

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

July 28, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

under the Securities Exchange Act of 1934

For the month of July 2006

Commission File Number 1-31994

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

(Translation of Registrant's Name Into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People's Republic of China

(Address of Principal Executive Offices)

(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-_____)

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

Exhibit 99.1: Press announcement, dated July 28, 2006, containing the Registrant's results of operations for the three months ended June 30, 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: July 28, 2006

EXHIBIT INDEX

| Exhibit | Description |
|----------------|--|
| Exhibit 99.1: | Press announcement, dated July 28, 2006, containing the Registrant's results of operations for the three months ended June 30, 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 JUNE 30, 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 June 30, 2006. Sales increased 2.9% in the second quarter of 2006 to \$361.4 million from \$351.1 million in the prior quarter. The Company reported an increase in capacity to 167,251 8-inch equivalent wafers per month and a utilization rate of 93.5% in the second quarter of 2006. Gross margins were 13.6% in the second quarter of 2006 compared to 12.4% in the first quarter of 2006. Net income was \$2.2 million in the second quarter of 2006, compared to a net loss of \$8.7 million in the first quarter of 2006. The Company recognized an income tax benefit of \$18.9 million in the second quarter as a result of strategic tax planning based on US GAAP FAS 109 (Accounting for Income Taxes).

Set out below is a copy of the full text of the press release made in the United States by the Company on July 28, 2006 in relation to its results for the three months ended June 30, 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 July 28, 2006. Set out below is a copy of the full text of the press release made in the United States by the Company on July 28, 2006 in relation to its results for the three months ended June 30, 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:

Sales increased to \$361.4 million in 2Q06, up 2.9% from 1Q06 and up 29.3% from 2Q05.

Gross margins of 13.6% in 2Q06, up from 12.4% in 1Q06.

Net income of \$2.2 million in 2Q06, compared to a net loss of \$8.7 million from 1Q06 and a net loss of \$40.4 million in 2Q05.

Shanghai, China July 28, 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 June 30, 2006. Sales increased 2.9% in the second quarter of 2006 to \$361.4 million from \$351.1 million in the prior quarter. The Company reported an increase in capacity to 167,251 8-inch equivalent wafers per month

and a utilization rate of 93.5% in the second quarter of 2006. Gross margins were 13.6% in the second quarter of 2006 compared to 12.4% in the first quarter of 2006. Net income was \$2.2 million in the second quarter of 2006, compared to a net loss of \$8.7 million in the first quarter of 2006. The Company recognized an income tax benefit of \$18.9 million in the second quarter as a result of strategic tax planning based on US GAAP FAS 109 (Accounting for Income Taxes).

We continue to improve on our manufacturing core competency as we saw an increase in our revenues from 0.13 micron and below technologies contributing 47.5% of total revenues in the second quarter, said Dr. Richard Chang, Chief Executive Officer of SMIC. Revenues generated from 0.13 micron logic products as a percentage of our logic revenues significantly increased to 22.5% from 13.3% in the first quarter. We expect this trend to continue as more of our customers migrate to our 0.13 micron and 90 nanometer logic processes.

In the second quarter, we successfully qualified and commenced commercial production of our first 90nm logic product at our 300mm facility in Beijing. Also, we have successfully qualified Elpida's 512M-bit DDR2 SDRAM using a 90nm manufacturing process also at our 300mm facility in Beijing.

We have delivered the first engineering samples and are pleased to announce that Saifun's 90nm NROM Flash is functional. This marks an important achievement towards commencing production of this product in the fourth quarter of 2006.

We are cautiously optimistic on our outlook for the second half of 2006 as some customers have pushed out wafer orders due to an ongoing inventory correction. However, the postponement of these orders is offset by the growing strength in the China market as we see the emergence of Mainland China customers and overseas customers partnering with SMIC to help gain market share in China. We are pleased with the development of our Mainland China customers and expect that the percentage of revenues from these customers will continue to increase. In addition, we are observing a promising trend of global semiconductor companies choosing to work with SMIC to take advantage of our proximity to their China end-market customer.

