



Semiconductor Manufacturing International Corporation 2011-2012 Corporate Social Responsibility Report



▲ The Shanghai skyline, as seen from the roof of our Shanghai headquarters.

SMIC Shanghai
No. 18 Zhangjiang Road
Pudong New Area,
Shanghai 201203
Tel: +86 (21) 3861 0000
Fax: +86 (21) 5080 2868

SMIC Americas
2600 Augustine Dr.
Santa Clara, CA 95054
USA
Tel: +1 (408) 550-8888
Fax: +1 (408) 550-8899

SMIC Taiwan
6F-1, No. 32 Taiyuan Street,
Zhubei City,
Hsinchu County, 30265
Tel: +886 3-5600368
Fax: +886 3-5600306

SMIC Beijing
No. 18 Wenchang Avenue,
Economic-Technological
Development Area,
Beijing 100176
Tel: +86 (10) 6785 5000
Fax: +86 (10) 6788 5936

SMIC Europe
Via Archimede 31
20864 Agrate Brianza,
Italy
Tel: +39 (039) 689 2181
+39 (039) 689 2411
Fax: +39 (039) 65 0015

SMIC Hong Kong
Suite 3003, 30th Floor,
No. 9 Queen's Road Central
Tel: +852 2537-8588
Fax: +852 2537-8206

SMIC Tianjin
No. 19 Xinghua Avenue
Xiqing Economic Development Area
Tianjin 300385
Tel: +86 (22) 2370-0000
Fax: +86 (22) 2370-1370

SMIC Japan
Room No.080, 8F Shinagawa
Grand Central Tower,
2-16-4 Konan, Minato-ku,
Tokyo 108-0075
Tel: +81 (3) 6433-1411
Fax: +81 (3) 6433-1412

Build **Trust**. Care for **People**. Protect the **Environment**.



2011-2012 SMIC Corporate Social Responsibility Report

ABOUT SMIC

Founded in 2000 and headquartered in Shanghai, Semiconductor Manufacturing International Corporation (NYSE: SMI; SEHK: 0981.HK) is the largest and most advanced semiconductor foundry in mainland China. We provide integrated circuit foundry and technology services from 0.35-micron to 40-nanometer at our 300mm and 200mm wafer fabrication facilities (fabs) in Shanghai, Beijing, and Tianjin. We also have a 200mm fab project under development in Shenzhen.

We have customer service and marketing offices in the United States, Europe, Japan, and Taiwan, and a representative office in Hong Kong.

Near our fabs, we maintain residential communities with comfortable housing for our employees and award-winning schools for their children. For more information about SMIC, please visit www.smics.com.

Table of Contents

| | | |
|------------|---|-----------|
| | Letter from our CEO | 4 |
| | Institutionalizing CSR at SMIC | 6 |
| | Fulfilling CSR at SMIC | 7 |
| 1.0 | Trust | 8 |
| 1.1 | Corporate Governance | 9 |
| 1.2 | Regulatory Compliance | 14 |
| 1.3 | Industry Benchmarks | 15 |
| 1.4 | Industry Standards | 16 |
| 1.5 | Customers and Suppliers | 18 |
| 1.6 | Bridging Differences in Challenging Times | 20 |
| 2.0 | People | 22 |
| 2.1 | SMIC Living Quarters (LQs) | 23 |
| 2.2 | SMIC Private Schools | 28 |
| 2.3 | SMIC Student Outreach | 36 |
| 2.4 | SMIC Workforce Development | 38 |
| 2.5 | SMIC Community Development | 44 |
| 2.6 | SMIC Staff Outreach | 48 |
| 2.7 | Individual Outreach: Examples | 52 |
| 3.0 | Environment | 54 |
| 3.1 | Environment, Safety, and Health | 55 |
| 3.2 | Climate Change | 55 |
| 3.3 | Green Production | 56 |
| 3.4 | Electricity Conservation | 56 |
| 3.5 | Natural Gas Conservation | 57 |
| 3.6 | Water Conservation | 58 |
| 3.7 | Pollution Prevention | 60 |
| 3.8 | Environmental Awareness Promotion | 62 |
| 3.9 | Responsible Living | 63 |



Dear Reader,

At SMIC, we are excited about our progress in the past two years. With the help of our new management team selected in 2011, we have set record highs in both revenue and profit. We also have been rewarded with our ongoing inclusion in the Hang Seng Corporate Sustainability Index Series, our selection to the Ocean Tomo 300 Patent Index, and our receipt of many awards for quality production and service.

These results were achieved despite a sluggish global economy and related decline in the semiconductor industry in 2012. To what, then, do we owe such results? I attribute them to our focus on sustainability.

Sustainability is about optimizing the present while also securing the future, in terms of both risk management and value creation. A commitment to sustainability is a commitment to efficiency, including evaluating and reducing risk, cost, and liability. It leads directly and immediately to improved performance, productivity, and profitability, companywide.

While looking to the future, sustainability requires a focus on the present in light of longer-term goals and outcomes for the company, its employees, and society.

| Our Mission | |
|---------------------------------|---|
| • | Strengthen SMIC's global competitiveness |
| • | Develop China's semiconductor industry |
| • | Accept and overcome challenges |
| • | Establish a legacy of environmental and social responsibility |
| Our Core Values & Methodologies | |
| • | Integrity and Moral Courage |
| • | Discipline |
| • | Teamwork and Ownership |
| • | Innovation |
| • | Quality and Safety |

At SMIC, both present and future start with our employees, who literally find a home here. Near each of our production facilities, we maintain a residential campus that feels like a small town. We call these campuses *Living Quarters*, or *LQs*. The proximity and interdependence of our production sites and our LQs help to focus all our staff on sustainability.

Our Shanghai LQ houses over 3,000 employees and family members with villas, apartments, and dormitories of all shapes and sizes. It includes a dozen restaurants, two grocery stores, a medical center, dental clinic, pharmacy, gym, recreational facilities, and shops and service providers of all kinds. It also includes our award-winning K-12 school, which educates the children of our employees, administers their SAT and ACT exams, and sends them to the finest colleges in the world.

Our Shanghai LQ serves as the model for our LQs in Beijing, Tianjin, and Shenzhen. It also serves as the subject of articles in the Wall Street Journal and EETimes and a recent Harvard Case Study (the third in a series of Harvard studies on SMIC). To meet the overwhelming demand of our Shanghai staff, we are building a second LQ in Shanghai, which will house at least another 3,000 employees and family members.

We also are pleased to report progress on our other LQs. In 2012, we completed our LQ in Tianjin, which provides housing for about 1,000 employees and their families, and we are significantly expanding our school in Beijing.

As I hope this report shows, our accountability to our employees reflects and enables our accountability to our customers, investors, and regulators. Sustainable business practices have supported our development as a world-class semiconductor company. They also are contributing to a harmonious society capable of enjoying and perpetuating the gains. Sustainability is the key to navigating the unstable global economy while ensuring the public trust by stewarding the natural resources and environment that we all share.

From our cleanrooms to our classrooms to our living rooms, we translate our vision into action every day by building trust, caring for people, and protecting the environment. SMIC has been built to endure.

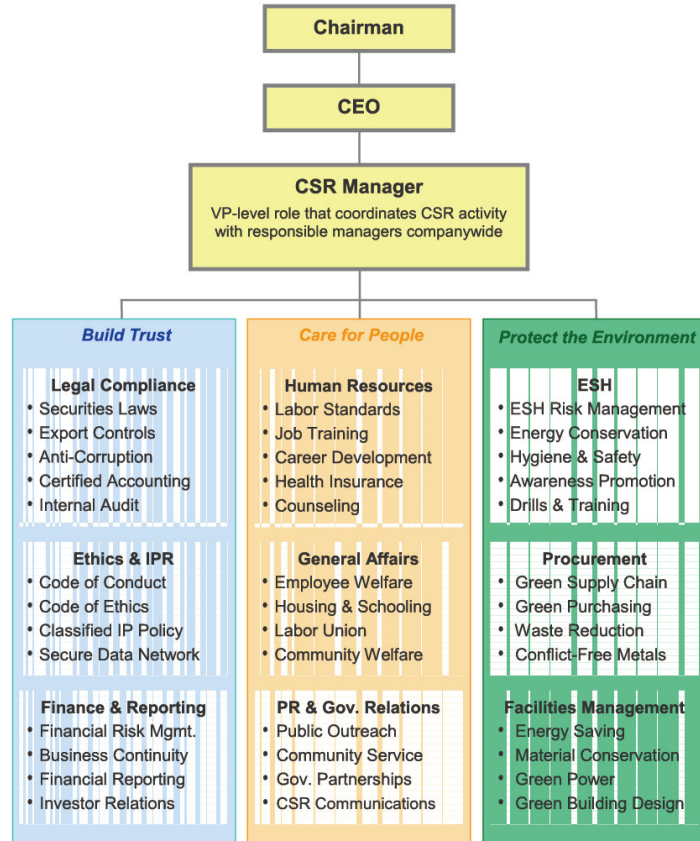
Thank you for your continued interest in SMIC.

T.Y. Chiu, CEO
August 2013



Institutionalizing CSR at SMIC

At SMIC, we embrace our legal and ethical obligations as a member in good standing of the electronics industry supply chain. We work hard to build trust, care for people, protect the environment, and secure the interests of our many stakeholders. Our CSR Policy (next page) stresses our commitment to comply with the letter and spirit of the laws of all the countries where we operate, as we advance social, environmental, and ethical responsibility according to global industry standards. In short, we institutionalize CSR at SMIC and place it at the center of our operations, as shown in the organizational chart below.



Fulfilling CSR at SMIC

As any publicly-traded international company, we use institutional systems and controls to ensure our standards compliance. But these CSR goals can only be achieved through human effort. As embodied in our CSR Policy below and shown in the following three sections of this report, our employees fulfill our CSR goals by **Building Trust**, **Caring for People**, and **Protecting the Environment**.



中芯国际集成电路制造有限公司
Semiconductor Manufacturing International Corp

SMIC Corporate Social Responsibility (CSR) Policy

As an international company listed on the Stock Exchanges of New York and Hong Kong since 2004 (www.smics.com/eng/investors/ir.php), SMIC must comply with strict legal requirements for corporate governance, financial accounting, and transparent reporting. Our business practices also must be ethical, safe, environmentally sound, and fair to our employees, in accordance with all the laws, rules, and regulations of the countries where we operate.

In addition to obeying the letter and mandates of such laws, we seek to promote their spirit. Through our CSR Program (www.smics.com/eng/about/csr.php), we hope to advance social, environmental, and ethical responsibility according to internationally recognized standards. In short, we intend to remain worthy of our inclusion in the Hang Seng Corporate Sustainability Index Series as a company that has "attained a high standard of performance in the environmental, social and corporate governance areas" (www.hsi.com.hk).

To achieve these goals:

1. We declare our support for the Electronic Industry Citizenship Coalition® Code of Conduct (http://eicc.info/eicc_code.shtml) and will actively pursue conformance to the Code and participation by our suppliers.
2. We will uphold the human rights of our staff and the highest standards of business integrity, as required by the EICC Code, the SMIC Code of Business Conduct & Ethics (www.smics.com/eng/investors/ir_ethics.php), SMIC Human Resources policies, and all other SMIC policies.
3. We will strive to maintain a safe workplace for our employees and a healthy environment for the public while minimizing adverse effects on the community, environment, and natural resources, consistent with our Environmental Protection, Safety, & Health Policy and our related ISO and other international certifications (www.smics.com/eng/about/esh.php).
4. We will develop and maintain management systems to implement this CSR Policy with continual improvement as part of a holistic CSR Program.

[Copy of signed original available at www.smics.com/eng/about/csr.php]



Build Trust. Care for People. Protect the Environment.

1.0

The **Trust** of our business partners, employees, and communities is essential for our success. SMIC earns trust by complying with the law, treating each individual fairly, and stewarding the capital and natural resources entrusted to us.

In short, we earn trust by following the rules, including all the laws and standards laid down for our industry. Corporate social responsibility requires more than meeting legal minimums. It is a shared determination to embrace the law's spirit, as well as its letter.

At SMIC, CSR is our conscious effort to meet the law's objectives in areas such as corporate governance, financial reporting, workplace safety, quality control, environmental stewardship, and many others, as discussed in the following pages.

1.1 Corporate Governance

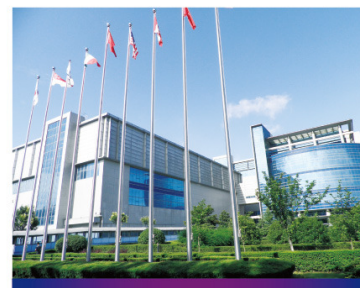
To build trust with our stakeholders, SMIC will remain an exemplary corporate citizen through good corporate governance and operational transparency. See www.smics.com/attachment/20120326005.pdf for more information on our Corporate Governance Policy.

1.1.1 Board of Directors

Our Board of Directors oversees and directs the affairs of the company on behalf of our shareholders. The Board determines the overall strategy of SMIC. It also establishes and monitors the achievement of corporate goals and objectives, oversees our financial performance and account preparation, establishes our corporate governance practices and policies, and reviews our system of internal controls. On an ongoing basis, the Board oversees our senior management team, which is responsible for implementing the overall strategy, operations, and administration of SMIC.

