

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

November 08, 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 November, 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

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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: November 7, 2018 By: /s/ Dr. Gao Yonggang

Name: Dr. Gao Yonggang

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

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SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

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(Incorporated in the Cayman Islands with limited liability)

(STOCK CODE: 0981)

SMIC REPORTS UNAUDITED RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

Revenue was \$850.7 million in 3Q18, compared to \$890.7 million (\$837.9 million, excluding technology licensing revenue) in 2Q18 and \$769.7 million in 3Q17.

Gross profit was \$174.5 million in 3Q18, compared to \$217.8 million (\$165.0 million, excluding technology licensing revenue) in 2Q18 and \$177.3 million in 3Q17.

Gross margin was 20.5% in 3Q18, compared to 24.5% (19.7%, excluding technology licensing revenue) in 2Q18 and 23.0% in 3Q17.

Set out below is a copy of the full text of the press release by the Company and its subsidiaries (the “Group”) on November 7, 2018, in relation to its unaudited results for the three months ended September 30, 2018.

All currency figures stated in this report are in US Dollars unless stated otherwise.

The consolidated financial information is prepared in accordance with International Financial Reporting Standards (“IFRS”) and is presented in accordance with IFRS unless otherwise stated below.

Shanghai, China – November 7, 2018. Semiconductor Manufacturing International Corporation (NYSE: SMI; SEHK: 981) (“SMIC”, the “Company” or “our”), one of the leading semiconductor foundries in the world, today announced its consolidated results of operations for the three months ended September 30, 2018.

Fourth Quarter 2018 Guidance:

The following statements are forward looking statements based on current expectations and involved risks and uncertainties, some of which are set forth under “Safe Harbor Statements” below. The Company expects:

Revenue to decrease by 7% to 9% QoQ.

Gross margin to range from 15% to 17%.

Non-GAAP operating expenses, excluding the effect of employee bonus accrual, government funding, impairment loss of machinery and equipment, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters, to range from \$226 million to \$230 million.

Non-controlling interests of our majority-owned subsidiaries to range from positive \$20 million to positive \$22 million (losses to be borne by non-controlling interests).

Dr. Zhao Haijun and Dr. Liang Mong Song, SMIC’s Co-Chief Executive Officers commented, “With the support of our customers and the efforts of our colleagues, our third quarter performance was in line with guidance. When excluding revenue from technology licensing, revenue from our China region continued to grow 40% year over year, and 5% quarter over quarter. Wireless communications, power management and fingerprint IC applications were the major growth drivers. Looking at the full year, our annual revenue target remains unchanged.

Looking at the fourth quarter, although the industry has entered a period of seasonal adjustment, we continue to carry out customer engagement and verification on our advanced technology platforms, so as to gather strength for future growth.

Throughout this year, many changes have taken place both in the industry and market. At present, the most important task for SMIC is to seize the opportunities in the market and in new applications, and actively enhance the quality of products and customer service. In terms of technology research and development, we will continue to put in our utmost effort to focus on the planning and development of mainstream and advanced technology platforms, and maintain long-term and stable partnership with our customers. As China’s preferred foundry partner, we believe that together with our customers, employees and shareholders, we will benefit from the growth opportunities of China’s IC market.”

Conference Call / Webcast Announcement

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Date: November 7, 2018

Time: 8:30 a.m. Beijing time

Dial-in numbers and pass code:

| | |
|-------------------------|------------------------------------|
| China | +86 400-620-8038 (Pass code: SMIC) |
| Hong Kong | +852 3018-6771 (Pass code: SMIC) |
| Taiwan | +886 2-5572-3895 (Pass code: SMIC) |
| United States, New York | +1 845-675-0437 (Pass code: SMIC) |

The call will be webcast live with audio at http://www.smics.com/en/site/company_activity or <https://edge.media-server.com/m6/p/gmynvsjs>

An archived version of the webcast, along with an electronic copy of this news release will be available on the SMIC website for a period of 12 months following the webcast.

About SMIC

Semiconductor Manufacturing International Corporation (“SMIC”; NYSE: SMI; SEHK: 981), one of the leading foundries in the world, is Mainland China’s largest foundry in scale, broadest in technology coverage, and most comprehensive in semiconductor manufacturing services. SMIC provides integrated circuit (IC) foundry and technology services on process nodes from 0.35 micron to 28 nanometer. Headquartered in Shanghai, China, SMIC has an international manufacturing and service base. In China, SMIC has a 300mm wafer fabrication facility (fab) and a 200mm fab in Shanghai; a 300mm fab and a majority-owned 300mm fab for advanced nodes in Beijing; 200mm fabs in Tianjin and Shenzhen; and a majority-owned joint-venture 300mm bumping facility in Jiangyin; additionally, in Italy SMIC has a majority-owned 200mm fab. SMIC also has marketing and customer service offices in the U.S., Europe, Japan, and Taiwan, and a representative office in Hong Kong.

For more information, please visit www.smics.com.

