

CHINA INVESTMENT CORPORATION
ANNUAL REPORT

2014

RESPONSIBILITY
SYNERGY
PROFESSIONALISM
ASPIRATION



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Ding Xuedong

Chairman and CEO

MESSAGE FROM THE CHAIRMAN AND CEO

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*2014 was a year of triumph over hardship,
thanks to a forward-looking and innovative spirit.*

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The global economic and financial markets are constantly evolving, characterized by added complexity and ever-intensifying competition. China Investment Corporation (CIC), as China's sovereign wealth fund, has remained true to its mandate and forged ahead with a pioneering spirit to build upon past achievements and strive for renewed progress. We explored new business opportunities and improved our management skills through innovative reforms as part of efforts to expand our overseas investments and refine our corporate governance. Credit must go to CIC staff and to members of the community, who have given us their generous support. They have enabled the company to meet its investment goals and live up to its fiduciary duty of preserving and enhancing the value of assets under management.

During 2014, the global economy recovered at a slower speed than expected. The US economy showed strong growth momentum, while the Eurozone was slow in enforcing its structural reforms. Japan saw the effects of its quantitative easing winding down, and the emerging economies on the whole saw their growth slow. Against this backdrop, yields of major financial assets slid and commodity prices tumbled, further fueling competition for good-quality projects on a global scale. In response to this “New Normal”, China adjusted its economic growth policies and macro controls and maintained positive economic growth overall.

With an eye on the overall economic picture, CIC promptly responded to developments in the global economy and remained focused on identifying the investment opportunities that China's economic success, economic structural upgrading, and global outreach present. To this end, CIC enhanced its development planning over the long term and integrated a refined, disciplined and well-defined management approach. Under this guidance, the company improved its investment platform, delivered stable returns and institutionalized good practices in its operations.

In 2014, CIC International Co., Ltd., the overseas investment arm of CIC, generated a net return of 5.47%, realizing a net cumulative annualized return of 5.66% since CIC's inception. By the end of 2014, CIC's overseas portfolio had grown more than \$60 billion, while its total assets exceeded \$740 billion.

Investment Strategy

We steadily executed asset allocation plans and consistently optimized overall portfolio management. In 2014, we moderately increased exposure to equities and reduced it to sovereign bonds. We refined and simplified our public market portfolio by phasing out strategies not aligned with our investment goals and improving our public market investment skills. We continued making long-term investments and boosted investments in real assets for steady returns. We improved project management across the investment life cycle while ensuring new deals were properly executed. In striving for more prudent post-investment management, we also analyzed and restructured or exited some deals. We continued to manage the overall portfolio with a disciplined approach and intensified in-house research on quantitative allocation modeling to better inform our allocation strategies. We developed portfolio overlay management capabilities to facilitate overall portfolio optimization.

Investment Management

We steadily improved our in-house management capabilities and developed our own specialized platform for direct investments. For public market investments, we continued to improve in-house investment decision-making mechanisms, research processes and performance review schemes. As a result, in 2014, some of CIC's in-house investment portfolios outperformed those of peers or comparable asset management institutions. For long-term investments, we continued to improve our deal sourcing and investment management capabilities, and built a specialized investment platform across the entire value chain. In early 2015, based on our study and review of the experiences and general practice of peer institutions, CIC set up CIC Capital Corporation, an investment arm specializing in overseas direct investments—to refine our management of the overall portfolio, particularly through more professional management of direct investments in long-term assets.

Investment Support

We continued to enhance internal management and standardize our operational practices. In 2014, we improved our Investment Manager Accountability System as part of strengthening investment management. We improved risk alerts and emergency response mechanisms to better control and manage risks, and we deployed a database to enhance the company's information platform. To build a team of high-caliber professionals at CIC, we developed the Position Mapping Program, the Competency Model and the Career Planning Program. We also continued to improve our budget management model and strengthened cost management by implementing cost sharing based on cost-benefit analysis. Throughout the year, we were committed to turning vision into action by focusing on management, execution and delivery, guided by the principles of well-defined responsibility and refined and rigorous management.

Investment Cooperation

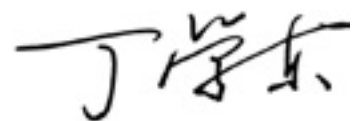
We served as a bridge between Chinese and overseas businesses by promoting commercially based cooperation. In 2014, economic globalization continued with greater vigor. China's 2014 outbound investment already exceeded the utilized foreign direct investment in volume, as a growing number of Chinese companies established a presence in overseas

markets and took part in global competition. And many major international investors chose China as their prime investment destination. As China's sovereign wealth fund, CIC continued to facilitate cooperation between companies in China and overseas by relying on our investment expertise, global networks and solid track record as a responsible investor.

