

Semiconductor Manufacturing International Corporation

SMIC Q1 2016 Financial Presentation

NYSE: SMI **HKSE: 981**

SMIC Investor Relations

May 2016



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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 “2Q 2016 Guidance”, and “2016 Capex Guidance” are based on SMIC’s current assumptions, expectations and projections about future events. SMIC uses words like “believe,” “plan,” “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, 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

To supplement SMIC’s consolidated financial results presented in accordance with IFRS, SMIC uses in this presentation 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. This presentation also includes second quarter 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-GAAP financial measures facilitates investors’ and management’s comparisons to SMIC’s historical performance. The Group’s management regularly uses these non-GAAP financial measures to understand, manage and evaluate the Group’s business and make financial and operational decisions.



1Q16 Financial Highlights

- **Revenue was \$634.3 million, a record high**
 - Compared to \$610.1 million in 4Q15
 - Compared to \$509.8 million in 1Q15

- **Gross margin was 24.2%**
 - Compared to 28.5% in 4Q15
 - Compared to 29.4% in 1Q15

- **Profit from operations was \$66.1 million**
 - Compared to \$41.6 million in 4Q15
 - Compared to \$45.5 million in 1Q15

- **Profit attributable to SMIC was \$61.4 million**
 - Compared to \$38.6 million in 4Q15
 - Compared to \$55.5 million in 1Q15
 - Sixteenth consecutive profitable quarter

- **The overall UTR was 98.8%**

Income Statement Highlights

(US\$ thousands)	1Q16	4Q15	QoQ	1Q15	YoY
Total Revenue	634,312	610,148	4.0%	509,798	24.4%
Gross Profit	153,752	173,937	-11.6%	149,927	2.6%
Gross Margin	24.2%	28.5%	-	29.4%	-
Operating Expenses	(87,616)	(132,340)	-33.8%	(104,423)	-16.1%
<i>Research & Development, net</i>	<i>(53,498)</i>	<i>(66,121)</i>	<i>-19.1%</i>	<i>(53,453)</i>	<i>0.1%</i>
<i>General & Administrative</i>	<i>(27,492)</i>	<i>(67,253)</i>	<i>-59.1%</i>	<i>(42,486)</i>	<i>-35.3%</i>
<i>Selling & Marketing</i>	<i>(9,710)</i>	<i>(12,358)</i>	<i>-21.4%</i>	<i>(9,205)</i>	<i>5.5%</i>
<i>Other operating income (expense)</i>	<i>3,084</i>	<i>13,392</i>	<i>-77.0%</i>	<i>721</i>	<i>327.7%</i>
Profit from operations	66,136	41,597	59.0%	45,504	45.3%
Other income (expense), net	(13,636)	(5,749)	137.2%	6,125	-
Income tax benefit (expense)	(738)	(5,770)	-87.2%	(54)	1266.7%
Profit attributable to SMIC	61,418	38,604	59.1%	55,477	10.7%
Non-controlling Interests	(9,656)	(8,526)	13.3%	(3,902)	147.5%
Earnings per ADS (Basic)	0.07	0.05	-	0.08	-

- **Revenue** increased by 4.0% QoQ from \$610.1 million in 4Q15 to \$634.3 million in 1Q16 mainly due to an increase of wafer shipments in 1Q16.
- **Gross margin** was 24.2% in 1Q16, as compared to 28.5% in 4Q15. The decline in gross margin was primarily due to 1) increased manufacturing costs from our majority-owned fab in Beijing which entered into mass production in December 2015 and 2) the impact of a temporary power supply suspension occurred at our fabs in Beijing in February 2016.
- **R&D expenses** decreased by \$12.6 million QoQ to \$53.5 million in 1Q16, compared to \$66.1 million in 4Q15. Excluding the funding of R&D contracts from the government, R&D expenses decreased by \$13.7 million QoQ to \$61.5 million in 1Q16. The change was mainly due to lower number of R&D activities in 1Q16. Funding of R&D contracts from the government was \$8.0 million in 1Q16, compared to \$9.1 million in 4Q15.
- **General and administrative expenses** decreased to \$27.5 million in 1Q16, down 59.1% QoQ from \$67.3 million in 4Q15, mainly due to 1) a decrease of accrued employee bonus in 1Q16 and 2) our majority-owned fab in Beijing entered into mass production in December 2015 and as a result, the pre-operating related expenses largely decreased in 1Q16, as compared to 4Q15.

