PUSHING THE LIMITS

INNOVATION > COLLABORATION > TECHNOLOGY

Chartered Semiconductor Manufacturing
Annual Report 2005

To Our Shareholders

2005 was a year of achievement for Chartered, as the company pushed the limits on the strategic thrusts set three years ago, achieving several key milestones. While our fundamentals continued to improve during the year, we ended the year with a net loss of $160 million, mainly due to lower capacity utilization in the first half of the year, as the industry grappled with inventory issues in the semiconductor supply chain and weakness in certain end markets.

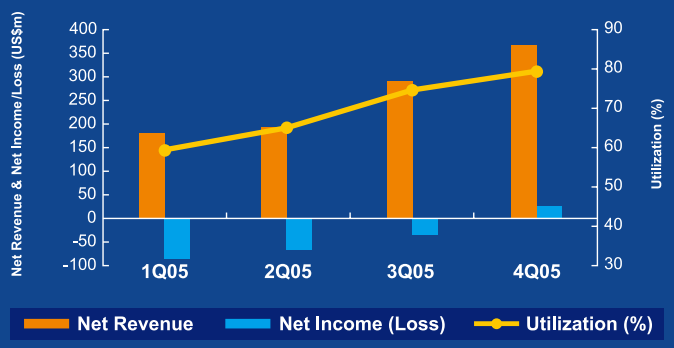
2005 milestones included:

- Starting commercial production in our first 300-millimeter (mm) fabrication facility, Fab 7, at the leading-edge 90-nanometer (nm) technology node and executing the fastest revenue ramp in leading-edge technology in our history; revenues from the 90nm technology node exceeded the $100 million mark in fourth quarter 2005, its second quarter of ramp.
- Growing revenues from 0.13-micron and below technologies by over 100 percent, compared to 2004.
- Achieving our target to bring down breakeven utilization to 75 percent in fourth quarter 2005.
- Returning to profitability in fourth quarter 2005.

We also took several steps during the year to further solidify our technology leadership and enhance market acceptance of the Chartered-IBM leading-edge Common Platform. We made available our comprehensive 65nm design manual and expanded our relationship with IBM by extending the joint development efforts to include 45nm technology.

Financial Highlights

(In millions of US Dollars, unless otherwise stated)	2003	2004	2005
Net Revenue	552	932	1,033
Gross Profit (Loss)	(96)	163	116
Research and Development	124	118	122
Net Income (Loss)	(291)	7	(160)
Diluted Net Income (Loss) per ADS (US Dollars)	(1.16)	0.03	(0.65)
Diluted Net Income (Loss) per share (US Dollars)	(0.12)	0.00	(0.06)
Cash and Cash Equivalents	905	539	820
Total Debt and Capital Lease Obligations	1,213	1,236	1,491
Capacity (thousands of eight-inch equivalent wafers)	1,250	1,289	1,501
Utilization	58%	80%	70%



Moving forward

As we move into what is expected to be a healthy year for the semiconductor industry, we are excited about the opportunities ahead of us. We look to expand our customer engagements at 65nm and 90nm on the Chartered-IBM Common Platform and 0.13-micron technologies, and further leverage the gains from the value-added solutions we offer in mature technologies.

One of management's top priorities remains further reducing the company's breakeven utilization point. We believe getting to a breakeven utilization point of around 65 percent over time is essential to enable us to generate free cash flow and sustain profitability through an industry cycle.

We have made progress, and as we look forward we see even more opportunities to build momentum. We will continue to push our own limits and that of the industry in our quest to deliver superior value to our customers and shareholders. Thank you for your continued support.

Chia Song Hwee
President & CEO

Annual Report to Shareholders

for the Year 2005*

Management Discussion and Analysis
and
Financial Statements for the Years Ended
December 31, 2003, 2004 and 2005

Chartered
semiconductor manufacturing

*Abridged from year 2005 Form 20-F
Complete Form 20-F is available at Chartered's web site, www.charteredsemi.com

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MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this document particularly in the cautionary risk factors described in “Item 3. Key Information — D. Risk Factors” in our Annual Report on Form 20-F filed with the SEC.

INDUSTRY OVERVIEW

The semiconductor industry is highly cyclical. For example, according to the Semiconductor Industry Association, or the SIA, in terms of revenue, the worldwide semiconductor industry contracted by approximately 32% from 2000 to 2001, then grew by approximately 18% from 2002 to 2003, and by approximately 28% and 7% sequentially in 2004 and 2005, respectively. Fabs can take several years to plan, construct and begin operations. Therefore, during periods of favorable market conditions, semiconductor manufacturers, which include dedicated foundry service providers, often begin building new fabs in response to anticipated demand growth for semiconductors. As these new fabs commence operations, a significant amount of manufacturing capacity is made available to the semiconductor market resulting from the steep initial ramp up of these fabs. In the absence of growth in demand, or if growth occurs more slowly than anticipated, this sudden increase in supply results in semiconductor manufacturing over capacity, which can lead to sharp drops in utilization of semiconductor fabs and put pressure on wafer selling prices.

Semiconductor manufacturing is very capital intensive in nature. For example, even in the midst of challenging economic conditions in 2002, we invested $419.5 million in capital expenditures, primarily in equipping Fab 6 and for the purchase of equipment for research and development use, as part of our continuing strategy of positioning ourselves to serve market needs. We invested $220.8 million in capital expenditures in 2003, focused primarily on leading-edge technologies. In 2004 and 2005, we invested $686.3 million and $628.1 million, respectively, in capital expenditures, primarily in equipping Fab 7 as part of its phase 1 ramp with the balance mainly for capacity additions in Fab 6. A high percentage of the cost of operating a fab is fixed and therefore increases or decreases in capacity utilization rates can have a significant effect on profitability. The unit cost of a wafer generally decreases as fixed overhead charges, such as depreciation expense on the facility and semiconductor manufacturing equipment, are allocated over a larger number of wafers produced.

The value of a wafer is determined by the complexity of the device on the wafer. Production of devices with higher-level functionality and greater system-level integration requires more manufacturing steps and commands higher wafer prices. However, increasing the complexity of devices that we manufacture does not necessarily lead to increased profitability, because the higher wafer prices for such devices may be offset by depreciation and other costs associated with an increase in the capital expenditures needed to manufacture such devices. As the price of wafers vary significantly with technology and device complexity, the mix of wafers produced affects revenue and profitability. In general, the prices for wafers of a given level of technology and device complexity will decline over the product life cycle and foundries must continue to migrate to increasingly sophisticated technologies or introduce value added solutions to maintain the same level of profitability. This requires continuous capital investment and depends on other factors, as discussed in the risk factors "Risks Related to Our Financial Condition — Failure to maintain high capacity utilization, optimize the technology mix of our semiconductor wafer production and continuously improve our device yields would seriously harm our prospects and financial condition," and "Risks Related to Our Operations — We may not be able to compete successfully in our industry" and elsewhere in our Annual Report on Form 20-F filed with the SEC.

