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PRESENTATION

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Welcome to Semiconductor Manufacturing International Corporation Second Quarter 2017 Webcast Conference Call. Today's conference call is hosted by Dr. Haijun Zhao, Chief Executive Officer; Dr. Yonggang Gao, Chief Financial Officer; and Mr. En-Ling Feng, Vice President of Investor Relations. Today's webcast conference call will be simultaneously streamed through the Internet at SMIC's website. (Operator Instructions).

The earnings press release is available for download at www.smics.com. Webcast playback will also be available approximately 1 hour after the event.

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

E Li -Fe -

Good morning, and good evening. Welcome to SMIC's Second Quarter 2017 Earnings Webcast Conference Call. For today's call, our CFO, Dr. Gao Yonggang, will comment on our financial performance first and give guidance on the next quarter. And then our CEO, Dr. Haijun Zhao, will provide some business remarks. This will then be followed by our Q&A session. As usual, our call will be approximately 60 minutes in length.

The earnings release and the quarterly financial presentation are available for you to download at our website under Investor Relations in the Events & Presentations section.

Let me also remind you that the presentation we'll be making today includes forward-looking statements. These statements and other comments are not guarantees of future performance, but represent the company's estimates and subject to risk and uncertainty. Our actual results may differ significantly from those projected or suggested in any forward-looking statements. For a more complete discussion of the risks and uncertainties that could impact our future operating results and financial condition, please see our filings and submissions with the U.S. Securities and Exchange Commission and the Hong Kong Stock Exchange Limited, including our annual report on Form 20-F filed with the United States Securities and Exchange Commission on April 27, 2017.

During the call, we will make reference to financial measures that do not conform to generally accepted accounting principles, GAAP. These measures may be calculated differently than similar non-GAAP data presented by other companies. Please refer to the tables in our press release for a reconciliation of GAAP to the non-GAAP numbers we will be discussing.

Please note that all currency figures are in U.S. dollars, unless otherwise stated.

I will now turn the call over to our CFO, Dr. Gao Yonggang.

Y - - -G *- Semiconductor Manufacturing International Corporation - CFO, Executive VP of Strategic Planning, Joint Company Secretary & Executive Director*

Okay. Thank you, En-Ling. Greetings to all our listeners. First, I will highlight our second quarter and first half 2017 results and then give our third quarter 2017 guidance.

In second quarter 2017, our revenue was $751 million, a decrease of 5.3% quarter-on-quarter, mainly due to the soft market. On a year-on-year basis, our revenue increased 8.8%. Gross margin was 25.8% mainly due to lower fab utilization, which was 85% -- 85.7% in Q2 compared to 91.8% in Q1. Non-GAAP operating expenses were $187 million in Q2. Profits for the period attributable to SMIC was $36 million, while our noncontrolling interests were $3 million of credits to SMIC attributable profits.

Moving to the balance sheet. At the end of second quarter of 2017, cash on hand, including other financial assets, were $1.4 billion. Gross debt to equity ratio was 48%, and net debt to equity ratio was 25%.

In terms of cash flow, we generated $245 million of cash from operating activities in the second quarter.

If we look at our first half 2017 unaudited results, our revenue was $1.54 billion, gross profit was $415 million and EBITDA was $599 million, all at record highs.

Now looking ahead into the third quarter of 2017. Our revenue is guided to be flat to up 3% quarter-over-quarter. Gross margin is expected to range from 22% to 24%. Non-GAAP operating expenses are expected to range from $179 million to $185 million. Noncontrolling interests of our majority-owned subsidiaries are expected to range from 0 to positive $3 million, which are losses to be borne by noncontrolling interests. We reiterate our planned 2017 CapEx for foundry operations of approximately $2.3 billion. The planned 2017 CapEx for nonfoundry operations is approximately $70 million, mainly for the construction of employees' living quarters.

I will now hand the call over to our CEO, Haijun, for general remarks.

H iju Z. *- Semiconductor Manufacturing International Corporation - CEO*

From a technology node perspective, 28-nanometer grew twelvefold year-on-year and 24.8% quarter-on-quarter. 0.13 micron nearly doubled year-on-year and it grew 5% quarter-on-quarter. The sequential decline in our revenue resulted primarily from our smartphone-related applications. This decline and the muted growth guidance was the result of high inventory levels in the first half. Currently, customer inventory levels have come down. However, to build up inventory for China smartphone supply chain is slower than the seasonal due to end market uncertainty, resulting in a smaller-than-seasonal growth in Q3.

Given this situation, we now target annual revenue growth of mid- to high single digits, in line with foundry industrial growth. We acknowledge the near-term challenges and take hold of upcoming opportunities. The challenge which we are facing this year includes node transition, pricing environment, customer inventory, market uncertainty and new technology execution.

In spite of the challenges we are facing, we are encouraged by our team's hard work and the continued progress in capturing opportunities. This year, our team continued to ramp up 28-nanometer, which will be one of our primary growth drivers. In addition, we are happy to see fingerprint sensors picking up strongly in the second half. We also see a continued growth in flash memory and collaborate closely with our clients to capture opportunities in the new handset models, IoT, auto and the industrial segments.