Among its governance duties, the Board:

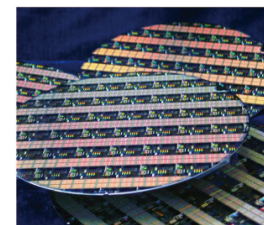
- Develops and reviews SMIC's policies and practices on corporate governance;
- Reviews and monitors the training and continuous professional development of our Directors and senior management;
- Reviews and monitors our policies and practices on compliance with legal and regulatory requirements; and
- Develops, reviews, and monitors our code of conduct and other policies and procedures as applicable to employees and Directors.



▲ Our headquarters in Shanghai.



▲ Our CEO T.Y. Chiu giving the keynote speech at the 2012 SEMICON China Grand Opening.



Members of our Board (2011-2012)

Executive Directors

Wenyi Zhang: Chairman of the Board, Executive Director
Tzu-Yin Chiu: Chief Executive Officer, Executive Director

Non-executive Directors

Shanzhi Chen
Yonggang Gao
Lawrence Juen-Yee Lau (Alternate: Datong Chen)
Jie Zhou

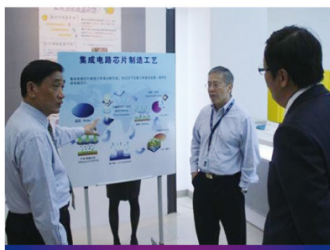
Independent Non-executive Directors

Tsuyoshi Kawanishi
Frank Meng
Lip-Bu Tan

▲ SMIC's Board consists of nine Directors and one Alternate Director. Members as of December 31, 2012 are set out above.



▲ Our CEO T.Y. Chiu giving the keynote address at our Technology Symposium.



▲ Our Chairman Wenyi Zhang (left) and CEO T.Y. Chiu describing our manufacturing process to visitors.



▲ Regulatory discussions and meetings.

1.1.2 Board Committees

To help fulfill its governance duties, the Board assigns specific responsibilities to its various committees, including the Compensation Committee, Nomination Committee, and Audit Committee.

1.1.2.1 Compensation Committee

The Compensation Committee: (1) reviews and recommends executive compensation philosophy, strategy, and principles; (2) reviews, approves, and oversees new and existing employment, consulting, retirement, and severance agreements proposed for our directors, executive officers, and other officers; (3) ensures appropriate oversight of our human resource policies; and (4) reviews strategies to fulfill our ethical, legal, and human resource responsibilities. Committee members include Mr. Lip-Bu Tan (Chairman), Mr. Tsuyoshi Kawanishi, and Mr. Jie Zhou. The Committee reports to the Board at the quarterly Board meetings. See www.smics.com/attachment/20130430003.pdf for more information.

1.1.2.2 Nomination Committee

The Nomination Committee ensures that the Board has an effective size, structure, and composition to meet its fiduciary obligations to shareholders and execute its corporate strategy. The members of the Nomination Committee include Mr. Wenyi Zhang (Chairman), Mr. Frank Meng, and Mr. Lip-Bu Tan. The Committee periodically reports its decisions and recommendations to the Board. See www.smics.com/attachment/20120326004.pdf for more information.

1.1.2.3 Audit Committee

The Audit Committee oversees our accounting, our financial reporting processes, and the audits of our financial statements. The Committee assists the Board's oversight of: (1) the quality and integrity of our financial statements and related disclosures; (2) our compliance with legal and regulatory requirements; (3) the independent auditor's qualifications and independence; and (4) the performance of our internal audit function and internal controls. Committee members include Mr. Lip-Bu Tan (Chairman), Dr. Yonggang Gao, and Mr. Frank Meng. The Committee reports to the Board regularly. The Committee also meets in person with SMIC's external auditor at least twice a year. See www.smics.com/attachment/20120326002.pdf for more information.

1.1.3 Other Key Corporate Governance Programs and Policies

1.1.3.1 Risk Management Committee

Our Risk Management Committee (RMC) is led by our CEO and composed of all relevant executives and managers. It identifies and assesses enterprise-wide risks, monitors risk management efforts, and reports on the effectiveness of enterprise risk management programs. Specifically, the RMC: (1) develops risk management strategy; (2) establishes, reviews, and approves policies and procedures to control risks and prevent fraud; (3) determines risk tolerances for measurement; (4) prepares a risk management implementation plan and assigns responsibilities; and (5) designs education and awareness programs and their implementation plans. Key risks include legal risks, credit risks, market risks, operational risks, environmental risks, and systemic risks. The RMC often performs its functions during the CEO's Weekly Staff Meetings, a related tool of senior management with similar membership.

1.1.3.2 Internal Audit Department

Our Internal Audit Department (IA) supports the Board's Audit Committee and the senior management team in evaluating risk management and governance systems. Subject to its annual risk-based audit plan, as approved by the Audit Committee, IA audits the practices, procedures, expenditures, and internal controls of the various departments of SMIC. The scope of the audit includes management controls, compliance systems, asset safeguards, use of resources, and potential risks. Audit results are reported to the CEO and Audit Committee at least quarterly.

IA also may audit any areas of concern on an ad hoc basis. In conducting these audits, IA has unfettered access to all necessary functions, records, properties, and personnel of SMIC.

After completing an audit, IA furnishes SMIC's management team with analysis, appraisals, recommendations, counsel, and information concerning the various activities reviewed. Relevant managers of SMIC are notified of any findings and audit recommendations, and IA reviews their implementation. In addition, IA reports its findings directly to the Audit Committee on at least a quarterly basis.

For more information: www.smics.com/download/internalauditcharter.pdf.



▲ Routine checks help ensure our safety and regulatory compliance.



► Our Beijing facility.

1.1.3.3 CSR Policy

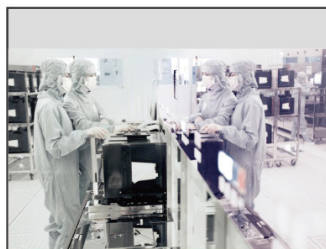
Our CSR Policy (see page 7) coordinates our social, environmental, and ethical responsibilities. It is enforced by our CSR Manager, a VP-level role supported by our CEO. In addition to reviewing SMIC's internal systems, our CSR Manager certifies those systems to customers, regulators, and industry bodies, defends those systems during audit, and takes other measures to ensure SMIC's legal and ethical compliance. One key measure is our compliance with the Electronic Industry Citizenship Coalition® (EICC) Code of Conduct (http://eicc.info/eicc_code.shtml), the leading code for the electronics industry. We also use EICC-On for supply chain legal and ethical compliance. As a registered user of EICC-On, we maintain complete self-assessment questionnaires (SAQs) for our corporate level and for each of our production sites, and can make those available online to any SMIC customer who is also an EICC member.

1.1.3.4 Code of Business Conduct and Ethics

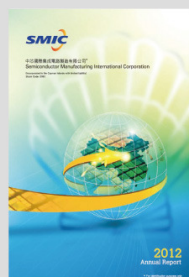
Our Code of Business Conduct and Ethics (Ethics Code) helps ensure our legal compliance as well as our integrity, professionalism, and accountability. Complementing the EICC Code (above), our Ethics Code addresses fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in SMIC securities, use of SMIC assets, public disclosure, record keeping, anti-bribery, relationships with customers, vendors, investors, and other parties, and much more. See www.smics.com/download/ethic_codebusiness.pdf.

Our Ethics Code applies to all employees, directors, contractors, consultants, and agents, and requires them to comply with all company policies and applicable laws, and to report any violations under confidential procedures. It is enforced by our Compliance Office, as supervised by our Chief Compliance Officer and our Board's Audit Committee. Violations result in warnings, discipline, termination, or prosecution, depending on their severity.

All of our employees receive a copy of the Ethics Code and certify that they will comply with its policies and any additional policies or laws specific to their jobs. They also receive regular mandatory training and testing on the Code, and frequent messages about it from our Compliance Office, Legal Department, and outside counsel. Some key areas covered by our Code are discussed in the following sections.



▲ SMIC's quality performance is a reflection of our CSR policies.



▲ For more information about our policies, reports, and regulatory filings, visit www.smics.com/eng/investors/ir.php.



▲ Strict adherence to our Ethics Code builds trust with our various stakeholders.

1.1.3.5 Insider Trading Policy

In accordance with U.S. and Hong Kong securities law, SMIC prohibits company insiders from misusing company information for personal gain and from dealing in company stock during blackout periods. Our Ethics Code outlines the key requirements of company policy and securities law, and our Compliance Office enforces these requirements.

1.1.3.6 Anti-Fraud Policy

Our Ethics Code and anti-fraud policy demand honest business dealings. All our employees enjoy positions of trust, requiring their ethical use of customer, third party, and company assets, including physical and intellectual property (IP). The actions of each employee reflect on the company. Accordingly, fraud by any employee cannot be tolerated. Any employee learning of such activity must report it to the Compliance Office or the Audit Committee, as applicable. See www.smics.com/download/anti_policy.pdf for more information.

1.1.3.7 Disclosure Policy

Our Disclosure Committee designs and implements the company's disclosure policy and procedures, and oversees the company's compliance with its disclosure obligations on a timely basis. Disclosure policy applies to all employees and consultants of SMIC, its Board of Directors, and those authorized to speak on its behalf. It covers public disclosure by or on behalf of SMIC in all documents and statements no matter how they are communicated. This system helps ensure our reporting accuracy and internal accountability.

1.1.3.8 Shareholder Communications Policy

As SMIC belongs to its shareholders, they need to be informed of all major developments affecting *their* company. We communicate to our shareholders regularly through a range of publications and online platforms, including Annual General Meetings (AGMs), Extraordinary General Meetings (EGMs), Annual Reports, Interim Reports, disclosures to the New York and Hong Kong stock exchanges, filings with the Securities and Exchange Commissions (SECs) of the United States and Hong Kong, presentations, press releases, etc. We also serve potential investors and other stakeholders by providing easy access to company information online. Most such information is accessible on the Web sites of SMIC, the SECs, and the stock exchanges. See www.smics.com/attachment/20120326006.pdf for more information.



▲ As a public company listed on the stock exchanges of New York and Hong Kong, SMIC complies with rigorous legal standards and reporting requirements.



▲ Our legal team is committed to our compliance with all applicable laws and industry standards.

1.1.3.9 Anti-Bribery Policy

Regardless of location or nationality, our employees, agents, and contractors must comply with the U.S. Foreign Corrupt Practices Act (FCPA), Hong Kong Prevention of Bribery Ordinance, and other applicable anti-bribery laws. Our rules for giving and receiving gifts are detailed in our Ethics Code and our separate Anti-Corruption Policy prepared by outside legal counsel. All these rules are explained and enforced by our Compliance Office.

1.1.3.10 Training and Whistle-blowing

To promote awareness, we have placed our policies on our company intranet, and require all employees to be trained on our core values and compliance policies. Any SMIC employee, investor, contractor, customer, supplier, business partner, or other person may report any suspected violation of law or policy to SMIC. Such reports may be made directly to the Compliance Office via its confidential email or telephone "hotlines," or directly to the Board's Audit Committee by email to its dedicated mailbox. All information concerning informers is kept in strict confidence.

1.2 Regulatory Compliance

SMIC maintains a high level of trust by maintaining a strong record of regulatory compliance, as detailed below.

1.2.1 Internal Compliance Program

Our Internal Compliance Program (ICP) ensures that we abide by international laws and treaties governing export controls on high technology products. The United States and many other countries have joined international export control regimes. Our suppliers and customers operating in these countries typically need an export license before shipping controlled items (equipment, parts, materials, software, or technology) to China. We and our relevant suppliers and customers must comply with the restrictions and conditions in the licenses under which we receive controlled items.

Our ICP is codified in our ICP Manual and consists of policies and procedures that ensure compliance with all legal requirements. Our ICP Manual includes ten elements: (1) export compliance policy statement; (2) personnel responsibilities and functions; (3) denied parties lists; (4) screening procedures; (5) technology control plan; (6) controlled equipment, parts, and materials management; (7) compliance review program; (8) employee training program; (9) recordkeeping; and (10) non-compliance notification procedures.

Because of our proven track record in export control compliance, we are charter members of the U.S. Government's Validated End-User (VEU) program. Our VEU status further enhances the level of service and technology we can provide our customers. To keep all our staff well-informed of our ICP obligations, our CEO issues an export control policy statement that must be acknowledged and signed by all staff. Our ICP team conducts regular training and maintains an extensive ICP page on our company intranet. And our legal compliance is tested in regular audits by vendors and government officials.



▲ Our ICP team constantly reviews our compliance policies and implementation.



▲ An inspection of our Shanghai site by the top U.S. Government export control officials.



▲ A customer award recognizing our continuous support and partnership.



1.2.2 Conflict Minerals Policy

Like our industry peers, we oppose human rights abuses in Central Africa perpetrated by armed groups that are financed by minerals sold in the global supply chain. Drawing from our experience in export control compliance as well as guidance of the Organisation for Economic Cooperation and Development (OECD) and tools of EICC and the Global e-Sustainability Initiative (GeSI), we maintain a Conflict Minerals Program to comply with U.S. law (section 1502 of the Dodd-Frank Act and related SEC regulations).

