



# Annual Report 2013







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# Message from the Chairman and CEO

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2013 was a remarkable year for China Investment Corporation, with the smooth succession of a new leadership and the fresh achievements in investment activities. Under the new leadership, our staff were rallied to make further progress in investments and break new ground in response to the complex and evolving global market landscape. Guided by our core values, we made steady and orderly progress on various fronts of our investment and management mandates, thus fulfilling our fiduciary duty of preserving and enhancing the value of foreign exchange reserves under our management. As CIC celebrates the release of its sixth annual report, I would like to express, on behalf of CIC, my deep appreciation to both our current and our former staff, for their contributions to this institution, and to offer hearty thanks to those who have been supporting and following CIC's growth along the way.

On the economic front, the past year was characterized by multi-speed recoveries across the globe. Developed economies such as the EU, Japan and US showed strong growth momentum. Emerging economies encountered widespread slowdowns due to the twin headwinds of structural constraints and capital outflows. In May and June 2013, the global financial markets experienced pronounced volatility on the signs of unwinding unconventional monetary stances in developed economies, most notably the spike in advanced market bond yields, and broad sell-offs of emerging market equities, bonds and currencies. In October, renewed market volatility emanating from politically fluid regions brought new challenges for investors around the globe.

Against this complicated backdrop, we continued to pursue our investment goals with prudence and discipline under the guidance of the Board of Directors, and further refined our investment performance and management finesse. In 2013, CIC International Co., Ltd., CIC's subsidiary undertaking overseas investment, achieved a net income ratio of 9.33% and a net cumulative annualized return of 5.70% since CIC's inception.

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On internal governance, we endeavor to improve decision-making and management procedures and enhance operating efficiency. Steady and sustainable growth must be underpinned by sound corporate governance, refined internal management and international operational standards. In 2013, we continued to implement our corporate governance structure, where the Board of Directors makes decisions on key issues, the Board of Supervisors monitors and supervises and the Executive Committee promotes scientific and democratic process in decision-making. In the meantime, we worked to refine the various procedures and regulations in place, strengthen budget and cost controls and enhance the digitization of the operating systems, with a view to improving internal management and fostering an internal enabling platform for growth. We developed our proprietary Risk Performance Evaluation System, and made full use of the “Three lines of defense” to continually improve our comprehensive risk management system.

On investment management, we seek to explore new models to reflect our investment styles and refine investment skills. Bearing in mind the abiding goal of diversifying foreign exchange reserve investments and maximizing returns for our shareholder within an acceptable tolerance for risk, we continued to execute our Policy Portfolio with prudence and discipline, calibrate investment strategies and improve portfolio management capabilities, while enhancing the monitoring mechanism throughout the investment lifecycle as part of the effort to improve post-investment management. These efforts ultimately result in better quality assets in our overall portfolio. We captured the bullish windows on the markets to shed or exit from our shareholdings in some direct investment or co-investment deals and harvested good financial returns.

On corporate institutional development, we attach equal importance to both institutional and individual growth to cultivate incentives across the company. High-caliber talents and a sound corporate culture are key to sustained growth and success of a company. In 2013, we continued to recruit talented professionals and set up an incentive building system, which supports the broader efforts to nurture professionals specialized in investment, management and operation. In addition, we developed a multi-tiered and multi-dimensional training mechanism to improve the skillset of our staff. To better enable talent growth, we build a database for high-caliber overseas professionals and provide clear-cut guidance in terms of job description and job responsibilities. As part of our corporate culture development program, we hosted interactive sessions to educate staff on the code of conduct, prevention of conflict of interest, compliance awareness and professionalism in performance, which catalyzed camaraderie and energy among staff and across the institution as a whole.

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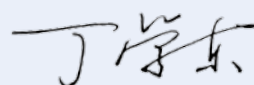
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On external relations, we believe that global reputation and recognition is core to CIC's image. A professional code of conduct and responsible investment activities are the foundations for such understanding and recognition. As China's sovereign wealth fund, we greatly cherish our global image. We have always regarded reputation risk as a crucial element of decision-making in selecting investment projects and partners. And in our business activities and investment projects, we have always complied with the laws, regulations and informational disclosure requirements of the recipient countries and regions, while honoring our corporate social responsibility. As an active participant in international dialogue and sectoral fora, we shared our investment ideas and research results, promoted an open, fair and nondiscriminatory international environment for investment and positioned ourselves as a responsible international institutional investor.

As uncertainties remain in the course of the global economic recovery, deal sourcing becomes more difficult. The rise of investment protectionism and the complexity of global supervision will pose new challenges. And all international institutional investors face considerable pressure in investment activities and profit generation.

In response to the challenging market environment, we will review and build on our experiences to formulate a well-defined growth strategy, refine investment skills and pursue structural adjustments to improve corporate governance in line with our investment principles and philosophy as a long-term financial investor. We are keen to learn and benefit from the best practices and experiences of fine companies from China and overseas alike. And we will explore models of cooperation and co-investment with them to pool resources, tap complementary strengths and ultimately seek win-win solutions for all. We will strive to deliver good returns for our shareholder and live up to the mandate entrusted to us by our government by enhancing professionalism company-wide, conducting market-oriented and commercially driven investments and pursuing better alignment with international standards.

Going forward, we will continue to make well-planned and steady progress toward our growth vision and to fulfill our mandate. A line in Chinese literature reads, "The journey ahead will be long and winding; yet high and low I'll search with my will unbending." I invoke this line to illustrate our unswerving determination and steadfast commitment to growing CIC into a world-class sovereign wealth fund with good performance, sound governance and solid track record.



Ding Xuedong  
**Chairman and CEO**

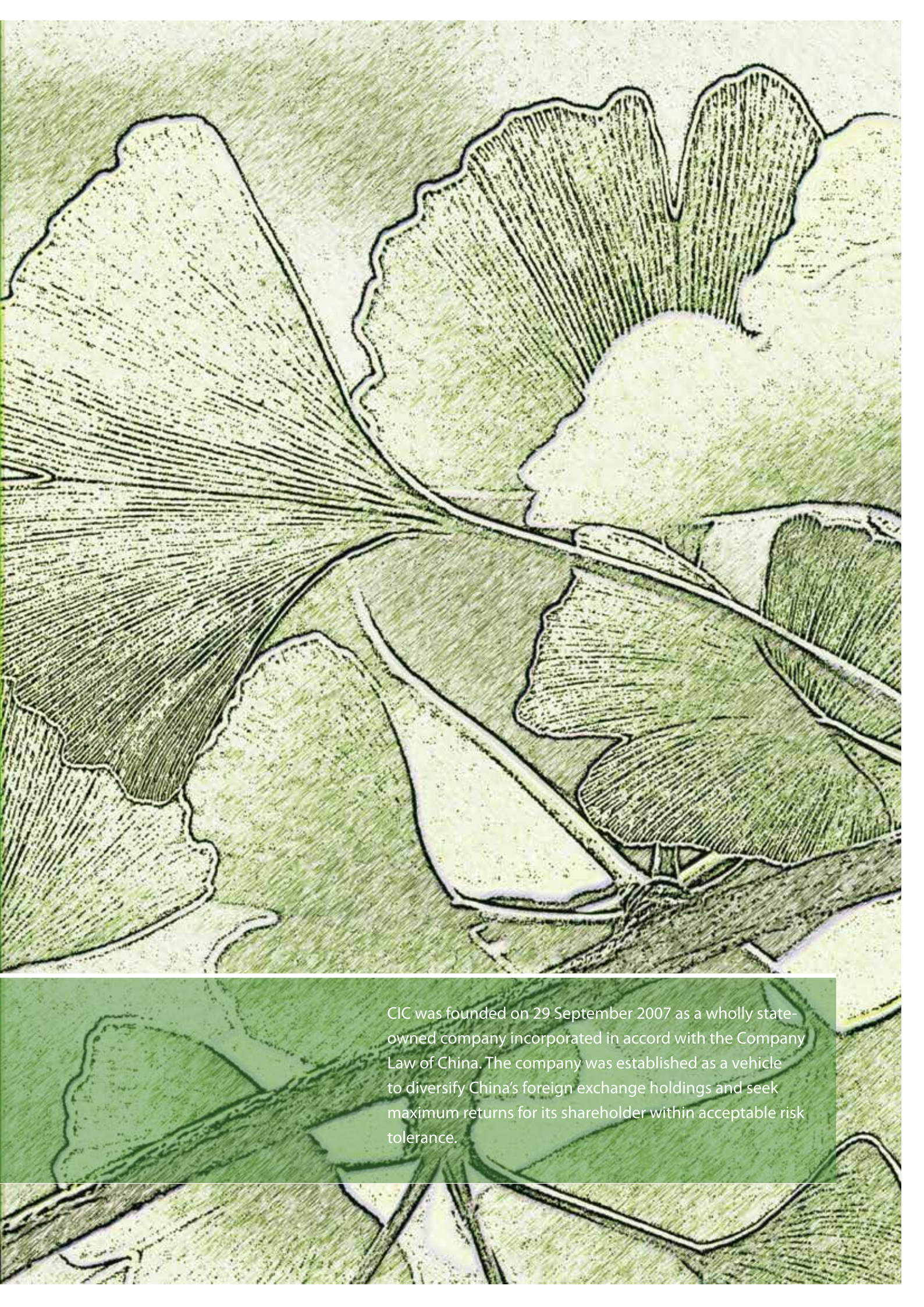
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# Corporate Review

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CIC was founded on 29 September 2007 as a wholly state-owned company incorporated in accord with the Company Law of China. The company was established as a vehicle to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance.

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# Overview

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Headquartered in Beijing, China Investment Corporation (CIC) was founded on 29 September 2007 as a wholly state-owned company incorporated in accord with the Company Law of China, with a registered capital of \$200 billion. The company was established as a vehicle to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance.

CIC has two wholly owned subsidiaries—CIC International Co., Ltd. (CIC International) and Central Huijin Investment Ltd. (Central Huijin).

