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## NEWS RELEASE

### SMIC Reports 2006 Fourth Quarter Results

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

*The financial statement amounts in this report are determined in accordance with US GAAP.*

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**Overview:**

- Sales increased to \$383.8 million in 4Q06, up 15.2% from 4Q05 and up 4.0% sequentially.
  - ASP increased to \$904 in 4Q06 from \$891 in 3Q06 and \$885 from 4Q05.
  - Revenue from 90 nanometer contributed 14.4% of total wafer revenue in 4Q06 as compared to 4.9% in 3Q06.
  - Gross margins of 6.6% in 4Q06 from 8.9% in 3Q06.
  - The Company recorded a disposal gain of \$41.7 million from the sale of properties in 4Q06.
  - Net income of \$1.2 million in 4Q06, compared to a net loss of \$15.0 million in 4Q05 and net loss of \$35.1 million in the previous quarter.
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**Shanghai, China – January 31, 2007.** Semiconductor Manufacturing International Corporation (NYSE: SMI; SEHK: 981) (“SMIC” or the “Company”), one of the leading semiconductor foundries in the world, today announced its consolidated results of operations for the three months ended December 31, 2006. Sales increased 4.0% in the fourth quarter of 2006 to \$383.8 million from \$368.9 million in the third quarter. The Company reported an increase in capacity to 182,250 8-inch equivalent wafers per month and a utilization rate of 86.6% in the fourth quarter of 2006. Gross margins were 6.6% in the fourth quarter of 2006 compared to 8.9% in the third quarter of 2006. Net income of \$1.2 million in the fourth quarter of 2006, compared to a net loss of \$15.0 million in the fourth quarter of 2005 and a net loss of \$35.1 million in the third quarter of 2006.

“SMIC posted record revenues of \$1.46 billion dollars in 2006, which represented a 25% increase year over year,” said Dr. Richard Chang, Chief Executive Officer of SMIC. “Gross profit grew by 68% year over year to \$150.7 million dollars. We were able to reduce our net loss by 64% year over year and managed to increase EBITDA by 25% year over year to \$911.1 million dollars.

Our fourth quarter revenue from advanced technology nodes demonstrates SMIC’s ability to meet the needs of a growing customer base. The positive product mix shift resulted in 90 nanometer and 130 nanometer technologies contributing 57.4% of total wafer revenues, up from their 46.1% contribution in the third quarter.

There was particular strength in the PC related ICs, DTV, MP3/4, and Bluetooth applications. Also, we had eight new Mainland China customer wins during the fourth quarter.

SMIC will keenly focus on generating profitability for our shareholders. We will continue to develop our capabilities according to our technology roadmap in a fiscally responsible manner. Our 65nm technology development is progressing smoothly. The Chengdu and Wuhan projects allow us to continue to grow our business while managing our internal capital expenditure in an efficient manner. These projects will allow us to better serve our international customers while positioning ourselves closer to potential Chinese customers.





as filed with the Stock Exchange of Hong Kong (SEHK) on March 8, 2004, and such other documents that SMIC may file with the SEC or SEHK from time to time, including on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on SMIC's 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 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.

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## Litigation

The Company is subject to a pending lawsuit with Taiwan Semiconductor Manufacturing Company, Limited ("TSMC"), related to the intangible assets, with a net book value of \$94.5 million, the Company recorded for patents licensed from TSMC and TSMC's covenant not to sue the Company regarding certain allegations of acts of trade secret misappropriation. Under SFAS 144, the Company is required to make a determination as to whether or not this pending litigation represents an event that requires a further analysis of whether such assets have been impaired. We believe that the lawsuit is at a very early stage, TSMC has not produced any evidence of misappropriation and we are still evaluating whether or not the litigation represents such an event. The Company expects further information to become available to us which will aid us in making a determination. The outcome of any impairment analysis performed under SFAS 144 might result in a material impact on our financial positions and results of operations.

On September 13, 2006, the Company announced that in addition to filing a response (on September 12, 2006) strongly denying the allegations of TSMC in the United States lawsuit, the Company also filed a cross-complaint against TSMC, seeking, amongst other things, damages for TSMC's breach of contract and breach of implied covenant of good faith and fair dealing.

