

SMIC Q1 2015 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

May 2015



Safe Harbor Statements

Under the Private Securities Litigation Reform Act of 1995

This presentation - harbor
provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements, including statements under
2015 Guidance are



1Q15 Financial Highlights

- **Revenue was \$509.8M**
 - Compared to \$485.9 million in 4Q14
 - Compared to \$451.1 million in 1Q14
- **Gross margin was 29.4%, the highest since 1Q04**
 - Compared to 22.5% in 4Q14
 - Compared to 21.3% in 1Q14
- **Profit attributable to SMIC was \$55.5M**
 - Compared to \$28.4M in 4Q14
 - Compared to \$20.3M in 1Q14
 - Profit excluding gain from disposal of living quarters was \$55.3 million, a record high
 - Twelfth consecutive profitable quarter
- **Revenue from China-based customers increased to 47.0% of overall revenue, an all time high**
 - Compared to 45.6% in 4Q14
 - Compared to 40.6% in 1Q14



1Q15 Financial Highlights

- **\$1.0B cash on hand, including other financial assets**
Compared to \$1.2B in 4Q14
Compared to \$0.6B in 1Q14
- **Gross debt to equity ended at 32.9%**
Compared to 39.0% in 4Q14
Compared to 38.5% in 1Q14
- **Net debt to equity ended at 3.5%**
Compared to 1.3% in 4Q14
Compared to 15.0% in 1Q14

Income Statement Highlights

(US\$ thousands)	1Q15	4Q14	QoQ	1Q14	YoY
Total Revenue	509,798	485,893	4.9%	451,083	13.0%
Gross Profit	149,927	109,339	37.1%	96,118	56.0%
Gross Margin	29.4%	22.5%	-	21.3%	-
Operating Expenses	(104,423)	(107,691)	-3.0%	(66,533)	56.9%
<i>Research & Development, net</i>	<i>(53,453)</i>	<i>(53,113)</i>	<i>0.6%</i>	<i>(36,653)</i>	<i>45.8%</i>
<i>General & Administrative</i>	<i>(42,486)</i>	<i>(46,039)</i>	<i>-7.7%</i>		

- **Revenue** increased 4.9% QoQ from \$485.9 million in 4Q14 to \$509.8 million in 1Q15 mainly because wafer shipments increased in 1Q15 due to an increase of demand for 65nm and 40nm.
- **Cost of sales** was \$359.9 million in 1Q15, down 4.4% QoQ from \$376.6 million in 4Q14, which was mainly due to the decrease of depreciation, as some equipment had been fully depreciated.
- **Gross margin** was 29.4% in 1Q15, up from 22.5% in 4Q14. The change was mainly due to 1) an increase in fab utilization and 2) a decrease of depreciation within the cost of sales in 1Q15..
- The change in **income tax benefit (expense)** was mainly due to the land value-added tax incurred in 4Q14..
- The change in **non-controlling interests**

-charged to Semiconductor



Balance Sheet Highlights

(US\$ thousands)	As of	
	March 31, 2015	Dec 31, 2014
Cash and cash equivalent	402,378	603,036
Restricted Cash	229,500	238,051
Other financial assets (1)	586,047	644,071
Trade and other receivables	454,383	456,388
Inventories	340,889	316,041
Other Assets	3,527,966	3,511,792
Total Assets	5,541,163	5,769,379
Short-term borrowings	192,775	162,054
Long-term borrowings	39,087	256,200
Convertible bonds	382,668	379,394
Corporate bonds	491,976	491,579
Total Debt	1,106,506	1,289,227
Net Debt (2)	118,081	42,120
Total Liabilities	2,176,899	2,461,657
Total Equity	3,364,264	3,307,722
Total Debt/Equity Ratio(3)	32.9%	39.0%
Net Debt/Equity Ratio (4)	3.5%	1.3%

