

Semiconductor Manufacturing International Corporation

# SMIC Q2 2016 Financial Presentation

**NYSE: SMI      HKSE: 981**

SMIC Investor Relations

Aug 2016



# Safe Harbor Statements

## Under the Private Securities Litigation Reform Act of 1995

This presentation contains, in addition to historical information, “forward-looking statements” within the meaning of the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements, including statements under “Third Quarter 2016 Guidance”, “CapEx Summary” and the statements contained in the quotes of our CEO are based on SMIC’s current assumptions, expectations and projections about future events. SMIC uses words like “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project,” “target” and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these words. These forward-looking statements involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC’s actual performance, 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 cyclical nature of the semiconductor industry, changes in demand for our products, competition in our markets, our reliance on a small number of customers, orders or judgments from pending litigation, intensive intellectual property lawsuits in semiconductor industry and financial stability in end markets, general economic conditions and fluctuations in currency exchange rates.

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## About Non-Generally Accepted Accounting Principles (“Non-GAAP”) Financial Measures

During this presentation, references to financial measures of SMIC will include references to non-GAAP financial measures, including non-GAAP operating expenses and adjusted EBITDA margin. For an explanation to the most directly comparable GAAP financial measures, see today’s earnings release.





# 2Q16 Financial Highlights

- **Revenue was \$690.2 million, a record high**
  - Compared to \$634.3 million in 1Q16
  - Compared to \$546.6 million in 2Q15
  
- **Gross profit was \$217.8 million, a record high**
  - Compared to \$153.8 million in 1Q16
  - Compared to \$176.4 million in 2Q15
  
- **Gross margin was 31.6%**
  - Compared to 24.2% in 1Q16
  - Compared to 32.3% in 2Q15
  
- **Profit from operations was \$115.4 million, a record high**
  - Compared to \$66.1 million in 1Q16
  - Compared to \$60.7 million in 2Q15
  
- **Operating margin was 16.7%**
  - Compared to 10.4% in 1Q16
  - Compared to 11.1% in 2Q15



# 2Q16 Financial Highlights

- **Profit attributable to SMIC was \$97.6 million, a record high**
  - Compared to \$61.4 million in 1Q16
  - Compared to \$76.7 million in 2Q15
  - 17th consecutive profitable quarter
  
- **EBITDA margin was 39.1%**
  - Compared to 34.5% in 1Q16
  - Compared to 36.6% in 2Q15
  
- **Revenue from China-based customers increased to 52.0% of overall revenue, an all time high**
  - Compared to 47.2% in 1Q16
  - Compared to 51.1% in 2Q15
  
- **\$1.9B cash on hand, including other financial assets**
  - Compared to \$1.1B in 1Q16
  - Compared to \$1.3B in 2Q15
  
- **Utilization rate was 97.9%**
  - Compared to 98.8% in 1Q16
  - Compared to 102.1% in 2Q15

(1) EBITDA margin is defined as profit for the period excluding the impact of the finance cost, depreciation and amortization, and income tax expense divided by revenue.



# 1H16 Financial Highlights (unaudited)

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- **Revenue was \$1,325 million, a record high**
  - Compared to \$1,056 million in 1H15
- **Gross profit was \$372 million, a record high**
  - Compared to \$326 million in 1H15
- **Profit from operations was \$182 million, a record high**
  - Compared to \$106 million in 1H15
- **Profit attributable to SMIC was \$159 million, a record high**
  - Compared to \$132 million in 1H15
- **Revenue from China-based customers increased to 49.7% of overall revenue, an all time high**
  - Compared to 49.1% in 1H15