CIC International was established in September 2011, with a mandate to invest and manage overseas assets. It took over the entire portfolio and mandate for overseas investment from CIC, and it continues to pursue CIC's investment principles and operation model. As a long-term financial investor, CIC International has a diversified investment portfolio encompassing public market financial products and long-term assets. Its investment decisions are market-oriented and based on financial considerations. Since the establishment of CIC International, an additional \$49 billion has been provided to the company.

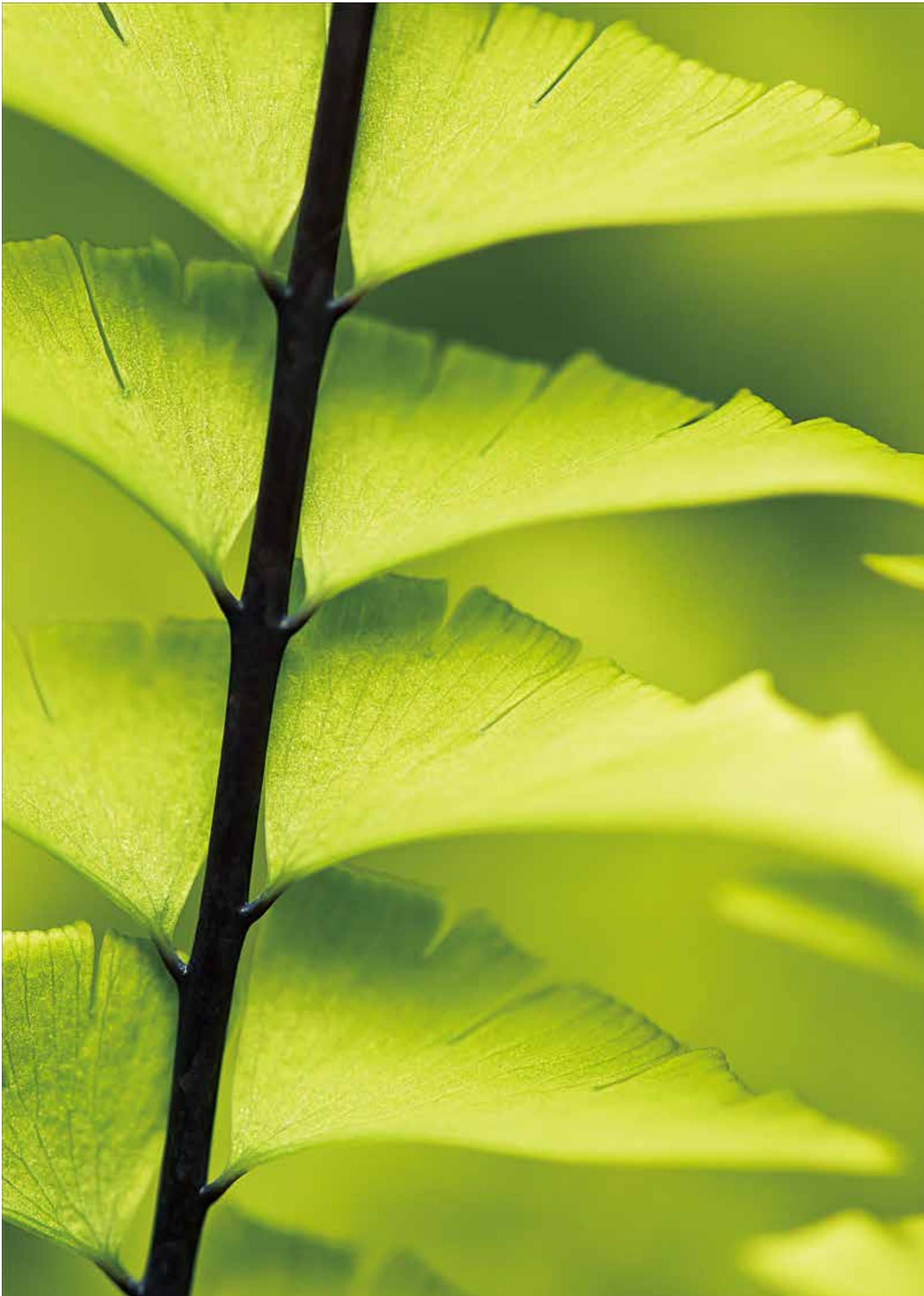
CIC International (Hong Kong) Co., Ltd (CIC International (Hong Kong)) was established in November 2010 to cover public market equity investments, public market bond investments, non-public market investment and economic research. In January 2011, CIC Representative Office in Toronto (Toronto Representative Office) was opened to foster cooperation and communication with local governments and the business community, and support the Headquarter in undertaking research on North America. CIC International (Hong Kong) and Toronto Representative Office are incorporated under and wholly owned by CIC International.

Central Huijin holds controlling stakes in key state-owned financial institutions in China. To support financial reforms in China, it exercises shareholder rights and performs its obligations to improve governance and preserve and enhance the value of state-owned financial assets. Central Huijin celebrated its 10th anniversary in December 2013. Thanks to its market-oriented management style and successful growth over the years, the "Huijin Model", known for its market-oriented approach to state-owned assets management, has become a viable model for reform and innovation in China's financial sector.

CIC International and Central Huijin function as two distinct entities, with a strict operational firewall separating the business activities of the two entities.

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# Culture and Core Values

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Corporate culture establishes the common values and code of conduct shared by all employees. CIC is fully aware of the crucial role of corporate culture in reinforcing and improving corporate management and operation—and in ensuring its robust and sustainable development. So we are constantly shaping and fostering our corporate culture.

Our company's mission, vision and core values were crystallized in the CIC Culture Consensus released in 2012.

**Mission:** CIC is committed to diversifying China's foreign exchanges and seeking maximum returns for its shareholder within acceptable risk tolerance.

**Vision:** We aim to grow into a world-class and respected sovereign wealth fund.

## Core Values:

<b>Responsibility</b>	<b>Synergy</b>
<b>Professionalism</b>	<b>Aspiration</b>

**Responsibility:** We are committed to fulfilling our mandate with a strong sense of conscientiousness. Fundamental to our responsibilities and the commitment of every member of the company is managing assets effectively and making every investment a success. We honor these responsibilities, follow the most rigorous work ethics, observe integrity and honesty, comply with applicable laws and regulations in recipient countries and strive for maximum returns within acceptable risk tolerance for our shareholder.

**Synergy:** Teamwork, guided by a common purpose and holistic thinking, is central to our company's sustainable development. We encourage cooperation and cohesion across departments to create synergies that spur our company forward to achieve our stated goals efficiently.

**Professionalism:** Professionalism and rigorous work ethics are fundamental to our success. Our solid, prudent and

disciplined investment approach has been applied to every investment project with the greatest care and precision. Striving for excellence in performance, we adhere to the highest level of professionalism across the company.

**Aspiration:** Aspiring to excellence drives us forward and guarantees sustained and greater success. Committed to building a learning enterprise, we encourage best practices and constant self-improvement across the company for greater achievement.

In 2013, guided by CIC Culture Consensus, we continued to observe the principle of "incentives and inclusiveness" to promote our corporate culture, with a view to encouraging cooperation, synergy and compliance among staff. We improved value-based corporate behavior and build cultural safeguards through the triple underpinnings of CIC People, CIC Team and CIC Image, characterized by corporate cultural projects and all-round participation to build corporate culture supporting mechanism and to implement such corporate culture.

In 2013, we introduced the CIC Culture Consensus Program and devised a concrete enforcement plan. While our culture is rooted in the company, internal management has been greatly strengthened by emphasizing responsibility, improving work attitudes, preventing conflict of interest and encouraging good staff behaviours and compliance.

CIC is conscientious of its corporate social responsibilities and has been engaging in various activities to contribute to the public good.

We have been developing poverty reduction initiatives based on the idea that "being taught is better than being given." We launched poverty alleviation programs in poverty-stricken areas in Guizhou, Qinghai and Gansu provinces. The Young Volunteers Association was established to organize volunteer events and activities.

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# Corporate Governance

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CIC set up its Board of Directors and Board of Supervisors in accord with the Company Law of China. The State Council exercises its shareholder rights on behalf of the State. The governing bodies of CIC include the Board of Directors, the Board of Supervisors and the Executive Committee.

Since its establishment, CIC has endorsed and implemented a proven and effective modern corporate governance model to ensure well-defined responsibilities and effective checks and balances among the Board of Directors, the Board of Supervisors and the Executive Committee. We improved our organizational and functional structure, as well as our work-stream standards and company rules. We also established a mechanism for scientific decision-making and authorization, put in a place a comprehensive risk management system and developed a sophisticated and diversified investment platform. We build on our governance model by adopting a scientific development outlook and improving our management and operational efficiency.

CIC's Board of Directors is authorized to oversee the company's operations, evaluate its overall performance and make decisions on important matters in accord with the company's Articles of Association. Based on objectives and principles set by the State Council, the Board reviews and approves the company's development strategies, operational guidelines and investment plans. It also decides on implementation of corporate strategies, identifies major issues to report to the shareholder, appoints and removes senior executives and decides on or authorizes the establishment of management bodies as necessary. The Board of Directors is supported by the Remuneration Committee and Executive Committee: The Remuneration Committee formulates and reviews the compensation policies for senior executives and oversees their execution. The Executive Committee is entrusted by the Board of Directors to oversee the company's daily operations.

The Board of Supervisors, responsible for monitoring the behavior of directors and executives in execution of their duties as well as the effectiveness of supervisory

procedures within the company, reports directly to the shareholder. Also in charge of the Department of Internal Audit, the Board of Supervisors selects external auditors and monitors CIC's accounting and financial functions. In 2013, The Board of Supervisors further strengthened its monitoring system, and worked to promote the awareness of improving investment management and accountability. The Board of Supervisors launched auditing investigation on CIC's annual report and expenditure items to promote accountable management, and launched auditing investigation on internal control, risk management to promote sound and effective enforcement of internal control and risk management practices.