On November 16, 2006, the High Court in Beijing, the People's Republic of China accepted the filing of a complaint by the Company and its wholly-owned subsidiaries, Semiconductor Manufacturing International (Shanghai) Corporation and Semiconductor Manufacturing International (Beijing) Corporation regarding the unfair competition arising from the breach of bona fide (i.e., integrity, good faith) principle and commercial defamation by TSMC ("PRC Complaint"). In the PRC Complaint, the Company is seeking, amongst other things, an injunction to stop TSMC's infringing acts, public apology from TSMC to the Company and compensation from TSMC to the Company, including profits gained by TSMC from their infringing acts.



## Summary of Fourth Quarter 2006 Operating Results

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

	4Q06	3Q06	QoQ	4Q05	YoY
Sales	383,812	368,926	4.0%	333,052	15.2%
Cost of sales	358,452	336,160	6.6%	290,094	23.6%
Gross profit	25,360	32,766	-22.6%	42,958	-41.0%
Operating expenses	10,569	46,190	-77.1%	51,756	-79.6%
Income (Loss) from operations	14,791	(13,424)	-	(8,798)	-
Other income (expenses), net	(16,468)	(20,947)	-21.4%	(5,852)	181.4%
Income tax credit (expense)	3,003	3,048	-1.5%	(152)	-
Net income (loss) after income taxes	1,325	(31,323)	-	(14,802)	-
Minority interest	941	(2,674)	-	(176)	-
Share of loss of affiliate company	(1,044)	(1,097)	-4.8%	-	-
Income (loss) attributable to holders of ordinary shares	1,222	(35,094)	-	(14,978)	-
Gross margin	6.6%	8.9%	-	12.9%	-
Operating margin	3.9%	-3.6%	-	-2.6%	-
Net income (loss) per ordinary share - basic <sup>(1)</sup>	0.0001	(0.0019)	-	(0.0008)	-
Net income (loss) per ADS – basic	0.0033	(0.0956)	-	(0.0410)	-
Net income (loss) per ordinary share – diluted <sup>(1)</sup>	0.0001	(0.0019)	-	(0.0008)	-
Net income (loss) per ADS – diluted	0.0033	(0.0956)	-	(0.0410)	-
Wafers shipped (in 8" wafers) <sup>(2)</sup>	424,395	413,985	2.5%	376,227	12.8%
ASP <sup>(3)</sup>	\$904	\$891	1.5%	\$885	2.1%
Capacity utilization	86.6%	84.3%	-	93.0%	-

Note:

(1) Based on weighted average ordinary shares of 18,398 million (basic) and 18,609 million (diluted) in 4Q06, 18,356 million in 3Q06 and 18,251 million in 4Q05

(2) Including copper interconnects

(3) Total sales/total wafers shipped

- Sales increased to \$383.8 million in 4Q06, up 4.0% QoQ from \$368.9 million in 3Q06 and up 15.2% YoY from \$333.1 million in 4Q05 primarily due to increased 8-inch equivalent wafer shipments of 424,395, up 2.5% QoQ from 413,985 in 3Q06 as well as an increase in the percentage of shipment from advanced technology nodes.
- Cost of sales increased to \$358.5 million in 4Q06, up 6.6% QoQ from \$336.2 million in 3Q06, primarily due to an increase in wafer shipments, change in product mix, and higher depreciation expenses.
- Gross profit decreased to \$25.4 million in 4Q06, down 22.6% QoQ from \$32.8 million in 3Q06 and down 41.0% YoY from \$43.0 million in 4Q05.
- Gross margins decreased to 6.6% in 4Q06 from 8.9% in 3Q06 primarily due to an increase in depreciation expenses and product mix change.
- Total operating expenses excluding income from disposal of properties were \$52.3 million in 4Q06, an increase of 13.2% QoQ from \$46.2 million in 3Q06.
- R&D expenses decreased to \$21.7 million in 4Q06, down 20.5% QoQ from \$27.3 million in 3Q06, primarily due to the transfer of certain expenses to manufacturing costs upon commencing commercial production of new technologies.