Following a period of high utilization rates during the industry upturn in 1999 and 2000, the industry contraction in 2001 was the most severe in its history. Largely as a result of this, our average utilization rate in 2001 and 2002 was 35% and 37%, respectively, resulting in significant net losses in those periods. As the semiconductor industry recovered, our average capacity utilization improved to 58% in 2003. Driven primarily by sequential growth in shipments during the first half of 2004, despite experiencing market weakness from the second half of June 2004, our average capacity utilization improved further to 80% in 2004. Correspondingly, our gross profits and net income showed progressive improvement as better economies of scale and operating leverage took effect on the back of rising demand and our net loss in 2003 decreased significantly from the previous year, and we reported net income in 2004.

The market weakness, which we experienced from the second half of June 2004 due to excess inventories in the semiconductor companies and the softening in certain end markets, continued into the first half of 2005 as the industry continued to work through the excess inventories. Our average capacity utilization was 59% in the first quarter of 2005 and improved to 65% in the second quarter of 2005, due mainly to improving market conditions. As market conditions continued to be favorable and due mainly to the ramp up of 90nm shipments from our new Fab 7 from the third quarter of 2005, we recorded sequential growth in shipments in the last two quarters of 2005 and our average utilization rate was 74% and 79%, respectively, with an overall average capacity utilization of 70% for the year 2005.

Our average capacity utilization, based on eight-inch equivalent wafers, from 2001 to 2005 is as follows:

	2001	**2002**	**2003**	**2004**[(1)]	**2005**[(2)]
Average capacity utilization	35%	37%	58%	80%	70%

Notes:

(1) Fab 1 ceased operations at the end of March 2004, with some of its operations moved to Fab 2.

(2) Fab 7 started commercial shipment in June 2005.

2005 OVERVIEW

General Overview

The market weakness that we experienced from the second half of June 2004 continued into the first half of 2005 as the industry continued to work through the excess inventories. Net revenue in the first quarter of 2005 was $181.4 million and increased sequentially by 7% to $194.0 million in the second quarter of 2005 as we began to see a recovery in demand in that same quarter. In the second quarter of 2005, we saw strength in the communications and computer sectors, partially offset by weakness in the consumer sector.

We posted significant revenue growth in the third quarter of 2005 mainly due to the ramp up of 90nm shipments from our first 300mm fab, Fab 7, which commenced commercial production in the second quarter of 2005. Our net revenue in the third quarter of 2005 increased by 50% sequentially to $290.1 million, due primarily to significant growth in the consumer sector followed by the communications sector.

In the fourth quarter of 2005, our net revenue further increased by 27% sequentially to $367.2 million as we capitalized on the growth in our leading-edge technologies and also benefited from favorable market conditions. The revenue growth came mainly from the consumer sector, and to a lesser extent, the computer sector. Within the consumer sector, our 90nm shipments, driven by the initial volume build for a new product launch before year-end, provided the impetus for growth. We achieved our target to bring down our breakeven utilization to 75% in the fourth quarter of 2005 and returned to profitability in that same quarter.

Leading-edge technologies (0.13um and smaller process geometry technologies)

We continued to see increased adoption of our leading-edge technologies as revenue from our 0.13um and smaller process geometry technologies increased by 145% between 2004 and 2005. Revenue from our 0.13um and smaller process geometry technologies, including 90nm, represented 42% of our total net revenue and revenue from 90nm technologies alone contributed 19% of our total net revenue for 2005. In the third quarter of 2005, revenue from our 0.13um and smaller process geometry technologies crossed the $100 million mark in a quarter, contributing over 40% of our total net revenue. Revenue from our 90nm technologies alone exceeded $100 million in the fourth quarter of 2005, contributing 31% of our total net revenue in just the second full quarter of ramp.

During 2005, we increased our capacity of 0.13um and smaller process geometry technologies by approximately 118% while we increased our total capacity by approximately 16% to 1.5 million eight-inch equivalent wafers from 1.3 million eight-inch equivalent wafers in 2004, due primarily to the ramp up of Fab 7.

In 2005, we announced the following in relation to our efforts in leading-edge technology:

- Extension of our joint development efforts with IBM to include 45nm bulk CMOS process technology. The Chartered-IBM joint development now spans three separate generations of technologies from 90nm, 65nm to 45nm; and

- Availability of a comprehensive 65nm design manual and Simulation Program with Integrated Circuit Emphasis, or SPICE, models and production of 65nm multi-project wafers in the fourth quarter of 2005.

Customers

In November 2005, we announced a sourcing agreement with Infineon for the manufacture of 65nm logic products. Under the agreement, we will manufacture low-power mobile-phone products, with initial prototypes expected in the first quarter of 2006 and production scheduled to begin in the fourth quarter of 2006. This announcement builds on the joint 65nm technology development efforts between IBM, Chartered, Infineon and Samsung.

Additionally, we announced in September 2005 that we will manufacture for ATI Technologies, Inc., or ATI, on our 0.13um low-power, all copper process, providing ATI with additional manufacturing capacity for its IMAGEON 2240 media processor for high-volume camera phones.

Electronic Design Automation/Intellectual Property

We further expanded the common design enablement platform during 2005 and also announced a common design-for-manufacturability, or DFM, initiative to develop a standard platform that brings greater process control, higher model accuracy and increased manufacturing awareness. Together with IBM and Samsung, we extended the Design Enablement Program, launched in March 2004 for 90nm bulk complementary metal oxide silicon, or CMOS processes, to include 65nm bulk CMOS processes. The Design Enablement Program sets a platform for foundry compatibility, design portability and flexible sourcing between our company and IBM at 90nm bulk CMOS processes and for our company, IBM and Samsung at 65nm bulk CMOS processes. The Design Enablement Program facilitates designers in the development of compatible design layout files that can be used interchangeably across manufacturing facilities at our company, IBM and Samsung and includes participation by leading electronic design automation, or EDA, and DFM tool suppliers.

Financing

During the third quarter of 2005, we raised a total of $925 million from a public offering of senior notes and a private placement of units. The senior notes consisted of $375 million of 5.75% senior notes due 2010 and $250 million of 6.375% senior notes due 2015. The units comprised convertible redeemable preference shares, or Preference Shares, of par value $0.01 each and amortizing bonds due 2010, or Amortizing Bonds, totaling $300 million. Chartered also successfully completed a cash tender offer, repurchasing approximately 83.1%, or $478 million, of our outstanding $575 million 2.5% senior convertible notes due April 2006.

2006 PLANS

Planned Capacity

We expect to achieve total wafer capacity of approximately 1.8 million wafers (eight-inch equivalent) for the full year of 2006, compared to approximately 1.5 million wafers (eight-inch equivalent) for the full year of 2005. As part of our plan to expand our capability for leading-edge technologies, we intend to expand our production capacity for 0.13um and smaller process geometry technologies from approximately 25% of our total yearly wafer capacity in 2005 to approximately 35% of our planned yearly wafer capacity in 2006.