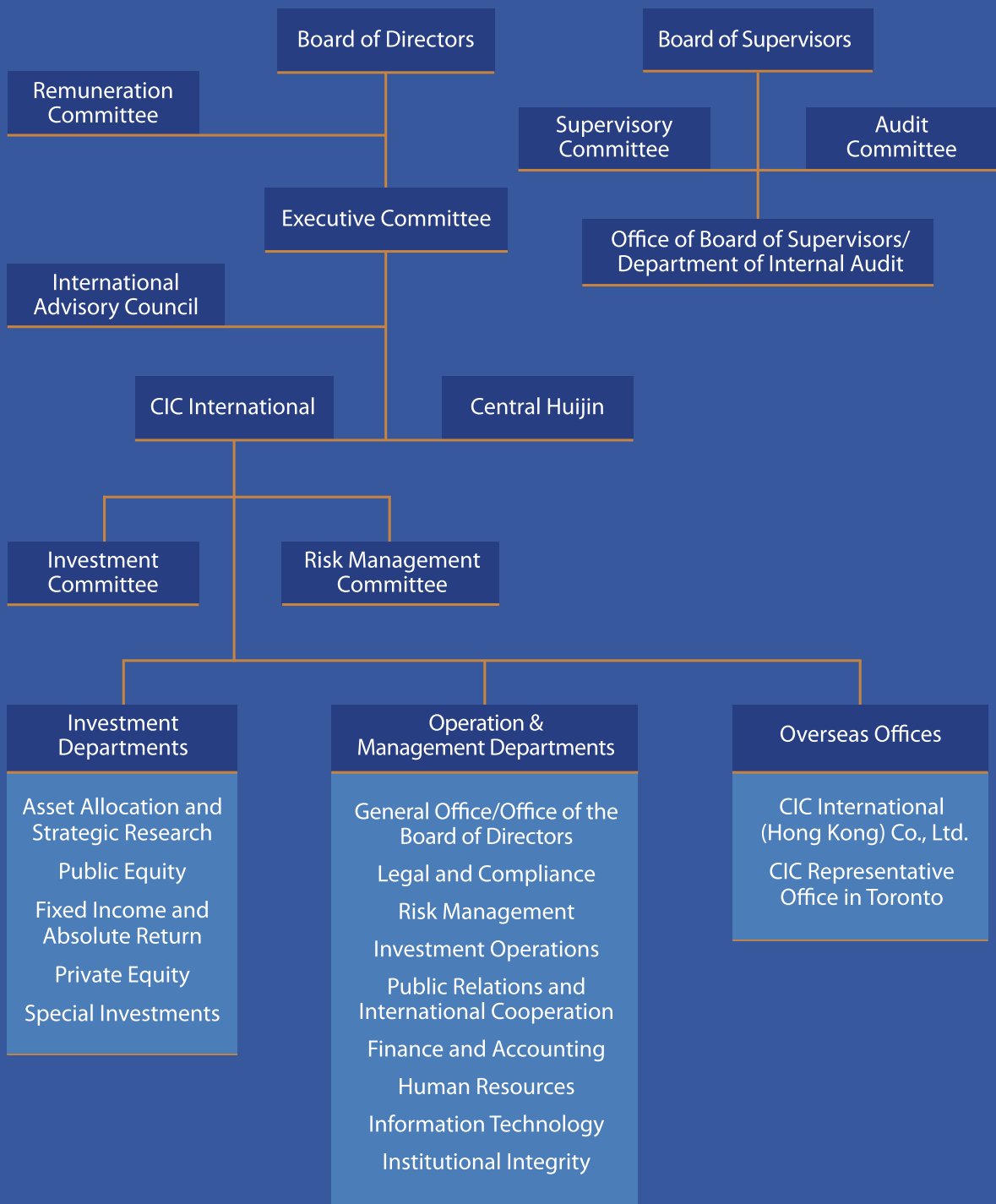
Entrusted by the Board of Directors, CIC's Executive Committee translates Board of Directors' guidance into detailed strategies and oversees CIC's day-to-day operations. It has the authority to make required operating decisions, including those for basic rules, institutional adjustment, operating mechanisms, performance evaluation and remuneration. In 2013, the Executive Committee revised the investment decision-making system and improved the investment decision-making process, continued to adjust internal structure of departments and personnel, and further strengthened the rules and implementation of the company to ensure sophisticated management on all fronts.

The International Advisory Council is a nonpermanent institution comprising 13 internationally renowned experts who give CIC an international perspective on global economic, investment and regulatory issues. A plenary meeting of the Council is convened annually, and the 5th meeting was held in Beijing in September 2013. Members of the Council discussed such issues as the global economy, the asset allocation strategy and the risk management and regulatory environment. They also provided suggestions for CIC's long-term development. Members of the Council also share their views and analysis on global economic and political dynamics and outstanding issues through regular consultations, visits and participation in company activities and events.

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# Organization Chart



# Board of Directors



## Ding Xuedong **Chairman & Chief Executive Officer**

Mr. Ding Xuedong is Chairman & CEO of CIC. Prior to this, Mr. Ding served as Deputy Secretary General of the State Council. He held several positions in the Ministry of Finance, including Vice Minister, Assistant Minister, Director General of the Department of Education, Science and Culture, Director General of the Department of Agriculture and Director General of the Department of State-owned Capital Administration. In his earlier career, Mr. Ding served as Director General of the Department of Property Rights and Director General of the Department of Human Resources & Head of the General Office, State-owned Asset Administration Bureau.

Mr. Ding was born in 1960 and holds a Ph.D. in economics from the Research Institute for Fiscal Science, Ministry of Finance. Mr. Ding is a supervisor of Ph.D. students.



## Li Keping **Vice Chairman, President & Chief Investment Officer**

Mr. Li Keping is Vice Chairman, President & Chief Investment Officer of CIC. Immediately prior to this, he served as Executive Director, Executive Vice President & Chief Investment Officer of CIC. He worked as the Deputy Chairman and Secretary General of the National Council for the Social Security Fund successively, Head of Investment Department of the National Council for the Social Security Fund, Deputy Director General of the Macroeconomic Control Department of the State Council Office for Restructuring the Economic Systems, Deputy Director General of the Macroeconomic Control Department of the State Commission for Restructuring the Economic Systems.

Mr. Li, born in 1956, holds a bachelor's degree in economics from Peking University.



## Zhang Xiaoqiang **Independent Director**

Mr. Zhang Xiaoqiang, an Independent Director of CIC, was Vice Chairman of the National Development and Reform Commission (NDRC). He also served as Secretary General of the State Development & Planning Commission (SDPC), a predecessor to the NDRC, the Director General of the Department of Foreign Investment at the State Planning Commission (a predecessor to the SDPC), and an Economic Counselor at the Chinese Embassy in the United States. He served as a Non-Executive Director of CIC from September 2007 to July 2014.

Mr. Zhang was born in 1952 and holds a bachelor's degree in economics from Peking University.



### Hu Zucai **Non-Executive Director**

Mr. Hu Zucai, a Non-Executive Director of CIC, is Vice Chairman of the National Development and Reform Commission (NDRC). Previously, he served as Deputy Secretary General and Director General of the Social Development Department at NDRC and Deputy Director General of the Health Care Reform Office of the State Council. He also worked as Deputy Mayor of Guiyang city in Guizhou Province, Deputy Director General of the Foreign Capital and Overseas Investment Department at the State Development and Planning Commission, a predecessor to the NDRC.

Mr. Hu was born in 1961 and holds a bachelor's degree in engineering from Zhejiang University.



### Wang Baoan **Non-Executive Director**

Mr. Wang Baoan, a Non-Executive Director of CIC, is Vice Minister of Finance. He held several positions in the Ministry of Finance, including Assistant Minister of Finance, Director General of the Economic Construction Department, Director General of the General Office, Director General of Policy Planning Department, and Deputy Director General of the General Office. He also served as Director General of the Countryside Taxation Reform Office of the State Council, and Vice Governor of Heilongjiang Province. Before that, he worked as Deputy Director General of the General Office at the State Administration of Taxation.

Mr. Wang was born in 1963, and holds a Ph. D. in economics from Zhongnan University of Economics and Law. He is also a professor, and supervisor of Ph. D. students.



### Zhang Xiangchen **Non-Executive Director**

Mr. Zhang Xiangchen, a Non-Executive Director of CIC, is Assistant Minister of the Ministry of Commerce (MOFCOM). Previously, he served as Director General of the Department of Policy Research of MOFCOM, Deputy Representative and Minister (DG-level) of China's Permanent Mission to the WTO, Director General of the Department of WTO Affairs and the China WTO Notification and Inquiry Center, Deputy Director General at the Department of International Trade and Economic Affairs of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC).

Mr. Zhang was born in 1965, and holds a Ph.D. in international politics from Peking University.

# Board of Directors



**Hu Xiaolian**     **Non-Executive Director**

Madam Hu Xiaolian, a Non-Executive Director of CIC, serves as Deputy Governor of the People's Bank of China (PBC). Before taking that position, she served as Deputy Administrator, Administrator of the State Administration of Foreign Exchange (SAFE) and Assistant Governor of PBC. She previously worked in several SAFE departments, serving as Director General of the Reserve Management Department and Deputy Director General of the Policy, Law and Regulation Department.

Madam Hu, born in 1958, holds a master's degree in economics from the Graduate School of the PBC.



**Fang Shangpu**     **Non-Executive Director**

Mr. Fang Shangpu, a Non-Executive Director of CIC, is Deputy Administrator of the State Administration of Foreign Exchange (SAFE). He previously served as Chief Accountant of SAFE and Deputy Administrator of SAFE Shanghai Branch, Vice President of People's Bank of China (PBC) Shanghai Branch and Vice President of Fujian Industrial Bank.

Mr. Fang, born in 1956, holds a master's degree in economics from Xiamen University.