Our technology development, I would like to see our team reach several milestone achievements on 28-nanometer. As mentioned previously, our 28-nanometer has 3 platforms: PolySiON, High-K -- HKM and High-KC.

The first platform, 28 PolySiON, is our major growth driver for this year, serving communications-related applications. We maintain our belief that PolySiON will continue to have demands in the long term.

The second platform, 28-nanometer HKM, has already been in small volume production since last year. This platform is suitable for and is serving communication applications.

The third platform, 28 HKC, successfully entered risk production as scheduled this quarter. This platform is being used for communications and consumer applications. In addition, we plan to have HKC Plus ready in next year. 28-nanometer overall contributed 6.8% -- 6.6% of our wafer revenue in second quarter and is expected to reach high single digits contribution by Q4 this year.

14-nanometer development is also underway at our Advanced Technology development joint venture, where SRAM yield has been demonstrated.

I would like to now reiterate SMIC's strategy. SMIC continues to be an independent and international business. Our sustainable profitability strategy remains: to fully utilize existing assets, differentiate technology and advance technology to serve the migration of our customers' products.

Since assuming my role as CEO, I have been taking time to refine our strategy actions and review various projects, their market potentials and the return on investment. In the past quarter, I have worked with my team to refocus resources on areas of greater foreseeable markets and profit opportunities.

To expand upon SMIC's strategy, I have identified 3 area of focus and action. First, we must work to expand our cooperations with existing customers. We aim to tighten relationships, increase service, enhance quality and technology to broaden customers' portfolio, to build customer trust and increase our shares with existing customers.

Second, we aim for excellence in mature technology. SMIC already has a great position as a leader in mature nodes. We work to drive greater improvements to our existing base-line, generic logic technology, to become the most competitive in the industry for mature nodes by pushing better quality, delivery, cycle time performance and IP support.

Third, we aim to build our investment into specialty platforms in which we already hold good market shares, such as CIS, special MCU, flash memory and others. We strive to improve our specialty technology for our customers so that they can gain a competitive edge and win shares in their respective markets.

SMIC is in a state of growth, and by pursuing these 3 directions, we can more clearly consolidate, solidify our positions in the foundry markets as the preferred foundry partner in Mainland China.

Thus, SMIC continues to expand capacity in mature nodes and new nodes with the needs of our customers. This year, our CapEx remains unchanged. The incremental increase in capacity in 2017 compared to 2016 year-end for our 8-inch fabs includes Shanghai, adding 9.8k; Tianjin, adding 3.6k; Shenzhen, adding 2.k. For our 12-inch fabs, Beijing B1 adding 8.6k, Beijing joint venture add on 10k and Shenzhen, adding a mini-line of 3k.

To conclude, although the near-term outlook is not as seasonally expected, we work diligently to maintain our position as the foundry of choice in China. Through deepening cooperation with our customers, enhancing product quality, service and offerings, SMIC is in a great position to benefit from the broad-based growth in semiconductor markets. Together with SMIC team, we will work harder to contribute to long-term sustainable value and growth for you, our shareholders.

Thanks for your support. I will now hand the call back to En-Ling for the Q&A session of this call.

E Li -Fe -

Thank you, Haijun. I would now like to open up the call for Q&A. (Operator Instructions) Operator, please assist.

QUESTIONS AND ANSWERS

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(Operator Instructions) Your first question comes from the line of Randy Abrams of Credit Suisse.

R y A r ms - *Credit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department*

Yes, I wanted to ask the first question. If you could talk a bit more about what is driving the slower pickup in third quarter. You mentioned smartphone, but I'm just curious if it's just relating to the smartphone weakness. And if you could talk, looking past that you were targeting to backfill applications, if you could give an initial view for fourth quarter, considering the lower base product delay and strategy for backfill, maybe potential for things to start to pick up in fourth quarter.

H iju Z - *Semiconductor Manufacturing International Corporation - CEO*

Randy, thank you for the question. On your question, yes, I mentioned the points I made, that we see the recovery in the loadings and utilizations in the coming quarters. Yes, we do see on the recovery trend from the smartphone markets. For SMIC and our side, we do not see the market from any smartphone but the connected part, like auto, CMOS imager, NOR flash and these kind of products. And we do see the recovery of the loadings from our customers. And one of the big area we see the downturn probably is the fingerprint applications, and setup box of these kind of jobs. But now we see the recovery of these kind of applications. And for the coming quarters, we already gave the guidance, and I really can say this way, that the smartphone-related market areas, especially for the customers of SMIC, looks better.

R y A r ms - *Credit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department*

Okay. And if I could ask if any -- just to follow up on the first one, but if any of this is relating to the 28 -- just the slow migration, if any bit has been a transition issue, just from 40, where you've had a strong position and broadening customer base, and 28's just starting to ramp. Is any of this relating to transition or, say, competitors already on 28? And if that's the case, is there potential you get some of that business back once your 28 High-K ramps up?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

We already say the revenue change really related to the markets, and one of the factors is the softening of the markets. Another thing that we also say that we did see the product transition from 40-nanometer to 28-nanometer. And that's true. We do see the recovery of these kind of applications also back to 40-nanometer. In the meantime, for 28-nanometer, we also got to pick up loadings. We already showed off the number in the forecast. We have the high single digits revenue from our 28-nanometer in the fourth quarters.