Planned Capital Expenditures

Our aggregate capital expenditures for 2006 is expected to be approximately $650 million, of which approximately $550 million is expected to be utilized for capital expenditure in our 0.13um and smaller process geometry technologies. The remaining amounts are expected to be utilized primarily for purchases of information systems, and for adding equipment in our fabs running more mature technologies to maximize utilization corresponding to the anticipated product mix. We expect depreciation and amortization to be approximately $520 million in 2006.

Planned Research and Development Expenditures

We expect to incur approximately $150 million for research and development, or R&D, in 2006, as we expect an increase in development activities related to the 65nm technology node and also in our share of expenses related to the Chartered-IBM joint-development for the 45nm technology node. Our investment in R&D allows us to continue developing new and advanced processes down to the 45nm technology node.

RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of net revenue for the periods indicated:

	Years ended December 31,		
	2003	**2004**	**2005**
Net revenue	100.0 %	100.0 %	100.0 %
Cost of revenue	117.5	82.5	88.8
Gross profit (loss)	(17.5)	17.5	11.2
Operating expenses:			
Research and development	22.5	12.7	11.8
Fab start-up costs	1.7	3.6	2.2
Sales and marketing	7.0	4.0	4.1
General and administrative	7.4	3.6	3.7
Other operating expenses (income), net	(2.0)	(0.9)	0.4
Total operating expenses	36.6	23.0	22.2
Operating loss	(54.1)	(5.5)	(11.0)
Other income (expense):			
Equity in income (loss) of SMP	4.2	3.0	0.6
Other income	4.3	5.6	0.2
Interest expense and amortization of debt discount, net	(5.5)	(2.0)	(4.0)
Exchange gain (loss), net	(0.1)	0.1	(0.0)
Income (loss) before income taxes and minority interest	(51.2)	1.2	(14.2)
Income tax expense	(2.1)	(0.5)	(1.3)
Income (loss) before minority interest	(53.3)	0.7	(15.5)
Minority interest in loss of CSP	1.7	—	—
Net income (loss) prior to cumulative effect adjustment	(51.6)	0.7	(15.5)
Cumulative effect adjustment for change in accounting principle	(1.2)	—	—
Net income (loss)	(52.8)%	0.7 %	(15.5)%
Less: Accretion to redemption value of convertible redeemable preference shares	—	—	(0.3)%
Net income (loss) available to common shareholders	(52.8)%	0.7 %	(15.8)%

The following table sets forth a breakdown of revenue by market sector for the periods indicated:

	Years ended December 31,		
	2003	**2004**	**2005**
Communications	46 %	51 %	35 %
Computer	33	30	25
Consumer	17	15	35
Other *	4	4	5
Total	100 %	100 %	100 %

The following table sets forth a breakdown of revenue by geographical region for the periods indicated:

	Years ended December 31,		
	2003	**2004**	**2005**
Americas	64 %	68 %	75 %
Europe	13	9	9
Asia-Pacific	18	20	13
Japan	5	3	3
Total	100 %	100 %	100 %

The following table sets forth a breakdown of revenue by technology (um) for the periods indicated:

	Years ended December 31,		
	2003	**2004**	**2005**
0.09 and below	— %	— %	19 %
Up to 0.13	9	19	23
Up to 0.18	15	16	10
Up to 0.25	21	19	10
Up to 0.35	30	29	23
Above 0.35	25	17	12
Other *	—	—	3
Total	100 %	100 %	100 %

Note:

***** Includes revenue from generation of customers' mask sets

Years ended December 31, 2004 and December 31, 2005

Net revenue

We derive revenue primarily from fabricating semiconductor wafers and, to a lesser extent, under some arrangements with our customers, from providing associated subcontracted assembly and test services as well as pre-fabrication services such as masks generation and engineering services. Net revenue increased 10.8% from $932.1 million in 2004 to $1,032.7 million in 2005. The semiconductor industry recovery, which began to accelerate in the second half of 2003, continued into the first half of 2004. However, we experienced market weakness from the second half of June 2004 due to excess inventories in the semiconductor companies and softening in certain end markets. This weakness continued into the first half of 2005 as the industry continued to work through the excess inventories. We began to see a recovery in demand in the second quarter of 2005 as revenue increased sequentially by 7.0% from the first quarter of 2005 to the second quarter of 2005. Our revenue continued to increase sequentially by 49.5% and 26.6% in the third and fourth quarters of 2005, respectively. The increase in revenue in the third quarter of 2005 was due mainly to the ramp up of 90nm shipments from our new Fab 7. Our net revenue increased in the fourth quarter of 2005 as we capitalized on the growth in our leading-edge technologies and also benefited from favorable market conditions.

Our customers continued to make increased use of our leading-edge technologies, and revenue from our 0.13um and smaller process geometry technologies increased by 145% between 2004 and 2005. Revenue from these leading-edge technologies represented 19% of our total revenue in 2004 as compared to 42% of our total revenue in 2005. Out of our total revenue in 2005, 19% was attributable to revenue from our 90nm technologies, driven by 90nm shipments in the second half of 2005.

Shipments increased 4.8% from 921,014 wafers (eight-inch equivalent) in 2004 to 965,045 wafers (eight-inch equivalent) in 2005. ASP increased slightly from $1,012 per wafer (eight-inch equivalent) to $1,036 per wafer (eight-inch equivalent) over the same period.

In 2004, the communications sector, which represented 51% of our total revenue, was our highest revenue contributor, followed by the computer sector at 30% of our total revenue. In 2005, each of the communications and the consumer sectors represented 35% of our total revenue, while the computer sector represented 25% of our total revenue.

Due primarily to a significant decrease in demand for mobile phone handsets devices, and to a lesser extent, a decrease in demand for cable modems partially offset by an increase in demand for digital subscriber line devices, communications sector revenue decreased by 24% between 2004 and 2005. Concurrently, computer sector revenue also decreased, but to a lesser extent, by 8% between 2004 and 2005, due primarily to a decrease in demand for optical storage devices, partially offset by an increase in demand for personal computer peripherals, workstations and personal computer motherboard devices.

On the other hand, revenue from the consumer sector, which represented 15% of our total revenue in 2004, increased by 159% to account for 35% of our total revenue in 2005. This increase was due primarily to a significant increase in demand for video game devices, and to a lesser extent, an increase in demand for MP3/CD/MD audio player/recorders devices and set-top box devices, partially offset by a decrease in demand for DVD player/recorders devices.

As a result of customer mix changes, net revenue by geographical region increased by 22%, 11%, 11% in the Americas, Japan and Europe regions, respectively, in 2005 as compared to 2004. The Asia Pacific region recorded a decline of 28% over the same period. The Americas continued to be our largest contributor to revenue, representing 75% of our total revenue in 2005, an increase from 68% of our total revenue in 2004.