Safe Harbor Statements

(Under the Private Securities Litigation Reform Act of 1995)

This press release contains, in addition to historical information, "forward-looking statements" within the meaning of the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements, including statements under “Fourth Quarter 2018 Guidance”, “Capex Summary” and the statements contained in the quotes of our Co-Chief Executive Officers are based on SMIC's current assumptions, expectations and projections about future events. SMIC uses words like "believe," "anticipate," "intend," "estimate," "expect," "project," "target" and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the best 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 cyclicity and market conditions in the semiconductor industry, intense competition in the semiconductor industry, SMIC's reliance on a small number of customers, timely wafer acceptance by SMIC's customers, 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, financial stability in end markets, orders or judgments from pending litigation, intensive intellectual property litigation in semiconductor industry, general economic conditions and fluctuations in currency exchange rates.

In addition to the information contained in this press release, you should also consider the information contained in our other filings with the SEC, including our annual report on Form 20-F filed with the SEC on April 27, 2018, especially in the "Risk Factors" section and such other documents that we may file with the SEC or The Hong Kong Stock Exchange Limited ("SEHK") from time to time, including current reports on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this press release may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated or, if no date is stated, as of the date of this press release. Except as may be 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 Measures

To supplement SMIC’s consolidated financial results presented in accordance with IFRS, SMIC uses in this press release non-GAAP measures of operating results that are adjusted to exclude finance cost, depreciation and amortization, income tax benefits and expenses, the effect of employee bonus accrual, government funding, impairment loss of machinery and equipment, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters. This earnings release also includes fourth quarter 2018 guidance for non-GAAP operating expenses. The presentation of non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS. This earnings release includes EBITDA, EBITDA margin and non-GAAP operating expenses which consist of total operating expenses as adjusted to exclude the effect of employee bonus accrual, government funding, impairment loss of machinery and equipment, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters. These non-GAAP financial measures are 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.

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.

The accompanying table has more information and reconciliations of each non-GAAP financial measure to its most directly comparable GAAP financial measure. A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis because the effect of these adjustment items excluded for the purpose of non-GAAP operating expenses guidance are subject to some unpredictable conditions that cannot be estimated with reasonable certainty.

Summary of Third Quarter 2018 Operating Results

Amounts in US\$ thousands, except for EPS and operating data

| | 3Q18 | 2Q18 | QoQ | 3Q17 | YoY |
|---|-----------|-----------|--------|-----------|--------|
| Revenue | 850,662 | 890,713 | -4.5% | 769,723 | 10.5% |
| Cost of sales | (676,119) | (672,880) | 0.5% | (592,426) | 14.1% |
| Gross profit | 174,543 | 217,833 | -19.9% | 177,297 | -1.6% |
| Operating expenses | (180,371) | (198,697) | -9.2% | (154,592) | 16.7% |
| (Loss) profit from operations | (5,828) | 19,136 | - | 22,705 | - |
| Other income (expense), net | 17,843 | 14,955 | 19.3% | 7,290 | 144.8% |
| Profit before tax | 12,015 | 34,091 | -64.8% | 29,995 | -59.9% |
| Income tax (expense) benefit | (4,424) | (2,426) | 82.4% | 595 | - |
| Profit for the period | 7,591 | 31,665 | -76.0% | 30,590 | -75.2% |
| Other comprehensive income (loss): | | | | | |
| Exchange differences on translating foreign operations | (28,192) | (18,510) | 52.3% | 5,686 | - |
| Change in value of available-for-sale financial assets | - | - | - | (455) | - |
| Cash flow hedges | 758 | 16,831 | -95.5% | 5,620 | -86.5% |
| Actuarial gains or losses on defined benefit plans | 159 | 767 | -79.3% | 32 | 396.9% |
| Share of other comprehensive income of joint ventures accounted for using equity method | - | - | - | 5,891 | - |
| Total comprehensive (loss) income for the period | (19,684) | 30,753 | - | 47,364 | - |
| Profit (loss) for the period attributable to: | | | | | |
| Owners of the Company | 26,559 | 51,599 | -48.5% | 25,899 | 2.5% |
| Non-controlling interests | (18,968) | (19,934) | -4.8% | 4,691 | - |
| Profit for the period | 7,591 | 31,665 | -76.0% | 30,590 | -75.2% |
| Gross margin | 20.5% | 24.5% | | 23.0% | |
| Earnings per ordinary share ⁽¹⁾ | | | | | |
| Basic | \$0.00* | \$0.01 | | \$0.01 | |
| Diluted | \$0.00* | \$0.01 | | \$0.01 | |
| Earnings per ADS ⁽²⁾ | | | | | |
| Basic | \$0.02 | \$0.05 | | \$0.03 | |
| Diluted | \$0.02 | \$0.05 | | \$0.03 | |
| Wafers shipped (in 8" equivalent wafers) | 1,315,007 | 1,258,336 | | 1,076,039 | |
| Capacity utilization ⁽³⁾ | 94.7% | 94.1% | | 83.9% | |

Note:

(1) Based on weighted average ordinary shares of 5,014 million (basic) and 5,040 million (diluted) in 3Q18, 4,932 million (basic) and 5,340 million (diluted) in 2Q18, and 4,651 million (basic) and 4,690 million (diluted) in 3Q17.

(2) Each ADS represents 5 ordinary shares.

(3) Based on total equivalent wafers out divided by estimated total quarterly capacity.