R y A/b r ms - *Credit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department*

Okay. And the second question I wanted to ask, just if you could go through gross margin, where it's coming down a couple points on flat to up sales. Could you go through the factor how much is mix of 28 versus the depreciation coming up? And maybe an outlook where you see margin kind of range, if these lower 20s may be the right range with depreciation rising, or if you fill up this capacity we can get back up to our high 20s?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Yes, Randy, we do not really break down to different technology nodes on the gross margins. We give the guidance on the 22% to 24% in our forecast for the third quarter. We already announced that. And for the gross margin drop from the first quarter to second quarter, we already mentioned the reasons. The first reasons from the softer markets of smartphones. That impact our fab utilizations. And the biggest factor impacting the gross margin is the fab utilization. Another thing we really saw that last year the fab capacity was very tight. But this year we see the relaxation of the fab capacity across the markets. And that led to the pricing competition. And we are using the market price, but overall market price get -- become more competitive. That also affects the gross margin. And just now you mentioned that for the new technologies and for SMIC, we have been through so many years in the mature nodes and in new technology nodes, we have our successful way of doing things to controlling the costs. So that we believe we will make another successful story on the new technology, on 28-nanometer.

Operator

Your next question comes from the line of Steve Pelayo of HSBC.

Steve Pe y - *HSBC, Research Division - Regional Head of Technology Research, Asia-Pacific*

First if I can follow up on Randy's questions. On 28-nanometer, I'm curious, can you talk -- you mentioned that the majority of this year is more PolySiON, but I'm wondering if you can just talk a little bit about number of customers, Tape Outs, how you see the High-K version ramping up. Will that be a meaningful percentage by the fourth quarter? Or just give us a little bit more color on 28-nanometer besides just percentage of revenues.

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

We can't disclose the names of the customers, but we do have more than 2 customer. And on the 28-nanometer PolySiON, currently we have enough products, new products to keep the loadings going. And for 28-nanometer, yes, you are right. For the second quarter, the majority of revenue come from 28-nanometer PolySiON. And second quarter, we increased 26% compared with the first quarter. And the total contribution already accounted for 6.6% of the revenue. And we target the total loadings on the percentage of 28-nanometer in our total revenue. We continue increase to high single digits in the next few quarters. And we do have the HKCs right into production. We will see the contribution to our revenue in the second half year.

Steve [illegible] Pe y - *HSBC, Research Division - Regional Head of Technology Research, Asia-Pacific*

Okay. Second question for me is going to be a little bit on cash flow. Yes, you guys have fairly good cash flow from operations, but your CapEx is still 2 to 3x bigger than your operating cash flow. It looks like kind of a negative $500 million to $700 million per quarter burn, a decrease in cash each quarter. You have about $1.4 billion in total cash on hand. So, I mean, do we really only have kind of 2 to 3 quarters here? Are we going to have to do another financing event there? What are you thinking on cash flow over the next 2 to 4 quarters?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

For SMIC, actually, we have very conservative policy in controlling these cash flow things. Currently, we do have sufficient cash in our hands from our operational revenues. And in the meantime, we also have sufficient guarantees of these financial tools. And you'll see the job of this kind of cash flow, mainly because, for the investments, it's never really run through month by month. The already agreements guided here which also guide out this kind of investments at a specific time point. Overall, we are very conservative on the cash, and we do not see issues at this moment.

E Li -Fe -

And Steve, I'd like to also remind that we do have a joint venture which will also contribute cash into this CapEx. And also, you probably noticed, we also exercised some of the leasing program to fund this installment of equipments. And so overall we see -- we should be fine with our cash position.

Steve [illegible] Pe y - *HSBC, Research Division - Regional Head of Technology Research, Asia-Pacific*

Okay. Are you expecting capital contributions from the JV partner in the second half of the year? And how much will that be?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Our largest joint venture is the joint venture in Beijing, together with the investors of SMIC, are kind of a 51% with the share in the company on controlling. And for the CapEx, we have the investment in Beijing, and that one 50% come from our partners in the joint venture.

Steve [illegible] Pe y - *HSBC, Research Division - Regional Head of Technology Research, Asia-Pacific*

I'm sorry. Last time. I was trying to understand, will there be a capital injection from the JV partners in the second half of the year?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Yes, because this year's CapEx mainly for the fab expansion in 12-inch. And the largest 12-inch expansion actually happens in Beijing joint venture. And that cash injection is 50% of the CapEx spending we announced.

Steve [illegible] Pe y - *HSBC, Research Division - Regional Head of Technology Research, Asia-Pacific*

I'm sorry. How much were you expecting?

E Li -Fe -

We didn't say.

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

We do not disclose the detail of individual fabs.