**Li Xin**     **Employee Director**

Mr. Li Xin, an Employee Director, is Head of the CIC Human Resources Department. He previously held positions in the State Administration (formerly known as "State Commission") of Science, Technology and Industry for National Defense, including Director General of the Finance and Audit Department, Director General of the Finance Department and Deputy Director General of the General Office. Prior to this, he served as engineer at the Ministry of Aerospace Industry and as division chief at the Ministry of Finance and at Xinhua News Agency.

Mr. Li was born in 1960 and holds a bachelor's degree in engineering from Shenyang Institute of Aeronautical Engineering.

## Former Directors

Mr. Lou Jiwei served as Chairman and CEO of CIC from September 2007 to March 2013.

Mr. Gao Xiqing served as Vice Chairman and President of CIC from September 2007 to February 2014.

Mr. Liu Zhongli served as Independent Director of CIC from September 2007 to July 2014.

Mr. Wang Chunzheng served as Independent Director of CIC from September 2007 to July 2014.

Mr. Zhang Xiaoqiang served as Non-Executive Director of CIC from September 2007 to July 2014.

Mr. Li Yong served as Non-Executive Director of CIC from September 2007 to July 2014.

Mr. Chen Jian served as Non-Executive Director of CIC from February 2011 to July 2014.

# Board of Supervisors



## Li Xiaopeng **Chairman of the Board of Supervisors**

Mr. Li Xiaopeng is Chairman of the Board of Supervisors. He previously served as Senior Executive Vice President of Industrial and Commercial Bank of China Ltd. (ICBC) and its Executive Director. Earlier in his career, he served as Assistant to the President of ICBC and Head of ICBC Beijing Branch, Vice President of China Huarong Asset Management Corporation, Head of ICBC Sichuan Branch, General Manager of the Banking Department of the Head Office of ICBC and Deputy Head of ICBC Henan Branch.

Mr. Li was born in 1959 and holds a Ph.D. in economics from Wuhan University.



## Dong Dasheng **Supervisor**

Mr. Dong Dasheng, a member of the Board of Supervisors, is Deputy Auditor General of the National Audit Office. Previously, he served at the National Audit Office, where he held various positions including Director General of the Department of Monetary Audit, Director General of the Auditing Research Institute and Deputy Director General of the Department of Public Finance Audit. He also served as the Deputy Director of the Administration Committee of the Pudong New Area of Shanghai.

Born in 1954, Mr. Dong holds a Ph.D. in economics.



## Zhou Mubing **Supervisor**

Mr. Zhou Mubing, a member of the Board of Supervisors, is Vice Chairman of the China Banking Regulatory Commission. Previously, he held several positions in Chongqing Municipal Government, including Deputy Governor, Secretary General, Director General of the General Office, and Head & Party Secretary of Yubei District. Prior to this, he served as Director of the Policy Research Department of the Industrial and Commercial Bank of China (ICBC) and President of the Fujian branch of the ICBC.

Mr. Zhou was born in 1957 and holds a Ph.D. in economics.



### Zhuang Xinyi **Supervisor**

Mr. Zhuang Xinyi, a member of the Board of Supervisors, is Vice Chairman of the China Securities Regulatory Commission (CSRC). Previously, he served as Deputy Director of the Office of the State Council's Securities Commission, Vice President of Trust Investment Co., Ltd. of the Construction Bank of China, President of the Shenzhen Stock Exchange, Inspector of the Office of the State Council's Securities Commission, Director of the Training Centre of CSRC, Vice Mayor of Shenzhen city, Chairman of the Securities Association of China and Assistant to the Chairman of CSRC.

Mr. Zhuang was born in 1955 and holds a Ph.D. in economics.



### Cui Guangqing **Employee Supervisor**

Mr. Cui Guangqing, an Employee Supervisor, is Deputy Head of the Discipline Inspecting Commission and Head of the Supervisory Board Office/Internal Audit Department of CIC. Before joining CIC, he served at the National Audit Office, where he held various positions including Director General of the Information and Postal Audit Office and Deputy Director General of the Department of Monetary Audit.

Mr. Cui was born in 1964 and holds a Ph.D. in economics from Xi'an Jiaotong University.

### Former Supervisor

Mr. Jin Liqun served as Chairman of the Board of Supervisors of CIC from September 2008 to May 2013.

# Executive Committee

Ding Xuedong	Chairman & Chief Executive Officer
Li Keping	Vice Chairman, President & Chief Investment Officer
Li Xiaopeng	Chairman of the Board of Supervisors
Fan Yifei	Executive Vice President
Xie Ping	Executive Vice President
Liang Xiang	Executive Vice President & Head of Discipline Inspecting Commission
Xie Zhichun	Executive Vice President
Liu Guiping	Executive Vice President
Zhou Yuan	Chief Strategy Officer
Guo Xiangjun	Chief Risk Officer
Hua Hua	Chief Information Officer
Zhao Haiying	Member of the Executive Committee



## Former Members

Lou Jiwei	Chairman & CEO (September 2007 to March 2013)
Gao Xiqing	Vice Chairman & President (September 2007 to February 2014)
Jin Liqun	Chairman of the Board of Supervisors (September 2008 to May 2013)
Peng Chun	Executive Vice President (May 2010 to September 2013)
Wang Jianxi	Executive Vice President (September 2007 to May 2013)





**From left to right:** Zhao Haiying, Guo Xiangjun, Li Xiaopeng, Liu Guiping, Liang Xiang, Fan Yifei, Ding Xuedong, Xie Ping, Xie Zhichun, Li Keping, Zhou Yuan, Hua Hua

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## International Advisory Council

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### Asia

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#### Zeng Peiyan (China)

Chairman, China Center for International Economic Exchanges; former Vice Premier of the State Council, China.

#### Shaukat Aziz (Pakistan)

Former Prime Minister of Pakistan; former Executive Vice President of Citibank.

#### Frederick Ma (Hong Kong, China)

Honorary Professor, School of Economics and Finance at University of Hong Kong; former Secretary of Commerce and Economic Development, Government of the Hong Kong Special Administrative Region, China.

#### Yingyi Qian (China)

Dean, School of Economics and Management at Tsinghua University; member of the Monetary Policy Committee, People's Bank of China.

#### Andrew Sheng (Malaysia)

President, Fung Global Institute; Chief Advisor to China Banking Regulatory Commission; former Chairman, Hong Kong Securities and Futures Commission, China.

#### Joseph Yam (Hong Kong, China)

Executive Vice President of the China Society for Finance and Banking; Distinguished Research Fellow of the Institute of Global Economics and Finance; Chairman of Macroprudential Consultancy Ltd.; former Chief Executive of the Hong Kong Monetary Authority.

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### Africa

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#### Omari Issa (Tanzania)

Chief Executive Officer, President's Delivery Bureau, Tanzania; Chairman, Tanzania National Economic Empowerment Council; Non-Executive Director, Rwanda Development Board; Non-Executive Director, Africare, US; Non-Executive Director, Millicom International Cellular, Luxembourg.

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### Americas

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#### Merit E. Janow (United States of America)

Dean, School of International and Public Affairs, and Professor of Practice,

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International Economic Law and International Affairs, Columbia University; Chairman, NASDAQ Stock Market LLC; former member of the Appellate Body of the World Trade Organization.

**John J. Mack (United States of America)**

Chairman Emeritus and former Chief Executive Officer, Morgan Stanley.

**John L. Thornton (United States of America)**

Chairman, Board of Trustees of the Brookings Institution; Co-Chairman, Barrick Gold Corporation; former President, Goldman Sachs Group.

**James D. Wolfensohn (United States of America)**

Chairman, Wolfensohn & Company; former President, World Bank Group; former Chairman, Citigroup International Advisory Board.

## Europe

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**Knut N. Kjaer (Norway)**

Chairman, FSN Capital Partners and Trient Asset Management; former Chief Executive Officer, Norges Bank Investment Management.

**Jean Lemierre (France)**

Advisor to the Chairman, BNP Paribas; former President, European Bank for Reconstruction and Development.

## Secretariat

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**Liu Fangyu (China)**

Managing Director, Department of Public Relations and International Cooperation, CIC; Secretary-General, Secretariat of International Advisory Council, CIC.

## Former Members

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**Taizo Nishimuro (Japan, 2009 to 2013)**

Former Chairman and Chief Executive Officer, Tokyo Stock Exchange Group; former Chairman and Chief Executive Officer, Toshiba Corporation.

**Lord Nicholas H. Stern (United Kingdom, 2009 to 2013)**

President of the British Academy; Professor at the London School of Economics; former Chief Economist of the World Bank.

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# Investment and Management Review



As a long term financial investor, CIC invests on a commercial basis, and its objective is to seek maximum returns for the shareholder within acceptable risk tolerance. CIC is committed to being a prudent, professional and responsible institutional investor operating globally with good reputation.

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# Investment Strategy and Management

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## Investment Principles and Philosophies

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**CIC is committed to being a prudent, professional and responsible institutional investor operating globally with good reputation.**

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### **Four principles underlie our investment activities:**

- We invest on a commercial basis. Our objective is to seek maximum returns for our shareholder within acceptable risk tolerance.
- We are a financial investor and do not seek control of the companies in our portfolio.
- We are a responsible investor, abiding by the laws and regulations of China and recipient countries and conscientiously fulfilling our corporate social responsibilities.
- We pursue investments based on in-depth research under asset allocation framework to ensure prudent and disciplined approach both in decision-making and investment activities.

### **CIC follows a set of investment philosophies based on its own characteristics and understanding of investment management:**

- Guided by the concept of CIC Portfolio, we take a holistic and disciplined approach to strategy design and portfolio construction, analysis and management to ensure a well-disciplined portfolio with integrity and stability.
  - As a long-term investor, we are well positioned to withstand short-term market volatilities and capture illiquidity premium.
  - We continued to pursue risk diversification through spreading risk factor allocation in a bid to reduce portfolio volatility and curb downside risk.
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## Investment Decision-Making

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Since its inception, CIC has established a scientific, disciplined and effective decision-making system. The Investment Decision-Making Committee (Investment Committee) oversees investment decision-making and management. Appropriate discretionary power is granted to investment teams based on specific product characteristics and the principle of proper accountability, in order to ensure gradual progress in investment performance. The approach aims to fully incentivize investment teams and encourage accountability, flexibility and disciplined management.

