Intel's Efforts to Achieve a "Conflict-Free" Supply Chain

EXECUTIVE SUMMARY

"Conflict minerals"[1] from the Democratic Republic of the Congo (DRC) or adjoining countries (Covered Countries) are sometimes mined and sold by armed groups to finance civil violence. These minerals can make their way into the supply chains of the products used by consumers and businesses around the world. Intel was one of the first companies to address the issue of conflict minerals in our supply chain, and we are working diligently to put the systems and processes in place that will enable us, with a high degree of confidence, to declare that our supply chains are "DRC conflict-free".[2]

We acquire and use conflict minerals from sources worldwide, and we do not want to stop purchases originating in the Covered Countries, but we want those purchases to be "DRC conflict-free". Intel was the first electronics company to publish goals around manufacturing "conflict-free" products. Specifically, Intel set a goal to manufacture a microprocessor that was conflict-free for tantalum by the end of 2012, and to manufacture the world's first microprocessor validated as conflict-free for all four metals by the end of 2013.

Intel has extensive, ongoing efforts surrounding conflict minerals; below is a summary of some our more recent initiatives and accomplishments:

- Achieved our 2012 conflict-free goal for the metal tantalum.[3]

- Established clear public goals around conflict-free sourcing which were included in our 2011 SEC Annual Report and Form 10-K and 2011 Intel Corporate Responsibility Report.

- Mapped greater than 90% of our microprocessor supply chain, identifying over 140 unique smelters.

- Traveled to over 60 smelters in 20 countries to provide education on conflict minerals and encourage participation in the Electronic Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI) Conflict-Free Smelter (CFS) program.

- Conducted an on-the-ground review of the extractives and minerals trade in the DRC.

- Supported in-region mining efforts by joining the "Solutions for Hope" pilot to source DRC conflict-free tantalum, the Conflict-Free Tin Initiative (CFTI) to source DRC conflict-free tin, and the Public-Private Alliance for Responsible Minerals Trade.

- Initiated an industry-sponsored funding program called the "CFS Early Adopters Fund" to accelerate smelter participation in validating conflict-free supply lines.

- Demonstrated our commitment to continuing action on this issue by signing on to a multi-stakeholder statement called the "Challenge to the Conflict Mineral Rule".

[1] The term "conflict minerals" is defined by Federal law as columbite-tantalite (the metal ore from which tantalum is extracted), cassiterite (the metal ore from which tin is extracted), wolframite (the metal ore from which tungsten is extracted), and gold. The term broadly covers these minerals on a worldwide basis but the focus of the law is on the possibility that the mining and sale of these minerals from the Democratic Republic of the Congo or in adjoining countries could be financing armed conflict in that region.

[2] We define "conflict-free" microprocessors as those manufactured with metals from smelters that have been validated by the Electronic Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI) Conflict-Free Smelter (CFS) program or other reasonable country of origin determination and due diligence to be "DRC conflict-free" (as that term is used in the law).

[3] As of December 2012, all tantalum smelters identified in our microprocessors supply-chain have been validated to be conflict-free via the EICC and GeSI CFS program.

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Driving Accountability in the Supply Chain

The electronics supply chain is deep and wide—with multiple layers of suppliers located in multiple countries. This supply chain model has led to incredible efficiency and the ability to produce high quality computers and consumer electronics at an exceptional price point. However, this same highly decentralized, ultra-efficient supply chain makes it extremely difficult to trace back the source of metals used in products or parts.

In pursuit of a conflict-free supply chain, Intel first asked our suppliers in 2009 to complete a survey on the origin of minerals used in their supply chain. The purpose of this survey was to understand three items: (1) whether our suppliers had implemented conflict-free sourcing policies; (2) did our suppliers have the ability to trace the minerals they used back to the mine of origin; and (3) could they identify the smelters that were used to refine the minerals in their own supply chain.

Our survey results demonstrated there was great variance in the amount of information suppliers knew about the minerals used in their supply chains. This finding convinced us that the most effective method to eliminate conflict minerals from the electronics supply chain was to implement a verification system at the smelter level, where the raw ore is refined into metals. Consequently, in 2009 Intel conducted our first on-site conflict minerals smelter review. This was the first review ever done in the electronics industry for conflict minerals, and was the catalyst for development of the industry's innovative conflict-free smelter program.