Balance Sheet Highlights

(US\$ thousands)	As of	
	Mar 31, 2016	Dec 31, 2015
Cash and cash equivalent	1,034,955	1,005,201
Restricted Cash	232,995	302,416
Other financial assets (1)	107,167	282,880
Trade and other receivables	581,994	499,846
Inventories	386,180	387,326
Assets classified as held-for-sales	69,854	72,197
Other Assets	5,186,938	4,565,481
Total Assets	7,600,083	7,115,347
Short-term borrowings	125,520	113,068
Long-term borrowings	655,098	416,036
Convertible bonds	396,022	392,632
Corporate bonds	493,623	493,207
Total Debt	1,670,263	1,414,943
Net Debt (2)	528,141	126,862
Total Liabilities	3,355,168	2,925,092
Total Equity	4,244,915	4,190,255
Total Debt/Equity Ratio(3)	39.3%	33.8%

(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



Cash Flow Highlights

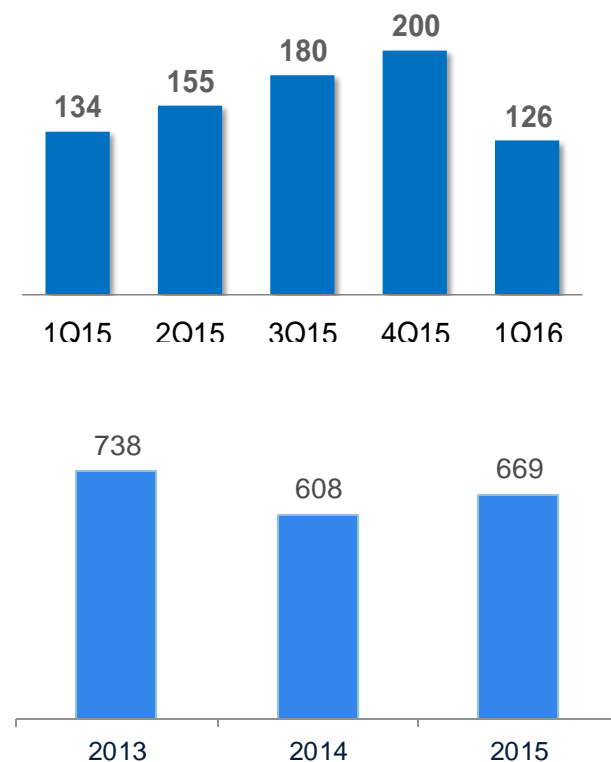
(US\$ thousands)

For the three months ended

	Mar 31, 2016	Dec 31, 2015
Cash and cash equivalent, beginning of period	1,005,201	741,576
Net cash from operating activities	126,390	200,175
Net cash used in investing activities	(415,901)	(282,376)
Net cash from (used in) financing activities	323,374	352,382
Net increase (decrease) in cash and cash equivalent	29,754	263,625
Cash and cash equivalent, end of period	1,034,955	1,005,201

