



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

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NEWS RELEASE

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.

SMIC reports 2005 third quarter results

Highlights

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- § **Sales increased to \$310.0 million in 3Q05, up 10.9% from \$279.5 million in 2Q05.**
 - § **Capacity increased to 143,188 8-inch equivalent wafers per month.**
 - § **Utilization rate increased to 92% in 3Q05 from 87% in 2Q05.**
 - § **Gross margins were 8.2% in 3Q05, up from 2.3% in 2Q05.**
 - § **Compared to 2Q05, wafer shipments increased 7.5% to 355,664 8-inch wafers.**
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Shanghai, China – October 28, 2005. Semiconductor Manufacturing International Corporation (NYSE: SMI; SEHK: 981) (“SMIC” or the “Company”) today announced its consolidated results of operations for the three months ended September 30, 2005. Sales increased 10.9% in the third quarter of 2005 to \$310.0 million from \$279.5 million in the prior quarter. The Company reported an increase in capacity to 143,188 8-inch equivalent wafers per month and an increase in utilization rate to 92% in the third quarter of 2005 compared to 82% in the second quarter of 2005. Gross margins were 8.2% in the third quarter of 2005 compared to 2.3% in the second quarter of 2005. Net loss decreased to \$26.1 million in the third quarter of 2005 compared to a net loss of \$40.4 million in the second quarter of 2005.

“As we conti approxim

ately \$500 million year to date. At the end of third quarter, we had over \$577 million of cash on hand and available credit facilities of over \$700 million, which will enable us to continue investing in advanced technology development and equipment to serve our customers.

During this quarter, we have added one of the top five fabless customers in the world to our customer base and have engaged with another top five fabless company. We are expanding our presence in the computer application segment and hope to extend our partnership with these leading semiconductor companies to more advanced technology nodes. We’ve taped out 25 new products, with over one third of the new tape out products coming from Mainland Chinese customers and one third of those at the 0.13µm technology node. As we continue to focus on the Mainland Chinese IC industry, we have successfully manufactured the world’s first working 0.13µm TDS-CDMA chip for Chongqing Chongyou Information Technology Co., Ltd.

I am pleased to report that our research and development team has made progress in the execution of our 90nm technology roadmap. Our qualification lot yields have exceeded the targets set by our customer and are comparable to the industrie i



Our testing and assembly project in Chengdu is on schedule to begin pilot production during the fourth quarter, which will allow us to offer in-house turn-key manufacturing services in China. In addition, with the shortage of assembly house capacity for memory and flip-chip logic products, we are eager to commence commercial production to serve our customers.

We will continue to focus on our business fundamentals and are committed to delivering shareholder value to our investor community.”



Conference call / Webcast announcement details

Date: October 28, 2005

Time: 8:00 a.m. Shanghai time

Dial-in numbers and pass code: U.S. 1-617-224-4324 or HK 852-3002-1672 (Pass code: SMIC).

A live webcast of the 2005 third quarter announcement will be available at <http://www.smics.com> under the



Summary:

	<u>3Q05</u>	<u>2Q05</u>	<u>QoQ</u>	<u>3Q04</u>	<u>YoY</u>
Sales	309,959	279,500	10.9%	274,897	12.8%
Cost of sales	284,686	273,111	4.2%	201,141	41.5%
Gross profit	25,273	6,389	295.6%	73,756	-65.7%
Operating expenses	46,219	38,469	20.1%	31,218	48.1%
Income (loss) from operations	(20,946)	(32,081)	-34.7%	42,538	149.2%
Other income (expenses)					



Š Interest expenses increased to \$10.3 million in 3Q05, up 15.2% QoQ from \$9.0 million in 2Q05, primarily due to the increase in bank borrowings and hi



1. Analysis of revenues

Sales Analysis					
<u>By Application</u>	<u>3Q05</u>	<u>2Q05</u>	<u>1Q05</u>	<u>4Q04</u>	<u>3Q04</u>
Computer	33.7%	39.8%	36.8%	26.8%	20.5%
Communications	39.8%	40.4%	44.5%	58.1%	57.2%
Consumer	22.8%	15.2%	13.6%	10.2%	17.1%
Others	3.7%	4.6%	5.1%	4.9%	5.2%
<u>By Device</u>	<u>3Q05</u>	<u>2Q05</u>	<u>1Q05</u>	<u>4Q04</u>	<u>3Q04</u>
Logic (including copper interconnect)	65.5%	58.9%	61.9%	75.1%	77.6%
DRAM	31.0%	36			