Steve . . Pe y - *HSBC, Research Division - Regional Head of Technology Research, Asia-Pacific*

Okay. And then last quick question, just from a longer-term question, there's a lot of Chinese capacity that's coming on line, right -- Huali, Powerchip, UMC, TSMC, GlobalFoundries. They're all building in China. So as you think about 2 years from today, maybe, and all those fabs are up and running, how are you thinking about kind of the competitive landscape in China? You guys have kind of had sole running there for a while. So what are you thinking a couple years from now?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Steven, you're very familiar with the current situation in China. The strategy for SMIC is to focus on our own further development. Just now I mentioned the strategy, 3 parts, for SMIC. And the first part of the strategy, we'll strengthen our relations and build our strategic partnership with our existing customers and expand the portfolio for cooperations. And the second is that we'll strengthen (inaudible) our mature nodes and become the best quality, best delivery type of foundry. And for so many years we already have very solid base in the mature technology nodes on quality and the technology strengths and the relationship with our customers. And I really -- and the third that we do have the specialty technologies like CMOS imager and flash memory. At this moment we really, just like you mentioned, we really seriously study the situation and the challenges to SMIC, and we are very confident that we can maintain SMIC's position in China and continue our success story.

Steve . . Pe y - *HSBC, Research Division - Regional Head of Technology Research, Asia-Pacific*

Okay. I'm just going to sneak one last one quick in here for me. Depreciation, what are you targeting for the full year? And I noticed that depreciation and the cost of goods sold in the second quarter actually decreased. So how are you thinking about the depreciation within cost of goods sold? What's embedded in your third quarter guidance there? So full year depreciation and amortization and then third quarter depreciation in cost of goods sold. Last question from me.

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Yes, yes. Actually, Steven, we already announced previously that for the whole year the depreciation will be, we think, USD 1 billion. And we really see quarters stepped up, but whole year, overall, still within the guidance, USD 1 billion.

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The next question comes from the line of Rex Wu.

Rex Wu - *Jefferies LLC, Research Division - Equity Analyst*

So can you comment a little bit on your like Taiwan peers, like UMC start to focusing more on the mature nodes? So can you talk about more SMIC's competitive advantage in these mature nodes?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Rex, thank you for the question. And just now we already mentioned the strategies, taking into consideration the challenges we have from Mainland China new wafer fabs and the competitors overseas. And actually, for so many years, overseas situation more likely the same; there won't be a change. And the competition has been there for many years. And the not from today, so we'll take focus on SMIC's strategy, just continue to strengthen our strength in the mature nodes and in the relations with our customer and in the qualities and time delivery to market. And for these mature nodes, we do not comment on a specific competitor, but the things I'd like to say, the competition has been there for many years. And we do not see -- it doesn't matter if they have the facility in China or overseas. The competition is no big change. We have been facing with this kind of competition in the past 4, 5 years. And we really say that in our mature nodes, just now I mentioned that, and for the communications sectors, fingerprint, CMOS imagers, flash memories and the general logic, RF, analog, this kind of MCU, and we have been very successfully have our market share. And we have our product base and customer base. We will continue our strategy on these parts.

Rex Wu - *Jefferies LLC, Research Division - Equity Analyst*

Okay. So my second question is, can you update on your NOR flash, like an outlook for the next year?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Okay. And that's a very good question. Actually, I'd like to mention that. As you know, SMIC from the start-up was a memory company. Of course, at that moment it was doing the DRAM technology. And after SMIC completely withdrew from the DRAM foundry business we focused on logic. But actually, we became -- one of the area is the flash memory technology for special customers, specialty applications. And for so many years, SMIC has been very strong in this area. That's one of our strongholds for the specialties, for flash memory and for the NOR flash and even the standalone NAND flash. And this year from the end of last year, we saw a very strong recovery and a very strong demand for specialty memories. And SMIC benefits from the preparation of so many years of flash memory technology, also from the building up, accumulation of the customer base and the market shares for our customers' market shares of the flash memory. We saw very, very strong demands for the NOR flash area. And the only thing is that, at the time, SMIC, even though we like to cater to our customers' strong request, it takes time to build up the capacity. And the flash area, especially the NOR flash area, for our customer, they already qualify this kind of thing into the automotive and server. And this is a very stable area for long-term demands. And we already convert part of our capacity to support these demands. That's one of the area for our revenue growth and the fab utilization in the coming quarter next year. And we can also comment that the probability of such a special memory is quite good than before -- much better than before.

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

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r ie - *Morgan Stanley, Research Division - Technology Analyst*

So my first question is regarding the raw wafer supply. Can you give us some comments on the supply situation and whether that constrains your business development in those Flash memory or other fab filler business that you mentioned last time?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Charlie, raw wafer supply has been a very big topic these days in the market. And so far, we do not see a very big concern on this area. The reason -- one of the reasons that SMIC has been in the foundry market for so many years and we already qualified all the major suppliers. We got a mix, just to prevent these kind of sudden situations. This is one of the factor. The second factor is that SMIC, since 2 years back, we already forecast a very strong growth in our revenue. And we already -- beforehand, we already start to have these kind of forecasts with our suppliers side. So we're still on a trend of revenue growth and wafer demanding, so we do not suffer from this kind of sudden change type of things, mainly because of

the planning. We have the forecast for additional requires on wafer quantities. And just now I mentioned that for the NOR flash, for the NAND flash, for these kind of memory special things, it has been in our forecast. This is one of the reason, another reason that actually, for the raw material supply these days, mainly limited by the overall quantity inside of the special requirements. It doesn't matter what kind of wafer specialty and on the requirement on the special occasions. The true bottleneck, actually, is the silicon ingot, it's the silicon slice or silicon wafers, instead of the later part, the process treatment side, like somebody like (inaudible) different concentration of the dopings in the wafer. So we should say SMIC is still on the trend of a forecast that each year how much percentage of the revenue growth, how much more wafer we need to produce. And this kind of cooperation, the contracts already settled down with our suppliers. So they want to change with the product mix change inside SMIC. So the situation is very good so far, yes.

