



Semiconductor Manufacturing International Corporation  
www.smics.com

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

## 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 2004 third quarter results

#### Highlights

- 
- Sales increased to \$274.9 million in 3Q04, up 24.4% from \$221.0 million in 2Q04.
  - Income from operations increased to \$42.5 million in 3Q04, up 16.9% from \$36.4 million in 2Q04.
  - Income attributable to holders of ordinary shares increased to \$39.3 million in 3Q04, up 15.2% from \$34.2 million in 2Q04.
  - Compared to 2Q04, wafer shipments increased 30.9% to 263,808 8-inch wafers.
  - Basic EPS \$0.0022 (HKD\$0.0170<sup>(1)</sup>) per ordinary share and \$0.1095 per ADS; diluted EPS \$0.0022 (HKD\$0.0170<sup>(1)</sup>) per ordinary share and \$0.1079 per ADS.
- 

**Shanghai, China – October 28, 2004.** Semiconductor Manufacturing International Corporation (NYSE: SMI; SEHK: 981) (“SMIC” or the “Company”), one of the leading semiconductor foundries in the world, today announced its consolidated results of operations for the three months ended September 30, 2004. Sales increased 24.4% in the third quarter of 2004 to \$274.9 million from \$221.0 million in the prior quarter. Income from operations increased 16.9% in the third quarter of 2004 to \$42.5 million from \$36.4 million in the prior quarter.

The Company reported income attributable to holders of ordinary shares increased 15.2% in the third quarter of 2004 to \$39.3 million from \$34.2 million in the prior quarter, or \$0.0022 per ordinary share and \$0.1095 per ADS (on a fully diluted basis, \$0.0022 per ordinary share, and \$0.1079 per ADS).

“We are pleased to report continued growth through the third quarter of 2004,” said Dr. Richard Chang, President and Chief Executive Officer of SMIC. “During the third quarter of 2004, the Asia Pacific region showed particular strength with the Greater China region accounting for 6.6% of total sales. New and existing customers contributed to our strong third quarter fab utilization of 99%. We received relatively strong orders from our customers across all market segments, and in particular the communications products market segment. On September 25, 2004, we commemorated the grand opening of Fab 4, which is China’s first 12-inch wafer fab facility. While ramp up of Fab 4 remains on schedule as planned with mass production set for the fourth quarter of 2004, we will continue expansion based on market demands. We believe that as we continue to execute our business plans and reach technological milestones that, in the interests of our shareholders, we are laying a solid foundation for future growth and development.”

Note:

(1) Based on the exchange rate of HKD\$7.7774 to USD\$1.00 at the close of trading on October 25, 2004. (Source: Bloomberg)

## **Conference call / Webcast announcement details**

Date: October 28, 2004

Time: 8:00 p.m. Shanghai time

Dial-in numbers and access codes: U.S. 1-617-847-8711 or HK 852-3002-1672 (Pass codes: SMIC).

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

---

## **About SMIC**

SMIC (NYSE: SMI, SEHK: 0981.HK) is one of the leading semiconductor foundries in the world, providing integrated circuit (IC) manufacturing at 0.35-micron to 0.13-micron and finer line technologies to customers worldwide. Established in 2000, SMIC has four 8-inch wafer fabrication facilities in volume production in Shanghai and Tianjin. In addition, SMIC recently commenced pilot production at its 12-inch wafer fabrication facility in Beijing. SMIC maintains customer service and marketing offices in the U.S., Europe, and Japan. As part of its dedication towards providing high-quality services, SMIC strives to comply with or exceed international standards and has achieved ISO9001, ISO/TS16949, OHSAS18001, and ISO14001 certifications. For more 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 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 registration statement on Form F-1, as amended, filed with the SEC on March 11, 2004, 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.

---

## **Investor Contacts:**

Jimmy Lai  
Investor Relations Department  
Tel: 86-21-5080-2000, ext. 16088  
Fax: 86-21-5080-3619

Calvin Lau  
Investor Relations Department  
Tel: 86-21-5080-2000, ext. 16693  
Fax: 86-21-5080-3619

Evonne Hwang  
Investor Relations Department  
Tel: 86-21-5080-2000, ext. 16275  
Fax: 86-21-5080-3619

