

# China Investment Corporation

## *Annual Report* *2010*

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*China Investment Corporation is established as an investment institution in accordance with the Company Law of the People's Republic of China. Its mission is to make long-term investments to maximize risk adjusted financial returns for the benefit of the shareholder.*



## Message from the Chairman & CEO

*2010 was a year of substantial growth and accomplishment for China Investment Corporation (CIC). As CIC fully deployed the investable capital in its global portfolio, it continued to develop its organization and build its institutional capabilities. CIC earned a satisfactory return for its shareholder and continued to manage the risk profile of its invested portfolio effectively. In this annual report, I would like to share with you our recent developments.*

The global economy continued to recover in 2010, but the progress was unbalanced and beset with challenges and uncertainties. Expiration of stimulus programs in some countries, global upward inflationary pressure fueled by surging commodity prices, the emerging sovereign debt crisis in the Euro zone combined with elevated unemployment and fragile economic recovery in the United States, threatened to derail economic stability and growth around the world. As a result, the

global investment environment was unstable and the economic outlook was unpredictable. Despite these unfavorable factors, CIC maintained its disciplined investment approach approved by its Board of Directors and followed its strategy of long-term, commercially based investment. CIC seized market opportunities with prudent decision-making and solid operations, seeking an appropriate return for its shareholder within its risk parameters. We demonstrated that the investments we made in our people, processes and infrastructure had developed our capabilities to the point that we could prudently and promptly take advantage of market opportunities.

We reduced our cash holdings and increased our investments in alternative assets with a view to further diversifying our portfolio. We entered the year with 32% of our global assets in cash and ended the year with cash accounting for only 4% and USD 35.7 billion worth of newly deployed investment. As a long-term investor, deployment of our capital in 2010 was weighted towards private equity, infrastructure and other direct investments, guided by our strategic asset allocation plan. The return on our global investment portfolio was 11.7% in 2010 and the cumulative annualized return was 6.4% since our inception in September 2007.



The accomplishments of an organization are based on the capability, energy and efforts of its people. During 2010, staff in CIC's global investment team grew to 351 highly qualified professionals, up from 246 at the start of the year, greatly strengthening our investment team and boosting our middle and back office capabilities. We also took steps to expand and improve our cross-border investment operations. In November 2010, CIC opened its first subsidiary outside of mainland China, CIC International (Hong Kong) Co., Ltd., in a bid to fully leverage Hong Kong's status as a premier global financial center. In January 2011, we opened a representative office in Toronto, Canada, our first office outside of Asia, through which we aim to explore new opportunities and areas for cooperation.

CIC demonstrated its adherence to the spirit of the "Santiago Principles" and to support efforts aimed at further development of open, free and orderly capital flows and cross-border investment. We participated in many multilateral and bilateral dialogues with supranational agencies, governments and regulatory authorities to discuss investment environment and regulatory issues in order to further these goals. In May 2011, CIC hosted the 3<sup>rd</sup> meeting of the International Forum of

Sovereign Wealth Funds in Beijing. The meeting was a great success and contributed to closer dialogues and enhanced mutual trust between sovereign wealth funds including CIC and recipient countries.

While continuing dialogue is important, we recognize that we will be judged by our actions. CIC has now built a track record demonstrating that it is a long-term financial investor, investing on a purely commercial basis and observing the laws and regulations of the countries in which it invests. In this annual report we will highlight our investment activities around the world, our progress in building our institutional capacity and demonstrate that CIC is a long-term investor and a valued partner of the countries and companies in which it invests. CIC remains committed to being a welcomed investor throughout the world.

We have entered 2011 with a cautiously positive outlook. While we expect global economic conditions to be further improved, there will still be challenges ahead. As a financial investor, CIC will align its investment with the prevailing global dynamics, and pursue overseas investment with prudence in keeping with our asset

*CIC aligns its investment with the prevailing global dynamics, and pursues overseas investment with prudence in keeping with its asset allocation and risk control requirements.*

allocation and risk control requirements. In January 2011, CIC's Board of Directors made the decision to extend our investment horizon to 10 years, a more meaningful approach for a long-term investor such as CIC, and made adjustments to our asset allocation, risk management and performance evaluation processes correspondingly. Such a change underscores the long-term perspective in our investment strategies and enables us to pursue higher long-term financial returns with increased risk tolerance against market volatility.

Looking ahead, we will continue to strengthen our strong focus on risk management and prudently invest and manage our portfolio. If we do these things consistently well, we are confident we will achieve our long-term financial objectives and continue to demonstrate we are a responsible global citizen and valued partner.

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Lou Jiwei  
Chairman & CEO  
July, 2011

*CIC demonstrated its adherence to the spirit of the "Santiago Principles" and support of efforts aimed at further development of open, free and orderly capital flows and cross-border investment.*

## Overview

*Headquartered in Beijing, China Investment Corporation was founded on September 29, 2007 as a wholly state-owned company incorporated in accordance with China's Company Law. The company was established as a vehicle to diversify China's foreign exchange holdings and achieve higher risk-adjusted returns on its investments in the context of China's macroeconomic requirements and further reform of its financial system.*

CIC was initially capitalized with USD 200 billion in foreign reserves purchased from the People's Bank of China (China's central bank) with the proceeds of the government bond issued by the Ministry of Finance in the amount of RMB 1,550 billion. Income from CIC's investments is used to provide dividend income to the shareholder to service the debt issued.

The company purchased Central Huijin Investment Ltd. (Central Huijin), a state-owned investment company which holds controlling stakes in key state-owned financial institutions in China. Central Huijin also recapitalized selected domestic financial institutions. Though Central Huijin is not involved in the operations of its investee companies, it exercises its shareholder rights and performs its obligations to achieve the goals of improving governance and preserving and enhancing the value of state-owned financial assets. In 2010, Central Huijin issued RMB 109 billion (equivalent of USD 16.6 billion) in bonds to inject capital and participate in the refinancing schemes of selected financial institutions in its portfolio.

Of the USD 200 billion in registered capital, slightly over 50% was allocated to global investment. The balance is invested in domestic financial institutions by Central Huijin. The global investment activities of CIC and the domestic investment activities of Central Huijin are completely separate. In 2010, CIC invested an additional USD 35.7 billion of its investment capital and became essentially fully invested. It managed the risk profile of its invested global portfolio effectively, strengthened its investment platform and capabilities further, and continued to grow and develop its organization.

In November 2010, CIC opened its first subsidiary outside of mainland China in Hong Kong, CIC International (Hong Kong) Co., Ltd., which functions as an independent legal entity and is mandated to expand and improve CIC's cross-border investment operations. In January 2011, CIC opened its first office outside of Asia, CIC Representative Office in Toronto, Canada, as a vehicle for enhancing and broadening communication with local and regional stakeholders and exploring new business opportunities.

### Box 1: China Investment Corporation at A Glance

Headquarters	Beijing, People's Republic of China
Date of Incorporation	September 29, 2007
Employees as of June 30, 2011	497
Owner's Equity as of December 31, 2010	USD 374.3 billion
Global Portfolio (including cash) as of December 31, 2010	USD 135.1 billion
Global Investment Portfolio Return in 2010	11.7%
Global Investment Portfolio Cumulative Annualized Return since Inception as of December 31, 2010	6.4%
Offices	Beijing, Hong Kong, Toronto

*CIC established its first subsidiary in Hong Kong in November 2010 and opened a representative office in Toronto, Canada in January 2011.*

## Culture and Core Values

*CIC is committed to the concept that corporate culture underpins corporate governance. As was demonstrated during the recent global financial crisis, no system of governance can be effective without a strong, positive corporate culture which influences behavior and decision making throughout the organization.*

As a new, fast-growing, highly visible organization operating on a global basis, CIC faces unique challenges in shaping and developing its culture. CIC recognizes that building a culture is a long-term effort. In 2010, CIC launched an effort to define the characteristics of the culture it plans to develop more explicitly. This work has reaffirmed the importance of the six key core values CIC has adopted since its inception: integrity, commitment, prudence, learning, professionalism and teamwork.

### **Integrity**

Integrity is paramount among all our staff and the basis for everything we do in work and life. In our business we extol integrity and honesty. We operate in accordance with the laws and regulations of each country and region in which we invest.

### **Commitment**

CIC and our staff are fully committed to managing our business and portfolio successfully. CIC, with the concerted efforts of all members of our team, assumes full accountability, endeavors to maximize risk-adjusted returns, and acts in the best interest of our shareholder.

### **Prudence**

We exercise care, prudence, and diligence and take a measured approach to managing risks in every investment we undertake. We are always conscious of our fiduciary responsibility. As an institution and as individuals, we always seek to work diligently and to conduct business in good faith.