(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

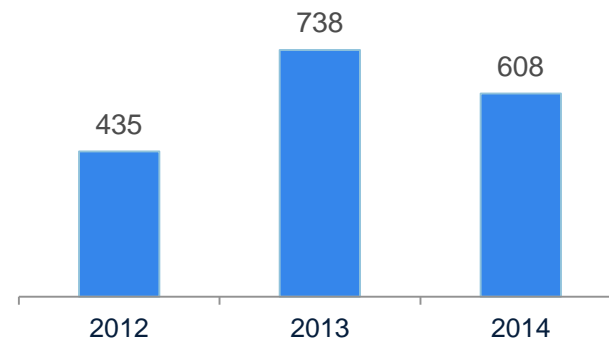
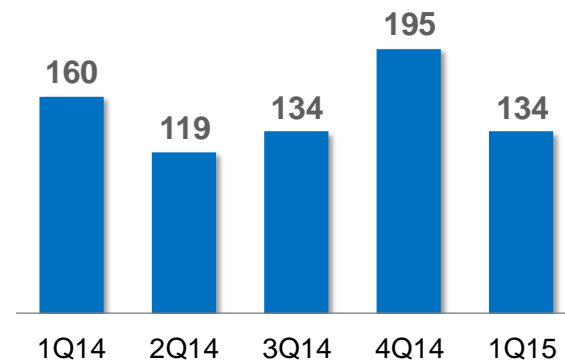
(3) Total debt divided by equity

