

SMIC Q2 2015 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

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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

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About Non- Financial Measures

SMIC uses in this presentation non-GAAP measures of operating results that are adjusted to exclude wafer shipments from Wuhan Xinxin Semiconductor Manufacturing Xinxin 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- ical performance. The 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 |
|---|------------------|------------------|--------------|-----------------|---------------|
| Total Revenue | 546,615 | 509,798 | 7.2% | 511,344 | 6.9% |
| Gross Profit | 176,405 | 149,927 | 17.7% | 143,053 | 23.3% |
| Gross Margin | 32.3% | 29.4% | - | 28.0% | - |
| Operating Expenses | (115,728) | (104,423) | 10.8% | (84,861) | 36.4% |
| <i>Research & 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 & Administrative</i> | <i>(52,051)</i> | <i>(42,486)</i> | <i>22.5%</i> | <i>(35,528)</i> | <i>46.5%</i> |
| <i>Selling & 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> |
| Profit from operations | 60,677 | 45,504 | 33.3% | 58,192 | 4.3% |
| Other income (expense), net | 11,943 | 6,125 | 95.0% | (1,105) | - |
| Income tax benefit (expense) | (924) | (54) | 1611.1% | 93 | - |
| Profit attributable to SMIC | 76,704 | 55,477 | 38.3% | 56,801 | 35.0% |
| Non | | | | | |

- **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 |
| Total Assets | 6,165,023 | 5,541,163 |
| 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 |
| Total Debt | 1,083,541 | 1,106,506 |
| Net Debt (2) | (251,510) | 118,081 |
| Total Liabilities | 2,318,999 | 2,176,899 |
| Total Equity | 3,846,024 | 3,364,264 |
| 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

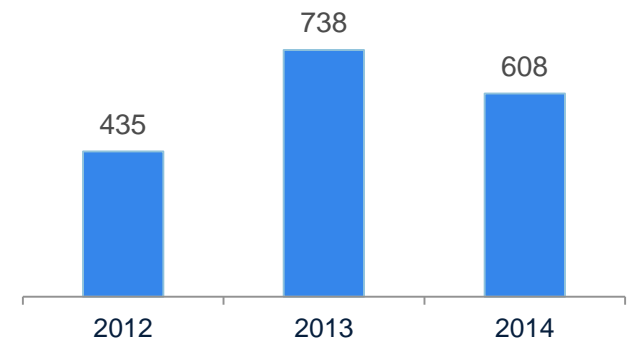
(2) Net debt is total debt minus cash and cash equivalent, and other financial assets

