

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

February 01, 2007

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 6-K**

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**REPORT OF FOREIGN PRIVATE ISSUER**

**Pursuant to Rule 13a-16 or 15d-16**

**under the Securities Exchange Act of 1934**

**For the month of February 2007**

**Commission File Number 1-31994**

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**SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION**

**(Translation of Registrant's Name Into English)**

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**18 Zhangjiang Road**

**Pudong New Area, Shanghai 201203**

**People's Republic of China**

**(Address of Principal Executive Offices)**

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(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)):

Yes  No

(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)):

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Yes \_\_\_\_\_ No  X

(Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934):

Yes \_\_\_\_\_ No  X

(If  Yes  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):  82-\_\_\_\_\_  )

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Semiconductor Manufacturing International Corporation (the Registrant ) is furnishing under the cover of Form 6-K:

Exhibit 99.1: Press release, dated January 31, 2007, entitled SMIC Reports Results for the Three Months Ended December 31, 2006.

**SIGNATURE**

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

By: /s/ Richard R. Chang  
Name: Richard R. Chang  
Title: President and Chief Executive Officer

Date: February 1, 2007

**EXHIBIT INDEX**

| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| Exhibit 99.1:  | Press release, dated January 31, 2007, entitled SMIC Reports Results for the Three Months Ended December 31, 2006. |

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

**SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION**

*(Incorporated in the Cayman Islands with limited liability)*

**(STOCK CODE: 0981)**

**SMIC REPORTS RESULTS FOR THE THREE MONTHS ENDED DECEMBER 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 December 31, 2006. Sales increased to **\$383.8 million in 4Q06, up 15.2% from 4Q05 and up 4.0% sequentially.**

Set out below is a copy of the full text of the press release made by the Company on January 31, 2007 in relation to its results for the three months ended December 31, 2006.

This announcement is made pursuant to the disclosure obligations under Rule 13.09(1) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the Company made the press release, reproduced below, on January 31, 2007. Set out below is a copy of the full text of the press release by the Company on January 31, 2007 in relation to its results for the three months ended December 31, 2006.

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.

**Overview:**

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**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.

In the fourth quarter, the strategic decision to sell some of SMIC's matured technology machinery and equipment further lowered our future depreciation expenses and enabled the Company to expand towards more advanced technologies. We plan to have controlled capital expenditures of \$720 million for 2007.

For the first quarter of 2007, we are expecting more than 17% of our total wafer revenue to come from 90nm sales. We believe the continued prudent development of advanced technology nodes for leading customers positions SMIC for continual growth and improved profitability in 2007.

#### **Conference Call/Webcast Announcement**

Date: January 31, 2007

Time: 8:00 a.m. Shanghai time

**Dial-in numbers and pass code: U.S. 1-617-597-5342 or HK 852-3002-1672 (Pass code: SMIC).**

A live webcast of the 2006 fourth 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.

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#### **About SMIC**

SMIC (NYSE: SMI; SEHK: 981) is one of the leading semiconductor foundries in the world and the largest and most advanced foundry in Mainland China, providing integrated circuit (IC) manufacturing service at 0.35mm to 90nm and finer line technologies. Headquartered in Shanghai, China, SMIC operates three 200mm fabs in Shanghai and one in Tianjin, and one 300mm fab in Beijing, the first of its kind in Mainland China. SMIC has customer service and marketing offices in the U.S., Italy, and Japan as well as a representative office in Hong Kong. For additional information, please visit <http://www.smics.com>.

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#### **Safe Harbor Statements**

(Under the Private Securities Litigation Reform Act of 1995)

This press release 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, including statements concerning SMIC's plans to develop its capabilities, build its China customer base and expand its capacity, anticipated decreases in depreciation expenses, the percentage of total wafer revenue expected to come from 90nm sales, SMIC's ability to grow and improve profitability in 2007, and statements under Capex Summary and First Quarter 2007 Guidance 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.



Investors should consider the information contained in SMIC's filings with the U.S. Securities and Exchange Commission (SEC), including its annual report on 20-F, as amended, filed with the SEC on June 29, 2006, especially in the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections, and its registration statement on Form A-1 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.

#### **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.

#### **Investor contacts:**

|                                   |                                   |
|-----------------------------------|-----------------------------------|
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**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>(3)</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.

