



Semiconductor Manufacturing International Corporation
<http://www.smics.com>

18 Zhangjiang Road
Pudong New Area
Shanghai, 201203
People's Republic of China

NEWS RELEASE

All currency figures in this report are denominated in US Dolla



Conference call / Webcast announcement details

Date: July 29, 2005

Time: 8:00 a.m. Shanghai time

Dial-in numbers and pass code: U.S. 1-617-614-2714 or HK 852-3002-1672 (Pass code: SMIC)

A live webcast of the 2005 second quarter announcement will be available at <http://www.smics.com> under the "Investor Relations" section. An archived version of the webcast, along with a soft copy of this news release will be available on the SMIC website for a period of 12 months following the webcast.

About SMIC

SMIC (NYSE: SMI, SEHK: 0981.HK) is one of the leading semiconductor foundries in the world, providing integrated circuit (IC) manufacturing at 0.35-micron to 0.11-micron and finer line technologies to customers worldwide. Established in 2000, SMIC has four 8-inch wafer fabrication facilities in volume production in Shanghai and Tianjin. In the first quarter of 2005, SMIC commenced commercial production at its 12-inch wafer fabrication facility in Beijing. SMIC also maintains customer service and marketing offices in the U.S., Europe, and Japan, and a representative office in Hong Kong. As part of its dedication towards providing high-quality services, SMIC strives to comply with or exceed international standards and has achieved ISO9001, ISO/TS16949, OHSAS18001, TL9000 and ISO14001 certifications. For additional information, please visit <http://www.smics.com>.

Safe harbor statements

(Under the Private Securities Litigation Reform Act of 1995)

This press release may contain, in addition to historical inform



Summary:

	<u>2Q05</u>	<u>1Q05</u>	<u>QoQ</u>	<u>2Q04</u>	<u>YoY</u>
Sales	279,500	248,808	12.3%	220,988	26.5%
Cost of sales	273,111	233,696	16.9%	158,247	72.6%
Gross profit	6,389	15,112	-57.7%	62,741	-89.8%
Operating expenses	38,469	37,086	3.7%	26,351	46.0%
Income (loss) from operations	(32,081)	(21,974)	46.0%	36,390	-
Other income (expenses)	(8,234)	(8,012)	2.8%	(2,225)	270.1%
Income tax	118	9	1259.3%	-	-
Net income (loss) after income taxes	(40,433)	(29,995)	34.8%	34,165	-218.4%
Minority interest	(12)	-	-	-	-
Income (loss) attributable to holders of ordinary shares	(40,445)	(29,995)	34.8%	34,165	-
Gross margin	2.3%	6.1%		28.4%	
Operating margin	-11.5%	-8.8%		16.5%	
Basic EPS – per ordinary share	(\$0.0022)	(\$0.0017)		\$0.0019	
Basic EPS – per ADS	(\$0.1113)	(\$0.0831)		\$0.0955	
Diluted EPS – per ordinary share	(\$0.0022)	(\$0.0017)		\$0.0019	
Diluted EPS – per ADS	(\$0.1113)	(\$0.0831)		\$0.0941	
Wafers shipped (in 8” wafers)	330,499	284,912	16.0%	201,534	64.0%
Blended ASP	\$807	\$829	-2.7%	\$1,034	-22.0%
Logic ASP	\$938	\$967	-3.0%	\$1,089	-13.9%
Capacity utilization	87%	85%		99%	



Š Selling and marketing expenses increased to \$3.0 million in 2Q05, up 20.8% QoQ from \$2.5 million in 1Q05, primarily du