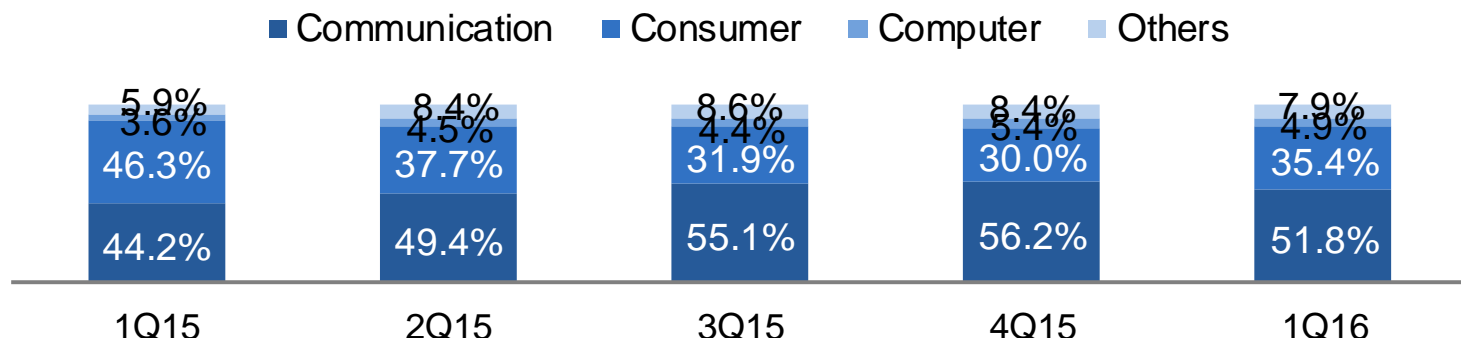
Cash Flow from Operations

US\$ Million



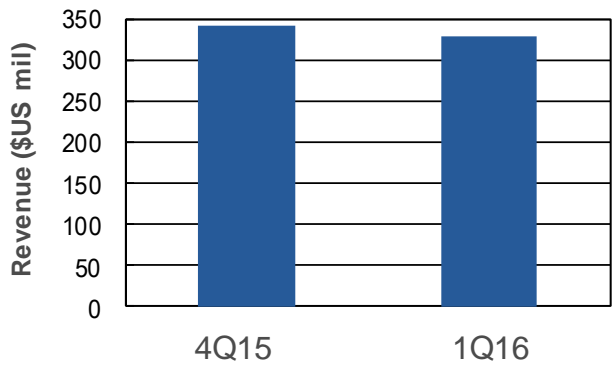


Total Revenue Breakdown by Applications

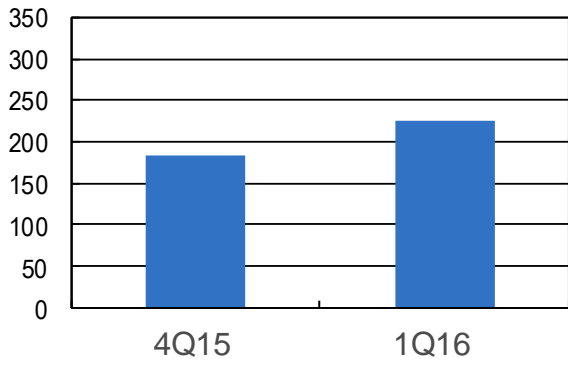


1Q 16 vs. 4Q 15

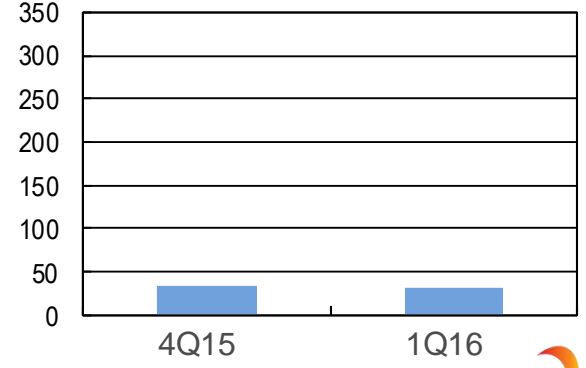
Communications



Consumer

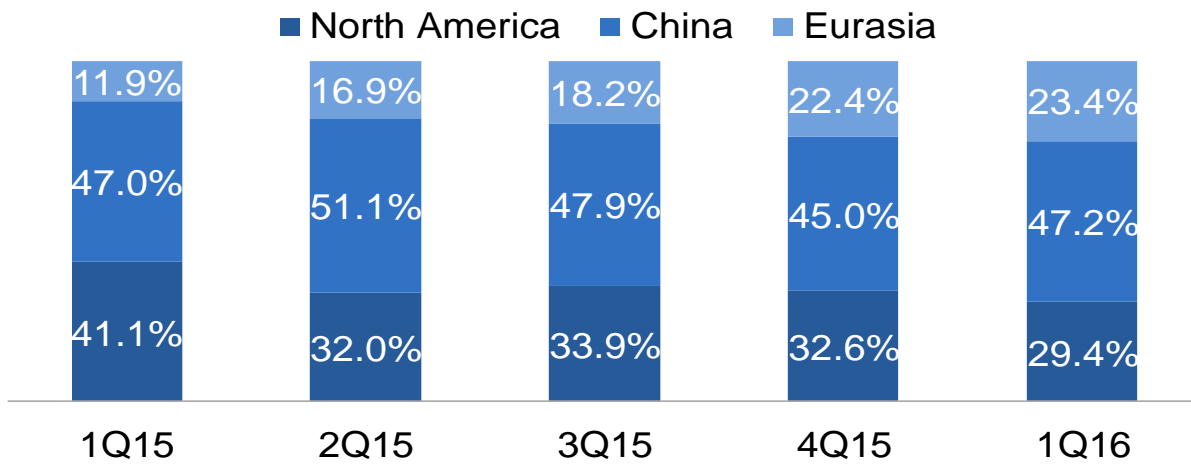


Computer

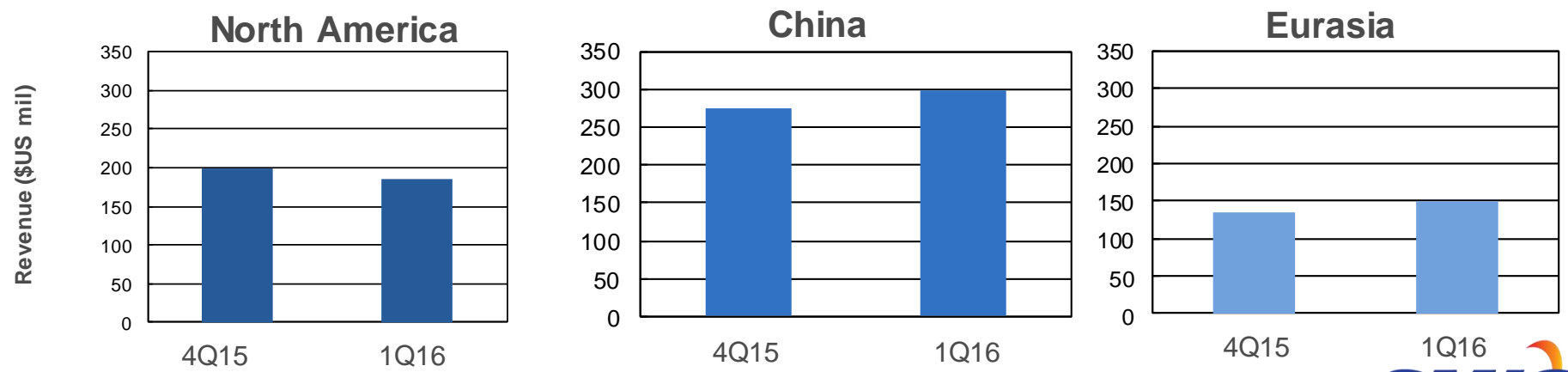




Total Revenue Breakdown by Geography

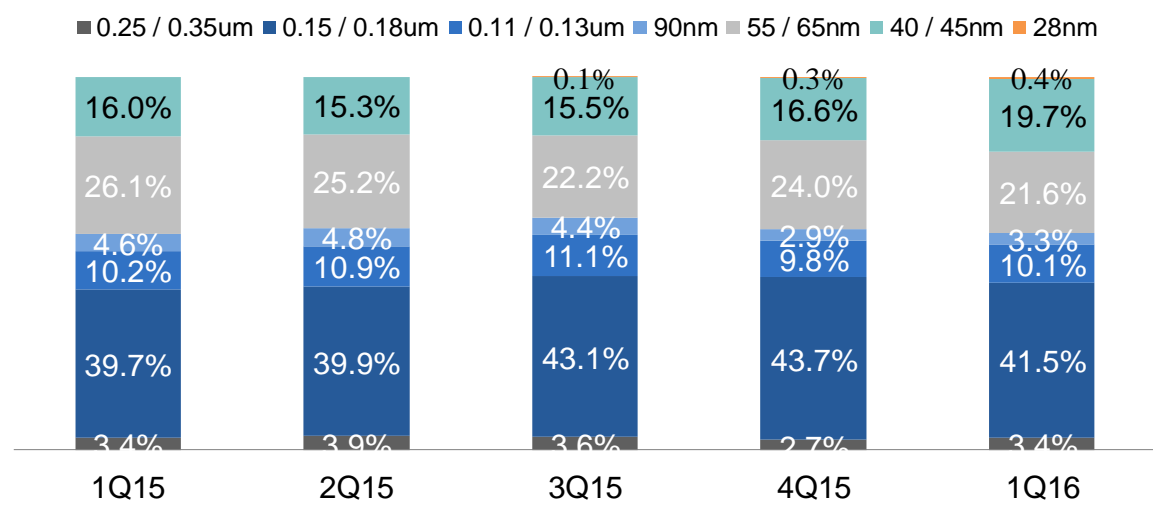


1Q 16 vs. 4Q 15

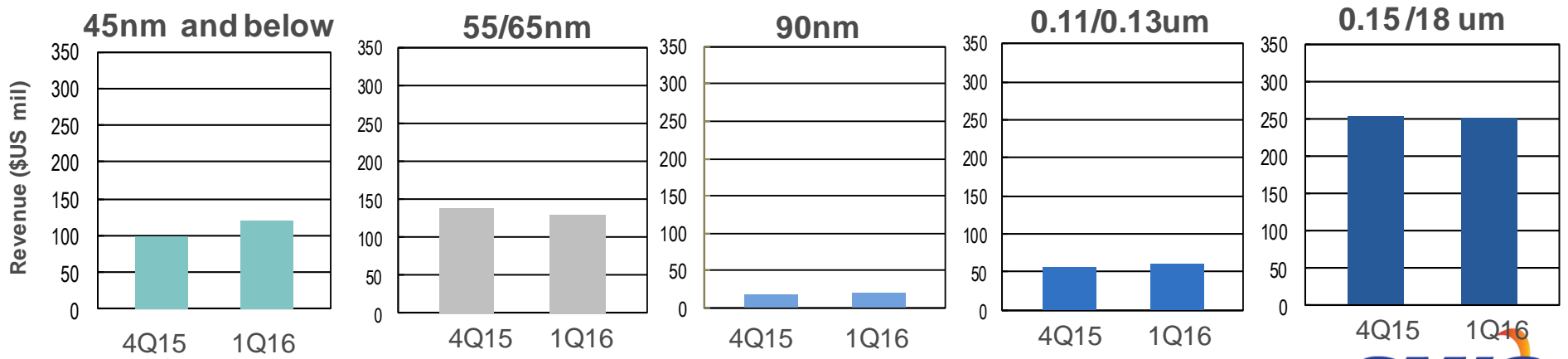




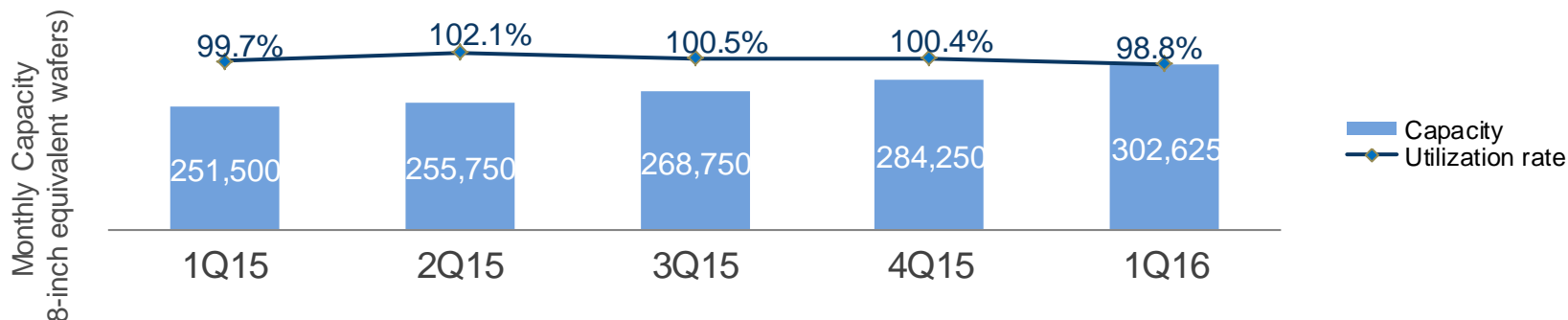
Wafer Revenue Breakdown by Technology



1Q 16 vs. 4Q 15



Capacity, Utilization and Shipment