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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**

| <b>By Application</b> | <b>4Q06</b> | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| 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%        |

| <b>By Device</b>                      | <b>4Q06</b> | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| 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%        |

| <b>By Customer Type</b>               | <b>4Q06</b> | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| 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%        |

| <b>By Geography</b>      | <b>4Q06</b> | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| 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**

| <b>By Technology (logic, DRAM &amp; copper interconnect only)</b> | <b>4Q06</b> | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| 0.09μm  | 14.4%       | 4.9%        | 0.9%        |             |             |
| 0.13μm  | 43.0%       | 41.2%       | 46.6%       | 46.6%       | 42.9%       |
| 0.15μm  | 2.4%        | 7.2%        | 4.7%        | 8.7%        | 5.2%        |
| 0.18μm  | 33.3%       | 36.1%       | 38.0%       | 35.7%       | 42.3%       |
| 0.25μm  | 1.6%        | 2.6%        | 2.0%        | 1.6%        | 3.3%        |
| 0.35μm  | 5.3%        | 8.0%        | 7.8%        | 7.4%        | 6.3%        |

| <b>By Logic Only<sup>(1)</sup></b> | <b>4Q06</b> | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| 0.09μm                             | 14.7%       | 4.6%        | 0.2%        |             |             |
| 0.13μm <sup>(2)</sup>              | 14.0%       | 11.1%       | 22.3%       | 13.3%       | 10.9%       |
| 0.15μm                             | 4.2%        | 11.8%       | 7.2%        | 14.5%       | 8.6%        |
| 0.18μm                             | 54.8%       | 55.3%       | 55.8%       | 57.7%       | 65.3%       |
| 0.25μm                             | 2.8%        | 4.1%        | 2.5%        | 2.3%        | 4.8%        |
| 0.35μm                             | 9.5%        | 13.1%       | 12.0%       | 12.2%       | 10.4%       |

Note:

(1) Excluding 0.13μm copper interconnects

(2) Represents revenues generated from manufacturing full flow wafers

**Capacity**

|  |                |
|--|----------------|
| <b>Fab/(Wafer Size)</b>                  | <b>4Q06*</b>   |
| Shanghai Mega Fab (8 <sup>(1)</sup> )    | <b>106,000</b> |
| Beijing Mega Fab (12 <sup>(2)</sup> )    | <b>56,250</b>  |
| Tianjin Fab (8 <sup>(1)</sup> )          | <b>20,000</b>  |
| Total monthly wafer fabrication capacity | <b>182,250</b> |

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**

|  |                |             |             |             |             |
|--|----------------|-------------|-------------|-------------|-------------|
| <b>8 equivalent wafers</b>                     | <b>4Q06</b>    | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> |
| Wafer shipments including copper interconnects | <b>424,395</b> | 413,985     | 388,498     | 388,010     | 376,227     |
| Utilization rate <sup>(1)</sup>                | <b>86.6%</b>   | 84.3%       | 93.5%       | 94.9%       | 93.0%       |

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.

**Average Selling Price (ASP) Trend**

The ASP increased to \$904 in 4Q06 from \$891 in 3Q06 mainly due to improving yield at the Beijing Mega Fab and a slightly stronger DRAM pricing environment.

**Detailed Financial Analysis****Gross Profit Analysis***Amounts in US\$ thousands*

|                           | 4Q06    | 3Q06    | QoQ    | 4Q05    | YoY    |
|---------------------------|---------|---------|--------|---------|--------|
| Cost of sales             | 358,452 | 336,160 | 6.6%   | 290,094 | 23.6%  |
| Depreciation              | 210,045 | 196,993 | 6.6%   | 176,545 | 19.0%  |
| Other manufacturing costs | 148,407 | 139,167 | 6.6%   | 113,549 | 30.7%  |
| Gross Profit              | 25,360  | 32,766  | -22.6% | 42,958  | -41.0% |
| Gross Margin              | 6.6%    | 8.9%    |        | 12.9%   |        |

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***Amounts in US\$ thousands*

|                                    | 4Q06     | 3Q06   | QoQ    | 4Q05   | YoY    |
|------------------------------------|----------|--------|--------|--------|--------|
| 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% |
| Amortization of intangible assets  | 11,292   | 11,041 | 2.3%   | 10,640 | 6.1%   |
| Income from disposal of properties | (41,734) |        |        |        |        |