### **Learning**

The constant pursuit of new knowledge and the adoption of best practices is a driving force for our success and future growth.

We seek to build an institution in which each member of our team has the support, infrastructure, and encouragement to learn new practices, skills, and approaches to achieving excellence.

### **Professionalism**

We aim high, and are relentless in our pursuit of excellence and pride ourselves in the quality of our work. We adhere to the highest standards of professionalism in the way we conduct our business.

### **Teamwork**

We promote teamwork and encourage close collaboration among all our staff and departments to assure operational efficiency and achievement of CIC's stated objectives.



## Corporate Governance

*Sound governance structure, clear and effective division of roles and responsibilities in an organization support good corporate governance by providing the checks and balances that enable and promote effective operation and achievement of its stated goals.*

Leadership and direction of CIC is vested in its shareholder, the State Council of the People's Republic of China, in three governing bodies: the Board of Directors and the Board of Supervisors, both required under China's Company Law, and the Executive Committee.

CIC's Board of Directors is mandated and authorized to oversee the company's operation and overall performance. Based on objectives and broad policy set by the shareholder, the Board approves the investment strategies and operational guidelines. Its mandate also includes: (i) deciding how to implement such strategies; (ii) identifying major issues that need to be referred to the State Council; (iii) appointing, and if required, authorizing the removal of management and; (iv) delegating responsibilities and establishing committees as necessary. The Board creates the framework within which the Executive Committee exercises its leadership and management role.

Responsible for monitoring the ethical behavior of directors and executives as well as the effectiveness of supervisory procedures within the company, the Board of Supervisors reports directly to the shareholder. The Board is also in charge of the Department of Internal Audit, engages outside auditors and monitors CIC's accounting and financial functions. The Chairman of the Board of Supervisors is a member of the Executive Committee and sits as an observer in meetings of the Board of Directors.

CIC's Executive Committee is responsible for translating the Board of Directors' guidance into detailed strategies as well as for CIC's day-to-day operations, with authority to make required operating decisions. Two additional committees with policy and decision-making responsibilities, the Investment Committee and Risk Management Committee, were established by the Executive Committee. The role, responsibilities and membership of these two committees are discussed later in this report.





Under the direction of the Board of Directors and Executive Committee, CIC sustains its effort to strengthen its Code of Ethics and its policies and processes with respect to management and investment activities throughout the organization.

Central Huijin has a separate Board of Directors, a separate Board of Supervisors and a separate management and organization structure. CIC maintains a strict operational firewall between its global investment activities and those of Central Huijin, which invests in key state-owned financial institutions in China.

Since its inception, CIC has been an active participant in the community of sovereign wealth funds, playing a prominent role in efforts to define and implement principles and practices that properly reflect the objectives and investment practices of sovereign wealth funds. The “Santiago Principles”, which was formally endorsed by the Chinese Government, has been implemented by CIC. CIC is a charter member of the International

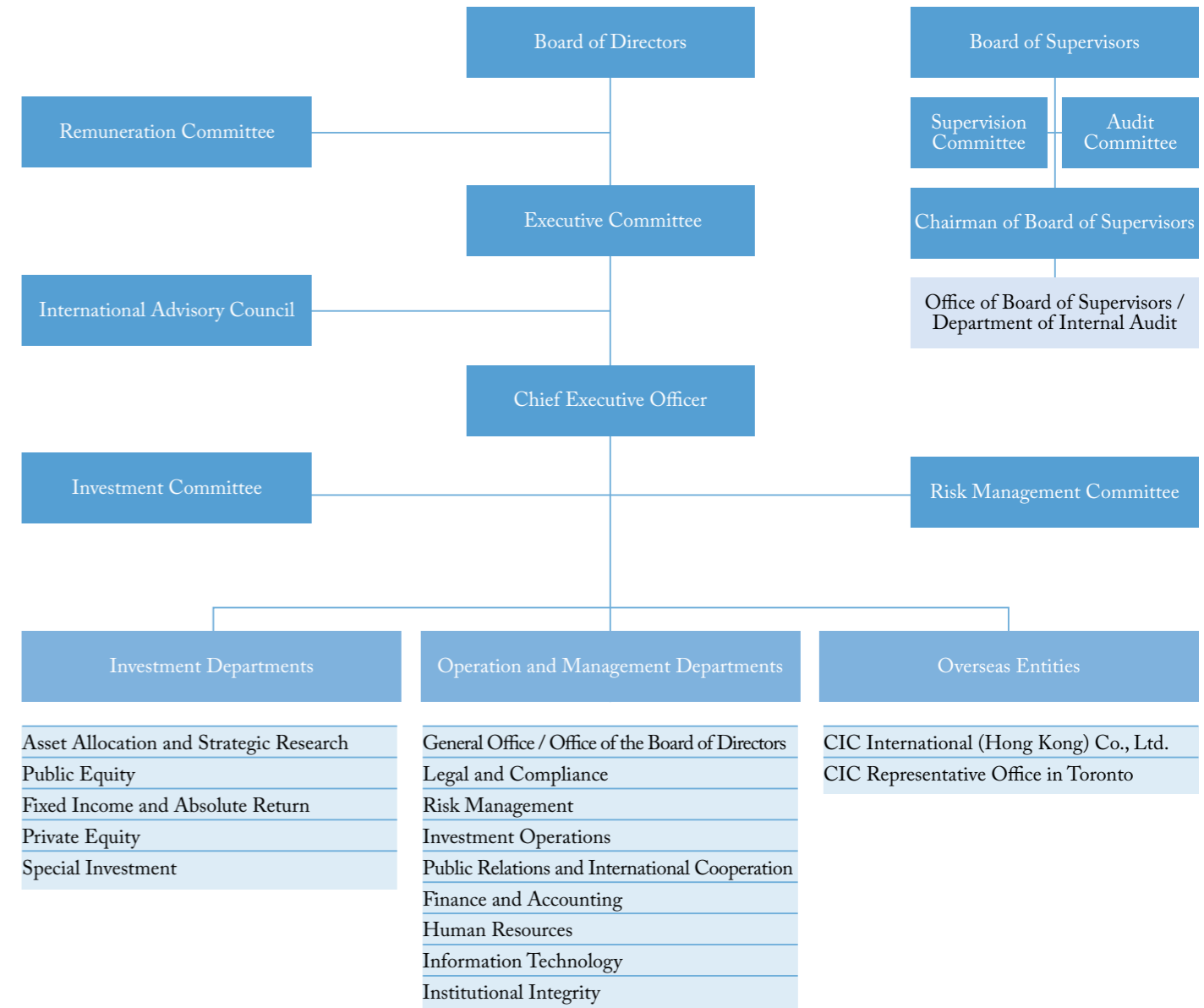
Forum of Sovereign Wealth Funds (IFSWF) and recently hosted the third meeting of the Forum in Beijing.

The International Advisory Council, established in 2008, is comprised of 14 internationally prominent experts who provide a global perspective to CIC on global economic, investment and regulatory issues. Their discussions and counsel play a valuable role in broadening the perspective of CIC’s leadership team.

CIC’s management organization structure is shown in *Figure 1*. Photos and biographical sketches of key personnel follow.

*CIC sustains its effort to strengthen its code of ethics and its policies and processes with respect to management and investment activities throughout the organization.*

**Figure 1: China Investment Corporation Organization Chart (Excludes independent units of Central Huijin Investment Ltd.)**



## Board of Directors



**Lou Jiwei**  
**Chairman & Chief Executive Officer**

Mr. Lou Jiwei is the Chairman and Chief Executive Officer of CIC. Immediately prior to this, he served as Deputy Secretary General (ministerial rank) of the State Council. Previously he served as Executive Deputy Minister of Finance, Deputy Governor of Guizhou Province, and Director General of the Macroeconomic Control Department of the State Commission for Restructuring the Economic Systems.

Mr. Lou was born in 1950. He received a master's degree in economics from the Chinese Academy of Social Sciences and a bachelor's degree from Tsinghua University.



**Gao Xiqing**  
**Vice Chairman & President**

Mr. Gao Xiqing is the Vice Chairman and President of CIC. Immediately prior to this, he served as Deputy Chairman of the National Council for the Social Security Fund. He also worked as Deputy Chairman at the China Securities Regulatory Commission, and General Counsel and the Director General of the Public Offering Supervision Department. In the 1990s, he served as Deputy Chairman and Chief Executive Officer of the Bank of China International (Holdings) Ltd.

Mr. Gao was born in 1953. He received a juris doctor's degree from the School of Law at Duke University in the United States and a masters degree in law/economics from the University of International Business and Economics, Beijing.