- G&A expenses increased to \$14.6 million in 4Q06 from \$4.2 million in 3Q06 primarily due to a foreign exchange loss of \$1.8 million in 4Q06 compared to a gain of \$2.3 million in 3Q06 relating to operating activities and a tax and legal fee reversal recorded in 3Q06.
- Selling & marketing expenses increased to \$4.7 million in 4Q06, up 30.9% QoQ from \$3.6 million in 3Q06, primarily due to an increase in engineering material expenses associated with selling activities.
- The Company recorded a disposal gain of \$41.7 million in 4Q06 from the sale of properties.
- The Company recorded an operating profit of \$14.8 million in 4Q06 as compared to an operating loss of \$13.4 million in 3Q06 and an operating loss of \$8.8 million in 4Q05.



## Analysis of Revenues

Sales Analysis					
By Application	4Q06	3Q06	2Q06	1Q06	4Q05
Computer	36.3%	33.0%	30.6%	36.0%	34.8%
Communications	40.1%	37.1%	46.2%	45.8%	43.8%
Consumer	19.3%	25.2%	18.6%	13.3%	16.6%
Others	4.3%	4.7%	4.6%	4.9%	4.8%
By Device	4Q06	3Q06	2Q06	1Q06	4Q05
Logic (including copper interconnect)	57.4%	65.4%	66.6%	62.8%	65.3%
DRAM <sup>(1)</sup>	38.6%	30.1%	28.8%	32.4%	31.3%
Other (mask making & probing, etc.)	4.0%	4.5%	4.6%	4.8%	3.4%
By Customer Type	4Q06	3Q06	2Q06	1Q06	4Q05
Fabless semiconductor companies	36.1%	36.9%	49.8%	41.8%	43.2%
Integrated device manufacturers (IDM)	55.8%	50.4%	41.9%	52.8%	51.7%
System companies and others	8.1%	12.7%	8.3%	5.4%	5.1%
By Geography	4Q06	3Q06	2Q06	1Q06	4Q05
North America	36.3%	38.6%	46.7%	43.5%	39.2%
Asia Pacific (ex. Japan)	20.0%	25.4%	20.9%	21.3%	28.2%
Japan	11.3%	7.5%	4.9%	3.3%	3.6%
Europe	32.4%	28.5%	27.5%	31.9%	29.0%
Wafer Revenue Analysis					
By Technology (logic, DRAM & copper interconnect only)	4Q06	3Q06	2Q06	1Q06	4Q05
0.09 $\mu$ m	14.4%	4.9%	0.9%	-	-
0.13 $\mu$ m	43.0%	41.2%	46.6%	46.6%	42.9%
0.15 $\mu$ m	2.4%	7.2%	4.7%	8.7%	5.2%
0.18 $\mu$ m	33.3%	36.1%	38.0%	35.7%	42.3%
0.25 $\mu$ m	1.6%	2.6%	2.0%	1.6%	3.3%
0.35 $\mu$ m	5.3%	8.0%	7.8%	7.4%	6.3%
By Logic Only <sup>(1)</sup>	4Q06	3Q06	2Q06	1Q06	4Q05
0.09 $\mu$ m	14.7%	4.6%	0.2%	-	-
0.13 $\mu$ m <sup>(2)</sup>	14.0%	11.1%	22.3%	13.3%	10.9%
0.15 $\mu$ m	4.2%	11.8%	7.2%	14.5%	8.6%
0.18 $\mu$ m	54.8%	55.3%	55.8%	57.7%	65.3%
0.25 $\mu$ m	2.8%	4.1%	2.5%	2.3%	4.8%
0.35 $\mu$ m	9.5%	13.1%	12.0%	12.2%	10.4%

Note:

(1) Excluding 0.13 $\mu$ m copper interconnects

(2) Represents revenues generated from manufacturing full flow wafers



## Capacity

Note:

- \* Wafers per month at the end of the period in 8" wafers
- (1) Shanghai Mega Fab is now comprised of Fab 1, Fab 2, and Fab 3
- (2) Beijing Mega Fab is now comprised of Fab 4, Fab 5, and Fab 6

- As of the end of 4Q06, monthly capacity increased to 182,250 8-inch equivalent wafers from 176,625 8-inch equivalent wafers as of the end of 3Q06 mainly due to expansion at the Beijing Mega Fab.