1. Analysis of revenues

Sales analysis					
By Application	2Q05	1Q05	4Q04	3Q04	2Q04
Computer	39.8%	36.8%	26.8%	20.5%	22.5%
Communications	40.4%	44.5%	58.1%	57.2%	54.3%
Consumer	15.2%	13.6%	10.2%	17.1%	17.1%
Others	4.6%	5.1%	4.9%	5.2%	6.1%
By Device	2Q05	1Q05	4Q04	3Q04	2Q04
Logic (including copper interconnect)	58.9%	61.9%	75.1%	77.6%	73.5%
DRAM	36.5%	33.0%	20.4%	17.5%	20.8%
Other (mask making & probing, etc.)	4.6%	5.1%	4.5%	4.9%	5.7%
By Customer Type	2Q05	1Q05	4Q04	3Q04	2Q04
Fabless semiconductor companies	42.2%	48.1%	50.2%	35.3%	36.1%
Integrated device manufacturers (IDM)	55.2%	49.6%	47.5%	56.3%	54.8%
System companies and others	2.6%	2.3%	2.3%	8.4%	9.1%
By Geography	2Q05	1Q05	4Q04	3Q04	2Q04
North America	40.8%	40.4%	34.9%	41.8%	44.0%
Asia Pacific (ex. Japan)	26.3%	26.9%	43.5%	31.5%	26.5%
Japan	6.0%	8.0%	8.8%	15.6%	16.2%
Europe	26.9%	24.7%	12.8%	11.1%	13.3%
Wafer revenue analysis					
By Technology (logic, DRAM & copper interconnect only)	2Q05	1Q05	4Q04	3Q04	2Q04
0.13μm	44.5%	29.2%	13.8%	11.9%	9.9%
0.15μm	2.5%	12.5%	14.9%	13.2%	13.3%
0.18μm	40.7%	40.3%	33.6%	46.2%	48.6%
0.25μm	3.9%	4.6%	6.0%	6.4%	8.3%
0.35μm	8.4%	13.4%	31.7%	22.3%	19.9%
By Logic Only	2Q05	1Q05	4Q04	3Q04	2Q04
0.13μm	12.6%	5.4%	2.4%	1.8%	0.9%
0.15μm	4.8%	2.2%	5.3%	4.6%	3.9%
0.18μm	59.4%	59.8%	38.2%	56.2%	63.0%
0.25μm	7.1%	7.1%	7.8%	6.1%	3.1%
0.35μm	16.1%	25.5%	46.3%	31.3%	29.1%

- § Percentage of sales generated from European customers grew the most during the period, increasing to 26.9% in 2Q05 from 24.7% in 1Q05.
- § Percentage of wafer revenues from 0.18μm and below technologies increased to 87.7% of sales in 2Q05, as compared with 82.0% in 1Q05 and 71.8% in 2Q04.
- § Percentage of logic only wafer revenues from 0.18μm and below technologies increased to 76.8% of logic only sales in 2Q05, as compared with 67.4% in 1Q05 and 67.8% in 2Q04.
- § Percentage of logic only wafer revenues from 0.13μm increased to 12.6% of logic only sales in 2Q05 from 5.4% in 1Q05. Percentage of logic only wafer revenues from 0.35μm decreased to 16.1% of logic only sales in 2Q05 from 25.5% in 1Q05.



Fab / (Wafer Size)	<u>2Q05</u>	<u>1Q05</u>
Fab 1 (8")	45,000	45,731
Fab 2 (8")	43,045	40,000
Fab 4 (12")	16,787	10,220
Fab 7 (8")	15,000	16,221
Total monthly wafer fabrication capacity	119,832	112,172
Copper Interconnects:		
Fab 3 (8")	19,193	19,000
Total monthly copper interconnect capacity	19,193	19,000

§ As of the end of 2Q05, monthly capacity, based on the product mix, increased to 139,025 8-inch equivalent wafers.