Revenue was \$850.7 million in 3Q18, compared to \$890.7 million (\$837.9 million, excluding technology licensing revenue) in 2Q18. Revenue, excluding the technology licensing revenue, increased in 3Q18 mainly due to an increase in wafer shipment in 3Q18.

Cost of sales was \$676.1 million in 3Q18, compared to \$672.9 million in 2Q18.

* Basic and diluted earnings per share were \$0.0049.

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Gross profit was \$174.5 million in 3Q18, compared to \$217.8 million (\$165.0 million, excluding technology licensing revenue) in 2Q18.

Gross margin was 20.5% in 3Q18, compared to 24.5% (19.7%, excluding technology licensing revenue) in 2Q18.

Operating expenses were \$180.4 million in 3Q18, a decrease of 9.2% QoQ from \$198.7 million in 2Q18, mainly due to the reasons stated in Operating Expenses (Income) Analysis below.

Other income (expense), net was \$17.8 million gain in 3Q18, as compared to \$15.0 million gain in 2Q18. The change was mainly due to the reasons stated in Other Income (Expense), Net below.

Exchange differences on translating foreign operations were \$28.2 million loss in 3Q18 and \$18.5 million loss in 2Q18. The change was mainly due to the translation difference from the subsidiaries and associates using RMB as the functional currency caused by the depreciation of RMB against USD.

Analysis of Revenue

| Revenue Analysis | | | |
|------------------------------|-------|-------|-------|
| By Application | 3Q18 | 2Q18 | 3Q17 |
| Computer | 7.5% | 5.7% | 5.8% |
| Communications | 46.3% | 40.3% | 45.3% |
| Consumer | 32.5% | 37.1% | 37.0% |
| Auto/Industrial | 7.5% | 7.4% | 8.1% |
| Others | 6.2% | 9.5% | 3.8% |
| By Service Type | 3Q18 | 2Q18 | 3Q17 |
| Wafers | 94.4% | 90.0% | 98.4% |
| Mask making, testing, others | 5.6% | 10.0% | 1.6% |
| By Geography | 3Q18 | 2Q18 | 3Q17 |
| North America ⁽¹⁾ | 33.0% | 33.0% | 41.9% |
| China ⁽²⁾ | 57.9% | 58.6% | 45.7% |
| Eurasia ⁽³⁾ | 9.1% | 8.4% | 12.4% |
| Wafer Revenue Analysis | | | |
| By Technology | 3Q18 | 2Q18 | 3Q17 |
| 28 nm | 7.1% | 8.6% | 8.8% |
| 40/45 nm | 18.7% | 17.5% | 20.6% |
| 55/65 nm | 21.0% | 24.2% | 20.2% |
| 90 nm | 1.4% | 1.2% | 1.4% |
| 0.11/0.13 μm | 8.7% | 7.6% | 8.1% |
| 0.15/0.18 μm | 39.5% | 37.1% | 37.8% |
| 0.25/0.35 μm | 3.6% | 3.8% | 3.1% |

Note:

- (1) Presenting the Revenue to those companies whose headquarters are in the United States, but ultimately selling and shipping the products to their global customers.
- (2) Including Hong Kong, but excluding Taiwan
- (3) Excluding China and Hong Kong

Capacity*

| Fab | 3Q18 | 2Q18 |
|--|---------|---------|
| Shanghai 200mm fab | 106,000 | 108,000 |
| Shanghai 300mm fab | 33,750 | 38,250 |
| Beijing 300mm fab | 94,500 | 96,750 |
| Tianjin 200mm fab | 53,000 | 50,000 |
| Shenzhen 200mm fab | 40,300 | 35,000 |
| Shenzhen 300mm fab | 6,750 | 6,750 |
| Majority-owned Beijing 300mm fab | 74,250 | 72,000 |
| Majority-owned Avezzano 200mm fab | 42,325 | 42,325 |
| Total monthly wafer fabrication capacity | 450,875 | 449,075 |

Note:

*Wafers per month at the end of the period in 8" equivalent wafers, calculated on a 30-day basis for comparison purposes

Monthly capacity was 450,875 8-inch equivalent wafers in 3Q18 from 449,075 8-inch equivalent wafers in 2Q18.

Shipment and Utilization

| 8" equivalent wafers | 3Q18 | 2Q18 | QoQ 3Q17 | YoY |
|---------------------------------|-----------|-----------|----------|-----------------|
| Wafer shipments | 1,315,007 | 1,258,336 | 4.5% | 1,076,039 22.2% |
| Utilization rate ⁽¹⁾ | 94.7% | 94.1% | - | 83.9% - |

Note:

(1) Based on total equivalent wafers out divided by estimated total quarterly capacity.

Detailed Financial Analysis

Gross Profit Analysis

| Amounts in US\$ thousands | 3Q18 | 2Q18 | QoQ | 3Q17 | YoY |
|---------------------------|---------|---------|------|---------|-------|
| Cost of sales | 676,119 | 672,880 | 0.5% | 592,426 | 14.1% |

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| | | | | | |
|---------------------------|---------|---------|--------|---------|--------|
| Depreciation | 208,335 | 211,284 | -1.4% | 178,302 | 16.8% |
| Other manufacturing costs | 466,887 | 460,440 | 1.4% | 413,089 | 13.0% |
| Share-based compensation | 897 | 1,156 | -22.4% | 1,035 | -13.3% |
| Gross profit | 174,543 | 217,833 | -19.9% | 177,297 | -1.6% |
| Gross margin | 20.5% | 24.5% | - | 23.0% | - |

Cost of sales was \$676.1 million in 3Q18, compared to \$672.9 million in 2Q18.