**Li Keping**  
**Executive Director, Executive Vice President & Chief Investment Officer**  
*(started to serve from June 2011)*

Mr. Li Keping is Executive Director, Executive Vice President and Chief Investment Officer of CIC. Immediately prior to this, he served as Deputy Chairman of the National Council for the Social Security Fund. He also worked as 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 was born in 1956 and holds a bachelor's degree in economics from Beijing University.



**Zhang Xiaoqiang**  
**Non-Executive Director**

Mr. Zhang Xiaoqiang is Non-Executive Director of CIC. He is currently Deputy Chairman of the National Development and Reform Commission (NDRC). Prior to this position, he 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 was born in 1952 and holds a bachelor's degree in economics from Beijing University.



**Li Yong**  
**Non-Executive Director**

Mr. Li Yong is Non-Executive Director of CIC. He is currently Deputy Minister of Finance. Prior to this, he served as Assistant Minister of Finance, Secretary General of the Chinese Institute of Certified Public Accountants, Director General of the World Bank Department under the Ministry of Finance and Executive Director of China to the World Bank Group.

Mr. Li was born in 1951 and holds a master's degree in economics from the Research Institute for Fiscal Science under the Ministry of Finance.



**Chen Jian**  
**Non-Executive Director**

*(started to serve from March 2011)*

Mr. Chen Jian is Non-Executive Director of CIC. He is currently Vice Minister of Commerce. Prior to this, he served as Assistant Minister of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and MOFCOM, Director General of Foreign Economic Cooperation Department of MOFTEC, and Vice President of China National Overseas Engineering Corporation.

Mr. Chen was born in 1952 and graduated from Beijing Second Foreign Language Institute.



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

Madam Hu Xiaolian is Non-Executive Director of CIC. She serves currently as Deputy Governor of the People's Bank of China (PBOC). Before taking up her current position, she served as Assistant Governor of PBOC and Deputy Administrator of State Administration of Foreign Exchange (SAFE). Previously she worked in a number of departments in SAFE, serving as Director General of the Reserve Management Department, Deputy Director General of the Policy, Law and Regulation Department, and Director of the Policy Research Office.

Madam Hu was born in 1958 and holds a master's degree in economics from the Graduate School of the PBOC.



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

*(started to serve from March 2011)*

Mr. Fang Shangpu is Non-Executive Director of CIC. He is currently Deputy Administrator of the State Administration of Foreign Exchange (SAFE). Prior to this, he served as Chief Accountant of SAFE and Deputy Administrator of SAFE Shanghai Branch, Vice President of PBOC Shanghai Branch, and Deputy President of Fujian Industrial Bank.

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



**Liu Zhongli**  
**Independent Director**

Mr. Liu Zhongli is an Independent Director of CIC. He is concurrently Chair of the Chinese Institute of Certified Public Accountants. Prior to this, he served as the Chairman of the Economic Commission under the Chinese People's Political Consultative Conference. Previously he served as the Chairman of the National Council for Social Security Fund, Director of the Economic Restructuring Office of the State Council, Minister of Finance, Commissioner of the State Administration of Taxation, Deputy Secretary General of the State Council, and Deputy Head of the Enterprises Management Advisory Commission under the State Council. He also served as Deputy Governor of Heilongjiang Province in 1980s.

Mr. Liu was born in 1934 and is a college graduate.



**Wang Chunzheng**  
**Independent Director**

Mr. Wang Chunzheng is an Independent Director of CIC. Previously he was the Head (ministerial level) of the Office of the Central Leading Group on Financial and Economic Affairs. He also served as Deputy Chairman (ministerial level) of the National Development and Reform Commission as well as its predecessor, the State Development Planning Commission.

Mr. Wang was born in 1938.



**Li Xin**  
**Employee Director**

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

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



**Zhang Hongli**  
**Executive Director &  
 Executive Vice President**  
*(served until June 2011)*



**Fu Ziyang**  
**Non-Executive Director**  
*(served until March 2011)*



**Liu Shiyu**  
**Non-Executive Director**  
*(served until March 2011)*

## Board of Supervisors



**Jin Liqun**  
**Chairman of Board of Supervisors**

Mr. Jin Liqun is the Chairman of the Board of Supervisors of CIC. Prior to this appointment, he served as the Vice President (Operations 1) of the Asian Development Bank (ADB). Before joining the ADB in August 2003, he served as Deputy Minister of Finance, Director General of the World Bank Department at the Ministry of Finance, and Executive Deputy Director of China to the World Bank Group. He was a member of the Monetary Policy Committee of the People's Bank of China. Currently he also serves as Chair of the International Forum of Sovereign Wealth Funds.

Mr. Jin was born in 1949 and holds a master's degree from Beijing Foreign Studies University, and was a Hubert Humphrey Fellow in the Economics Graduate Program at Boston University.



**Dong Dasheng**  
**Supervisor**

*(started to serve from June 2011)*

Mr. Dong Dasheng is a member of the Board of Supervisors of CIC. He is currently Deputy Auditor General of the National Audit Office. Prior to joining CIC, 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 Fiscal Audit. He also served as the Deputy Director of the Administration Committee of the Pudong New Area of Shanghai.

Mr. Dong was born in 1954 and holds a Ph.D degree in economics.



**Zhou Mubing**  
**Supervisor**

*(started to serve from June 2011)*

Mr. Zhou Mubing is a member of the Board of Supervisors of CIC. He is currently the Vice Chairman of the China Banking Regulatory Commission. In his previous appointments, he served as Director of the Policy Research Department of the Industrial and Commercial Bank of China (ICBC), President of the Fujian branch of the ICBC, Director of Yubei district of Chongqing city, Secretary General of the Party Committee of the Yubei district of Chongqing city, Director General of the General Office and Secretary General of the Chongqing Municipal Government.

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



**Linghu An**  
**Supervisor**

*(served until June 2011)*



**Zhuang Xinyi**

**Supervisor***(started to serve from June 2011)*

Mr. Zhuang Xinyi is a member of the Board of Supervisors of CIC. He is currently the Vice Chairman of China's 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, Party Secretary and President of the Shenzhen Stock Exchange, Inspector of the Office of the State Council's Securities Commission, Director of the Training Centre of CSRC, Deputy Mayor of Shenzhen city, Chairman and Party Secretary of the Securities Association of China, Assistant to Chairman of CSRC.

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



**Wang Huaqing**  
**Supervisor**

*(served until June 2011)*



**Cui Guangqing**  
**Employee Supervisor**

Mr. Cui Guangqing is an Employee Supervisor and Head of Office of the Board of Supervisors/Department of Internal Audit of CIC. Prior to 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 degree in economics from Xi'an Jiaotong University.



**Fan Fuchun**  
**Supervisor**

*(served until June 2011)*

## Executive Committee



*From left to right:* Liang Xiang, Xie Ping, Peng Chun, Jin Liqun, Lou Jiwei, Gao Xiqing, Li Keping, Fan Yifei, Wang Jianxi

### Lou Jiwei

#### Chairman & Chief Executive Officer

*See Board of Directors*

### Gao Xiqing

#### Vice Chairman & President

*See Board of Directors*

### Jin Liqun

#### Chairman of Board of Supervisors

*See Board of Supervisors*

### Li Keping

#### Executive Director, Executive Vice President & Chief Investment Officer

*(started to serve from June 2011)*

*See Board of Directors*

### Peng Chun

#### Executive Vice President

Mr. Peng Chun is Executive Vice President of CIC and President of Central Huijin. Immediately prior to joining CIC, he was Executive Director and Executive Vice President of the Bank of Communications. Before that, he was Assistant to the President of the Bank of Communications after serving as branch president in Urumqi, Nanning and Guangzhou.

Mr. Peng was born in 1962 and holds a Ph.D degree in economics.

### Fan Yifei

#### Executive Vice President

Mr. Fan Yifei is Executive Vice President of CIC. Prior to joining CIC, Mr. Fan was Executive Vice President of the China Construction Bank (CCB). Before that, he had also served as General Manager of the Finance and Accounting Department, Planning and Finance Department and Assistant to the President of the CCB.

Mr. Fan was born in 1964 and holds a MIA degree from Columbia University and a Ph.D degree in economics from Renmin University.

### Xie Ping

#### Executive Vice President

Mr. Xie Ping is Executive Vice President of CIC. Prior to joining CIC, he served as the President of Central Huijin and Chairman of Shenyin & Wanguo Securities Co. Ltd. He had also held a number of senior positions at the PBOC, including Director General of the Financial Stability Department, Director General of the Research Bureau, President of the Hunan branch of the PBOC, Director General of the Non-Banking Supervision Department, and Deputy Director General of the Policy Research Office.