As of December 2012, Intel had conducted 63 smelter reviews in 20 countries (Australia, Austria, Belgium, Bolivia, Canada, Chile, China, Germany, Hong Kong, Indonesia, Japan, Malaysia, Norway, Peru, South Korea, South Africa, Switzerland, Taiwan, Thailand, and the United States).

The smelter reviews referenced above laid the groundwork for the Electronic Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI) to develop and implement a process for independent third-party smelter audits. As of December 2012, the CFS program had identified 29 smelters compliant to the CFS program across three different mineral categories (15 tantalum smelters, 3 tin smelters, and 11 gold refineries) with more added as they complete the rigorous auditing process.

As audits are completed, smelters that successfully comply with the audit requirements are shared publicly through the CFS web site. Our goal in making this information public is to be transparent, to recognize those smelters who are processing conflict-free minerals, and provide new sourcing options for companies that want to obtain conflict-free minerals for their products and customers.

Encouraging Industry-Wide Action

Many industries use gold, tantalum, tin, or tungsten in their products including: aerospace, automotive, medical instruments, information technology, and consumer electronics. Intel and other members in our industry quickly realized that we would need to work across many industries to tackle this complex problem. Intel has initiated multiple efforts to collaborate both within our industry and with others on conflict minerals, and we have co-chaired the EICC and GeSI Extractives Working Group since 2008.
Over the past four years, Intel has helped convene a number of well attended industry meetings on conflict metals. We started in 2009, by co-chairing the first electronics industry

supply chain meeting for tin in Vancouver, Canada. Since that time, we have sponsored or co-sponsored, a "call to action meeting" in San Francisco; a meeting on tantalum at our facility in Chandler, Arizona; a meeting with the gold industry in Denver, Colorado and a multi-stakeholder meeting in Philadelphia, PA.   Additionally, the EICC and GeSI industry associations have hosted 10 supply-chain workshops to educate those interested on the conflict minerals topic.

To increase our direct knowledge on this important issues, Intel sent a representative to the Eastern DRC in 2010 as part of a delegation from the U.S. Intel found that speaking with the various stakeholders involved in the minerals trade in the DRC was invaluable to our understanding of both the challenges and opportunities in that region. Intel is planning future trips to the DRC.

As we worked to map out our supply chains, identify smelters, and encourage participation in the CFS audit program, we received feedback that the cost of the audits was potentially limiting participation in the program. To address that issue, Intel initiated and drove a funding program to accelerate smelter participation in validating conflict-free supply lines called the, "CFS Early Adopters Fund." Upon successful completion of a CFS audit, this fund reimburses smelters for half of the initial audit costs, up to US$5,000. With grants from Intel, HP and the GE Foundation, the funding is administered by the non-governmental organization (NGO) RESOLVE.

Traceability in the Supply Chain

Through our industry meetings and forums we have learned a great deal of information and gained insight regarding traceability in our supply chain. We also gathered invaluable knowledge from our multiple on-site smelter reviews conducted around the world, which enable us to understand the unique operating characteristics of each smelter and determine the current gaps in their ability to trace the source of ore to the mines and countries of origin.

For example, some smelters had documentation indicating the country that a mineral was shipped from, but not documentation on the specific country where the ore was originally mined. This is a critical issue because minerals (especially gold) can be smuggled into other countries making traceability even more challenging.

Additionally we learned that the infrastructure needed to trace 100% of our materials did not exist and it was clear that a process to audit and validate smelters would be needed; consequently, a working group was formed from the ongoing EICC and GeSI extractives efforts to address this challenge.

Due to the unique characteristics and complexities associated with each of the four conflict minerals, the work group determined that it would be most feasible to address one mineral at a time. In 2010 the working group created the first tantalum smelter audit protocol. The group selected three independent auditing firms to conduct the tantalum and smelter validation audits. In 2011, under the leadership of Intel and the cooperation of many within the EICC/GeSI industry group, the CFS program released the smelter audit protocols for gold, tin, and tungsten smelters. These protocols are now in place and serve as a core component of the CFS audit program.