Depreciation within the cost of sales decreased by 1.4% to \$208.3 million in 3Q18, compared to \$211.3 million in 2Q18.

Other manufacturing costs within the cost of sales increased by 1.4% to \$466.9 million in 3Q18, compared to \$460.4 million in 2Q18.

Gross profit was \$174.5 million in 3Q18, compared to \$217.8 million (\$165.0 million, excluding technology licensing revenue) in 2Q18.

Gross margin was 20.5% in 3Q18, compared to 24.5% (19.7%, excluding technology licensing revenue) in 2Q18.

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Operating Expenses (Income) Analysis

| Amounts in US\$ thousands | 3Q18 | 2Q18 | QoQ | 3Q17 | YoY |
|-------------------------------|----------|---------|--------|---------|--------|
| Operating expenses | 180,371 | 198,697 | -9.2% | 154,592 | 16.7% |
| Research and development, net | 152,968 | 147,177 | 3.9% | 106,848 | 43.2% |
| General and administrative | 50,535 | 48,801 | 3.6% | 46,104 | 9.6% |
| Selling and marketing | 6,102 | 8,139 | -25.0% | 9,587 | -36.4% |
| Other operating income | (29,234) | (5,420) | 439.4% | (7,947) | 267.9% |

R&D expenses increased by \$5.8 million QoQ to \$153.0 million in 3Q18, compared to \$147.2 million in 2Q18. Excluding the funding of R&D contracts from the government, R&D expenses increased by \$6.1 million QoQ to \$172.3 million in 3Q18. The change was mainly due to higher level of R&D activities in 3Q18. Funding of R&D contracts from the government was \$19.3 million in 3Q18, compared to \$19.0 million in 2Q18.

The increase in other operating income was mainly due to 1) an increase in government funding received in 3Q18 and 2) higher gain on the disposal of equipment and living quarters in 3Q18.

Other Income (Expense), Net

| Amounts in US\$ thousands | 3Q18 | 2Q18 | QoQ | 3Q17 | YoY |
|--|---------|----------|--------|----------|--------|
| Other income (expense), net | 17,843 | 14,955 | 19.3% | 7,290 | 144.8% |
| Interest income | 18,689 | 12,640 | 47.9% | 6,545 | 185.5% |
| Finance costs | 8,212 | (10,645) | - | 12,906 | -36.4% |
| Foreign exchange gains or losses | (9,223) | 10,490 | - | (11,685) | -21.1% |
| Other gains or losses, net | 1,781 | 4,375 | -59.3% | (1,657) | - |
| Share of (loss) gain of investment accounted for using equity method | (1,616) | (1,905) | -15.2% | 1,181 | - |

The finance costs in 3Q18 were covered by the interest subsidies received from the government. Foreign exchange gains or losses were mainly due to the net impact of cash flow hedging and the depreciation of RMB against USD in 3Q18. Foreign monetary assets mainly consist of cash and cash equivalent and trade and other receivables in RMB. Foreign monetary liabilities mainly consist of borrowings, medium-term notes and trade and other payables in RMB.

Depreciation and Amortization

| Amounts in US\$ thousands | 3Q18 | 2Q18 | QoQ | 3Q17 | YoY |
|-------------------------------|---------|---------|-------|---------|------|
| Depreciation and amortization | 259,076 | 267,528 | -3.2% | 243,196 | 6.5% |

Liquidity

| Amounts in US\$ thousands | 3Q18 | 2Q18 |
|---|-----------|-----------|
| Cash and cash equivalent | 822,619 | 1,414,260 |
| Restricted cash - current | 586,086 | 349,974 |
| Derivative financial instruments | 4,834 | 8,931 |
| Financial assets at fair value | | |
| through profit or loss - current | 47,945 | 60,412 |
| Financial assets at amortized cost | 2,082,233 | 1,235,633 |
| Trade and other receivables | 926,317 | 919,490 |
| Prepayment and prepaid operating expenses | 40,255 | 46,754 |
| Inventories | 697,964 | 697,021 |
| Assets classified as held-for-sale | 12,912 | 18,546 |
| Total current assets | 5,221,165 | 4,751,021 |
| Current tax liabilities | 7,664 | 6,065 |
| Derivative financial instruments | 18,797 | 2,541 |
| Accrued liabilities | 146,628 | 136,677 |
| Deferred government funding | 227,816 | 188,981 |
| Medium-term notes - current | 217,554 | 225,996 |
| Short-term borrowings | 728,097 | 781,134 |
| Contract liabilities | 57,845 | 66,404 |
| Trade and other payables | 1,050,283 | 949,440 |
| Other liabilities | 32,188 | 45,101 |
| Total current liabilities | 2,486,872 | 2,402,339 |
| Cash Ratio ⁽¹⁾ | 0.3x | 0.6x |
| Quick Ratio ⁽²⁾ | 1.8x | 1.7x |
| Current Ratio ⁽³⁾ | 2.1x | 2.0x |

Note:

(1) Cash and cash equivalent divided by total current liabilities.