Mr. Xie was born in 1955 and holds a master's degree in economics from Southwestern University of Finance and Economics and a Ph.D degree in economics from Renmin University of China.

### Wang Jianxi

#### Executive Vice President

Mr. Wang Jianxi is Executive Vice President of CIC. Prior to joining CIC, he was Deputy Chairman of Central Huijin and Chairman of China International Capital Corporation. He had also served as Assistant Chairman of CSRC, President of the Bank of China International (UK), Chief Financial Officer and Executive Vice President of the Bank of China International, and Chief Accountant and Director General of International Department at the CSRC.

Mr. Wang was born in 1951 and holds a Ph.D degree in accounting.

### Liang Xiang

#### Member of the Executive Committee

Madam Liang Xiang is a member of the Executive Committee of CIC. Immediately prior to this, she served as the Secretary of Discipline Inspecting Commission in the Export-Import Bank of China. Previously she also served as Deputy Director of Planning Institution of Chemical Industry, Deputy Director of Planning Department at the Ministry of Chemical Industry, General Manager of the Second Credit Department, the Buyer Credit Department, the Export Credit Department and Assistant President of the Export-Import Bank of China.

Madam Liang was born in 1955 and holds a bachelor's degree in engineering from Beijing University of Chemical Technology.

### Zhang Hongli

#### Executive Director & Executive Vice President

*(served until June 2011)*

## International Advisory Council



*First row from left to right:* John J. Mack, Taizo Nishimuro, James D. Wolfensohn, Lou Jiwei, Lord Nicholas H. Stern, Merit E. Janow, Knut N. Kjaer *Second row from left to right:* Wang Shuilin, Yingyi Qian, Frederick Ma, Andrew Sheng, John L. Thornton, Joseph Yam, Jin Liqun

## Asia

### Zeng Peiyan (China)

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

### 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

### Taizo Nishimuro (Japan)

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

### Yingyi Qian (China)

Dean, School of Economics and Management at Tsinghua University; Professor of Economics, University of California at Berkeley

### Andrew Sheng (Malaysia)

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

## Americas

### David L. Emerson (Canada)

Chairman of the Board, Emerson Service Ltd.; former Minister of Foreign Affairs, former Minister of International Trade, former Minister of Industry, Canada

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

Professor of International Economic Law and International Affairs, Columbia University; Chairman, NASDAQ Stock Market LLC; former member of the Appellate Body of WTO

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

Chairman of the Board, Morgan Stanley; former Chairman and Chief Executive Officer, Morgan Stanley

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

Chairman, Board of Trustees of the Brookings Institution; Non-executive Chairman, HSBC North America; former President, Goldman Sachs Group

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

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

## Europe

### Knut N. Kjaer (Norway)

Former president of RiskMetrics Group; former Chief Executive Officer, Norges Bank Investment Management

### Jean Lemierre (France)

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

### Lord Nicholas H. Stern (United Kingdom)

I.G. Patel Professor of Economics and Government, London School of Economics; former Chief Economist, World Bank Group

## Secretariat

### Wang Shuilin (China)

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

## Investment Strategy and Management

*The objectives of CIC's global investment portfolio are to hold, invest and manage a portion of China's foreign exchange holdings as mandated by its shareholder, earning an appropriate long-term financial return under an acceptable risk profile.*

Four basic principles underlie CIC's investment approach and strategy:

- CIC invests on a commercial basis. The underlying investment objective is to seek long-term, sustainable, and high financial returns for its shareholder within acceptable risk tolerance.
- CIC is a financial investor. As such, it does not seek to control any sector or company.
- CIC is a responsible investor which abides by local laws and regulations in the countries in which it invests, and assumes its corporate social responsibility conscientiously.
- CIC's investments are research-driven to provide a basis for sound, prudent investment decisions and allocation-driven to assure a disciplined approach to investing.

CIC bases its investment approach and benchmark portfolio structure on its mandate and unique circumstances, the risk tolerance of its shareholder, its assessment of market conditions and policies established by the Board of Directors.

In 2010, CIC undertook a comprehensive review of its investment objectives and approach. CIC started its investment with traditional asset classes as stocks and bonds. It then gradually expanded the scope of alternative investment to include commodities as well as private equities, real estate, hedge funds and direct concentrated investments. In January 2011, the Board of Directors decided that the investment horizon of CIC should be extended to 10 years to keep with its long-term mandate and that a rolling 10-year annualized return would, over time, also become an important measure of investment performance, while continuing to measure and monitor annual portfolio return. This change allows CIC to think longer-term, invest over longer horizons and accept a higher risk-return profile in its investment portfolio in order to better balance short-term pressure and long-term interests. CIC has adjusted its asset allocation structures accordingly, including both its Strategic Asset Allocation (SAA) and Tactical Asset Allocation (TAA) as well as its risk management processes.

Until the end of 2010, the structure of CIC's SAA benchmark portfolio was composed of four asset classes: cash, equities, fixed income equities and alternative investments. Starting from 2011, the SAA is categorized into five classes: cash, diversified public equities, fixed income, absolute return investments and long-term investments. Absolute return investments include primarily hedge funds and proprietary trading portfolios. Long-term investments include direct concentrated holdings, private equity, commodities, real estate and infrastructure.

Based on its asset allocation strategy and prudent risk management considerations, CIC's investments are broadly diversified by sector, geography and asset class. Given the current market conditions and taking into account the long investment horizon, CIC believes it can best meet its investment goals by taking advantage of special opportunities as they present themselves. CIC expects, and is prepared to manage prudent variations from its benchmark portfolio allocation.

### Investment Management Process

The structure of CIC's portfolio is determined by the SAA and TAA plans. The SAA plan is determined by its long-term return objectives and risk profiles. The SAA is research-driven, defines the benchmark portfolio and provides consistent and stable guidelines governing CIC's investment practices. In the course of 2010, CIC has further revised its SAA, resulting from its conduct of macroeconomic research and industrial analysis to couple with CIC's operational objectives.

The TAA plan is based on assessment of the market conditions in the short and medium-term (3-6 months) to adjust the portfolio positions at the sub-strategy level to capture excess return within acceptable risk parameters.

CIC's investment process is directed by its Investment Committee, which sets both investment strategies and policies within guidelines approved by the Board of Directors, and reviews and approves investment proposals and external managers' mandates.

*CIC bases its investment approach and benchmark portfolio structure on its mandates and policies set by its Board of Directors.*

To assure quality and compliance with asset allocation strategy, all investments and mandates must be first reviewed, deliberated on and approved by the Investment Review Committee chaired by the Chief Investment Officer before being submitted to the Investment Committee for approval. The Investment Committee has the authority to make any individual investment decision independently. The Investment Committee meets weekly or more frequently when needed. The Investment Committee is composed of Chairman and Chief Executive Officer, President, Chief Investment Officer, Executive Vice Presidents, Heads of Department of Asset Allocation and Strategic Research, Department of Risk Management and the four investment departments.

Based on decisions made by the Investment Committee, investments and mandates are carried out by the four investment departments. Each formulates investment proposals based on sound research within the overall portfolio and risk management framework, builds and manages its portfolios and recruits, manages and evaluates external fund managers as required.

In May 2011, CIC reorganized its investment departments in order to increase focus within each department and promote greater synergy and efficiency. The Department of Public Equity implements active strategies by using external fund managers and its proprietary trading. The Department of Fixed Income and Absolute Return manages all fixed income portfolios as well as credit derivative, hedge fund, multi-asset and commodity portfolios.