Cost of revenue and gross profit

Cost of revenue includes depreciation expense, attributed overheads, cost of labor and materials, subcontracted expenses for assembly and test services, masks generation costs, as well as amortization of certain technology licenses. Cost of revenue increased by 19.2% from $769.3 million in 2004 to $917.0 million in 2005 as compared to a 4.8% increase in shipments due primarily to increased depreciation and other manufacturing costs associated with the addition of new capacity in 2005. A large proportion of our cost of revenue is fixed in nature and depreciation continued to be a significant portion of our cost of revenue, comprising 50.8% and 47.6% of the cost of revenue in 2004 and 2005, respectively.

The unit cost of a wafer generally decreases as fixed overhead charges, such as depreciation expense on the facility and semiconductor manufacturing equipment, are allocated over a larger number of wafers produced. Conversely, the unit cost of a wafer generally increases when a smaller number of wafers are produced. However, when cost of revenue increases at a faster rate compared to the increase in number of wafers produced, the unit cost of a wafer generally increases. Although shipments increased by 4.8% between 2004 and 2005, cost per wafer shipped increased by 10.3% from $835 (eight-inch equivalent) in 2004 to $921 (eight-inch equivalent) in 2005. This was due primarily to our cost of revenue increasing at a higher rate than the increase in shipments, arising from increased depreciation and other manufacturing costs associated with the addition of new capacity in 2005.

As described in the risk factor “Risks Related to Investment in a Corporation with International Operations — Exchange rate fluctuations may increase our costs and capital expenditures, which could affect our operating results and financial position” in our Annual Report on Form 20-F filed with the SEC, exchange rate fluctuations may increase our costs. However in 2004 and 2005, there is no significant impact on our cost of revenue arising from fluctuations in exchange rates.

Our gross profit deteriorated from 17.5% of net revenue in 2004 to 11.2% of net revenue in 2005, due primarily to a lower utilization rate and increased depreciation and other manufacturing costs associated with the addition of new capacity in 2005.

Research and development expenses

R&D expenses consist primarily of our share of expenses related to the Chartered-IBM joint-development (on 90nm and 65nm technology node processes), salaries and benefits for R&D personnel and depreciation of R&D equipment. R&D expenses increased by 3.2% from $118.3 million in 2004 to $122.1 million in 2005 due primarily to increased design services activities and higher development activities related to our 65nm technology node, partially offset by lower R&D expenditures related to 0.13um technologies as we completed our 0.13um technology development program.

Fab start-up costs

Fab start-up costs, all related to Fab 7, decreased by 31.6% from $33.2 million in 2004 to $22.7 million in 2005. From the first quarter of 2004, the ramp up activity level had increased in support of our efforts to begin commercial shipments. Fab start-up costs decreased in the second quarter of 2005 as Fab 7 entered commercial production during that quarter. No fab start-up costs were recorded in the second half of 2005.

Sales and marketing expenses

Sales and marketing expenses consist primarily of payroll related costs for sales and marketing personnel, EDA-related expenses and costs related to customer prototyping activities. EDA-related expenses and costs related to customer prototyping activities represent some of our sales and marketing efforts to attract new customers and expand our penetration on existing customers. Sales and marketing expenses increased by 11.7% from $37.8 million in 2004 to $42.2 million in 2005. The increase was due primarily to higher expenses resulting from expanded offering of EDA tools provided to assist customers in their design activities and higher financial support for customer prototyping activities.

General and administrative expenses

General and administrative, or G&A, expenses consist primarily of salaries and benefits for administrative personnel, consultancy, legal and professional fees and depreciation of non-production equipment. G&A expenses increased by 14.5% from $33.9 million in 2004 to $38.8 million in 2005. This was due primarily to higher payroll-related expenses in 2005 and several transactions in 2004 including a gain of $3.0 million associated with the resolution of contingencies related to a technology license agreement and a gain of $1.1 million associated with the resolution of a supplier advance that was considered doubtful of recovery.

Other operating expenses (income), net

Other operating income, net, of $9.0 million in 2004 related primarily to a gain of $10.4 million resulting from an equipment disposition with CSMC and resolution of a goods and services tax matter of $4.9 million, partially offset by Fab 1 restructuring charges of $4.6 million and an impairment charge of $1.7 million resulting from the migration to an enhanced manufacturing system. Other operating expenses, net, of $3.9 million in 2005 related to a fixed asset impairment charge on assets held for sale resulting from decisions to rationalize capacity and therefore to sell certain assets. Further details are disclosed in Note 22 of the consolidated financial statements.

Equity in income of SMP

Equity in income of SMP was $27.6 million in 2004 compared to $6.5 million in 2005, due primarily to significantly lower revenue in 2005 arising from demand weakness in certain end markets. As with the results of our majority-owned fabs, the equity in income of SMP can have a material effect on our results of operations. In 2004, the equity in income of SMP was $27.6 million compared to our net income of $6.6 million. The equity in income of SMP was $6.5 million in 2005 compared to our net loss of $159.7 million.

We have provided, for the two fiscal years ended December 31, 2005, the following information on our total business base revenue, which includes our share of SMP revenue. Chartered's share of SMP revenue and net revenue, including Chartered's share of SMP presented in the following table, are non-U.S. GAAP financial measures. We have included this information because SMP can have a material effect on our consolidated statements of operations and we believe that it is useful to provide information on our share of SMP revenue in proportion to our total business base revenue. However, SMP is a minority-owned joint venture company that is not consolidated under U.S. GAAP. We account for our 49.0% investment in SMP using the equity-method. Under the strategic alliance agreement with Agere Systems Singapore, the parties do not share SMP's net results in the same ratio as the equity holding. Instead, each party is entitled to the gross profits from sales to the customers that it directs to SMP, after deducting its share of the overhead costs of SMP. Accordingly, we account for our share of SMP's net results based on the gross profits from sales to the customers that we direct to SMP, after deducting our share of the overhead costs. The following table provides a reconciliation showing comparable data based on net revenue determined in accordance with U.S. GAAP, which do not include our share of SMP:

	2004	2005
	(in millions)	
Net revenue (U.S. GAAP)	$ 932.1	$ 1,032.7
Chartered's share of SMP revenue	$ 170.8	$ 99.2
Net revenue including Chartered's share of SMP	$ 1,102.9	$ 1,131.9

Additionally, the following table provides information that indicates the effect of SMP's operations on some of our non-U.S. GAAP performance indicators:

	2004		2005	
	Excluding Chartered's share of SMP	Including Chartered's share of SMP	Excluding Chartered's share of SMP	Including Chartered's share of SMP
Shipments (in thousands)*	921.0	1,035.5	965.0	1,051.8
ASP per wafer	$ 1,012	$ 1,065	$ 1,036	$ 1,045

Note:

* Eight-inch equivalent wafers

Other income, net

Other income, net, in 2004 included the recognition of a gain of $14.3 million from the sale of technology to CSMC, grant income of $29.5 million, of which $16.1 million arose from the closure of a pending grant claim associated with a previously terminated joint technology development agreement, and a gain of $2.8 million related to an intellectual property licensing agreement. Other income, net, in 2005 included an expense of $7.0 million related to the termination of hedging transactions and other costs as a result of the Tender Offer for and repurchase of our Convertible Notes. Due primarily to the above, other income, net, decreased by 95.3% from $52.3 million in 2004 to $2.4 million in 2005.