# Income Statement Highlights

(US\$ thousands)	2Q16	1Q16	QoQ	2Q15	YoY
<b>Total Revenue</b>	<b>690,221</b>	<b>634,312</b>	<b>8.8%</b>	<b>546,615</b>	<b>26.3%</b>
Gross Profit	217,814	153,752	41.7%	176,405	23.5%
<b>Gross Margin</b>	<b>31.6%</b>	<b>24.2%</b>	-	<b>32.3%</b>	-
<b>Operating Expenses</b>	<b>(102,394)</b>	<b>(87,616)</b>	<b>16.9%</b>	<b>(115,728)</b>	<b>-11.5%</b>
<i>Research &amp; Development, net</i>	<i>(64,526)</i>	<i>(53,498)</i>	<i>20.6%</i>	<i>(55,202)</i>	<i>16.9%</i>
<i>General &amp; Administrative</i>	<i>(33,496)</i>	<i>(27,492)</i>	<i>21.8%</i>	<i>(52,051)</i>	<i>-35.6%</i>
<i>Selling &amp; Marketing</i>	<i>(8,228)</i>	<i>(9,710)</i>	<i>-15.3%</i>	<i>(9,159)</i>	<i>-10.2%</i>
<i>Other operating income (expense)</i>	<i>3,856</i>	<i>3,084</i>	<i>25.0%</i>	<i>684</i>	<i>463.7%</i>
<b>Profit from operations</b>	<b>115,420</b>	<b>66,136</b>	<b>74.5%</b>	<b>60,677</b>	<b>90.2%</b>
Other income (expense), net	(20,632)	(13,636)	51.3%	11,943	-
Income tax benefit (expense)	(297)	(738)	-59.8%	(924)	-67.9%
<b>Profit attributable to SMIC</b>	<b>97,643</b>	<b>61,418</b>	<b>59.0%</b>	<b>76,704</b>	<b>27.3%</b>
Non-controlling Interests	(3,152)	(9,656)	-67.4%	(5,008)	-37.1%
<b>Earnings per ADS (Basic)</b>	<b>0.12</b>	<b>0.07</b>	-	<b>0.10</b>	-

- **Revenue** increased by 8.8% QoQ from \$634.3 million in 1Q16 to \$690.2 million in 2Q16 mainly due to an increase in wafer shipments in 2Q16.
- **Gross margin** was 31.6% in 2Q16, as compared to 24.2% in 1Q16. The increase in gross margin was primarily due to 1) an insurance compensation recognized in 2Q16 in respect of the losses incurred in 1Q16 due to the power supply suspension at our Beijing fabs (such power supply suspension caused a reduction in gross profit in 1Q16) and 2) an improvement of fab efficiency.
- **R&D expenses** increased by \$11.0 million QoQ to \$64.5 million in 2Q16, compared to \$53.5 million in 1Q16. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$15.0 million QoQ to \$76.5 million in 2Q16. The change was mainly due to higher number of R&D activities in 2Q16. Funding of R&D contracts from the government was \$12.0 million in 2Q16, compared to \$8.0 million in 1Q16.
- **General and administrative expenses** increased to \$33.5 million in 2Q16, up 21.8% QoQ from \$27.5 million in 1Q16, mainly due to 1) salary increase for some employees in 2Q16 and 2) an increase in legal and consulting fee.

# Balance Sheet Highlights

(US\$ thousands)

As of

	June 30, 2016	Mar 31, 2016
Cash and cash equivalent	1,586,671	1,034,955
Restricted Cash	228,381	232,995
Other financial assets (1)	303,721	107,167
Trade and other receivables	657,406	581,994
Inventories	404,265	386,180
Assets classified as held-for-sales	57,333	69,854
Other Assets	5,830,504	5,186,938
<b>Total Assets</b>	<b>9,068,281</b>	<b>7,600,083</b>
Short-term borrowings	91,375	125,520
Long-term borrowings	1,232,457	655,098
Shor-term notes	90,465	-
Medium-term notes	223,996	-
Convertible bonds	399,416	396,022
Corporate bonds	494,048	493,623
<b>Total Debt</b>	<b>2,531,757</b>	<b>1,670,263</b>
<b>Net Debt (2)</b>	<b>641,365</b>	<b>528,141</b>
<b>Total Liabilities</b>	<b>4,094,840</b>	<b>3,355,168</b>
<b>Total Equity</b>	<b>4,973,441</b>	<b>4,244,915</b>
Total Debt/Equity Ratio(3)	50.9%	39.3%
Net debt/Equity Ratio(4)	12.9%	12.4%

(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) Total debt divided by equity

(4) Net debt divided by equity.



