Management's Discussion and Analysis of Financial Condition and Results of Operation

Consolidated Financial Data

The summary consolidated financial data presented below as of and for the years ended December 31, 2004, 2005 and 2006 are derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, the audited consolidated financial statements, including the related notes, included elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2002 and 2003, is derived from audited consolidated financial statements not included in this Annual Report. The summary consolidated financial data presented below has been prepared in accordance with United States generally accepted accounting principles (the "U.S. GAAP").

Note: The Company has re-stated its 2005 and 2004 financial statements. (Please see notes 24 and 31).

	For the year ended December 31,				
	2002	2003	2004	2005	**2006**
	(in US$ thousands, except for per share and per ADS data)				
Income Statement Data:					
Sales	$ 50,315	$ 365,824	$ 974,664	$ 1,171,319	**$ 1,465,323**
Cost of sales[1]	105,238	359,779	716,225	1,105,134	**1,338,155**
Gross profit (loss)	(54,923)	6,045	258,439	66,185	**127,168**
Operating expenses:					
Research and development	38,254	34,913	74,113	78,865	**94,171**
General and administrative	18,351	29,705	54,038	35,701	**47,365**
Selling and marketing	4,776	10,711	10,384	17,713	**18,231**
Litigation settlement	–	–	16,695	–	**–**
Amortization of acquired intangible assets	–	3,462	14,368	20,946	**24,393**
Income from sale of plant and equipment and other fixed assets	–	–	–	–	**(43,122)**
Total operating expenses (income), net	61,381	78,791	169,598	153,225	**141,038**
Income (loss) from operations	(116,304)	(72,746)	88,841	(87,040)	**(13,870)**
Other income (expenses):					
Interest income	10,980	5,616	10,587	11,356	**14,916**
Interest expense	(176)	(1,425)	(13,698)	(38,784)	**(50,926)**
Foreign currency exchange gain (loss)	247	1,523	8,218	(3,355)	**(21,912)**
Other, net	2,650	888	2,441	4,462	**1,821**
Total other income (expense), net	13,701	6,602	7,548	(26,322)	**(56,101)**
(Loss) Income before income tax	(102,603)	(66,144)	96,389	(113,362)	**(69,971)**
Income tax credit (expense)	–	–	(186)	(285)	**24,928**

	For the year ended December 31,				
	2002	2003	2004	2005	**2006**
	(in US$ thousands, except for per share and per ADS data)				
Minority interest	–	–	–	251	**(19)**
Loss from equity investment	–	–	–	(1,379)	**(4,201)**
Net (loss) income before cumulative effect of a change in accounting principle	(102,603)	(66,144)	96,203	(114,775)	**(49,263)**
Cumulative effect of a change in accounting principal	–	–	–	–	**5,154**
Net (loss) income	(102,603)	(66,144)	96,203	(114,775)	**(44,109)**
Deemed dividend on preference shares(2)	–	37,117	18,840	–	**–**
Income (loss) attributable to holders of ordinary shares	$ (102,603)	$ (103,261)	$ 77,363	$ (114,775)	**$ (44,109)**
Income (loss) per share, basic	$ (1.27)	$ (1.14)	$ 0.01	$ (0.00)	**$ (0.00)**
Income (loss) per share, diluted	$ (1.27)	$ (1.14)	$ 0.00	$ (0.00)	**$ (0.00)**
Shares used in calculating basic income (loss) per share(3)(4)	80,535,800	90,983,200	14,199,163,517	18,184,429,255	**18,334,498,923**
Shares used in calculating diluted income (loss) per share(3)(4)	80,535,800	90,983,200	17,934,393,066	18,184,429,255	**18,334,498,923**

(1) Including amortization of deferred stock compensation for employees directly involved in manufacturing activities.

(2) Deemed dividend represents the difference between the sale and conversion prices of warrants to purchase convertible preference shares we issued and their respective fair market values.