(4) Net debt divided by equity



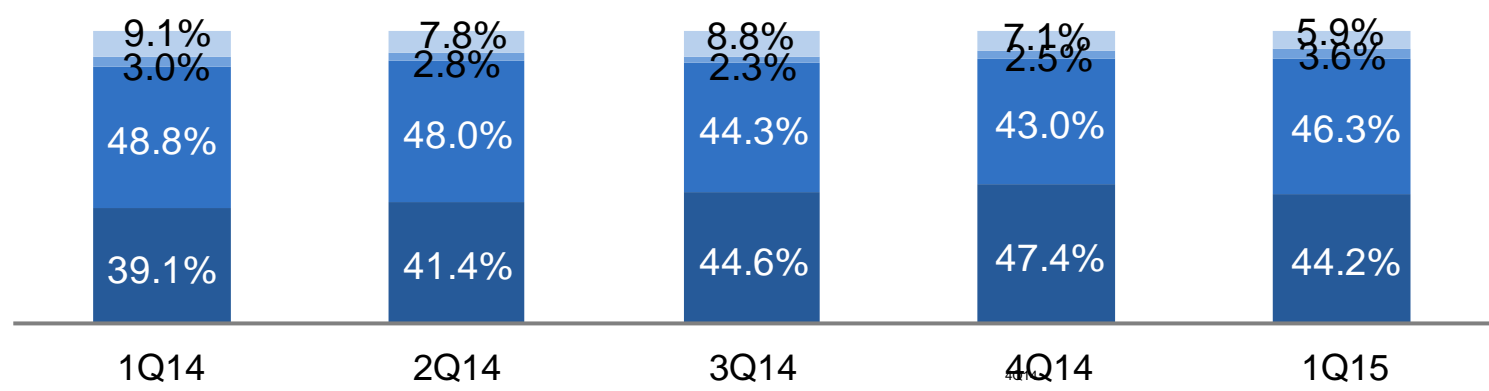
Cash Flow Highlights

Cash Flow



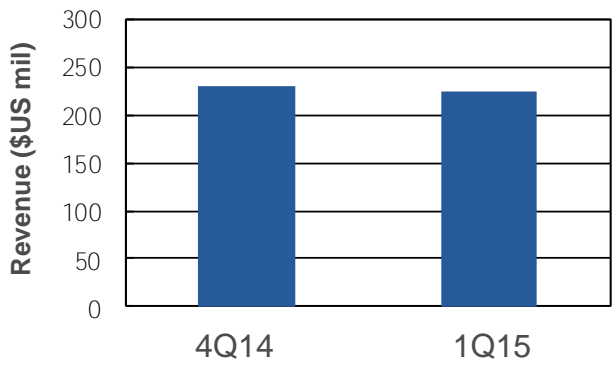


Total Revenue Breakdown by Applications

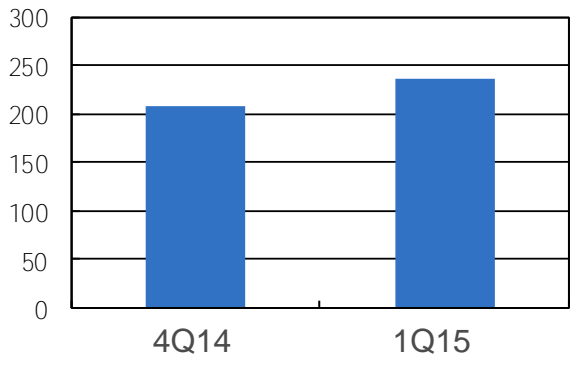


1Q 15 vs. 4Q 14

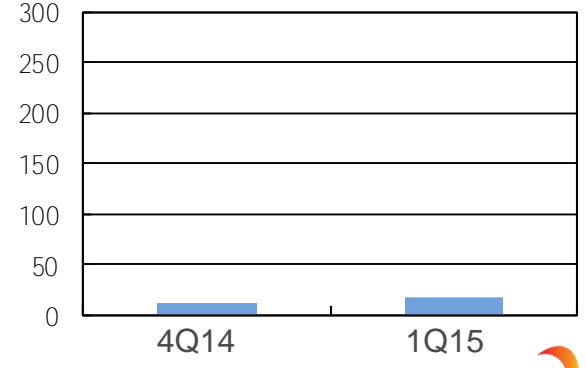
Communications



Consumer

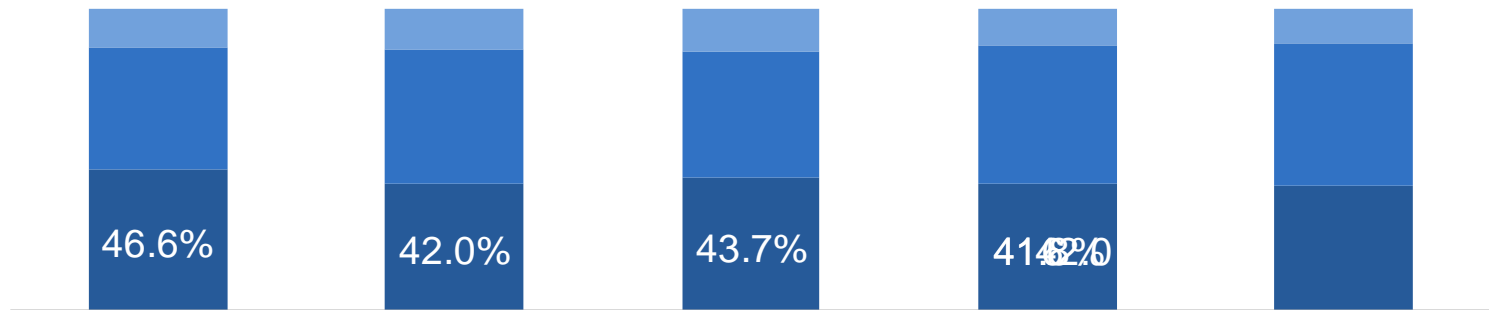


Computer