# Cash Flow Highlights

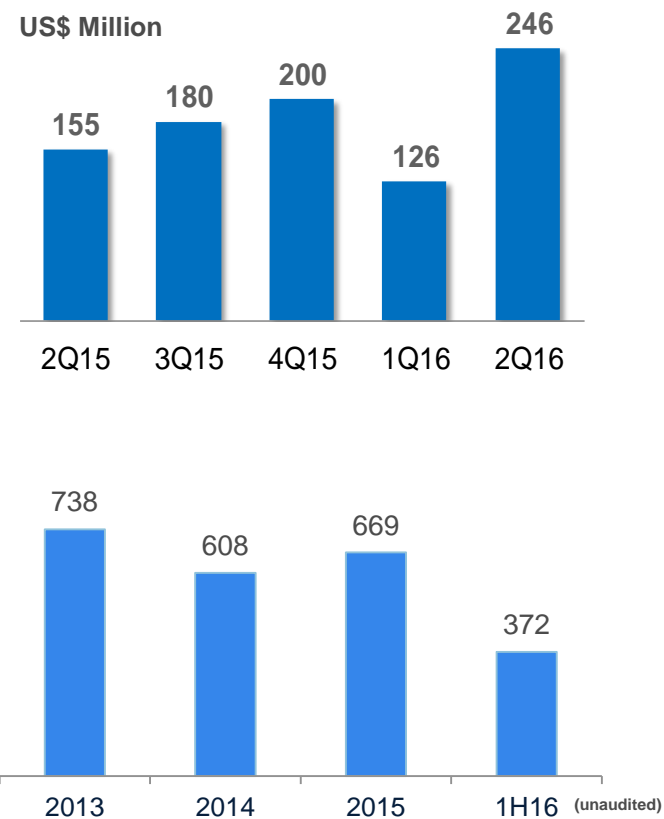
(US\$ thousands)

For the three months ended

	June 30, 2016	Mar 31, 2016
Cash and cash equivalent, beginning of period	1,034,955	1,005,201
<b>Net cash from operating activities</b>	<b>245,764</b>	<b>126,390</b>
Net cash used in investing activities	(1,211,425)	(415,901)
Net cash from (used in) financing activities	1,521,195	323,374
Net increase (decrease) in cash and cash equivalent	551,716	29,754
Cash and cash equivalent, end of period	1,586,671	1,034,955

