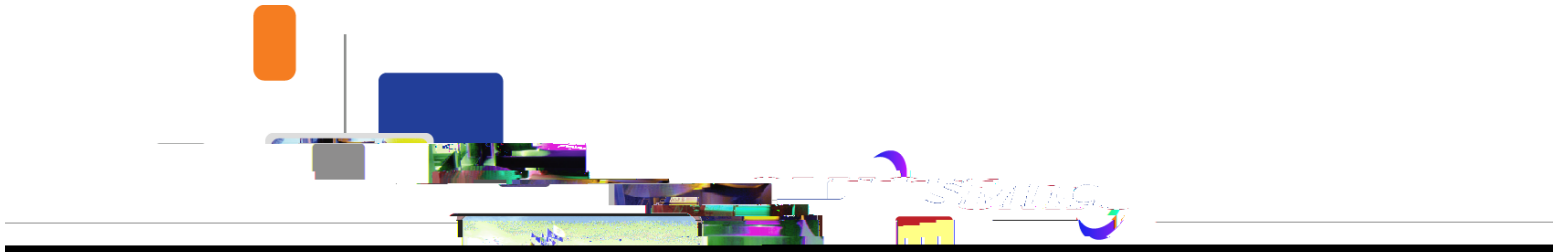


SMIC Q4 2014 Financial Presentation

NYSE: SMI HKSE: 981

SMIC Investor Relations

Feb 2015

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

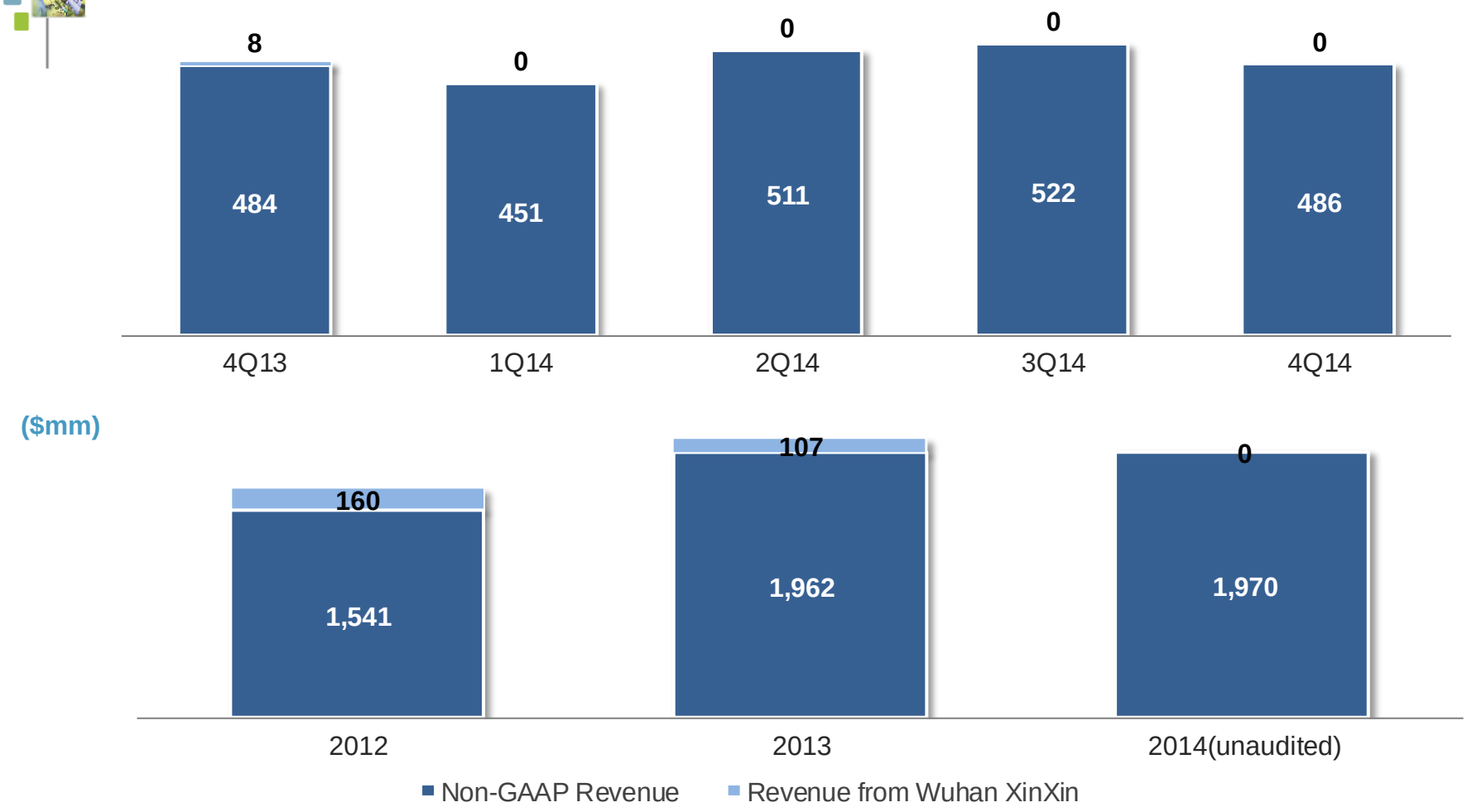
- **Revenue was $485.9M**
  - Compared to $521.6 million in 3Q14
  - Compared to $491.8 million in 4Q13
- **Gross profit was $109.3 million**
  - Compared to $134.9 million in 3Q14
  - Compared to $92.9 million in 4Q13
- **Gross margin was 22.5%**
  - Compared to 25.9% in 3Q14
  - Compared to 18.9% in 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%
Research & Development, net	*(53,113)*	*(54,887)*	*-3.2%*	*(46,256)*	*14.8%*
General & Administrative	*(46,039)*	*(34,668)*	*32.8%*	*(36,610)*	*25.8%*
Selling & Marketing	*(9,436)*	*(10,090)*	*-6.5%*	*(8,385)*	*12.5%*
Other operating income (expense)	*897*	*5,523*	*-83.8%*	*6,411*	*-86.0%*
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



