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## NEWS RELEASE

### SMIC Reports 2006 Third 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 \$368.9 million in 3Q06, up 2.1% from 2Q06 and up 19.0% from 3Q05.**
  - **Gross margins decreased to 8.9% in 3Q06 from 13.6% in 2Q06.**
  - **Operating loss of \$13.4 million in 3Q06.**
  - **Net loss of \$35.1 million in 3Q06, compared to a net income of \$2.2 million from 2Q06 and a net loss of \$26.1 million in 3Q05.**
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**Shanghai, China – October 31, 2006.** 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 September 30, 2006. Sales increased 2.1% in the third quarter of 2006 to \$368.9 million from \$361.4 million in the second quarter. The Company reported an increase in capacity to 176,625 8-inch equivalent wafers per month and a utilization rate of 84.3% in the third quarter of 2006. Gross margins were 8.9% in the third quarter of 2006 compared to 13.6% in the second quarter of 2006. Net loss of \$35.1 million in the third quarter of 2006, compared to a net loss of \$26.1 million in the third quarter of 2005 and a net gain of \$2.2 million in the second quarter of 2006.

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 \$99.5 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 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.

“In the third quarter, our first 90 nanometer logic product moved into mass production at our 300 millimeter facility in Beijing,” said Dr. Richard Chang, Chief Executive Officer of SMIC. “Elpida’s 512M-bit DDR2 DRAM using the 90 nanometer manufacturing process also moved into mass production. Our second 90 nanometer DRAM product for Qimonda will go into commercial production in the fourth quarter 2006. In the third quarter, 90 nanometer technology contributed 4.9% of total wafer revenues.

We are also pleased to announce that SMIC entered into a strategic agreement with Qualcomm. We will provide integrated circuit manufacturing services to Qualcomm using a specialized BiCMOS process technology at our Tianjin facility. This agreement will combine SMIC’s wafer fabrication capabilities and subcontractor infrastructure with Qualcomm’s leadership in 3G wireless technologies, with a focus on power management ICs.

We continue to see customers going through a period of inventory correction carrying over into the fourth quarter. This inventory situation is improving and depending on the holiday sell-through, it may continue to improve.



As we manage for the long-term, we will continue to marc



obligation and does not intend to update any forward-looking statement, whether as a result of new information, future events or otherwise.



## Summary of Third Quarter 2006 Operating Results

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

	3Q06	2Q06	QoQ	3Q05	YoY
Sales	368,926	361,446	2.1%	309,959	19.0%
Cost of sales	336,160	312,229	7.7%	284,686	18.1%
Gross profit	32,766	49,217	-33.4%	25,273	29.6%
Operating expenses	46,190	56,141	-17.7%	46,219	-0.1%
Loss from operations	(13,424)	(6,924)	93.9%	(20,946)	-35.9%
Other income (expenses)	(20,947)	(9,491)	120.7%	(4,742)	341.7%
Income tax credit (expense)	3,048	18,892	-83.9%	(6)	-
Net income (loss) after income taxes	(31,323)	2,477	-	(25,694)	21.9%
Minority interest	(2,674)	767	-	439	-
Share of loss of affiliate company	(1,097)	(1,002)	9.5%	(860)	27.6%
Income (loss) attributable to holders of ordinary shares	(35,094)	2,242	-	(26,115)	34.4%
Gross margin	8.9%	13.6%		8.2%	
Operating margin	-3.6%	-1.9%		-6.8%	
Net income (loss) per ordinary share - basic	(\$0.0019)	\$0.0001		(\$0.0010)	
Net income (loss) per ADS – basic	(\$0.0956)	\$0.0061		(\$0.0718)	
Net income (loss) per ordinary share – diluted	(\$0.0019)	\$0.0001		(\$0.0010)	
Net income (loss) per ADS – diluted	(\$0.0956)	\$0.0060		(\$0.0718)	
Wafers shipped (in 8" wafers) <sup>2</sup>	413,985	388,498	6.6%	355,664	16.4%
Logic ASP	\$949	\$979	-3.1%	\$989	-4.0%
Blended ASP	\$851	\$888	-4.2%	\$841	1.2%
Simplified ASP <sup>4</sup>	\$891	\$930	-4.2%	\$871	2.3%
Capacity utilization	84.3%	93.5%		92.1%	