## Cash Flow from Operations

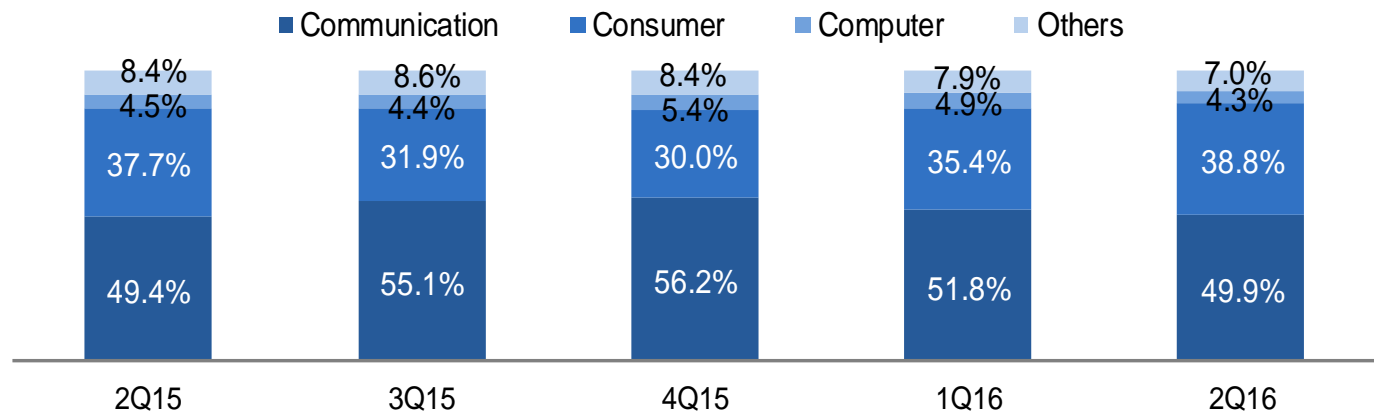
US\$ Million





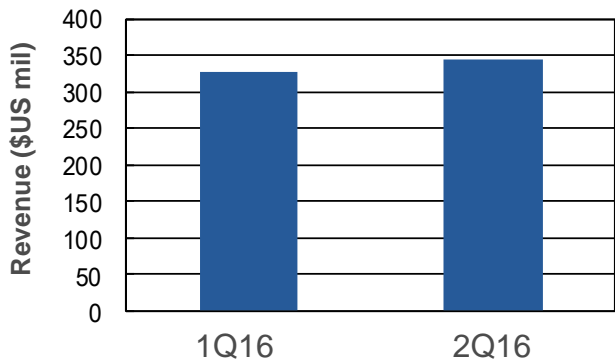


# Total Revenue Breakdown by Applications

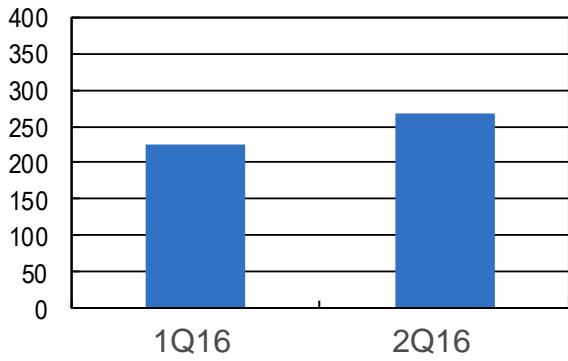


## 2Q 16 vs. 1Q 16

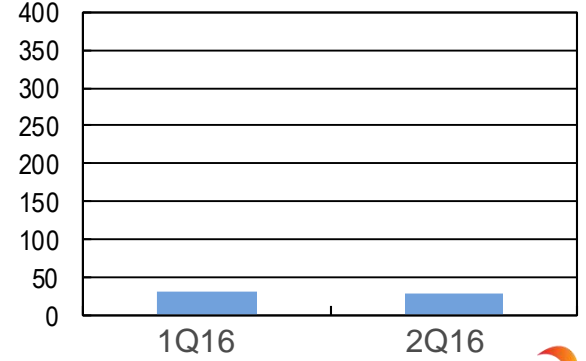
### Communications



### Consumer

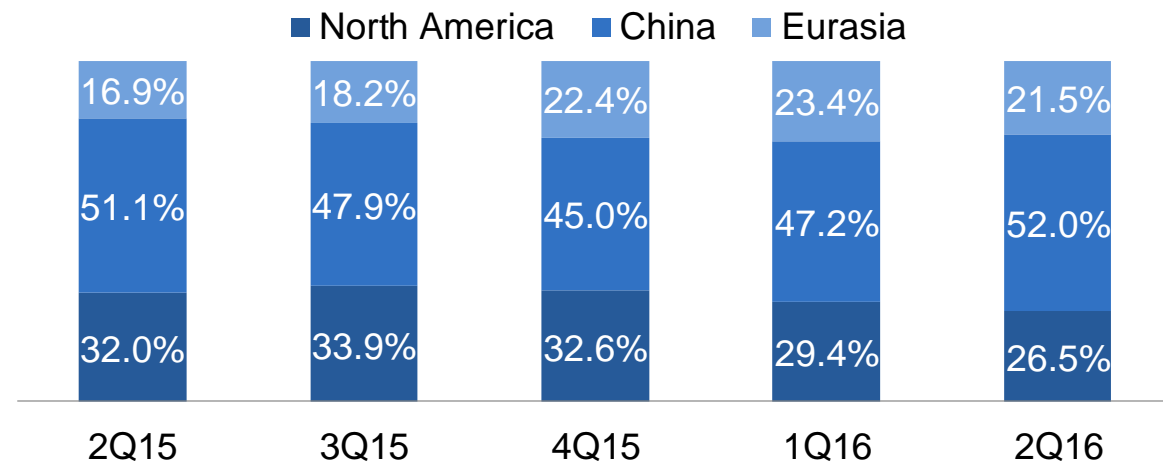


### Computer



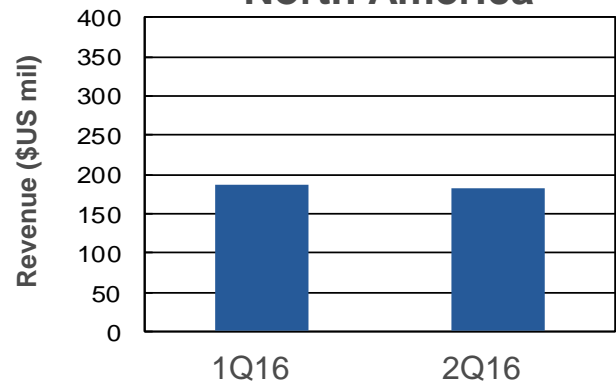


# Total Revenue Breakdown by Geography

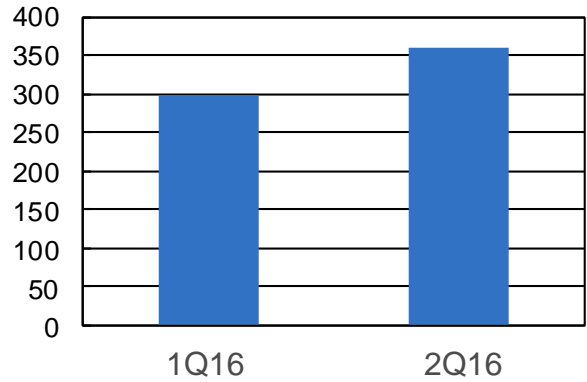