(3) Anti-dilutive preference shares, options and warrants were excluded from the weighted average ordinary shares outstanding for the diluted per share calculation. For 2001, 2002 and 2003, basic income (loss) per share did not differ from diluted loss per share.

(4) All share information has been adjusted retroactively to reflect the 10-for-1 share split effected upon completion of the global offering of its ordinary shares in March 2004 (the "Global Offering").

	As of December 31,				
	2002	2003	2004	2005	**2006**
	(in US$ thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 91,864	$ 445,276	$ 607,173	$ 585,797	**$ 363,620**
Short-term investments	27,709	27,165	20,364	13,796	**57,951**
Accounts receivable, net of allowances	20,110	90,539	169,188	241,334	**252,185**
Inventories	39,826	69,924	144,018	191,238	**275,179**
Total current assets	185,067	680,882	955,418	1,047,465	**1,049,666**
Land use rights, net	49,354	41,935	39,198	34,768	**38,323**
Plant and equipment, net	1,290,910	1,523,564	3,311,925	3,285,631	**3,244,401**
Total assets	1,540,078	2,290,506	4,384,276	4,586,633	**4,541,292**
Total current liabilities	263,655	325,430	723,871	896,038	**677,362**
Total long-term liabilities	405,432	479,961	544,462	622,497	**817,710**
Total liabilities	669,087	805,391	1,268,333	1,518,535	**1,495,072**
Minority Interest	–	–	–	38,782	**38,800**
Stockholders' equity	$ 870,991	$ 1,485,115	$ 3,115,942	$ 3,029,316	**$ 3,007,420**

	For the year ended December 31,				
	2002	2003	2004	2005	**2006**
	(in US$ thousands, except for percentages and operating data)				
Cash Flow Data:					
Net income (loss)	$ (102,603)	$ (66,145)	$ 96,203	$ (114,775)	**$ (49,263)**
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	84,537	233,905	456,961	769,472	**919,616**
Net cash provided by (used in) operating activities	(48,802)	114,270	518,662	648,105	**769,649**
Purchases of plant and equipment	(761,704)	(453,097)	(1,838,773)	(872,519)	**(882,580)**
Net cash used in investing activities	(751,144)	(454,498)	(1,826,787)	(859,652)	**(917,369)**
Net cash provided by financing activities	712,925	693,497	1,469,764	190,364	**(74,440)**
Net increase (decrease) in cash and cash equivalents	$ (87,056)	$ 353,412	$ 161,896	$ (21,376)	**$ (222,177)**
Other Financial Data:					
Gross margin	–109.2%	1.7%	26.5%	5.7%	**8.7%**
Operating margin	–231.2%	–19.9%	9.1%	–7.4%	**–0.9%**
Net margin	–203.9%	–18.1%	9.9%	–9.8%	**–3.0%**
Operating Data:					
Wafers shipped (in units):					
Total[(1)]	82,486	476,451	943,463	1,347,302	**1,614,888**
ASP (in US$)[(2)]:	610	768	1,033	869	**907**

(1) Including logic, DRAM, copper interconnects and all other wafers.
(2) Total sales/total wafers shipped.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Sales

Sales increased by 25.1% from US$1,171.3 million for 2005 to US$1,465.3 million for 2006, primarily as a result of the increase in the Company's manufacturing capacity and ability to use such capacity to increase sales. The number of wafers the Company shipped increased by 19.9%, from 1,347,302 8-inch wafer equivalents to 1,614,888 8-inch wafer equivalents, between these two periods. The average selling price of the wafers the Company shipped increased by 4.4% from US$869 per wafer to US$907 per wafer. The percentage of wafer revenues that used 0.13 micron and below process technology increased from 40.6% to 49.6% between these two periods.

