

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

April 04, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of April, 2018

Commission File Number: 001-31994

Semiconductor Manufacturing International Corporation

(Translation of registrant's name into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People's Republic of China

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Semiconductor Manufacturing International Corporation

Date: April 3, 2018 By: /s/ Dr. Gao Yonggang

Name: Dr. Gao Yonggang

Title: Executive Director, Chief Financial Officer and Joint Company Secretary

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

*

(Incorporated in the Cayman Islands with limited liability)

(STOCK CODE: 0981)

ANNOUNCEMENT OF 2017 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

The Board announces the audited consolidated results of the Company for the year ended December 31, 2017.

Revenue was a record high of US\$3,101.2 million in 2017, compared to US\$2,914.2 million in 2016, representing an increase of 6.4%.

Gross profit was US\$740.7 million in 2017, compared to US\$849.7 million in 2016.

Gross margin was 23.9% in 2017, compared to 29.2% in 2016.

Revenue from 28nm grew to a record high of 8.0% of total wafer revenue in 2017, representing a revenue increase of 4.4 times compared to 2016.

•

Net cash generated from operating activities was a record high of US\$1,080.7 million in 2017, compared to US\$977.2 million in 2016, representing an increase of 10.6%.

•The net debt to equity ratio remained low at 11.8% as of December 31, 2017.

The board of directors (the “Director(s)”) (the “Board”) of Semiconductor Manufacturing International Corporation (“SMIC” or the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended December 31, 2017 as follows:

– 1 –

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This announcement may contain, 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 and Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. These forward-looking statements are based on SMIC’s current assumptions, expectations and projections about future events. SMIC uses words like “believe”, “anticipate”, “intend”, “estimate”, “expect”, “project” and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting judgment of SMIC’s senior management and 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 cyclicalities and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC’s customers, bad debt risk, timely introduction of new technologies, SMIC’s ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity and financial stability in end markets.

Except as required by law, SMIC undertakes no obligation and does not intend to update any forward- looking statement, whether as a result of new information, future events or otherwise.

ABOUT NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“NON-GAAP”) FINANCIAL MEASURE

This announcement includes EBITDA, which is a non-GAAP financial measure. Such non-GAAP financial measure is not calculated or presented in accordance with, and are not alternatives or substitutes for financial measures prepared in accordance with IFRS, and should be read only in conjunction with the Group’s financial measures prepared in accordance with IFRS. The Group’s non-GAAP financial measures may be different from similarly-titled non-GAAP financial measures used by other companies. The presentation of non-GAAP financial measure 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.

For more information and reconciliations of the non-GAAP financial measure to its most directly comparable GAAP financial measure, please see the disclosure on page 4.

LETTER TO SHAREHOLDERS

Dear Shareholders,

In the past year of 2017, the Company recorded total revenue of US\$3.1 billion, representing a year-on-year increase of 6.4%. Earnings before interest, tax, depreciation, and amortization (EBITDA)* amounted to approximately US\$1.12 billion, representing a year-on-year increase of 5.2%, reaching its all-time high. As a result of a weaker smartphone market and the process migration of certain products, the growth for last year had slowed down as compared with that for the previous year. Meanwhile, the increase in depreciation expenses resulting from the expansion of our capacity and the increase in the investment in R&D activities also imposed pressure on the earnings growth. Revenue from North America-region customers for 2017 increased 44.5% as compared with that for the previous year, and revenue from PRC-based customers was flattish compared to 2016. The ramp up of our 28nm technology served as one of our key growth drivers for 2017. The percentage of revenue from 28nm technology substantially increased from 5% at the beginning of the year to 11.3% at the end of the year, representing a year-on-year increase of 443%.

In the past year, the Company also experienced changes in its management team. Dr. Tzu-Yin Chiu decided to resign as Chief Executive Officer for family reasons, and Dr. Zhao Haijun and Dr. Liang Mong Song were appointed respectively by the Board of Directors as Co-Chief Executive Officers and Executive Directors of SMIC. We believe that Dr. Zhao Haijun and Dr. Liang Mong Song will work together closely to lead SMIC to reach a new height and make contributions to the development of SMIC. Meanwhile, we would also like to express our heartfelt gratitude to Dr. Chiu for his valuable contributions to the Company. SMIC will continue to maintain its international and independent operations. With the strong management team, we are confident in the Company's future prospects.