The world economy is still undergoing profound adjustments following the 2008 financial crisis. Weak growth and major divergence remain major themes. And trends indicate that, as economic dynamics and macroeconomic policies among different economies continue to diverge, geopolitical disturbances will be prolonged and turbulence in financial markets is likely to be the norm. The new market environment presents further challenges for institutional investors engaging in overseas investment. At the same time, we recognize the enormous demand for capital provided by institutional investors, including sovereign wealth funds.

Boosting investment remains an effective means to promote economic growth and create jobs. We at CIC see abundant opportunities for investment in the upgrading, rebuilding, and privatizing of infrastructure in developed countries. Another big opportunity is the rapid economic restructuring and transitioning of developing economies. And a third is the drive for infrastructure connectivity and trade liberalization under the Belt and Road Initiative. CIC is eager to work with competent partners from China and overseas to capture these potential investment opportunities, explore viable models for cross-border investment cooperation and facilitate connections between Chinese and overseas businesses.

As two lines in a Chinese poem go, "Running water at the fount, Clear water in the pond." Only by continually improving and reinventing itself can an institution grow from strength to strength. Through the challenges and opportunities that lie ahead, we will prove our worth as a responsible long-term financial investor. We will constantly strengthen management, effectively allocate assets for optimal overall returns and expand the scope of our business. And we will explore new models for investment cooperation in multiple dimensions and at various levels. In the year ahead, we at CIC vow to make new progress towards becoming a world-class and respected sovereign wealth fund.



Ding Xuedong
Chairman and CEO



CORPORATE REVIEW

China Investment Corporation (CIC) was incorporated on September 29, 2007. 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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*CIC has three subsidiaries,
CIC International, CIC Capital and Central Huijin.*

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OVERVIEW

Headquartered in Beijing, China Investment Corporation (CIC) was incorporated on September 29, 2007 as a wholly state-owned company under 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 three subsidiaries, CIC International Co., Ltd. (CIC International), CIC Capital Corporation (CIC Capital) 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 then. Drawing on practices of international institutional investors, CIC Capital was incorporated in January 2015 with a mandate to specialize in making direct investments to refine CIC's overall portfolio management and enhance investment on long-term assets. CIC Capital is now setting up and optimizing its investment management system and investment teams. The overseas investment and management activities of CIC are undertaken by CIC International and CIC Capital.

CIC International conducts public market equity and bond investments, hedge funds and real estate investments, private equity fund investments, co-investments and minority investments as a financial investor. As CIC's direct investment arm, CIC Capital is mandated to make direct investments and manage bilateral and multilateral fund investments in order to pursue long-term financial returns and promote international investment cooperation. Both CIC International and CIC Capital are market-oriented commercial entities with a specialized mandate and global reach.

CIC International (Hong Kong) Co., Ltd. (CIC International (Hong Kong)) was established in November 2010 to cover global investment grade corporate bond and the H-shares. In January 2011, CIC opened its representative office in Toronto, Canada (Toronto Representative Office), to foster cooperation and communication with local government and business community, and support the Headquarters in undertaking research on North America and assisting in the post-investment management of projects in Canada.

Central Huijin makes equity investments in key state-owned financial institutions in China. Without interfering with the day-to-day operations of its investee institutions, Central Huijin exercises its shareholder rights and performs its obligations to the extent of its capital contribution, in order to preserve and enhance the value of state-owned financial assets.

A strict operational firewall exists between the overseas business run by CIC International and CIC Capital and the domestic business run by Central Huijin.

LANDMARKS

2009

July, CIC invested \$1.5 billion in Teck Resources.

July, CIC inaugurated the International Advisory Council.

2011

January, the Board extended the investment horizon to 10 years.

January, CIC opened the Toronto Representative Office.

May, CIC hosted the 3rd Annual Meeting of the International Forum of Sovereign Wealth Funds.

September, CIC International was established.

December, CIC invested \$3.15 billion in GDF Suez Exploration & Production International.

2010

March, CIC invested \$1.6 billion in AES.

November, CIC International (Hong Kong) was incorporated.

2007

September, CIC was established in Beijing, China.

December, CIC invested \$5.6 billion in Morgan Stanley.

2008

January, CIC set up the Investment Committee and the Risk Management Committee.