Formulating investment policies in line with the guidelines defined by the Board of Directors and Executive Committee, the Investment Committee evaluates and approves investment proposals submitted by the investment departments. Before submission to the Investment Committee, investment proposals are reviewed, evaluated and approved at the Pre-Investment Committee meeting chaired by the Chief Investment Officer. The Investment Committee convenes weekly (ad hoc sessions are held when necessary) and makes investment decisions independently. It comprises the Chairman and Chief Executive Officer; President and Chief Investment Officer; related Executive Vice Presidents; Chief Strategy Officer; Chief Risk Officer; Heads of the Department of Asset Allocation and Strategic Research, the other four functioning investment departments and the head of the Department of Risk Management; and the President of CIC International (Hong Kong). Investment departments and teams are responsible for implementing Investment Committee decisions.

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## Decision-Making Flow Chart



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## Investment Departments

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- The Department of Asset Allocation and Strategic Research is responsible for developing investment policies, proposing asset allocation plans, policy portfolios and tactical allocation schemes, managing the total portfolio and developing alternative portfolio investment and passive asset investment strategies. It functions as the Secretariat for the Investment Committee and the Pre-Investment Committee, and provides support for the decision-making process and ensures procedure compliance and supervision and monitoring.

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### Public Market Investment

- The Department of Public Equity is responsible for actively managing public equity investments globally. Assets are managed through several strategies, which are further divided into sub-strategies. Strategies are set up based on different regions, striving for a full coverage of major global markets while focusing on certain key regions. Sub-strategies are set up based on different investment methods, principals, styles or sub-regions.
- The Department of Fixed Income and Absolute Return is responsible for active tactics for fixed income products, and external and internal investment of assets of absolute return. Active tactics for fixed income products include investment in treasury bonds of developed and emerging economies; and absolute return products include investment in hedge funds, risk parity and multi-asset tactics.

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### Long-term Investment

The Department of Private Equity and the Department of Special Investments take advantage of CIC's long investment cycle and better risk tolerance for short-term volatility in making long-term investment in a bid to preferable long-term returns.

- The Department of Private Equity is responsible for private equity and real estate investments through private equity funds, direct investments and co-investments, as well as credit opportunity investments.
  - The Department of Special Investments is responsible for investments in assets in such sectors as energy, mining, infrastructure and agriculture.
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## Portfolio Construction

CIC continues to use a three-layer asset allocation framework comprising strategic asset allocation, the policy portfolio and tactical asset allocation. It determines its allocation of assets according to the long-term return and risk preference, providing long-term, sustained and stable guidance for investment by distinguishing the areas of allocation for all types of assets. With a three-year time horizon, the policy portfolio acts as an anchor for investment activities and portfolio rebalancing that optimizes the investment portfolio within risk limits, providing guidance for rebalancing actual investment activities and the total portfolio. It adjusts tactical asset allocation based on mid- and short-term incidents, asset evaluation and risk factors of the actual portfolio—to gain returns in excess of the policy portfolio from investment opportunities in different markets.

Guided by an asset allocation plan and risk management principles, CIC invests in a wide range of financial products globally, including public market equity, fixed income, absolute return and long-term investments and cash and others.

<b>Public equity</b>	Refers to equity investment in publicly listed companies.
<b>Fixed income</b>	Refers to bonds such as treasury bonds and corporate bonds.
<b>Absolute return</b>	Includes hedge funds, risk parity and multi-asset tactics.
<b>Long-term investments</b>	Includes industry-wide direct investment, industry-wide private equity, resources/commodities, real estate and infrastructure.
<b>Cash and others</b>	Includes overnight deposits and US treasury bills.

### Global Investment Portfolio Distribution

(As of December 31, 2013)



**40.4%**  
Public Equity

**17.0%**  
Fixed Income

**11.8%**  
Absolute  
Return

**28.2%**  
Long-term  
Investment

**2.6%**  
Cash and  
Others

Fixed Income in Global Portfolio (As of December 31, 2013)



44.1%

Sovereign Bonds of Advanced Economies



26.8%

Sovereign Bonds of Emerging Economies



26.5%

Investment Grade Corporate Bonds



2.6%

Inflation-Indexed Bonds

Public Equity in Global Portfolio (As of December 31, 2013)

Distribution by Region



46.1%

US Equities



36.8%

Non-U.S. advanced economies equities



17.1%

Emerging market equities

Internally Managed Assets versus Externally Managed Assets (As of December 31, 2013)



32.8%

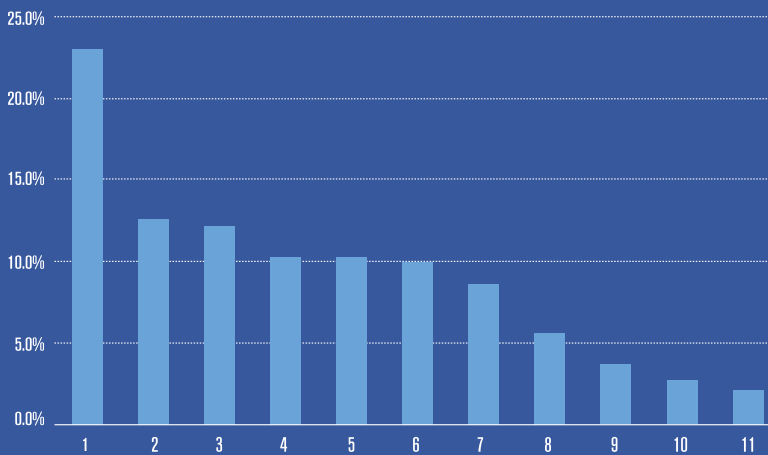
Internal Management



67.2%

External Management

Distribution by Sector



1 Financials	22.9%	5 Industrials	10.2%	9 Telecommunication services	3.6%
2 Consumer discretionary	12.5%	6 Health care	9.9%	10 Utility	2.6%
3 Information technology	12.1%	7 Energy	8.5%	11 Others	2.0%
4 Consumer staples	10.2%	8 Materials	5.5%		

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## Investment Activities

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In 2013, CIC continued to manage its overseas investment activities prudently against a backdrop of rapidly changing global economic environment, achieving the target of preservation and appreciation of assets under management. First, the asset allocation was fine-tuned based on portfolio characteristics and market analysis, beefing up equity investment while reducing bond, which resulted in a preferable outcome. Second, the portfolio structure was thoroughly reviewed and refined. Third, post-investment management was consolidated, and project exit was executed with more efficiency and efficacy.

In public market investments, we improved the selection and evaluation process of external managers, set up regular communication mechanism, and enabled the objective assessment and adjustment of external managers. We also strengthened our in-house management capacity, refined the decision-making process, and improved the performance evaluation system. In 2013, our Absolute Return investment team received an award from the Institutional Investor magazine.

For long-term investments, we searched for good projects actively on one hand, and enhanced post-investment management to improve project quality on the other. For direct investments, we adopted differentiated investment strategies to enhance quality control and ensure prudent operation. For investment in funds, we followed market trends and fundraising cycle, cooperated closely with existing funds in co-investment, and kept improving our portfolio. For post-investment management, we set

up a whole-process supervision mechanism, and strengthened information collection and risk-alerting systems to improve project quality. We took advantage of market opportunities to partially or fully exit over 10 direct investments, harvesting good returns.

In 2013, CIC kept close contact with regulators and other government authorities in recipient countries, and strictly complied with local laws, regulations and policies. In the meantime, we maintained communication with peers and companies from home and abroad, expanded investment channels, and pursued cooperation for win-win solutions.

In 2013, CIC International (Hong Kong) instituted multiple internal rules on investment management, internal risk control, finance and accounting, human resources and administrative matters, formulating a full-fledged management system, and improving its investment management and operation. Taking advantage of its location in Hong Kong, it has been building its research capability after extended consultation with experts from home and abroad, which functioned as a support to the research team at the Headquarter. CIC International (Hong Kong) is entrusted by the Headquarter to manage global credit products and China concept stock investments, and achieved commendable results in 2013.

The representative office in Toronto keeps close contact with local governments, institutions and companies as well as the general public, using its advantageous location in North America to provide unique perspectives, thus assisting the Headquarter in relative research and due diligence effectively.

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## Investment Management and Support

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In 2013, CIC continued to enhance its internal operation and management capacity with well-defined responsibilities, detailed operation procedures and robust management.

- First, in order to improve decision-making efficiency, we continuously improve corporate governance, uphold the decision-making role of the Board of Directors on key matters, strengthen the function of the Board of Supervisors, and set a clear division of responsibility between the Executive Committee and the Investment Committee to serve this purpose.
  - Second, we emphasized the role of research in investment and allocation, working on mid- and long-term economic structures and asset evaluations, tracking major economic and market trends, and making our research more forward-looking and time-sensitive.
  - Third, we established a tailored asset allocation rebalancing mechanism. We set up a factor analysis structure for the portfolio, adding to the dimensions of portfolio analysis. We created paper portfolios to support total portfolio allocation and tactical adjustments. We also improved the system for portfolio analysis and reporting.
  - Fourth, we formulated a three-year plan for IT system development across CIC. We expedited development of IT system to support investment operation, including the introduction of the Straight Through Processing (STP) system to support in-house public market transactions, provided IT support for adjusting mandate of external managers and launched whole-process management for overall investment activities. In addition, we computerized our investment and transaction process, and digitized project filing and archive documents.
  - Fifth, we focused on financial management and cost control, and improved efficiency for internal resources allocation through budget control. We conducted strict and accurate cost accumulation, apportionment and benchmark analysis to alleviate cost-efficiency and the overall financial framework, resulting in higher precision and controllability. We also managed sedimentary cash to gain favorable returns while ensuring security and liquidity.
  - Sixth, we sustained the company's investment activities with all-round legal compliance support, closely following compliance and major regulatory issues in recipient countries to identify, evaluate, manage and control compliance risk.
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## Investment Performance

In 2013, CIC's overseas portfolio posted a net return of 9.33%. Through year-end 2013, our net cumulative annualized return since inception was 5.70% (table 1).