(3) Total debt divided by equity

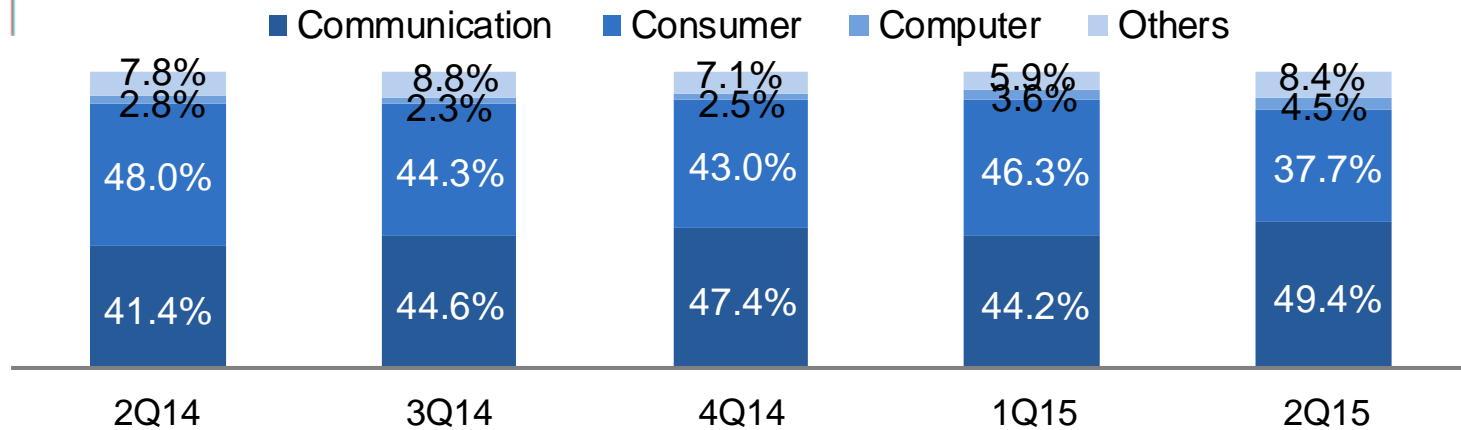
(4) Net debt divided by equity

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

Cash Flow Highlights

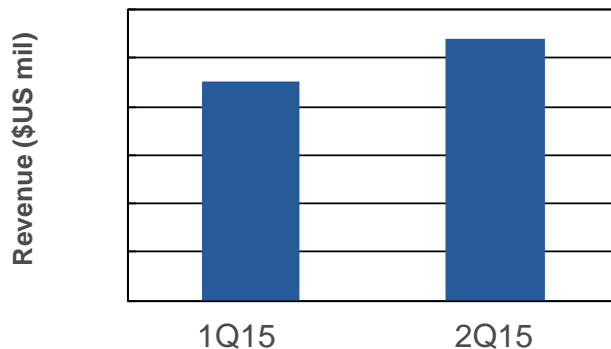


Total Revenue Breakdown by Applications

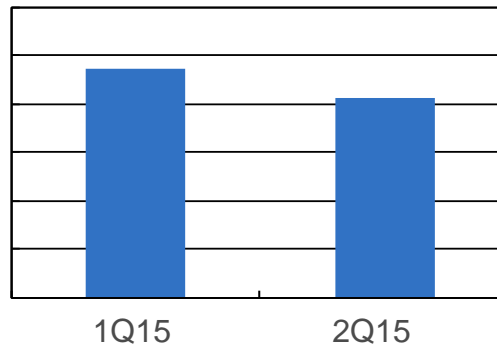


2Q 15 vs. 1Q 15

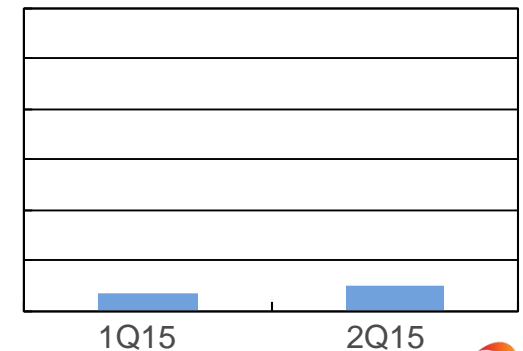