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

Balance Sheet Highlights

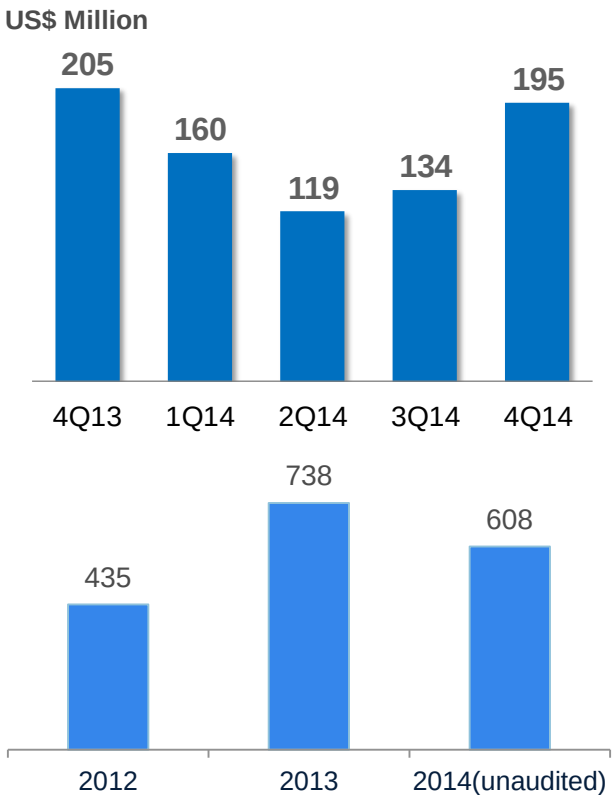
(US$ thousands)	As of	
	Dec 31, 2014	Sept 30, 2014
Cash and cash equivalent	603,036	362,239
Restricted Cash	238,051	159,118
Other financial assets	644,071	336,793
Trade and other receivables	456,388	490,910
Inventories	316,041	315,364
Other Assets	3,511,792	3,123,509
Total Assets	**5,769,379**	**4,787,933**
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)