1.2.3 Classified Information Protection Policy

We have extensive procedures to secure confidential information and support regulatory compliance. Our Classified Information Protection Policy (CIPP) protects the valuable and confidential information of SMIC, our customers, and our partners by prohibiting unauthorized use or disclosure. Our document management systems identify such information; our physical security systems limit access to it and the ability to copy or transfer it; and our Compliance Office issues instructions regarding its retention or destruction. Our employees receive frequent CIPP training and notification from our Compliance Office, and our policies are strictly enforced.

1.3 Industry Benchmarks

1.3.1 Ocean Tomo 300 Patent Index

SMIC was selected as a 2012-2013 constituent of the Ocean Tomo 300® Patent Index, the first stock index based on the value of corporate IP. This Patent Index includes 300 companies chosen for the value of their patent portfolios relative to book value and, along with the NASDAQ® Composite, is a key market index for the knowledge economy. Since its inception in 2006, the Patent Index has consistently outperformed the S&P 500®. Demonstrating our attention to patents, we lead all Chinese semiconductor manufacturers in number of patent applications filed, and we are in the top five of all Chinese companies in number of patents awarded. See www.oceantomo.com.

1.3.2 Hang Seng Corporate Sustainability Index Series

We were again selected as a constituent of the Hang Seng Corporate Sustainability Index Series in 2012. This benchmark for sustainability-focused investment has just 69 constituents. Selected companies must have "attained a high standard of performance in the environmental, social, and corporate governance aspects." See www.hsi.com.hk/HSI-Net/HSI-Net.



1.4 Industry Standards

We use industry standards as a guide to build trust, develop our internal systems, and meet our customers' requirements. This process ensures our business methodologies are informed by the best practices available and prepares us to meet emerging demands on the high-tech supply chain.

Following audits by internationally recognized firms, we have been certified as compliant in important areas by the British Standards Institution (BSI) and other organizations aligned with the International Organization for Standardization (ISO). We also have been certified as a Sony Green Partner, which reflects the industry standard for semiconductor foundries. Our key certifications are detailed below and many of our compliance measures are discussed in section 3.0 of this report.



1.4.1 ISO 9001 Quality Management Systems

Reflecting our quality control standards, we have held ISO 9001 certification for Quality Management Systems for all our sites since 2002. With ISO 9001 as guidance, we have developed reliable systems of checks, evaluation, and communication with our customers to ensure quality procedures for design, development, production, and service. See www.smics.com/img/iso9001.pdf for our certificates.



1.4.2 ISO/TL 9000 Supply Chain Directives

Similar to our ISO 9001 certification above, our TL 9000 certification focuses on our Quality Management Systems for our customers in the telecommunications industry. TL 9000 emphasizes the integrity of supply chain directives. Our Shanghai, Beijing, and Tianjin sites all have been certified since 2005. See www.smics.com/img/tl9000.pdf for our certificate.



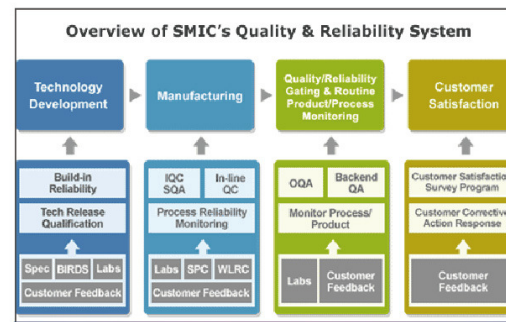
1.4.3 ISO/TS 16949 Defect Prevention

Also based on our ISO 9001 certification above, our TS 16949 certifies our Quality Management Systems for our customers in the automotive industry. The purpose of TS 16949 is to eliminate defects from one link to the next in the automotive supply chain, providing quality assurances for the final customer. All of our sites are certified. See www.smics.com/img/ts16949.pdf for our certificates.



1.4.4 OHSAS 18001 Occupational Health and Safety

Since 2003, our certification in OHSAS 18001 has guided our health and safety management. With this standard as a framework, we strive to reduce risks, provide our employees with a safer and healthier workplace, and secure company assets. The rigorous process assures stakeholders of our commitment to risk reduction. See www.smics.com/download/OHSAS18001.pdf for our certificates.



1.4.5 ISO 14001 Environmental Management Systems

We obtained our ISO 14001 certifications for Environmental Management Systems starting in 2002. Meeting this international standard certifies our responsible use of materials through recycling, waste reduction, and pollution prevention. See www.smics.com/download/ISO14001.pdf for our certificates.



1.4.6 ISO 14064 Greenhouse Gas Measurement

We recognize the problem of global climate change. In June 2010, our Shanghai site became the first semiconductor facility in mainland China to obtain ISO 14064 verification, and our other sites obtained it shortly thereafter. SMIC conforms to this standard by implementing energy-saving measures to reduce greenhouse gas emissions. We measure our greenhouse gas output and set annual emissions-reduction targets. See www.smics.com/download/ISO14064.pdf for our certificates.



1.4.7 Green Product Mgmt. System and QC 080000 Hazardous Substance Mgmt.

In 2006, SMIC became the first foundry in mainland China to receive the Green Product Management System (GPMS) certification for safe and environmentally-friendly products. Since then, all our fabs have received QC 080000 certification, assuring our compliance with the Directive on the Restriction of the Use of Certain Hazardous Substances (RoHS) in Electrical and Electronic Equipment. See www.smics.com/download/QC080000.pdf for our certificates.



1.4.8 ISO 27001 Information Security Management System

We prioritize the security of customer information. Our comprehensive information security management system has three basic components: employee management, information technology application, and rules and policies establishment. Consistent with this commitment, we have maintained ISO 27001 certifications at all our sites since 2005. See www.smics.com/img/iso27001.pdf for our certificate.





▲ Our facility inspectors perform routine checks to ensure safety and compliance.

1.5 Customers and Suppliers

We remain committed to building trust together with our customers and suppliers, especially as our influence in the mainland Chinese market continues to rise. According to the Ministry of Industry and Information Technology's China Software and Integrated Circuit Promotion Center (CSIP), approximately 75% of Chinese fabless companies chose SMIC as their preferred foundry partner in 2012. As we provide quality service to our customers, they in turn recognize our efforts with awards that inspire further improvements.

1.5.1 Supplier Management

Treating our suppliers as partners, we can build a strong and sustainable supply chain. We take all elements into account, including quality and cost of the product, delivery time, customer service, as well as environment, safety, and health concerns. We also work with our suppliers to protect the environment, uphold human rights, and improve the quality of the product supply process.

1.5.2 Quality System Assessment

To manage our suppliers' performance quality, we conduct annual quality system assessments with our raw material suppliers. We issue corrective action requests to address any nonconformities found, and we work with our suppliers to develop appropriate and executable solutions to meet the standards.

1.5.3 Control of Process and Specification Changes

To ensure that process and specification changes do not harm our manufacturing and product quality, all suppliers are required to pre-notify us and receive our approval before implementing such changes.



▲ 2012 Best Supplier Award.



▲ 2012 Best in Class Supplier Award.



▲ 2012 Best Service Team Award.



▲ Our booth at 2011 SEMICON China, one of the global industry's largest annual events.

1.5.4 New Supplier/Second Source Evaluation

To ensure that potential suppliers can meet our quality control system, we review all relevant material in their quality systems during a new supplier or second source evaluation. We require our suppliers to be certified for ISO 9001. We also encourage them to be certified for ISO 14001, OHSAS 18001, or other environmental and ESH management systems. If they cannot meet our requirements, they cannot qualify as an approved supplier for SMIC.

1.5.5 Overall Performance Evaluation

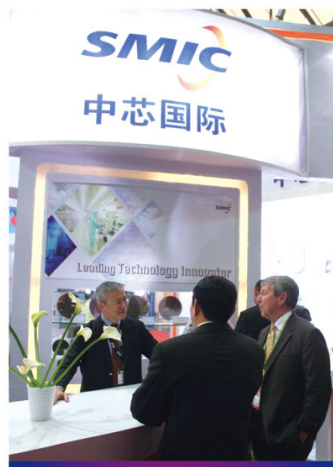
To review the overall performance of our suppliers, we conduct a semiannual performance evaluation on quality, cost, delivery, service, and environment. We also review our raw material suppliers in light of environmental and safety regulations. We issue corrective action requests for improvement of poor performance, and we award certificates to suppliers with a proven record of excellent performance.

1.5.6 Compliance with the EICC Code

To promote EICC participation by our suppliers, we include the following requirement in our purchase order contracts: "All parties hereto agree to comply with basic industry standards for supply-chain integrity and legal compliance, such as the standards reflected in SMIC's Code of Business Conduct and Ethics (www.smics.com/eng/investors/ir_ethics.php) and the EICC Code of Conduct (http://eicc.info/eicc_code.shtml) (downloadable in 18 different languages)." We are adding similar language to other contracts and developing audit tools to spot-check compliance by our suppliers.



► An inspection to confirm SMIC's compliance with industry standards.



▲Our CEO T.Y. Chiu hosting guests at 2011 SEMICON China.



▲Our senior management team hosting the top U.S. Government export control officials at our Shanghai site.



▲Our top school officials hosting a dinner for Harvard Business School Professor Chris Marquis (front right) in 2011.

1.6 Bridging Differences in Challenging Times

The global environment remains politically challenging and economically competitive, requiring mutual understanding and trust for win-win outcomes. As a high-tech leader in China, we foster understanding and trust through our global networks of relationships with industry, academia, governments, and our own residential communities. At the same time, we leverage our networks and alliances to develop the global industry and serve our customers.

As the leading semiconductor company in China, we host international business partners every day. We also support major industry events such as SEMICON China, held each March in Shanghai. During the week of SEMICON, we help welcome hundreds of global business leaders to China. We also mix with and support the rising tide of tourists sparked by the Beijing Olympics and Shanghai World Expo.

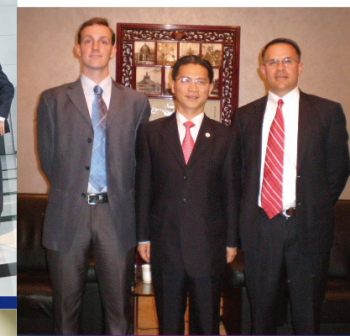
Our relationships with governments worldwide make us a better corporate citizen. When we cooperate with government agencies abroad to acquire leading technology licenses, we demonstrate trustworthiness and effective management. In turn, the resulting licenses allow us to deliver the most advanced technologies to our customers. We frequently host foreign government delegations to introduce them to the local leaders and business environment. We also engage actively with embassies, consulates, and chambers of commerce across China.

Our partnership with national and municipal agencies in China enables us to contribute to the development of its high-tech sector. It also opens doors for us to contribute generally to a more open China. The country's strategic focus on high-tech ensures that we will remain at the center of a dynamic and growing business community.

As the world studies China's development and investment environment, we often host foreign academic delegations. Regular visitors include graduate students of business and engineering from leading universities in the United States, Asia, and Europe. The most frequent visitor has been Harvard Business School, whose delegations of students, professors, and researchers have published three case studies on SMIC. See HBS Case Numbers 9-609-062 (Jan. 2009), 9-611-053 (Mar. 2011), and 9-413-083 (Nov. 2012).



◀A U.S. delegation visiting our Beijing facility in September 2012.



▲Our corporate relations staff meeting with Shanghai Expo Deputy Director Zhou Hanmin (center) to explore SMIC's role in the Expo.



◀The American Chamber of Commerce Export Control Working Group, which SMIC co-chairs, meeting with U.S. Ambassador Gary Locke (center) in November 2011.



▲Our CEO T.Y. Chiu meeting Ambassador Locke at a New York Stock Exchange event in December 2011.



◀U.S. military officers making their yearly visit to SMIC in May 2012, as part of an annual study on the global electronics industry.



Build Trust. **Care for People.** Protect the Environment.

2.0

The quality of our **People** is a priceless asset. Our company's success depends on the well-being of our staff and the communities where we operate. Thus, we ensure that our employees receive fair treatment, good health benefits, and meaningful opportunities for advancement. Together, we fuel the economic and social development of our company and communities.

From our founding in 2000, SMIC has attracted far-sighted people who want to make a difference in our industry and world. Our employees come from around the globe not only to employ their skills in advanced technologies, but also to bring sound values to bear upon our business and communities. It is our employees and their families who have inspired and led our good corporate citizenship.