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r ie - *Morgan Stanley, Research Division - Technology Analyst*

Okay. And my next question is regarding your fab utilization and your CapEx plan. So I think at the beginning, the company revised down the full year revenue growth guidance while you maintain your full year CapEx guidance at $2.3 billion. So fab utilization rate I think in 2Q is high 80s, right? So I'm not sure how to reconcile this lower utilization versus your strategy that you want to utilize the current assets instead of spending CapEx when your fabs still have space. So can you sort of reconcile this long-term strategy versus this year's challenge?

H iju Z - *Semiconductor Manufacturing International Corporation - CEO*

Sure. I got your point, Charlie. And for the long term, we already announced, before communicate with our investors, that long term we target 20% CAGR growth. And that part, that portion, no change. We still maintain that for the long term we have this 20% across years growth. In order to make this kind of target really stay, we need to have the growth. And this is the first thing that really, for the CapEx spending, for the capacity expanding and for the technology development, we'll continue. And the second thing is we do have the flexibility and really take into the market change, dynamic change. We have the criteria for choose the procurements and the capacities release. For that portion, we are very cautious. So, so far, we're still able to handle that. Come back to the second quarter, soft market utilization drop you mentioned, the high 80s, and we do see the recovery from the markets. And the situation for the fourth quarter next year looks better than before. So at this moment, we do not have the strong motivation to slow down or to stop. But just now I mentioned that we do have the criteria. We do not suddenly buy auto machine just to prepare for next year. We do have the trigger points. But what kind of utilization to trigger and how much capacity we need to acquire in the next quarter, in the next 6 months, we have very accurate adjustments on these parts.

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r ie - *Morgan Stanley, Research Division - Technology Analyst*

Okay, understood. So just a very quick clarification on your second half fingerprint business recovery, right? So you said the coming [18] new customer, or the existing big customer the demand comes back. Can you clarify a little bit?

H iju Z - *Semiconductor Manufacturing International Corporation - CEO*

First things first. We do have new customer come in, and this accounts for part of the things. And for the existing customer, for the fingerprint applications, the CMOS imager applications, we also see the recovery, yes.

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Your next question is from Roland Shu of Citigroup.

R ' S, u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

First question. For your strategy, now you are going to work on your existing customer and mature technology and also improve the specialty platforms. So it looks like your CapEx spending next year or going forward probably won't be as big as this year. Is this right?

H iju Z, - *Semiconductor Manufacturing International Corporation - CEO*

Roland, we have to say no comments for next year. But just now we mentioned that, for the long term, we are targeting at 20% growth CAGR. And definitely we need to prepare the things for these kinds of targets.

R ' S, u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

Yes, agree. But for this 20% growth CAGR, so you need to expand the capacity. But for your strategy actually, you're trying to focus on more mature technology and the specialty platform. So for the leading-edge technology, probably the intensity, will it be as big as this year or previously?

H iju Z, - *Semiconductor Manufacturing International Corporation - CEO*

We are expanding, like previous years, we're expanding on both the mature and the leading edge. And we are working with our customers. We build out the capacity on the basis of the customer demands. And definitely we have the plans with our customers on what kind of technology platform, what kind of capacity, what kind of a time line and mainly the targeted marketing area, customer name and the product name and the time lines with this kind of realistic base to expand the capacity. So it turned out to be there's a mix of different products, even in the same fab. For example, even in the 12-inch fab, we do not have the same [rough side] setting as the other peers. Maybe a dedicated one fab just to one technology node. But for our side, we have to make the mature nodes and the leading edge in the same fab. So when we're talking about mature, including the 12-inch, about established type of platform to get it expanding -- expansion. Just now I mentioned that for the NOR flash these kind of things. Currently, for the CapEx, we have more than 2/3 of equipment CapEx spending in Beijing B1 and B2 joint venture. And also Shenzhen 12-inch wafer fab. And we already mentioned that for the Beijing B1, the 12-inch wafer fab in Shenzhen, that's mainly on the mature nodes. And the Beijing B2, that's the brand new fab.

R ' S, u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

Okay. So for your mature nodes, are you considering to use the 12-inch mature nodes to do the production for applications such like driver IC or MCU or even for this power management IC?

H iju Z, - *Semiconductor Manufacturing International Corporation - CEO*

Actually, SMIC already qualified this kind of technology in 12-inch. And currently, for the 3 products you mentioned, that we are running both in 8-inch fab and the 12-inch fab. And some are even exactly the same platform, same type technology nodes we are running both 8-inch and 12-inch. It depends on the fab spaces and the flexibility of the machines when we lay down the mature nodes capacity. For example, if we lay down the mature nodes in 12-inch, we can power all the way from 55 to .18, we may choose to lay down the machines to 12-inch wafer fabs. Especially at SMIC, we also consider the fab spaces, wafer fab spaces with either machines they can contribute to the revenue quickly. So that's true. And your point is that we also do the things, expand the capacity in 12-inch, yes.