Note

Based on weighted average ordinary shares of  $w_5$  million in Q  $w w$  million basic and  $w_2$  million diluted in 2Q and  $w$  million in Q 5

<sup>2</sup> Including copper interconnects

Excluding copper interconnects

<sup>4</sup> Total sales total wafers shipped

- Sales increased to \$368.9 million in 3Q06, up 2.1% QoQ from \$361.4 million in 2Q06 and up 19.0% YoY from \$310.0 million in 3Q05 primarily due to increased 8-inch equivalent wafer shipments of 413,985, up 6.6% QoQ from 388,498 in 2Q06.
- Cost of sales increased to \$336.2 million in 3Q06, up 7.7% QoQ from \$312.2 million in 2Q06, primarily due to an increase in wafer shipments and an increase in depreciation.
- Gross profit decreased to \$32.8 million in 3Q06, down 33.4% QoQ from \$49.2 million in 2Q06, and up 29.6% YoY from \$25.3 million in 3Q05. The QoQ decrease was primarily due to general pricing weakness, decreased utilization, and increased depreciation.
- Gross margins decreased to 8.9% in 3Q06 from 13.6% in 2Q06 primarily due to general pricing weakness, decreased utilization, and increased depreciation.
- R&D expenses increased to \$27.3 million in 3Q06, up 12.2% QoQ from \$24.3 million in 2Q06, primarily due to 65nm R&D activities and a decrease in R&D subsidies.
- G&A expenses including foreign exchange decreased to \$4.2 million in 3Q06 from \$16.8 million in 2Q06 primarily due to a foreign exchange gain of \$2.3 million in 3Q06 relating to operating activities, a decrease in the provision for doubtful debts, a tax reversal, and a legal fee reversal.
- Selling & marketing expenses decreased to \$3.6 million in 3Q06, down 7.8% QoQ from \$3.9 million in 2Q06, primarily due to a decrease in engineering material expenses associated with selling activities.
- Amortization of acquired intangible assets of \$11.0 million in 3Q06 representing amortization expenses associated with the acquired intangible assets.



- Loss from operations increased to a loss of \$13.4 million in 3Q06, up 93.9% QoQ from \$6.9 million in 2Q06 and down from a loss of \$20.9 million in 3Q05.
- Other non-operating loss of \$20.9 million in 3Q06 up 120.7% QoQ from a loss of \$9.5 million in 2Q06, primarily due to a foreign exchange loss of \$12.3M.
- Interest expenses of \$12.2 million in 3Q06, up 0.3% QoQ from \$12.2 million in 2Q06.
- Net foreign exchange loss of \$10.1 million based on a foreign exchange gain of \$2.3 million in G&A and a foreign exchange loss of \$12.3 million relating to a non-operating activities resulting from financing or investment transactions classified as other income (expenses).
- Net loss increased to \$35.1 million, compared to a net income of \$2.2 million in 2Q06 and a net loss of \$26.1 million in 3Q05.



## Analysis of Revenues

<b>Sales Analysis</b>			
<b>By Application</b>	<b>3Q06</b>	<b>2Q06</b>	<b>1Q06</b>
Computer	33.0%	30.6%	36.0%
Communications		46.2%	45.8%
Consumer	25.2%	18.6%	13.3%
Others	4.7%	4.6%	4.9%
<b>By Device</b>	<b>3Q06</b>	<b>2Q06</b>	
Logic (including copper interconnect)	65.4%	66.6%	
DRAM	30.1%	28.8%	
Other (mask making & probing, etc.)	4.5%	4.6%	3.5%
<b>By Customer Type</b>	<b>3Q06</b>	<b>2Q06</b>	<b>3Q05</b>
Fabless semiconductor companies	36.9%	37.9%	43.2%
Integrated device manufacturers (IDM)	50.0%	46.6%	43.2%