The Company successfully completed an equity financing transaction in the global capital markets on the evening of December 6, 2017, raising approximately US\$1 billion, reflecting the solid confidence of the capital market in the future development of SMIC. This is the largest simultaneous issuance of shares and equity-linked securities in the technology sector so far in the Hong Kong market, of which the placing of new shares has been the largest placing in the technology sector in which the Hong Kong Stock Exchange is its primary market. Meanwhile, SMIC was the only enterprise in the last 5 years to issue perpetual convertible bonds with no coupon step-up and coupon reset in the Asia-Pacific region; furthermore, the coupon rate of the perpetual convertible bonds has the lowest rate in the Asia-Pacific region to date. This capital raising activity was strongly supported by the substantial shareholders of SMIC. Datang Holdings and China IC Fund actively participated in the capital raising and subscribed additional perpetual convertible bonds under this issue in addition to their portions issued upon the exercise of their pre-emptive rights, reflecting clearly the strategic support by the substantial shareholders to the development of the Company.

In 2018, we are clearly aware of the changes in the market environment of the industry, for example, the slowing growth of smartphone market. The main driving force of industry growth has shifted to high- performance computing products based on advanced nodes. The competition in mature process technology has become increasingly fierce, and the pricing pressure was much greater than originally expected. SMIC is now undergoing a period of transformation in which both challenges and opportunities exist at the same time. We are also pleased to note that we have made significant progress in the research and development (“R&D”) of advanced nodes, indicating that the noteworthy improvement in the efficiency of our R&D efforts. We have not only made notable progress in 28nm HKMG yield, but also made remarkable progress in the research and development of 14nm technology. Yields such as device yield also achieved our internal target. 2018 is a year of preparation for the future. We shall continue to make more investment on the R&D activities to accelerate the R&D of advanced nodes and key mature process platforms. We are preparing the technical aspects and are determined to provide first-class technology and products to our clients based on our trustworthy and innovative manufacturing process and services. We remain committed to diligently and carefully execute our business plan for the best interests of all of our shareholders. We would like to again express our sincere gratitude to our shareholders, customers, suppliers, and employees for their continued care and support of SMIC.

Zhou Zixue**Zhao Haijun, Liang Mong Song***Chairman of the Board and Executive Director Co-Chief Executive Officer and Executive Director*

Shanghai, China

March 29, 2018

EBITDA is defined as profit for the period excluding the impact of the finance cost, depreciation and amortization, and income tax benefit and expense. SMIC uses EBITDA as a measure of operating performance; for planning purposes, including the preparation of the Group's annual operating budget; to allocate resources to enhance the financial performance of the Group's business; to evaluate the effectiveness of the Group's business strategies; and in communications with SMIC's board of directors concerning the Group's financial performance. Although EBITDA is widely used by investors to measure a company's operating performance without regard to items, such as net finance cost, income tax benefit and expense and depreciation and amortization that can vary substantially from company to company depending upon their respective financing structures and accounting policies, the book values of their *assets, their capital structures and the methods by which their assets were acquired, EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results of operations as reported under IFRS. Some of these limitations are: it does not reflect the Group's capital expenditures or future requirements for capital expenditures or other contractual commitments; it does not reflect changes in, or cash requirements for, the Group's working capital needs; it does not reflect finance cost; it does not reflect cash requirements for income taxes; that, although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and these measures do not reflect any cash requirements for these replacements; and that other companies in SMIC's industry may calculate these measures differently than SMIC does, limiting their usefulness as comparative measures.

The following table sets forth the reconciliation of EBITDA to their most directly comparable financial measures presented in accordance with IFRS, for the periods indicated.