The Department of Private Equity and the Department of Special Investment manage private equity investments through external managers as well as make and manage direct investments in major corporations globally. The Department of Private Equity focuses on real estate, industry and technology, financial services, consumer goods and services, health care and biopharmaceutical. The Department of Special Investment executes and manages investments in energy, mining, precious metal,

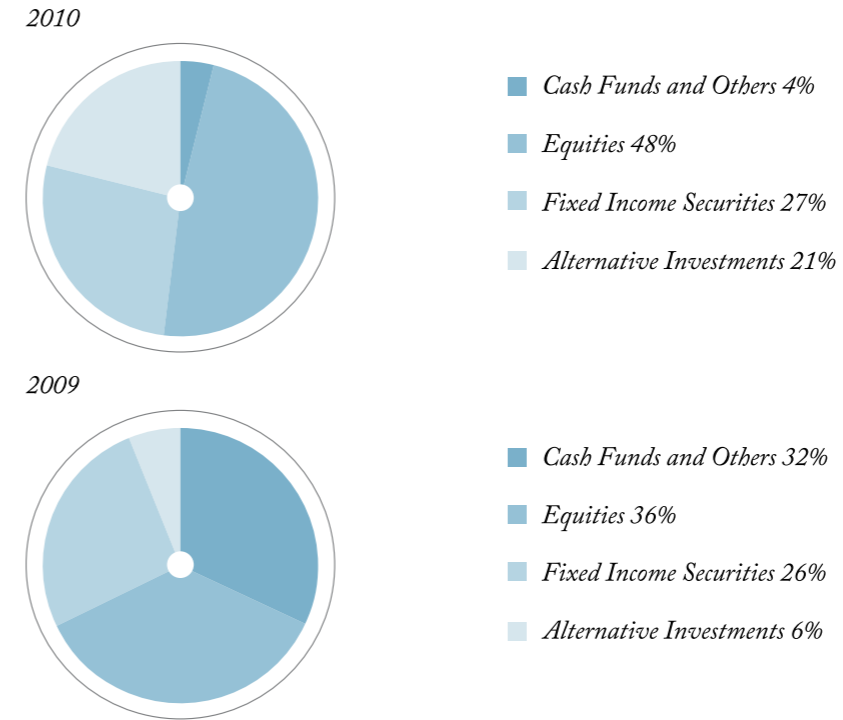
agriculture and infrastructure sectors. This approach fosters development of more in-depth sector expertise. More importantly, it allows managers to understand what is taking place across a sector value chain. This can not only suggest synergistic investment opportunities but also allow managers to add value to investee companies through appropriate introductions to facilitate coordination and cooperation.

As is the standard practice in the industry, CIC engages quality external investment managers across all asset classes wherever appropriate. CIC selects external managers based on exacting qualification standards and through an extensive review and evaluation process, which includes review by the appropriate investment department, the Department of Asset Allocation and Strategic Research, the Department of Risk Management, and the Department of Legal and Compliance, and review and approval by the Investment Committee. External managers selected for CIC's mandates are an integral part of its investment team.

#### Investment Activities

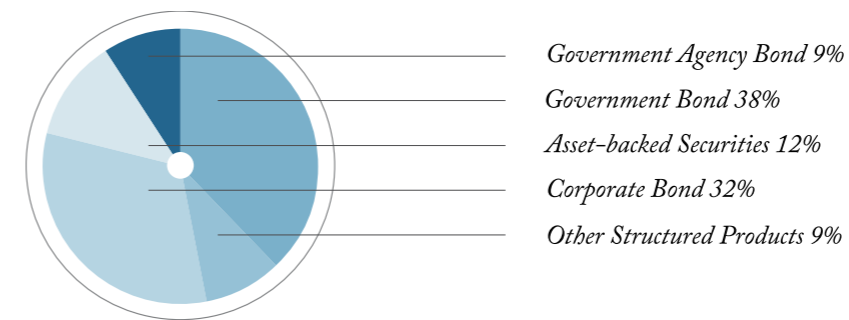
During 2010, CIC reduced the share of its cash holdings significantly and increased investment in long-term assets. It invested approximately USD 35.7 billion of new investment (*Figure 2* and *Figure 3*). Guided by its asset allocation plan and to appropriately balance its portfolio as a long-term investor, CIC increasingly channeled its investments into private equity, real estate, infrastructure and direct concentrated investments. CIC achieved greater geographical and sector balance during 2010. An increasing percentage of investments has been made in emerging markets (*Figure 4*). Meanwhile, each of six sectors, including financial services, energy, materials, information technology, industrials and consumer discretionary, accounts for 10% or more of CIC's diversified equity portfolio (*Figure 5*).

**Figure 2: Global Investment Portfolio Distribution (December 31)**



Note: Alternative Investments include private equity funds, hedge funds and etc.

**Figure 3: Diversified Fixed Income Securities by Type (December 31, 2010)**





CIC significantly expanded its investment channels, investing in more asset classes, both externally and internally managed, across the spectrum of available investment products. The number of individual investment portfolios more than doubled in 2010. In light of the recovery of the global economy and its asset allocation strategy, CIC increased its exposure to real estate, particularly REITS, infrastructure and private equity. *Table 1* highlights selected new investment vehicles in public markets.

CIC continued to develop its internal portfolio management capabilities, implementing a straight-through processing system for the management of its proprietary trading and adding new internally managed portfolios including U.S. Treasury Bonds, Euro Bonds Portfolio, Global High Quality Stocks Portfolio, Global Large Cap Value Portfolio, DJ Eruo Stoxx 50 Index Portfolio, SP500 Index Portfolio, Enhanced FTSE Xinhua Index Portfolio and others (*Figure 6*).

Direct investments constitute the largest individual positions in CIC's global Portfolio. Depending on the specific needs of individual investments, various securities structures including public equity, private equity, structured and hybrid instruments and other vehicles are flexibly applied as appropriate to balance the needs and requirements of CIC with those of the investee companies, creating a "win-win" outcome. *Table 2* highlights selected direct investments in 2010.

Although the investment in direct concentrated holdings increased significantly in 2010, its percentage of the overall portfolio remained essentially the same as in 2009 (*Figure 7*).

CIC's direct investment is research-driven and based on an in-depth understanding of the fundamentals of the sectors and companies in which it invests. Its investments are commercially based and long-term, requiring that investee companies have quality assets, experienced management and the capability to achieve sustainable growth. CIC looks to

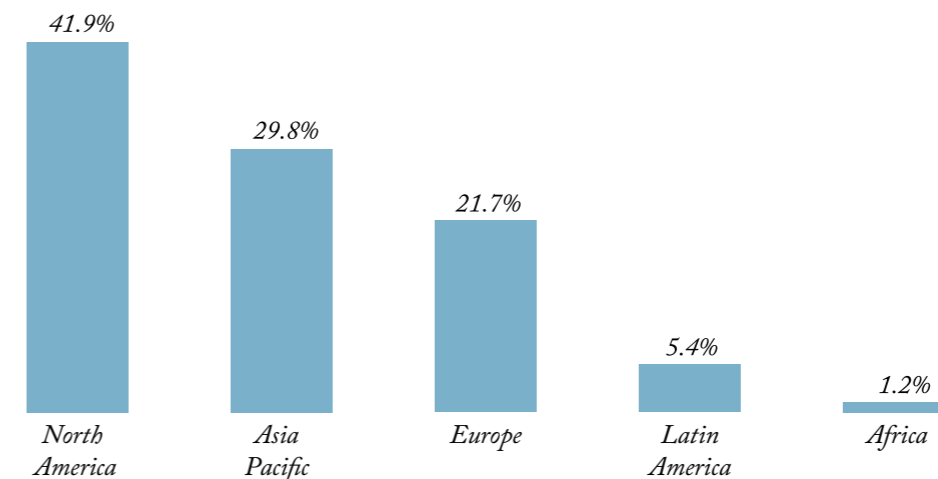
create value by supplementing an investee company's strengths through advantages which come from its funding capability, disciplined investment principles and knowledge of China. While CIC does not invest directly in mainland China, it seeks companies which will benefit from the "China factor", taking advantage of the potential growth of the Chinese economy. An example of its approach is its investment in Teck Resources, described in *Box 2*.

CIC's relationship with Teck Resources demonstrates it is a reliable long-term investor. As a long-term financial investor, CIC usually maintains a minority shareholder status and does not seek to control or influence its investee companies. It does not always elect to exercise its full ownership rights. When it elects to exercise its ownership rights, CIC will do so in a manner that is consistent with its investment policy and protects the value of its investment. CIC continues to strengthen its post-investment management process, and strives to do what it can as a minority shareholder to help its investee companies achieve success. By helping these companies thrive, CIC contributes to their success and helps achieve its own value creation objectives, achieving mutual benefit.