Interest expense and amortization of debt discount, net

Interest expense and amortization of debt discount, net, increased by 122.0% from $18.6 million in 2004 to $41.2 million in 2005, due primarily to higher interest expense resulting from higher interest rates and higher outstanding debt balances, partially offset by higher interest income, and to a lesser extent, higher interest capitalization associated with capital expenditures related to Fab 7 and Fab 6. See the "Liquidity and Capital Resources — Current and expected liquidity" section below for details of the borrowings we had obtained during the periods indicated.

Income tax expense

We currently pay tax on (1) interest income, (2) rental income, (3) sales of wafers using technologies that do not benefit from preferential tax treatment and (4) other income not specifically exempted from income tax. In 2004, we recorded income tax expense of $4.8 million on an income before income taxes of $11.3 million, including a reversal of $9.8 million of accrued taxes resulting from the resolution of certain matters related to the closure of Fab 1. In 2005, we recorded income tax expense of $13.0 million on a loss before income taxes of $146.6 million. The increase in the effective tax expense in 2005 was due primarily to higher taxable net interest income.

Minority interest in CSP

Due to cumulative losses, our obligations to the minority shareholders of CSP were reduced to zero in the first quarter of 2003. Therefore none of CSP's losses from that point forward have been allocated to the minority interest in our consolidated statements of operations. The effect of this on our results of operations for 2004 and 2005 was losses not allocated to the minority interest according to their proportionate ownership of $55.8 million and $64.9 million, respectively, and this reduced net income (loss) in the same amounts indicated for the respective periods.

Accretion to redemption value of convertible redeemable preference shares

We are required to accrete the carrying amounts of the preference shares to their redemption values at maturity and record such accretion over the remaining period until the maturity date on August 17, 2010 using the effective interest method. Such accretion adjusts net income (loss) available to common shareholders. Accretion charges for 2005 were $3.2 million. There were no accretion charges for 2004. Refer to Note 15 of the consolidated financial statements for more details on the preference shares.

Years ended December 31, 2003 and December 31, 2004

Net revenue

Net revenue was $932.1 million in 2004, up 68.9% compared to $551.9 million in 2003. The semiconductor industry recovery began to accelerate in the second half of 2003 and continued into the first half of 2004. However, we experienced market weakness from the second half of June 2004 due to excess inventories in the semiconductor companies and the softening in certain end markets and we experienced a sequential revenue decline of 25.9% in the fourth quarter of 2004. The demand weakness was concentrated in our 0.18um and 0.25um capacity and attributed to five of our larger customers, even though our engagements with these customers are in diverse end markets. Despite a weaker fourth quarter in 2004, we registered year-over-year revenue growth of 68.9% in 2004. This growth was primarily the result of higher demand. Shipments in 2004 were 921,014 wafers (eight-inch equivalent), an increase of 52.0% compared to 606,039 wafers (eight-inch equivalent) in 2003, due to higher demand. ASP increased by 11.1% to $1,012 per wafer (eight-inch equivalent) from $911 per wafer (eight-inch equivalent) ,over the same period, due primarily to richer product and customer mix.

In 2003, the communications sector, which represented 46% of our total revenue, was our highest revenue contributor, followed by the computer sector at 33% of our total revenue. Due primarily to a significant increase in demand from mobile phone handset and LAN switches/routers customers, communications sector revenue increased by 88% between 2003 and 2004. Concurrently, computer sector revenue increased by 50% over the same period mainly due to significant increases in revenue of the optical storage and personal computer peripherals markets, arising primarily from a significant increase in shipments to these markets. As a result, communications and computer sector revenue represented 51% and 30%, respectively, of our total revenue in 2004.

Net revenue by geographical region increased by 79%, 77%, 34% and 18% in the Americas, Asia Pacific, Japan and Europe regions, respectively, in 2004 as compared to 2003. This was driven primarily by increased shipments to all geographical regions in 2004. The Americas continued to be our largest contributor to revenue, representing 68% of our total revenue in 2004, an increase from 64% of our total revenue in 2003.

Fab 1 ceased operations at the end of March 2004, having successfully transitioned a significant portion of ongoing business to Fab 2. Our first quarter of 2004 revenue benefited approximately $10 million from end-of-life and safety stock purchases by Fab 1 customers.

Cost of revenue and gross profit (loss)

Cost of revenue increased by 18.7% from $648.3 million in 2003 to $769.3 million in 2004 despite a 52.0% increase in volumes. Depreciation continued to be a significant portion of our cost of revenue, comprising 58.6% and 50.8% of our cost of revenue in 2003 and 2004, respectively.

The unit cost of a wafer generally decreases as fixed overhead charges, such as depreciation expense on the facility and semiconductor manufacturing equipment, are allocated over a larger number of units produced. Cost per wafer shipped decreased by 22.0% from $1,070 in 2003 to $835 in 2004 due to higher volumes and to a lesser extent, cost savings and avoidance from our cost reduction programs. As described in the risk factor, “Risks Related to Investment in a Corporation with International Operations — Exchange rate fluctuations may increase our costs and capital expenditures, which could affect our operating results and financial position” in our Annual Report on Form 20-F filed with the SEC, exchange rate fluctuations may increase our costs. However in 2003 and 2004, there is no significant impact on our cost of revenue arising from fluctuations in exchange rates. In 2003, as a percentage of net revenue, we recorded a gross loss of 17.5% of net revenue. Due primarily to significantly higher revenue, we recorded a gross profit of 17.5% of net revenue in 2004.

Research and development expenses

R&D expenses decreased by 4.7%, from $124.1 million in 2003 to $118.3 million in 2004, due primarily to lower R&D expenditures related to 0.13um process.

Fab start-up costs

Fab start-up costs, all related to Fab 7, increased by 260.1% from $9.2 million in 2003 to $33.2 million in 2004, as the activity level increased in support of our plan to begin commercial production by mid-2005. We began equipment move-in at Fab 7, our first 300-mm fab, at the end of March 2004. Fab 7 achieved functional 0.13um 300-mm wafers within five months of equipment move-in, and launched engineering 300-mm wafers for both our 0.11um process and the Chartered-IBM 90nm platform in 2004.

Sales and marketing expenses

Sales and marketing expenses decreased by 2.6% from $38.7 million in 2003 to $37.8 million in 2004. The decrease was due primarily to lower financial support for customer prototyping activities.

General and administrative expenses

G&A expenses decreased by 17.0% from $40.8 million in 2003 to $33.9 million in 2004. This is due primarily to a gain of $3.0 million associated with the resolution of contingencies related to a technology license agreement and a gain of $1.1 million associated with the resolution of a supplier advance that was previously considered doubtful of recovery and a decrease in payroll related expenses.