As we continue to execute on our business plans, we are carefully laying down a solid foundation for future growth and development in the foundry industry and will expand our business in a financially disciplined manner.

Conference Call/Webcast Announcement

Date: July 28, 2006

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 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: 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 0.35 μ m 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>.

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 expectations that revenues from 0.13 micron and below technologies as a percentage of total revenues and percentage of revenues from Mainland China customers would continue to increase, statements concerning the trend of global semiconductor companies choosing to work with SMIC, statements concerning the manner in which SMIC will execute its business plan and expand its business, and statements under Capex Summary and Third Quarter 2006 Guidance below, 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 cyclicity 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 Form 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.

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Summary of Second Quarter 2006 Operating Results

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

| | 2Q06 | 1Q06 | QoQ | 2Q05 | YoY |
|---|-----------|-------------|--------|-------------|--------|
| Sales | 361,446 | 351,138 | 2.9% | 279,500 | 29.3% |
| Cost of sales | 312,229 | 307,768 | 1.4% | 273,111 | 14.3% |
| Gross profit | 49,217 | 43,370 | 13.5% | 6,389 | 670.4% |
| Operating expenses | 56,141 | 49,335 | 13.8% | 38,469 | 45.9% |
| Loss from operations | (6,924) | (5,965) | 16.1% | (32,081) | 78.4% |
| Other income (expenses) | (9,491) | (7,807) | 21.6% | (8,234) | 15.3% |
| Income tax credit (expense) | 18,892 | (14) | | 118 | |
| Net income (loss) after income taxes | 2,476 | (13,786) | | (40,433) | |
| Minority interest | 767 | 947 | -19.0% | (12) | |
| Share of loss of an affiliate company | (1,002) | (1,058) | -5.3% | | |
| Cumulative effect of a change in accounting principle | | 5,154 | | | |
| Income (loss) attributable to holders of ordinary shares | 2,242 | (8,743) | | (40,445) | |
| Gross margin | 13.6% | 12.4% | | 2.3% | |
| Operating margin | -1.9% | -1.7% | | -11.5% | |
| Net income (loss) per ordinary share basic ⁽¹⁾ | \$ 0.0001 | \$ (0.0005) | | \$ (0.0022) | |
| Net income (loss) per ADS basic | \$ 0.0061 | \$ (0.0239) | | \$ (0.1113) | |
| Net income (loss) per ordinary share diluted ⁽¹⁾ | \$ 0.0001 | \$ (0.0005) | | \$ (0.0022) | |
| Net income (loss) per ADS diluted | \$ 0.0060 | \$ (0.0239) | | \$ (0.1113) | |
| Wafers shipped (in 8 wafers ⁽³⁾) | 388,498 | 388,010 | 0.1% | 330,499 | 17.5% |
| Logic ASP ⁽³⁾ | \$ 979 | \$ 945 | 3.6% | \$ 938 | 4.4% |
| Blended ASP | \$ 888 | \$ 862 | 3.0% | \$ 807 | 10.0% |
| Simplified ASP ⁽⁴⁾ | \$ 930 | \$ 905 | 2.8% | \$ 846 | 9.9% |
| Capacity utilization | 93.5% | 94.9% | | 86.5% | |

Note:

- (1) Based on weighted average ordinary shares of 18,303 million (basic) and 18,729 million (diluted) in 2Q06, 18,278 million (basic/diluted) in 1Q06 and 18,169 million (basic/diluted) in 2Q05
- (2) Including copper interconnects
- (3) Excluding copper interconnects
- (4) Total sales/total wafers shipped

Sales increased to \$361.4 million in 2Q06, up 2.9% QoQ from \$351.1 million in 1Q06 and up 29.3% YoY from \$279.5 million in 2Q05 primarily due to a 3% increase in the blended ASP.

Cost of sales increased to \$312.2 million in 2Q06, up 1.4% QoQ from \$307.8 million in 1Q06, primarily due to a product mix shift.

Gross profit increased to \$49.2 million in 2Q06, up 13.5% QoQ from \$43.4 million in 1Q06 and up 670.4% YoY from \$6.4 million in 2Q05.