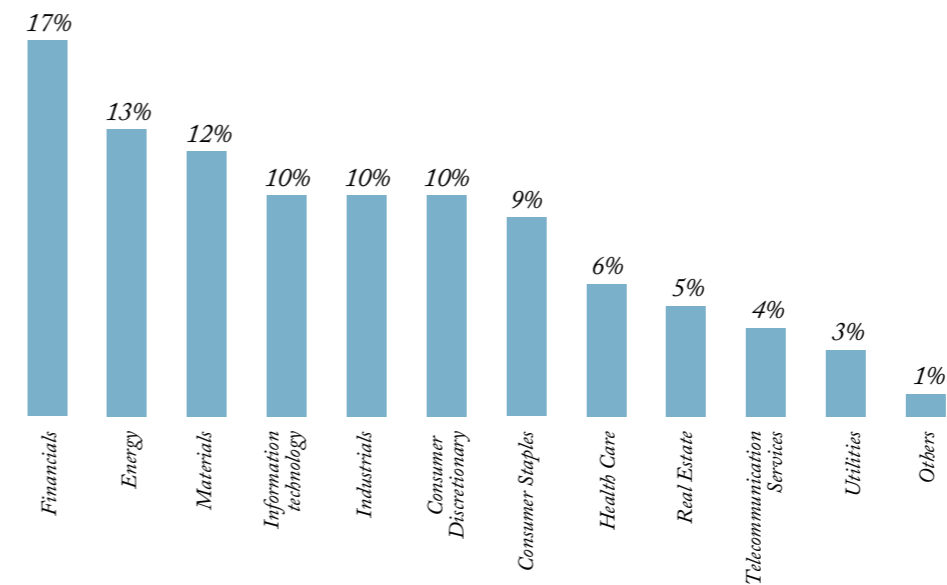
In November 2010, CIC opened its first subsidiary outside of mainland China in Hong Kong. CIC International (Hong Kong) Co., Ltd. is an independent subsidiary mandated to expand and improve CIC's cross-border investment operation by fully leveraging Hong Kong's status as a premier global financial center and its proven credentials in cross-border investment, trade and financial services. CIC International (Hong Kong) Co., Ltd. will be a key platform for investment and financial trading activities such as fiduciary services and public listing of companies in which CIC has invested.

At the opening ceremony, Mr. Donald Tsang, Chief Executive of the Hong Kong Special Administrative Region said "It is of great

**Figure 4: Distribution of Diversified Equities by Region (December 31, 2010)**



**Figure 5: Distribution of Diversified Equities by Business Sector (December 31, 2010)**



significance for CIC to choose Hong Kong as a base to expand its overseas investment operation. As a highly international financial center, Hong Kong will serve CIC well as a gateway to the wider global market and CIC's presence is a vote of confidence for the city's credentials as an international asset management center."

In January 2011, CIC opened its first office outside of Asia, a representative office in Toronto, Canada. The office will serve as a platform for enhancing and broadening communication with stakeholders in Canada and expanding CIC's business. In welcoming CIC to Toronto, Mr. David Emerson, former Minister of Foreign Affairs and International Trade for the government of Canada and a member of CIC's International Advisory Council, said: "The leadership, the culture and the professionalism of China Investment Corporation is second to none. Canadian companies that have CIC as a partner and investor will attest to CIC's constructive and supportive approach to corporate governance, competitiveness and enhancement of shareholder value."

CIC has maintained its efforts to develop and strengthen its supporting investment management infrastructure as well. In addition to implementation of its straight-through processing system for proprietary trading, CIC put into place a "dual data center" system, adding to both operational support and back up capability. It implemented a SAP accounting system, streamlining investment accounting. These improvements in operational capacity enabled CIC to effectively deploy its capital, add asset classes and process significantly higher transaction volumes while reducing operating risk.

As part of the process in its investment activities, CIC works with regulatory authorities and other government agencies in recipient countries and operates in full compliance with government policy and legal requirements for executing its business and completing its investment transactions. In this process it demonstrates its commitment to compliance with the laws and regulations of the countries in which it invests and also gains a better understanding of their interests. An example of its approach and commitment is demonstrated by its investment in Morgan Stanley described in *Box 3*.

**Table 1: Selected Public Market Investment Vehicles Added in 2010**

Business Area	Investment Vehicles
Interest Products	USD Aggregate Bond, Euro Covered Bond
Credit Products	Emerging Market Local Currency Debt, Asia Fixed Income Active, Investment Grade Corporate Bond Index Products, High Yield Bond
Developed Country Equities	U.S. Large Cap Equities, Global Convertible Bond
Emerging Country Equities	Emerging Europe Equity Active, Latin America Equity Active, Asia ex Japan Active, Metals and Mining Equity Active
Commodities	Metals and Energy Indices Swap, Gold Equity Fund, Active Commodity Index
Futures and Options	Stock Index Futures, Bond Futures, Commodity Futures, FX Forward Options

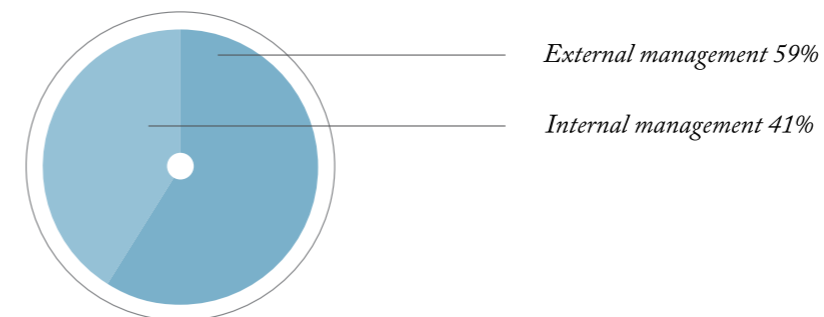
### Box 2: Investment in Teck Resources

Teck Resources ("Teck"), a Canadian metals and mining company based in Vancouver, is one of the largest diversified metals and mining companies in the world. In July 2008, Teck completed a USD 14 billion acquisition of the Fording Canadian Coal Trust, one of the largest suppliers of high grade coal used in steelmaking. The transaction was financed in part with a USD 9.8 billion bridge loan. However, the collapse of commodity prices in connection with the global financial crisis along with substantial deterioration in credit markets made it virtually impossible for Teck to service or refinance its debt.

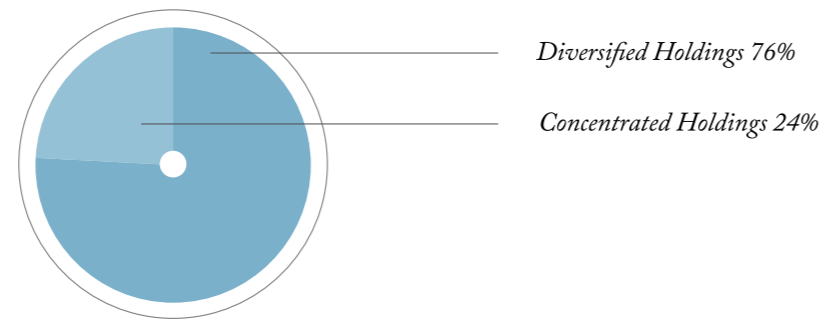
Through its research, CIC concluded that a recovering global economy would lead to both a rebound in commodity prices and improved access to credit, making an investment in a financially distressed but fundamentally strong company such as Teck an outstanding opportunity. Based on detailed research into company fundamentals, negotiations between Teck and CIC were started in mid-April 2009. CIC's USD 1.5 billion dollar private placement was closed in July 2009. Mr. Don Lindsay, CEO of Teck stated that "CIC came to the discussions with creativity and a willingness to cooperate on terms that were important to us. This was a remarkably tight timeline and demonstrates CIC's outstanding capability to move quickly and make sophisticated commercial judgments under pressure".

As Teck's largest individual shareholder, CIC has a seat on Teck's Board of Directors, maintains regular communications with the company's management and assists Teck in expanding its business. Again quoting Mr. Don Lindsay: "Our relationship with CIC is very important. China is an important country for a commodities producer, and CIC helped enhance our understanding of the Chinese market. We are working closely together to identify opportunities for us both."

**Figure 6: Distribution of Internally Managed versus Externally Managed Assets for the Portfolio (December 31, 2010)**



**Figure 7: Diversified Holdings versus Direct Concentrated Holdings (December 31, 2010)**



**Table 2: Highlights of Selected Direct Investments in 2010**

Company	Contract Month	Amount of Investment (Million USD)	Type of Investment	Sector	Approximate Initial Ownership %
AES	March	1,581	Common Shares	Power & Utility	15%
Penn West	June	416	Equity	Oil & Gas	5%
Peace River Oil Partnership	June	329	Joint Venture	Oil & Gas	45%
Chesapeake Energy	June	200	Convertible Preferred Shares	Oil & Gas	N/A
BTG Pactual	December	300	Consortium Deal	Finance	3%
BUMA	December	73	Equity	Mining Services	8%

### Box 3: Addressing Global Regulatory Requirements with Morgan Stanley

CIC's investment in Morgan Stanley in 2007 was a combination of mandatory convertible notes and mandatory convertible equity units, which were converted into common stock in August 2010. At the time of CIC's investment, Morgan Stanley was an investment bank and later became a bank holding company as a result of the global financial crisis, subject to the Bank Holding Company Act under the direct regulation of the U.S. Federal Reserve. At the time of conversion of its investment into common shares, CIC submitted an application to the Federal Reserve for approval of the conversion, which was officially sanctioned on August 31, 2010. Because Morgan Stanley is a global financial enterprise, CIC and Morgan Stanley, jointly or separately, filed with or reported to over 40 regulatory authorities in 18 countries. All filings have been completed and approved.