## Capacity

Fab / (Wafer Size)	3Q06 <sup>(1)</sup>	2Q06 <sup>(1)</sup>
Fab 1 (8")	43,109	43,000
Fab 2 (8")	49,000	49,034
Fab 4 (12")	41,850	35,438
Fab 7 (8")	20,000	17,216
Total monthly wafer fabrication capacity	153,959	144,688
<b>Copper Interconnects:</b>		
Fab 3 (8")	22,666	



## Detailed Financial Analysis

### **Gross Profit Analysis**

<i>Amounts in US\$ thousands</i>	<b>3Q06</b>	<b>2Q06</b>	<b>QoQ</b>	<b>3Q05</b>	<b>YoY</b>
Cost of sales	336,160	312,229	7.7%	284,686	18.1%
Depreciation	196,993	188,663	4.4%	167,919	17.3%
Other manufacturing costs	139,167	123,566	12.6%	116,767	19.2%
Gross Profit	32,766	49,217	-33.4%	25,273	29.6%
Gross Margin	8.9%	13.6%		8.2%	

- Cost of sales increased to \$336.2 million in 3Q06, up 7.7% QoQ from \$312.2 million in 2Q06, primarily due to an increase in wafer shipments and an increase in depreciation.
- Gross profit decreased to \$32.8 million in 3Q06, down 33.4% QoQ from \$49.2 million in 2Q06 and up 29.6% YoY from \$25.3 million in 3Q05. The QoQ decrease was primarily due to general pricing weakness, decreased utilization, and increased depreciation.
- Gross margins decreased to 8.9% in 3Q06 from 13.6% in 2Q06, primarily due to general pricing weakness, decreased utilization, and increased depreciation.

### **Operating Expense Analysis**

<i>Amounts in US\$ thousands</i>	<b>3Q06</b>	<b>2Q06</b>	<b>QoQ</b>	<b>3Q05</b>	<b>YoY</b>
Total operating expenses	46,190	56,141	-17.7%	46,219	-0.1%
Research and development	27,319	24,345	12.2%	20,355	34.2%
General and administrative	4,216	16,837	-75.0%	10,526	-59.9%
Selling and marketing	3,614	3,918	-7.8%	4,677	-22.8%
Amortization of intangible assets	11,041	11,041	-	10,661	3.6%

- Total operating expenses were \$46.2 million in 3Q06, a decrease of 17.7% QoQ from \$56.1 million in 2Q06.
- R&D expenses increased to \$27.3 million in 3Q06, up 12.2% QoQ from \$24.3 million in 2Q06, primarily due to 65nm R&D activities and a decrease in R&D subsidies.
- G&A expenses including foreign exchange decreased to \$4.2 million in 3Q06 from \$16.8 million in 2Q06 primarily due to a foreign exchange gain of \$2.3 million in 3Q06 relating to operating activities, a decrease in the provision for doubtful debts, a tax reversal, and a legal fee reversal.
- Selling & marketing expenses decreased to \$3.6 million in 3Q06, down 7.8% QoQ from \$3.9 million in 2Q06, primarily due to a decrease in engineering material expenses associated with selling activities.
- Amortization of acquired intangible assets of \$11.0 million in 3Q06 representing amortization expenses associated with the acquired intangible assets.



### Other Income (Expenses)

<i>Amounts in US\$ thousands</i>	3Q06	2Q06	QoQ	3Q05	YoY
Other income (expenses)	(20,947)	(9,491)	120.7%	(5,602)	273.9%
Interest income	2,970	4,039	-26.5%	3,278	-9.4%
Interest expense	(12,247)	(12,214)	0.3%	(10,334)	18.5%
Other, net	(11,670)	(1,316)	786.8%	1,454	-

- Other non-operating loss of \$20.9 million in 3Q06 up 120.7% QoQ from a loss of \$9.5 million in 2Q06, primarily due to a foreign exchange loss of \$12.3 million.
- Interest expenses of \$12.2 million in 3Q06, up 0.3% QoQ from \$12.2 million in 2Q06.