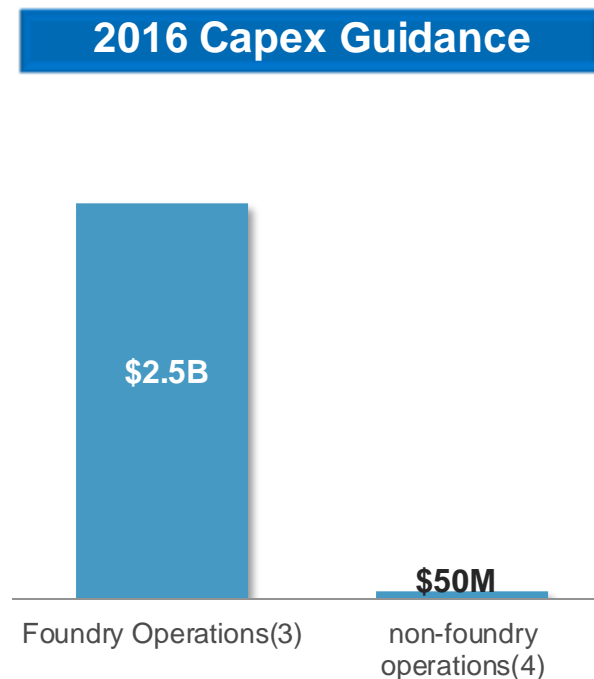
	1Q15	2Q15	3Q15	4Q15	1Q16
Shanghai Mega Fab (8")	97,000	99,000	100,000	100,000	101,000
Shanghai 12-inch Fab (12")	14,000	14,000	14,000	14,000	15,500
Beijing Mega Fab (12")	36,000	37,000	37,000	37,000	37,000
Tianjin Fab (8")	42,000	42,000	43,000	43,000	42,000
Shenzhen Fab (8")			11,000	13,000	19,000
Beijing Majority-Owned Fab (12") ⁽¹⁾				6,000	10,000
Monthly Capacity (8-inch equivalent wafers)	251,500	255,750	268,750	284,250	302,625
Wafer Shipments	692,131	731,730	771,201	820,904	868,309
Utilization Rate ⁽²⁾	99.7%	102.1%	100.5%	100.4%	98.8%

(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

2Q 2016 Guidance and 2016 Capex Guidance