Gross margins increased to 13.6% in 2Q06 from 12.4% in 1Q06, primarily due to an improved product mix.

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Operating expenses of \$56.1 million in 2Q06, up 13.8% QoQ from \$49.3 million in 1Q06.

Loss from operations of \$6.9 million in 2Q06, up 16.1% QoQ from a loss of \$6.0 million in 1Q06.

Other non-operating loss of \$9.5 million in 2Q06, up 21.6% QoQ from a loss of \$7.8 million in 1Q06, primarily due to a foreign exchange loss of \$2.0 million in 2Q06.

Net foreign exchange loss of \$6.8 million in 2Q06.

Net income of \$2.2 million in the second quarter of 2006, compared to a net loss of \$8.7 million in the first quarter of 2006 and a net loss of \$40.4 million in the second quarter of 2005.

As a result of a tax planning strategy that became effective in 2Q06, a temporary difference between the tax and book basis of certain assets was created. Under FAS 109, the Company recognized an income tax benefit of \$18.9 million.

Analysis of Revenues

Sales Analysis

| By Application | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 |
|----------------|-------|-------|-------|-------|-------|
| Computer | 30.6% | 36.0% | 34.8% | 33.7% | 39.8% |
| Communications | 46.2% | 45.8% | 43.8% | 39.8% | 40.4% |
| Consumer | 18.6% | 13.3% | 16.6% | 22.8% | 15.2% |
| Others | 4.6% | 4.9% | 4.8% | 3.7% | 4.6% |

| By Device | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 |
|---------------------------------------|-------|-------|-------|-------|-------|
| Logic (including copper interconnect) | 66.6% | 62.8% | 65.3% | 65.5% | 58.9% |
| DRAM ⁽¹⁾ | 28.8% | 32.4% | 31.3% | 31.0% | 36.5% |
| Other (mask making & probing, etc.) | 4.6% | 4.8% | 3.4% | 3.5% | 4.6% |

| By Customer Type | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 |
|---------------------------------------|-------|-------|-------|-------|-------|
| Fabless semiconductor companies | 49.8% | 41.8% | 43.2% | 43.2% | 42.2% |
| Integrated device manufacturers (IDM) | 41.9% | 52.8% | 51.7% | 52.8% | 55.2% |
| System companies and others | 8.3% | 5.4% | 5.1% | 4.0% | 2.6% |

| By Geography | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 |
|--------------------------|-------|-------|-------|-------|-------|
| North America | 46.7% | 43.5% | 39.2% | 42.9% | 40.8% |
| Asia Pacific (ex. Japan) | 20.9% | 21.3% | 28.2% | 25.7% | 26.3% |
| Japan | 4.9% | 3.3% | 3.6% | 4.5% | 6.0% |
| Europe | 27.5% | 31.9% | 29.0% | 26.9% | 26.9% |

Wafer Revenue Analysis

| By Technology (logic, DRAM & copper interconnect only) | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 |
|--|-------|-------|-------|-------|-------|
| 0.13µm and below | 47.5% | 46.6% | 42.9% | 43.8% | 44.5% |
| 0.15µm | 4.7% | 8.7% | 5.2% | 2.7% | 2.5% |
| 0.18µm | 38.0% | 35.7% | 42.3% | 45.3% | 40.7% |
| 0.25µm | 2.0% | 1.6% | 3.3% | 3.1% | 3.9% |
| 0.35µm | 7.8% | 7.4% | 6.3% | 5.1% | 8.4% |

| By Logic Only ⁽¹⁾ | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 |
|------------------------------|------|------|------|------|------|
|------------------------------|------|------|------|------|------|

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| | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|
| 0.13µm and below ⁽²⁾ | 22.5% | 13.3% | 10.9% | 14.7% | 12.6% |
| 0.15µm | 7.2% | 14.5% | 8.6% | 5.3% | 4.8% |
| 0.18µm | 55.8% | 57.7% | 65.3% | 67.4% | 59.4% |
| 0.25µm | 2.5% | 2.3% | 4.8% | 4.0% | 7.1% |
| 0.35µm | 12.0% | 12.2% | 10.4% | 8.6% | 16.1% |

Note:

- (1) Excluding 0.13μm copper interconnects
- (2) Represents revenues generated from manufacturing full flow wafers

Sales from the consumer products segment grew faster than other applications in 2Q06 compared to 1Q06.