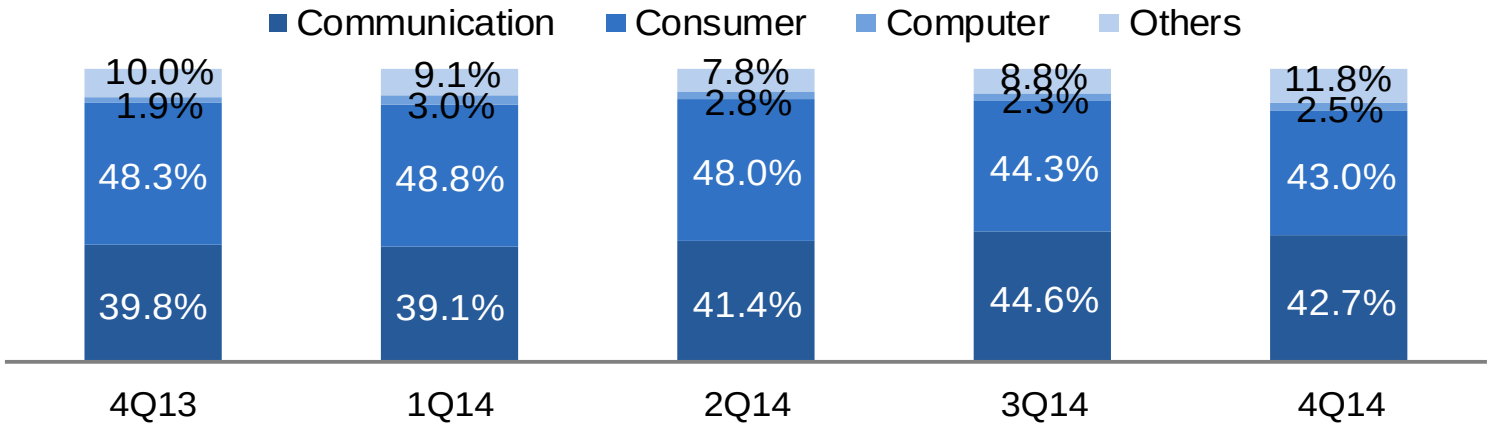
Cash Flow Highlights

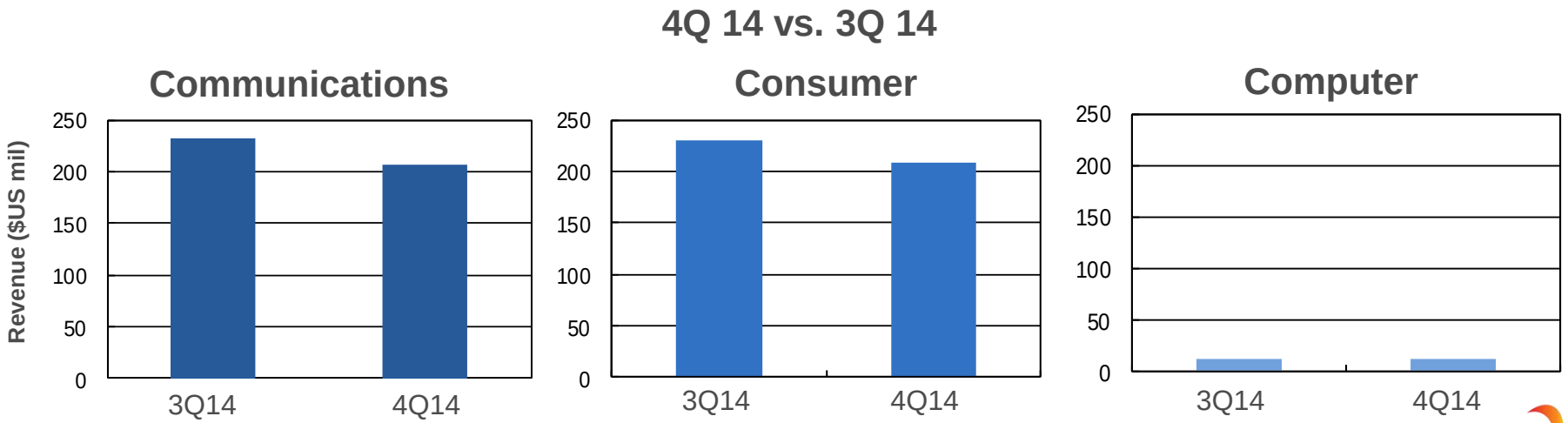
(US$ thousands)	For the three months ended