Cost of sales and gross profit (loss)

The cost of sales increased by 21.1% from US$1,105.1 million for 2005 to US$1,338.2 million for 2006. This increase was primarily due to the significant increase in sales volume, depreciation expenses as the Company installed new equipment to increase its capacity, and manufacturing labor expenses due to the increase in headcount. Other factors included an increase in the amount of direct and indirect materials purchased corresponding to the increase in wafers shipped and a product mix shift.

The Company had a gross profit of US$127.2 million for 2006 compared to a gross profit of US$66.2 million in 2005. Gross margins were 8.7% in 2006 compared to 5.7% in 2005. The increase in gross margins was primarily due to a higher blended ASP and a product mix shift.

Operating income, expenses and loss from operations

Operating expenses decreased by 8.0% from US$153.2 million for 2005 to US$141.0 million for 2006 primarily due to an increase in depreciation and amortization expense costs associated with research and development, and foreign exchange loss. Meanwhile, the Company incurred an income from sale of plant and equipments of US$43.1 million in 2006.

As a part of the settlement with TSMC, as described in "Note 11. – Acquired intangible assets, net" and "Note 25. – Litigation", the amortization of acquired intangible assets increased from US$41.3 million for 2005 to US$51.2 million for 2006.

Research and development expenses increased by 19.4% from US$78.9 million for 2005 to US$94.2 million for 2006. This increase in research and development expenses resulted primarily from an increase in depreciation and amortization costs associated with research and development, 65nm research and development activities.

General and administrative expenses increased by 32.7% to US$47.4 million for 2006 from US$35.7 million for 2005, primarily due to an increase in bad debt, tax related expenses, and foreign exchange loss.

Selling and marketing expenses increased by 2.9% from US$17.7 million for 2005 to US$18.2 million for 2006, primarily due to an increase in sales and marketing personnel.

As a result, the Company's loss from operations was US$13.9 million in 2006 compared to loss from operations of US$87.0 million in 2005. Operating margin was negative 0.9% and 7.4%, respectively, for these two years.

Other income (expenses)

Other expenses increased from US$26.3 million in 2005 to a US$56.1 million in 2006. This increase was primarily attributable to the increase in interest expense from US$38.8 million in 2005 to US$51.0 million in 2006, and the increase in foreign exchange loss from US$3.4 million in 2005 to US$21.9 million in 2006. This increase of the interest expense was primarily due to the increases in borrowing and the costs of borrowing.

Net income (loss)

Due to the factors described above, the Company had a net loss of US$44.1 million in 2006 compared to a net loss of US$114.8 million for 2005.

Bad debt provision

The Company determines its bad debt provision based on the Company's historical experience and the relative aging of receivables. The Company's bad debt provision excludes receivables from a limited number of customers due to a high level of collection confidence. The Company provides bad debt provision based on the age category of the remaining receivables. A fixed percentage of the total amount receivable is applicable to receivables in each past due age category, ranging from 1% for the shortest past due age category to 100% for the longest past due age category. Any receivables deemed non-collectible will be written off against the relevant amount of provision. The Company's bad debt provision made (reversed) in 2004, 2005, and 2006 amounted to US$1.0 million, US$(0.01) million, and US$3.0 million, respectively. The Company reviews, analyzes and adjusts bad debt provisions on a monthly basis.

Deemed dividends on preference shares

As of December 2006 and 2005, the Company did not record any deemed dividends on preference shares.

Debt Arrangements

Set forth in the table below are the aggregate amounts, as of December 31, 2006, of the Company's future cash payment obligations under the Company's existing contractual arrangements on a consolidated basis:

		Payments due by period			
Contractual obligations	Total	Less than 1 year	1-2 years	3-5 years	After 5 years
	(consolidated) (in US$ thousands)				
Short-term borrowings	$ 71,000	$ 71,000	$ –	$ –	$ –
Long-term debt					
Secured long-term loans	890,368	170,797	290,447	429,124	–
Operating lease obligations(1)	3,460	377	163	214	2,706
Purchase obligations(2)	611,543	611,543	–	–	–
Investment commitments(3)	29,260	29,260			
Other long-term obligations(4)	146,500	43,000	40,000	63,500	–
Total contractual obligations	$ 1,752,073	$ 925,954	$ 330,604	$ 492,809	$ 2,706

(1) Represents our obligations to make lease payments to use the land on which our fabs are located in Shanghai and other office equipment we have leased.

