

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

April 29, 2011

Contents

---

---

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, 2011

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

---

---

---

Contents

## Contents

<u>Additional Information</u>	2
<u>Corporate Information</u>	3
<u>Chairman’s Statement</u>	4
<u>Chief Executive Officer’s Statement</u>	5
<u>Business Review</u>	6
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operation</u>	9
<u>Directors and Senior Management</u>	19
<u>Report of the Directors</u>	25
<u>Corporate Governance Report</u>	64
<u>Social Responsibility</u>	77
<u>Report by Management on Internal Control Over Financial Reporting</u>	79
<u>Report of Independent Registered Public Accounting Firm</u>	80
<u>Consolidated Statements of Operations</u>	83
<u>Consolidated Balance Sheets</u>	84
<u>Consolidated Statements of Equity and Comprehensive Income (Loss)</u>	86
<u>Consolidated Statements of Cash Flows</u>	87
<u>Notes to the Consolidated Financial Statements</u>	89

## Cautionary Statement for Purposes of The “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995

This annual report 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. 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 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 cyclical and market conditions in the semiconductor industry, intense competition, 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 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.

Contents

## Additional Information

References in this annual report to:

- “2011 AGM” are to the Company’s Annual General Meeting scheduled to be held on around June 29, 2011;
- “China” or the “PRC” are to the People’s Republic of China, excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan;
- “Company” or “SMIC” are to Semiconductor Manufacturing International Corporation;
- “EUR” are to Euros;
- “global offering” are to the initial public offering of our ADSs and our ordinary shares, which offering was completed on March 18, 2004;
- “HK\$” are to Hong Kong dollars;
- “Jpy” are to Japanese Yen;
- “NYSE” or “New York Stock Exchange” are to the New York Stock Exchange, Inc.;
- “Rmb” are to Renminbi;
- “SEC” are to the U.S. Securities and Exchange Commission;
- “SEHK”, “HKSE” or “Hong Kong Stock Exchange” are to The Stock Exchange of Hong Kong Limited; and
- “US\$” or “USD” are to U.S. dollars.

All references in this annual report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90 nanometer, 65 nanometer and 45 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state “0.25 micron process technology,” that also includes 0.22 micron, 0.21 micron, 0.20 micron and 0.19 micron technologies and “0.18 micron process technology” also includes 0.17 micron and 0.16 micron technologies. References to “U.S. GAAP” mean the generally accepted accounting principles in the United States. Unless otherwise indicated, our financial information presented in this annual report has been prepared in accordance with U.S. GAAP.

Contents

## Corporate Information

Registered name	Semiconductor Manufacturing International Corporation (the "Company")
Chinese name (for identification purposes only)	
Registered office	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong registered under Part XI of the Companies Ordinance	Suite 3003 30th Floor 9 Queen's Road Central Hong Kong
Website address	<a href="http://www.smics.com">http://www.smics.com</a>
Company secretary	Anne Wai Yui Chen
Authorized representatives	Jiang Shang Zhou Anne Wai Yui Chen
Places of listing	The Stock Exchange of Hong Kong Limited ("HKSE") New York Stock Exchange ("NYSE")
Stock code	981 (HKSE) SMI (NYSE)
Financial Calendar	
Announcement of 2010 results	March 30, 2011
Book closure period	June 24, 2011 to June 29, 2011, both days inclusive
Annual general meeting	June 29, 2011
Financial year end	December 31

\* For identification purposes only

Contents

## Chairman's Statement

### Dear Shareholders:

2010 is the tenth anniversary of SMIC. I am pleased to announce that SMIC has achieved full-year profit in 2010. In 2010 the global semiconductor industry experienced higher-than-average growth above industry expectation. SMIC seized this rare opportunity for rapid growth; sales revenue and capacity utilization both reached a record high level. In 2010 the total annual revenue increased 45%; the company's utilization rate of the fourth quarter of 2010 has climbed to a record high of 96.8%. The gross margin has turned positive since the third quarter of 2009 and sustained a stable and healthy growth. The gross margins was well above 20% in the third and fourth quarter of 2010, thus the full year of 2010 recorded a gross margin of about 20%, which was our best performance achieved since after the year of IPO.