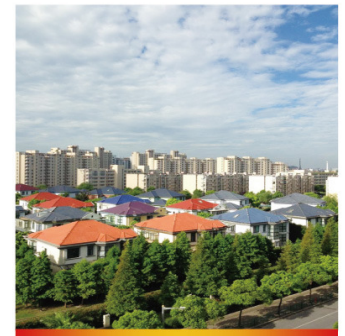
2.1 SMIC Living Quarters (LQs)

Wherever we build fabs, we also build Living Quarters (LQs) to care for our employees and their families. In a slideshow on our Shanghai LQ, the EETimes wrote: "[SMIC] developed a template for successful recruitment of world-class talent unusual in China or anywhere else in the world [The] campus is expansive and beautifully landscaped. The living quarters includes big houses for executives, townhouses for employees, and low-cost dormitories for SMIC's manufacturing assistants." *How SMIC Attracts Talent* (www.eetimes.com/document.asp?doc_id=1264671). In a separate story, the Wall Street Journal compared our LQ to "an American Sun Belt suburb" and concluded: "While some of China's most advanced technology and Internet companies ... have built attractive campuses to lure in talent, none have gone quite as far as [SMIC] in providing a total environment for employees SMIC's campus offers a glimpse of what work in China could look like if the country succeeds in building out the leading edge of its electronics industry." *A Silicon Valley Campus with Chinese Characteristics* (<http://blogs.wsj.com/chinarealtime/2013/02/28/a-silicon-valley-campus-with-chinese-characteristics>).

Our LQs form safe, healthy, and supportive neighborhoods that are subsidized for our employees but open to the larger community. Our more advanced LQs in Shanghai and Beijing offer a variety of housing options, medical and dental clinics, fitness facilities, restaurants, bookstores, coffee shops, grocery and convenience stores, juice bars, barbershops, and much more. A core element of each LQ is our company school, featured in section 2.2, below. Harvard Business School summed it up this way: "Life in the LQ provided a powerful incentive to employees to join and remain with SMIC." *Building a Community at SMIC*, HBS Case No. 9-413-083 (Nov. 26, 2012).



▲ Children enjoying the sun and games at our Shanghai elementary school.



▲ Our Shanghai LQ includes dorms, apartments, townhouses, and villas.



▲ Our Beijing LQ.



▲ Playing basketball at our Shanghai LQ.



▲The annual Zhangjiang Dragon Boat race mixes our staff and their families with the larger community for a day of fun and sportsmanship.



▲A grandfather strolling with his grandson in our Shanghai LQ. We embrace multi-generational households via our LQ housing options and health care plans.



▲A glance at our Shanghai high school.

Our LQs improve the quality of life for staff by lowering their cost of living while raising their *standard* of living. Our LQs also improve our bottom line. By leveraging the company's scale and resources, we can offer our staff subsidized housing, amenities, and tuition, and free daily commutes, at low cost to them and to SMIC. Our LQ guest rooms reduce the cost of staff travel among our sites in China and our offices around the world. Our Shanghai school earns a profit even while heavily subsidizing tuition for employees' children. And our sales of LQ units to our staff, even at well below market prices, generate significant gains for the company. In one recent quarter, sales of some Shanghai LQ units to staff generated a gain of about 20,000,000 USD. See SMIC's Quarterly Earnings Release for the Fourth Quarter of 2012 at page 7 (www.smics.com/attachment/201302062033068_en.pdf).

Other, less tangible benefits are no less important: Our employees enjoy the well-being that comes from living in secure, healthy communities, and they retain the time ordinarily lost in daily travel to work, shops, and restaurants. Our LQs also bridge cultures and generations through the diversity of the individuals and families drawn to our company and its schools.

- Our **Shanghai LQ** occupies 276,000 square meters and houses most of our 6,000 Shanghai-based staff. It is 1.4km from our HQ facility, accessible by foot, bicycle, or free shuttle bus. Due to demand, we are planning a second LQ in Shanghai on our Tangzhen property, about 7km from our HQ. It will house another 3,000 staff and family members.

►Some of our stores and shops beneath employee dorms in our Shanghai LQ.



▼A birds-eye view of the greenery and color around the villas and apartments of our Shanghai LQ.



- Our **Beijing LQ** (above) houses most of our 2,600 Beijing-based employees. It is 2.6km from our Beijing facility, accessible by foot, bicycle, or free shuttle bus, and includes apartments, dormitories, K-9 school, recreation center, restaurants, and other stores and facilities. We are expanding both the LQ and the school. The school should have a new academic building by September 2013 and the LQ should have 277 new apartments by October 2014.
- Our **Tianjin LQ** (below) opened in 2012. It houses about 1,000 Tianjin-based employees, with 200 units in three apartment buildings and one low-density dormitory dedicated to 400 of our manufacturing assistants.



► Students from our Beijing school painting murals.



► 2012 J.P. Morgan Corp. Challenge charity race in Shanghai. With our 300 runners, SMIC was the top participant for a second year in a row.



◀ Long jump competition at our Company Sports Day in Tianjin in 2011.



◀ SMIC School Carnival in Shanghai in 2012.

2.2 SMIC Private Schools



Our company schools provide an affordable, world-class education for the children of our staff and our surrounding communities. With over 2,300 students and 300 teaching staff, our Shanghai school ranks in the top one percent of all private schools in China and, in 2012, received two distinguished awards from the National Private School Association and Shanghai Education Council. See www.smic-school.cn/ab/y/?ListID=96 for more information. For non-SMIC staff, the cost is less than half the cost of local international schools. For SMIC staff, the cost is a tiny fraction. Yet, the school is profitable.



► This award recognizes SMIC's high academic performance as the "Most Distinguished School for Program Administration" in 2012.



"The SMIC School is a family. We respect and value each individual. The heart and soul of the school is to educate and nurture students to become global citizens of honor and self-discipline who also remain committed to independent thinking and service to others."

Dr. Shu-Kuang Hu

Chancellor, SMIC Schools

▼ Side view of SMIC's high school campus in Shanghai.



◀ Our high school graduation in Shanghai in 2012.



◀ Our English Summer Camp in Beijing in 2012.

►Our School Sports Day in Shanghai in 2012.



►At the Shanghai Nanhui Violet Hope School, a charity school for children of migrant workers, with some of our high school students providing community service.



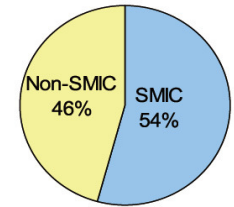
2.2.1 Our Shanghai School

Established in 2001, our Shanghai school offers the usual K-12 academic and athletic facilities plus an astronomical observatory. The English Track uses a U.S.-style curriculum while the Chinese Track follows China's national system. Both tracks combine elements from Western and Eastern-style education and include language training to help all students become bilingual. Both tracks also approach student development holistically, emphasizing personal integrity, community service, and best efforts in all activities. This approach is reflected in the school's motto: "Honor, Excellence, Community, Joy."

The school is well regarded, and it benefits the entire community. According to the EETimes, the school "is known as one of the best schools in Shanghai – even better than the American School in Shanghai – by the expatriate community." *How SMIC Attracts Talent*, April 18, 2013 (www.eetimes.com/document.asp?doc_id=1264671). The article continues: "On the theory that the best school needs the best teachers, the bilingual school recruited its teaching staff globally, including career educators at prep schools in the United States. A Harvard Business Review article in 2009 that examined SMIC's strategy – including the SMIC School – pointed out that 'graduates from the school had been admitted to top universities in the U.S., including many Ivy League schools.'" A newer Harvard study provides a complete history of SMIC schools. See HBS Case No. 9-413-083 (Nov. 26, 2012).



▼At our School Sports Day in Shanghai in 2012.

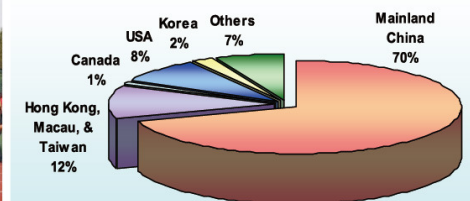


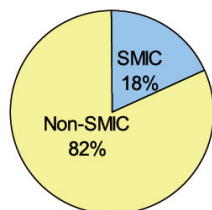
Percent of SMIC-Affiliated Kindergarten Students: Shanghai 2009-2012



▲An English Track classroom at our elementary school in Shanghai.

SMIC Kindergarten Students by Nationality: Shanghai 2012





Percent of SMIC-Affiliated Students in Grades 1-12: Shanghai 2009-2012

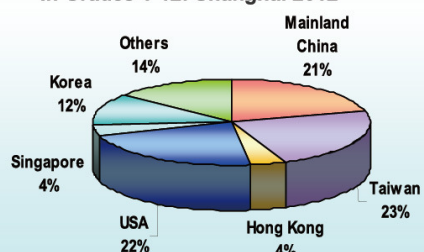
As approved by the U.S. College Board, we administer the SAT, ACT, and AP exams to our English Track students, nearly all of whom receive admission to top universities. Our 2012-13 English Track graduates received the following admissions: Boston College, Boston Univ., Dartmouth, Emory, Fordham, Georgia Tech, Imperial College, McGill, Northeastern, NYU, NYU-Stern, Penn State, Pepperdine, Rice, SMU, UC-Berkeley, UC-Davis, UC-Irvine, UCLA, UCSB, UCSD, USC, Univ. of Edinburgh, Univ. of Glasgow, Univ. College London, Univ. of Florida, Univ. of Hong Kong, Chinese Univ. of HK, HKUST, Univ. of Illinois-UC, Univ. of Maryland-CP, Univ. of Miami-Florida, Univ. of Melbourne, Univ. of Michigan-AA, Univ. of North Carolina-CH, Univ. of Texas-Austin, Univ. of Toronto, Univ. of Virginia, Univ. of Washington, Univ. of Wisconsin-Madison, and many others. Our Chinese Track graduates were admitted to China's top universities.



▲ 2012 Senior Commencement at our Shanghai high school.

▲ Our high school girls' soccer team.

SMIC School Students by Nationality In Grades 1-12: Shanghai 2012



▲ A quiet summer day on our high school campus.

2.2.2 Our Beijing School

Our Beijing school follows our Shanghai model. Established in 2005, our Beijing school offers kindergarten through 9th grade education, with over 800 students and 140 teaching staff. The kindergarten is bilingual, while the elementary and middle school divisions offer both English and Chinese tracks. Each track offers appropriate language classes for all students.

Our Beijing campus covers 26,800 square meters and includes most of the academic and athletic facilities expected of modern schools. Also accessible to the students is our Beijing LQ's Recreation Center, which includes an indoor basketball court, fitness center, dance studio, badminton courts, and tennis courts. The school is undergoing expansion, with a new academic building opening in September 2013 and the goal of adding grades 10-12 for complete K-12 coverage in the not too distant future.



▲ Summer English class in 2012.

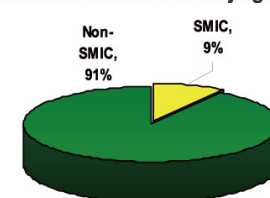


◀ Our Beijing school campus.

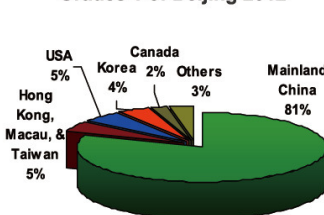


◀ Bike race at School Sports Day in 2012.

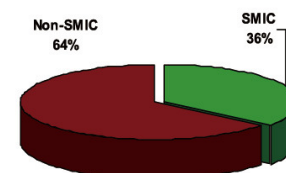
Percent of SMIC-Affiliated Students in Grades 1-9: Beijing 2012



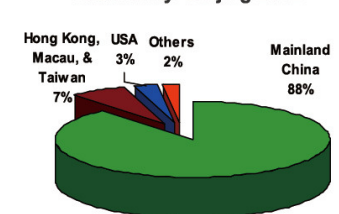
SMIC Students by Nationality in Grades 1-9: Beijing 2012



Percent of SMIC-Affiliated Kindergarten Students: Beijing 2012



SMIC Kindergarten Students by Nationality: Beijing 2012



2.2.3 School Activities

2.2.3.1 Sports and Arts

Our Shanghai school offers a range of team sports, such as basketball, soccer, badminton, volleyball, swimming, cross country running, and others. Our *SMIC Sharks* compete in international school tournaments locally, and many of our students join local sports leagues to compete internationally. In visual arts and music, our students develop their talents at school and independently, performing in seasonal concerts throughout the year.

Each year, our schools in Shanghai and Beijing hold a School Sports Day. All students from both tracks join together for a day of organized sports and games. The events promote fitness, friendly competition, and school spirit.

2.2.3.2 School Carnival

In October 2012, our Shanghai School Parent-Teacher Association (PTA) hosted its annual Carnival on the elementary school grounds. It featured dozens of booths with games of all kinds and hundreds of items for sale, including hand-made crafts, second-hand books, and food from around the world. The Carnival also had an eco-friendly booth to protect "our one and only earth." The booth sponsors invited visitors to bring electronic waste — such as obsolete phones, computers, and chargers, expired medication, and waste batteries — and exchange them for a gift. The sponsors also encouraged second-hand clothing donations. In managing booths, students practiced business skills, such as sales, marketing, and teamwork.



▲ A basketball competition at our 2011 School Sports Day in Shanghai.



▲ A 2011 game in Shanghai's American football league, open to our students.



▲ Our Shanghai students selling their used toys at the 2012 School Carnival.



▲ Funny Hat Day at our Shanghai elementary school in 2011.