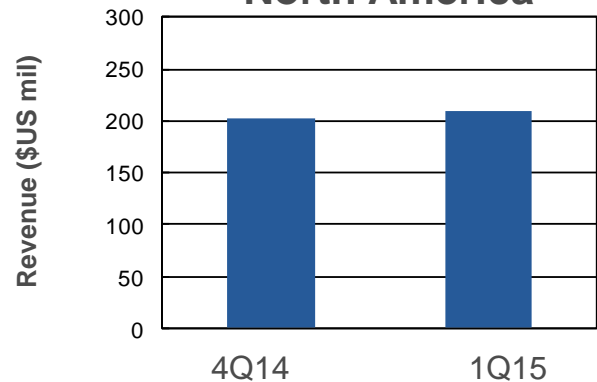


Total Revenue Breakdown by Geography

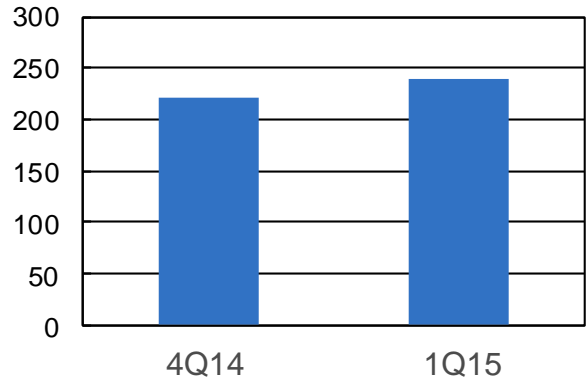


1Q 15 vs. 4Q 14

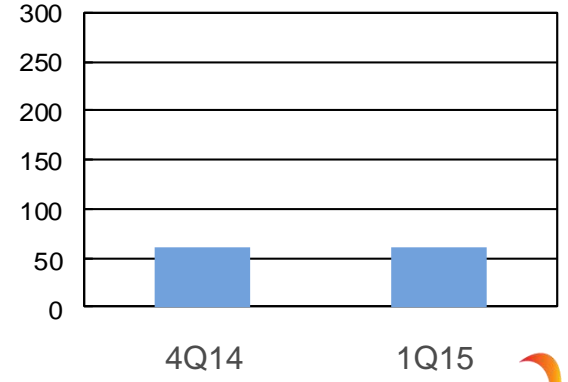
North America



China

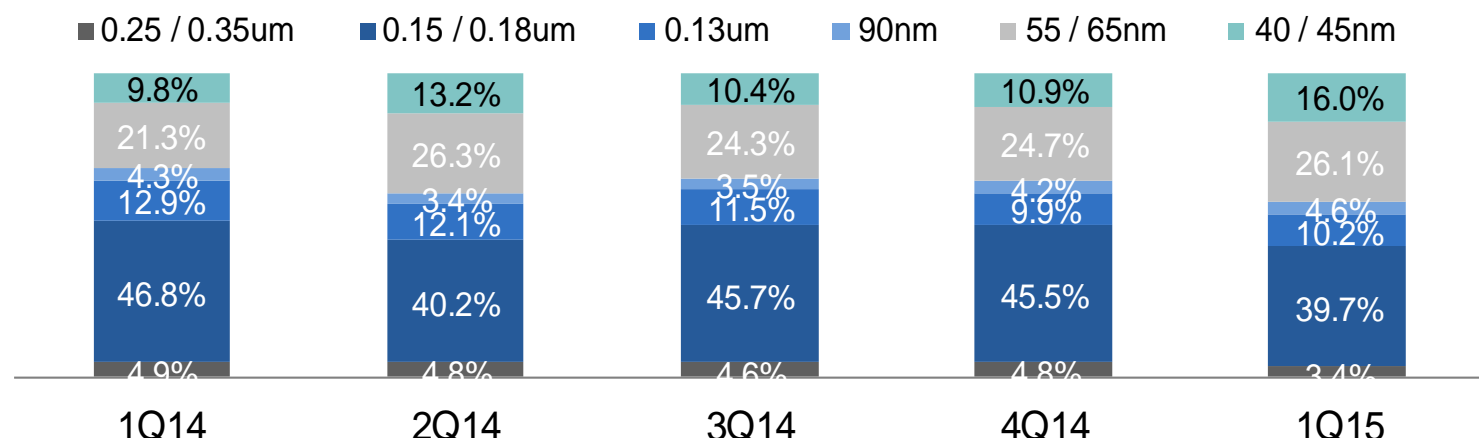


Eurasia

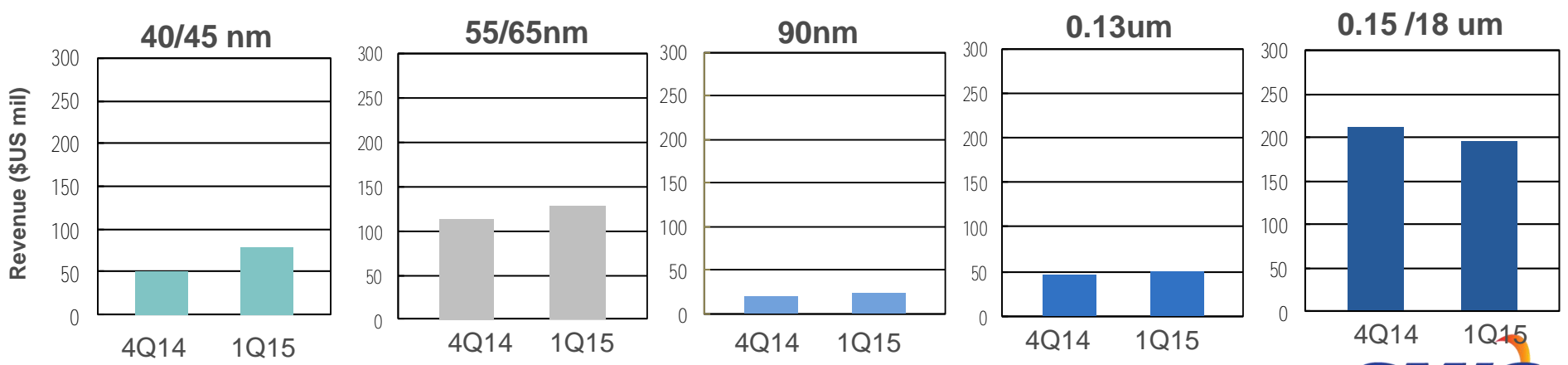




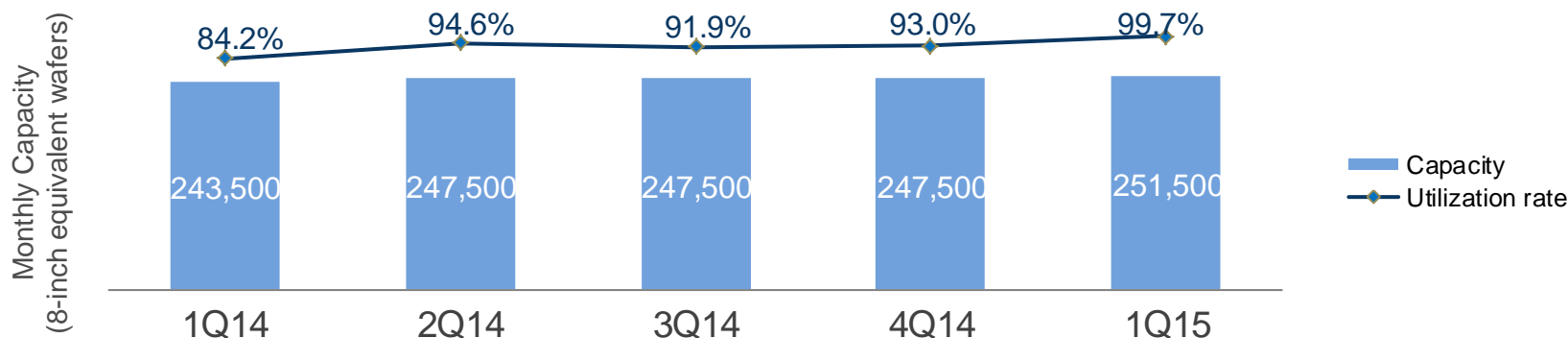
Wafer Revenue Breakdown by Technology



1Q 15 vs. 4Q 14



Capacity, Utilization and Shipment



	1Q14	2Q14	3Q14	4Q14	1Q15
	94,000	96,000	96,000	96,000	97,000
Shanghai 12-	14,000	14,000	14,000	14,000	14,000
	36,000	36,000	36,000	36,000	36,000
	37,000	39,000	39,000	39,000	42,000
Monthly Capacity ⁽¹⁾ (8-inch equivalent wafers)	243,500	247,500	247,500	247,500	251,500
Wafer Shipment	581,621	648,764	668,811	660,049	692,131
Utilization Rate ⁽²⁾	84.2%	94.6%	91.9%	93.0%	99.7%