### Liquidity

<i>Amounts in US\$ thousands</i>	3Q06	2Q06
Cash and cash equivalents	555,326	584,643
Short term investments	52,442	3,487
Accounts receivable	265,522	257,248
Inventory	243,957	217,592
Others	40,500	25,956
Total current assets	1,157,747	1,088,926
Accounts payable	353,325	429,813
Short-term borrowings	45,000	118,284
Current portion of long-term debt	47,160	47,160
Others	137,391	114,636
Total current liabilities	582,876	709,893
Cash Ratio	1.0x	0.8x
Quick Ratio	1.5x	1.2x
Current Ratio	2.0x	1.5x



## **Cash Flow Summary**

<i>Amounts in US\$ thousands</i>	<b>3Q06</b>	<b>2Q06</b>
Net income (loss)	(35,094)	2,242
Depreciation & amortization	225,755	220,242
Amortization of acquired intangible assets	11,041	11,041
Net change in cash	(29,318)	99,523

## **Capex Summary**

- Capital expenditures for 3Q06 was \$157.4M.
- Total planned capital expenditures for 2006 will be approximately \$1.0 billion.

## **Fourth Quarter 2006 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.

- Sales expected to increase slightly by 1% to 2% over 3Q06.
- Gross margins expected to be in the 9% to 11% range.
- Operating expense as a percentage of sales expected to be in the 12% to 15% range.
- Non-operating interest expense expected to be in the \$14 million to \$17 million range.
- Capital expenditures expected to be approximately \$300 million to \$320 million.
- Depreciation and amortization expected to be approximately \$255 million to \$260 million.

## **Recent Highlights and Announcements**

- Announcement of Unaudited Interim Results for the Six Months Ended June 30, 2006 [2006-09-21]
- SMIC Denies Allegations and Files Cross-Complaint Against TSMC [2006-09-13]
- SMIC d(s)Tj 4.68 0 Td (p)Tj 5.28 0 0.92 Td ( )Tj 48 Td (t)Tj 3.72 0.16 0 Td (s)Tj 4.68 0 Td ( )Tj /R25 9.3624 Tf -353



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

	As of the end of	
	September 30, 2006 (unaudited)	June 30, 2006 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	555,325,635	584,643,407
Short term investments	52,441,975	3,486,997
Accounts receivable, net of allowances of \$4,068,373 and \$4,360,447, respectively	265,522,541	257,248,338
Inventories	243,956,844	217,592,385
Prepaid expense and other current assets	25,624,762	20,171,994
Assets held for sale	14,875,528	5,782,422
<b>Total current assets</b>	<b>1,157,747,285</b>	<b>1,088,925,543</b>
Land use rights, net	38,180,494	39,975,613
Plant and equipment, net	3,295,734,677	3,378,265,128
Acquired intangible assets, net	172,279,451	183,230,540
Equity investment	14,663,371	15,760,166
Other long-term prepayments	4,568,174	4,957,320
Deferred tax assets	22,014,394	18,892,396
<b>TOTAL ASSETS</b>	<b>4,705,187,846</b>	<b>4,730,006,706</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	353,325,028	429,813,127
Accrued expenses and other current liabilities	107,858,006	85,373,210
Short term borrowings	45,000,000	118,283,829
Current portion of promissory note	29,492,873	29,242,001
Current portion of long term debt	47,160,000	47,160,000
Income tax payable	39,875	20,548
<b>Total current liabilities</b>	<b>582,875,782</b>	<b>709,892,715</b>
Long-term liabilities:		
Promissory note	91,314,355	90,537,615
Long-term debt	963,138,943	830,742,999
Long-term payables relating to license agreements	21,597,408	23,507,429
Other Long Term Payable	6,666,667	10,000,000
<b>Total long-term liabilities</b>	<b>1,082,717,373</b>	<b>954,788,043</b>
<b>Total liabilities</b>	<b>1,665,593,155</b>	<b>1,664,680,758</b>
Minority interest	39,741,186	37,066,848
Stockholders' equity:		
Ordinary shares, \$0.0004 par value, 50,000,000,000 shares authorized, shares issued and outstanding 18,402,634,216 and 18,342,734,332 respectively	7,361,054	7,337,094
Warrants	32,387	32,387
Additional paid-in capital	3,281,801,407	3,275,146,135
Accumulated other comprehensive income (loss)	173,321	163,674
Accumulated deficit	(289,514,664)	(254,420,190)
<b>Total stockholders' equity</b>	<b>2,999,853,505</b>	<b>3,028,259,100</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>4,705,187,846</b>	<b>4,730,006,706</b>



