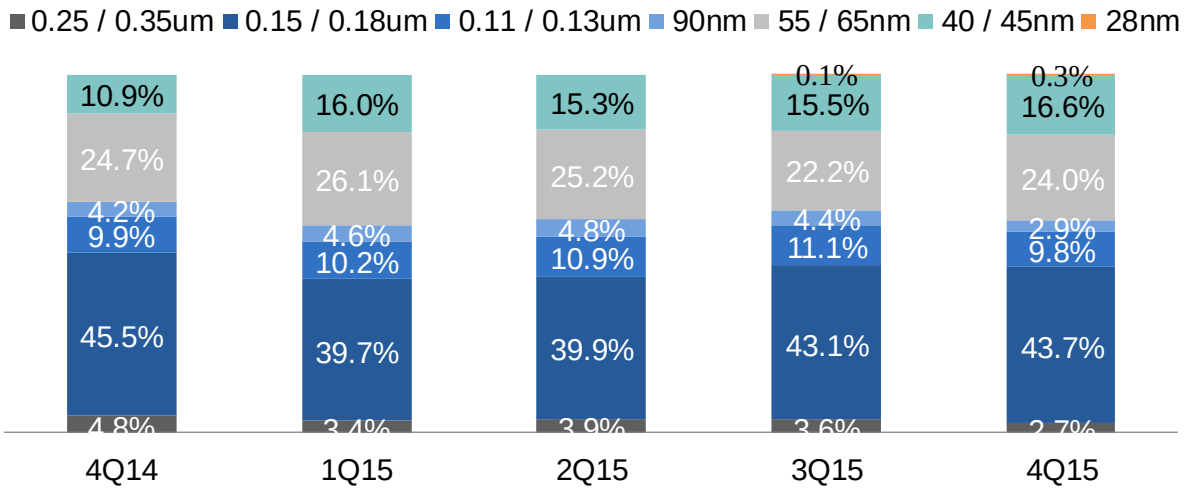


Total Revenue Breakdown by Geography

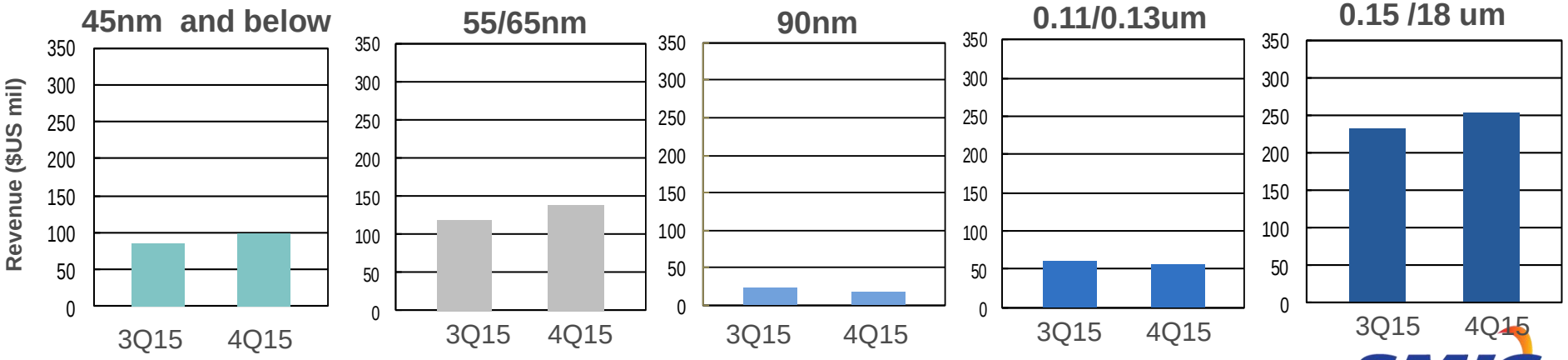




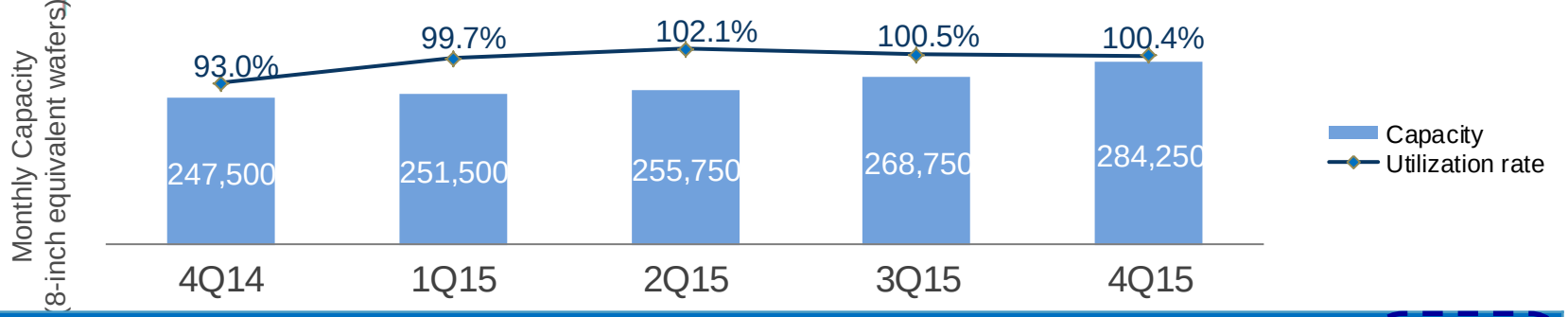
Wafer Revenue Breakdown by Technology



4Q 15 vs. 3Q 15



Capacity, Utilization and Shipment



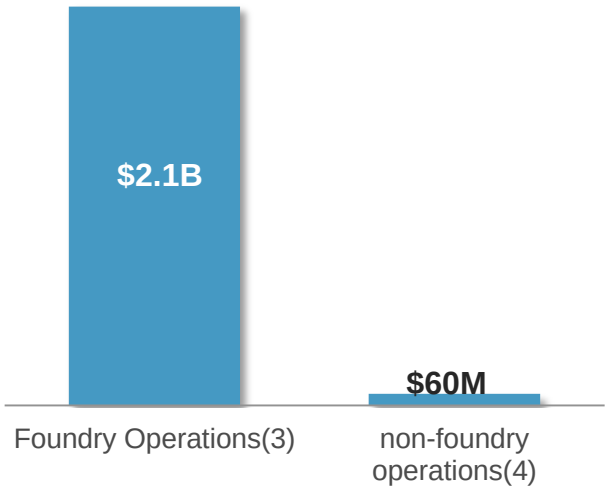
	4Q14	1Q15	2Q15	3Q15	4Q15
	96,000	97,000	99,000	100,000	100,000
Shanghai 12-	14,000	14,000	14,000	14,000	14,000
	36,000	36,000	37,000	37,000	37,000
	39,000	42,000	42,000	43,000	43,000
				11,000	13,000
Beijing Majority-Owned Fab (12") (1)					6,000
Monthly Capacity (8-inch equivalent wafers)	**247,500**	**251,500**	**255,750**	**268,750**	**284,250**
Wafer Shipments	660,049	692,131	731,730	771,201	820,904
Utilization Rate (2)	93.0%	99.7%	102.1%	100.5%	100.4%

(1) Our Beijing majority-owned 12-inch fab entered into mass production in 4Q15
(2) Capacity utilization rate is reported based on total equivalent wafers out divided by estimated total quarterly capacity

1Q 2016 Guidance and 2016 Capex Guidance

	1Q 2016 Guidance
Revenue	+1% to +3% QoQ $616 to $628 million
Gross Margin	22% to 25%
Non-GAAP Operating Expenses (1)	$121 to $126 million
Non-controlling interests(2)	$16 to $18 million