Other operating expenses (income), net

Other operating income, net, of $9.0 million in 2004 related primarily to a gain of $10.4 million resulting from an equipment disposition with CSMC and resolution of a goods and services tax matter of $4.9 million, partially offset by Fab 1 restructuring charges of $4.6 million and an impairment charge of $1.7 million resulting from the migration to an enhanced manufacturing system.

Fab 1 ceased operations at the end of March 2004, as planned. A summary of estimated and actual restructuring and related costs incurred arising from the shutdown of Fab 1 is disclosed in Note 22 of the consolidated financial statements.

Other operating income, net, of $11.0 million in 2003 related to the following items:

- A gain of $27.5 million associated with the cancellation of our employee bonus award plan.
- A gain of $4.9 million resulting from equipment disposition.

Partially offset by:

- A restructuring charge of $12.4 million relating to the phase out of Fab 1.
- An impairment charge of $9.0 million on certain machinery and equipment that were classified as held for sale on December 31, 2003, as part of our fab capacity rationalization.

Further details are disclosed in Note 22 of the consolidated financial statements.

Equity in income (loss) of SMP

Equity in income of SMP was $23.2 million in 2003 compared to an income of $27.6 million in 2004, due primarily to lower depreciation charge and no interest cost in the second half of 2004 as a result of early repayment of bank loans by SMP. As with the results of our majority-owned fabs, the equity in income or loss of SMP can have a material effect on our consolidated statements of operations. In 2003, the equity in income of SMP was $23.2 million compared to our net loss of $291.2 million. The equity in income of SMP was $27.6 million in 2004 compared to our net income of $6.6 million.

We have provided, for the two fiscal years ended December 31, 2004, the following information on our total business base revenue, which includes our share of SMP revenue. Chartered's share of SMP revenue and net revenue, including Chartered's share of SMP presented in the following table, are non-U.S. GAAP financial measures. We have included this information because SMP can have a material effect on our consolidated statements of operations and we believe that it is useful to provide information on our share of SMP revenue in proportion to our total business base revenue. However, SMP is a minority-owned joint venture company that is not consolidated under U.S. GAAP. We account for our 49.0% investment in SMP using the equity method. Under the strategic alliance agreement with Agere, the parties do not share SMP's net results in the same ratio as the equity holding. Instead, each party is entitled to the gross profits from sales to the customers that it directs to SMP, after deducting its share of the overhead costs of SMP. Accordingly, we account for our share of SMP's net results based on the gross profits from sales to the customers that we direct to SMP, after deducting our share of the overhead costs.

The following table provides a reconciliation showing comparable data based on net revenue determined in accordance with U.S. GAAP, which do not include our share of SMP:

	2003	2004
	(in millions)	
Net revenue (U.S. GAAP)	$ 551.9	$ 932.1
Chartered's share of SMP revenue	$ 175.8	$ 170.8
Net revenue including Chartered's share of SMP	$ 727.7	$ 1,102.9

Additionally, the following table provides information that indicates the effect of SMP's operations on some of our non-U.S. GAAP performance indicators:

	2003		2004	
	Excluding Chartered's share of SMP	Including Chartered's share of SMP	Excluding Chartered's share of SMP	Including Chartered's share of SMP
Shipments (in thousands)*	606.0	722.2	921.0	1,035.5
ASP per wafer	$ 911	$ 1,008	$ 1,012	$ 1,065

Note:

* Eight-inch equivalent wafers

Other income, net

Other income, net, increased by 125.6% from $23.2 million in 2003 to $52.3 million in 2004, due primarily to the recognition of a gain of $14.3 million from the sale of technology to CSMC as well as from higher grant income, in particular from the recognition of income of $16.1 million arising from the closure of a pending grant claim associated with a previously terminated joint technology development agreement.

Interest expense and amortization of debt discount, net

Interest expense and amortization of debt discount, net, decreased by 38.2% from $30.1 million in 2003 to $18.6 million in 2004, due primarily to higher interest capitalization associated with the capital expenditures related to Fab 7 and Fab 6.

Income tax expense

In 2003 and 2004, we paid tax on interest income, rental income and other income not specifically exempted from income tax. Each of our existing fabs has been exempted from income tax on profits from the sale of manufactured goods for ten years following the date specified production milestones are achieved. Income taxes decreased from $11.7 million in 2003 to $4.8 million in 2004. The decrease was due primarily to reversal of $9.8 million of accrued taxes resulting from the resolution of certain matters related to the closure of Fab 1, partially offset by a $3.6 million tax on income on the sale of technology to CSMC.

Minority interest in CSP

None of the losses in CSP were allocated to the minority interest in 2004, compared to $9.5 million in 2003. Due to cumulative losses, our obligations to the minority shareholders of CSP were reduced to zero in the first quarter of 2003. Therefore, none of CSP's losses from that point forward have been allocated to the minority interest in our consolidated statements of operations. The result of this on our consolidated statements of operations was losses not allocated to the minority interest according to their proportionate ownership of $74.3 million and $55.8 million for 2003 and 2004, respectively, and this reduced net (loss) income in the same amounts indicated for the respective periods.

LIQUIDITY AND CAPITAL RESOURCES

Current and expected liquidity

As of December 31, 2005, our principal sources of liquidity included $819.9 million in cash and cash equivalents, and $591.8 million of unutilized banking facilities consisting of term loans, short-term advances and bankers' guarantees.

In August 2005, mainly to repurchase our Convertible Notes, we raised an aggregate of $925.0 million from a public offering of $625.0 million of senior notes and a private placement of $300.0 million of units. We used the remaining proceeds from the offerings in excess of the amount used to repurchase our Convertible Notes for working capital purposes. The units comprise preference shares of par value $0.01 each and Amortizing Bonds, with an aggregate issue price of $300.0 million. See "Outstanding indebtedness" below for further details on the senior notes and the Amortizing Bonds.

In August 2005, we also commenced the Tender Offer for our Convertible Notes. As of the expiration of the Tender Offer in September 2005, $477.8 million original principal amount of our Convertible Notes, representing approximately 83.1% of our Convertible Notes, were validly tendered for purchase and not withdrawn and we accepted these Convertible Notes, or Accepted Notes, for purchase. The purchase price for the Accepted Notes was $1,140 for each $1,000 of original principal amount of Convertible Notes plus the pro rata portion of the 2.5% per year semi-annual interest payment accrued and unpaid up to, but excluding the settlement date of the Tender Offer. The aggregate purchase price for the Accepted Notes was $549.7 million. Following the completion of the Tender Offer, $97.2 million original principal amount of our Convertible Notes remained outstanding as of December 31, 2005. The interest rate swap contracts, which were previously entered into in respect of the fixed-rate obligations associated with the Convertible Notes, were terminated in September 2005, and we recorded an expense of $7.0 million related to the termination of these hedging transactions and other costs as a result of the Tender Offer for and repurchase of our Convertible Notes.