Percentage of sales from logic wafers, including copper interconnects, increased to 66.6% of sales in 2Q06, as compared to 62.8% in 1Q06 and 58.9% in 2Q05.

Percentage of sales generated from North America and Japan customers in 2Q06 increased to 46.7% and 4.9%, respectively as compared to 43.5% and 3.3% in 1Q06, respectively.

Percentage of wafer revenues from 0.13μm and below technologies increased to 47.5% of sales in 2Q06, as compared with 46.6% in 1Q06 and 44.5% in 2Q05.

Percentage of logic only wafer revenues from 0.13μm and below technologies increased to 22.5% of sales in 2Q06, as compared with 13.3% in 1Q06 and 12.6% in 2Q05.

Capacity

| Fab/(Wafer Size) | 2Q06 ⁽¹⁾ | 1Q06 ⁽¹⁾ |
|---|---------------------|---------------------|
| Fab 1 (8) | 43,000 | 43,000 |
| Fab 2 (8) | 49,034 | 47,954 |
| Fab 4 (12) | 35,438 | 30,220 |
| Fab 7 (8) | 17,216 | 15,000 |
| Total monthly wafer fabrication capacity | 144,688 | 136,174 |
| Copper Interconnects: | | |
| Fab 3 (8) | 22,563 | 21,156 |
| Total monthly copper interconnect capacity | 22,563 | 21,156 |

Note:

- (1) Wafers per month at the end of the period in 8 wafers

As of the end of 2Q06, monthly capacity increased to 167,251 8-inch equivalent wafers mainly due to the expansion at the Beijing (Fab 4) and Tianjin (Fab 7) sites.

Shipment and Utilization

| 8 equivalent wafers | 2Q06 | 1Q06 | 4Q05 | 3Q05 | 2Q05 |
|--|---------|---------|---------|---------|---------|
| Wafer shipments including copper interconnects | 388,498 | 388,010 | 376,227 | 355,664 | 330,499 |
| Utilization rate ⁽¹⁾ | 93.5% | 94.9% | 93.0% | 92.1% | 86.5% |

Note:

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

Wafer shipments increased to 388,498 units of 8-inch equivalent wafers in 2Q06 up 0.1% QoQ from 388,010 units of 8-inch equivalent wafers in 1Q06, and up 17.5% YoY from 330,499 8-inch equivalent wafers in 2Q05.

Utilization rate decreased to 93.5%.

Blended and Simplified Average

Logic Average Selling Price (ASP) Trend

Selling Price (ASP) Trend

(excluding 0.13μm copper interconnects)

The blended and simplified ASP increased to \$888 and \$930 in 2Q06 from \$862 and \$ 905 in 1Q06 respectively, mainly due to an improved product mix shift to the 0.13μm and below technology nodes.

The logic ASP (excluding 0.13μm copper interconnects) increased to \$979 in 2Q06 from \$ 945 in 1Q06, mainly due to an improved product mix shift to the 0.13μm and below technology nodes.

Detailed Financial Analysis

Gross Profit Analysis

Amounts in US\$ thousands

| | 2Q06 | 1Q06 | QoQ | 2Q05 | YoY |
|---------------------------|---------|---------|-------|---------|--------|
| Cost of sales | 312,229 | 307,768 | 1.4% | 273,111 | 14.3% |
| Depreciation | 188,663 | 189,054 | 0.2% | 171,216 | 10.2% |
| Other manufacturing costs | 123,566 | 118,714 | 4.1% | 101,895 | 21.3% |
| Gross Profit | 49,217 | 43,370 | 13.5% | 6,389 | 670.4% |
| Gross Margin | 13.6% | 12.4% | | 2.3% | |

Cost of sales increased to \$312.2 million in 2Q06, up 1.4% QoQ from \$307.8 million in 1Q06, primarily due to a product mix shift.