## Summary:

Amounts in US\$ thousands, except for EPS

	<u>3Q04</u>	<u>2Q04</u>	<u>QoQ</u>	<u>3Q03</u>	<u>YoY</u>
Sales	274,897	220,988	24.4%	107,141	156.6%
Cost of sales	(202,387)	(159,507)	26.9%	(96,768)	109.1%
Gross profit (loss)	72,510	61,481	17.9%	10,373	599.0%
Operating expenses	(29,972)	(25,091)	19.5%	(21,502)	39.4%
Income (loss) from operations	42,538	36,390	16.9%	(11,129)	-
Other income (expenses)	(3,195)	(2,225)	43.6%	2,673	-
Net income (loss)	39,343	34,165	15.2%	(8,456)	-
Deemed dividend on preference Shares	-	-	-	(34,586)	-
Income (loss) attributable to holders of ordinary shares	39,343	34,165	15.2%	(43,042)	-
Gross profit margin	26.4%	27.8%		9.7%	
Operating margin	15.5%	16.5%		-10.4%	
Basic EPS – per ordinary share <sup>(1)</sup>	\$0.0022	\$0.0019		(\$0.4625)	
Basic EPS – per ADS	\$0.1095	\$0.0955		(\$23.1237)	
Diluted EPS – per ordinary share	\$0.0022	\$0.0019		(\$0.4624)	
Diluted EPS – per ADS	\$0.1079	\$0.0941		(\$23.1237)	
Wafers shipped (in 8” wafers) <sup>(2)</sup>	263,808	201,534	30.9%	130,780	101.7%
Blended ASP	\$991	\$1,034	-4.2%	\$771	28.5%
Logic ASP <sup>(3)</sup>	\$1,091	\$1,089	0.2%	\$883	23.6%

## **1. Analysis of revenues**

<b>Sales analysis</b>					
<b><u>By Application</u></b>	<b><u>3Q04</u></b>	<b><u>2Q04</u></b>	<b><u>1Q04</u></b>	<b><u>4Q03</u></b>	<b><u>3Q03</u></b>
Computer	20.5%	22.5%	25.1%	26.7%	33.3%
Communications	57.2%	54.3%	56.0%	55.8%	48.2%
Consumer	17.1%	17.1%	12.7%	13.5%	11.7%
Others	5.2%	6.1%	6.2%	4.0%	6.8%
<b><u>By Device</u></b>	<b><u>3Q04</u></b>	<b><u>2Q04</u></b>	<b><u>1Q04</u></b>	<b><u>4Q03</u></b>	<b><u>3Q03</u></b>
Logic (including copper interconnect)	77.6%	73.5%	72.4%	71.6%	60.0%
Memory	17.5%	20.8%	21.6%	24.5%	34.0%
Other (mask making & probing)	4.9%	5.7%	6.0%	3.9%	6.0%
<b><u>By Customer Type</u></b>	<b><u>3Q04</u></b>	<b><u>2Q04</u></b>	<b><u>1Q04</u></b>	<b><u>4Q03</u></b>	<b><u>3Q03</u></b>

## Capacity:

wafers per month at the end of the period in 8" wafers

<b>Fab / (Wafer Size)</b>	<b>3Q04</b>	<b>2Q04</b>
Fab 1 (8")	38,820	33,675
Fab 2 (8")	34,824	31,098
Fab 7 (8")	10,322	6,000
<b>Total monthly wafer fabrication capacity</b>	<b>83,966</b>	<b>70,773</b>
<b>Copper Interconnects:</b>		
Fab 3 (8")	15,077	10,099
<b>Total monthly copper interconnect capacity</b>	<b>15,077</b>	<b>10,099</b>

- As of the end of 3Q04, monthly capacity increased to 99,043 wafers, as the Company continued to ramp up Fabs 1, 2, 3, and 7.

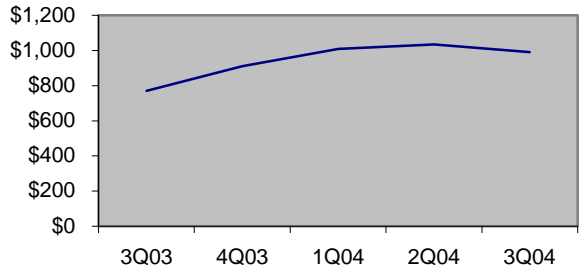
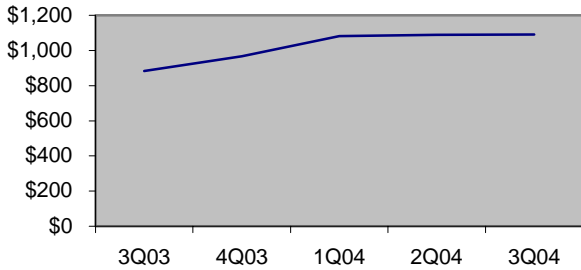
## Shipment and utilization:

<b>8" wafers</b>	<b>3Q04</b>	<b>2Q04</b>	<b>1Q04</b>	<b>4Q03</b>	<b>3Q03</b>
Wafer shipments including copper interconnects	263,808	201,534	174,325	153,125	130,780
Utilization rate <sup>(1)</sup>	99%	99%	99%	97%	93%

Note:

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

- Wafer shipments increased to 263,808 units of 8-inch wafers in 3Q04 up 30.9% QoQ from 201,534 units of 8-inch wafers in 2Q04, and up 101.7% YoY from 130,780 8-inch wafers in 3Q03.
- The utilization rate remained at 99%.