Communications



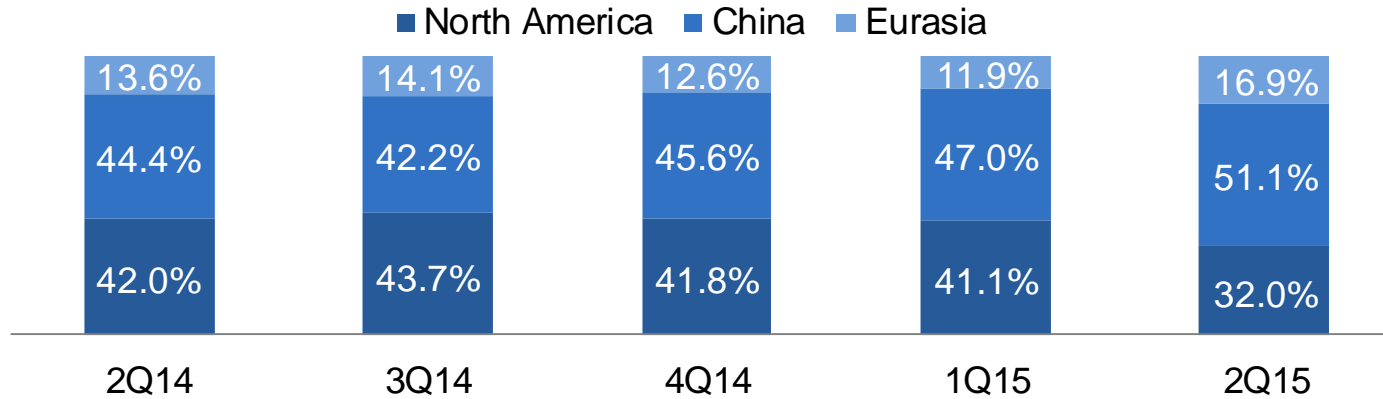
Consumer



Computer

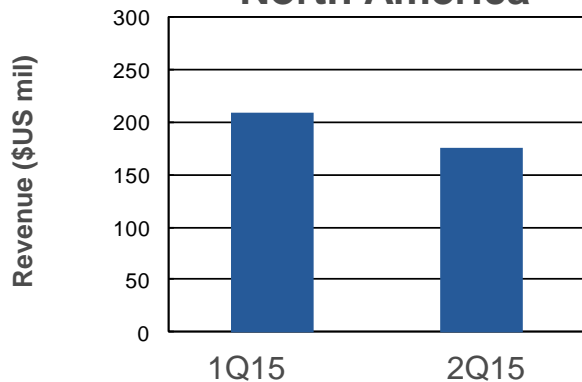


Total Revenue Breakdown by Geography

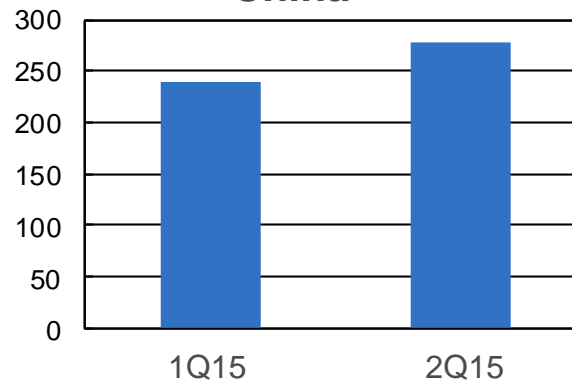


2Q 15 vs. 1Q 15

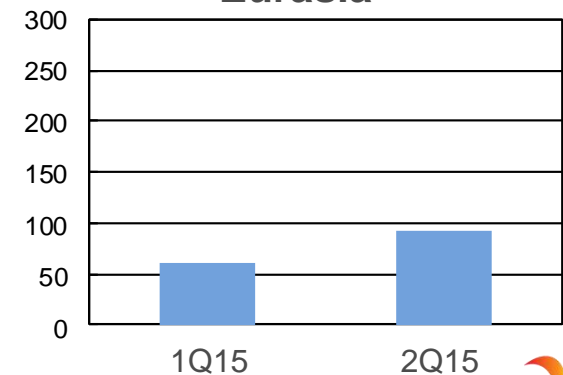
North America



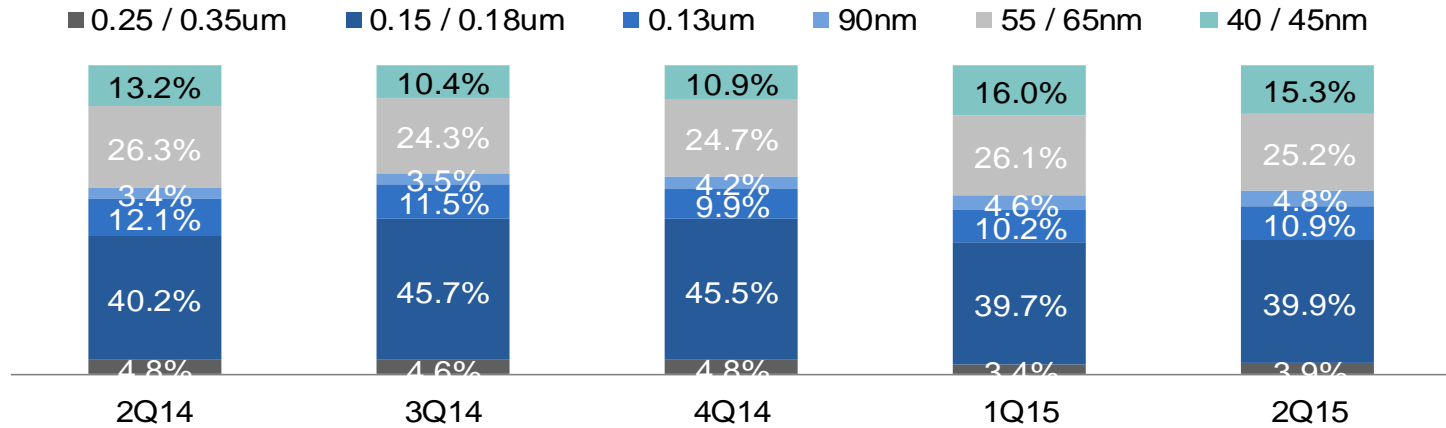
China



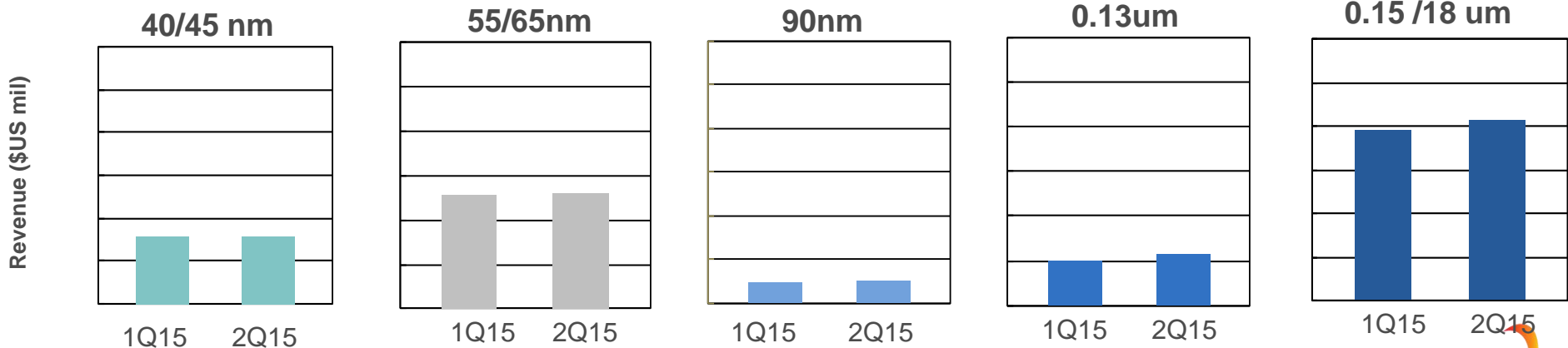