2016 Capex Guidance



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

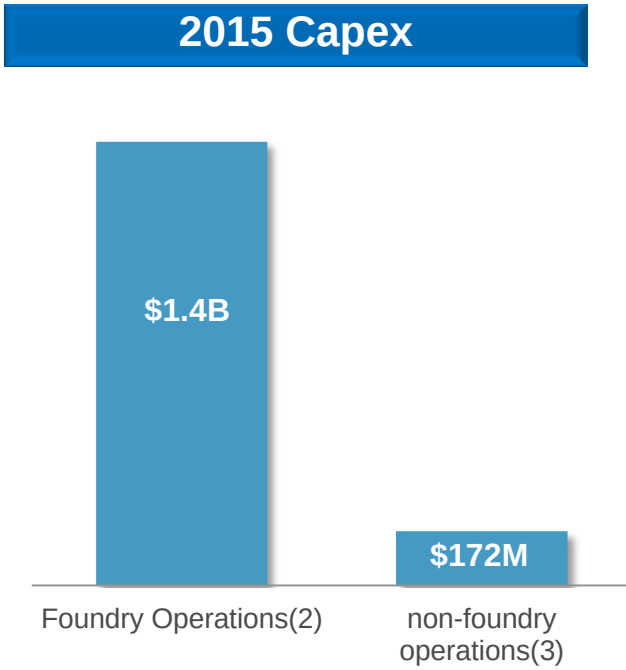
(2) Non-controlling interests of our majority-owned subsidiaries are expected to range from positive $16 million to positive $18 million (losses to be borne by non-controlling interests).

(3) The planned 2016 capital expenditures for foundry operations are approximately $2.1 billion, which are mainly for 1) the expansion of capacity in 12-inch fab (Semiconductor Manufacturing North China (Beijing) Corporation, majority-owned subsidiary in Beijing), 8-inch fab in Shenzhen, 12-inch fab in Shanghai and the new 12-inch fab joint venture with bumping services in Jiangyin, 2) the new majority-owned joint venture company, which will focus on research and development on 14nm logic technology, and 3) research and development equipment, mask shops and intellectual property acquisition.

(4) The planned 2016 capital expenditures for non-foundry operations are approximately $60 million, mainly for the construction of living quarters.

Results Vs Original Guidance

	4Q 2015 Guidance	4Q 2015 Results
Revenue	+3% to +6% QoQ	+7.1% QoQ
Gross Margin	28% to 30%	28.5%
Non-GAAP Operating Expenses (1)	$142 to $147 million	$ 134.6 million
Non-controlling interests	$33 to $36 million	$8.5 million



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

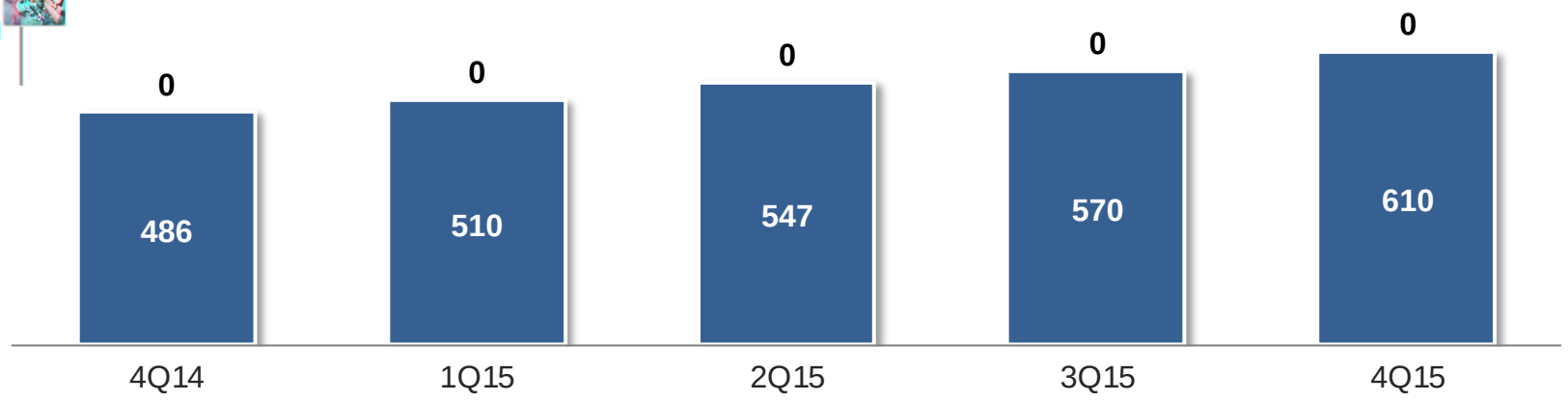
(2) The 2015 capital expenditures for foundry operations were $1,400.5 million, which mainly included 1) the capital expansion in the 12- -owned subsidiary in Beijing), the 12-inch fab in Shanghai and the new 8-inch fab in Shenzhen, and 2) research and development equipment, mask shops and intellectual property acquisition.