R ' S, u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

Okay. My second question is on your -- I see the revenue on your 0.11/0.13 micron and the 55/65-nanometer nodes increased, but the revenue contribution from 0.15/0.18 have been decreased a lot in the past quarters. So what kind of applications changed for each node?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

And that's mainly from the soft market of smartphones and they changed the product mix. So when we have the product mix and you already also impact the fab utilizations, because for some customers, for some applications, they need many layers of -- from implantation and this kind of thing for another products when you switch to, and you need to lie down a lot of metal loop. So there's a product mix make the utilization change. And upside, for our foundry fabs, we really see very strong demands for the automotive products and that gives us a very big increase. And the (inaudible) for the second quarter, for the fingerprint products, we see a serious drop, so that one product getting higher and another product getting lower. That's the product mix change.

R ' S. u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

Okay. So I can assume these auto parts actually probably increase or at least contribute this 0.11/0.13 micron?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Yes.

R ' S. u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

And the NOR flash probably contribute at least 55/65-nanometer? Am I right?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

You can say that. 0.18 (inaudible).

R ' S. u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

And how about the decrease from 0.15/0.18? So that's mainly from the fingerprint sensor decrease?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

I guess you're right.

R ' S. u - *Citigroup Inc, Research Division - Director and Head of Regional Semiconductor Research*

So how about for 3Q, for the third quarter, how does each end application work in 3Q?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

We cannot comment too much on this part, but just now we already mentioned that we really saw the recovery of the mobile phone area, especially for the fingerprint, these kind of products, and also the flash memory products, yes.

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The next question is from Rick Hsu with Daiwa Securities.

Rick Hsu - *Daiwa Securities Co. Ltd., Research Division - Head of Regional Technology & Head of Taiwan Research*

I just have 2 questions here. The first one is regarding your second quarter OpEx. The number looks pretty high compared with the first quarter. So did you guys not receive any government subsidies? Or can you elaborate on that part?

Haijun Zhao - *Semiconductor Manufacturing International Corporation - CEO*

Rick, so first things first. Yes, that's right. For the second quarter, you see the OpEx percentage higher than the first quarter. But for the overall, we maintain the same level, around the same level for next quarter. Because the OpEx, we invest in the R&D and the Shenzhen 12-inch wafer fab [mini] line setting up. And we do -- yes, the second question, I mentioned that by now we receive the government funding grant. And we do have that. In our financial table you can see that we have a $16 million grant for R&D contract from the government side, yes.

Rick Hsu - *Daiwa Securities Co. Ltd., Research Division - Head of Regional Technology & Head of Taiwan Research*

Okay. So I just wanted to clarify that in the second quarter you did not receive the funding from the government? Is that right?

Haijun Zhao - *Semiconductor Manufacturing International Corporation - CEO*

No, no, we received. Just now I mentioned the number, $16 million grant from the government on the R&D contract, yes.

Rick Hsu - *Daiwa Securities Co. Ltd., Research Division - Head of Regional Technology & Head of Taiwan Research*

Okay. $15 million?

Haijun Zhao - *Semiconductor Manufacturing International Corporation - CEO*

16, 16. Yes, 1-6.

Rick Hsu - *Daiwa Securities Co. Ltd., Research Division - Head of Regional Technology & Head of Taiwan Research*

Okay. Then you also provided guidance a quarter earlier that, in total, you expect to receive $75 million to $80 million from the government for the whole year. The number is still true?

Haijun Zhao - *Semiconductor Manufacturing International Corporation - CEO*

Yes, still true. We still maintain that we'll receive that much, yes.

Rick Hsu - *Daiwa Securities Co. Ltd., Research Division - Head of Regional Technology & Head of Taiwan Research*

And then second question is, I know you talk about your full year revenue growth expectation and you also talk about your Q4 this year's revenue will likely be better than before. So could you elaborate more about your Q4 visibility? I know it's a little bit too early, but I want to see how your Q4 look like in terms of visibility. Would that be counterseasonal?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

I cannot give too much comments on the fourth quarter. But at this moment, we really saw the PO momentum picking up. And just now we say that the situation looks better than previous expectation.

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Our next question is from Chris Yim of BOCOM International.

Seec. i -Yim - *BOCOM International Securities Limited, Research Division - Research Analyst*

My first question is on -- when you mentioned earlier regarding to ASP pressure, can you give us a little bit more color on where you're seeing the ASP pressure and how much it's impacting your gross margin? That's my first question.

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Actually, this year, the capacity got a relaxation than last year. And the overall markets become very competitive, not just to SMIC. Everybody feels pressure. And we recognize the pricing competition, and we are picking up the market price. So the trend that we should say your understanding of the market this year is that's the normalized pricing game for SMIC. I can say that. And for SMIC, we have been so for so many years and we mainly running on the mature nodes, we are later on the leading edge, and we have our way of handling the cost control. We'll continue the way of doing this. And probably the day when we have this 55-nanometer, 40-nanometer, and we might not reach a similar competition on the pricing side. And you know the market, not every year they have the very tight situation like last year. So for so many relaxed years, we run through with a similar strategy. We just focus on our internal management and cost reduction, and finally we'll work through the competition in the pricing.