	2Q 2016 Guidance
Revenue	+3% to +7% QoQ \$653 to \$679 million
Gross Margin	25% to 27%
Non-GAAP Operating Expenses (1)	\$115 to \$120 million
Non-controlling interests ⁽²⁾	\$9 to \$11 million



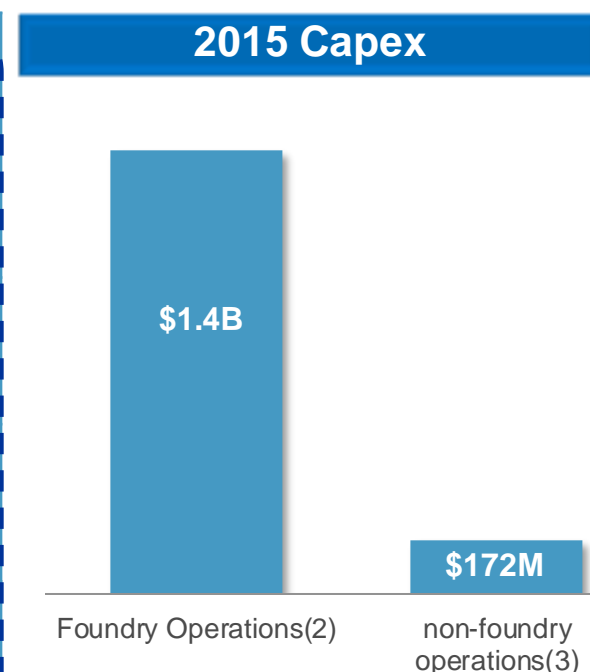
- (1) Exclude the effect of employee bonus accrual, government funding and gain from the disposal of living quarters
- (2) Non-controlling interests of our majority-owned subsidiaries are expected to range from positive \$9 million to positive \$11 million (losses to be borne by non-controlling interests).
- (3) The planned 2016 capital expenditures for foundry operations are up from approximately \$2.1 billion to approximately \$2.5 billion, which are mainly for 1) the expansion of capacity in our majority-owned 12-inch fab in Beijing, 8-inch fab in Shenzhen, 12-inch fab in Shanghai 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

	1Q 2016 Guidance	1Q 2016 Results
Revenue	+1% to +3% QoQ	+4.0% QoQ
Gross Margin	22% to 25%	24.2%
Non-GAAP Operating Expenses (1)	\$121 to \$126 million	\$ 92.2 million
Non-controlling interests	\$16 to \$18 million	\$9.7 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>	1Q15	2Q15	3Q15	4Q15	1Q16
Capex	145	368	315	745	751
Depreciation & Amortization	125	125	130	143	160



Thank you

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