## 2Q 16 vs. 1Q 16

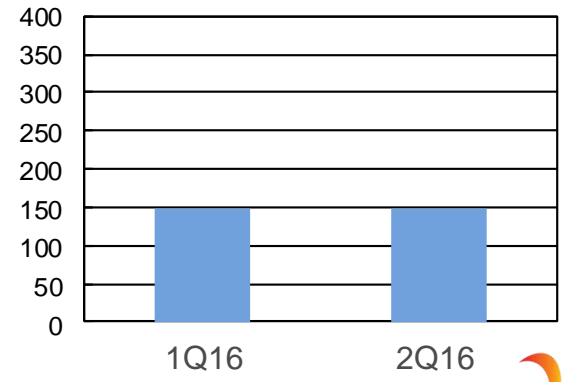
### North America



### China

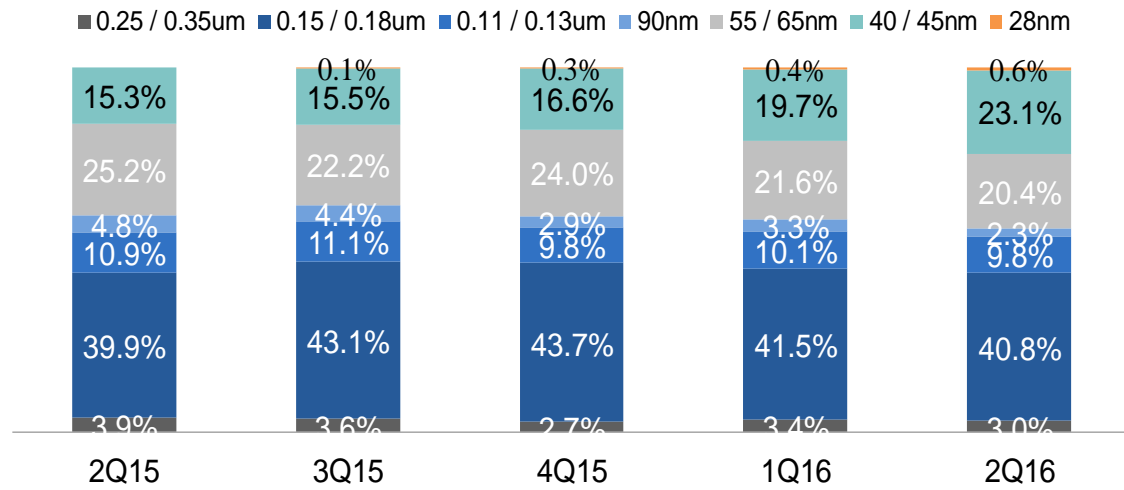


### Eurasia

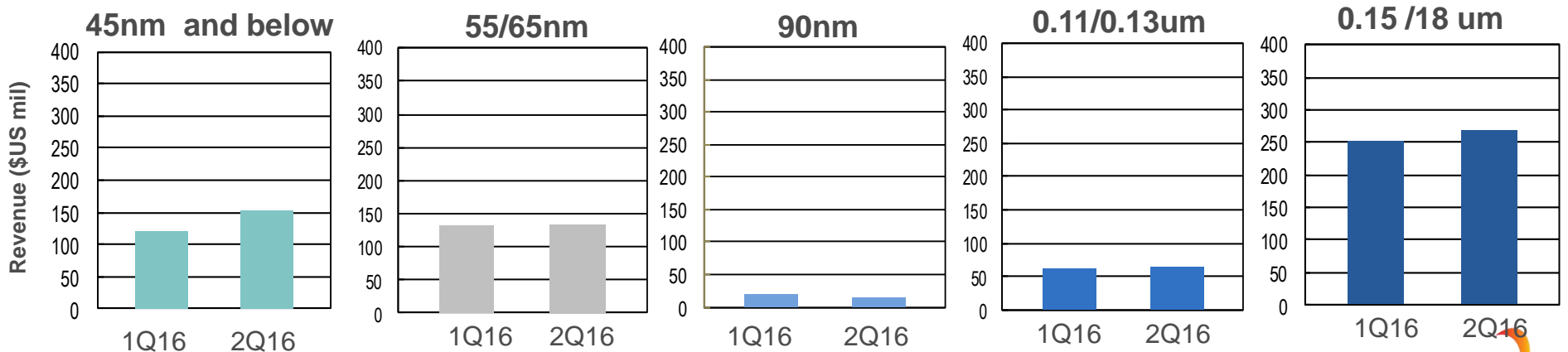




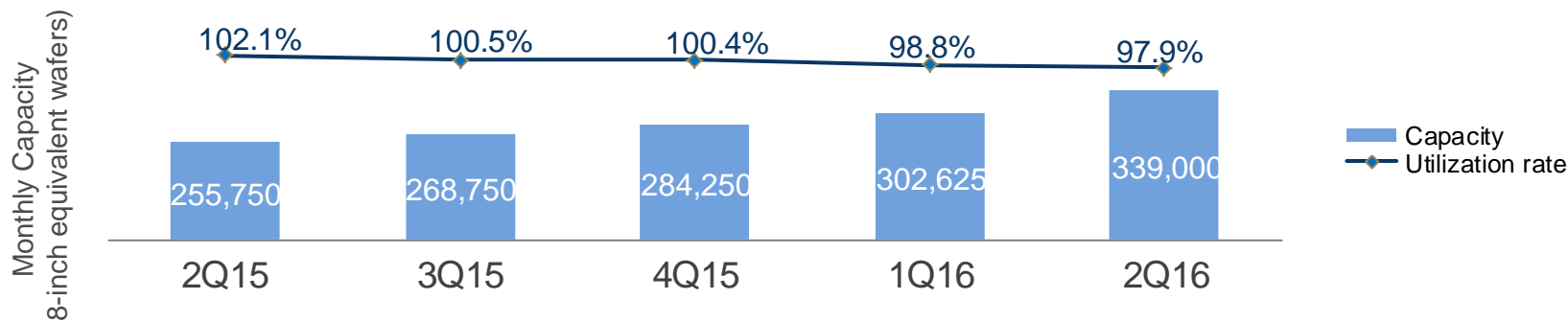
# Wafer Revenue Breakdown by Technology



## 2Q 16 vs. 1Q 16



# Capacity, Utilization and Shipment



	2Q15	3Q15	4Q15	1Q16	2Q16
Shanghai Mega Fab (8")	99,000	100,000	100,000	101,000	106,000
Shanghai 12-inch Fab (12")	14,000	14,000	14,000	15,500	20,000
Beijing Mega Fab (12")	37,000	37,000	37,000	37,000	37,000
Tianjin Fab (8")	42,000	43,000	43,000	42,000	45,000
Shenzhen Fab (8")		11,000	13,000	19,000	26,000
Beijing Majority-Owned Fab (12") <sup>(1)</sup>			6,000	10,000	15,000
<b>Monthly Capacity (8-inch equivalent wafers)</b>	<b>255,750</b>	<b>268,750</b>	<b>284,250</b>	<b>302,625</b>	<b>339,000</b>
Wafer Shipments	731,730	771,201	820,904	868,309	934,861
Utilization Rate <sup>(2)</sup>	102.1%	100.5%	100.4%	98.8%	97.9%