<u>8" wafers</u>	<u>2Q05</u>	<u>1Q05</u>	<u>4Q04</u>	<u>3Q04</u>	<u>2Q04</u>
Wafer shipments including copper interconnects					



2. Detailed financial analysis

	<u>2Q05</u>	<u>1Q05</u>	<u>QoQ</u>	<u>2Q04</u>	<u>YoY</u>
Cost of sales	273,111	233,696	16.9%	158,247	72.6%
Depreciation	171,216	145,307	17.8%	83,990	103.9%
Other manufacturing costs	101,895	88,389	15.3%	74,257	37.2%
Gross profit	6,389	15,112	-57.7%	62,741	-89.8%
Gross margin	2.3%	6.1%		28.4%	

- § After giving effect to the reclassification, Cost of sales increased to \$273.1 million in 2Q05, up 16.9% QoQ from \$233.7 million in 1Q05, primarily due to the increase in wafer shipments and depreciation expenses.
- § Gross profit decreased to \$6.4 million in 2Q05, down 57.7% QoQ from \$15.1 million in 1Q05.
- § After giving effect to the reclassification, Gross margins decreased to 2.3% in 2Q05 from 6.1% in 1Q05, primarily due to the increase in depreciation expenses and a lower blended ASP, which was the result of a decline in pricing of DRAM products and general industry softness.

	<u>2Q05</u>	<u>1Q05</u>	<u>QoQ</u>	<u>2Q04</u>	<u>YoY</u>
Total operating expenses	38,469	37,086	3.7%	26,351	46.0%
Research and development	16,344	14,646	11.6%	11,261	45.1%
General and administrative	5,397	6,591	-18.1%	6,019	-10.3%
Selling and marketing	3,012	2,494	20.8%	1,940	55.3%
Amortization of intangible assets	10,082	9,869	2.2%	3,532	185.5%
Amortization of deferred stock compensation	3,634	3,487	4.2%	3,599	1.0%

- § Total operating expenses increased to \$38.5 million in 2Q05, up 3.7% QoQ from \$37.1 million in 1Q05.
- § After giving effect to the reclassification, Research and development expenses increased to \$16.3 million in 2Q05, up 11.6% QoQ from \$14.6 million in 1Q05, primarily due to 90nm and 65nm research and development activities.
- § General and administrative expenses including foreign exchange decreased to \$5.4 million in 2Q05, down 18.1% QoQ from \$6.6 million in 1Q05, primarily due to a decrease in legal fees.
- § Selling and marketing expenses increased to \$3.0 million in 2Q05, up 20.8% QoQ from \$2.5 million in 1Q05, primarily due to an increase in engineering materials associated with sales activities.
- § Amortization of intangible assets as a result of the new classification was \$10.1 million in 2Q05, up 2.2% QoQ from \$9⁹

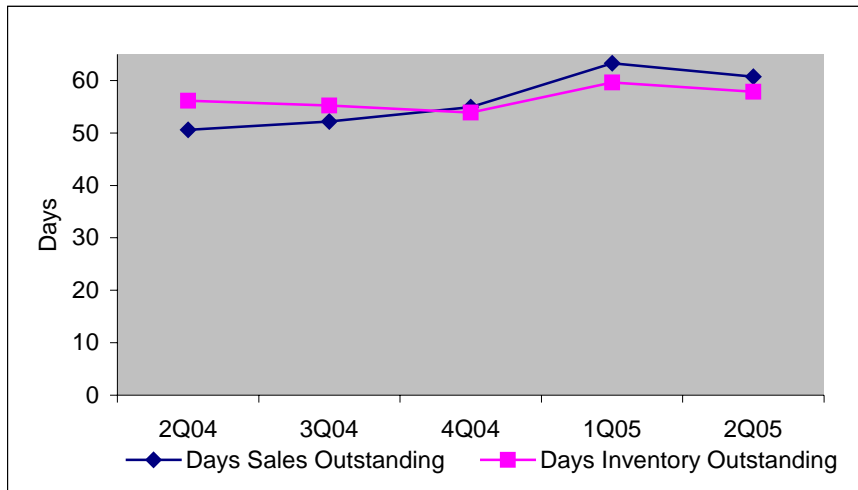


- § Other non-operating loss increased to \$8.2 million in 2Q05 from a loss of \$8.0 million in 1Q05, primarily due to an increase in interest expense.
- § Interest expense increased to \$9.0 million in 2Q05, up 16.7% QoQ from \$7.7 million in 1Q05, primarily due to the increase in bank borrowings.