This past year, in order to turn around as quickly as possible, the new management adopted a number of effective measures addressing product mix, narrowing the technology gap, strengthening operational efficiency, increasing R&D investment, and improving leadership capability. As the most advanced semiconductor manufacturer in Mainland China, we continue to improve our product mix to increase our average selling price and profitability. In the fourth quarter of 2010, the revenue contribution of 90-nanometer and below logic process had grown to 24% of wafer revenue, among which 65-nanometer process products had risen to 8.6% of wafer revenue. In the fourth quarter of 2010, revenue from Mainland China contributed 31% of total income, compared to 21% in 2009. We are gradually shortening the technology gap with our competitors in advanced process development, and we have completed our 40-nanometer process development, with qualification ahead of schedule and will enter into mass production by the end of 2011. We have also accelerated research and development of our 32-nanometer process. In the past year with our internal efforts we reduced costs and improved the operational efficiency across the company and the output increase substantially without much capacity expansion. Furthermore, in the year of 2010, the company continued to commit to social responsibility, investing a number of resources in projects like environmental protection, energy-saving, recycling economy and community service. We have also supported the Shanghai World Expo in different aspects, and continue to contribute to building a harmonious society.

Looking back on 2010, the company has made profit under the leadership of a strong new management team, however, this is only the first step to sustainable profitability. Looking into 2011, the global semiconductor industry continues to grow with a compound annual growth rate higher than the global macro-economic growth. The world-class integrated design manufacturers (IDM) continue to outsource large amounts of advanced process demand, making the growth rate of the foundry industry higher than that of the entire semiconductor industry. 2011 is also the initial year of the twelfth five-year state plan of China; at the beginning of the Year of the Rabbit, the State Council issued a series of policies to further encourage the development of the software and IC industries, respectively, from taxation, investment and financing, research and development, import and export, human resources, and intellectual property rights — these seven aspects will be supported by the implementation of specific rules and policies. Such favorable policy incentives and the growing macro-environment may bring a series of good opportunities to SMIC for its future development. We shall seize such opportunities to expand our capacity gradually and continue toward the established goals step by step, adhering to our core values of harmony, science, integrity, innovation, in the best interests of our shareholders, customers, and employees.

Once again, thank you for your continued attention and support given to SMIC during its development.

Jiang Shangzhou  
Chairman of the Board

Shanghai, PRC

Contents

## Chief Executive Officer's Statement

Dear Shareholders,

### 2010 Overview

2010 was a year of achievement for SMIC, as the Company reported historical high annual revenue of more than \$1.5 billion and recorded its first profitable year, at both operational and net income levels, after 5 years of loss. Gross margins expanded from 7.6% in the fourth quarter of 2009 to 23.9% in the fourth quarter of 2010, thus we achieved 19.9% gross margin for the full year of 2010, which is the highest gross margin performance achieved in 6 years. It was also a year of transformation, as we began the execution of a new vision, strategy, and plan. We received various awards in 2010, recognizing our high-level of performance and service as well as improvements; of these, 5 came from our top 10 customers. We are gaining momentum in engaging with key customers on both legacy and advanced technology. All of this shows we have made significant progress compared to 12 months ago, and we have confidence that our momentum will continue through 2011 and onwards.

### Sales

Looking into our sales strategies, we continue to work vigorously with our North American customers on leading technology, and continue our service support of the ever growing Chinese fabless. North America continues to contribute more than half of our revenue, with healthy growth from increased leading-node revenue contribution. In 2010 North American revenue grew 34.8% compared to 2009. Chinese fabless industry growth outpaced worldwide growth in 2010. For the full year 2010, our China revenue almost doubled compared to 2009 to 27.6% of our total sales. China fabless growth is estimated to continue to outgrow global semiconductor growth in the next few years. We believe SMIC is currently best positioned in capturing the China market opportunity with its strategic location and by possessing the most advanced semiconductor manufacturing capability and foreign export licensing in China.