### 2010 Investment Results

In 2010, CIC maintained its disciplined investment approach and reached the milestone of fully deploying its investment capital. The annual return on CIC's global investment portfolio in 2010 was 11.7% and its cumulative annualized return was 6.4% since inception. *Table 3* summarizes CIC's investment performance.

Central Huijin's returns come from the profits of the financial institutions in its portfolio. Central Huijin's top 5 portfolio holdings are shown in *Table 4*.

**Table 3: Summary of Investment Performance on Global Portfolio**

Year	Annual Return
2008*	-2.1%
2009	11.7%
2010	11.7%

\*The return of 2008 was calculated since inception on September 29, 2007.

**Table 4: Top 5 Portfolio Holdings of Central Huijin (December 31, 2010)**

Financial Institution	Percentage of Ownership
Industrial and Commercial Bank of China	35.4%
Agricultural Bank of China	40.0%
China Development Bank	48.7%
Bank of China	67.6%
China Construction Bank	57.1%

## Risk Management

*Risks arise as a result of the uncertainty inherent to all investment activities and operations. The global risk environment is dynamic and constantly evolving, and CIC is continuously adding new channels to the market and new products to its portfolio. Since its inception, CIC has continuously developed and strengthened its risk management framework. This includes better linking its risk appetite to its long-term return objectives, enhancing its risk governance process and strengthening its risk classification, identification, assessment, monitoring and management systems. CIC strives to make risk management a core competency.*

At CIC, risk management is a corporation-wide effort involving virtually every business line, department and individual. Risk management is embedded throughout the whole investment process and in all investment levels, ranging from the investment portfolio as a whole, individual investment vehicle portfolio to specific investments and projects.

Based on policies set by the Board of Directors and the Executive Committee, CIC's risk management strategy and approach are overseen by the Risk Management Committee whose key responsibilities include:

- Determining risk management strategies, policies and procedures
- Determining CIC's risk limit and allocation plan
- Reviewing comprehensive risk management report and risk assessment report
- Reviewing assessment standard, management policy and internal control mechanism for major risk drivers and events as well as key business processes
- Conducting periodic reviews of the risk profile of CIC's asset allocation and execution of the allocated risk limits
- Reviewing the risk management strategy and contingency plans for major risk events
- Reviewing other risk related issues under the direction of the Executive Committee

The Risk Management Committee is comprised of Chairman and Chief Executive Officer, two Executive Vice Presidents, Heads of 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 Finance and Accounting, Department of Internal Audit, and General Office to facilitate comprehensive and integrated oversight of market, credit, operating, liquidity, country, legal and compliance, and reputation risks. Other members of the senior management and Heads of the four investment departments attend Risk Management Committee meetings as needed.

Investment risk, including credit, market, liquidity and operating risks are managed by the Department of Risk Management.

In the Department of Legal and Compliance, the legal team focuses on development and review of contracts and management of legal risk. The compliance team is in charge of the responsibility of ensuring that CIC complies with investment and related laws and regulations of the markets in which it invests.



Reputation risk, country risk, policy risk and other non-commercial risks are addressed by the Department of Public Relations and International Cooperation.

CIC has developed a comprehensive risk control system to manage market, credit, sector, country, and currency exposure risks. Risk indicators are also developed and monitored for each external investment manager. The Department of Risk Management sets appropriate risk limits based on risk budgets developed by the Department of Asset Allocation and Strategic Research. CIC utilizes an internationally accepted risk management system as its risk analytic and reporting backbone. Positions, including positions managed by external investment managers, are monitored using this system, and comprehensive risk management reports are produced weekly, monthly and quarterly for management review. CIC also implemented a new risk early warning system. The system, which is both process and event driven, brings potential risk issues to the appropriate level of management based upon analytic assessment of the extent of potential losses.

*CIC utilizes an internationally accepted risk management system as its risk analytic and reporting backbone.*

The Risk Management Committee formed a Valuation Sub-committee to review and approve valuation models, including the source of market price and parameters used in the models, and to review valuation reports of CIC's financial assets. Under the direction of the Valuation Sub-committee, CIC has constructed a new valuation system for second- and third-tier financial assets.

During 2010 CIC continued to develop its ability to control and manage risks throughout the company. It strengthened its risk management framework by better integrating internal control and operational risk management functions. It implemented a series of rules to manage risk associated with new products and strategies and further refined its risk limit management system. It further enhanced its risk management capabilities by fostering an independent risk assessment process, monitoring portfolio risks more closely and improving the early warning system.

CIC built up its investment evaluation system by taking into account multiple dimensions such as the evaluation framework and policy, methodology and modeling, hardware system and database and developed its own public market performance attribution model. CIC further streamlined workflows and improved processes relating to investment functions, managerial support, and monitoring and supervision in order to enhance its execution capability.

Finally, consistent with global practice, CIC established a "Three Lines of Defense" approach, with each department as the first line of defense responsible for hands-on and timely monitoring and reviewing its own risk and internal control processes. The Internal Control Team within the Department of Risk Management is the second line of defense responsible for reviewing and examining internal control status across departments. And the Department of Internal Audit and Department of Institutional Integrity is the third line of defense responsible for auditing, supervising and evaluating company-wide internal control management.



## Human Resources

*Sustainable development and growth of any business is driven by the continuous development of its people. CIC continues to develop its human resource management system and to foster an attractive environment to recruit, develop and retain talented people. CIC's global investment team grew from 246 at the end of 2009 to 378 as of June 2011. Including Central Huijin, CIC had a staff of 497 as of June 2011.*

### Attracting Talent

As one of the largest and most visible sovereign wealth funds in the world, CIC offers an extensive and attractive career opportunity to investment management professionals. Because it is still a relatively young and fast-growing company, CIC focuses on recruiting experienced professionals with international investment management and related experiences who also understand the Chinese culture, perspective and language. However, CIC recruits talented professionals worldwide.

CIC has a rigorous, fair and transparent selection process. All candidates must apply through CIC's on-line application system. After initial CV screening, shortlisted candidates are invited to take an on-line test which includes appropriate subject matter testing in Chinese. Applicants who pass the

on-line test are shortlisted for interviews. To enhance the rigor and fairness of the selection process, CIC has introduced a multi-dimensional assessment methodology and also invites external human resource experts to participate in the interview process. Candidates applying for positions of managing director or above are required to be interviewed by each member of CIC's senior management team.

CIC hired 105 new staff for the global investment team during 2010. More than 50% were either educated, or worked overseas, or both. *Table 5* summarizes the background of the CIC staff.

**Table 5: Background Summary of CIC Staff\* (June 30, 2011)**

Total Number	Advanced Degrees**	Overseas Work Experience	Overseas Education	Overseas Citizenship
378	313	154	217	43

\* Excludes independent units of Central Huijin Investment Ltd.

\*\* Postgraduate and higher degrees



### Developing Talent

CIC utilizes a comprehensive performance management system to guide, evaluate and reward performance. The system includes the full cycle of performance planning, tracking, assessing and feedback. The company also uses a combination of line manager evaluation and 360 degree appraisal to allow a multi-dimensional approach to assessing staff capability, achievement and work style. The outcome of performance evaluation is linked with reward under its incentive scheme and is applied to career development and training programs.

CIC places great emphasis on the development of its people and has invested extensively in systematic and diversified training programs. CIC's plan is that each employee receives 80 hours of training each year. Each employee has an annual training plan, based on a formal skills assessment and input from the performance evaluation process. Progress against the plan is monitored by the Department of Human Resources.

Training is carried out at the department level and also at corporate level in programs managed by the Department of Human Resources. *Table 6* shows a sample of corporate wide training programs.

*CIC utilizes a comprehensive performance management system to guide, evaluate and reward performance.*

**Table 6: Selected Corporate Training Programs**

Risk Management and Internal Control
Valuation Modeling
Global Economic and Political Trends
U.S. Financial Regulatory Reform
Information Security
Anti-Corruption Policies and Practices
Executive Development Program
New Employee Orientation Program

In 2010 CIC implemented an on-line e-learning platform, which offers many high quality courses to provide employees a unique channel for learning and development. The platform includes programs relating to personal development such as personal health and safety, skills development such as leadership and communication, and information on CIC programs and policies. CIC intends to continuously enhance and expand this learning channel.

In addition to internal programs CIC uses local universities and professional organizations. In 2010, CIC launched an executive development program with the Beijing University for middle and senior level managers. The program, conducted in five 2½ day sessions, provided a broad perspective on management philosophy and disciplines to strengthen leadership, management and decision-making skills. While most training takes place in China, some overseas programs are arranged for employees as appropriate. Finally, CIC has a program in place to improve the training capabilities of internal resources to strengthen the quality of programs taught by staff members.