(2) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.

(3) Represents commitments to invest in certain joint venture projects.

(4) Includes the settlement with TSMC for an aggregate of US$175 million payable in installments over six years and the other long-term liabilities relating to certain license agreements.

As of December 31, 2006, the Company's outstanding long-term liabilities primarily consisted of US$890.37 million in secured bank loans, which are repayable in installments commencing in May 2006, with the last payment in November 2010.

2001 Loan Facility (SMIC Shanghai)

In December 2001, the Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai") entered into a USD denominated long-term debt agreement for US$432.0 million with a syndicate of four Chinese banks. The withdrawal period of the facility was 18 months starting from the loan agreement date. As of December 31, 2004, SMIC Shanghai had fully drawn down on this loan facility. In 2006, the interest rate on the loan ranges from 6.16% to 7.05%. The interest payment is due on a semi-annual basis. The principal amount is repayable starting in March 2005 in five semi-annual installments of US$86.4 million. The interest expense incurred in 2006, 2005, and 2004 was US$6.6 million, US$16.5 million, and US$14.0 million, respectively, of which US$0.8 million, US$3.6 million, and US$6.4 million was capitalized as additions to assets under construction in 2006, 2005, and 2004, respectively.

As part of the same long-term loan arrangements, SMIC Shanghai had a RMB denominated line of credit of RMB396,960,000 (approximately US$48.0 million) in 2001, with the same financial institutions. As of December 31, 2004, SMIC Shanghai had fully drawn on this line of credit. The interest rate for the loan is calculated based on the basic rate of a five-year term loan published by the People's Bank of China. The principal amount is repayable starting in March 2005 in five semi-annual installments of US$9,593,289. The interest rate on the loan ranged from 5.02% to 5.27% in 2005. The interest expense incurred in 2005 and 2004 was US$1.6 million and US$2.5 million, respectively, of which US$0.4 million and US$1.1 million was capitalized as additions to assets under construction in 2005 and 2004, respectively. As of December 31, 2006 and 2005, this facility was fully repaid.

These long-term loan agreements contained certain financial covenants which initially were superceded by the financial covenants set forth in SMIC Shanghai's long-term agreements from January 2004 and subsequently were superceded by the financial covenants set forth in SMIC Shanghai's long-term agreements from June 2006 as described below.

2004 Loan Facility (SMIC Shanghai)

In January 2004, SMIC Shanghai entered into the second phase USD denominated long-term facility arrangement for US$256.5 million with four Chinese banks. As of December 31, 2005 and 2004, SMIC Shanghai had fully drawn down on this loan facility. In 2006, the interest rate on the loan ranged from 6.16% to 7.05%. The interest payment is due on a semi-annual basis. The principal amount is repayable starting in March 2006 in seven semi-annual installments of US$36.6 million. The interest expense incurred in 2006, 2005 and 2004 was US$7.2 million, US$12.5 million and US$3.9 million, of which US$0.9 million, US$2.7 million and US$nil were capitalized as additions to assets under construction in 2006, 2005 and 2004, respectively.

In connection with the second phase long-term facility arrangement, SMIC Shanghai has a RMB denominated line of credit of RMB235,678,000 (US$28,476,030). As of December 31, 2004, SMIC Shanghai has no borrowings on this line of credit. In 2005, SMIC Shanghai fully utilized and then repaid in full prior to December 31, 2005. The interest expenses incurred in 2005 was US$0.03 million.

These long-term loan agreements contained certain financial covenants which were superceded by the financial covenants set forth in SMIC Shanghai's long-term agreements from June 2006 as described below.