Central Huijin is a shareholder of major financial institutions in China, the returns of which comprises Central Huijin's financial returns. Central Huijin's equity holdings in major financial institutions is listed in table 2.

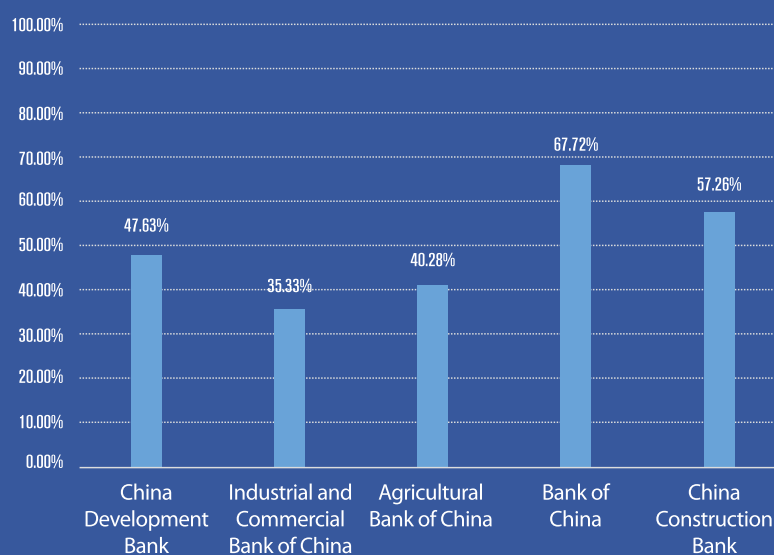
Table 1. Investment Performance on the Global Portfolio

Year	Net cumulative annualized return (%)	Net annual return (%)
2008	-2.1%	-2.1%
2009	4.1%	11.7%
2010	6.4%	11.7%
2011	3.8%	-4.3%
2012	5.02%	10.60%
2013	5.70%	9.33%

Note: Net cumulative annualized returns and the net annual return for 2008 are calculated since inception on 29 September 2007.

Table 2. Major Portfolio Holdings of Central Huijin

(As of 31 December 2013)







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# Risk Management

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## Objective and Approach

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The objective of CIC's risk management is to put in place effective policies, mechanisms, systems and processes for investments and operations, and to maximize returns for its shareholder within an acceptable tolerance for risk. Risk management is a company-wide effort involving every business line, department and individual. It is embedded throughout the investment life cycle, from pre-investment to post-investment, and from the overall portfolio to general asset classes and to specific investment strategies and substrategies.

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## System and Mechanism

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CIC has a comprehensive risk management system to classify and manage risks, involving the Executive Committee, Risk Management Committee and relevant departments to manage all risks—market, credit, operational, liquidity, strategy, legal, reputation and country risks.

In line with policies set by the Board of Directors and the Executive Committee, the Risk Management Committee oversees CIC's risk management strategies and approaches. Its key responsibilities include:

- Reviewing risk management strategies, mechanisms and policies.
- Determining the risk budgeting and allocation plan.
- Reviewing risk management and assessment reports.
- Reviewing assessment standards, management schemes and internal control mechanisms for major risk drivers and events as well as key business processes.
- Conducting periodic reviews of the risk profile of asset allocations and the execution of the allocated risk budgets.
- Reviewing the risk management strategy and contingency plans for major risk events.
- Reviewing other risk-related issues under the authorization of the Executive Committee.

The Risk Management Committee comprises the Chairman and Chief Executive Officer; President & Chief Investment Officer, related Executive Vice Presidents; Chief Strategy Officer; Chief Risk Officer; and Heads of the Department of Risk Management, Department of Legal and Compliance, Department of Public Relations and International Cooperation, Department of Asset Allocation and Strategic Research, Department of Investment Operations, Department of Finance and Accounting, and Department of Internal Audit and General Office. Other members of senior management and the heads of the investment departments attend Risk Management Committee meetings as needed. The Operational Risk Management Committee and Valuation Committee are subcommittees established under the Risk Management Committee.

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# Comprehensive Risk Management System

## Three-tiered System

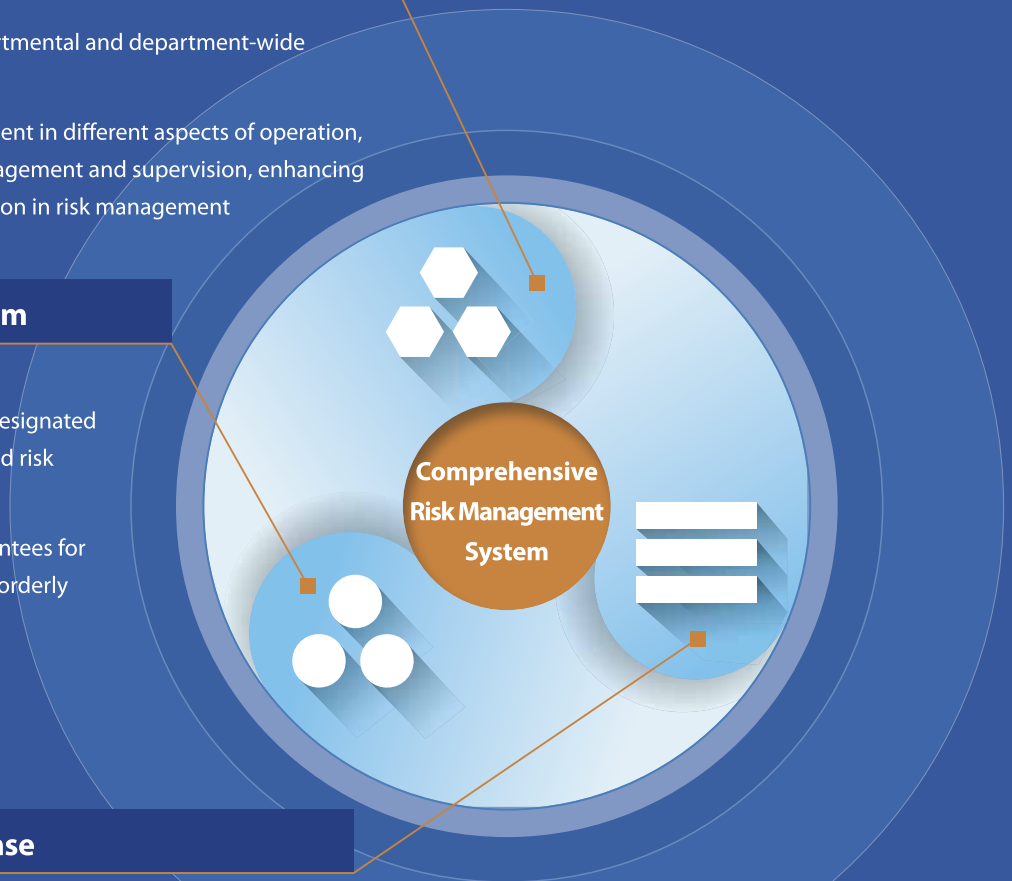
- Company-wide, inter-departmental and department-wide management system
- Standardizes risk management in different aspects of operation, including investment, management and supervision, enhancing efficiency and standardization in risk management

## Three-layered System

- Includes basic procedures, management approaches designated to different types of risks and risk management guidelines
- Provides institutional guarantees for scientific, well-defined and orderly risk management

## Three Lines of Defense

- The first line of defense: investment departments remain well informed of the risks associated with the investment products within their mandate and follow CIC's risk management rules in their investment activities
- The second line of defense: the Department of Risk Management sets risk limits for different asset classes based on the risk budget; formulates the risk management framework, mechanism and processes; works with the Department of Legal and Compliance, Department of Public Relations and International Cooperation to monitor and manage risks across the board
- The third line of defense: The Department of Internal Audit and the Department of Institutional Integrity audit supervise and evaluate company-wide risk management to ensure procedural compliance and effectiveness in risk management and internal controls, making recommendations to redress inadequacies whenever they may arise



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## Management of All Types of Risks

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### Market Risk Management

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CIC invests with the underlying principle of gaining investment returns within acceptable risk tolerance as set out in its overall business objective.

- We adhere to the principle of risk diversification. Apart from the traditional assets, we endeavor to evaluate and review risks from the perspective of market risk factors, namely addressing risk types such as stock risk, interest rates risk, credit spread risk and exchange rate risk directly instead of analyzing the risks for different types of assets.
- We adopt a forward-looking analysis for market risks by simulating future scenario distribution of current positions to support risk allocation and monitoring.
- We decompose risks into common/systematic risk factors and idiosyncratic factors through market risk measurement so as to derive and review information on sources and patterns.

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### Credit Risk Management

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Major credit risks faced by our investments are three-folds: sovereign credit risk, counterparty credit risk and risk associated with the invested assets.

- For risk monitoring and early warning, we mainly use credit ratings, Credit Default Swap (CDS) spreads, financial analysis and credit risk modeling, etc.
  - We have established our own quantitative sovereign credit rating model, which follows closely the credit risk developments of over 100 countries and regions, providing reliable sovereign risk early warning with reference to the credit rating threshold for high-risk countries based on their default records.
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- We set up monitoring and early warning system for counterparty credit risk, following closely on developments of credit risks for over 100 counterparties, while constantly analyzing correlation variation of counterparty credit risks.
- On risk prevention, we set forth credit risk budgets for the three sources of credit risk respectively, the minimum credit rating, as well as the maximum level of concentration of risks on single credit source, single target of investment and investment portfolio.

## Operational Risk Management

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CIC manages and controls the overall operational risk by establishing operational risk management framework corresponding with all other risk types.