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*

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|                         | <b>4Q06</b>     | <b>3Q06</b> | <b>QoQ</b> | <b>4Q05</b> | <b>YoY</b> |
|-------------------------|-----------------|-------------|------------|-------------|------------|
| Other income (expenses) | <b>(16,468)</b> | (20,947)    | -21.4%     | (5,852)     | 181.4%     |
| Interest income         | <b>3,311</b>    | 2,970       | 11.5%      | 4,120       | -19.6%     |
| Interest expense        | <b>(14,263)</b> | (12,247)    | 16.5%      | (11,792)    | 21.0%      |
| Other, net              | <b>(5,516)</b>  | (11,670)    | -52.7%     | 1,820       |            |

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*

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

**Capital Structure***Amounts in US\$ thousands*

|                                    | <b>4Q06</b>      | <b>3Q06</b> |
|------------------------------------|------------------|-------------|
| Cash and cash equivalents          | <b>363,620</b>   | 555,326     |
| Short-term investment              | <b>57,951</b>    | 52,442      |
| Current portion of promissory note | <b>29,242</b>    | 29,493      |
| Promissory note                    | <b>77,602</b>    | 91,314      |
| Short-term borrowings              | <b>71,000</b>    | 45,000      |
| Current portion of long-term debt  | <b>103,987</b>   | 47,160      |
| Long-term debt                     | <b>786,381</b>   | 963,139     |
| Total debt                         | <b>961,368</b>   | 1,055,299   |
| Net cash                           | <b>(646,641)</b> | (568,338)   |
| Shareholders' equity               | <b>3,007,938</b> | 2,999,854   |
| Total debt to equity ratio         | <b>32.0%</b>     | 35.2%       |

**Cash Flow***Amounts in US\$ thousands*

|  | <b>4Q06</b>      | <b>3Q06</b> |
|--|------------------|-------------|
| Net income (loss)                          | <b>1,222</b>     | (35,094)    |
| Depreciation & amortization                | <b>239,478</b>   | 225,755     |
| Amortization of acquired intangible assets | <b>11,292</b>    | 11,041      |
| Net change in cash                         | <b>(191,706)</b> | (29,318)    |

**Capex Summary**



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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 in the mid-teens.

Free cash flow of around \$30 million. Free cash flow is defined as EBITDA less capex.

Capital expenditures expected to be approximately \$170 million to \$190 million and total capex for 2007 will be approximately \$720 million.

Depreciation and amortization expected to be approximately \$185 million to \$195 million.

Beginning in the first quarter of 2007, the accounting estimate in 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.

**CONSOLIDATED BALANCE SHEET***(In US dollars)*

|  | As of the end of                 |                                   |
|--|----------------------------------|-----------------------------------|
|  | December 31, 2006<br>(unaudited) | September 30, 2006<br>(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                        |
| <b>Total current assets</b>  | <b>1,049,666,495</b>             | <b>1,157,747,285</b>              |
| 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>4,541,616,016</b>             | <b>4,705,187,846</b>              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                                  |                                   |
| Current liabilities:   |                                  |                                   |
| 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                            |
| <b>Total current liabilities</b>   | <b>610,357,930</b>               | <b>582,875,782</b>                |
| 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                          |                                   |
| <b>Total long-term liabilities</b>   | <b>884,519,758</b>               | <b>1,082,717,373</b>              |
| <b>Total liabilities</b>   | <b>1,494,877,688</b>             | <b>1,665,593,155</b>              |
| 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<br>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  | (288,292,745)                    | (289,514,664)                     |
| <b>Total stockholders' equity</b>  | <b>3,007,937,662</b>             | <b>2,999,853,505</b>              |