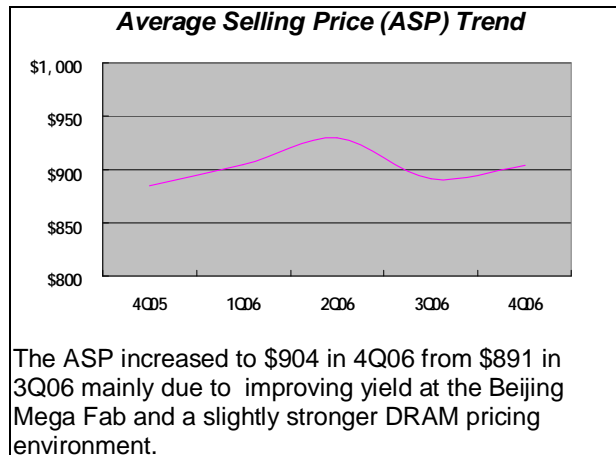
## Shipment and Utilization

8" equivalent wafers	4Q06	3Q06	2Q06	1Q06	4Q05
Wafer shipments including copper interconnects	424,395	413,985	388,498	388,010	376,227

Note:

(1) Capacity utilization based on total wafer out divided by estimated capacity

- Wafer shipments increased to 424,395 units of 8-inch equivalent wafers in 4Q06 up 2.5% QoQ from 413,985 units of 8-inch equivalent wafers in 3Q06, and up 12.8% YoY from 376,227 8-inch equivalent wafers in 4Q05.





## Detailed Financial Analysis

### **Gross Profit Analysis**

- Cost of sales increased to \$358.5 million in 4Q06, up 6.6% QoQ from \$336.2 million in 3Q06, primarily due to an increase in wafer shipments, change in product mix, and higher depreciation expenses.
- Gross profit decreased to \$25.4 million in 4Q06, down 22.6% QoQ from \$32.8 million in 3Q06 and down 41.0% YoY from \$43.0 million in 4Q05.
- Gross margins decreased to 6.6% in 4Q06 from 8.9% in 3Q06. This was primarily due to an increase in depreciation expenses and product mix change.

### **Operating Expense Analysis**

<i>Amounts in US\$ thousands</i>	<b>4Q06</b>	<b>3Q06</b>	<b>QoQ</b>	<b>4Q05</b>	<b>YoY</b>
Total operating expenses	10,569	46,190	-77.1%	51,756	-79.6%
Research and development	21,719	27,319	-20.5%	24,964	-13.0%
General and administrative	14,563	4,216	245.4%	9,803	48.6%
Selling and marketing	4,729	3,614	30.9%	6,349	-25.5%

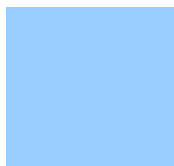
- Total operating expenses excluding income from disposal of properties were \$52.3 million in 4Q06, an increase of 13.2% QoQ from \$46.2 million in 3Q06.
- R&D expenses decreased to \$21.7 million in 4Q06, down 20.5% QoQ from \$27.3 million in 3Q06, primarily due to the transfer of certain expenses to manufacturing costs upon commencing commercial production of new technologies.
- G&A expenses increased to \$14.6 million in 4Q06 from \$4.2 million in 3Q06, primarily due to a foreign exchange loss of \$1.8 million in 4Q06 compared to a gain of \$2.3 million in 3Q06 relating to operating activities and a tax and legal fee reversal recorded in 3Q06.
- Selling & marketing expenses increased to \$4.7 million in 4Q06, up 30.9% QoQ from \$3.6 million in 3Q06, primarily due to an increase in engineering material expenses associated with selling activities.
- The Company recorded a disposal gain of \$41.7 million in 4Q06 from the sale of properties.