Gross profit increased to \$49.2 million in 2Q06, up 13.5% QoQ from \$43.4 million in 1Q06 and up 670.4% YoY from \$6.4 million in 2Q05.

Gross margins increased to 13.6% in 2Q06 from 12.4% in 1Q06, primarily due to a higher blended ASP from a product mix shift.

Operating Expense Analysis

Amounts in US\$ thousands

| | 2Q06 | 1Q06 | QoQ | 2Q05 | YoY |
|-----------------------------------|--------|--------|--------|--------|--------|
| Total operating expenses | 56,141 | 49,335 | 13.8% | 38,469 | 45.9% |
| Research and development | 24,345 | 20,593 | 18.2% | 17,590 | 38.4% |
| General and administrative | 16,837 | 11,749 | 43.3% | 7,207 | 133.6% |
| Selling and marketing | 3,918 | 5,970 | -34.4% | 3,590 | 9.2% |
| Amortization of intangible assets | 11,041 | 11,023 | 0.2% | 10,082 | 9.5% |

Total operating expenses were \$56.1 million in 2Q06, an increase of 13.8% QoQ from \$49.3 million in 1Q06.

Research and development expenses increased to \$24.3 million in 2Q06, up 18.2% QoQ from \$20.6 million in 1Q06, primarily due to increased depreciation and amortization costs associated with R&D and a decrease in R&D subsidy from the previous quarter.

General and administrative expenses increased to \$16.8 million in 2Q06, up 43.3% QoQ from \$11.7 million in 1Q06, primarily due to foreign exchange losses of \$4.8 million in 2Q06.

Selling and marketing expenses decreased to \$3.9 million in 2Q06, down 34.4% QoQ from \$6.0 million in 1Q06, primarily due to decreased engineering material expense.

Amortization of acquired intangible assets representing amortization expenses associated with the acquisition of intangible assets was \$11.0 million in 2Q06.

Other Income (Expenses)

Amounts in US\$ thousands

| | 2Q06 | 1Q06 | QoQ | 2Q05 | YoY |
|-------------------------|----------|----------|--------|---------|-------|
| Other income (expenses) | (9,491) | (7,807) | 21.6% | (8,234) | 15.3% |
| Interest income | 4,039 | 4,595 | -12.1% | 2,030 | 99.0% |
| Interest expense | (12,214) | (12,201) | 0.1% | (8,971) | 36.2% |
| Other, net | (1,316) | (201) | 555.9% | (1,293) | 1.7% |

Other non-operating loss of \$9.5 million in 2Q06 up 21.6%, QoQ from a loss of \$7.8 million in 1Q06, primarily due to a foreign exchange loss of \$2.0 million in 2Q06.

Interest expenses of \$12.2 million in 2Q06.

Liquidity

Amounts in US\$ thousands

| | 2Q06 | 1Q06 |
|-----------------------------------|-----------|---------|
| Cash and cash equivalents | 584,643 | 485,121 |
| Short term investments | 3,487 | 3,525 |
| Accounts receivable | 257,248 | 241,020 |
| Inventory | 217,592 | 196,585 |
| Others | 25,956 | 16,363 |
| Total current assets | 1,088,926 | 942,614 |
| Accounts payable | 429,813 | 286,884 |
| Short-term borrowings | 118,284 | 211,608 |
| Current portion of long-term debt | 47,160 | 246,081 |
| Others | 114,636 | 119,057 |
| Total current liabilities | 709,893 | 863,630 |
| Cash Ratio | 0.8x | 0.6x |
| Quick Ratio | 1.2x | 0.9x |

Current Ratio

1.5x

1.1x

Capital Structure*Amounts in US\$ thousands*

| | 2Q06 | 1Q06 |
|------------------------------------|-------------|-------------|
| Cash and cash equivalents | 584,643 | 485,121 |
| Short-term investment | 3,487 | 3,525 |
| Current portion of promissory note | 29,242 | 29,493 |
| Promissory note | 90,537 | 104,140 |
| Short-term borrowings | 118,284 | 211,608 |
| Current portion of long-term debt | 47,160 | 246,081 |
| Long-term debt | 830,743 | 431,504 |
| Total debt | 996,187 | 889,193 |
| Net cash | (527,836) | (534,180) |
| Shareholders' equity | 3,028,259 | 3,019,086 |
| Total debt to equity ratio | 32.9% | 29.5% |