Seec. i -Yim - *BOCOM International Securities Limited, Research Division - Research Analyst*

And my follow-up is on your revised annual revenue guidance. Given that you're guiding a little bit lower for 2017, do you still maintain the gross margin target for mid-20s this year?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Yes, we'll maintain that, yes, mid-20% for the overall gross margin for this year.

Seec. i -Yim - *BOCOM International Securities Limited, Research Division - Research Analyst*

My second question has to do with your 28-nanometer technology. I was wondering if you can tell us how -- like more detail on the HKC and HKC Plus. Would you be able to tell us the demand you're seeing in HKC? And for HKC Plus, you mentioned being ready in 2018. Is that more like risk production, mass production? And compared to HKC, in terms of performance and power consumption and maybe die size, how much is HKC Plus better compared to HKC?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

For 28-nanometer High-K and technology nodes, probably we already say that we'll make the production. And on HKC in the second quarter and second half year, and we will deliver the technology at the end of this year so that we can ramp up next year. Currently, we are very carefully ramp up the High-K capacity. And performance point of view, SMIC is foundry compatible. We deliver the compatible performance to the similar technology nodes in this foundry industry. That's the standard (inaudible) performance. So for High-KC Plus for SMIC, we deliver the competitive edge. That means the customer running the product need this high performance. And the more -- different foundry have to agree that different foundry would

like to be different number. But our number, when we really look at our HKC, that's the most competitive in the foundry area. In the performance, the die size reduction performance and the standby current dynamic power, we just match the most competitive.

Operator

Your next question comes from the line of Sebastian Hou of CLSA.

Sebastian Hou - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

My first question set is on your LFoundry contribution. So if I look at your application breakdown, can I assume that most of your automotive/industrial revenue is coming from LFoundry?

Zhiju Z. - *Semiconductor Manufacturing International Corporation - CEO*

The first question is yes. But on the SMIC side and the China side, we also got other products, like MCU and NAND flash also running in the auto area.

Sebastian Hou - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

Okay, yes, understand. So if you look at LFoundry, the revenue run rate in the past few years before you acquired, it's probably around like $200 million, or USD 200 million, USD 250 million revenue per year. And since you just accounted that into your -- started to book the revenue from that since August of last year, if I remember it correctly, so that's 5 months impact last year. So if we do the math, this year you have full year, last year you only had 5 months, so basically that can help you to grow about 5% incremental revenue. And your full year revenue guidance is mid to high single digit, which means that most of your growth of this year is driven by LFoundry acquisition, but your organic growth probably will be 0% or just a very, very small growth. Am I right?

Zhiju Z. - *Semiconductor Manufacturing International Corporation - CEO*

On -- yes, more or less your numbers has been there. And -- but we also got a growth from the joint ventures from Beijing fab this year. They also ramp up to very high capacity. And for the mature fab, you know that last year, we already announced that (inaudible) is running more than 100% utilization. Naturally, we won't expect the growth from there.

Sebastian Hou - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

Okay. My second part of the question is on the NOR Flash, that you mentioned -- I wonder the -- you mentioned the profitability is better than before. So I wonder how much better wafer products do you get, say, per like 10% increase in NOR flash chipset price hike since your LFoundry but not IDM. So you probably need to share the price increase with your fabless customers. So what's the profit sharing? So how much better is that in terms of the profitability? Is it above or similar to your corporate average margin?

Zhiju Z. - *Semiconductor Manufacturing International Corporation - CEO*

You know, Sebastian, generally we not disclose such detailed information, the sensitive informations. But we should say that profit margin mainly come from definitely the market getting better, customer can afford a higher price. But in the meantime, we also simplify the process flow so that the cost is lower than before.

Se[b] sti H u - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

Okay, okay. I can understand it's confidential. I just wonder, just like a bookmark number in terms of the profitability, is it right now standing above your corporate average or similar?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Okay, similar.

Se[b] sti H u - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

Similar. Okay, got it. And also you -- just to follow up on the NOR flash. That you say that these are going to be -- I think you mentioned a couple of times in your prepared remarks and the Q&A session that this has been the driver for your -- part of the growth driver for your second quarter revenue and also you're very positive in second half this year into next year. But when I look -- if I understand correctly, I think most of your NOR flash is manufactured 55 or 65 nanometers, but that node's revenue only increased by 2% sequentially. So it seems not very significant. And I wonder how and when do you see the more significant revenue ramp or contribution to you, which quarters? Second half this year or next year? And also, I think this is -- NOR flash is -- every die size is pretty small, so it doesn't consume a lot of wafers. So how will this put into the numbers to contribute to your growth next year, given it doesn't consume a lot of wafer?

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

We should say it this way. This kind of memory demand has been there. And to convert the capacity or build out the bottleneck capacity takes time. And the revenue contribution only showed up in the fourth quarter this year. And the things that the final -- the contribution to the company is mainly from the overall utilization increments. So for the overall we recover to a stage but we ate up so much new capacities. And later stage we will see better utilization. For this kind of area we have the NOR flash contribution, because they fill out the capacity we build up.