Capacity:

Fab / (Wafer Size)	3Q05⁽¹⁾	2Q05⁽¹⁾
Fab 1 (8")	43,000	45,000
Fab 2 (8")	44,378	43,045
Fab 4 (12")	21,605	16,787
Fab 7 (8")	15,000	15,000
Total monthly wafer fabrication capacity	123,983	119,832
Copper Interconnects:		
Fab 3 (8")	19,205	19,193
Total monthly copper interconnect capacity	19,205	19,193

§ As of the end of 3Q05, monthly capacity, based on the product mix, increased to 143,188 8-inch equivalent wafers.

Shipment and utilization:

8" wafers	3Q05	2Q05	1Q05	4Q04	3Q04
Wafer shipments including copper interconnects	355,664	330,499	284,912	303,796	263,808
Utilization rate	92%	87%	85%	95%	99%



2. Detailed financial analysis

Gross profit analysis

	<u>3Q05</u>	<u>2Q05</u>	<u>QoQ</u>	<u>3Q04</u>	<u>YoY</u>
Cost of sales	284,686	273,111	4.2%	201,141	41.5%
Depreciation	167,919	171,216	-1.9%	108,254	55.1%
Other manufacturing costs	116,767	101,895	14.6%	92,887	25.7%
Gross profit	25,273	6,389	295.6%	73,756	-65.7%
Gross margin	8.2%	2.3%		26.8%	

- § Cost of sales increased to \$284.7 million in 3Q05, up 4.2% QoQ from \$273.1 million in 2Q05, primarily due to an increase in wafer shipments, an inventory write-down as a result of declining estimated market values, and royalty payments for licensed products.
- § Gross profit increased to \$25.3 million in 3Q05, up 295.6% QoQ from \$6.4 million in 2Q05 and down 65.7% YoY from \$73.8 million in 3Q04.
- § Gross margins increased to 8.2% in 3Q05 from 2.3% in 2Q05, primarily due to a higher blended ASP.

Operating expense analysis

	<u>3Q05</u>	<u>2Q05</u>	<u>QoQ</u>	<u>3Q04</u>	<u>YoY</u>
Total operating expenses	46,219	38,469	20.1%	31,218	48.1%
Research and development	19,230	16,344	17.7%	18,427	4.4%
General and administrative	9,122	5,397	69.0%	3,831	138.1%
Selling and marketing	4,072	3,012	35.2%	1,899	114.4%
Amortization of acquired intangible assets	10,661	10,082	5.7%	3,507	203.9%
Amortization of deferred stock compensation	3,135	3,634	-13.7%	3,554	-11.8%

- § Total operating expenses were \$46.2 million in 3Q05, up 20.1% QoQ from \$38.5 million in 2Q05.
- § R&D expenses increased to \$19.2 million in 3Q05, up 17.7% QoQ from \$16.3 million in 2Q05, primarily due to 90nm research and development activities and non-recurring start-up costs associated with Fab 6 (Beijing).
- § G&A expenses including foreign exchange increased to \$9.1 million in 3Q05, up 69.0% QoQ from \$5.4 million in 2Q05. There was a foreign exchange loss of \$0.3 million in 3Q05 relating to operating activities compared with a \$2.5 million gain in 2Q05.
- § Selling & marketing expenses increased to \$4.1 million in 3Q05, up 35.2% QoQ from \$3.0 million in 2Q05, primarily due to the increase in engineering material expen



Other income (expenses)

	3Q05	2Q05	QoQ	3Q04	YoY
Other income (expenses)	(5,602)	(8,234)	-32.0%	(3,194)	75.4%
Interest income	3,278	2,030	61.5%	3,107	5.5%
Interest expense	(10,334)	(8,971)	15.2%	(3,614)	185.9%
Other, net	1,454	(1,293)	-	(2,687)	-