Cash Flow Summary*Amounts in US\$ thousands*

| | 2Q06 | 1Q06 |
|--|-------------|-------------|
| Net income | 2,242 | (8,743) |
| Depreciation & amortization | 220,242 | 210,595 |
| Amortization of acquired intangible assets | 11,041 | 11,024 |
| Net change in cash | 99,523 | (100,676) |

Capex Summary

Capital expenditures for 2Q06 were \$317.3 million.

Total planned capital expenditures for 2006 will be approximately \$1.1 billion and will be adjusted based on market conditions.

Third 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 remain flat or to increase up to 2% over 2Q06.

Gross margins expected to be in the 8% to 12% range.

Operating expense as a percentage of sales expected to be in the mid-teens for 3Q06.

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Non-operating interest expense expected to be approximately \$15 million to \$17 million.

Capital expenditures expected to be approximately \$325 million to \$360 million.

Depreciation and amortization expected to be approximately \$250 million to \$260 million.

Recent Highlights and Announcements

Central China's First 12-inch Fab Began Construction and Will be Managed by SMIC [2006-06-28]

Elpida's Advanced 90nm DDR2 SDRAM Successfully Qualified at SMIC Beijing's 300mm Fab [2006-06-19]

SMIC Shanghai closed a US\$600 million Syndicated Term Loan [2006-06-08]

SMIC Shanghai is expecting to enter into a US\$600 million Syndicated Term Loan [2006-06-07]

Changes in Directorate [2006-06-01]

Annual General Meeting Held On 30th May, 2006 Poll Results [2006-06-01]

SMIC Adopts ARM Physical IP for Both Low-Power and High-Performance Designs at 90 Nanometer Technology Node [2006-05-31]

SMIC Tianjin Secures Financing for Expansion [2006-05-31]

Chipnuts and SMIC to Jointly Offer C626 Multimedia Chip For Mobile Phones [2006-05-17]

SMIC and Aurora Systems in Volume Production of Digital LCOS Panel Chips [2006-05-08]

SMIC reports 2006 first quarter results [2006-04-28]

SMIC and CADENCE Deliver New Analog Mixed-Signal Reference Flow to Speed Fabless Chip Design [2006-04-13]

Please visit SMIC's website at 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 | |
|---------------------------|------------------|----------------|
| | June 30, 2006 | March 31, 2006 |
| | (unaudited) | (unaudited) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | 584,643,407 | 485,120,565 |

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| | | |
|---|----------------------|----------------------|
| Short term investments | 3,486,997 | 3,525,210 |
| Accounts receivable, net of allowances of \$4,360,447 and \$3,155,788, respectively | 257,248,338 | 241,020,392 |
| Inventories | 217,592,385 | 196,584,559 |
| Prepaid expense and other current assets | 20,171,994 | 16,363,507 |
| Assets held for sale | 5,782,422 | |
| Total current assets | 1,088,925,543 | 942,614,233 |
| Land use rights, net | 39,975,613 | 41,392,218 |
| Plant and equipment, net | 3,378,265,128 | 3,286,544,385 |
| Acquired intangible assets, net | 183,230,540 | 191,933,630 |
| Equity investment | 15,760,166 | 16,762,335 |
| Long-term prepayments | 4,957,320 | 2,342,957 |
| Deferred tax assets | 18,892,396 | |
| TOTAL ASSETS | 4,730,006,706 | 4,481,589,758 |