Se[b] sti H u - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

Okay. Just to clarify, so you mentioned that the revenue contribution just started in the first quarter of this year, or when? Sorry. I didn't hear that clearly.

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

In the fourth quarter this year.

Se[b] sti H u - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

Oh, 4Q this year. Okay.

H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Yes.

Se[b] sti .H u - *CL Securities Taiwan Company Limited, Research Division - Research Analyst*

4Q this year. So in the past, I understand that the NOR flash is probably similar to like a filler for you when the utilization rate is high or low and like a filler. But are you now more serious than this compared to before?

.H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Okay, the first thing -- the first comment is yes, probably it is a fab filler. But the total capacity is very minimal. Even though we treat it as a filler, but it did not really perform the functions that build a fab. But now we mainly build out the bottleneck area. So in the future we still have the flexibility. We can convert back 100% the capacity we use for NOR flash today. So we say that we can treat it for the coming time frame, when the memory market is very hot, it's considered one of the strategic with our customer together. But once the market gets soft, then we can convert back -- all the capacity back to loading and the other applications. But the things that will follow our customers.

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We'll take our last question from the line of Gokul Hariharan of JPMorgan.

G ku .H ri. r - *JP Morgan Chase & Co, Research Division - Head of Taiwan Equity Research and Senior Tech Analyst*

First question is on your plans on 14-nanometer development and the R&D spending required for that over the next couple of years. Previously, you had mentioned 2019 is when you would see 14-nanometer coming into production. Is there any updates on that? And I had a follow-up question as well.

.H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

Gokul, yes, the time lines for this technology delivery and the production and the spending maintain the same. Just that currently, since our 28-nanometer program went smoothly and we have more resources to support this 14-nanometer FinFET developments. Because 28-nanometer, HKC Plus, HKC has been running the same R&D fab with the 14-nanometer with one technology moved faster than scheduled so we have more resources to support the 14 FinFET development. And so far just now mentioned that 14-nanometer FinFET, and we got a very good progress in the SRAM yield and the process on setting up, yes. The time line and the other thing still maintain the same, yes.

G ku .H ri. r - *JP Morgan Chase & Co, Research Division - Head of Taiwan Equity Research and Senior Tech Analyst*

Okay. Any color on how much of your R&D spend as we go into next year will be focused on 14? Because it looks like this year a lot of it is still 28-related, right?

.H iju Z. - *Semiconductor Manufacturing International Corporation - CEO*

No specific type of comments on the 14-nanometer FinFET. And at this moment we still do not have the full visibility of next year's situation. And SMIC's overall R&D spending has been reaching a certain percentage. We do not go for rush spending on one technology and nodes. We need to -- really need to balance the overall planning for capacity, overall gross margin and the customer requirements. And just now I mentioned that when we do the R&D, we mainly have 4 factors on the table. The number one is the market segmentation; the second, customer's name; third is the product; and then time lines. And we're taking all the factors into the consideration for the R&D speed and the spending.

G ku .H ri r - *JP Morgan Chase & Co, Research Division - Head of Taiwan Equity Research and Senior Tech Analyst*

Okay. Got it. My last question is on the leasing program for some of the capital expenditure. It looks like this year you are taking advantage of more of the leasing facilities, especially in first half of the year. Could you talk a little bit about what is the strategy around that? How big a portion of the CapEx could be supported by the leasing program going forward? And how do you see that from -- how does it impact the P&L as we exercise more of those facilities?

H iju Z - *Semiconductor Manufacturing International Corporation - CEO*

Gokul, the financial situation in China has been improved significantly in the past 2 years, and we have all different choices: financial loans and leasings and other borrowings and many different ways. And you used the terms that SMIC took advantage of the available financial tools. That's very right. We really have multiple leasing companies working together with SMIC so that we can have very good preferred type of leasing scheme for SMIC. That's a very good situation. But again, just now Chris already asked the question that for SMIC, for the cash flow, the cash balance and overall CapEx spending for the CAGR, 20% growth of capacity on mature nodes and the leading edge and we really need to meet a different requirement to reach a balancing point: gross margins, R&D spending, the capacity expansion, mature nodes, the leading edge. And we just take into the consideration the overall balancing points since we have different choices. And for the leasing, this is the first time for SMIC to use these 2, probably (inaudible) in our guidance kind of 2, I consider it's very positive. But how much we want to use it and mixed together with the own cash borrowings and other things. At this moment, we do not have the fixed number. We do not like to define ourselves how to go for such kind of percentage. It's really a balancing point for SMIC and when we see the need.

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I would now like to hand the call back to CEO, Dr. Zhao, for closing remarks.

H iju Z - *Semiconductor Manufacturing International Corporation - CEO*

In closing, I would like to thank everyone who participated in today's call, and again thank all of the shareholders, customers, employees and the suppliers for their trust and their support. Thank you.

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Thank you. This is the end of SMIC's First (sic) [Second] Quarter Earnings Conference Call. We thank you for joining us today. You may all disconnect.