Cash Flow from Operations

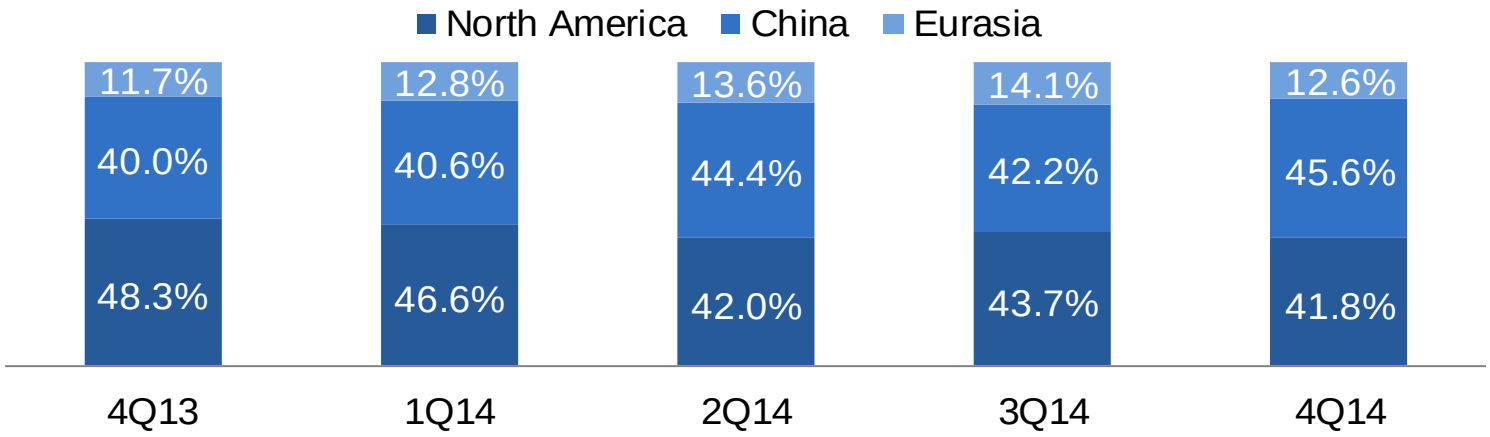


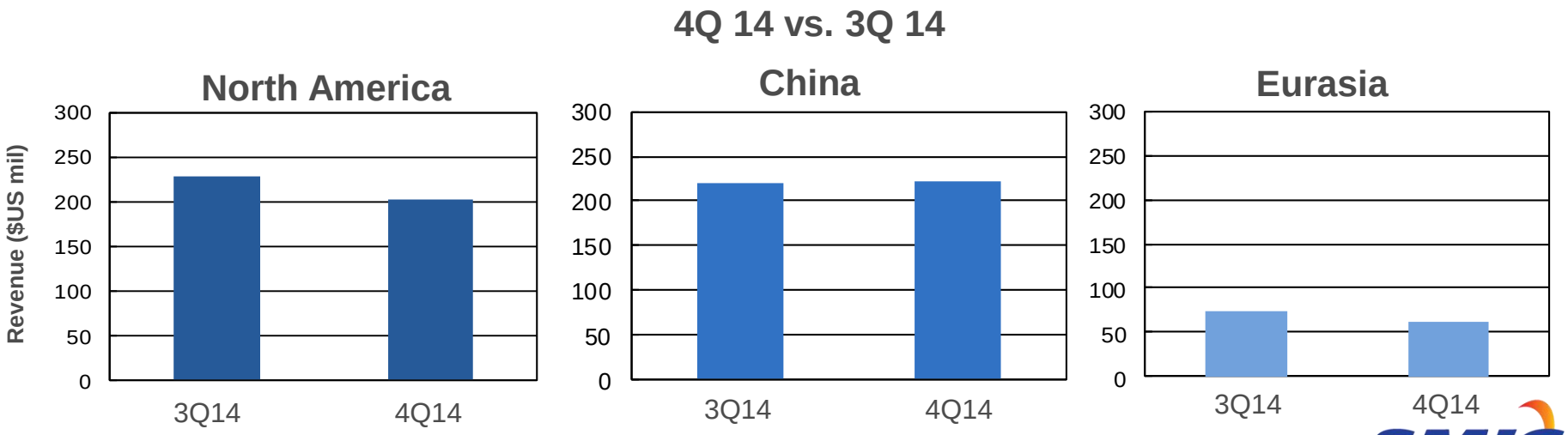
Total Revenue Breakdown by Applications



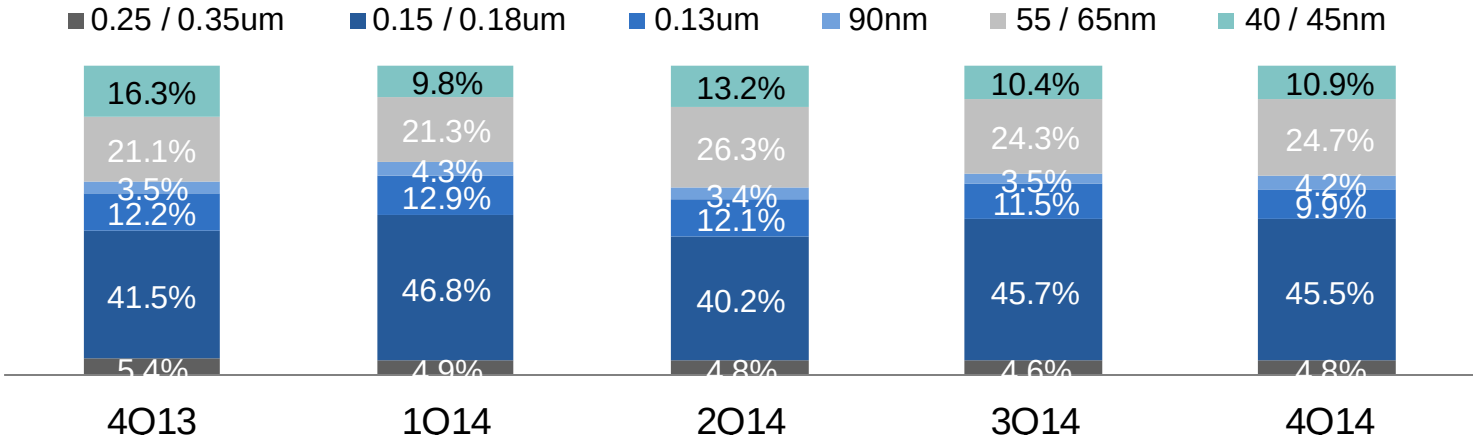


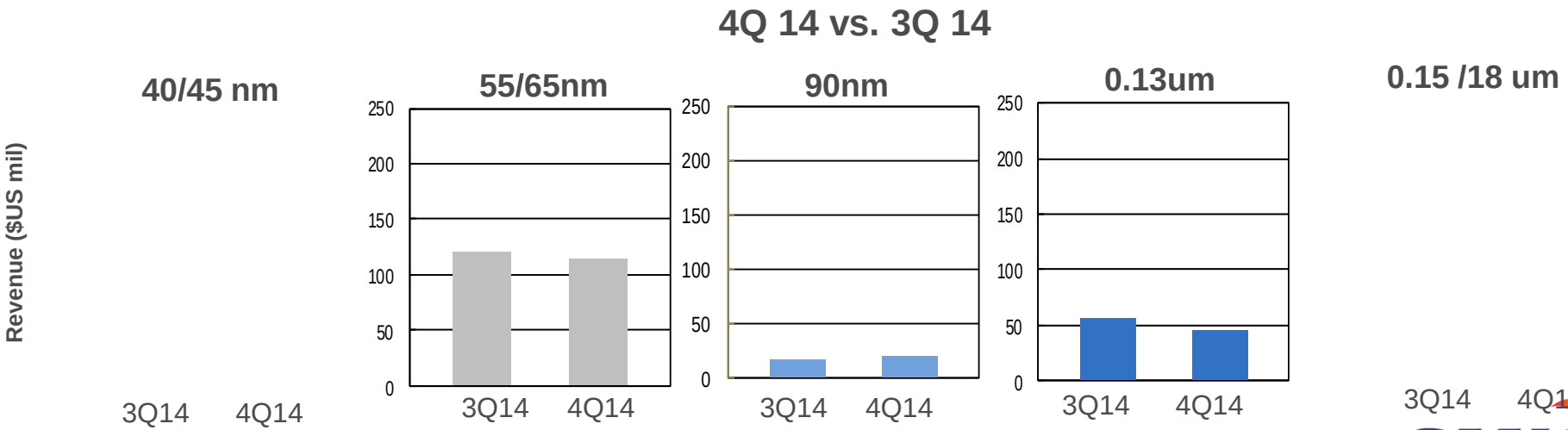
Total Revenue Breakdown by Geography



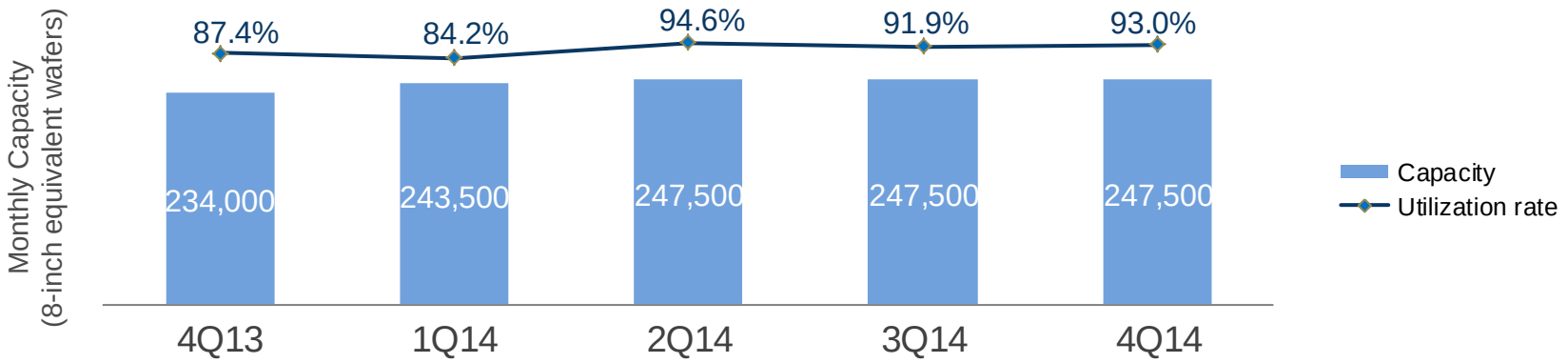