2.2.3.3 Writing Competition

In 2012, our Shanghai school attended the Second Annual Pudong New Area International Student Chinese Writing Competition sponsored by local educational associations. Our students competed with students from 11 local international schools. The theme, "Living in Shanghai," gave foreign students a forum to share their experiences as expats. All our students performed well, including the four students receiving First Place and 20 students receiving Third Place awards. We also formed a student team to perform Chinese songs during the closing ceremony, which was a highlight for many.

2.2.3.4 Multi-lingual Speech Competition

Each year, our schools hold speech competitions in multiple languages to promote language study and proficiency. In the Bilingual Speech Competition, our elementary school students showed their proficiency in both English and Mandarin and practiced their public speaking skills. In the Foreign Language Speech Competition, our middle and high school students gave speeches in either French or Spanish.

2.2.3.5 International Day

One Saturday each spring, the classrooms of our elementary schools become different countries. To prepare for this day, the teachers and students in each class choose a country to study and showcase. Then they design their classrooms to represent that country with costumes, props, food, and performances. When International Day arrives, parents and other guests sample the food and culture of each classroom (country) and get their special passports stamped. International Day is a tradition at all of our schools, and a model for other schools in the region. For 2012, students portrayed Argentina, Brazil, South Korea, Egypt, and more than 20 other countries.



◀ International Day at our Shanghai school in 2012.



▲ The 6th Annual SMIC School Foreign Language Speech Contest in 2012.



▲ International Day at our Beijing school in 2012. Each class staged performances for parents and fellow students.



▲ Two young girls introducing visitors to Poland on International Day in Shanghai.



▲Our students channel their talents towards a good cause in their annual Rock for Charity concert. In 2012, proceeds went to Shanghai Sunrise Foundation.



◀Two of our high school students helping a child with English as community service at the Shanghai Nanhui Violet Hope School, a charity school for children of migrant workers.

2.3 SMIC Student Outreach

2.3.1 Community Service Club

The Community Service Club at our Shanghai high school continually organizes charity and service events to help our students earn their 100 hours of required community service before graduation. Many students visit Healing Home, which provides surgery and care for abandoned babies with correctable deformities and helps find parents to adopt them. Through the Craft-A-Wish program, students raise charity funds throughout the year by making and selling crafts out of recyclable materials. Rock for Charity, an annual charity concert produced by the Club since 2007, has expanded to include students and teachers from nearby schools. The Club also supports the efforts of the Baobei Foundation, which works with Shanghai medical professionals to provide life saving neurological or gastrointestinal surgeries to Chinese orphans.

2.3.2 PTA Charity Event: Donations to Qinghai Province

In April 2012, our Shanghai students helped the SMIC PTA raise money to help needy people in Qinghai Province. A total of 5,450 RMB was raised in three days through selling pens commemorating the 2010 Shanghai World Expo. Proceeds were used to support volunteer teachers in Qinghai Province.

2.3.3 The SMIC Library Project

The SMIC School Library Project donates libraries to under-financed schools and orphanages in China. The Library Project has provided over 450 libraries to rural elementary schools and orphanages in China. On September 27, 2012, SMIC School donated a library to Shan Wang Elementary School in Xi'an City in Shaanxi Province. The gift included over 750 books plus bookshelves, globes, educational toys, posters, training materials, recorders, and more.



▲Organizing the books in the Shan Wang Elementary School library, donated by the SMIC Library Project.

2.3.4 Share Your Love Art Charity Program

Since 2004, our Shanghai school has organized an annual Art Charity Program. The program showcases our students' artwork and all the proceeds help sick or disadvantaged children. In 2012, students from kindergarten to 8th grade exhibited over 500 pieces of art and raised 220,000 RMB to help disadvantaged children. Of that total, 120,000 RMB came from sales of student artwork and donations from our sponsors, and 100,000 RMB was donated by the school.



▲Some of our students' art creations for the Art Charity Program in 2012.

2.3.5 Million Tree Project

Each year, the school's Environment Club joins Shanghai Roots & Shoots (R&S) for its Million Tree Project. The project's goal was to plant one million trees in arid Inner Mongolia to reduce desertification and air pollution. In 2012, after six years of participation, R&S reached its goal early when it finished planting a million-tree forest. For our students' involvement in this and the R&S Eco Audit project, SMIC School received the "Green Star School" award. Our students now are working towards the second million trees with SMIC's annual Thousand Tree Challenge. Members of the community can participate in the students' cause by funding a poplar tree (25 RMB) to help combat desertification in Inner Mongolia.



▲Our students dig to plant trees in Inner Mongolia in 2012.

2.3.6 Giving Tree

Our Shanghai students have long supported the Giving Tree project, which assists about 15,000 children each year. Students prepare "Winter Warmth and School Success Bags," which are full of age and gender appropriate winter clothes and school supplies donated in time for the Chinese New Year holiday. Last year, our students helped 598 children in Lin Min by partnering with this worthwhile program. Since 2009, the school has reached over 1,600 children.



▶250 of our Beijing students in a charity walk-a-thon in 2011, raising funds for treatment and care of disabled orphans.

◀Children of migrant workers receiving their Giving Tree bags from our Shanghai students.



2.4 SMIC Workforce Development

SMIC employs about 10,000 men and women. To ensure a productive work environment, our policies offer incentives for individual and team performance while maintaining clear standards for safety, ethics, and business conduct. At the same time, our nearby residential campuses (LQs) provide our staff with a desirable living environment. Together, these working and living environments form larger communities that support both work and family life. In short, they enhance the recruitment, productivity, and retention of the SMIC Team.

We appreciate the benefits of a diverse workforce, including the harmony that comes from mutual understanding and respect. A diverse staff also helps us to connect and communicate with our global base of customers, suppliers, and investors. Over 600 of our employees come from 21 countries overseas. While Mandarin and English predominate in our offices, a wide variety of dialects and languages can be heard in our LQs and at company events. Diversity goes beyond nationality. It has always been our policy to welcome veterans and persons with disabilities, and we accommodate our colleagues' special needs wherever possible.

Total Number of Employees by Employee Type
As of December 31 of Each Year

| Function | Y2011 | Y2012 |
|-------------------|--------------|--------------|
| Managers | 898 | 922 |
| Professionals (1) | 4,297 | 4,164 |
| Technicians | 3,910 | 4,650 |
| Clerical staff | 347 | 238 |
| Total(2) | 9,452 | 9,974 |

(1) Includes engineers, lawyers, accountants, and other personnel with specialized qualifications, excluding managers.
(2) Includes 1 and 3 temporary and part-time employees in 2011 and 2012 respectively.



▲ SMIC's corporate culture ensures a safe and friendly place to work.



◀ The south entrance of our Shanghai site.

2.4.1 Internship Program

SMIC provides opportunities for professional experience and training to high school, technical college, and university students through our Internship Program. Our interns come from top universities in China, namely Fudan University, Shanghai Jiaotong University, Tongji University, Shanghai University, Shanghai University for Science and Technology, and Zhejiang University. These interns represent China's future leaders in the high-tech industry. We hope they will apply our values of integrity, discipline, teamwork, ownership, innovation, and safety to shape a sustainable future, wherever they may go. Of course, we hope many of them will join our team.

2.4.2 Convenient Services

Our production sites provide in-house amenities such as cafeterias, fitness centers, coffee shops, 24-hour convenience stores, juice bars, and health clinics. Other on-site services include banking, telecommunications, insurance, postal, and similar services.

2.4.2.1 Dining Service

All of our production sites have cafeterias with a variety of dining options. For example, our Shanghai site has three large cafeterias in three different buildings, each with different restaurants offering a range of Chinese and Western cuisines.

Number of Employees by Geographic Region
As of December 31 of Each Year

| Location | Y2011 | Y2012 |
|---------------|--------------|--------------|
| Shanghai | 5,555 | 6,037 |
| Beijing | 2,253 | 2,491 |
| Tianjin | 1,321 | 1,354 |
| Chengdu | 12 | 11 |
| Shenzhen | 36 | 23 |
| Wuhan | 236 | 17 |
| United States | 17 | 18 |
| Europe | 6 | 8 |
| Japan | — | — |
| Taiwan Office | 11 | 11 |
| Hong Kong | 5 | 4 |
| Total | 9,452 | 9,974 |

▲ Our success depends on our ability to attract, retain, and motivate qualified personnel.



▲ Inside our fabs, compliance with ESH regulations is imperative.



▲ Health-conscious staff using fitness facilities at our Shanghai fab.



▲ Our commitment to environmental health is felt daily by our employees in our nearby residential communities.

2.4.2.2 Transportation Service



▲ Our bus fleet provides a free and convenient commute option for our staff each day.

To serve employees, save energy, reduce carbon emissions, and improve efficiency, we provide free bus service for different routes between the company, relevant metro stations, and our LQs.

2.4.2.3 Accommodations

While some of our employees choose to live off-campus, most want to live in the convenient and subsidized housing of our LQs. See section 2.1 for more information on our LQs. To meet the demand for housing, we are expanding our LQs and leasing off-campus dormitories as needed. In addition to permanent employee housing, each LQ has guest rooms available for new employees and traveling staff at no cost, and for other guests at a modest fee. Our Beijing hotel, for example, has 80 rooms.

2.4.3 Open Communication

We believe open and transparent communication creates a positive working environment, generating higher productivity and performance. Each quarter, our Chairman and our CEO lead a companywide meeting to share quarterly achievements and plans with all managers. Similar meetings occur at other levels. In 2012, our Employee Relations team hosted 11 communication meetings for various levels of managers and employees, and 16 communication meetings for our manufacturing assistants. Our regular employee satisfaction surveys help ensure that our employees' opinions are heard and their issues are resolved as quickly as possible.

SMIC's internal magazine, *IC Innovation*, began in 2001. This bi-monthly magazine promotes positive company culture, conveys management strategy, and provides a platform for feedback from our staff. Content of the magazine ranges from serious subjects to simple fun. Topics include SMIC news, employee contributions to the company, personal development, and travelogues featuring employee travel experiences and tips.

2.4.4 Benefits

In addition to competitive pay, all employees receive stock options to enable them to prosper along with the company. They also are entitled to comfortable housing in our company LQs, healthy food in our company cafeterias, and first-class education for their children in our company schools – all heavily subsidized by the company. Other key amenities include free or low-cost commutes to work and use of recreational facilities, plus low-cost and convenient shopping and dining. See section 2.1 for more information.



▲ Open communication during a team project.

2.4.4.1 Salary and Financial Benefits

As a supplement to their competitive salaries, our employees routinely earn performance bonuses based on company and individual performance. Additional financial benefits include stock options, housing benefits, and tuition assistance.

2.4.4.2 Comprehensive Insurance Plan

SMIC enrolls employees in the mandatory Chinese social insurance program, which includes pension benefits plus modest insurance coverage for medical, unemployment, work injury, and maternity. More significantly, our employees benefit from the company's substantial group insurance program. Coverage includes life insurance, accident insurance, health insurance, and pregnancy insurance, with many forms of coverage available for parents. Additionally, employees are enrolled in the public housing fund.

2.4.4.3 Other Welfare Benefits

SMIC provides other benefits, including:

- Financial assistance for employees in difficult circumstances;
- Subsidies for weddings, childbirths, and funerals;
- Morale boost fund for department social events and team-building;
- Subsidies for business travel;
- Discounts for designated vendors; and
- Platform for shopping and information sharing on our intranet.

The benefit plans for the employees of our overseas subsidiaries all comply with or exceed local regulations.

2.4.4.4 Flexible Leave Programs

To improve employee productivity and well-being, SMIC offers flexible leave for a better work-life balance. For instance, our popular Parental Leave program contributes to the retention of employees (see below).

| 2012 Employee Parental Leave | | | |
|---|-------|--------|------|
| | Total | Female | Male |
| Total Number on Parental Leave | 857 | 509 | 348 |
| Total Number of Returning Parental Leave Participants | 749 | 428 | 321 |

► One of many green, landscaped walkways in our Shanghai LQ.



▲ Birds-eye view of our Shanghai LQ, where our community comes together.



▲ ▼ Our LQ in Shanghai includes indoor swimming pools for our staff, their families, and the local community to enjoy.



2.4.5 Health Care



▲ Medical clinic in our Shanghai LQ.



▲ A 2012 yoga class for our staff in our Shanghai LQ fitness center.



▲ Some of our Shanghai staff team-building in nearby Nanxiang.

A healthy staff is essential to business success. Thus, we provide good health insurance options for our employees and their dependents which, in many cases, can include employees' parents. Our global employees are protected by insurance plans with tailor-made international coverage. Additional health-related services are listed below.

2.4.5.1 Health Centers and Consultations

We maintain professionally-staffed medical clinics at each of our manufacturing sites, LQs, and schools. To help our employees maintain good health and peace of mind, we also offer thorough annual health examinations. In 2012, over 4,700 employees received health exams. Our clinics regularly invite medical experts to our facilities to lecture on healthy living and provide consultations. Our facility in Shanghai often hosts specialists on weekends. For example, during Cancer Prevention Week in April 2012, specialists provided on-site consultations, including colon cancer screening for 128 of our employees. In November 2012, we passed a chronic disease prevention audit by the Ministry of Health and were named a "demonstration company."