Working capital, which is calculated as the excess of current assets over current liabilities, was $162.7 million as of December 31, 2004. Our working capital increased to $550.3 million as of December 31, 2005. This resulted primarily from our cash and cash equivalents balance increasing from $539.4 million as of December 31, 2004 to $819.9 million as of December 31, 2005, due mainly to the remaining proceeds from the senior notes and units offerings in excess of the amount used to repurchase our Convertible Notes in 2005.

Our target cash and cash equivalents balance as of December 31, 2006 is approximately $700 million. This is based on our cash and cash equivalents of $820 million as of December 31, 2005, planned draw downs of approximately $300 million of our existing credit facilities, estimated net receipts of capacity deposits of approximately $140 million, expected cash outflows for capital expenditures of approximately $650 million and debt repayments of approximately $320 million in 2006. Our target cash and cash equivalents balance also depends on our ability to generate operating cash flow in 2006 and will depend largely on our operations and other factors, as discussed in the risk factor "Risks Related To Our Operations — Our operating results fluctuate from quarter to quarter, which makes it difficult to predict our future performance" and elsewhere in our Annual Report on Form 20-F filed with the SEC.

Based on our current level of operations, we believe that our cash on hand, planned use of existing credit facilities, credit terms with our vendors, and projected cash flows from operations will be sufficient to meet our 2006 capital and research and development expenditures and working capital needs. Depending on the pace of our future growth and technology upgrades and migration, we may require additional financing from time to time, including for purposes of funding the capital expenditure to equip Fab 7 to its full planned capacity of 30,000 300-mm wafers per month. The completion of Fab 7 is expected to take a number of years and will be paced by customer demand and industry conditions. Our total capital investment in Fab 7 at completion is expected to be approximately $2,700 million to $3,000 million.

We believe in maintaining maximum flexibility when it comes to financing our business. We regularly evaluate our current and future financing needs and may take advantage of favorable market conditions to raise additional financing.

There can be no assurance that our business will generate and continue to generate sufficient cash flow to fund our liquidity needs in the future, or that additional financing will be available or, if available, that such financing will be obtained on terms favorable to us or that any additional financing will not be dilutive to our shareholders.

Historic operating cash flows

In 2003, 2004 and 2005, net cash provided by operating activities was $48.1 million, $331.7 million and $404.4 million respectively. The $283.6 million improvement in cash provided by operating activities in 2004 as compared to 2003 was primarily a result of higher revenues in 2004. In addition, we had higher collections from SMP. These improvements were partially offset by higher payments on our payables and other current liabilities.

The $72.7 million increase in cash flow from operating activities in 2005 as compared to 2004 was due primarily to higher collections as a result of higher sales. Cash flows from operating activities in 2005 include receipt of a pre-payment of $40.0 million from a customer for future purchases which also secures access to wafer capacity, of which a fixed amount per wafer will be recorded by us as additional revenue for every qualifying wafer purchased by the customer, with no future related cash inflows. There was no receipt of pre-payment for future purchases in 2004. Cash flow from operating activities in 2005 also included dividends of $29.5 million from SMP, compared to zero dividends in 2004.

Historic investing cash flows and capital expenditures

Net cash used in investing activities was $384.3 million, $732.7 million and $571.1 million in 2003, 2004 and 2005 respectively. Investing activities consisted primarily of capital expenditures totaling $220.8 million, $686.3 million and $628.1 million in 2003, 2004 and 2005 respectively. Capital expenditures in 2003 related mainly to capacity additions in Fab 6. Capital expenditures in 2004 and 2005 related mainly to the equipping of Fab 7 as part of its phase 1 ramp and capacity additions in Fab 6.

Investing activities in 2003 also included placement of a refundable deposit to secure wafer capacity for one of our more advanced technologies and payments for technology licenses and for purchase of marketable investments. Investing activities in 2004 also included placement of a refundable deposit to secure wafer capacity for one of our more advanced technologies and payments for technology licenses and for the purchase of marketable investments, partially offset by proceeds from sale of property, plant and equipment and from the redemption and maturity of marketable instruments. Investing activities in 2005 also included proceeds from the redemption and maturity of marketable instruments and the return of capital from SMP.

We are taking a phased approach to the full equipping of Fab 7 to 30,000 300-mm wafers per month, which is expected to take a number of years and will be paced by customer demand and industry conditions. Our aggregate capital expenditures for 2006 is expected to be approximately $650 million, of which approximately $550 million is expected to be utilized for capital expenditures for the further expansion of capacities of 0.13um and smaller process geometry technologies for our fabs. The remaining amounts are expected to be utilized primarily for purchases of information systems, and for adding equipment in our fabs running more mature technologies to maximize utilization corresponding to the anticipated product mix. We estimate aggregate capital expenditures for phase 1 of our build-out of production capacity in Fab 7 to 18,000 300-mm wafers per month to be $1,700 million. The total capacity for phase 1 has been increased by 20% from our previous plan of 15,000 300-mm wafers due to our expected improvement in productivity. As of December 31, 2003, December 31, 2004 and December 31, 2005, we have spent an accumulated total of $227.1 million, $637.9 million and $1,201.9 million, respectively, on the equipping of Fab 7 as part of its phase 1 ramp, where Fab 7 had a wafer capacity of approximately 10,000 300-mm wafers per month as of December 31, 2005. At completion, which is expected to give Fab 7 a capacity of 30,000 300-mm wafers per month, our total capital investment in Fab 7 is expected to be approximately $2,700 million to $3,000 million. As of December 31, 2003, December 31, 2004 and December 31, 2005, we had commitments on contracts for capital expenditures of $398.3 million, $312.9 million and $205.7 million, respectively.

The nature of our industry is such that, in the short-term, we may reduce our capital expenditures by delaying planned capital expenditures in response to a difficult business environment, such as the one that existed in 2001 and 2002. However, the semiconductor market is characterized by rapid technological change and the importance of economies of scale, which we expect to result in significant capital expenditure requirements. Factors that may affect our level of future capital expenditures include the degree and the timing of technological changes within our industry, changes in demand for the use of our equipment and machinery as a result of changes to our customer base and the level of growth within our industry as discussed in the risk factors and elsewhere in our Annual Report on Form 20-F filed with the SEC.

Historic financing cash flows

Net cash provided by financing activities was $30.8 million, $34.9 million and $447.6 million in 2003, 2004 and 2005 respectively. Net cash provided by financing activities in 2003 and 2004 reflected primarily the net impact of borrowings and repayments of debt during those periods. Net cash of $447.6 million was provided by financing activities in 2005, consisting primarily of the drawdown of loan facilities, the issuance of the senior notes, Amortizing Bonds and preference shares, and receipts of customer deposits to secure wafer capacity for one of our more advanced technologies, partially offset by repayments of debt, including the repurchase of a significant portion of our Convertible Notes arising from the Tender Offer of the Convertible Notes. See “Outstanding indebtedness” below for details of the borrowings we obtained during the periods indicated.

