



Analyst **CORPORATE PARTICIPANTS**

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CONFERENCE CALL PARTICIPANTS

Randy Abrams *Credit Suisse - Analyst*

Steven Pelayo *Analyst*

Before I turn the call over to Dr. T.Y. Chiu, let me remind you that the presentation we're making today is including forward-looking statements. These statements and other comments are not guarantees of future performance, but represent the company's estimates, and are subject to risk

We are working hard to balance our profitability, growth, building share value and servicing our customers for the benefit of all stakeholders. We will be on the road to continue to communicate our strategy and status to elicit our comment, we continue to appreciate your ongoing support.

Thank you.

I will now hand the call over to Yonggang for the financial highlight and the 2016 Q3 guidance.

T.Y. Chiu

Gareth Kung - *Semiconductor Manufacturing International Corporation - EVP of Strategic Business Development, Finance, and Company Secretary*

Yes. I think last quarter we guided gross margin to be 25% to 27%, and the actual result is about 31.6%. I will say about -- between 1% to 2% is actually contributed by the insurance compensation, which we did not factor into our guidance.

Steven Pelayo - *HSBC - Analyst*

Hi guys. Congrats on the results. I guess I first want to know the LFoundry impacts in your guidance from a revenue and a margin and maybe ASP perspective.

Gareth Kung - *Semiconductor Manufacturing International Corporation* -

Gareth Kung - *Semiconductor Manufacturing International Corporation - EVP of Strategic Business Development, Finance, and Company Secretary*

And the reason we did that is because there is a very good market opportunity this year for us to raise relatively cheap debt, because a lot of debt raised this year are actually RMB debt, but right now there's macro opportunity for us to really swap this RMB debt into US dollar funding at a very

Can you give me some help as far as 3Q is going to grow by about 10%, what application is driving the growth? And related to that, you said that 4Q is going to grow again. Can you tell me what gives you the confidence looking out into 4Q?

Gareth Kung - *Semiconductor Manufacturing International Corporation - EVP of Strategic Business Development, Finance, and Company Secretary*

On Q3, let me detail for you the growth drivers here. First of all, as mentioned, we're going to consolidate LFoundry from August onwards, so there's about \$20 million to \$30 million contribution from LFoundry activities. And then our 40 nanometers is still growing very strong. And as what T.Y. said, many of them are single source. And then we also started to ship in greater volume for our 28 nanometers. So all this will contribute to growth in Q3. Okay.

In terms of the Q4 outlook, right now, based on the forecast from the customers, we still think that it's still going to be a growth quarter for us. And I think our fab will still be fully loaded.

Bill Lu - *UBS - Analyst*

And I guess I'm just wondering what kind of applications is driving the Q4 growth.

T.Y. Chiu - *Semiconductor Manufacturing International Corporation - CEO*

T.Y. Chiu - *Semiconductor Manufacturing International Corporation - CEO*

There will be a limited amount of our CapEx in LFoundry to bring technology that is aligned to SMIC. So there are a few missing tools in LFoundry that we need to procure to ensure the technology alignment. But the total CapEx for the next year will be fairly limited. We'll be trying to leverage the present unused capacity in the most efficient way.

Gareth Kung - *Semiconductor Manufacturing International Corporation - EVP of Strategic Business Development, Finance, and Company Secretary*

Yes. Let me just also comment a little bit more on LFoundry. Right now we actually have identified some technology and products that we're going

Leping Huang - Nomura - Analyst

Operator

Your next question comes from the line of Charlie Chan from Morgan Stanley. Please ask your question.

Charlie Chan - *Morgan Stanley* - Analyst

Hi, good morning. Congratulations for great results.

So my first question is really on the future competition in the 28-nanometer (Some of your industry peers like UMC is doing a joint.) Tj02271 T

technologies, one is in our 55 embedded non-volatile, one is our 95SPOCULL, all are getting a lot of customer interest and gaining new customer design. So we are in the initial phase of demonstration and the ramp up.

So you're right, I mean as mentioned by Tzu-Yin it is still a long term target to achieve a double digit ROE on a sustained basis.

Ken Hui - *Jefferies - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Rick Hsu from Daiwa. Please ask your question.

Rick Hsu - *Daiwa Institute of Research Hong Kong Limited - Analyst*

Hi, yes, good morning guys. My first question is regarding your LFoundry because in Q4 you cannot be fully -- you cannot be fully consolidated in