- Working under the Risk Management Committee, the Operational Risk Management Committee is responsible for addressing risk events and internal noncompliance, issuing ratings for operational risk events, reviewing relevant management measures and reporting the evaluation and review outcome to the Risk Management Committee. Measures and requirements put forward by the Operational Risk Management Committee are regularly assessed and implemented.
- We supervise and manage our employees to prevent conflicts of interest, and we set rigorous disciplines to prevent non-compliance.

What's worth noting is that CIC attaches importance to the prevention and management of reputation risks. When choosing investment projects and partners, the company always takes reputation risk as an important factor in decision-making, so as to fulfill its corporate social responsibility, and try to create a favorable image of a responsible citizen and a respectable partner.

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## Capacity Building

In 2013, we took measures to build on our risk management system in a bid to further enhance our capacity to prevent and manage risk.

- We took stock of the current risk management and internal control system against the background of CIC's business development. We promulgated four new risk management guidelines. And we revised seven existing policies and three management procedures.
- We continued to construct the Risk and Performance Analysis System (Fengye System) concentrating on risk modules, thus achieving the target of full coverage of quantitative risk analysis on assets (Box).
- We reinforced pre-investment risk identification and evaluation as well as post-investment risk monitoring. We closely scrutinized direct investments with high concentration and underperforming strategies, substrategies and external managers.
- We improved execution of post-investment management and developed a regular monitoring and analysis function for transactions as part of the investment management system. The monitoring results would be recorded and archived in accord with internal rules and standards to facilitate implementation of post-investment management rules and procedures.
- We continued to improve operational risk management by regularly evaluating risks, calibrating the system for collecting risk information and addressing loopholes where necessary.
- We continued to enhance compliance monitoring and tax planning and to intensify research on overseas investment regulations to improve compliance.

As CIC embarks on steady growth, we will redouble our efforts to identify, monitor, evaluate and respond to investment and operational risks, and refine our risk management at all levels.

### Box. CIC's Risk and Performance Analysis System—Fengye System

After more than two years in development, the CIC Fengye System was put into production in the beginning of 2014. This was the first large-scale, comprehensive investment management system that the company developed independently. It has proprietary intellectual property that combines our investment and risk management experience, international best practice and inputs from academic research.

The Fengye System covers the portfolio structure, underlying investment portfolio, product library and benchmark library. It supports what-if analysis, market risk analysis, performance calculation and report customization to enable comprehensive and multilayered monitoring, analysis and management of all types of assets.

The system's comprehensive research and analysis platform can ensure consistency among performance, risk analysis logic and investment logic. The performance measurement engine independently developed following Global Investment Performance Standards (GIPS) can assess performance at all levels from different perspectives. Risk measurement norms based on the MSCI market data emphasize the evolution and penetration of risk, providing multi-perspective analysis of the total portfolio, investment strategies and individual managers. The system raises efficiency by meeting all kinds of business requirements.



# Human Resources

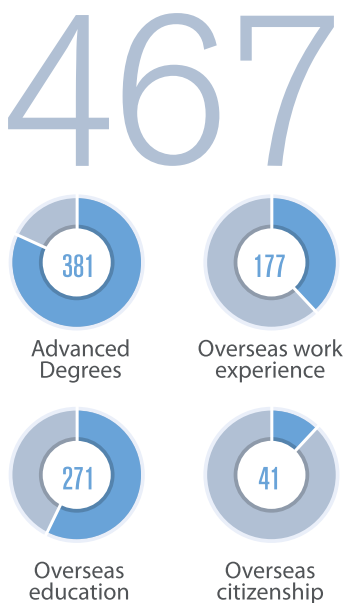
Talent is the driving force that sustains the competitiveness of CIC as an international investment institution. Since its inception, CIC has been placing research as a priority to promote the professionalism in human resources management. With greater recruitment efforts, we have been attracting more and more talent with better quality over the years, and the four teams for investment, operation, equity management and management for subsidiaries under CIC that are professionally competent with investment skills and all-round caliber have taken shape. We are committed to building top-notch human resources management by creating an exceptional environment for recruiting, developing and retaining talent.

## Recruiting Talent

### Background Summary of CIC Staff

(As of 30 June 2014)

Number



Note: Excludes Central Huijin.

Advanced degrees are postgraduate or higher.

Since CIC is an international company undergoing fast growth with a large overseas portfolio under its management, we recruit professionals with international investment management experience and a good grasp of Chinese culture and perspectives. We offer an extraordinary platform for professionals to give full play to their talents and develop their careers.

We have a fair, rigorous and transparent recruitment process for talents around the world. All candidates must apply through our online application system. After initial screening, candidates are invited to take an online test. Applicants who pass the online test are shortlisted for interviews. To enhance the rigor and fairness of the selection process, we introduced a multidimensional assessment methodology, inviting external human resource experts to participate in the interview. Candidates applying for positions of managing director or above are interviewed by interviewed by the senior management.

To attract and retain key talent, we have a database for talent from overseas to keep potential candidates in reserve for mid-level and senior executive positions for investment and management. That makes it possible to respond quickly to the demand for more targeted and professional recruitment.

Our overall staff strength was 606 as of 30 June 2014, including global investment staff of 467, more than 60% of whom were educated or have worked overseas.

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## Developing Talent and Teams

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CIC sets a premium on developing talent. In line with our growth strategies and human resource goals, we adhere to the principles for effective service, comprehensive coordination, specific design and pragmatic training, constantly improve the training system and methods and launch diversified and systematic training programs for staff at all levels to help them improve professional, management and leadership skills.

Focusing on management, skill and cohesion, training is carried out at all levels in the company, coordinated by the Department of Human Resources, which set up a training institution resource database. Apart from internal training, we also work with renowned international and domestic universities to provide training courses for executives to broaden their horizons and enrich their management skills.

To help newly graduated employees, the Counselor Initiative creates a "Mentorship Program" who are outstanding in their performance and integrity and communicate on CIC values one-on-one. That prepares graduates for their transition to business professionals, while tapping the potential of the mentors.

In 2013, we provided 75 training sessions covering five categories for 540 staff members, the equivalent of providing 2,900 days of training in cumulative terms, or more than 5 days for each staff on average.

### Selected Corporate Training Programs

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- Risk management and internal control
  - Valuation modeling
  - International economic and political developments
  - Investment expertise
  - Human resources
  - Operation and management
  - Mentorship Program
- 

Our comprehensive performance management system improves and rewards performance. It includes the full cycle of performance planning, tracking, guiding and feedback. We also combine a management-by-objectives evaluation and a 360-degree appraisal in a multidimensional approach to assess staff performance, competency and achievement. That aligns the performance assessment system with our business ideals, development strategy and culture. Outcomes of performance assessments set benchmarks for future training, career planning and incentive schemes.

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## Retaining Talent

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Talents may move from one company to another. Since inception, CIC has registered a fairly low turnover rate. With our excellent development platform and corporate culture, we have become an employer of choice for many talented professionals returning from overseas. That can be attributed to the attractive job opportunities, sound corporate culture, effective talent selecting mechanism and incentive schemes.

CIC continually improves and optimizes its remuneration system to gradually establish a market-oriented incentive scheme with clear direction that suits its development strategy and culture. We have been building our remuneration database to gain a more accurate understanding of international trends to find appropriate remuneration levels. Performance bonuses are an important incentive, distributed in favor of investment departments and crucial talents while emphasizing both material and other forms of incentives.

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## Human Resource Planning

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In 2013, CIC formulated the 2012–2016 Human Resource Strategic Plan to define the overall objectives, and completed the basic human resources related work including management strategies, career planning, overseas talents, remuneration and human resource information compilation. The duty-capability matching model optimizes posts and structures, which has been preliminarily set up. In the past year, we optimized the post and departments configuration, established a full-fledged training system, achieving the targets for scientific system design, sound management and rational resource allocation.

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# Global Outreach

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Committed to a vision of diversifying China's foreign exchange investment portfolio and growing into a respected world-class sovereign wealth fund, CIC has been engaging in international exchanges and cooperation. That has enhanced understanding of our mission and purpose, and promoted CIC's image as a responsible global investment institution and valuable cooperation partner.

In 2013, CIC engaged in open and frank dialogues with overseas partners. Our executives visited numerous countries and regions, and we received more than 200 visiting delegations with a large number of government officials and executives from investment institutions. With all these interactions, we strengthened communication with governments, business entities and all other stakeholders to demonstrate our policies and practices as a long-term financial investor making responsible investments based on market rules. We endeavored to mitigate the negative impact of investment protectionism and foster an open, fair and nondiscriminatory environment for international investment, and share experiences on corporate management, explore potential investment opportunities and strive for mutual benefits through cooperation.

To foster openness and transparency, CIC discloses its governance structure, investment strategy and risk management model, annual financial report, key investment projects, appointments and removals of personnel and other important events in 2013, which

has been well received by recipient countries and our business partners. CIC launched its upgraded website in April 2014, and provided enriched contents and an accessible channel for information disclosure. We enhanced the "spokesperson information disclosure" mechanism as a supplement to publish authoritative information timely. Chairman Ding Xuedong, President Li Keping and Chairman of the Board of Supervisors Li Xiaopeng presented at various forums and conferences home and abroad, and sat for interviews, published articles with mainstream media from China and overseas, providing information on our investment philosophy and performance and showcasing our professional and open image.