Research and development and training grants

In 2004 and 2005 we received $19.0 million and $7.5 million, respectively, in research grants from various agencies of the Government of Singapore, which are included in operating cash flows. These grants provide funding for a portion of our R&D related capital expenditures and for the training and staffing costs associated with some of our process technology development programs. The grants are disbursed to us in connection with research and development carried out in Singapore, based on the amount of expenditures incurred, achievement of program milestones and certification of the costs incurred. The main condition attached to the grants is the completion of the project to which the grant relates. As our 65nm and 45nm bulk CMOS processes are jointly developed in IBM’s East Fishkill, New York, facilities, the amount of grants we received from the Government of Singapore in 2005 was significantly lower than in 2004 and we expect that the amount of such grants we may be eligible to receive from the Government of Singapore will be significantly lower in 2006, as compared with 2005.

Off-balance sheet arrangements

We were not a party to any off-balance sheet arrangement in 2005, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K. We do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which might be established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Outstanding indebtedness

As of December 31, 2005, our total loans outstanding were $1,447.9 million, comprising our Amortizing Bonds, senior notes, Convertible Notes and other U.S. dollar loans as follows:

	As of December 31, 2005 (In thousands)
2.5% senior convertible notes due 2006	$ 97,155
U.S. dollar loans at floating rates:	
CSP Syndicated Loan	214,533
SMBC/OCBC Term Loan	300,000
Exim Loan	122,124
Bank of America Term Loan	50,000
5.75% senior notes due 2010	371,161
6.375% senior notes due 2015	246,540
6.00% Amortizing bonds due 2010	46,703
Other	(324)
Total	$ 1,447,892

Refer to Note 14 of the consolidated financial statements for more details on our outstanding loans.

Loan Covenant Compliance

Some of our outstanding loans and unutilized banking facilities available to us, including loans to our subsidiary, CSP, contain various financial, shareholding and other restrictive covenants that are customary to loan documents.

Under the financial covenants, we are required to maintain certain financial conditions and/or ratios such as consolidated net worth, a total debt to net worth ratio and a historical debt service coverage ratio. We are required to ensure that our consolidated net worth will not at any time be less than $1,000 million and our total debt will not at any time exceed 180% of our total net worth. In 2002, we negotiated and effected an increase in CSP's net worth by converting inter-company amounts payable by CSP to us into a shareholders' loan to CSP, or the Chartered Loan. The Chartered Loan was made to enable CSP to satisfy its total debt-to-net worth ratio under the CSP loan agreement. The amount of the Chartered Loan to CSP is increased from time to time by converting additional inter-company amounts payable by CSP in order to enable CSP to satisfy the total debt-to-net worth ratio. The amounts under the Chartered Loan are subordinated to the amounts due from CSP to its other lenders.

Under the shareholding covenants of some of our loans, Temasek is required to own, directly or indirectly, a certain percentage of our outstanding shares, or is required to be our single largest shareholder. These covenants also require that we own, directly or indirectly, at least a certain percentage of CSP's outstanding shares. If Temasek or we fail to comply with these covenants, we could be in default under these loans and the lenders would have the right to require us to repay or accelerate our obligation to repay the outstanding borrowings under these loan documents. In some cases, a default could also cause cross-defaults under other loans and could seriously harm us. In addition, the outstanding loans and unutilized banking facilities available to us impose other restrictive covenants that are customary to loan documents, such as restrictions on incurring further indebtedness, creating security interests over our assets, payments of dividends, disposals of assets, and mergers and other corporate restructurings.

As of December 31, 2005, we believe we were in compliance with the various financial, shareholding and other restrictive covenants in our loan documents. If we fail to comply with any of the loan covenants, we could be in default under the loan documents and the lenders would have the right to require us to repay or accelerate our obligation to repay the outstanding borrowings under the loan documents. In some cases, a default could also cause cross-defaults under other loans and could seriously harm us.

Contractual Obligations

The following table sets forth the payments due related to specific contractual obligations as of December 31, 2005:

	Expected Payment Date (in thousands)						
	2006	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Long-term debt including principal and interest [1]	$ 402,400	$ 207,976	$ 209,859	$ 197,637	$ 503,651	$ 370,049	$ 1,891,572
Capital lease obligations including principal and interest	5,613	5,613	5,613	5,613	5,613	35,866	63,931
Capacity Deposits [2]	60,174	—	—	—	—	—	60,174
Operating lease obligations [3]	6,985	4,293	3,478	3,194	3,183	52,132	73,265
Purchase obligations [4] under:							
Capital expenditures	173,535	32,154	—	—	—	—	205,689
Technology agreements	80,775	74,350	38,250	3,250	3,250	—	199,875
Other	108,889	188	188	188	158	473	110,084
Other long-term liabilities	—	800	—	—	—	16,561	17,361
Total	$ 838,371	$ 325,374	$ 257,388	$ 209,882	$ 515,855	$ 475,081	$ 2,621,951

Notes:

(1) These amounts represent the expected principal and interest repayments at each of the periods indicated and do not include the unamortized debt discount relating to the senior notes. The senior notes due 2010 were issued at a price of 98.896% of the principal amount and the senior notes due 2015 were issued at a price of 98.573% of the principal amount. As of December 31, 2005, the face amounts of the senior notes due 2010 and the senior notes due 2015 were $371.2 million and $246.5 million, respectively, as the unamortized debt discount was reported as a direct reduction to the face amounts of the senior notes. The estimated interest repayments on floating-rate obligations were calculated using the prevailing floating interest rates related to these obligations as of December 31, 2005. Actual outcome could differ from these estimates.

(2) This amount relates to our contractual obligation to refund deposits placed with us to secure wafer capacity for one of our more advanced technologies.

(3) As of December 31, 2005, we have included in the above table operating lease obligations in respect of Fab 1 amounting to $4.1 million. In January 2006, we have sold and transferred our leasehold interest in Fab 1 for a total consideration of $6.5 million.

(4) We have not included purchase obligations that have been recorded on our consolidated balance sheet as of December 31, 2005. These obligations amounted to $78.0 million, $10.2 million and $227.2 million for capital expenditures, technology agreements and other purchase obligations primarily relating to operating expenses, respectively.

Assuming no conversion or redemption of the preference shares until the maturity date on August 17, 2010, we will redeem, out of funds legally available for such payment, each preference share at a redemption price equal to $10,000 per preference share amounting to $300.0 million at maturity. Refer to Note 15 of the consolidated financial statements for more details on the preference shares.

Chartered and Agere Systems Singapore have signed an assured supply and demand agreement with SMP. Under this agreement, each of Chartered and Agere Systems Singapore is billed for allocated wafer capacity if the wafers started for production for them are less than their respective allocated capacity. These billings, if any, do not change the equity in income (loss) of SMP that we recognize in our consolidated statements of operations. In 2005, the wafers started for us were less than our allocated capacity, however all parties to the agreement have agreed that such billings will not be made to us. There were also no such billings made to us for the corresponding periods in 2004 and 2003. To the extent the wafers started for us is less than our allocated capacity in the future, there is no assurance that the billings for our allocated wafer capacity would continue to be waived.

We have disclosed the expected timing of payment of obligations and the amounts to be paid based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts or events for some obligations.