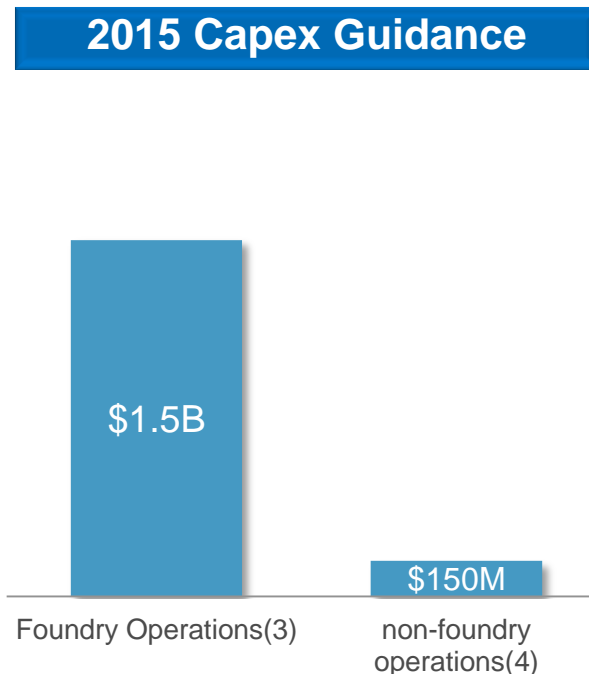
(1) Our 8-inch fab in Shenzhen has reached an installed capacity of 10,000 wafers per month but not entered into mass production at the end of 1Q15.

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



2Q 2015 Guidance and 2015 Capex Guidance

	2Q 2015 Guidance
Revenue	+2% to +5% QoQ \$520 to \$535 million
Gross Margin	27% to 29%
Non-GAAP Operating Expenses (1)	\$120 to \$125 million
Non-controlling interests ⁽²⁾	\$5 to \$7 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 to range from positive \$5 million to positive \$7 million (losses to be borne by non-controlling interests).
- (3) The planned 2015 capital expenditures for foundry operations are adjusted to approximately \$1.5 billion, which are mainly for 1) -inch fab, which is approximately \$800 million, of which approximately \$450 million will be funded by SMIC, 2) the capacity expansion in our new 8-inch fab in Shenzhen and 3) research and development equipment, mask shops and intellectual property acquisition.
- (4) The planned 2015 capital expenditures for non-foundry operations, mainly for the construction of living quarters, are adjusted to approximately \$150 million. The Group plans to rent out or sell these living quarter units to employees in the future.



Appendix

1Q15 Results Vs Original Guidance

	1Q 2015 Guidance	1Q 2015 Results
Revenue	+2% to +5% QoQ	+4.9% QoQ
Gross Margin	27% to 29%	29.4%
Non-GAAP Operating Expenses ⁽¹⁾	\$123 to \$128 million	\$ 99.7 million

R&D expenses increased slightly to \$53.5 million in 1Q15, compared to \$53.1 million in 4Q14. Excluding the funding of R&D contracts from the government, R&D expenses decreased by \$6.7 million QoQ to \$58.8 million in 1Q15. Funding of R&D contracts from the government was \$5.3 million in 1Q15, compared to \$12.4 million in 4Q14.