**TOTAL LIABILITIES AND STOCKHOLDERS EQUITY**

**4,541,616,016**

4,705,187,846

**CONSOLIDATED STATEMENT OF OPERATIONS***(In US dollars)*

|  | For the three months ended       |                                   |
|--|----------------------------------|-----------------------------------|
|  | December 31, 2006<br>(unaudited) | September 30, 2006<br>(unaudited) |
| Sales  | 383,812,708                      | 368,926,309                       |
| Cost of sales  | 358,452,295                      | 336,160,028                       |
| <b>Gross profit</b>  | <b>25,360,413</b>                | <b>32,766,281</b>                 |
| 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                         |
| Income from disposal of properties   | (41,733,713)                     |                                   |
| Amortization of acquired intangible assets   | 11,292,059                       | 11,041,090                        |
| <b>Total operating expenses</b>  | <b>10,569,422</b>                | <b>46,190,417</b>                 |
| <b>Income (Loss) from operations</b>   | <b>14,790,991</b>                | <b>(13,424,136)</b>               |
| Other income (expenses):   |                                  |                                   |
| Interest income  | 3,311,293                        | 2,970,318                         |
| Interest expense   | (14,263,257)                     | (12,247,344)                      |
| Exchange loss  | (7,091,494)                      | (12,453,679)                      |
| Other income (expenses), net   | 1,575,094                        | 784,059                           |
| <b>Total other income (expenses), net</b>  | <b>(16,468,364)</b>              | <b>(20,946,646)</b>               |
| <b>Net loss before income tax</b>  | <b>(1,677,373)</b>               | <b>(34,370,782)</b>               |
| Income tax credit (expense)  | 3,002,499                        | 3,047,443                         |
| Minority interest  | 940,520                          | (2,674,339)                       |
| Loss from equity investment  | (1,043,727)                      | (1,096,796)                       |
| <b>Net income (loss) attributable to holders of ordinary shares</b>                        | <b>1,221,919</b>                 | <b>(35,094,474)</b>               |
| Net income (loss) per share, basic   | 0.0001                           | (0.0019)                          |
| Net income (loss) per ADS, basic <sup>(1)</sup>  | 0.0033                           | (0.0956)                          |
| Net income (loss) per share, diluted   | 0.0001                           | (0.0019)                          |
| Net income (loss) per ADS, diluted <sup>(1)</sup>  | 0.0033                           | (0.0956)                          |
| Ordinary shares used in calculating basic income (loss) per ordinary share (in millions)   | 18,398                           | 18,356                            |
| Ordinary shares used in calculating diluted income (loss) per ordinary share (in millions) | 18,609                           | 18,356                            |
| * Share-based compensation related to each account balance as follows:                     |                                  |                                   |
| Cost of sales  | 2,734,870                        | 2,840,286                         |
| Research and development   | 1,123,070                        | 1,190,467                         |
| General and administrative   | 1,281,390                        | 1,179,175                         |
| Selling and marketing  | 492,828                          | 493,529                           |

*(1) 1 ADS equals 50 ordinary shares*

**CONSOLIDATED STATEMENT OF CASH FLOWS***(In US dollars)*

|  | <b>For the three months ended</b> |                           |
|--|-----------------------------------|---------------------------|
|  | <b>December 31, 2006</b>          | <b>September 30, 2006</b> |
|  | <b>(Unaudited)</b>                | <b>(Unaudited)</b>        |
| <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)               |
| <b>Net cash provided by operating activities</b>   | <b>200,158,817</b>                | <b>196,740,363</b>        |
| <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                |
| <b>Net cash used in investing activities</b>   | <b>(284,176,103)</b>              | <b>(286,145,606)</b>      |
| <b>Financing activities:</b>   |                                   |                           |
| Proceeds from short-term borrowing   | 31,000,000                        | 75,717,105                |
| Proceeds from long-term debt   |                                   | 132,395,944               |
| Repayment of promissory notes  | (15,000,000)                      |                           |
| Repayment of long-term debt  | (119,931,070)                     |                           |
| Repayment of short-term debt   | (5,000,000)                       | (149,000,934)             |
| Proceeds from exercise of employee stock options   | 1,319,483                         | 990,365                   |
| Repurchase of restricted ordinary shares   | (7,922)                           | (14,589)                  |
| <b>Net cash provided by (used in) financing activities</b>   | <b>(107,619,509)</b>              | <b>60,087,891</b>         |
| Effect of exchange rate changes  | (69,109)                          | (420)                     |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>(191,705,904)</b>              | <b>(29,317,772)</b>       |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>  | <b>555,325,635</b>                | <b>584,643,407</b>        |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>  | <b>363,619,731</b>                | <b>555,325,635</b>        |



As at the date of this announcement, the Directors of the Company are Yang Yuan Wang as Chairman and Independent Non-Executive Director of the Company; Richard R. Chang as President, Chief Executive Officer and Executive Director of the Company; Fang Yao as Non-Executive Director of the Company; and Ta-Lin Hsu, Tsuyoshi Kawanishi, Henry Shaw, Lip-Bu Tan, Albert Y.C. Yu and Jiang Shang Zhou as Independent Non-Executive Directors of the Company.

By order of the Board

**Semiconductor Manufacturing International Corporation**

**Richard R. Chang**

*Chief Executive Officer*

Shanghai, PRC

January 31, 2007

\* *For identification only*

Please also refer to the published version of this announcement in The Standard.