### Technology

We are putting more effort and resources to drive our technology to narrow the gap with the leading players. Revenue contribution from 65-nanometer was 5.4% in 2010 compared to 1.0% in 2009. 65-nanometer revenue more than tripled in the fourth quarter of 2010 compared to the year prior, and we are confident that this technology node will continue to be a key revenue driver in 2011. Our 40-nanometer low-leakage technology process was frozen on schedule in October 2010, and we are accelerating our other 45-nanometer programs, targeting mass production in the second half of 2011. Our 32-nanometer development has begun, and we are in advanced discussions with customers on collaboration.

### Operations

Based on customer feedback, our operations have improved reaching leading industry standards. All of our fabs have improved their line yields to above 99%, and in 2010, overall defect density improved more than 30%. As mentioned briefly earlier, we were given numerous awards by customers, such as "Top Rated Foundry Supplier", "#1 supplier performance", "Best Yield Improvement", "2010 Top Supplier", "2010 Top Delivery Performance", and others. The overall enhanced performance is driving stronger customer partnerships for SMIC. We will continue to optimize our operations to be competitive in the long-term.

### Looking Forward

2011 seems to be another year of growth for the foundry industry as IDM's continue to outsource manufacturing to foundries. SMIC targets to outgrow the foundry industry in 2011 and we believe this will be another important year for SMIC to prove its capability and service in 65-nanometer and 45-nanometer, and we look forward to delivering sustainable value to our stakeholders in 2011 and onward. Thank you for your continued support.

David NK Wang  
Chief Executive Officer

Contents

## Business Review

SMIC under the direction of new senior management, continued to expand its product portfolio and customer base despite the challenging business environment in 2010. Still, the Company continued to benefit from its strategic position in China — the largest and fastest growing integrated circuits market, and saw a steady growth in the region, in particular, through the implementation of the stimulus package that stirred strong domestic demand. As our business began to grow and improve in 2010, with our utilization rate rebounding to 96.8% in the fourth quarter, we also saw a significant growth in the revenue generated from the more advanced technology nodes of 0.13-micron and below.

## Financial Overview

During 2010, we generated US\$694.6 million in cash from operations. Capital expenditures in 2010 totaled \$728 million, which was mainly allocated to 65-nanometer, 45-nanometer and 32-nanometer research and development and 12-inch advanced technology expansion and development in our Beijing Fab. Looking ahead, we will continue to increase capital expenditures, improve efficiency, foster innovation, and enhance our financial position as we continue for sustained profitability.

## Customers and Markets

SMIC serves a global customer base, comprised of leading IDMs, fabless semiconductor companies, and system companies. Leveraging on our strategic position in China, we have seen our Greater China business grow strongly during the year, contributing 39% to the overall revenue for 2010, an increase from 35% in 2009.

Geographically, North American customers, which contributed 55% of the overall revenue, remained as the largest customer base for SMIC in 2010, displaying a strong growth in the advanced nodes. In other regions, Mainland China customers contributed 28% of the total revenue in 2010, followed by Taiwan customers at 11%.

Communication applications, which contributed 49% of our overall revenue, continued to be our strongest sector. Similarly, contribution from consumer applications also grew from 38% of revenue in 2009 to 40% in 2010. Our North American customers, which include leading IDM and fabless IC companies, showed strong demand in communications products, mainly in mobile, networking and WLAN (Wireless Local Area Network) applications. Our Chinese customers, on the other hand, showed strong demand for both consumer and communications products, including digital television (DTV), set-top box (STB), mobile, portable media player (PMP), and PDA applications.