<b>Blended average selling price trend</b>	<b>Logic average selling price trend (excluding 0.13μm copper interconnects)</b>
 <p>The blended ASP decreased to \$991 in 3Q04 from \$1,034 in 2Q04 and increased from \$771 in 3Q03, mainly due to the shift to production of more mature logic wafers.</p>	 <p>The logic ASP (excluding 0.13μm copper interconnects) increased to \$1,091 in 3Q04 from \$1,089 in 2Q04 and \$883 in 3Q03, mainly due to the production of more 0.15μm and below logic wafers, the adoption of more advanced process technologies, and the establishment of the Company in the market.</p>

## **2. Detailed financial analysis**

### ***Gross profit analysis***

<i>Amounts in US\$ thousands</i>	<b>3Q04</b>	<b>2Q04</b>	<b>QoQ</b>	<b>3Q03</b>	<b>YoY</b>
Cost of sales	(202,387)	(159,507)	26.9%	(96,768)	109.1%
Depreciation	(108,214)				

### **3. Liquidity**

<i>Amounts in US\$ thousands</i>	<b><u>3Q04</u></b>	<b><u>2Q04</u></b>
Cash and cash equivalents	950,165	1,198,592
Short term investments	90,823	90,464
Accounts receivable	187,235	131,708
Inventory	134,757	113,563
Others	33,371	40,459
Total current assets	1,396,351	1,574,786
Accounts payable	717,760	699,680
Current portion of long-term debt	191,984	95,992
Others	85,245	54,443
Total curren		

#### **4. Cashflow & Capex**

<i>Amounts in US\$ thousands</i>	<b><u>3Q04</u></b>	<b><u>2Q04</u></b>
Net income	39,343	34,165
Depreciation & amortization	122,636	101,790
Amortization of acquired intangible assets	3,508	3,532
Net change in cash	(248,428)	(174,480)

#### ***Capex plans***

- Planned capital expenditures for 2004 increased to approximately \$2,000 million.

#### **5. 4Q04 outlook and guidance**

- Wafer shipments expected to increase by 15-20%.
- Utilization to expected to be in the mid to high 90%.
- Blended ASP expected to decline by 5-7%.
- Percentage of sales from 0.18 $\mu$ m and below, including copper interconnects, expected to decrease by a mid single digit percentage point.
- Gross margins expected to be remain similar to 3Q04.
- Operating expenses as a percentage of sales expected to increase to mid to high teens.
- Capital expenditures of approximately \$350-400 million.
- Depreciation and amortization of approximately \$150-160 million.
- Deferred compensation charge of approximately \$7 million, of which approximately \$4 million will be charged to operating expenses and \$3 million in cost of sales.

#### **6. Recent announcements**

- Unusual Price and Volume Movement and Articles Regarding the Production of 90nm Chips [2004-10-10]
- Statement in the Form as Prescribed in Rules 13.10 Note (2) of the Listing Rules [2004-10-07]
- Announcement Pursuant to Rules 2.07A and 2.07B [2004-09-30]
-



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

	As of the end of	
	September 30, 2004 (unaudited)	June 30, 2004 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	950,164,909	1,198,592,423
Short term investments	90,823,297	90,463,911
Accounts receivable, net off allowances of \$421,681 and \$356,826 respectively	187,235,125	131,707,549
Inventories	134,757,006	113,562,540
Prepaid expense and other current assets	8,495,044	7,867,504
Assets held for sale	24,875,320	32,591,632
<b>Total current assets</b>	<b>1,396,350,701</b>	<b>1,574,785,559</b>
Land use rights, net	34,630,167	34,803,658
Plant and equipment	3,785,221,468	3,159,564,426
Accumulated depreciation	(623,572,186)	(501,436,777)
Plant and equipment, net	3,161,649,282	2,658,127,649
Acquired intangible assets, net	59,720,325	61,777,449
<b>TOTAL ASSETS</b>	<b>4,652,350,474</b>	<b>4,329,494,315</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings	20,000,000	-
Current portion of long-term debt	191,983,707	95,991,900
Accounts payable	717,756,459	699,586,755
Accrued expenses and other current liabilities	65,244,711	54,443,275
<b>Total current liabilities</b>	<b>994,984,877</b>	<b>850,021,930</b>
Long-term liabilities:		
Long-term debt	544,453,946	413,965,135
<b>Total long-term liabilities</b>	<b>544,453,946</b>	<b>413,965,135</b>
<b>Total liabilities</b>	<b>1,539,438,823</b>	<b>1,263,987,065</b>
Commitments		
Stockholders' equity:		
Ordinary shares \$0.0004 par value, 50,000,000,000 shares authorized, shares issued and outstanding 18,228,120,120 and 18,224,817,010 respectively	7,291,249	7,289,927
Warrants	50,297	124,920
Additional paid-in capital	3,291,017,646	3,294,693,501
Notes receivable from stockholders	(876,911)	(1,891,580)
Accumulated other comprehensive income	776,915	400,320
Deferred stock compensation	(60,178,603)	(70,597,602)
Accumulated deficit	(125,168,942)	(164,512,236)
<b>Total stockholders' equity</b>	<b>3,112,911,651</b>	<b>3,065,507,250</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>4,652,350,474</b>	<b>4,329,494,315</b>