	Year ended 12/31/2017	Year ended 12/31/2016	Year ended 12/31/15
	USD'000	USD'000	USD'000
Profit for the year	126,423	316,434	222,323
Finance costs	18,021	23,037	12,218
Depreciation and amortization	971,382	729,866	523,549
Income tax expense (benefit)	1,846	(6,552)	8,541
EBITDA	1,117,672	1,062,785	766,631

BUSINESS REVIEW

In 2017, the Group continued to successfully execute its long-term strategy with sustained profitability and at the same time advancing its technology capabilities on leading edge and value-added differentiated processes. The Group's technology portfolio and proximity to the China market, coupled with the management team's proven track record in operations, technology development and customer service, has positioned the Group well for long term growth. 2017 was a milestone year for SMIC in many aspects. Among other things, the Group announced the appointment of Dr. Zhao Haijun and Dr. Liang Mong Song as the Group's Co-CEOs and Executive Directors, generated record revenue of US\$3.1 billion, the highest in the Group's 17-year history, continued partnerships with leading industry players on 14nm FinFET process technology development, significantly increased revenue contribution from the mass production of 28nm technology with leading mobile baseband and digital consumer IC design companies, and continued to expand its majority-owned 300mm fab operation in Beijing and 200mm fab operation in Shenzhen, China. Additionally, the Group continued to expand its business reach into the global automotive electronics and industrial markets through successful operation and management of LFoundry S.R.L. ("LFoundry"), the Group's first international acquisition through acquiring 70% majority ownership of LFoundry in Italy in 2016.

We believe the Group was the first pure-play foundry in China to enter into mass production with 28nm wafer process technology for mobile computing applications, the first pure-play foundry worldwide to offer 55nm embedded Flash ("eFlash") wafer solutions for SIM Card applications, and the first pure-play foundry worldwide to offer 38nm NAND Flash memory wafer process technology. The Group also continued to drive its value-added wafer manufacturing process technologies for specialty products, such as Power Management IC ("PMIC"), Battery Management IC ("BMIC"), embedded Electrically Erasable Programmable Read-Only Memory ("eEEPROM"), eFlash, Microprocessor ("MCU"), Ultra-Low-Power technologies ("ULP"), Radio Frequencies IC ("RF") and wireless connectivity, Touch Controller IC ("TCIC"), Biometric Sensors, CMOS Image Sensors ("CIS"), and Micro-Electrical-Mechanical System ("MEMS") sensors. These applications are the essential building blocks for the mobile computing market, the growing automotive electronics market, and Internet-of-Things ("IoT") market.

With an expanded manufacturing base, well-balanced technology portfolio and one-stop shop service offerings, the Group is well positioned with its global operations to serve both domestic and worldwide customers.

Financial Overview

Despite a challenging environment in 2017, the Group's sales totaled US\$3,101.2 million, compared to US\$2,914.2 million in 2016. The Group recorded a profit of US\$126.4 million in 2017, compared to US\$316.4 million in 2016. During the year, we generated US\$1,080.7 million in cash from operating activities, compared to US\$977.2 million in 2016. Capital expenditures in 2017 totaled US\$2,487.9 million, compared to US\$2,694.7 million in 2016. Looking ahead, our objective is to continue sustained profitability over the long term. To achieve this, we intend to focus on

Edgar Filing: SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP - Form 6-K
precision execution, efficiency improvement, customer service excellence while fostering innovation.

- 5 -

Customers and Markets

The Group continues to serve a broad global customer base comprising leading integrated device manufacturers, fabless semiconductor companies and system companies. Geographically, customers from the North America contributed 40.0% of the overall revenue in 2017, compared to 29.4% in 2016. Leveraging on the Group's strategic position in China, our China revenue contributed 47.3% of the overall revenue in 2017, compared to 49.7% in 2016. Eurasia contributed 12.7% of the overall revenue in 2017, compared to 20.9% in 2016.

In terms of applications, revenue contribution from communication applications represented 44.3% to Group's overall revenue in 2017 as compared to 47.7% in 2016. Consumer applications contributed 37.3% to the Group's overall revenue in 2017 as compared to 38.2% in 2016. While the Group has very limited exposure to the PC market, it has grown its business in computer applications from US\$122.5 million in 2016 to US\$192.3 million in 2017, representing a 57.0% increase on annual growth in computer segment. The Group has also increased its revenue in automotive and industrial applications from US\$112.7 million in 2016 to US\$244.8 million in 2017, representing a 117.2% increase on annual growth. Furthermore, others related applications represented 4.3% to Group's overall revenue in 2017 as compared to 6.0% in 2016.