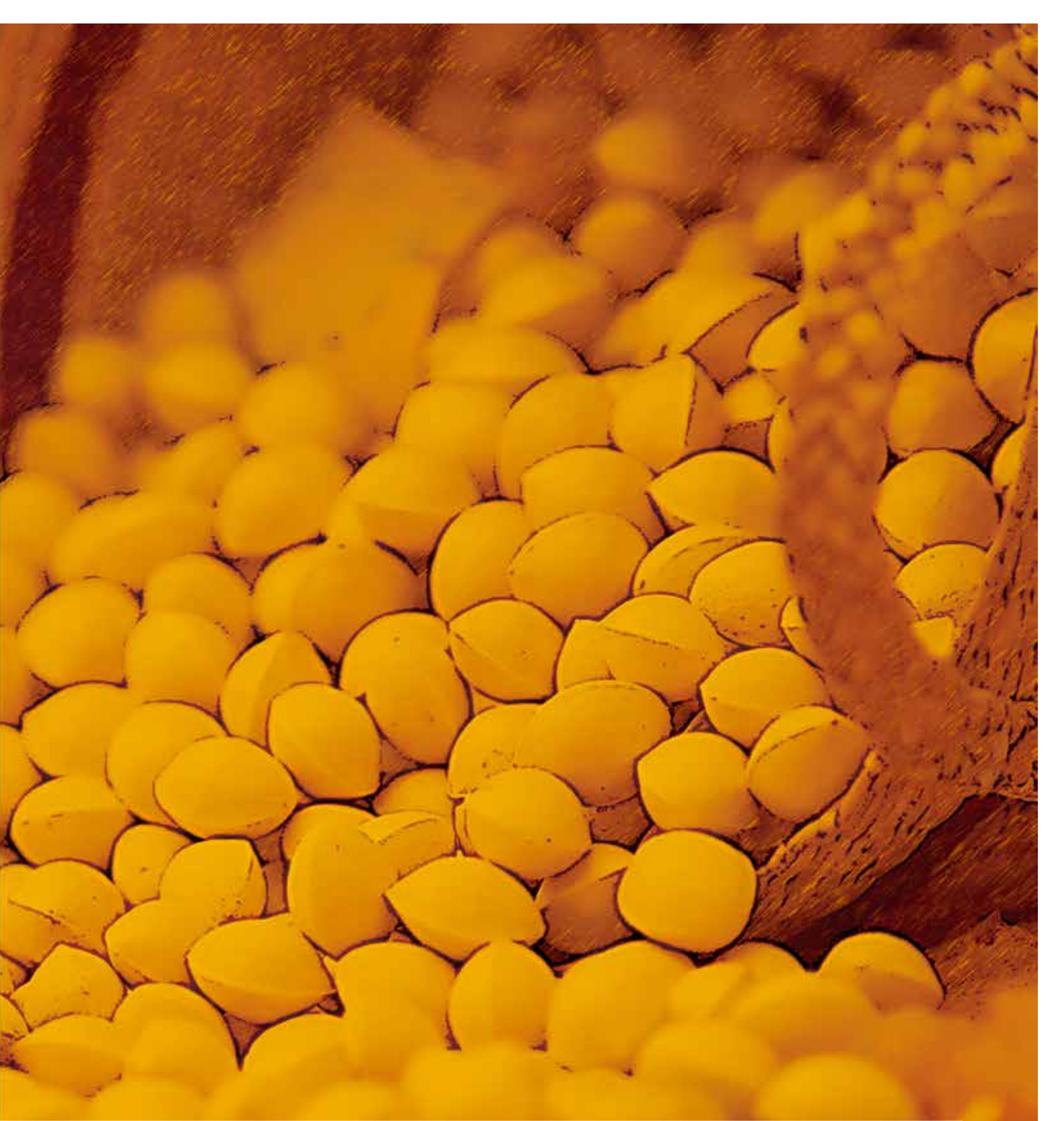
We have implemented the Santiago Principles in good faith. We have been active as a charter member of the International Forum of Sovereign Wealth Funds. At the 2013 Annual Meeting of the Forum convened in Oslo, Norway, Mr. Jin Liqun, the CIC representative, served as the honorary chair and member of the board. CIC representatives played an active role since the inception of the forum by contributing tremendously to decision-making on the Forum's internal governance and development plan.

Going forward, CIC will remain committed to outreach through active and effective dialogue and cooperation, as guided by the Santiago Principles, which we will continue to observe in good faith to prove that CIC is a valuable global institutional investor.

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# 2013 Financials



CIC pursues overseas and domestic investments separately through CIC International and Central Huijin. The consolidated financial statements of CIC have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

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# 2013 Financials

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## Basis of Presentation

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China Investment Corporation pursues overseas and domestic investments separately through CIC International and Central Huijin. The consolidated financial statements of China Investment Corporation have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. These accounting standards have substantially converged with the International Financial Reporting Standards (IFRS). Having been audited by independent auditors, the company's consolidated financial statements represent a true and impartial view of the Company's financial position, operating results and cash flows for the year ended 31 December 2013.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's policies. These judgments, assumptions and estimates are applied to financial asset valuation and income tax recognition.

The Company's accounting period is from 1 January to 31 December. The reporting and functional currency of CIC's overseas investments is the US dollar. The reporting and functional currency of Central Huijin is the RMB.

Central Huijin does not consolidate any financials of its long-term equity investees; it accounts for its long-term equity investments mainly using the equity method.

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## Financial Statements

Consolidated Balance Sheets (As of 31 December, 2013) (Amount in millions of US dollars)

<b>Assets:</b>	<b>2013</b>	<b>2012</b>
Cash and deposits	27,884	22,296
Financial assets at fair value through profit or loss	205,197	190,304
Receivables and prepayments	3,437	3,032
Available-for-sale investments	358	119
Loans	754	636
Long-term equity investments	412,056	356,097
Deferred tax assets	1,556	1,555
Other assets	1,498	1,430
<b>Total assets</b>	<b>652,740</b>	<b>575,469</b>
<b>Liabilities:</b>	<b>2013</b>	<b>2012</b>
Financial liabilities at fair value through profit or loss	2,189	509
Bonds payable	18,051	17,507
Deferred tax liabilities	5,828	3,888
Other liabilities	56,865	57,360
<b>Total liabilities</b>	<b>82,933</b>	<b>79,264</b>
<b>Owner's equity:</b>		
Owner's capital	200,000	200,000
Capital reserves and others	369,807	296,205
<b>Total owner's equity</b>	<b>569,807</b>	<b>496,205</b>
<b>Total liabilities and owner's equity</b>	<b>652,740</b>	<b>575,469</b>



Consolidated Income Statements (For the year ended 31 December, 2013)  
(Amount in millions of US dollars)

<b>Investment income</b>	<b>2013</b>	<b>2012</b>
Interest income	2,643	2,951
Dividend income	3,289	2,474
Net realized gains on investments	3,952	1,944
Unrealized gains (losses) from changes in fair value of investments	9,796	12,181
Investment income from long-term equity investments	73,259	63,759
Foreign exchange gains (losses)	(548)	49
Other income	109	107
<b>Total investment income</b>	<b>92,500</b>	<b>83,465</b>
<b>Expense</b>	<b>2013</b>	<b>2012</b>
Investment expense	(444)	(311)
General and administrative expense	(156)	(147)
Finance expense	(642)	(630)
<b>Total expense</b>	<b>(1,242)</b>	<b>(1,088)</b>
<b>Operating income</b>	<b>91,258</b>	<b>82,377</b>
Others, net	(1)	(1)
<b>Income before taxes</b>	<b>91,257</b>	<b>82,376</b>
Income taxes	(4,356)	(4,686)
<b>Net income</b>	<b>86,901</b>	<b>77,690</b>

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## Summarized Accounting Policy of Financial Instruments

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### Classification of Financial Instruments

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The Company's financial assets are classified into financial assets at fair value through profit or loss (FVTPL), available-for-sale investments, loans and receivables, etc. The Company's financial liabilities are classified into one of two categories: financial liabilities at FVTPL and other financial liabilities.

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### Financial Assets and Liabilities at FVTPL

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Financial assets and liabilities at FVTPL include trading financial assets and liabilities and those initially designated as financial assets and liabilities at FVTPL.

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### Available-for-sale (AFS) Investments

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AFS investments are any nonderivative financial assets designated by the Company on initial recognition as available for sale.

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### Loans and Receivables

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Loans and receivables refer to non-derivative financial assets on an active market that are unquoted and with fixed or determinable recovery cost.

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### Other Financial Liabilities

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Other financial liabilities are financial liabilities other than those that are designated initially at FVTPL. Other financial liabilities mainly include bonds payable and investments payable.

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### Measurement of Financial Instruments

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Financial instruments are initially measured at fair value. Subsequent measurement of loans and receivables are measured at amortized cost by using the effective interest method.

For financial instruments at FVTPL, gains or losses from change in fair value are recognized in profit or loss. Changes in fair value of AFS investments are recognized directly in equity, through other comprehensive income, except for impairment losses and foreign exchange gains or losses, which are recognized directly into profit or loss. The cumulative gain or loss that was recorded in equity is transferred to profit or loss when an AFS investment is derecognized.

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For financial assets and liabilities measured at amortized cost, the gains or losses on derecognition or arising from impairment are recognized in profit or loss.

Derivatives are initially measured at fair value on the date when a derivative contract is entered into and subsequently measured at the fair value on each balance sheet date. The gains or losses from the fair value change are recognized in profit or loss. The embedded derivative instrument is separated from the nonderivative instrument and treated as an independent derivative instrument.

As for the financial instruments for which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The quoted prices in the active market refer to the prices, which are easily available from the stock exchanges, brokers, industry associations, pricing service institutions and so on and which represent the prices of actual market transactions between willing market participants under fair conditions. Where there is no bid or ask price for a financial instrument and there has been no significant change to the economic environment after the latest transaction day, the Company shall apply the quoted price of the latest transaction to determine the fair value.

For financial instruments that do not have a quoted market price in an active market, the fair value is determined by using valuation techniques. The valuation techniques include referring to the latest price of actual market transactions between willing market participants under fair conditions and the quoted price for similar financial instruments that are substantially the same. The valuation techniques also include discounted cash flow methods and option pricing models and the like, which are generally accepted and can be reliably verified. The Company periodically evaluates its valuation techniques to ensure their reasonableness.

## **Measurement of Income Tax**

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Income tax is measured along the balance sheet approach. It includes current and deferred taxes. Current tax refers to tax payable for transactions and items during the past fiscal year measured in accord with applicable tax rules. Deferred tax assets and deferred tax liabilities occur as recognition of the difference between tax value and book value.

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