## Contents

In terms of revenue breakdown by technology node, revenue contribution from business at the 0.13-micron node and below business has grown to 52% in 2010 as compared to 48% in 2009, while revenue from 65nm technology revenue contributed 5% of wafer revenue in 2010. In addition, our 45-nanometer low-power technology development is on schedule, while we have extended our technology offering down to 40nm, plus an extension to include 55-nanometer.

In 2010, we engaged 41 new customers, and the majority of them were Chinese fabless companies, where we experienced the fastest growth. Notably, our China business has been growing steadily not only from a revenue perspective, but also based on the number of new designs using more advanced technology nodes — some pursuing 65-nanometer. This trend also signifies that China is quickly catching up to the rest of the world in terms of its innovation and design capabilities. Promising new players with innovative designs and applications continue to emerge among the Chinese fabless companies, and we are producing a broad range of applications for them, including CMOS image sensor (CIS), Mobile CMMB, HDTV, RFID, wireless and other products. To this end, SMIC remains committed to collaborating with our existing and new customers in China, and further solidifying our position as the leading foundry in the market. At the same time, we will also continue to expand our presence in the global arena.

## Research and Development

In 2010, our research and development expenses were \$174.9 million, which represented 11.2% of our sales.

The research and development efforts were focused primarily on our logic platform and system-on-chip (SOC) applications. SMIC in 2010 has achieved many significant milestones. Early on in the year, the Company shipped 100,000 8-inch wafers to Galaxycore using CMOS image sensor (CIS) process technology. In May, Synopsys announced the immediate availability of silicon-proven and USB logo-certified DesignWare USB 2.0 nanoPhy intellectual property for 65-nanometer (nm) low-leakage (LL) process technology. In addition, the Company has longstanding partnership with leading fabless companies to include 65nm LL and 40nm LL process technologies. For system-on-chip (SOC) front, ARM and SMIC agreed to collaborate on the development of ARM leading physical IP library platform for 65nm LL and 40nm LL technology process nodes. Our 65nm LL technology successfully moves to volume production, an accumulative wafer shipped has achieved over 10,000 pieces since mass production began in Q3 2009, mostly implemented at our 300mm facility in Beijing.

We employ approximately over 451 research and development engineers, with experience in the semiconductor industry and with advanced degrees from leading universities around the world and in China.



Contents

Business Review

Outlook for 2011

Our overall outlook for 2011 is positive as we see a growing foundry market supporting an overall strengthening of our Company's foundation.

The Company broke even on both net and operating income levels in 2010, and we target sustainable profitability going forward. Our product mix continues to improve as our 65-nanometer continues to ramp up, and as our customers migrate to more advanced technology nodes that have higher ASP. Our capital expenditure spending in 2011 is being focused on products with higher ASP where our customer demand is, namely in 12-inch production.

The overall foundry market is better, and furthermore the China market looks even stronger. We continue to work hard and to seize opportunities to improve our business in this year of growth.

Contents

## 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, 2008, 2009 and 2010 are derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, the audited consolidated financial statements, including the related notes, included elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2006 and 2007 and for the two years then ended is derived from audited consolidated financial statements not included in this Annual Report. The summary consolidated financial data presented below has been prepared in accordance with U.S. GAAP.