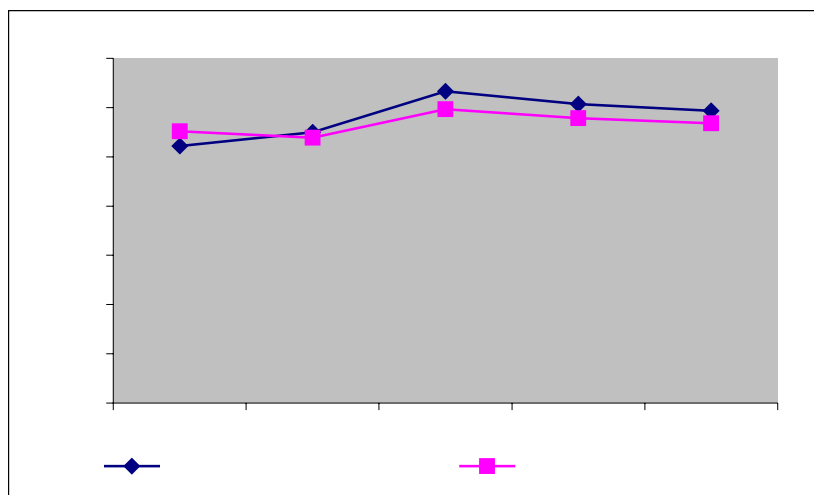
- § Other non-operating loss of \$5.6 million in 3Q05 down 32.0% QoQ from a loss of \$8.2 million in 2Q05.
 § Interest expenses increased to \$10.3 million in 3Q05, up 15.2% QoQ from \$9.0 million in 2Q05, primarily due to the increase in bank borrowings and higher interest rates.

3. Liquidity

	3Q05	2Q05
Cash and cash equivalents	576,767	576,292
Short term investments	5,582	2,768
Accounts receivable	212,823	196,132
Inventory	182,851	176,502
Others	12,582	16,397
Total current assets	990,605	968,091
Accounts payable	259,797	249,595
Short-term borrowings	266,589	224,000
Current portion of long-term debt	246,081	228,625
Others	113,154	96,746
Total current liabilities	885,621	798,966
Cash Ratio	0.7x	0.7x
Quick Ratio	0.9x	1.0x
Current Ratio	1.1x	1.2x



Receivable/Inventory Days Outstanding Trends



Capital Structure

	3Q05	2Q05
Cash and cash equivalents	576,767	576,292
Short-term investment	5,582	2,768
Current portion of promissory note	19,578	19,090
Promissory note	116,749	116,204
Short-term borrowings	266,589	224,000
Current portion of long-term debt	246,081	228,625
Long-term debt	444,566	511,807
Total debt	957,236	964,432
Net cash	(511,214)	(520,666)
Shareholders' equity	3,034,237	3,053,111
Total debt to equity ratio	31.5%	31.6%

4. Cash flow & Capex

	3Q05	2Q05
Net loss	(26,115)	(40,445)
Depreciation & amortization	192,347	185,978
Amortization of acquired intangible assets	10,661	10,082
Net change in cash	474	137,491

Capex

§ Capital expenditures for 3Q05 were \$189.2 million.



5. 4Q05 outlook

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

- § Wafer shipments expected to increase slightly.
- § Utilization expected to be in the range of 92%-93%.
- § Blended ASP QoQ expected to remain flat or increase slightly.
- § Gross margins expected to be in the range of 8%-11%.
- § Operating expenses as a percentage of sales expected to increase to the mid- to high teens primarily due to an increase in research and development expenses relating to 90 nanometer research and development activities.
- § Non-operating interest expense expected to remain at approximately the same level as 3Q05.
- § Capital expenditures of approximately \$250-\$300 million.
- § Depreciation and amortization of approximately \$210-\$215 million.

6. Recent announcements

- § SMIC Holds 2005 Technology Symposium in Shenzhen [2005-10-13]
 - § SMIC and CYIT Successfully Manufacture 0.13um 3G Handset Chips [2005-10-12]
 - § SMIC Enters into Joint Development Effort with Luminescent for its 65nm and Below Process Nodes [2005-10-06]
 - § SMIC Holds Inaugural 2005 Technology Symposium in Korea [2005-09-28]
 - § Announcement of Unaudited Interim Results for the six months ended June 30, 2005 and Updated Guidance for 2005 third quarter [2005-09-23]
 - § SMIC Technology Symposium 2005 Held in Beijing [2005-08-26]
 - § SMIC Participates in 3rd Annual IC China Conference and Exhibition [2005-08-24]
 - § SMIC Attains BS7799 Information Security Management System Certification [2005-08-12]
 - § SMIC reports 2005 second quarter results [2005-07-29]
 - § SMIC Licenses SAIFUN NROM Technology to Expand Its Semiconductor Business [2005-07-28]
 - § SMIC Announces Appointment of Professor Wang as The Chairman of the Board [2005-07-28]
 - § SMIC and SYNOPSYS Announce Reference Design Flow 2.0 [2005-07-20]
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Semiconductor Manufacturing International Corporation
CONSOLIDATED BALANCE SHEET
(In US dollars)