(2) Current assets excluding inventories divided by total current liabilities

(3) Total current assets divided by total current liabilities.

Capital Structure

| Amounts in US\$ thousands | 3Q18 | 2Q18 |
|---|-----------|-----------|
| Cash and cash equivalent | 822,619 | 1,414,260 |
| Financial assets at fair value | | |
| through profit or loss - current ⁽¹⁾ | 47,945 | 60,412 |
| Financial assets at amortized cost ⁽²⁾ | 2,082,233 | 1,235,633 |
| Short-term borrowings | 728,097 | 781,134 |
| Long-term borrowings | 1,465,548 | 1,532,739 |
| Medium-term notes | 217,554 | 225,996 |
| Convertible bonds | 414,706 | 410,819 |
| Corporate bonds | 498,075 | 497,609 |
| Total debt | 3,323,980 | 3,448,297 |
| Net debt ⁽³⁾ | 371,183 | 737,992 |
| Equity | 7,968,663 | 7,614,756 |
| Total debt to equity ratio ⁽⁴⁾ | 41.7% | 45.3% |
| Net debt to equity ratio ⁽⁵⁾ | 4.7% | 9.7% |

Note:

(1) Mainly contains financial products sold by bank.

(2) Mainly contains bank deposits over 3 months.

(3) Total debt minus cash and cash equivalent, financial assets at fair value through profit or loss and financial assets at amortized cost.

(4) Total debt divided by equity.

(5) Net debt divided by equity.

Cash Flow

| Amounts in US\$ thousands | 3Q18 | 2Q18 |
|--|-------------|-----------|
| Net cash from operating activities | 216,487 | 110,731 |
| Net cash used in investing activities | (1,086,068) | (647,929) |
| Net cash from financing activities | 308,802 | 958,474 |
| Effect of exchange rate changes | (30,862) | (15,499) |
| Net change in cash and cash equivalent | (591,641) | 405,777 |

Capex Summary

Capital expenditures were \$527.8 million in 3Q18, compared to \$558.7 million in 2Q18.

The planned 2018 capital expenditures for foundry operations decreased from approximately \$2.3 billion to approximately \$2.0 billion, of which approximately \$1.2 billion are expected to be spent for the expansion of capacity in our majority-owned Beijing 300mm fab, Tianjin 200mm fab and Shanghai 300mm fab and approximately \$0.3 billion is mainly expected to be used for R&D equipment.

The planned 2018 capital expenditures for non-foundry operations are approximately \$110.3 million, mainly for the construction of employee's living quarters.

Recent Highlights and Announcements

Voluntary Announcement - Clarification on Recent False Media Reports (2018-10-25)
Form of Proxy for Use at the Extraordinary General Meeting to be Held on 7 November 2018 (2018-10-19)
Circulars - (1) Continuing Connected Transactions in relation to Framework Agreement and (2) Continuing Connected Transactions in relation to Centralised Fund Management Agreement and (3) Connected Transaction in relation to Proposed Grant of Restricted Share Units to a Former Independent Non-Executive Director, a Non-Executive Director and an Independent Nonexecutive Director and (4) Notice of Extraordinary General Meeting (2018-10-19)
Notification of Board Meeting (2018-10-10)
Further Announcement in relation to the Centralised Fund Management Agreement and Framework Agreement with Semiconductor Manufacturing South China Corporation (2018-09-19)
Next Day Disclosure Return (2018-09-19)
(1) Grant of Share Options and (2) Non-Exempt Connected Transactions - Proposed Grant of Restricted Share Units to Directors (2018-09-13)
Circulars - Notification Letter and Request Form for Non-registered Shareholders (2018-09-11)
Circulars - Notification Letter for Registered Shareholders (2018-09-11)
Circulars - Notification Letter and Change Request Form to registered holders (2018-09-11)
Circulars - Letter and Reply Form to New Registered Shareholders - Election of Means of Receipt and Language of Corporate Communication (2018-09-11)
2018 Interim Report (2018-09-11)
Voluntary Announcement Subscription of Shares in JCET (2018-08-31)
Announcement of Unaudited Interim Results for the Six Months Ended June 30, 2018 (2018-08-30)
Notification of Board Meeting (2018-08-16)
Clarification Announcement (2018-08-16)
Connected Transaction Capital Contribution and Deemed Disposal of Equity Interest In SGS (2018-08-14)
Connected Transaction in relation to the Subscription of the Oriented Debt Financing Instrument (2018-08-13)
SMIC Reports Unaudited Results for the Three Months Ended June 30, 2018 (2018-08-09)
Revision of the Existing Annual Caps for Continuing Connected Transactions in relation to Framework Agreement (2018-07-25)
Change of Registered Office in the Cayman Islands (2018-07-25)
2017 Corporate Social Responsibility Report (2018-07-25)
Centralised Fund Management Agreement and Framework Agreement with Semiconductor Manufacturing South China Corporation (2018-07-13)
Notification of Board Meeting (2018-07-10)
Connected Transaction in relation to the Subscription of the Oriented Debt Financing Instrument (2018-07-06)
List of Directors and their Roles and Functions (2018-07-03)
Resignation of Vice Chairman and Non-Executive Director (2018-07-03)

Please visit SMIC's website at

<http://www.smics.com/en/site/news> and http://www.smics.com/en/site/comapny_statutoryDocuments

for further details regarding the recent announcements.