### Retaining Talent

The key approaches to retaining talent at CIC are first to provide staff members with appropriate and personally rewarding career development opportunities and to offer a competitive compensation program under China's circumstances.

CIC aims to create and maintain a positive and fulfilling work environment, offering significant opportunities for personal growth and career development. The management team is encouraged both to motivate staff by providing development opportunities and challenges and to recognize their achievements. CIC's development process includes setting up development plans for each employee in light of their capabilities and career goals, while recognizing the needs of CIC.

In order to adapt to the rapid development of its business and the trend of increasing competition for talent, CIC has further improved its compensation and benefit system and formed differentiated reward schemes according to the needs and characteristics of front, middle and back office functions, thus developing an effective means to engage and retain talent.



## Outreach Activities

*CIC continues to conduct its outreach programs to enhance a better understanding of its mission and purpose as a sovereign wealth fund, boost its image as a responsible global institutional investor and a valuable partner, and promote free, open and orderly flow of capital and cross-border investment.*

Although CIC is still a young organization, it has grown in both scale and maturity since its inception and has established itself as a successful global investor with a proven record of sound business practices. CIC's commitment to dialogue, transparency and compliance is demonstrated not only in its many outreach programs but, more importantly, in how it conducts its business around the world.

CIC firmly believes that open and candid dialogue builds understanding and trust. In 2010, it maintained frequent and open dialogue with stakeholders in the global economic community and demonstrated its commitment to being a long-term financial investor investing responsibly and purely on a commercial basis. Executives of CIC met regularly with senior government officials and regulators from Asia, Europe, North America, Latin America and Africa, to learn and better understand their government policy priorities and investment environment to find common interests and create a win-win situation.

CIC received a large number of international visitors in 2010 for discussion on global business and investment environment as well as challenges ahead. In March 2010, CIC hosted an international investment forum in Sanya in Hainan Province, China. The event brought together institutional investors and asset managers coming worldwide to share their insights on world economic outlook, investment strategies and opportunities. In April 2011, CIC became an official member of the International Institute of Finance.

As a culmination in its outreach effort, CIC hosted the 3<sup>rd</sup> meeting of the International Forum of Sovereign Wealth Funds (IFSWF) in Beijing on May 11-13, 2011. The meeting was attended by nearly 300 attendees including members of the Forum, representatives of government agencies of recipient countries, supranational economic and financial organizations and the private sector. Members of the Forum exchanged their views on application of the "Santiago Principles" and other issues of common

*CIC's commitment to dialogue, transparency and compliance is demonstrated not only in its many outreach programs but, more importantly, in how it conducts its business around the world.*



interests related to global economic stability and recovery. They also conducted continuous dialogue with other relevant parties, recipient countries in particular, to contribute to the development and maintenance of an open and stable investment environment. Mr. Li Keqiang, Vice-Premier of the State Council of the People's Republic of China, delivered special remarks to the meeting. In his address to delegates, he reconfirmed China's support for CIC and for the "Santiago Principles". "The Chinese Government will continue to support CIC to pursue independent investment and operational management subject to commercial obligations and implementation of the "Santiago Principles" on a voluntary basis." He further added, "We call for concerted efforts by the international community to open up more areas for cooperation and to create an open, fair and non-discriminatory environment for sovereign wealth funds." Mr. Lou Jiwei, Chairman and CEO of CIC said in his welcoming address to the Forum: "Sovereign wealth funds will continue to improve internal management and

corporate governance to ensure international investments meet fiscal and commercial obligations as well as fulfill economic and social responsibilities; on the other hand, we should continue to encourage dialogues between investors and recipient countries and other stakeholders on an equal footing, effectively convey our concerns and legitimate aspirations, dispel misgivings, enhance trust, effectively curb protectionism, promote stability and further growth of the world economy and financial systems and foster and preserve an open, non-discriminatory investment environment to facilitate free, rational and orderly flow of capital." CIC is also proud that its Chairman of the Board of Supervisors was elected Chair of the Forum for a two-year term.

CIC is actively engaged in exchanges and communication with governments and regulatory authorities from recipient countries to promote understanding of CIC's investment policies and practices and maintain a high degree of transparency. CIC makes

timely disclosures about major transactions through press releases and maintains up to date information on its organization and major transactions on its website. CIC also publishes its annual report detailing its governance, investment and risk management policies and practices, information on its global investment portfolio and annual financial results.

CIC is committed to being a responsible global investor, a valuable partner and a good citizen of recipient countries. Since its inception, CIC has developed a significant track record of full implementation of the "Santiago Principles", which has been endorsed by its shareholder, and in compliance with all laws, regulations and rules of countries and regions in which it invests. CIC's efforts have been well received by the global community.

*CIC is committed to being a responsible global investor, a valuable partner of the countries and companies in which it invests.*



## 2010 Financials

### **Basis of Presentation**

China Investment Corporation (the "Company")'s consolidated financial statements have been prepared in accordance with 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. The Company's consolidated financial statements were audited by its independent auditors with an unqualified opinion reported thereon. The Company believes that the financial statements represent a true and fair view of the Company's financial position, operation results and cash flows as at and for the year ended December 31, 2010.

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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include valuation of financial instruments and income taxes.

The accounting period of the Company is from January 1 to December 31. The Company's reporting and functional currency is USD except for Central Huijin. The reporting and functional currency of Central Huijin is RMB.

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



### Consolidated Balance Sheets

As of December 31  
(Amount in millions of US dollars)

	2010	2009
<b>Assets</b>		
Cash and deposits	14,480	18,622
Financial assets at fair value through profit or loss		
Cash management products	3,458	20,673
Equities	65,645	39,828
Fixed income securities	34,932	25,383
Alternative investments	29,274	7,430
<b>Total financial assets at fair value through profit or loss</b>	<b>133,309</b>	<b>93,314</b>
Receivables and prepayments	4,210	3,067
Available-for-sale investments	113	–
Held-to-maturity investments	2,000	14,424
Long-term equity investments*	253,340	201,409
Deferred tax assets	1,046	962
Other assets	1,081	596
<b>Total assets</b>	<b>409,579</b>	<b>332,394</b>

\* Principally comprised of investments by Central Huijin

### Consolidated Balance Sheets (continued)

As of December 31  
(Amount in millions of US dollars)

	2010	2009
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss	2,637	4,057
Bonds payable*	16,609	–
Deferred tax liabilities	3,772	1,575
Other liabilities	12,259	6,752
<b>Total liabilities</b>	<b>35,277</b>	<b>12,384</b>
Owner's equity:		
Owner's capital	200,000	200,000
Capital reserves and others	174,302	120,010
<b>Total owner's equity</b>	<b>374,302</b>	<b>320,010</b>
<b>Total liabilities and owner's equity</b>	<b>409,579</b>	<b>332,394</b>

\* Represent bonds issued by Central Huijin

### Consolidated Income Statements

For the year ended December 31  
(Amount in millions of US dollars)

	2010	2009
<b>Investment income</b>		
Interest income	2,052	1,656
Dividend income	1,109	938
Realized gains on investments	1,838	186
Unrealized gains (losses) from changes in fair value of investments	9,784	10,318
Investment income from long-term equity investments	40,761	31,706
Foreign exchange gains (losses)	(175)	72
Other income	24	–
<b>Total investment income</b>	<b>55,393</b>	<b>44,876</b>
<b>Expense</b>		
Investment expense*	(311)	(106)
General and administrative expense	(79)	(47)
Finance expense	(213)	–
Impairment loss	12	–
<b>Total expense</b>	<b>(591)</b>	<b>(153)</b>
<b>Operating income</b>	<b>54,802</b>	<b>44,723</b>
Non-operating gain or loss, net	(1)	(25)
<b>Income before taxes</b>	<b>54,801</b>	<b>44,698</b>
Income tax	(3,241)	(3,038)
<b>Net income</b>	<b>51,560</b>	<b>41,660</b>

\* Mainly include management fee to external managers, transaction fee, professional consulting fee and custody fee.

### Summarized Accounting Policy of Financial Instruments

#### Classification of financial instruments

The Company's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), available-for-sale investments or held-to-maturity investments.

The Company's financial liabilities are classified into one of two categories: financial liabilities at FVTPL and other financial liabilities.

#### Financial assets and liabilities at FVTPL

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

#### Available-for-sale ("AFS") investments

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

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has positive intention and ability to hold to maturity.

#### Other financial liabilities

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

#### Measurement of financial instruments

Financial instruments are initially measured at fair value. Subsequent measurement of held-to-maturity investments 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.

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 non-derivative 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 etc., 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 taking reference to the latest price of actual market transactions between willing market participants under fair conditions and 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.



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