2.4.5.2 Health Education and Counseling

Our Employee Care team regularly sends all-staff emails with advice on how to maintain a healthy lifestyle and stay safe throughout the year. They also organize lectures by visiting experts. In 2012, nearly 600 employees attended lectures on stress management and personal growth. We also provide professional counseling for employees upon request. In 2012, these services included more than 400 hours of professional counseling plus hundreds of informal visits to over 1,350 employees.

2.4.5.3 Total Development Program

To maintain a healthy and focused workforce, SMIC promotes balance between work, family, and leisure: a work-life balance. Our Total Development Program offers courses and group activities to cultivate interests and skills among our staff. Over 1,100 people have taken part in the programs, including courses in painting, sewing, calligraphy, music, languages, yoga, and much more. We also routinely organize group travel throughout China to enable our employees and their families to explore and understand China while getting to know their colleagues, neighbors, and other traveling companions.



▲ A management training session for our engineers.



▲ Some management training for our manufacturing assistants.

2.4.6 Training and Education

All new hires attend thorough on-board training with company instructors. Topics include our policies and practices related to manufacturing, research and development, quality control, production support, legal and ethical compliance, individual development, and personal safety. We also provide specialized training for certain roles.

In addition to on-the-job training, our employees develop their professional skills through in-house training sessions and e-learning courses. In 2012, we offered more than 2,000 training sessions and nearly 800 e-learning courses, which were accessed nearly 48,000 times. For example, our engineers received an average of 18.6 hours of training per person in 2012.

Each year we invite outside experts to provide training for our managers to strengthen teamwork, efficiency, leadership, and management throughout the company. We also provide language training for our diverse workforce, including, for example, an English Salon taught by native English speakers.

2.4.6.1 Continuing Education Program

As our employees grow, so does our company. Higher education contributes to the welfare and contentment of our staff, and improves the quality and value of our workforce. Thus, our Continuing Education Program encourages our employees to pursue academic degrees in their fields.

SMIC partners with Beijing (Peking) University, Shanghai University, Shanghai Jiaotong University, Fudan University, Tianjin University, and other schools to offer undergraduate and graduate degrees to our staff in fields ranging from microelectronics to business administration. For approved staff, we subsidize tuition and encourage managers to accommodate course schedules. Employees take their courses at local universities and at our facilities, where we host professors. We also employ many expert staff who freely share their knowledge and experience gained overseas.

Through 2012, our staff earned 405 associate degrees, 445 bachelor degrees, and 389 master degrees. As of December 2012, 128 staff held doctorate degrees, 1,480 held master degrees, and 2,923 held bachelor degrees.



▲ Our Continuing Education Program allows us to reward high performers and significantly reduce turnover.



◀ Company Sports Day in Tianjin in 2011.

▼ Our Beijing employees performing in a company talent show.



▲ Our 2012 SMIC Fair.

2.5 SMIC Community Development

We care for people by fostering a quality community environment. One way we do this is by hosting events to promote recreation, fellowship, and community spirit to enhance the well-being of our staff, their families, and the surrounding communities. Below are some of our favorite annual events.

2.5.1 Annual SMIC Fair

Each spring, the SMIC Fair brings thousands of people together at our Shanghai LQ for a day of food, rides, games, prizes, and cultural attractions.

◀▼ Our 2011 SMIC Fair.



2.5.2 Annual New Year Party

Many of our employees celebrate the calendar New Year or join their Western colleagues for the festivities. Every year we host an evening of performances by staff, students, and local residents.

2.5.3 Annual Chinese New Year Party

Nearly all our employees celebrate Chinese New Year with us. The festivities include traditional banquets with food and prizes for our staff and business partners, as well as music and dance performances by our staff.



▲▼▶ Our 2011 New Year Party in Shanghai, featuring an orchestra (right), instrumental solos (above), and dance performances (below).



▶ Dancers perform during our 2012 Chinese New Year Party in Beijing.



2.5.4 Annual Company Sports Day

Each fall, we host a Company Sports Day at each site to promote exercise, health, and teamwork. After a parade and opening ceremonies, our employees compete in dozens of team and individual athletic events. These Company Sports Days resemble our School Sports Days, also held each Fall. See section 2.2.3.1.

2.5.5 Other Sporting Events

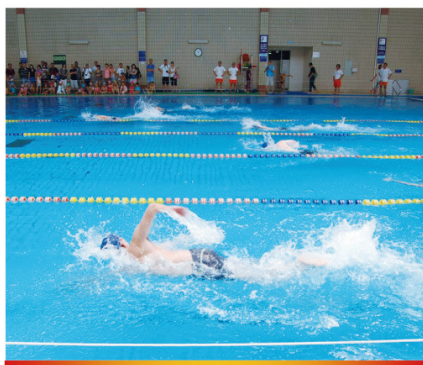
We host community competitions such as swim meets and basketball and soccer tournaments, and otherwise make our facilities available to the larger community. In addition, many of our employees take part in local sporting events such as the Zhangjiang Swim Competition, Jinqiao 8K run, and Shanghai Marathon.

2.5.6 Zhangjiang Dragon Boat Race

In 2011, our employees once again formed a team for the annual Dragon Boat Race organized by the Zhangjiang High-Tech Park surrounding our Shanghai headquarters. The race highlighted traditional Chinese culture and brought together teams from local companies for friendly competition. The event attracted spectators as well as a television audience. Our team took third place.



▲ Tug-of-war at our Tianjin Sports Day in 2011.



▲ One of our employees competing in the 2011 Zhangjiang Swim Competition.

▼ SMIC's 2011 Dragon Boat Team pulling ahead.



▲ Some winners of our CEO Awards, with CEO T.Y. Chiu (right) and EVP Mike Rekuc (left).



▲ Cheering on our team at the 2011 Zhangjiang Dragon Boat Race.



▲ Painting with the Evergreen Club.



▲ One group of participants in our 2011 Marriage Retreat.

2.5.7 Employee Recognition

SMIC sponsors various award programs to recognize staff achievement on both team and individual levels. Through these award programs, we aim to encourage our employees' continuous development, which in turn adds to our company's competitiveness.

Our award programs include:

- CEO Awards, presented by our CEO to staff who contribute significantly to the company's business performance.
- Continuous Improvement Team awards, to encourage and recognize innovative projects that improve quality control and standardization.
- Outstanding Manufacturing Assistant Awards, for each fab to recognize our outstanding manufacturing assistants (MAs).
- Years of Service Awards, to honor our senior employees' long-term devotion and commitment to the company.
- External awards: In 2012, our employees were recognized by the National Recruitment Program of Global Experts, Outstanding Young Science and Technology Talents, and other national programs.

2.5.8 Clubs and Organizations

2.5.8.1 Mothers' Club

The Mothers' Club is divided into three groups, each meeting at least once a week. The club enables parents and children to teach and learn from each other on topics ranging from classical Chinese poetry to geography, and history to character-building. Mothers share their experience and parenting tips with one another. To date, over 2,400 people have participated in the club.

2.5.8.2 Evergreen Club

The Evergreen Club provides social support for our senior citizens. About 70 members join dance exercises each morning as well as weekly events such as singing and crafts.

2.5.8.3 Family and Youth Programs

We promote programs that strengthen family and community bonds. In 2011, we hosted "Singles Camp" in both the spring and fall for 40 of our young and single employees. We also hosted a "Marriage Retreat" twice in 2011, with a total of 33 couples attending. Both programs promote healthy attitudes towards life, love, and relationships.

2.5.8.4 The SMIC Labor Union

The purpose of the Labor Union is to express and protect the rights and interests of our employees, and to develop a harmonious and stable labor relationship with the company. The primary duty of the union is to ensure the fair treatment of all employees. The union also organizes many cultural activities to narrow the distance between employees and managers and to familiarize employees with SMIC. In addition, the union cooperates with government agencies, trade associations, and other organizations to build a positive working environment.

Among its cultural activities, the union develops clubs and associations for employees to join, such as soccer, basketball, and chess. In 2011 and 2012, the union also organized many of our largest companywide events, including Sports Day, Spring Fair, Carnival, New Year Party, Mid-Autumn Festival, and a karaoke singing competition. The union also celebrates Women's Day, Lantern Festival, and Secretary's Day, and actively encourages employees to participate in activities hosted by our local Zhangjiang High-Tech Park.

2.6 SMIC Staff Outreach

Since SMIC's founding in 2000, our community spirit has touched many people beyond our own campuses. Our employees and their families contribute thousands of hours of charitable service, often in collaboration with their schools and faith groups as well as outside charitable organizations. They donate time and money for environmental and humanitarian causes throughout the region, such as disaster relief for the 2011 tsunami in Japan.

Our tradition of community service began with our founder, Richard Chang, who personally funded rural schools and local churches all around China. His example has inspired our employees to continue their volunteer efforts with company support. Over the years, SMIC volunteers of all ages have connected with thousands of people, meeting needs and promoting fellowship and understanding.



▲ 2011 SMIC Choir Contest.



▲ 2012 Lantern Festival and riddle contest at our Beijing Site.



▲ A few of our 293 staff who entered the JP Morgan Corporate Challenge charity race in 2011.

2.6.1 AIDS Global Fund

Worldwide, 34 million people have HIV and two million people die each year from AIDS. We are committed to help fight this disease. In 2012, our staff joined more than 10,000 other participants in supporting the AIDS Global Fund at the Shanghai Health Center. Our staff and their families improved awareness of this disease by attending public lectures and consultations focused on AIDS prevention.

2.6.2 Blood Drive

Each year, we host blood drives for hospitals in Shanghai, Beijing, and Tianjin. With trained medical staff on hand to attend to donors, we encourage all employees to donate. In 2012, 166 of our employees donated blood.

2.6.3 Fundraising

We often partner with local charities to raise funds. In December 2012, the SMIC Public Affairs office partnered with "True Love Under the Blue Sky: Good Samaritans Helping Good Samaritans," a public welfare program to help Shanghai citizens in need. For our efforts, the Shanghai Municipal Cultural Office, the Shanghai Charity Foundation, and the Shanghai Association of Volunteers collectively gave SMIC the "Outstanding Organization Award."



▲► Our Shanghai blood drives in 2012 (above) and 2011 (right).



▲ Our employees frequently volunteer in activities that promote love and respect for elders in the community. For example, 26 of our Shanghai employees visited an elderly home in 2011 to sing and offer companionship.



◀ Our employees contributing to the "True Love Under the Blue Sky" initiative.



▲ Our 2012 J.P. Morgan Corporate Challenge award for largest number of participants (300).

2.6.4 J.P. Morgan Corporate Challenge

The J.P. Morgan Corporate Challenge, a 5.6km charity race held annually throughout the world, is "the world's largest, longest-running, corporate sporting/social event." In 2011, the Shanghai race attracted 3,807 participants from 178 companies, including 293 employees from SMIC. In 2012, it attracted 6,500 participants from 277 companies, including 300 from SMIC. Each year, SMIC was honored for the largest number of participants, and J.P. Morgan Chase Foundation donated 2,000 USD to the SMIC-selected charity called *Green IT Classrooms Against Poverty* (see section 2.6.8, below).

2.6.5 Zhangjiang Fun Run

The Zhangjiang High-Tech Park organizes an annual charity run to raise awareness and funding for local charities supported by the Shanghai Community Center. Each year, our employees form a team and donate to the cause. The event began in 2007 and has grown every year. In 2012, the run raised 232,200 RMB for charity and featured 36 teams from companies across the high-tech park, including our SMIC team of 72 runners.



▲ Accepting the J.P. Morgan award in 2012. See our 2012 participants on page 26.



▲ Our staff nearing the finish line at the 2011 Zhangjiang Fun Run.

◀ Our staff at the 2012 Zhangjiang Fun Run.

2.6.6 University Engagement

Many of our managers volunteer their time lecturing at local universities and hosting student field trips at our facilities. Science and technology are the most popular subjects, although law and foreign relations are gaining popularity.



▲ One of our managers lecturing on the rule of law.

2.6.7 Orphanage Volunteers

Our employees often volunteer in activities that promote love and respect for orphans in the community. For example, 30 of our Shanghai manufacturing assistants visited a local orphanage in 2012 to offer friendship.



▲ One of our staff visiting a young orphan girl.

2.6.8 Green IT Classrooms Against Poverty

Each year, SMIC supports a charity project called "Green IT Classrooms Against Poverty." For instance, in 2011 we donated about 60 used computers, monitors, and other hardware. The host organization ensures that the equipment is either professionally refurbished or dismantled in an eco-friendly process. Refurbished computers donated by SMIC were used to build IT classrooms for children in rural and underprivileged areas of China.



▲ Preparing monitors and computers for donation to Green IT Classrooms Against Poverty.



2.7 Individual Outreach: Examples

2.7.1 The Pearl Retrieval Program

Our CEO, Dr. Tzu-Yin (T.Y.) Chiu, actively supports the "Pearl Retrieval Program" of the Zhejiang Xinhua Compassion Education Foundation. This program helps financially underprivileged students who excel academically. In 2011, Dr. Chiu supported a class of 50 "pearl students" at Yucai Secondary School in Ningxia Hui Autonomous Region. In 2012, he funded another class of 50 pearl students at Hailar Secondary School in Hulunbuir, Inner Mongolia. Each class was called a "Tzu-Yin Pearl Class" in honor of Dr. Chiu. For their career development, Dr. Chiu encourages his pearl students to seek internships at high-tech companies, including SMIC.