Semiconductor Manufacturing International Corporation

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(In US\$ thousands except share data)

| | For the three months ended | |
|---|----------------------------|---------------|
| | September 30, 2018 | June 30, 2018 |
| | (Unaudited) | (Unaudited) |
| Revenue | 850,662 | 890,713 |
| Cost of sales | (676,119) | (672,880) |
| Gross profit | 174,543 | 217,833 |
| Research and development expenses, net | (152,968) | (147,177) |
| General and administration expenses | (50,535) | (48,801) |
| Sales and marketing expenses | (6,102) | (8,139) |
| Other operating income (expense), net | 29,234 | 5,420 |
| Operating expenses | (180,371) | (198,697) |
| (Loss) profit from operations | (5,828) | 19,136 |
| Other income (expense), net | 17,843 | 14,955 |
| Profit before tax | 12,015 | 34,091 |
| Income tax expense | (4,424) | (2,426) |
| Profit for the period | 7,591 | 31,665 |
| Other comprehensive income (loss) | | |
| Item that may be reclassified subsequently to profit or loss | | |
| Exchange differences on translating foreign operations | (28,192) | (18,510) |
| Cash flow hedges | 758 | 16,831 |
| Items that will not be reclassified to profit or loss | | |
| Actuarial gains and losses on defined benefit plans | 159 | 767 |
| Total comprehensive (loss) income for the period | (19,684) | 30,753 |
| Profit (loss) for the period attributable to: | | |
| Owners of the Company | 26,559 | 51,599 |
| Non-controlling interests | (18,968) | (19,934) |
| | 7,591 | 31,665 |
| Total comprehensive income (loss) for the period attributable to: | | |
| Owners of the Company | (383) | 51,047 |
| Non-controlling interests | (19,301) | (20,294) |
| | (19,684) | 30,753 |
| Earnings per share | | |
| Basic | \$0.00* | \$0.01 |
| Diluted | \$0.00* | \$0.01 |
| Earnings per ADS | | |
| Basic | \$0.02 | \$0.05 |
| Diluted | \$0.02 | \$0.05 |
| Shares used in calculating basic earnings per share | 5,013,969,014 | 4,932,093,621 |
| Shares used in calculating diluted earnings per share | 5,040,170,729 | 5,340,408,020 |

Reconciliations of Non-GAAP Financial Measures to Comparable GAAP Measures

| | | |
|--|-----------|-----------|
| Non-GAAP operating expenses ⁽¹⁾ | (227,588) | (217,311) |
| EBITDA ⁽²⁾ | 262,879 | 312,264 |
| EBITDA margin ⁽²⁾ | 30.9% | 35.1% |

* Basic and diluted earnings per share were \$0.0049.

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Semiconductor Manufacturing International Corporation

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(In US\$ thousands except share data)

Note:

(1) Non-GAAP operating expenses are defined as operating expenses adjusted to exclude the effect of employee bonus accrual, government funding, impairment loss of machinery and equipment, gain or loss on the disposal of machinery and equipment and gain from the disposal of living quarters. SMIC reviews non-GAAP operating expenses together with operating expenses to understand, manage and evaluate its business and make financial and operational decisions. The Group also believes it is useful supplemental information for investors and analysts to assess its operating performance. However, the use of non-GAAP financial measures has material limitations as an analytical tool. One of the limitations of using non-GAAP financial measures is that they do not include all items that impact our net profit for the period. In addition, because non-GAAP financial measures are not calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies. In light of the foregoing limitations, you should not consider the non-GAAP operating expenses in isolation from or as an alternative to operating expenses prepared in accordance with IFRS.

The following table sets forth the reconciliation of the non-GAAP operating expenses to its most directly comparable financial measure presented in accordance with IFRS, for the periods indicated.

| | For the three months ended | | |
|--|--------------------------------------|------------------------------|-----------------------------------|
| | September 30, 2018 (Unaudited) | June 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
| Operating expenses | (180,371) | (198,697) | (154,592) |
| Employee bonus accrued | 1,166 | 2,916 | - |
| Government funding | (39,422) | (21,162) | (28,459) |
| Accrual of impairment loss of machinery and equipment | - | 443 | - |
| (Gain) loss on the disposal of machinery and equipment | (8,210) | 890 | (4,972) |
| Gain from the disposal of living quarters | (751) | (1,701) | (1,074) |
| Non-GAAP operating expenses | (227,588) | (217,311) | (189,097) |

(2) EBITDA is defined as profit for the period excluding the impact of the finance cost, depreciation and amortization, and income tax benefit and expense. EBITDA margin is defined as EBITDA divided by revenue. SMIC uses EBITDA margin 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.