In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below increased from 46.9% in 2016 to 50.7% in 2017 and, in particular, the revenue contribution percentage from 28nm technology increased from 1.6% in 2016 to 8.0% in 2017. In addition, the Group continued to have steady revenue growth from 45/40nm and 65/55nm related business in 2017.

We believe the Group is also well positioned with its continuous business growth in China. According to IHS Markit, China continues to be the number one region of the world in terms of semiconductor IC consumptions, mainly due to its high volume electronics manufacturing and mass consumer market. IHS estimates that US\$189 billion worth of semiconductors were shipped to China in 2017, representing 44.1% of worldwide semiconductor value. In addition, we believe the overall local China's IC design market is still growing healthily and strongly. Local analyst, ICwise, estimated that the China's IC design market reached approximately US\$21.1 billion in 2017, a 20.1% year to year increase from 2016 and projected that it might experience a compounded annual growth rate of 20.9% till year 2021, which would bring the worth of the China IC design market to US\$45.2 billion by 2021.

Notably, as indicative of future revenue growth, we continued to see new designs using both specialty technology and advanced technology, in particular on 0.18 μ m, 0.11/0.13 μ m, 55/65nm, 40/45nm and 28nm process technologies. The Group has, in each of its sales regions, customers utilizing its most competitive specialty technology and advanced nodes technology. We believe China is rapidly closing the gap with the rest of the world in terms of innovation and design capabilities. To fully leverage the market growth potential in China, the Group plans to continue to deepen its collaboration with Chinese customers while broadening relationships with its global customers and enable their

success in China and various emerging markets, such as mobile computing, automotive electronics, IoT, industrial, security and surveillance, Artificial Intelligence (“AI”), and edge computing related applications.

– 6 –

Long-Term Business Model and Strategy for Generating and Preserving Value

SMIC's long-term goal is to focus on generating value for the benefit of all stakeholders. SMIC's long-term business model is to function as the foundry service provider of choice in mainland China, while targeting to be a world-class service provider. SMIC's strategy to generate sustainable growth and long-term profitability is three-fold. First, we aim to accelerate mature and advanced technology development in order to capture the large mainstream waves of market opportunities in China. Second, we focus and build up key platforms which take full advantage of our positioning and align with key customers' needs. Third, we aim to capture increased market share, through strategic partnerships with key customers. We continually evaluate the potential long-term value-addition of opportunities in our decision-making processes, and our management team is committed to building value in the long-term for the benefit of our employees and shareholders.

Research and Development

SMIC primarily focuses its research and development ("R&D") efforts on advanced logic and value-added specialty technologies, addressing 0.35 micron to 14 nanometer.

In 2017, SMIC achieved key milestones in 14nm R&D development, which included establishing 14nm device performance, SRAM yield, logic yield, and process qualification using various vehicles. In addition, till the end of 2017, SMIC was among the world's top 5 assignees in patent filing for FinFET related technologies.

SMIC continues to invest in a variety of specialty mature platforms with enhanced ultra-low power features, including embedded nonvolatile memory and power management, segment. These are suitable to address future business opportunities in the IoT, cloud computing, artificial intelligence, smart automobiles, and other growing segments.

SMIC has also worked to enhance its R&D organizational structure in 2017, resulting in expanded capability, high efficiency, and increased resource allocation for accelerating technology developments, including advanced and specialty technologies.

In 2017, SMIC made over 1,300 patent filings as a result of its technology R&D activities.

Outlook for 2018

Looking forward, we believe SMIC is in a stage of transition as we confront the challenges of changing market dynamics and mounting pricing pressure. We are introducing new fabs and adjusting product mix to address the evolving market.

We target annual revenue growth in line with the industry, representing high single-digit year-over-year growth. We also aim to maintain annual gross margin in the teens-percentage level. These targets include a one-time gain from technology license sales.

For 2018, planned foundry capex is US\$1.9 billion, a decrease of US\$0.5 billion compared to 2017, as we invest in equipment according to clarity of demand and technological capability. In 2018, we will adjust our product mix and prepare facilities to accommodate expansion when demand and capability requirements are met.