Wafer Revenue Breakdown by Technology





Capacity, Utilization and Shipment

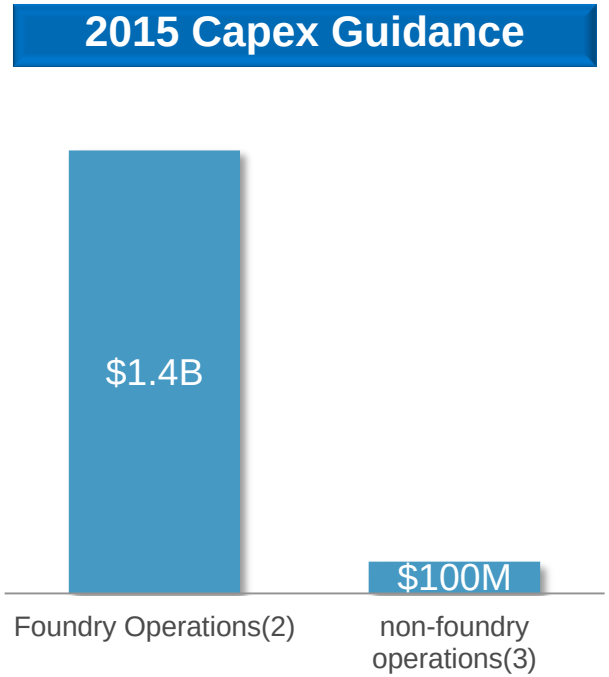


	4Q13	1Q14	2Q14	3Q14	4Q14
	90,000	94,000	96,000	96,000	96,000
Shanghai 12-	12,000	14,000	14,000	14,000	14,000
	36,000	36,000	36,000	36,000	36,000
	36,000	37,000	39,000	39,000	39,000
Monthly Capacity (8-inch equivalent wafers)	**234,000**	**243,500**	**247,500**	**247,500**	**247,500**
Wafer Shipment	601,602	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) -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)

(US$ millions)	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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