For more information about the Zhejiang Xinhua Compassion Education Foundation and the Pearl Retrieval Program, please visit www.xhef.org.



▲Tzu-Yin Pearl Students at an orientation workshop in 2012, in Inner Mongolia.

▲(Above left) Tzu-Yin Pearl Students in 2011, in Ningxia.

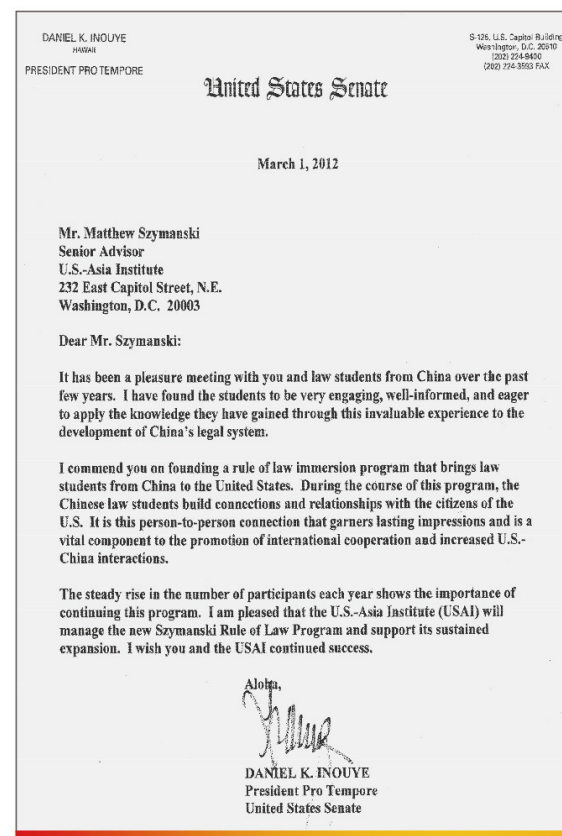
◀Class photo of the Tzu-Yin Pearl Class in 2011, in Ningxia.



2.7.2 Rule of Law Immersion in Washington, DC

A frequent lecturer at Chinese law schools, our VP of Corporate Relations Matthew Szymanski founded, funds, and leads an annual summer law program in Washington, DC for his top Chinese students. From 2008 to 2012, 19 of his students met 573 American hosts, including 35 senators, 41 representatives, 284 congressional staff, 79 administration officials, 18 judges, 5 court staff, and 111 private sector hosts. The students also attended legislative and judicial proceedings, visited historic landmarks, and participated broadly in American life.

For more information, including program summary, host lists, support letters, and photo galleries, please visit www.usasiainstitute.org/programs/j-matthew-szymanski-rule-of-law-program.



▼ Senator Daniel Inouye participated each summer from 2009-2012. The below pictures are from 2012.



▼ Secretary Ray LaHood participated each summer from 2010-2012. The below pictures are from 2012.





Build Trust. Care for People. **Protect the Environment.**

3.0

Protecting the **Environment** is a global imperative. We will continue to mitigate our environmental impact by refining the means by which we measure consumption, conserve resources, and replace harmful products and emissions with responsible alternatives. In short, we will continue to meet all the standards expected of leaders in our industry.

Environmental stewardship is key to our mission, from our regular maintenance and facility safety to our impact on natural resources a world away. Our ISO 14001-certified environmental management systems and ISO 14046-certified greenhouse gas measurement provide a solid foundation for this mission. Among semiconductor foundries, we are a leader in workplace safety and resource conservation. The results of our efforts benefit our neighbors and stakeholders, and are felt first in our own residential communities (LQs), which are safe and clean.

Green policies are good business. As our customers seek to understand and minimize their environmental footprint, we support their work by doing the same. As investors increasingly shift their capital to companies with stronger environmental performance, we exceed their expectations by maintaining and expanding our portfolio of standards certifications. See section 1.4 and next page.



Hang Seng Corporate
Sustainability Index
Series Member

3.1 Environment, Safety, and Health

Our policies and practices regarding environment, safety, and health (ESH) reflect the regulations and standards of our industry as well as our desire to protect our surroundings and staff. In our daily operations, we emphasize product innovation and quality control while economizing energy and natural resources, minimizing environmental pollution, protecting our human resources, and preventing accident loss. Our ESH Division manages these priorities through our policies of workplace safety, energy savings, waste reduction, and green supply chain. For more information, visit www.smics.com/eng/about/esh.php and www.smics.com/eng/about/quality_reliability.php.

3.1.1 Safe Work Environment

Workplace safety is paramount because life is precious and accidents are costly. A single significant accident can destroy lives and cripple a company. Robust safety practices are the best prevention. As our Recordable Injury Frequency Rates show (see table below), our workplace safety record is encouraging. Such results earn a reputation for safety that reassures workers as well as regulators, allowing everyone to focus on their jobs. Thus, safety management policies run throughout our operations, supported by a culture of accountability and accident prevention. These policies include training for employees and vendors, monitoring and emergency response at each site, and personal safety practices as a measure of employee performance.

3.2 Climate Change

We remain deeply concerned about global climate change, and equally committed to solutions. In 2010, we became the first semiconductor company in China to receive the ISO 14064 Greenhouse Gas Measurement certification (see 1.4.6, above). Based on this framework, our climate change response strategy involves risk mitigation, pollution prevention, supply chain management, and energy saving activities.

SMIC Industry Certifications

Environmental Certifications

- ISO 14001
Environmental Mgmt. Systems
- ISO 14064
Greenhouse Gas Measurement

Health and Safety Certifications

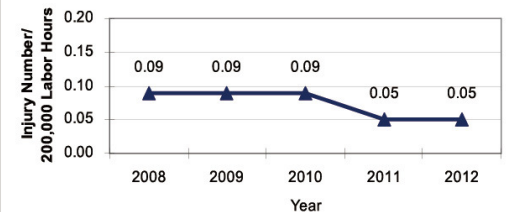
- OHSAS 18001
Occupational Health and Safety
- QC 080000 and GPMS
Hazardous Substance Mgmt.

Quality Certifications

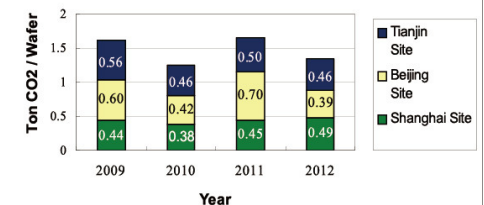
- ISO 9001
Quality Management Systems
- ISO/TS 16949
Defect Prevention
- ISO/TL 9000
Supply Chain Directives

See also section 1.4, above,
and www.iso.org.

Recordable Injury Rate, 2008-2012



Greenhouse Gas CO2 Emissions
per Wafer, 2009-2012



3.2.1 Greenhouse Gas Reduction

Currently, there is no law in China to control perfluoro-carbons (PFCs). Following the World Semiconductor Council's national emission reduction targets, however, China Semiconductor Industry Association committed in 2011 to reduce PFC emissions by 30% (per unit area of each chip produced) by 2020. SMIC promptly developed a long-term plan for PFC reduction based on more efficient PFC treatment systems. From 2009 to 2012, SMIC invested more than 23,000,000 RMB to install 65 sets of thermo-wet local scrubbers. This reduced our PFC emissions by 44,473 tons of CO₂ per year. We also reduce greenhouse gases via all the energy-saving measures discussed below.



▲ The parking spaces at our Shanghai headquarters are made of green grass.

3.3 Green Production

Each of our sites has passed audits for the government's Cleaner Production Process. We minimize our environmental impact by using resources efficiently, reducing pollution substantially, disposing of hazardous materials responsibly, and upgrading facilities regularly. We consider the entire manufacturing cycle in reducing our impact. As a result, in 2011 our Shanghai site reduced PFC and CO₂ emissions by 44%, water consumption by 21%, and electricity by 20%, and passed an environmental audit by the Shanghai Municipal Cleaner Production Center.

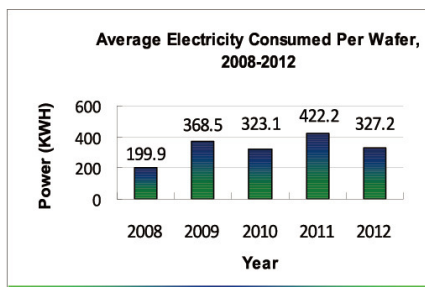
3.4 Electricity Conservation

Semiconductor manufacturing is energy intensive, but our conservation efforts yield significant energy savings and carbon reductions. Proper equipment maintenance, regular facility upgrades, and thoughtful use of resources enable us to meet our energy consumption goals. As a result, our cuts in carbon emissions meet international standards.

As a conservation measure and lesson, solar panels power some of our lights and solar water heaters serve many of our LQ residents. We also have experimented with small wind turbines, and our engineers continuously seek energy-saving solutions. In 2012, our Beijing site reduced facility lighting to save 1,750,000 kilowatts of electricity and reduce coal consumption by 707 tons. At our Tianjin fab, a new transformer shutdown program saved 722,700 kilowatts in 2012. Further examples follow.

3.4.1 Natural Cooling

We have developed a novel system to use outside winter temperatures at our Beijing and Tianjin sites to replace electric chillers used to cool the water for production processes. Cold winter air cools the warm processed-water naturally. It is hard to imagine a more environmentally friendly and economical way to reduce power consumption. In 2012, this system saved 5,610,249 kilowatts at our Beijing fab and 3,508,138 kilowatts at our Tianjin fab.



3.4.2 Heat Reclamation

The sensitive processes in our cleanrooms require Ultra Pure Water (UPW). The purification process normally requires, among other things, heating water with electric heaters. At our sites in Beijing, Shanghai, and Tianjin, we have developed the Process Cooling Water (PCW) Heat Recovery System to capture heat from our production processes to pre-heat water for the UPW systems. In Beijing, this system reduced power consumption by 187,084 kilowatts, saved 5,453 tons of steam, and reduced standard coal discharge by 689 tons in 2012. In Tianjin, a similar Waste Water Heat Recovery System, used to preheat water for our UPW system, saved 13,135,000 kilowatt hours of electricity and 1,390,000 cubic meters of natural gas in 2012.

3.4.3 Pure Steam for Heat Reuse

At our Shanghai site, pure steam and condensed water are pumped to the cooling tower for water storage. To take further advantage of this clean energy, we installed an exchanger to heat water and air for our offices and production processes. This saves about 6,068 tons of winter steam consumption per year. In addition, 21,119 tons of steam were saved during a 6-month trial period using heat recovery units in our UPW process. See section 3.4.2, above. In Beijing, we reuse extra hot water from the local Xiexin Power Plant for our hot water system. This reduced consumption of the municipal steam supply, saving 50,640 tons of steam and reducing the facility's standard coal discharge by 4,782 tons in 2012. All the above measures conserve power.

3.5 Natural Gas Conservation

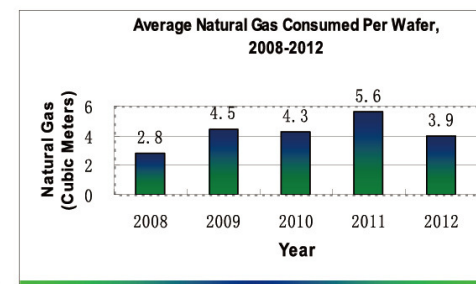
Although natural gas is among the cleanest conventional fuels, SMIC has developed means to use it more sparingly, yielding both environmental benefits and cost savings. Two examples follow.

3.5.1 Heat Capture and Reuse

Our Tianjin site installed a boiler economizer to collect heat from our production processes to heat water required by other systems. Whereas natural gas could heat the water we require, the boiler economizer achieves the same result with 95% greater efficiency. In 2012 alone, our Tianjin facility saved 770,880 cubic meters of natural gas.

3.5.2 Air Treatment and Waste Reduction

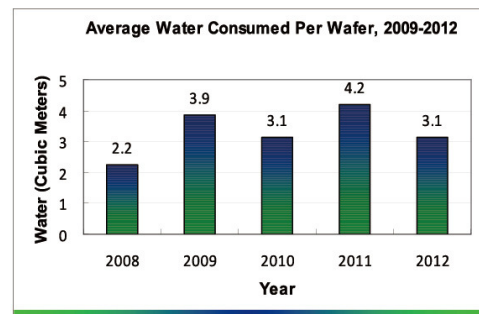
Exhaust from our cleanrooms has organic compounds that must be treated or "scrubbed" before discharge. Our Volatile Organic Compound treatment system treats exhaust by heating it to extreme temperatures. To limit our use of natural gas for heating, we use steam generated by our manufacturing processes to produce the required heat.



▲ Our engineers innovate to make our green production process greener.

3.6 Water Conservation

Water management is critical to SMIC's manufacturing processes. While we will continue to adopt the most advanced clean production technology, we remain concerned about the growing risks of water security and increasing demands placed on limited supplies of water around the world and in our own communities. Therefore, each SMIC site continually upgrades its systems to minimize water consumption and cut waste. We also maximize the use of industrial water sources, easing demand on community water supplies. Below are some examples.