Unintended Consequences

Currently, there are limited self-sustaining traceability and certification schemes to track ore from legitimate sources of material in the DRC; therefore, companies working to comply with the new requirements for conflict minerals disclosure in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) may unintentionally drive down demand for all minerals coming out of Central Africa as they look to secure non-conflict sources outside that region. This well-intended action can inadvertently hurt the economic opportunities for legitimate artisanal miners operating in that region.

Recognizing this dilemma, Intel is working to help mitigate such unintended consequences. In late 2011, Intel, in partnership with the U.S. State Department, the U.S. Agency for International Development, and other companies, announced the establishment of the Public-Private Alliance for Responsible Minerals Trade (PPA). The PPA has three objectives: (1) to assist with the development of pilot supply chain systems that will allow businesses to source minerals from mines that have been audited and certified to be 'conflict-free'; (2) to provide a platform for coordination amongst government, industry, and civil society actors seeking to support conflict-free sourcing from the DRC; and (3) the PPA will establish a website designed to serve as a resource for companies seeking information regarding how to responsibly source minerals from the DRC.

In addition to the PPA, Intel is participating in a project with AVX Corporation to source conflict-free tantalum from the DRC. This project, called, "Solutions for Hope" is providing conflict-free tantalum from the Congo that we believe meets Organisation for Economic Co-operation and Development (OECD) due-diligence guidance for responsible supply chains of minerals from conflict-affected areas. Intel also supports a similar program for tin called the Conflict-Free Tin Initiative (CFTI), initiated in 2012. We continue our quest to find responsible in-region sourcing solutions as part of our overall effort to achieve a conflict-free supply chain.

Government Participation

Intel believes that an effective solution to address this complex issue will involve coordinated efforts by governments, industry and NGOs. Intel has met with representatives from the U.S. government, European Commission and the OECD on the topic of conflict minerals. Intel supports the OECD due diligence guidance for responsible supply chains of minerals, and Intel and the EICC and GeSI have shared the industry's smelter audit approach with the OECD and a number of U.S. government agencies.

The U.S. Congress included provisions to address conflict minerals in the Dodd-Frank Act, and the SEC followed with disclosure regulations affecting public companies in the U.S.; however, Intel's efforts on this issue pre-date this legislative action. Intel has supported fair and timely rules and we believe that the SEC regulatory process has been helpful in bringing others to the table and maintaining broad momentum on this important issue.

In late 2012, a petition was filed by the National Association of Manufacturers, the U.S. Chamber of Commerce, and the Business Roundtable for judicial review of the SEC conflict minerals disclosure regulations. Intel is a member of these trade associations; however, the positions of these trade organizations don't always align with Intel's positions. Consequently, Intel signed onto a multi-stakeholder statement regarding the "Challenge to the Conflict Mineral Rule," to demonstrate our unwavering commitment to this issue. The statement urges stakeholders to continue the momentum on removing conflict minerals from the supply chain. Intel will continue to focus our energy and efforts as we always have—on implementing the systems and processes that will enable Intel to achieve a conflict-free supply chain. We have made good progress to date, but we will continue to work with our business partners, governments and NGOs to find solutions. This issue is too important to wait.

Summary

From the time we became aware of the potential for conflict minerals from the DRC to enter our supply chain, we have responded to this issue with a sense of urgency and resolve. We have approached this issue as we would address other significant business challenges at Intel. We first collected as much information about the situation as we could; not relying solely on our own knowledge but seeking the insight and experience from other stakeholders and organizations with expertise in this area. We communicated with our suppliers and expressed our sense of urgency on this issue and our expectations. We met with industry peers and governmental officials, traveled thousands of miles around the globe and visited multiple smelters to help determine the best path forward.

We determined that the most effective and efficient method for reducing the potential for conflict minerals to enter our supply chain was to focus on the smelters where the ore is refined and processed. Intel and other EICC members developed a smelter validation process, called the EICC/GeSI CFS program. The smelter validation audits are ongoing and validated smelters are regularly being added to the public list. We believe this process will be instrumental in the quest to achieve a conflict-free supply chain.

We are continuing our industry leadership and our efforts to source conflict-free minerals from the DRC where possible. We will continue to provide updates on our progress on achieving a conflict-free supply chain and we welcome your feedback on our approach and disclosure at: www.intel.com/about/corporateresponsibility/contactus.

For more information, visit **www.intel.com/go/responsibility**