

CORPORATE PARTICIPANTS

En-Ling Feng *Semiconductor Manufacturing International Corporation - VP of IR*

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

Yonggang Gao *Semiconductor Manufacturing International Corporation - CFO*

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

CONFERENCE CALL PARTICIPANTS

Randy Abrams *Credit Suisse - Analyst*

Sebastian Hou *CLSA - Analyst*

Steven Pelayo *HSBC - Analyst*

Roland Shu *Citigroup - Analyst*

Gokul Hariharan *JPMorgan - Analyst*

Charlie Chan *Morgan Stanley - Analyst*

Ken Hui *Huatai - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Semiconductor Manufacturing International Corporation's third quarter 2019 earnings conference call. Today's conference call is hosted by Dr. T.Y. Chiu, chief executive officer, Dr. Yonggang Gao, chief financial officer, Mr. Gareth Kung, executive vice president of strategic business development, finance, and company secretary, and Mr. En-Ling Feng, vice president of investor relations.

Today's earnings conference call will be simultaneously streamed through the Internet at SMIC's website. Please be advised that your dial-ins are in listen-only mode. However, at the conclusion of the management presentation, we will be having a question and answer session, at which time, you will receive further instructions as to how to participate.

The earnings press release is available for download at www.smics.com. Webcast playback will be available approximately one hour after the event at www.smics.com.

Without further ado, I would now like to introduce you to Mr. En-Ling Feng, Vice President of Investor Relations, for the cautionary statement.

En-Ling Feng - *Semiconductor Manufacturing International Corporation - VP of IR*

Good morning and good evening. Welcome to SMIC's third quarter 2019 earnings conference call.

For today's call, our CEO, Mr. T.Y. Chiu, will be making the opening remarks. After that, Mr. Gareth Kung, Executive Vice President of Strategic Business Development, Finance, and Company Secretary, will give a presentation on our financial performance.

65-55-nanometer demand has also far exceeded our current capacity, growing at 30% year-over-year, and 15% quarter-over-quarter. We are therefore adding additional 65/55 capacity in our Beijing B1 fab and initiating a new 12-inch fab in Shenzhen to meet expanding demand in 55-nanometer.

0.13 micron grew at 58.8% year-over-year, and 46.8% quarter-over-quarter, with new contribution from LFoundry in this area. 0.18-micron technology grew 20% year-over-year and 3.2% quarter-to-quarter, from existing and new customers ramping in PMIC and sensors.

We continue to broaden and diversify our technology offerings. Our collaboration with customers on various phone components -- IoT, auto, AR/VR, and industrial applications -- will propel SMIC's growth into the future.

We have depleted our available cleanroom and are prudently preparing for the next phase of growth with new civil construction.

We are working to bring growth opportunity in China to the global semiconductor industry, as in LFoundry Avezzano, Italy, and striving to serve customers worldwide.

SMIC is vigilant in balancing profitability, growth, building shareholder value, and serving our customers for the benefit of our stakeholders.

We appreciate your ongoing support. Thank you for your time.

I will now hand the call over to Yonggang for the financial highlights and 2016 Q4 guidance.

Yonggang Gao - *Semiconductor Manufacturing International Corporation - CFO*

Thank you, T.Y.

Greetings to all our listeners. I will highlight our last quarter's results first, and then give our fourth quarter 2016 guidance.

Last quarter revenue was \$756 million, an increase of 12.3% over the third quarter. Net income was \$123 million, an increase of 12.3% over the third quarter. Operating income was \$123 million, an increase of 12.3% over the third quarter. Capital expenditures were \$123 million, an increase of 12.3% over the third quarter. Free cash flow was \$123 million, an increase of 12.3% over the third quarter. Dividends were \$123 million, an increase of 12.3% over the third quarter. Total assets were \$123 million, an increase of 12.3% over the third quarter. Total liabilities were \$123 million, an increase of 12.3% over the third quarter. Total equity was \$123 million, an increase of 12.3% over the third quarter. Return on assets was 12.3%, an increase of 12.3% over the third quarter. Return on equity was 12.3%, an increase of 12.3% over the third quarter. Return on capital employed was 12.3%, an increase of 12.3% over the third quarter. Return on investment was 12.3%, an increase of 12.3% over the third quarter. Return on operations was 12.3%, an increase of 12.3% over the third quarter. Return on sales was 12.3%, an increase of 12.3% over the third quarter. Return on assets was 12.3%, an increase of 12.3% over the third quarter. Return on equity was 12.3%, an increase of 12.3% over the third quarter. Return on capital employed was 12.3%, an increase of 12.3% over the third quarter. Return on investment was 12.3%, an increase of 12.3% over the third quarter. Return on operations was 12.3%, an increase of 12.3% over the third quarter. Return on sales was 12.3%, an increase of 12.3% over the third quarter.

Profit from operation was \$109 million. Profit for the period attributable to SMIC increased to \$114 million, while non-controlling interests were

Randy Abrams - *Credit Suisse* - Analyst

Thank you. Good results. I wanted to ask the first question about the fab plans in the CapEx' onnk y could give anns itial view tio2017he Cap andst

Randy Abrams - *Credit Suisse* -

Sebastian Hou - *CLSA - Analyst*

Yes, mostly. So, T.Y., can I get more your thoughts on, so, in 4Q, probably around 3% total revenue contribution. So, how about for next year? And say, by the end of next year, do you see that 28 will account for, like say, more than 10% of revenue?

T.Y. Chiu

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

So we're going to see some step-up in the R&D expenses. At the same time, we're going to see some step-up in the R&D funding. We're going to talk more about it later on.

Secondly, for the G&A expenses, there's also some increase because of various reasons, some consulting fees, some indirect taxes, and some stock option expenses. So which is why we are guiding up the non-GAAP OpEx.

In terms of R&D funding, we are forecasting for whole year to be about \$65 million to \$67 million, which is working out to be about in the \$37 million, \$38 million range in Q4.

Steven Pelayo

En-Ling Feng - *Semiconductor Manufacturing International Corporation - VP of IR*

Thank you.

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

Thank you.

Operator

Thank you for the questions. Next question comes from the line of Roland Shu from Citigroup. Please go ahead.

Roland Shu - *Citigroup - Analyst*

Hi, good morning. First question is you expect first quarter next year will be continue a growing quarter based on your current visibility. How is it compa , currVanguard's two months order visibility? So, what kind of demand over such longer visibility and how confident you a , for this long visibility?

Ga th Kung - *Semiconductor Manufacturing International Corporation - EVP of Strategic Business Development, Finance, and Company Sec , tary*

Yes, I think pa tly because as Gao said, we' , very full right now, so, we do have a very long backlog in terms of serving our customers. So they give us a longer visibility in terms of the customer demand.

I think for Q1, we a , very confident that the revenue will go up. But I think as you rightly said, we a , still in the process of targeting demand for our -- from our customers. So we a , not givj0 think vj0eigo auic.s4n a E.5 0.6 rga E.5 l.6 rga 836 458a 836 536.1 l576 536.6 l36 536.6 lhf33orp0 gBT/F3 9 Tf1 0

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

I think the strength for each business has been around for about two years. I think that is really attribute to the strength of our China market position as well as I think the R&D work we have done in the past two years in terms of differentiating our technology.

Roland Shu - *Citigroup - Analyst*

Okay. So for next year, are you going to continue to build 8-inch capacity? And any risk for this continued increase for 8-inch capacity going forward?

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

Yes, we continue to expand our Shenzhen 8-inch fab to add about 10,000 wafer to Shenzhen. We are also trying to optimize our LFoundry capability

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