

Chief Executive Officer's Statement

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“Our technology roadmap focuses on developing leading edge technologies while balancing trade-offs to minimize cost and risk. Therefore, we continue to concentrate our efforts on migrating key logic and memory products to the more advanced technology nodes.”

Dear Shareholders,

Foundries are playing crucial roles in the IC industry as semiconductor manufacturing costs continue to increase and the usage of silicon becomes more commercialized. Fabless design houses and IDMs are relying on foundries to manufacture and co-develop new technologies for the consumer, communication, and computing segments. The accelerating pace of outsourcing semiconductor manufacturing is evident from the announcements by major semiconductor companies. Over the past several years, SMIC has invested in our business to meet this growing demand.

I am pleased to report that SMIC has continued to grow its revenues despite a difficult environment for the semiconductor industry in 2006. SMIC posted record revenues of \$1.46 billion, which represents a 25% increase year over year. Our logic and memory foundry strategy and our strategic partnerships with customers to migrate to more advanced technology have enabled us to weather the industry downturn.

Revenues from advanced technologies, 0.13-micron and below, contributed 49.6% of our total wafer revenue in 2006, compared to 40.6% of total wafer revenue in 2005. Our 90-nanometer technology for logic and memory processes entered commercial production in 2006. This was a milestone for the semiconductor industry in China and a testament to the skills and knowledge of our world-class R&D and operations teams at SMIC. By the fourth quarter of 2006, revenue from 90-nanometer technology alone contributed 14.4% of our total wafer revenue.

SMIC remains committed to its long-term growth strategy. With IC consumption in China growing rapidly, we are well positioned to capitalize on it. Our strategic position in China allows us to partner with global technology companies who see the advantages of our proximity to the China end-user market. Our proximity to these end users also helps us to better understand their needs so that we can develop and deliver technologies catering to Chinese customer demands.

In 2006, SMIC embraced a new foundry business model that focuses our core business on developing and manufacturing leading edge technology while transferring mature technology demand to other foundries under our management. With our Chengdu and Wuhan projects, we are managing fabs financed and owned by other entities. In the 200-millimeter Chengdu fab, we plan to start pilot runs in the second quarter of 2007. The 300-millimeter Wuhan fab is under construction and is scheduled for equipment move-in by the end of this year. The Chengdu and Wuhan projects mark an exciting period for SMIC, allowing us to continue growing our business while managing our internal capital expenditures more efficiently. The projects will help us better serve our international customers while positioning us closer to many potential Chinese customers.

In addition, 2006 was marked by several strategic agreements. SMIC agreed to provide Qualcomm Incorporated (“Qualcomm”) with integrated circuit manufacturing services using a specialized BiCMOS process technology at our Tianjin facility. This agreement will combine our wafer fabrication capabilities

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and subcontractor infrastructure with Qualcomm's leadership in 3G wireless technologies to focus on power management ICs. This agreement reflects our success in offering turnkey solutions to our valued customers.

Our technology roadmap focuses on developing leading edge technologies while balancing trade-offs to minimize cost and risk. Therefore, we continue to concentrate our efforts on migrating key logic and memory products to more advanced technology nodes. We will continue the development of our 65-nanometer technology and will further expand our product offerings in the 90-nanometer technology.

We are further expanding our partnership with Saifun Semiconductors Ltd. into more advanced flash memory technology by collaborating on an 8Gb Data Flash using SMIC's advanced process technology. We aim to provide a comprehensive flash product for the consumer electronics market in China and throughout the world. We have delivered our first engineering samples of our advanced 2Gb NAND flash product based on the Saifun NROM two-bit-per-cell technology.

Having reached our capacity target in 2006, in 2007 we will focus on returning to profitability. Continuous improvement in performance and yield enables the expansion of our product mixture in more advanced nodes of 130 and 90 nanometer technologies. In addition, our depreciation burden will continue to ease as some of our machinery and equipment become fully depreciated starting this year. Our 2007 capital expenditure target of approximately US\$720 million is based on anticipated customer demand for our services this year and beyond.

There are significant demand drivers across market segments in the near future. We see the migration towards Microsoft Vista and notebooks driving growth among the computer applications. Among the communications applications – handsets, video, VoIP, and WLAN will lead the way. Strength in the consumer segment will come from various personal and entertainment devices such as portable media players, MP3/4, and digital TV.

We anticipate 2007 to be a very exciting year for SMIC. The growth trend for semiconductor foundries should continue to outpace the broader semiconductor industry. Numerous efforts have been made to assure that SMIC is well positioned to take advantage of the many opportunities that lie ahead. We look forward to sharing our achievements and results with you in the coming year.

May God bless you and SMIC,

Richard R. Chang

Chief Executive Officer

Shanghai, the P.R.C.

April 23, 2007