Eurasia

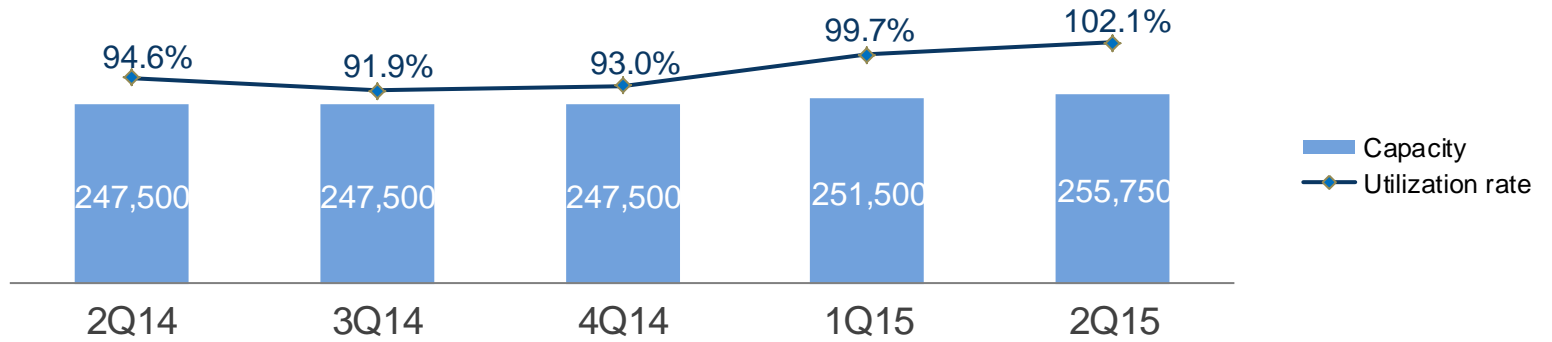


Wafer Revenue Breakdown by Technology



2Q 15 vs. 1Q 15



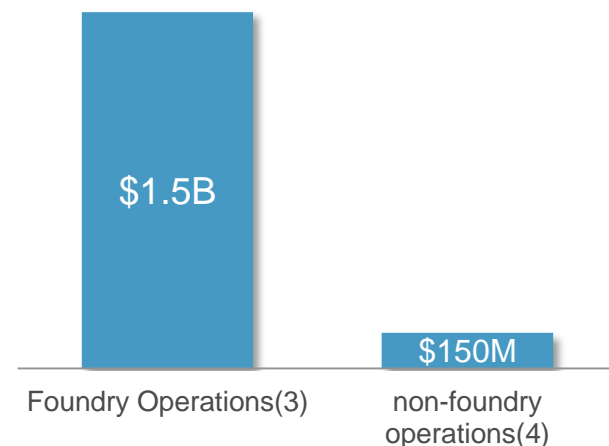


(1) Our new 8-inch fab in Shenzhen and 12-inch fab in Beijing have reached an installed capacity of 10,000 and 600 wafers per month but not entered into mass production at the end of 2Q15.