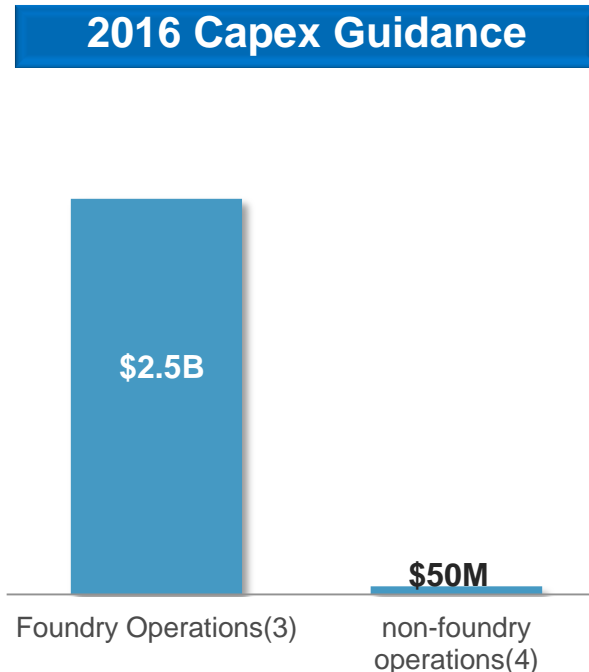
(1) Our Beijing majority-owned 12-inch fab entered into mass production in 4Q15

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



# 3Q 2016 Guidance and 2016 Capex Guidance

	3Q 2016 Guidance
Revenue	+8% to +11% QoQ \$745 to \$766 million
Gross Margin	28% to 30%
Non-GAAP Operating Expenses (1)	\$140 to \$145 million
Non-controlling interests <sup>(2)</sup>	\$4 to \$6 million



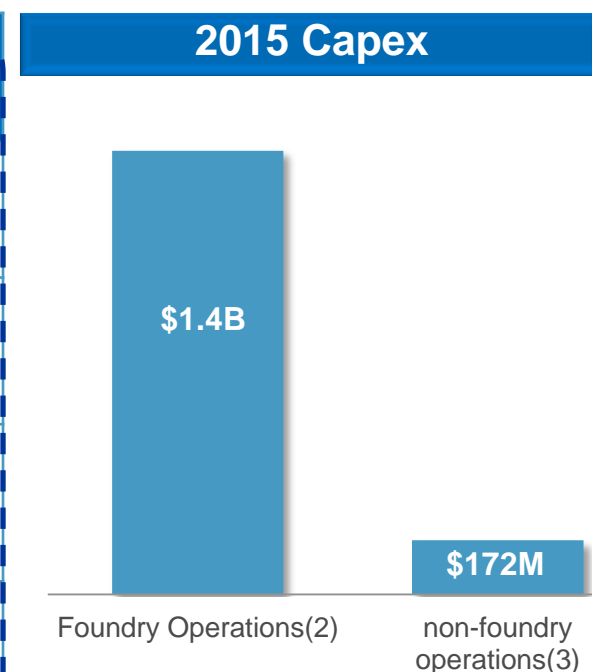
- (1) Exclude the effect of employee bonus accrual, government funding and gain from the disposal of living quarters
- (2) Non-controlling interests of our majority-owned subsidiaries to range from positive \$4 million to positive \$6 million (losses to be borne by non-controlling interests).
- (3) The planned 2016 capital expenditures for foundry operations are approximately \$2.5 billion, which are mainly for 1) the expansion of capacity in our majority-owned 12-inch fab in Beijing, 12-inch fab in Shanghai, 8-inch fab in Shenzhen, and a new majority-owned 12-inch joint venture fab with bumping services in Jiangyin, 2) a 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 \$50 million, mainly for the construction of living quarters.



# Appendix

# Results Vs Original Guidance

	2Q 2016 Guidance	2Q 2016 Results
Revenue	+3% to +7% QoQ	+8.8% QoQ
Gross Margin	25% to 27%	31.6%
Non-GAAP Operating Expenses (1)	\$115 to \$120 million	\$ 113.4 million
Non-controlling interests	\$9 to \$11 million	\$3.2 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-inch fab of Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”, the Company’s majority-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

<i>(US\$ millions)</i>	2Q15	3Q15	4Q15	1Q16	2Q16
<b>Capex</b>	368	315	745	751	792
<b>Depreciation &amp; Amortization</b>	125	130	143	160	169





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# Thank you

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