## Other Income (Expenses)

Amounts in US\$ thousands



- Other non-operating loss of \$16.5 million in 4Q06 as compared to a loss of \$20.9 million in 3Q06, primarily due to a decrease in foreign exchange loss.
- Interest expenses of \$14.3 million in 4Q06, up 16.5% QoQ from \$12.2 million in 3Q06.

## Liquidity

Amounts in US\$ thousands	4Q06	3Q06
Cash and cash equivalents	363,620	555,326
Short term investments	57,950	52,442
Accounts receivable	252,185	265,522
Inventory	275,179	243,957
Others	100,732	40,500
Total current assets	1,049,666	1,157,747
Accounts payable	309,129	353,325
Short-term borrowings	71,000	45,000
Current portion of long-term debt	103,987	47,160
Others	126,242	137,391
Total current liabilities	610,358	582,876
Cash Ratio	0.6x	1.0x
Quick Ratio	1.1x	1.5x
Current Ratio	1.7x	2.0x

- Cash and cash equivalents at the end of 4Q06 decreased since part of cash on hand was deployed to reduce bank borrowing during the quarter.



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## **Capital Structure**

## **Cash Flow**

## **Capex Summary**

- Capital expenditures for 4Q06 was \$211.6 million.
- Total planned capital expenditures for 2007 will be approximately \$720 million and will be adjusted based on market conditions.

## **First Quarter 2007 Guidance**

The following statements are forward looking statements which are based on current expectation and which involve risks and uncertainties, some of which are set forth under "Safe Harbor Statements" above.

- Revenues expected to remain flat from the fourth quarter.
- Gross margins expected to be in the 12% to 14% range.
- Operating expense excluding any gain from disposal as a percentage of sales expected to be



Beginning in the first quarter of 2007, the accounting estimate in the relation to the useful life of fab-related machinery and equipment will be modified. This change will have an effect on the gross margin and depreciation guidance. Currently, we use a five-year straight-line depreciation method. We consider the current useful life estimate overly conservative in light of the expected economic life of the equipment as well as the industry general practice. We will therefore change the useful life estimate to a five to seven year range, which is consistent with industry practice, and will more accurately reflect the economics associated with the ownership of the equipment.

### **Recent Highlights and Announcements**

- Saifun and SMIC to Collaborate on 8Gb Data Flash Using SMIC's Advanced Process Technology [2006-11-23]
- SMIC announces acceptance of filing of a complaint by the High Court of Beijing, China against TSMC's breach of bona fide (ie. integrity, good faith) principle and commercial defamation [2006-11-17]
- CADENCE AND SMIC Collaborate to Address Wireless Design Challenges in China [2006-11-9]
- SMIC Reports 2006 Third Quarter Results [2006-10-31]
- SMIC Holds 2006 Technology Symposium in Shenzhen [2006-10-13]

*Please visit SMIC's website at  
[http://www.smics.com/website/enVersion/Press\\_Center/pressRelease.jsp](http://www.smics.com/website/enVersion/Press_Center/pressRelease.jsp)  
for further details regarding the recent announcements.*



Semiconductor Manufacturing International Corporation  
 CONSOLIDATED BALANCE SHEET  
 (In US dollars)