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



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

	For the three months ended	
	September 30, 2006 (unaudited)	June 30, 2006 (unaudited)
<b>Operating activities</b>		
Net income ( loss)	(35,094,474)	2,241,862
Adjustments to reconcile net income (loss) to net cash provided by ( used in ) operating activities		
Minority interest	2,674,339	(767,652)
Loss on disposal of plant and equipment	(872,422)	(516,812)
Depreciation and amortization	225,754,616	220,242,447
Amortization of acquired intangible assets	11,041,090	11,041,089
Amortization of deferred stock compensation	5,703,457	6,006,465
Amortization of loan initiation fee	179,846	59,949
Non cash interest expense on promissory notes	1,368,710	1,503,505
Loss on long-term investment	1,096,795	1,002,169
Changes in operating assets and liabilities	-	-
Accounts receivable	(8,274,203)	(16,227,946)
Inventories	(26,364,459)	(21,007,826)
Prepaid expenses and other current assets	(5,243,468)	(316,206)
Accounts payable	7,039,215	(13,274,229)
Accrued expenses and other current liabilities	24,167,325	(11,319,565)
Other long term liabilities	(3,333,333)	10,000,000
Income tax payable	19,327	(73,086)
Deferred tax assets	(3,121,998)	(18,892,396)
<b>Net cash provided by operating activities</b>	<b>196,740,363</b>	<b>169,701,768</b>
<b>Investing activities:</b>		
Purchases of plant and equipment	(241,450,500)	(164,934,281)
Purchases of acquired intangible assets	(3,553,501)	(253,074)
Sale of short-term investments	25,384,332	30,704
Purchase of short-term investments	(74,329,245)	-
Proceeds from disposal of plant and equipment	2,327,095	17,479
Proceeds received from Living Quarter sales	5,476,213	5,631,255
Net cash used in investing activities	(286,145,606)	(159,507,917)
<b>Financing activities:</b>		
Proceeds from short term borrowings	75,717,105	83,161,736
Proceeds from long-term debt	132,395,944	592,960,001
Repayment of long-term debt	-	(392,642,286)
Repayment of promissory notes	-	(15,000,000)
Repayment of short-term borrowings	(149,000,934)	(176,485,809)
Payment of loan initiation fee	-	(3,596,938)
Proceeds from exercise of employee stock options	990,365	883,777
Repurchase of restricted ordinary shares	(14,589)	-
<b>Net cash provided by financing activities</b>	<b>60,087,891</b>	<b>89,280,481</b>
Effect of exchange rate changes	(420)	48,510
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(29,317,772)</b>	<b>99,522,842</b>
<b>CASH AND CASH EQUIVALENTS - beginning of period</b>	<b>584,643,407</b>	<b>485,120,565</b>
<b>CASH AND CASH EQUIVALENTS - end of period</b>	<b>555,325,635</b>	<b>584,643,407</b>