2006 Loan Facility (SMIC Shanghai)

In June 2006, SMIC Shanghai entered into a new USD denominated long-term facility arrangement for US$600.0 million with a consortium of international and PRC banks. Of this principal amount, US$393.0 million was used to repay the principal amount outstanding under SMIC Shanghai's bank facilities from December 2001 and January 2004. The remaining principal amount will be used to finance future expansion and general corporate requirement for SMIC Shanghai. This facility is secured by the manufacturing equipment located in SMIC Shanghai 8-inch fabs. As of December 31, 2006, SMIC Shanghai had drawn down US$393.0 million from this facility. The remaining facility amount is available for drawdown until December 2007. The principal amount is repayable starting from December 2006 in ten semi-annual installments. As of December 31, 2006, SMIC Shanghai had repaid US$23.6 million according to the repayment schedule and had early repaid US$95.0 million. The interest rate on the loan ranged from 6.46% to 6.72%. The interest expense incurred ended December 31, 2006 was US$13.5 million, of which US$1.6 million was capitalized as additions to assets under construction in 2006.

The total outstanding balance of these long-term facilities is collateralized by certain plant and equipment at the original cost of US$1,889.1 million as of December 31, 2006. The registration of the mortgage was in process as of December 31, 2006.

The long term loan agreement entered into in June 2006 contains the following covenants:

Financial covenants for the Borrower including:

1. Consolidated Tangible Net Worth of no less than US$1,200 million;

2. Consolidated Total Borrowings to Consolidated Tangible Net Worth of:
   (a) no more than 60% for periods up to and including 31 December 2008; and
   (b) no more than 45% thereafter;

3. Consolidated Total Borrowings to trailing preceding four quarters EBITDA not to exceed 1.50x.

4. Debt Service Coverage Ratio of no less than 1.5x. Debt Service Coverage Ratio means trailing four quarters EBITDA divided by scheduled principal repayments and interest expense for all bank borrowings (including hire purchases, leases and other borrowed monies) for the same period.

Financial covenants for the Guarantor including:

1. Consolidated Tangible Net Worth of no less than US$2,300 million;

2. Consolidated Net Borrowings to Consolidated Tangible Net Worth of:
   (a) no more than 50% for period up to and including June 30, 2009;
   (b) no more than 40% thereafter.

3. Consolidated Net Borrowings to trailing four quarters EBITDA of:
   (a) no more than 1.50x for periods up to and including June 30, 2009;
   (b) no more than 1.30x thereafter.

SMIC Shanghai has met these covenants as of December 31, 2006.

In May 2005, Semiconductor Manufacturing International (Beijing) Corporation ("SMIC Beijing") entered into a five year USD denominated loan facility in the aggregate principal amount of US$600.0 million, with a syndicate of financial institutions based in the PRC. This five-year bank loan will be used to expand the capacity of SMIC Beijing's fabs. The drawdown period of this facility was twelve months from the sign off date of the agreement. As of December 31, 2006, SMIC Beijing had fully drawn-down US$600.0 million on this loan facility. The interest rate on this loan facility in 2006 ranged from 6.26% to 7.17%. The principal amount is repayable starting in December 2007 in six semi-annual installments. The interest expense incurred in 2006 and 2005 was US$28.5 million and US$4.0 million, of which US$0.5 million and US$0.9 million was capitalized as additions to assets under construction in 2006 and 2005, respectively.

The total outstanding balance of SMIC Beijing USD syndicate loan is collateralized by certain plant and equipment at the original cost of US$1,058.4 million as of December 31, 2006.

Any of the following would constitute an event of default for SMIC Beijing during the term of the facility:

- [Net profit + depreciation + amortization + financial expenses – (increase of accounts receivable and advanced payments + increase of inventory – increase in accounts payable and advanced receipts)]/ financial expenses < 1; and
- (Total liability – borrowings from shareholders, including principal and interest)/Total assets > 60% (when SMIC Beijing's capacity is less than 20,000 12-inch wafer per month); and (Total liability – borrowings from shareholders, including principal and interest)/Total assets > 50% (when SMIC Beijing's capacity exceeds 20,000 12-inch wafers per month).