We believe 2018 will be challenging for us as we transition our product mix, technology and capacities. However, our drivers of moderate growth in 2018 will include a diverse variety of technologies, from power management IC on 0.18-micron to NOR Flash on 55nm. In 2018, we expect revenue growth will be from various geographic regions with particular strength from China based customers. We anticipate that we will continue to benefit from our strong position in China — not only from the growing domestic fabless industry, but also from international customers leveling to capture more market share in China.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATION

Consolidated Financial Data

The summary consolidated financial data presented below as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 are derived from, and should be read in conjunction with, the audited consolidated financial statements, including the related notes, found elsewhere in this announcement. The summary consolidated financial data presented below have been prepared in accordance with IFRS.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	(in US\$ thousands, except per share, shares, percentages and units)				
Revenue	3,101,175	2,914,180	2,236,415	1,969,966	2,068,964
Cost of sales	(2,360,431)	(2,064,499)	(1,553,795)	(1,486,514)	(1,630,528)
Gross profit	740,744	849,681	682,620	483,452	438,436
Research and development expenses, net	(427,111)	(318,247)	(237,157)	(189,733)	(145,314)
Sales and marketing expenses	(35,796)	(35,034)	(41,876)	(38,252)	(35,738)
General and administration expenses	(197,899)	(157,371)	(213,177)	(139,428)	(138,167)
Other operating income (expense), net	44,957	177	31,594	14,206	67,870
Profit from operations	124,895	339,206	222,004	130,245	187,087
Interest income	27,090	11,243	5,199	14,230	5,888
Finance costs	(18,021)	(23,037)	(12,218)	(20,715)	(34,392)
Foreign exchange gains or losses	(12,694)	(1,640)	(26,349)	(5,993)	13,726
Other gains or losses, net	16,499	(2,113)	55,611	18,210	4,010
Share of (loss) profit of investment accounted for using equity method	(9,500)	(13,777)	(13,383)	2,073	2,278
Profit before tax	128,269	309,882	230,864	138,050	178,597
Income tax (expense) benefit	(1,846)	6,552	(8,541)	(11,789)	(4,130)
Profit for the year	126,423	316,434	222,323	126,261	174,467
Other comprehensive income (loss)					
<i>Item that may be reclassified subsequently to profit or loss</i>					
Exchange differences on translating foreign operations	23,213	(19,031)	(8,185)	(324)	731
	(2,381)	807	452	—	—

Change in value of available-for-sale financial assets					
Cash flow hedges	35,143	(34,627)	—	—
Share of other comprehensive income of joint ventures accounted for using equity method	17,646	—		—	—
Others	(131)	1	130	—
Items that will not be reclassified to profit or loss					
Actuarial gains or losses on defined benefit plans	(436)	1,520	—	—
Total comprehensive income for the year	199,477	265,104		214,720	125,937
					175,198

– 8 –

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	(in US\$ thousands, except per share, shares, percentages and units)				
Profit (loss) for the year attributable to:					
Owners of the Company	179,679	376,630	253,411	152,969	173,177
Non-controlling interest	(53,256)	(60,196)	(31,088)	(26,708)	1,290
	126,423	316,434	222,323	126,261	174,467
Total comprehensive income (loss) for the year attributable to:					
Owners of the Company	251,135	326,191	245,803	152,645	173,908
Non-controlling interest	(51,658)	(61,087)	(31,083)	(26,708)	1,290
	199,477	265,104	214,720	125,937	175,198
Earnings per share*					
Basic	\$0.04	\$0.09	\$0.07	\$0.05	\$0.05
Diluted	\$0.04	\$0.08	\$0.06	\$0.04	\$0.05
Shares issued and outstanding*	4,916,106,889	4,252,922,259	4,207,374,896	3,585,609,617	3,211,230,710
Financial Ratio					
Gross margin	23.9	% 29.2	% 30.5	% 24.5	% 21.2
Net margin	4.1	% 10.9	% 9.9	% 6.4	% 8.4
Operating Data					
Wafers shipped (in unit)	4,310,779	3,957,685	3,015,966	2,559,245	2,574,119

Main Financial Position Data

As of December 31,
2017