| LIABILITIES AND STOCKHOLDERS EQUITY | | |
|---|----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable | 429,813,127 | 286,884,436 |
| Accrued expenses and other current liabilities | 85,373,210 | 89,469,845 |
| Short-term borrowings | 118,283,829 | 211,607,902 |
| Current portion of promissory note | 29,242,001 | 29,492,874 |
| Current portion of long-term debt | 47,160,000 | 246,081,155 |
| Income tax payable | 20,548 | 93,634 |
| Total current liabilities | 709,892,715 | 863,629,846 |
| Long-term liabilities: | | |
| Promissory note | 90,537,615 | 104,140,277 |
| Long-term debt | 830,742,999 | 431,504,129 |
| Long-term payables relating to license agreements | 23,507,429 | 25,395,010 |
| Other long-term payable | 10,000,000 | |
| Total long-term liabilities | 954,788,043 | 561,039,416 |
| Total liabilities | 1,664,680,758 | 1,424,669,262 |
| Commitments | | |
| Minority interest | 37,066,848 | 37,834,500 |
| Stockholders equity: | | |
| Ordinary shares, \$0.0004 par value, 50,000,000,000 shares authorized, shares issued and outstanding 18,342,734,332 and 18,318,402,283, respectively | 7,337,094 | 7,327,361 |
| Warrants | 32,387 | 32,387 |
| Additional paid-in capital | 3,275,146,135 | 3,268,265,625 |
| Accumulated other comprehensive income | 163,674 | 122,675 |
| Accumulated deficit | (254,420,190) | (256,662,052) |
| Total stockholders equity | 3,028,259,100 | 3,019,085,996 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | 4,730,006,706 | 4,481,589,758 |

CONSOLIDATED STATEMENT OF OPERATIONS*(In US dollars)*

| | For the three months ended | |
|---|-----------------------------------|-----------------------|
| | June 30, | March 31, 2006 |
| | 2006 | 2006 |
| | (unaudited) | (unaudited) |
| Sales | 361,445,898 | 351,137,952 |
| Cost of sales | 312,229,121 | 307,767,802 |
| Gross profit | 49,216,777 | 43,370,150 |
| Operating expenses: | | |
| Research and development | 24,344,979 | 20,592,655 |
| General and administrative | 16,837,020 | 11,748,899 |
| Selling and marketing | 3,918,343 | 5,970,146 |
| Amortization of acquired intangible assets | 11,041,090 | 11,023,590 |
| Total operating expenses | 56,141,432 | 49,335,290 |
| Loss from operations | (6,924,655) | (5,965,140) |
| Other income (expenses): | | |
| Interest income | 4,039,328 | 4,595,384 |
| Interest expense | (12,214,076) | (12,201,407) |
| Others, net | (1,316,005) | (200,656) |
| Total other income (expenses), net | (9,490,753) | (7,806,679) |
| Net loss before income taxes | (16,415,408) | (13,771,819) |
| Income tax credit (expenses) | 18,891,787 | (13,985) |
| Minority interest | 767,652 | 947,364 |
| Loss from equity investment | (1,002,169) | (1,058,555) |
| Cumulative effect of a change in accounting principle | | 5,153,986 |
| Net income (loss) | 2,241,862 | (8,743,009) |
| Deemed dividends on preference shares | | |
| Income (loss) attributable to holders of ordinary shares | 2,241,862 | (8,743,009) |

| | | |
|---|--------|----------|
| On the basis of net income (loss) before accounting change per share, basic | 0.0001 | (0.0008) |
| Cumulative effect of a change in accounting principal per share, basic | | 0.0003 |
| Net income (loss) per share, basic | 0.0001 | (0.0005) |
| On the basis of net income (loss) before accounting change per ADS, basic | 0.0061 | (0.0380) |
| Cumulative effect of a change in accounting principal per ADS, basic | | 0.0141 |
| Net income (loss) per ADS, basic | 0.0061 | (0.0239) |
| On the basis of net income (loss) before accounting change per share, diluted | 0.0001 | (0.0008) |
| Cumulative effect of a change in accounting principle per share, diluted | | 0.0003 |
| Net income (loss) per share, diluted | 0.0001 | (0.0005) |
| On the basis of net income (loss) before accounting change per ADS, diluted | 0.0060 | (0.0380) |