As of December 31, 2006, SMIC Beijing had a capacity of 25,000 12-inch wafers per month. SMIC Beijing has an exemption period from December 28, 2006 to June 30, 2007.

On December 15, 2005, the Company entered into a EUR denominated long-term loan facility agreement in the aggregate principal amount of EUR85 million (equivalent to approximately US$105 million) with a syndicate of banks and ABN Amro Bank N.V. Commerz Bank (Nederland) N.V. as the leading bank. The drawdown period of the facility ends on the earlier of (i) twenty months after the execution of the agreement or (ii) the date which the loans have been fully drawn down. Each draw down made under the facility shall be repaid in full by the Company in ten equal semi-annual installments. As of December 31, 2006, SMIC Tianjin had drawdown EUR15.1 million and repaid the first two installments with an aggregated amount of EUR3.0 million. As of December 31, 2006, the remaining balance is EUR12.1 million, with the US dollar equivalent of US$15.9 million. The interest rate on the loan ranged from 3.41% to 3.95%. The interest expense incurred in 2006 was US$0.3 million of which US$0.07 million was capitalized additions to assets under construction in 2006.

The total outstanding balance of the facility is collateralized by SMIC Tianjin's certain plant and equipment at the original cost of EUR 17.8 million as of December 31, 2006.

The long-term debt arrangements contain financial covenants as defined in the loan agreements. The Company met these covenants as of December 31, 2006.

Short-term Credit Agreements

As of December 31, 2006, the Company had fifteen short-term credit agreements that provided total credit facilities up to US$474.0 million on a revolving credit basis. As of December 31, 2006, the Company had drawn down US$71.0 million under these credit agreements and US$403.0 million is available for future borrowings. The outstanding borrowings under the credit agreements are unsecured. The interest expense incurred in 2006 was US$8.5 million. The interest rate on the loans ranged from 3.62% to 6.52% in 2006.

The Company has accepted promissory notes from employees exercising options to purchase either ordinary shares or Series A convertible preference shares under the Company's 2001 employee stock option plans (the "Stock Option Plans"). At December 31, 2006, 2005, and 2004, the Company had notes receivable from employees related to the early exercise of employee stock options in the aggregate amount of US$nil, US$nil, and US$391,375, respectively. In 2005, the Company collected US$391,375 through the repayment of notes receivable by certain employees and the sale of the notes receivable to a third party bank. The notes are full recourse and are secured by the underlying ordinary shares and preference shares. The notes are due at various dates from year 2006 to 2008 and payable at varying rates from 3.02% to 4.28% per annum.

Capitalized Interest

Interest incurred on funds used to construct plant and equipment during the active construction period is capitalized, net of government subsidies received. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interest of US$4.8 million, US$7.6 million and US$7.5 million, net of government subsidies of US$22.3 million, US$4.0 million and US$nil in 2006, 2005 and 2004, respectively, has been added to the cost of the underlying assets during the year and is amortized over the respective useful life of the assets. In 2006, 2005, and 2004, the Company recorded amortization expenses relating to the capitalized interest of US$4.7 million, US$3.3 million, and US$1.7 million, respectively.

Commitments

As of December 31, 2006, the Company had commitments of US$75.1 million for facilities construction obligations for the facility in Chengdu and the Beijing, Tianjin, and Shanghai fabs, and US$536.4 million to purchase machinery and equipment for the testing facility in Chengdu and the Beijing, Tianjin and Shanghai fabs. As of December 31, 2006, the Company had total commitments of US$29.26 million to invest in a certain joint venture project. The Company expects to complete the cash injection of this project in 2007.