3.6.2 Water Purification and Recycling

Similarly, our UPW system recycles wastewater from various production processes. Using reverse osmosis water treatment, we purify and recycle the wastewater instead of disposing of it, thereby reducing our water consumption and our burden on the public sewage system. In 2012, our Shanghai site purified and recycled 23,195 tons of water. In 2012, our Tianjin site implemented a program to reduce UPW consumption by 176 tons per day. In 2012, our Shanghai reclamation system not only saved over 135,000 tons of city water, but also saved 1,871,000 kilowatts of city electricity.

At our Beijing site, we installed water reuse systems in 2004. By the end of 2011, our water recycling rate reached 98.4% and our total water savings reached 4,750,000 tons, equivalent to more than twice the size of Kunming Lake, one of the largest lakes in China. At the beginning of 2009, SMIC began to reuse

| City Water Consumption and Wastewater Discharge (Tons) | | | | | |
|--|------|-----------|-----------|-----------|-----------|
| Items | | SH | BJ | TJ | SMIC |
| City Water Consumption | 2011 | 3,594,916 | 2,611,270 | 1,518,657 | 7,724,843 |
| | 2012 | 3,585,613 | 2,798,314 | 1,448,910 | 7,832,837 |
| Wastewater Discharge | 2011 | 2,778,162 | 1,992,958 | 1,290,858 | 6,061,978 |
| | 2012 | 2,822,674 | 2,197,193 | 1,231,574 | 6,251,441 |

3.6.1 Rainwater Reclamation

We have developed a Rainwater Reclamation System at our Beijing and Shanghai sites to collect and purify rainwater on-site. After purification, the water we collect is suitable for our manufacturing needs, as well as our landscaping. By limiting our use of municipal water, our new system minimizes our impact on the community. For instance, in 2012 our Beijing site reclaimed about 80,000 tons of rainwater.



▲ Some posters for our water conservation policies.

Beijing Development Area (BDA) regeneration water, primarily for cooling towers, gas scrubbers, and other auxiliary facilities. Since June 2011, however, we started using BDA regeneration water in our main production system, raising our recycled water utilization rate over 40%. We also plan to use BDA regeneration water directly in our production processes in our Phase II fab in Beijing.

3.6.3 Air Purification and Water Recycling

To ensure that the ambient air in our fab production cleanrooms is one hundred times cleaner than the air in hospital operating rooms, we purify and dehumidify the air using a Make-up Air Unit Collection System. The moisture removed from the air is treated, purified, and reused in our Ultra Pure Water purification systems. Water savings are achieved by removing water from the air and reusing it in production.

3.6.4 General Water Treatment

Consistent with ISO 14001, we treat all water used in our processes with advanced methods to meet industry standards and government requirements. We monitor our wastewater for key indicators of quality, and it is checked multiple times each year by third party auditors.



▲ Wastewater from our Shanghai fab is cleaned so thoroughly that golden carp thrive in it.

TABLE: Discharged Water Quality, 2008-2012

| | | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------------|-------------------------|-------|-------|--------|-------|------|
| Shanghai Mega-Fab | pH | 7.37 | 6.97 | 6.75 | 6.90 | 6.95 |
| | Suspended Solids (mg/L) | 14.1 | 18 | 24.33 | 76 | 64 |
| | * COD (mg/L) | 119 | 92.3 | 134.67 | 123 | 105 |
| | ** BOD (mg/L) | 39.4 | 22.97 | 36.73 | 77.9 | 65.3 |
| | Fluoride (mg/L) | 11.17 | 9.19 | 1.54 | 12.8 | 8.55 |
| Shanghai Fab 8 | pH | 7.32 | 6.61 | 6.63 | 6.67 | 7.42 |
| | Suspended Solids (mg/L) | 9 | 10.33 | 15.33 | 21 | 18 |
| | * COD (mg/L) | 43.57 | 48.7 | 99.53 | 62 | 47 |
| | ** BOD (mg/L) | 15 | 10.69 | 26.73 | / | / |
| Beijing B1 | Fluoride (mg/L) | 4.45 | 3.47 | 1.13 | 5.9 | 7.04 |
| | pH | 6.9 | 6.6 | 6.6 | 6.7 | 6.84 |
| | Suspended Solids (mg/L) | 12 | 14.5 | 47 | 53.6 | 252 |
| | * COD (mg/L) | 135 | 208.5 | 178 | 106 | 196 |
| Tianjin Fab 7 | ** BOD (mg/L) | / | / | / | 105.6 | / |
| | Fluoride (mg/L) | 0.68 | 5.1 | 9.8 | 7.75 | 7.38 |
| | pH | 8.04 | 7 | 7.3 | 7.14 | 7.16 |
| | Suspended Solids (mg/L) | 67 | 42 | 89 | 124 | 161 |
| | * COD (mg/L) | 64.5 | 116 | 42.8 | 56.8 | 106 |
| | ** BOD (mg/L) | 29 | 43 | 16 | 10.6 | 21.2 |
| | Fluoride (mg/L) | 1.4 | 0.64 | 2.6 | 8.88 | 10.2 |

* COD: Chemical oxygen demand

** BOD: Biochemical oxygen demand

3.7 Pollution Prevention

SMIC is dedicated to refining our green production processes. We were the first foundry in mainland China to receive the GPMS Hazardous Substance Management certificate in 2006 and we have maintained the QC 080000 certification at all of our fabs ever since. Below are examples of our efforts to protect the environment and further reduce our company's footprint.

3.7.1 Phosphoric Acid Reduction

In 2012, we added four equipment systems at our Shanghai site to reduce the production of phosphoric acid. These systems reduced phosphoric acid emissions by 8.6 tons, limiting eutrophication and our impact on the surrounding water environment.

3.7.2 Waste Reduction and Recycling

Since our founding in 2000, we have worked to reduce waste. Most of our waste-reduction projects are employee-led and go far beyond industry standards. Frequent reuse of materials has amounted to significant waste reduction. In addition, our facilities are routinely audited for responsible disposal of chemicals and industrial waste.

At our Shanghai site, employees reuse scrap wood to build bookcases, waste receptacles, outdoor benches, outdoor rest area pavilions, and more. The community bulletin board and safety signs in our Shanghai LQ are made of wood from shipping crates and other used materials.

SMIC's Second-Hand Markets are popular semi-annual events in our LQs. These markets allow employees to offer unused personal items to others who will continue to use them, preventing both waste and needless consumption. The markets also collect clothing to donate to those in need.



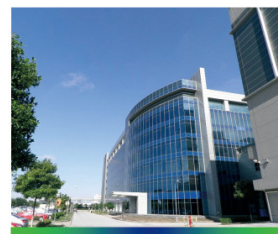
▲ At our Shanghai LQ, our employees and their families want and deserve blue skies and clean water.



▲ Air in our cleanrooms is so pure that masks are worn to prevent employees from breathing particles into the air.

3.7.3 Air Quality Control

We constantly seek ways to mitigate harmful emissions. We do this not only to satisfy regulations, but also to create safe air for our families living in our nearby LQs. It is vital to our own self interest that our air be safe. The exhaust air from our production facilities is treated at several stages to remove organic and inorganic compounds before release. Our processes and results are consistent with ISO 14001 standards and government regulations, and are tested annually by both third-party auditors and government regulators.



▲ ▼ Blue skies over our HQ, above, and over the Shanghai skyline, below (taken from our HQ roof).

| | | Exhaust Air Quality, 2008-2012 | | | | |
|----------------|------------------|--------------------------------|--------|----------|--------|--------|
| | | 2008 | 2009 | 2010 | 2011 | 2012 |
| Shanghai S1A | H2SO4 (kg/hr) | 0.1239 | / | 0.8699 | 0.398 | 0.0229 |
| | Fluoride (kg/hr) | 0.0479 | 0.1555 | 0.10251 | 0.021 | 0.0214 |
| | HCl (kg/hr) | 0.016 | 1.047 | 2.272 | 0.224 | 0.0291 |
| | NH3 (kg/hr) | 0.0053 | 0.0021 | 0.000379 | 0.004 | 0.0011 |
| | HNO3 (kg/hr) | / | / | 0.07766 | 0.117 | 0.142 |
| Shanghai S1B | H2SO4 (kg/hr) | 0.179 | / | 0.5771 | 0.519 | 0.164 |
| | Fluoride (kg/hr) | 0.0793 | 0.1684 | 0.2236 | 0.035 | 0.031 |
| | HCl (kg/hr) | 0.0377 | 0.828 | 2.166 | 0.262 | 0.097 |
| | NH3 (kg/hr) | 0.0036 | 0.0123 | 0.000958 | 0.002 | 0.0023 |
| | HNO3 (kg/hr) | / | / | 0.11278 | 0.125 | 0.144 |
| Shanghai S1C | H2SO4 (kg/hr) | 0.1573 | / | 1.5676 | 0.077 | 0.03 |
| | Fluoride (kg/hr) | 0.1237 | 0.2979 | 0.2635 | 0.016 | 0.015 |
| | HCl (kg/hr) | 0.0538 | 1.023 | 3.772 | 0.031 | 0.0291 |
| | NH3 (kg/hr) | 0.0011 | 0.0009 | 0.003303 | 0.007 | 0.0012 |
| | HNO3 (kg/hr) | / | / | 0.01979 | 0.183 | 0.133 |
| Shanghai Fab 8 | H2SO4 (kg/hr) | 0.2982 | / | 0.551 | 0.378 | 0.133 |
| | Fluoride (kg/hr) | 0.068 | 0.1345 | 0.0327 | 0.017 | 0.0232 |
| | HCl (kg/hr) | 0.4717 | 0.56 | 2.692 | 0.217 | 0.122 |
| | NH3 (kg/hr) | 0.0029 | 0.0011 | 0.0032 | 0.009 | 0.0023 |
| | HNO3 (kg/hr) | / | / | 1.3452 | 0.136 | 0.151 |
| Beijing B1 | H2SO4 (kg/hr) | 0.013 | 0.11 | 0.061 | 0.014 | 0.013 |
| | Fluoride (kg/hr) | 0.003 | 0.056 | 0.005 | 0.0017 | 0.022 |
| | HCl (kg/hr) | 0.004 | 0.035 | 0.081 | 0.022 | 0.022 |
| | NH3 (kg/hr) | 0.011 | 0.13 | 0.001 | 0.033 | 0.031 |
| | HNO3 (kg/hr) | 0.001 | 0.18 | 0.002 | 0.0003 | 0.0028 |
| Tianjin Fab 7 | H2SO4 (kg/hr) | / | / | / | / | / |
| | Fluoride (kg/hr) | / | 0.0015 | 0.213 | 0.293 | 0.16 |
| | HCl (kg/hr) | 1.36 | 0.012 | 0.00181 | 0.32 | 0.067 |
| | NH3 (kg/hr) | 0.067 | 0.0143 | 0.00652 | 0.03 | 0.028 |
| | HNO3 (kg/hr) | 0.024 | 0.0025 | 0.00803 | 0.06 | 0.36 |



3.8 Environmental Awareness Promotion

Our employees participated in World Water Day on March 22, 2012 and in "China Water Week" that same week. Our ESH Department organized a forum for employees to share their ideas on water conservation as we encouraged them to "be concerned about water, treasure water, protect water, and be aware of water-crises."

As concerned citizens and parents, our employees regularly act to conserve energy, improve air quality, reduce noise, relieve congestion, and reduce carbon emissions. As one example, we took part in World Car-Free Day on September 22, 2012. The theme for activities in China was "Care for the City: Green Commuting." So our employees took public transportation, biked, or walked to work.

June 2012 was our Environment, Safety, and Health Month at SMIC. Employees participated in events and contests to recycle electronic waste, second-hand clothes, and expired medication. We also held numerous emergency preparedness exercises. Additionally, we hold a Fire Awareness Day each November. The focus in 2012 was greater community awareness in fire safety and firefighting.



▲ One of many energy conservation posters created by our staff.

► Fire Safety exercises to develop awareness at our Shanghai site.

▼ A safety drill at our Shanghai site (below) and an example of our safety facilities and equipment, alongside our ubiquitous recycling bins (below right).



3.9 Responsible Living

Other leading companies have green policies similar to ours. But as an industry leader, we go one step further by taking green policies home with us. Our LQs are distinctive for their low-density arrangements and plentiful greenery. The open design favored by our company's founder continues to benefit our employees and neighbors by providing leafy enclaves amid the bustle of China's largest cities.

In Shanghai, our HQ facility faces a park, and our LQ has a canal where ducks make their homes and residents catch fish. Some buildings and street lights use solar energy; many recycling facilities are on-hand for residents; and most "every-day" amenities are nearby, limiting the need for cars or other motorized vehicles.

▼ The full and well-used bicycle lot at our Shanghai site reflects the environmental friendly habits of staff.

▼ A drive collecting second hand goods and recyclables at our Shanghai site.



▲ Environmental habits impressed on our youth through a gardening project.



▲ Solar heat provides a clean energy source for our Shanghai LQ.