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

	<b>For the three months ended</b>	
	<b>September 30, 2004</b>	<b>June 30, 2004</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Sales	274,897,225	220,988,561
Cost of sales	(199,163,928)	(156,952,228)
Cost of sales - Amortization of deferred stock compensation	(3,223,528)	(2,554,781)
<b>Gross profit</b>	<b>72,509,769</b>	<b>61,481,552</b>
Operating expenses:		
Research and development	(20,688,265)	(13,532,637)
General and administrative	(3,831,441)	(6,019,392)
Selling and marketing	(1,899,002)	(1,940,035)
Amortization of deferred stock compensation*	(3,553,558)	(3,599,151)
<b>Total operating expense</b>	<b>(29,972,266)</b>	<b>(25,091,215)</b>
<b>Income from operations</b>	<b>42,537,503</b>	<b>36,390,337</b>
Other income (expenses):		
Interest income	3,107,173	2,732,629
Interest expense	(3,614,187)	(2,759,605)
Others, net	(2,687,195)	(2,197,963)
Total other income, net	<b>(3,194,209)</b>	<b>(2,224,939)</b>
Net income	<b>39,343,294</b>	<b>34,165,398</b>
Deemed dividends on preference shares	-	-
<b>Income attributable to holders of ordinary shares</b>	<b>39,343,294</b>	<b>34,165,398</b>
Net income per ordinary share, basic	0.0022	0.0019
Net income per ADS, basic (1)	0.1095	0.0955
Net income per ordinary share, diluted	0.0022	0.0019
Net income per ADS, diluted (1)	0.1079	0.0941
Shares used in calculating basic net income per ordinary share (in millions)	17,961	17,897
Shares used in calculating diluted net income per ordinary share (in millions)	18,225	18,147
*Amortization of deferred stock compensation related to:		
Research and development	1,346,112	1,301,740
General and administrative expenses	1,667,791	1,671,587
Selling and marketing	539,655	625,824
Total	3,553,558	3,599,151

(1) 1 ADS equals 50 ordinary shares.

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

	<b>For the three months ended</b>	
	<b>September 30, 2004</b>	<b>June 30, 2004</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Operating activities:</b>		
Income attributable to holders of ordinary shares	39,343,294	34,165,398
Deemed dividends on preference shares	-	-
Net income	39,343,294	34,165,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain (loss) on disposal of plant and equipment	(486,231)	20,676
Bad debt expense	64,855	280,391
Depreciation and amortization	122,635,996	101,789,774
Amortization of acquired intangible assets	3,507,555	3,531,649
Amortization of deferred stock compensation	6,777,086	6,153,932
Changes in operating assets and liabilities:		
Accounts receivable	(55,592,431)	(15,175,779)
Inventories	(21,194,466)	(28,083,387)
Prepaid expense and other current assets	115,508	10,148,004
Accounts payable	8,805,299	21,703,089
Accrued expenses and other current liabilities	15,264,958	7,876
<b>Net cash provided by operating activities</b>	<b>119,241,423</b>	<b>134,541,623</b>
<b>Investing activities:</b>		
Purchases of plant and equipment	(617,011,320)	(351,833,464)
Purchases of acquired intangible assets	(728,529)	(2,611,626)
Purchase of short-term investments	-	(64,132,303)
Sale of short-term investments	-	1,005,977
Sale of investments held to maturity	-	3,004,297
Proceeds received for assets held for sale	3,025,118	1,530,794
Proceeds from disposal of plant and equipment	52,196	440,078
<b>Net cash used in investing activities</b>	<b>(614,662,535)</b>	<b>(412,596,247)</b>
<b>Financing activities:</b>		
Proceeds from long-term debt	226,480,618	16,066,960
Proceeds from short-term debt	20,000,000	-
Proceeds from exercise of employee stock option	495,772	32,166,207
Collection of subscription receivables	-	93,000,000
Change in deposit received from stockholders	-	(37,772,810)
<b>Net cash provided by financing activities</b>	<b>246,976,390</b>	<b>103,460,357</b>
Effect of foreign exchange rate changes	17,208	114,441
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(248,427,514)</b>	<b>(174,479,826)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>1,198,592,423</b>	<b>1,373,072,249</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>950,164,909</b>	<b>1,198,592,423</b>