	As of the end of	
	September 30, 2005	June 30, 2005
	(unaudited)	(unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	576,766,591	576,292,179
Short term investments	5,581,511	2,768,085
Accounts receivable, net of allowances of \$284,091 and \$109,362 respectively	212,822,764	196,132,014
Inventories	182,850,604	176,502,315
Prepaid expense and other current assets	12,583,729	14,564,660
Assets held for sale	-	1,831,972
Total current assets	990,605,199	968,091,225
Land use rights, net	38,136,980	38,758,108
Plant and equipment, net	3,284,892,971	3,309,941,020
Acquired intangible assets, net	202,843,555	192,817,289
Long-term investment	18,340,174	



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

	For the three months ended	
	September 30, 2005	June 30, 2005
	(unaudited)	(unaudited)
Sales	309,959,083	279,500,151
Cost of sales	281,908,983	270,068,286
Cost of sales - Amortization of deferred stock compensation	2,777,550	3,043,259
Gross profit	25,272,550	6,388,606
Operating expenses:		
Research and development	19,229,715	16,343,815
General and administrative	9,121,980	5,396,571
Selling and marketing	4,071,957	3,012,598
Amortization of acquired intangible assets	10,660,670	10,081,688
Amortization of deferred stock compensation*	3,134,817	3,634,441
Total operating expenses	46,219,139	38,469,113
Loss from operations	(20,946,589)	(32,080,507)
Other income (expenses):		
Interest income	3,277,964	2,029,899
Interest expense	(10,333,503)	(8,970,776)
Others, net	1,453,794	(1,293,508)
Total other income (expenses), net	(5,601,745)	(8,234,385)
Net loss before income taxes	(26,548,334)	(40,314,892)
Income tax	6,068	118,449
Minority interest	438,934	(11,947)
Net loss	(26,115,468)	(40,445,288)
Deemed dividends on preference shares	-	-
Loss attributable to holders of ordinary shares	(26,115,468)	(40,445,288)
Loss per share, basic	(0.0014)	(0.0022)
Loss per ADS, basic	(0.0718)	(0.1113)
Loss per share, diluted	(0.0014)	(0.0022)
Loss per ADS, diluted	(0.0718)	(0.1113)
Ordinary shares used in calculating basic income per ordinary share (in millions)	18,180	18,169
Ordinary shares used in calculating diluted income per ordinary share (in millions)	18,180	18,169
*Amortization of deferred stock compensation related to:		
Research and development	1,125,943	1,246,376
General and administrative	1,403,732	1,810,959
Selling and marketing	605,142	577,106
Total	3,134,817	3,634,441



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

	September 30, 2005 (unaudited)	June 30, 2005 (unaudited)
Operating activities:		
Loss attributable to holders of ordinary shares	(26,115,468)	(40,445,288)
Deemed dividends on preference shares	-	-
Net loss	(26,115,468)	(40,445,288)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Minority interest	(438,934)	11,947
Gain (loss) on disposal of plant and equipment	(1,245,543)	23,609
(Reversal of) Bad debt expense	174,729	(233,406)
Depreciation and amortization	192,347,054	185,977,726
Amortization of acquired intangible assets	10,660,671	10,081,688
Amortization of deferred stock compensation	5,912,367	6,677,700
Non-cash interest expense on promissory notes	1,033,022	1,150,866
Loss on long-term investment	784,556	5,579
Changes in operating assets and liabilities:		
Accounts receivable	(16,865,479)	(15,021,064)
Inventories	(6,348,289)	(1,977,063)
Prepaid expense and other current assets	2,864,683	(7,684,704)
Accounts payable	24,244,703	(872,935)
Accrued expenses and other current liabilities	12,330,949	(2,661,260)
Net cash provided by operating activities	199,339,021	135,033,395
Investing activities:		
Purchases of plant and equipment	(188,180,850)	(227,154,585)
Purchases of acquired intangible assets	(2,663,628)	(2,353,756)
Purchase of short-term investments	(5,217,982)	(2,416,480)
Proceeds paid for long-term investment	(9,600,000)	(6,720,000)
Sale of short-term investments	2,412,898	10,000,000
Proceeds received from living quart56j7.1869 0 0 7.1869 419.65637	(9,600,0	