3. Liquidity

	<u>2Q05</u>	<u>1Q05</u>
Cash and cash equivalents	576,292	438,802
Short term investments	2,768	10,349
Accounts receivable	196,132	180,878
Inventory	176,502	174,525
Others	16,397	8,565
Total current assets	968,091	813,119
Accounts payable	249,595	333,442
Short-term borrowings	224,000	133,499
Current portion of long-term debt	228,625	228,625
Others	96,746	88,872
Total current liabilities	798,966	784,438
Cash Ratio	0.7x	0.6x
Quick Ratio	1.0x	0.8x
Current Ratio	1.2x	1.0x

- § Cash and cash equivalents increased to \$576.3 million from \$438.8 million, primarily due to the increase in bank borrowings.





	<u>2Q05</u>	<u>1Q05</u>
Cash and cash equivalents	576,292	438,802
Short-term investment	2,768	10,349
Current portion of promissory note	19,090	4,833
Promissory note	116,204	129,310
Short-term borrowings	224,000	133,499
Current portion of long-term debt	228,625	228,625
Long-term debt	511,807	411,824
Total debt	964,432	773,948
Net cash	(520,666)	(458,940)
Shareholders' equity	3,053,111	3,086,256
Total debt to equity ratio	31.6%	25.1%

- § Total debt increased to \$964.4 million in 2Q05 compared with \$773.9 million in 1Q05, primarily due to the increase in bank borrowings.
- § Total debt-to-equity ratio increased to 31.6% in 2Q05 from 25.1% in 1Q05.

4. Cashflow & Capex

	<u>2Q05</u>	<u>1Q05</u>
Net loss	(40,445)	(29,995)
Depreciation and amortization	185,978	166,243
Amortization of acquired intangible assets	10,082	9,869
Net change in cash	137,491	(168,371)

- § Capital expenditures for 2Q05 and 1H05 were \$141.3 million and \$484.4 million, respectively.
- § Planned capital expenditures for 2005 have been increased to approximately \$1.1 billion and will be adjusted based on market conditions.

5. 3Q05 guidance

- § Wafer shipments expected to increase by 7.5%-9.5%.
- § Utilization expected to increase to the range of 90-93%.
- § Blended ASP expected to increase by 8%-10%.
- § Gross margins expected to increase to the range of 12%-15%.
- § Operating expenses as a percentage of sales expected to be in the mid-teens.
- § Amortization of intangible assets expected to be approximately \$11 million.
- § Other expenses expected to be approximately \$10 million.
- § Capital expenditures expected to be in the range of \$200-240 million.
- § Depreciation and amortization expected to be in the range of \$200-210 million.



- § Amortization of deferred stock compensation charge expected to be approximately \$7 million, of which \$4 million will be charged to operating expenses and \$3 million to cost of sales.

6. Recent announcements

- § SMIC Licenses SAIFUN NROM® Technology to Expand its Semiconductor Business [2005-07-28]
- § Change of Chairman [2005-07-28]
- § SMIC and SYNOPSYS Announce Reference Design Flow 2.0 [2005-07-20]
- § SMIC and Magma Forge Design Service Partnership to Offer Integrated RTL-to-GDSII Design Solution and Services for Nanometer Processes [2005-06-28]
- § SMIC Adds New Design Kit for its 0.18µm CMOS Process for Use with Agilent Technologies' EDA Software [2005-06-09]
- § SMIC Beijing Secures Financing for Expansion [2005-05-26]
- § SMIC ARM926EJ Processor Chip Successfully Validated [2005-05-25]
- § Annual General Meeting held on May 6, 2005 Poll Results [2005-05-06]
- § SMIC and UTAC to Establish Semiconductor Assembly and Testing Facility in China [2005-05-03]
- § SMIC Reports 2005 First Quarter Results [2005-04-29]
- § Qualified Accountant Waiver [2005-04-29]
- § SMIC Joins ARM Connected Community [2005-04-27]





SMIC Financials

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

As of t



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

For the three months ended C C C C C C C C C



Semiconductor Manufacturing Internation