Semiconductor Manufacturing International Corporation

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(In US\$ thousands except share data)

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

| | For the three months ended | | |
|-------------------------------|-----------------------------------|------------------------------|--------------------------------------|
| | September 30, 2018 (Unaudited) | June 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
| Profit for the period | 7,591 | 31,665 | 30,590 |
| Finance costs | (8,212) | 10,645 | (12,906) |
| Depreciation and amortization | 259,076 | 267,528 | 243,196 |
| Income tax expense (benefit) | 4,424 | 2,426 | (595) |
| EBITDA | 262,879 | 312,264 | 260,285 |
| Profit margin | 0.9% | 3.6% | 4.0% |
| EBITDA margin | 30.9% | 35.1% | 33.8% |

Semiconductor Manufacturing International Corporation

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In US\$ thousands)

| | As of September 30, 2018 (Unaudited) | June 30, 2018 (Unaudited) |
|---|---|---------------------------------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 6,835,004 | 6,867,740 |
| Land use right | 91,548 | 92,084 |
| Intangible assets | 144,444 | 159,491 |
| Investments in associates | 943,228 | 879,593 |
| Investments in joint ventures | 17,932 | 19,645 |
| Deferred tax assets | 45,809 | 45,612 |
| Financial assets at fair value through profit or loss | 43,645 | 36,788 |
| Derivative financial instruments | 4,970 | 14,611 |
| Restricted cash | 8,468 | 8,528 |
| Other assets | 11,484 | 8,736 |
| Total non-current assets | 8,146,532 | 8,132,828 |
| Current assets | | |
| Inventories | 697,964 | 697,021 |
| Prepayment and prepaid operating expenses | 40,255 | 46,754 |
| Trade and other receivables | 926,317 | 919,490 |
| Financial assets at fair value through profit or loss | 47,945 | 60,412 |
| Financial assets at amortized cost | 2,082,233 | 1,235,633 |
| Derivative financial instruments | 4,834 | 8,931 |
| Restricted cash | 586,086 | 349,974 |
| Cash and cash equivalent | 822,619 | 1,414,260 |
| | 5,208,253 | 4,732,475 |
| Assets classified as held-for-sale | 12,912 | 18,546 |
| Total current assets | 5,221,165 | 4,751,021 |
| TOTAL ASSETS | 13,367,697 | 12,883,849 |
| EQUITY AND LIABILITIES | | |
| Capital and reserves | | |
| Ordinary shares, \$0.004 par value, 10,000,000,000 shares authorized, 5,046,191,678 and 4,993,774,148 shares outstanding at September 30, 2018 and June 30, 2018, respectively ⁽¹⁾ | 20,214 | 19,975 |
| Share premium ⁽¹⁾ | 5,008,538 | 4,928,537 |
| Treasury shares ⁽³⁾ | (7,761) | - |
| Reserves | 117,733 | 143,017 |
| Retained earnings | 310,428 | 283,869 |
| Equity attributable to owners of the Company | 5,449,152 | 5,375,398 |

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| | | |
|--|------------|------------|
| Perpetual subordinated convertible securities ⁽²⁾ | 564,073 | 264,073 |
| Non-controlling interests | 1,956,191 | 1,975,285 |
| Total equity | 7,969,416 | 7,614,756 |
| Non-current liabilities | | |
| Borrowings | 1,465,548 | 1,532,739 |
| Convertible bonds | 414,706 | 410,819 |
| Bonds payable | 498,075 | 497,609 |
| Deferred tax liabilities | 15,373 | 15,245 |
| Deferred government funding | 396,423 | 268,777 |
| Derivative financial instruments | 20,307 | 2,833 |
| Other financial liabilities | 11,920 | 12,393 |
| Other liabilities | 89,057 | 126,339 |
| Total non-current liabilities | 2,911,409 | 2,866,754 |
| Current liabilities | | |
| Trade and other payables | 1,050,283 | 949,440 |
| Contract liabilities | 57,845 | 66,404 |
| Borrowings | 728,097 | 781,134 |
| Medium-term notes | 217,554 | 225,996 |
| Deferred government funding | 227,816 | 188,981 |
| Accrued liabilities | 146,628 | 136,677 |
| Derivative financial instruments | 18,797 | 2,541 |
| Current tax liabilities | 7,664 | 6,065 |
| Other liabilities | 32,188 | 45,101 |
| Total current liabilities | 2,486,872 | 2,402,339 |
| Total liabilities | 5,398,281 | 5,269,093 |
| TOTAL EQUITY AND LIABILITIES | 13,367,697 | 12,883,849 |

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Semiconductor Manufacturing International Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In US\$ thousands)

Note:

- (1) On April 23, 2018, the Company entered into the share subscription agreement with China Integrated Circuit Industry investment Fund Co., Ltd. (“China IC Fund”) and Xinxin (Hongkong) Capital Co., Limited (“Xinxin HK”, wholly-owned by China IC Fund), pursuant to which, on and subject to the terms of the share subscription agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for 57,054,901 shares of the Company at the price of HK\$10.65 per share. On August 29, 2018, the Company completed the issue of 57,054,901 shares in the principal amount of HK\$607.6 million (approximately US\$77.4 million) pursuant to the share subscription agreement.
- (2) On April 23, 2018, the Company entered into the perpetual subordinated convertible securities (“PSCS”) subscription agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the PSCS subscription agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for PSCS in an aggregate principal amount of US\$300.0 million with an initial conversion price of HK\$12.78 per share). On August 29, 2018, the Company completed the issue of the PSCS in the principal amount of US\$300.0 million. Assuming full conversion of the PSCS at the initial conversion price of HK\$12.78 per share, the PSCS will be convertible into 183,178,403 shares of the Company.
- (3) On September 27, 2018, the company repurchased 7,291,000 ordinary shares on-market. The buy-back was approved by shareholders at the annual general meeting on June 22, 2018. The ordinary shares were acquired at an average price of HK\$8.32 per share, with prices ranging from HK\$8.27 to HK\$8.36. The total cost of HK\$60.8 million (approximately US\$7.8 million) was deducted from the shareholder equity. In September, the Company has prepaid US\$20.0 million to the securities company for repurchasing ordinary shares.

Semiconductor Manufacturing International Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In US\$ thousands)

| | For the three months ended | |
|---|----------------------------|---------------|
| | September 30, 2018 | June 30, 2018 |
| | (Unaudited) | (Unaudited) |
| Cash flow from operating activities | | |
| Profit for the period | 7,591 | 31,665 |
| Depreciation and amortization | 259,076 | 267,528 |
| Share of loss of investment accounted for using equity method | 1,616 | 1,905 |
| Increase in working capital and others | (51,796) | (190,367) |
| Net cash from operating activities | 216,487 | 110,731 |
| Cash flow from investing activities: | | |
| Payments to acquire financial assets at fair value through profit or loss | (31,964) | (41,434) |
| Proceeds from sale of financial assets at fair value through | | |
| profit or loss | 34,030 | 129,191 |
| Payments to acquire financial assets at amortized cost | (1,020,098) | (1,605,503) |
| Proceeds from sale of financial assets at amortized cost | 194,622 | 1,492,470 |
| Payments for property, plant and equipment | (477,782) | (534,454) |
| Net proceeds after netting off land appreciation tax from disposal of | | |
| property, plant and equipment and assets classified as held for sale ⁽¹⁾ | 312,507 | 13,925 |
| Payments for intangible assets | (4,582) | (408) |
| Net cash outflow for deconsolidation of subsidiaries | - | (5,549) |
| Payment to acquire joint ventures and associates | (104,610) | (96,928) |
| Proceeds from disposal of associate | 4,404 | - |
| Distributions received from joint venture and associates | 7,405 | 761 |
| Net cash used in investing activities | (1,086,068) | (647,929) |
| Cash flow from financing activities: | | |
| Proceeds from borrowings | 57,490 | 245,361 |
| Repayment of borrowings | (107,864) | (95,418) |
| Proceeds from issuance of shares | 77,407 | 83,502 |
| Proceeds from issuance of perpetual subordinated convertible | | |
| securities | 300,000 | 200,000 |
| Distribution paid to perpetual subordinated convertible securities holders | - | (650) |
| Proceeds from exercise of employee stock options | 1,771 | 1,729 |
| Proceeds from non-controlling interests – capital contribution | - | 523,950 |
| Payments to acquire treasury shares | (20,002) | - |
| Net cash from financing activities | 308,802 | 958,474 |
| Effects of exchange rate changes on the balance of cash held in foreign | (30,862) | (15,499) |

currencies

| | | |
|---|-----------|-----------|
| Net (decrease) increase in cash and cash equivalent | (591,641) | 405,777 |
| Cash and cash equivalent, beginning of period | 1,414,260 | 1,008,483 |
| Cash and cash equivalent, end of period | 822,619 | 1,414,260 |

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Semiconductor Manufacturing International Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In US\$ thousands)

Note:

(1) In July 2018, there were four arrangements in consideration of US\$306.8 million entered into by the Group with Xinhe Leasing (Tianjin) Co., Ltd. (a wholly-owned subsidiary of Sino IC Leasing) in the form of a sale and leaseback transaction with a repurchase option. A batch of production equipment of the Group was sold and leased back under the arrangements. As the repurchase prices were set at the expected fair value and the Group is not reasonably certain that it will exercise the repurchase options, the above transactions were accounted as gain of US\$7.4 million from the disposal of property, plant and equipment followed with an operating lease.

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By order of the Board

Semiconductor Manufacturing International Corporation

Dr. Gao Yonggang

Executive Director, Chief Financial Officer and Joint Company Secretary

Shanghai, November 7, 2018

As at the date of this announcement, the directors of the Company are:

Executive Directors

ZHOU Zixue (Chairman)

ZHAO Haijun (Co-Chief Executive Officer)

LIANG Mong Song (Co-Chief Executive Officer)

GAO Yonggang (Chief Financial Officer and Joint Company Secretary)

Non-executive Directors

CHEN Shanzhi

ZHOU Jie

REN Kai

LU Jun

TONG Guohua

Independent Non-executive Directors

William Tudor BROWN

CHIANG Shang-Yi

CONG Jingsheng Jason

LAU Lawrence Juen-Yee

FAN Ren Da Anthony

* For identification purposes only

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