Debt to Equity Ratio

As of December 31, 2006, the Company's debt to equity ratio was 32% calculated based on the sum of the short-term borrowings, current portion of long-term debt and long-term debt divided by total shareholders' equity.

Foreign Exchange Rate Fluctuation Risk

The Company's revenue, expense, and capital expenditures are primarily transacted in U.S. dollars. However, since the Company has operations consisting of manufacturing, sales and purchasing activities outside of the U.S., the Company enters into transactions in other currencies. The Company is primarily exposed to changes in exchange rate for the Euro, Japanese Yen, and RMB.

To minimize these risks, the Company purchases foreign-currency forward exchange contracts with contract terms normally lasting less than six months to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated activities. These forward exchange contracts are principally denominated in Rmb, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with SFAS No. 133.

Cross Currency Swap Fluctuation Risk

On December 15, 2005, the Company entered into a long-term loan facility agreement in the aggregate principal amount of EUR85 million. The company is primarily exposed to changes in exchange rate for the Euro.

To minimize the risk, the company entered into a cross currency swap contract with contract term fully matching the repayment schedule of the long-term loan to protect against the adverse effect that exchange rate fluctuations arising foreign-currency denominated loan. The cross currency swap contract does not qualify for hedge accounting in accordance with SFAS No. 133

Outstanding Foreign Exchange Contracts

As of December 31, 2006, the Company had outstanding foreign currency forward exchange contracts with notional amounts of US$35.7 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2006, the fair value of foreign currency forward exchange contracts was approximately a loss of US$2.7 million, which is recorded in accrued expenses and other current liabilities. We had US$35.7 million of foreign currency exchange contracts outstanding as of December 31, 2006, all of which matured during the 2007.

The Company had US$245.6 million of foreign currency exchange contracts outstanding as December 31, 2005, all of which matured in 2006.

The Company had US$61 million of foreign currency exchange contracts outstanding as of December 31, 2004, all of which matured in 2005.

The Company does not enter into foreign currency exchange contracts for speculative purposes.

	As of December 31, 2006 Expected maturity date (in US$ thousands)	
	2006	**Fair Value**
Forward Exchange Agreement		
(Receive JPY/Pay US$)		
Contract Amount	35,660	(2,694)
(Receive Euro/Pay US$)		
Contract Amount	0	0
(Receive US$/Pay Rmb)		
Contract Amount	0	0
Total Contract Amount	35,660	(2,694)

Outstanding Cross Currency Swap Contracts

As of December 31, 2006, the Company had outstanding cross currency swap contracts with notional amounts of US$15.9 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2006, the fair value of cross currency swap contracts was approximately a gain of US$0.3 million, which is recorded in other income and other current assets. We had US$15.9 million of cross currency swap contracts outstanding as of December 31, 2006, all of which will mature in 2010.

Interest Rate Risk

The Company's exposure to interest rate risks relates primarily to the Company's long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the Company's debt obligations outstanding as of December 31, 2006. The Company's long-term debt obligations are all subject to variable interest rates. The interest rates on the Company's U.S. dollar-denominated loans are linked to the LIBOR rate. The interest rates on the Company's EUR-denominated loan is linked to the EURIBOR rate. As a result, the interest rates on the Company's loans are subject to fluctuations in the underlying interest rates to which they are linked.

	As of December 31,			
	2007	**2008**	**2009**	**2010**
	(Forecast)			
	(in US$ thousands, except percentages)			
Redeemable promissory notes				
Average balance	77,602	49,342	22,032	–
Average interest rate	3.45%	3.45%	3.45%	–
US$ denominated				
Average balance	707,610	421,150	134,690	–
Average interest rate	6.78%	6.62%	6.57%	–
Weighted average forward interest rate	6.78%	6.62%	6.57%	–
EUR denominated				
Average balance	11,961	7,974	3,987	–
Average interest rate	4.33%	4.29%	4.29%	–
Weighted average forward interest rate	4.33%	4.29%	4.29%	–