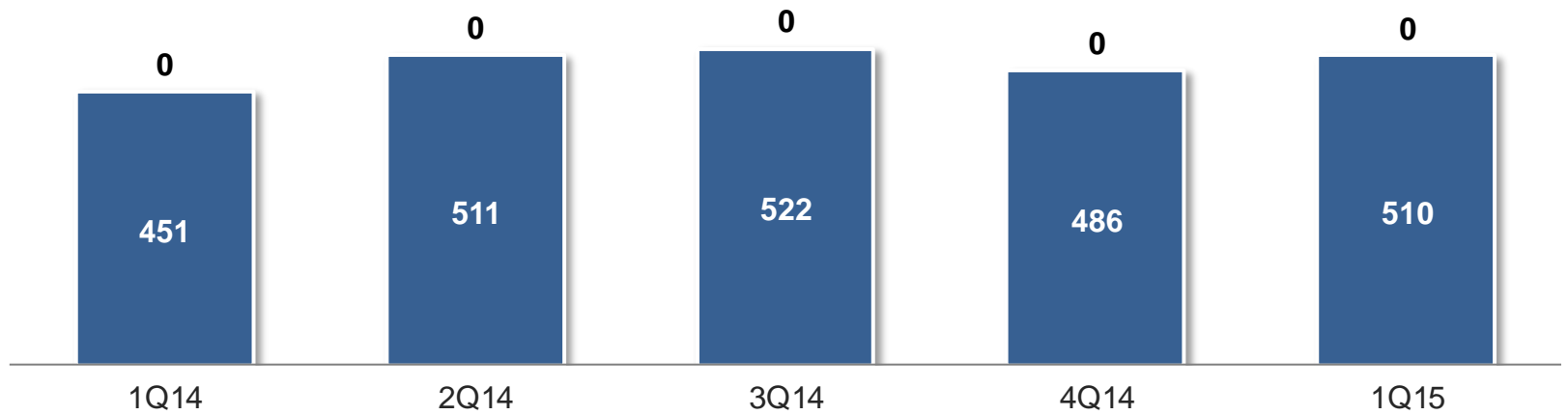
General and administrative expenses decreased to \$42.5 million in 1Q15, down 7.7% QoQ from \$46.0 million in 4Q14, mainly because of decreases in share-based compensation expenses, tax surcharges, legal, audit and consulting expenses in 1Q15.

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

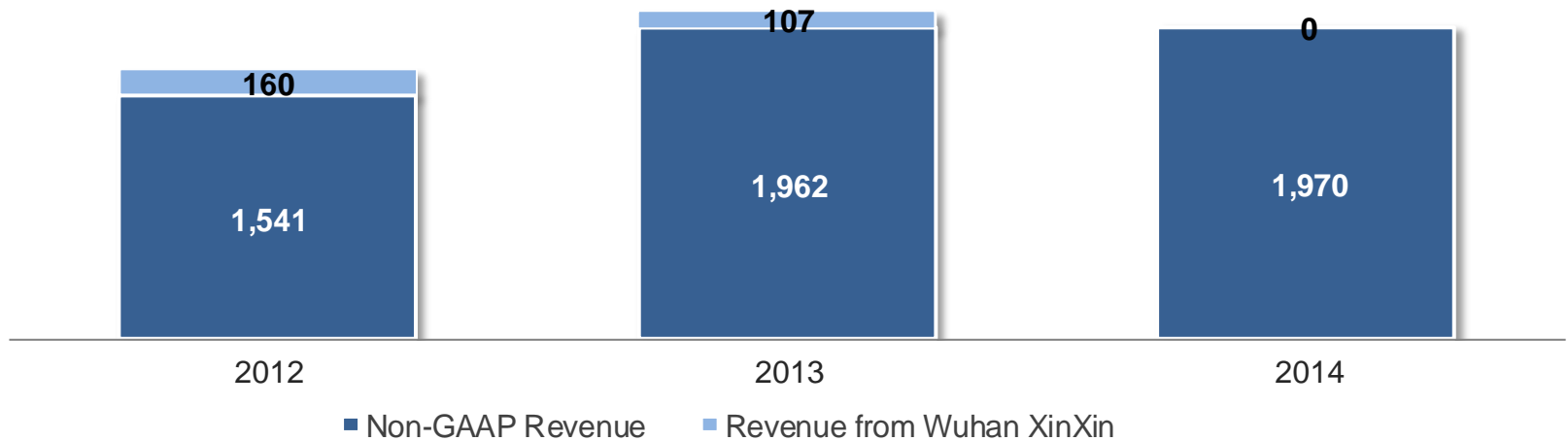
Capital Expenditures & Depreciation

<i>(US\$ millions)</i>	1Q14	2Q14	3Q14	4Q14	1Q15
Capex	108	142	282	482	145
Depreciation & Amortization	137	138	139	135	125

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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