	For the year ended December 31,				
	2006	2007	2008	2009	2010
	(in US\$ thousands, except for per share and per ADS data)				
<b>Income Statement Data:</b>					
Sales	\$1,465,323	\$1,549,765	\$1,353,711	\$1,070,387	\$1,554,788
Cost of sales(1)	1,338,155	1,397,038	1,412,851	1,184,589	1,244,714
Gross profit (loss)	127,168	152,727	(59,140 )	(114,202 )	310,074
<b>Operating expenses (income):</b>					
Research and development	94,171	97,034	102,240	160,754	174,900
General and administrative	47,365	74,490	67,036	218,688	43,762
Selling and marketing	18,231	18,716	20,661	26,566	29,498
Litigation settlement	—	—	—	269,637	—
Amortization of acquired intangible assets	24,393	27,071	32,191	35,064	27,168
Impairment loss of long-lived assets	—	—	106,741	138,295	8,442
Gain (loss) from sale of plant and equipment and other fixed assets	(43,122)	(28,651)	(2,877)	3,832	(658)
Other operating income	—	—	—	—	(16,493)
Total operating expenses, net	141,038	188,659	325,992	852,836	266,619
Income (loss) from operations	(13,870)	(35,932)	(385,132)	(967,038)	43,454
<b>Other expenses:</b>					
Interest income	14,916	12,349	11,542	2,591	4,127
Interest expense	(50,926)	(37,936)	(50,767)	(24,699)	(22,655)
Change in the fair value of commitment to issue shares and warrants	—	—	—	(30,101)	(29,815)
Foreign currency exchange gain (loss)	(21,912)	11,250	11,425	7,302	5,025
Others, net	1,821	2,238	7,429	4,626	8,772
Total other expense, net	(56,101)	(12,100)	(20,371)	(40,281)	(34,547)
Income (Loss) before income tax	(69,971)	(48,032)	(405,503)	(1,007,319)	8,907
Income tax benefit (expense)	24,928	29,720	(26,433)	46,624	4,818
Gain (Loss) from equity investment	(4,201)	(4,013)	(444)	(1,782)	285
Net income (loss) before cumulative effect of a change in accounting principle	(49,244)	(22,324)	(432,380)	(962,478)	14,011
Cumulative effect of a change in accounting principle	5,154	—	—	—	—
Net income (loss)	(44,090)	(22,324)	(432,380)	(962,478)	14,011
Accretion of interest to noncontrolling interest	(19)	2,856	(7,851)	(1,060)	(1,050)
Loss attributable to non-controlling interest	—	—	—	—	140

Edgar Filing: SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP - Form 6-K

Income (loss) attributable to holders of ordinary shares	(44,109)	(19,468)	(440,231)	(963,537)	13,100
Earnings (loss) per share, basic	\$(0.00)	\$(0.00)	\$(0.02)	\$(0.04)	\$0.00
Earnings (loss) per share, diluted	\$(0.00)	\$(0.00)	\$(0.02)	\$(0.04)	\$0.00
Shares used in calculating basic earnings (loss) per share(2)	18,334,498,923	18,501,940,489	18,682,544,866	22,359,237,084	24,258,437,559
Shares used in calculating diluted earnings (loss) per share(2)	18,334,498,923	18,501,940,489	18,682,544,866	22,359,237,084	25,416,597,405

9

---

Contents

- (1) Including amortization of deferred stock compensation for employees directly involved in manufacturing activities.
- (2) Anti-dilutive preference shares, options and warrants were excluded from the weighted average ordinary shares outstanding for the diluted per share calculation.

	As of December 31,				
	2006	2007	2008	2009	2010
	(in US\$ thousands)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$363,620	\$469,284	\$450,230	\$443,463	\$515,808
Restricted cash	—	—	6,255	20,360	161,350
Short-term investments	57,951	7,638	19,928	—	2,454
Accounts receivable, net of allowances	252,185	298,388	199,372	204,290	206,623
Inventories	275,179	248,310	171,637	193,705	213,404
Total current assets	1,049,666	1,075,302	926,858	907,058	1,179,102
Prepaid land use rights	38,323	57,552	74,293	78,112	78,798
Plant and equipment, net	3,244,401	3,202,958	2,963,386	2,251,614	2,351,863
Total assets	4,541,292	4,708,444	4,270,622	3,524,077	3,902,693
Total current liabilities	677,362	930,190	899,773	1,031,523	1,399,345
Total long-term liabilities	817,710	730,790	578,689	661,472	294,806
Total liabilities	1,495,072	1,660,980	1,478,462		