(2)



| 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 ⁽²⁾ | \$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

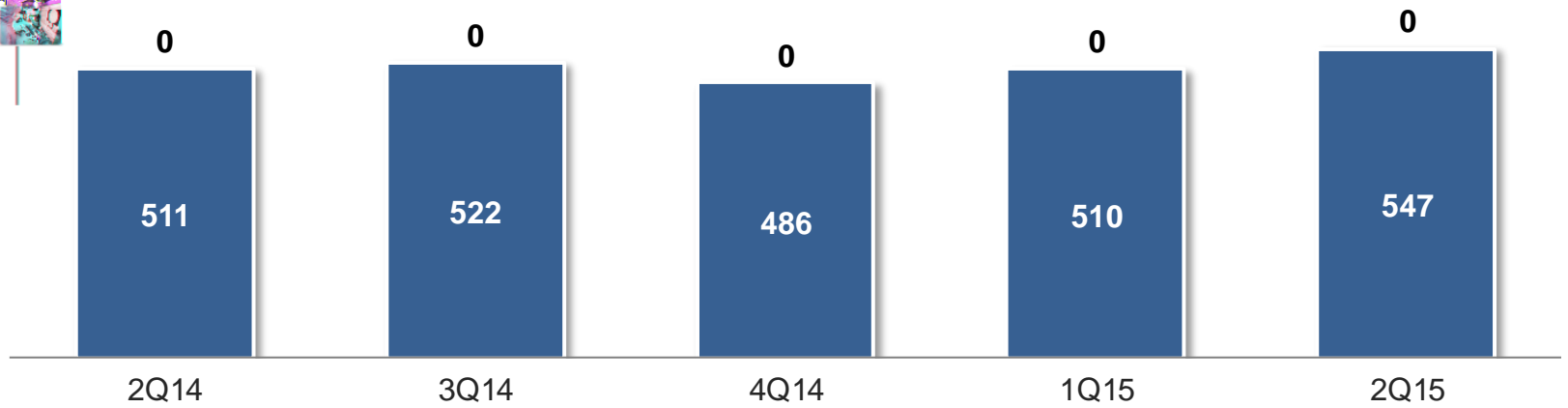
| | 2Q 2015 Guidance | 2Q 2015 Results |
|--|------------------------|------------------|
| Revenue | +2% to +5% QoQ | +7.2% QoQ |
| Gross Margin | 27% to 29% | 32.3% |
| Non-GAAP Operating Expenses ⁽¹⁾ | \$120 to \$125 million | \$ 110.9 million |
| Non-controlling interests | \$5 to \$7 million | \$5.0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

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

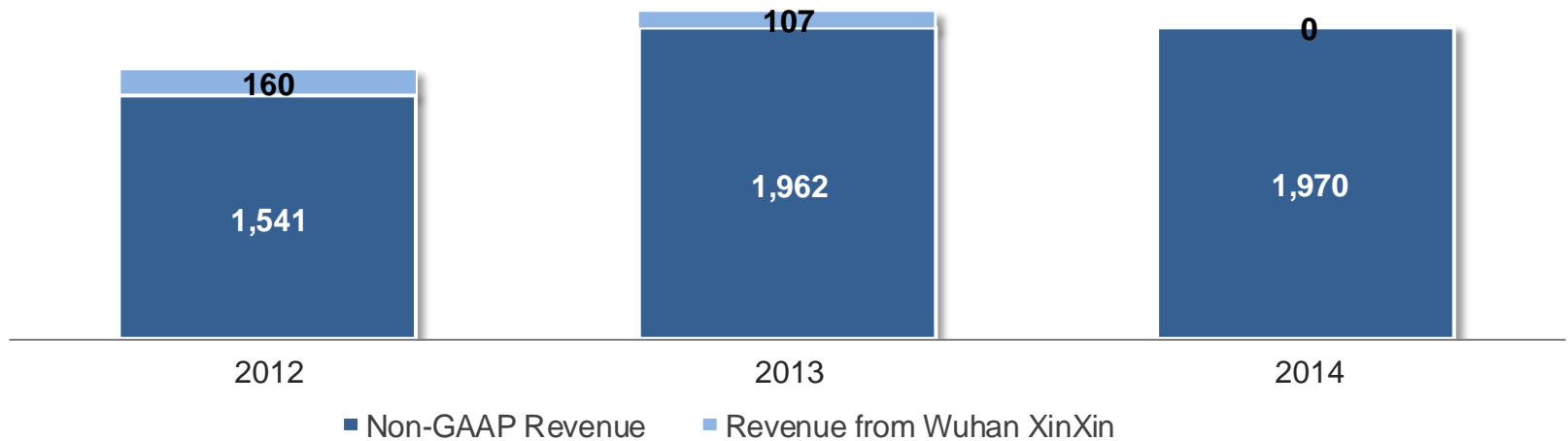
Capital Expenditures & Depreciation

| <i>(US\$ millions)</i> | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 2Q15 |
|--|------|------|------|------|------|
| Capex | 142 | 282 | 482 | 145 | 368 |
| Depreciation & Amortization | 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.



Thank you

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