	As of the end of	
	December 31, 2006 (unaudited)	September 30, 2006 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	363,619,731	555,325,635
Short term investments	57,950,603	52,441,975
Accounts receivable, net of allowances of \$4,048,845 and \$ 4,068,373 respectively	252,184,975	265,522,541
Inventories	275,178,952	243,956,844
Prepaid expense and other current assets	91,311,505	25,624,762
Assets held for sale	9,420,729	14,875,528
Total current assets	<u>1,049,666,495</u>	<u>1,157,747,285</u>
Land use rights, net	38,323,333	38,180,494
Plant and equipment, net	3,244,400,822	3,295,734,677
Acquired intangible assets, net	166,199,390	172,279,451
Equity investment	13,619,643	14,663,371
Other long-term prepayments	4,119,433	4,568,174
Deferred tax assets	25,286,900	22,014,394
<b>TOTAL ASSETS</b>	<b><u>4,541,616,016</u></b>	<b><u>4,705,187,846</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	309,129,199	353,325,028
Accrued expenses and other current liabilities	96,927,345	107,858,006
Short-term borrowings	71,000,000	45,000,000
Current portion of promissory note	29,242,001	29,492,873
Current portion of long-term debt	103,986,968	47,160,000
Income tax payable	72,417	39,875
Total current liabilities	<u>610,357,930</u>	<u>582,875,782</u>
Long-term liabilities:		
Promissory note	77,601,657	91,314,355
Long-term debt	786,380,905	963,138,943
Long-term payables relating to license agreements	16,992,950	21,597,408
Other long-term payables	3,333,333	6,666,667
Deferred tax liabilities	210,913	-
Total long-term liabilities	<u>884,519,758</u>	<u>1,082,717,373</u>
Total liabilities	<u>1,494,877,688</u>	<u>1,665,593,155</u>
Minority interest	38,800,666	39,741,186
Stockholders' equity:		
Ordinary shares, \$0.0004 par value, 50,000,000,000 shares authorized, shares issued and outstanding 18,432,756,463 and 18,402,634,216 respectively	7,373,103	7,361,054
Warrants	32,387	32,387
Additional paid-in capital	3,288,733,077	3,281,801,407
Accumulated other comprehensive income	91,840	173,321
Accumulated deficit	<span style="color: red;">(288,292,745)</span>	<span style="color: red;">(289,514,664)</span>
Total stockholders' equity	<u>3,007,937,662</u>	<u>2,999,853,505</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>4,541,616,016</u></b>	<b><u>4,705,187,846</u></b>



Semiconductor Manufacturing International Corporation  
CONSOLIDATED STATEMENT OF OPERATIONS  
(In US dollars)

	December 31, 2006 (unaudited)	September 30, 2006 (unaudited)
Sales	383,812,708	368,926,309
Cost of sales	358,452,295	336,160,028
Gross profit	25,360,413	32,766,281
Operating expenses:		
Research and development	21,719,578	27,319,652
General and administrative	14,562,807	4,215,807
Selling and marketing	4,728,691	3,613,868



Semiconductor Manufacturing International Corporation  
 CONSOLIDATED STATEMENT OF CASH FLOWS  
 (In US dollars)

	December 31, 2006 (Unaudited)	September 30, 2006 (Unaudited)
<b>Operating activities</b>		
Net income (loss)	1,221,919	(35,094,474)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Minority interest	(940,520)	2,674,339
Gain on disposal of plant and equipment	(41,733,713)	(872,422)
Depreciation and amortization	239,478,464	225,754,616
Amortization of acquired intangible assets	11,292,060	11,041,090
Amortization of deferred stock compensation	5,632,156	5,703,457
Amortization of loan initiation fee	179,848	179,846
Non cash interest expense	1,365,081	1,368,710
Loss from equity investment	1,043,728	1,096,795
Changes in operating assets and liabilities:		
Accounts receivable, net	13,337,566	(8,274,203)
Inventories	(31,222,108)	(26,364,459)
Prepaid expense and other current assets	(2,932,945)	(5,243,468)
Accounts payable	27,419,295	7,039,215
Accrued expenses and other current liabilities	(17,619,629)	24,167,325
Other long term liabilities	(3,333,334)	(3,333,333)
Income tax payable	32,542	19,327
Deferred tax assets and liabilities	(3,061,593)	(3,121,998)
Net cash provided by operating activities	200,158,817	196,740,363
<b>Investing activities:</b>		
Purchase of plant and equipment	(276,468,642)	(241,450,500)
Proceeds from disposal of plant and equipment	532,214	2,327,095
Proceeds from living quarter sales	1,609,274	5,476,213
Purchases of acquired intangible assets	(4,327,949)	(3,553,501)
Purchase of short-term investments	(60,729,572)	(74,329,245)
Sale of short-term investments	55,208,572	25,384,332
Net cash used in investing activities	(284,176,103)	(286,145,606)
<b>Financing activities:</b>		
Proceeds from short-term borrowing	31,000,000	76(a)45.0288(s)19.0866(s)49.143(,)/