(3) The 2015 capital expenditures for non-foundry operations were $172.2 million, which mainly included 1) the construction of living quarters and 2) the acquisition of head quarter building in Shanghai

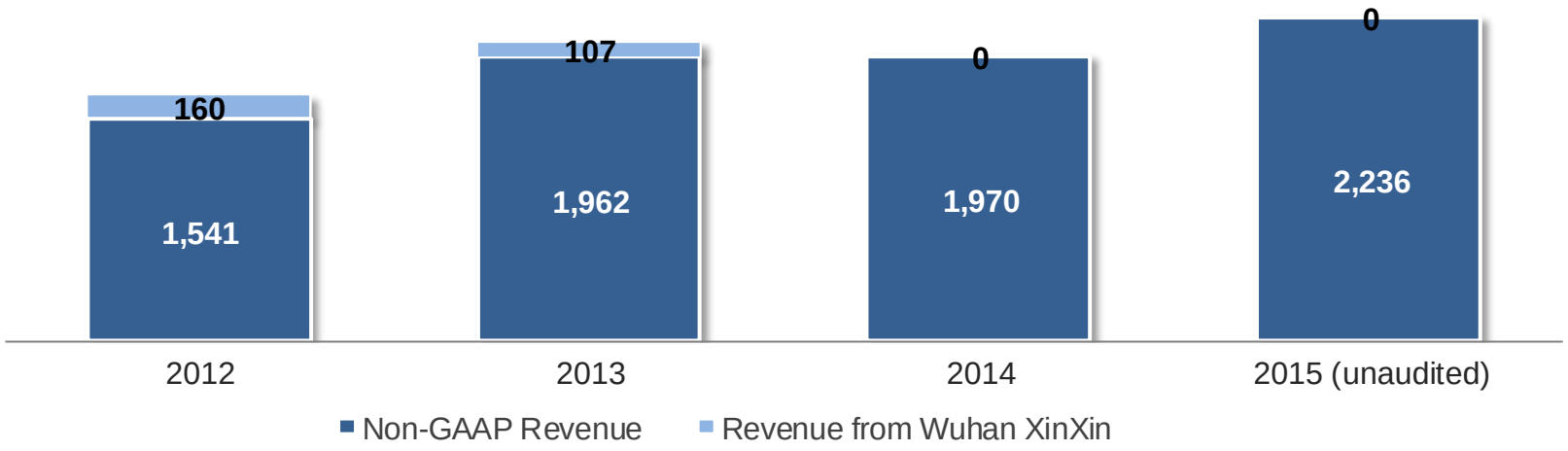
Capital Expenditures & Depreciation

(US$ millions)	1Q15	2Q15	3Q15	4Q15	2015 (unaudited)
Capex	145	368	315	745	1,573
Depreciation & Amortization	125	125	130	143	523

Non-GAAP Revenue and Revenue from Wuhan Xinxin



($mm)



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

Thank you

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