CONSOLIDATED STATEMENT OF OPERATIONS

(In US dollars)

| | For the three months ended | |
|---|-----------------------------------|-----------------------|
| | June 30, 2006 | March 31, 2006 |
| | (unaudited) | (unaudited) |
| Cumulative effect of a change in accounting principle per ADS, diluted | | 0.0141 |
| Net income (loss) per ADS, diluted | 0.0060 | (0.0239) |
| Ordinary shares used in calculating basic income per ordinary share (in millions) | 18,303 | 18,278 |
| Ordinary shares used in calculating diluted income per ordinary share (in millions) | 18,729 | 18,278 |
| * Amortization of deferred stock compensation related to: | | |
| Cost of sales | 3,014,597 | 3,127,678 |
| Research and development | 1,254,569 | 1,281,330 |
| General and administrative | 1,227,469 | 1,211,830 |
| Selling and marketing | 509,831 | 543,929 |
| Total | 6,006,465 | 6,164,767 |

(1) 1 ADS equals 50 ordinary shares

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

| | For the three months ended | |
|---|-----------------------------------|----------------------|
| | June 30, 2006 | March 31, |
| | (unaudited) | 2006 |
| | (unaudited) | (unaudited) |
| Operating activities: | | |
| Income (loss) attributable to holders of ordinary shares | 2,241,862 | (8,743,009) |
| Cumulative effect of a change in accounting principle | | (5,153,986) |
| Net income (loss) | 2,241,862 | (13,896,995) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Minority interest | (767,652) | (947,364) |
| Gain (loss) on disposal of plant and equipment | (516,812) | 1,018 |
| Depreciation and amortization | 220,242,447 | 210,595,208 |
| Amortization of acquired intangible assets | 11,041,089 | 11,023,590 |
| Amortization of deferred stock compensation | 6,006,465 | 6,164,767 |
| Amortization of loan initiation fee | 59,949 | |
| Non-cash interest expense on promissory notes | 1,503,505 | 1,465,312 |
| Loss on long-term investment | 1,002,169 | 1,058,555 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (16,227,946) | 313,522 |
| Inventories | (21,007,826) | (5,346,923) |
| Prepaid expense and other current assets | (316,206) | (853,466) |
| Accounts payable | (13,274,229) | 3,521,334 |
| Accrued expenses and other current liabilities | (11,319,565) | (10,144,265) |
| Other long term liabilities | 10,000,000 | |
| Income tax payable | (73,086) | 93,634 |
| Deferred tax assets | (18,892,396) | |
| Net cash provided by operating activities | 169,701,768 | 203,047,927 |
| Investing activities: | | |
| Purchases of plant and equipment | (164,934,281) | (197,518,652) |
| Purchases of acquired intangible assets | (253,074) | (1,439,000) |
| Sale of short-term investments | 30,704 | 10,250,212 |
| Proceeds received from living quarter sales | 5,631,255 | |
| Proceeds from disposal of fixed assets | 17,479 | 1,167,914 |
| Net cash used in investing activities | (159,507,917) | (187,539,526) |
| Financing activities: | | |
| Proceeds from short-term borrowings | 83,161,736 | 65,125,158 |
| Proceeds from long-term debt | 592,960,001 | 59,988,601 |
| Repayment of long-term debt | (392,642,286) | (123,040,282) |
| Repayment of promissory notes | (15,000,000) | |
| Repayment of short-term borrowings | (176,485,809) | (118,998,338) |
| Payment of loan initiation fee | (3,596,938) | |
| Proceeds from exercise of employee stock options | 883,777 | 736,003 |
| Net cash provided by financing activities | 89,280,481 | (116,188,858) |
| Effect of foreign exchange rate changes | 48,510 | 4,135 |

| | | |
|---|--------------------|----------------------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 99,522,842 | (100,676,322) |
| CASH AND CASH EQUIVALENTS, beginning of period | 485,120,565 | 585,796,887 |
| CASH AND CASH EQUIVALENTS, end of period | 584,643,407 | 485,120,565 |

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, Yen-Pong Jou, 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

July 28, 2006

* *For identification only*

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