April-October, CIC became a member of the International Working Group of Sovereign Wealth Funds and co-drafted and signed the Santiago Principles.

September, CIC launched its official website.

2015

January, CIC Capital was established.



2013

March, Mr. Lou Jiwei no longer served as CIC Chairman and CEO.

July, Mr. Ding Xuedong took office as CIC Chairman and CEO.

2014

January, CIC launched the Fengye System to improve data analysis and its operation capability.

December, CIC launched the China-Mexico Investment Fund.

2012

February, CIC approved the 2012–2016 Strategic Plan of Development.

June, CIC set up the Russia-China Investment Fund with Russia Direct Investment Fund.

July, CIC launched CIC Culture Consensus, as part of its culture-building scheme.

CULTURE AND CORE VALUES

Building on its heritage and experience, CIC has developed a complete framework of corporate culture. Its mission, vision and core values were crystallized in the CIC Culture Consensus released in 2012.

Mission: CIC is committed to diversifying China's foreign exchange investment portfolio 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: Responsibility, Synergy, Professionalism and Aspiration.

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 of China and recipient countries or regions 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.

CIC is committed to a zero-tolerance approach to corruption and bribery. We have issued and published on our website our Code of Conduct and Guidelines on Preventing Conflicts of Interest, which include our anti-corruption and anti-bribery policies applicable to all CIC employees. We also expect that our business partners, counter parties, service providers and agents to acknowledge and implement

our anti-corruption and anti-bribery policies in their dealings with us.

In 2014, CIC implemented a program under the theme of Responsibility. Through corporate culture discussions, conduct improvement and institutionalization construction, it converted Responsibility from a conscious idea to a routine behavior. This will provide cultural support and institutional incentives for the company's continued solid growth.

By embedding corporate social responsibility into its business activities, consolidating existing resources and working in partnership with other organizations, CIC actively engaged in promotion and innovation of social work and showed a sound corporate image.

Box 1: Corporate Social Responsibility

Poverty Reduction. In 2011, CIC started a poverty reduction program in Shibing county, Guizhou province. The Shibing Secondary Vocational and Technical School project and the Shanmu River Drifting Resort promotion project have produced a successful effect on local education and economic development. In 2012, CIC also coordinated poverty reduction efforts in Jingning and Huining counties, Gansu province, and Xunhua county, Qinghai province. These poverty reduction programs covered education, industry and social welfare.

Postal Parcel for Mothers. In 2014, CIC participated in the Postal Parcel for Mothers charity project, sponsored by the All China Women's Federation and organized by the China Women's Development Foundation. This charity project has been carried on for five consecutive years, by delivering daily necessities to mothers in poverty-stricken areas to address their practical concerns and urgent needs in life. As the first round of donations, CIC delivered 1,000 Postal Parcels to the poverty-stricken mothers in Shibing county. Each parcel contains a blanket, scarf and gloves and other daily necessities to keep against wintry weather.

Social Practice. In 2014, 36 CIC young staff undertook social activities in 25 provinces. They visited local schools, clinics, social welfare institutions, etc. They lived and worked together with local youth. These activities helped build the youngsters' character and resilience.



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*CIC's Core Values are Responsibility, Synergy,
Professionalism and Aspiration.*

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CIC has set up its Board of Directors, Board of Supervisors and Executive Committee for enforcing the resolutions of the Board of Directors, with well-defined responsibilities and effective checks and balances among the three.

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CORPORATE GOVERNANCE

Pursuant to the Company Law of China, CIC has set up its Board of Directors, Board of Supervisors and Executive Committee for enforcing the resolutions of the Board of Directors, with well-defined responsibilities and effective checks and balances among the three. We improved our organizational and functional structure, as well as our company rules and work-stream standards. 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 its 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 Remuneration Committee, which formulates and reviews the compensation policies for senior executives and oversees their execution, is organized under the Board of Directors. In 2014, the Board of Directors decided on the annual business plan to guide the company's investment activities against a backdrop of complicated and changing domestic and international market environment. It approved the establishment of CIC Capital with a view to improving the company's framework for overseas direct investment management. It also identified major issues such as business plan, budget and budget resolution, evaluation and remuneration to further refine and improve CIC's management practices.

The Board of Supervisors is responsible for monitoring the performance of directors and executives in execution of their duties as well as the effectiveness of supervisory procedures within the company. Also in charge of the Department of Internal Audits, the Board of Supervisors selects external auditors and monitors CIC's accounting and financial functions. In 2014, the Board of Supervisors further strengthened the supervisory system. By conducting auditing investigation on

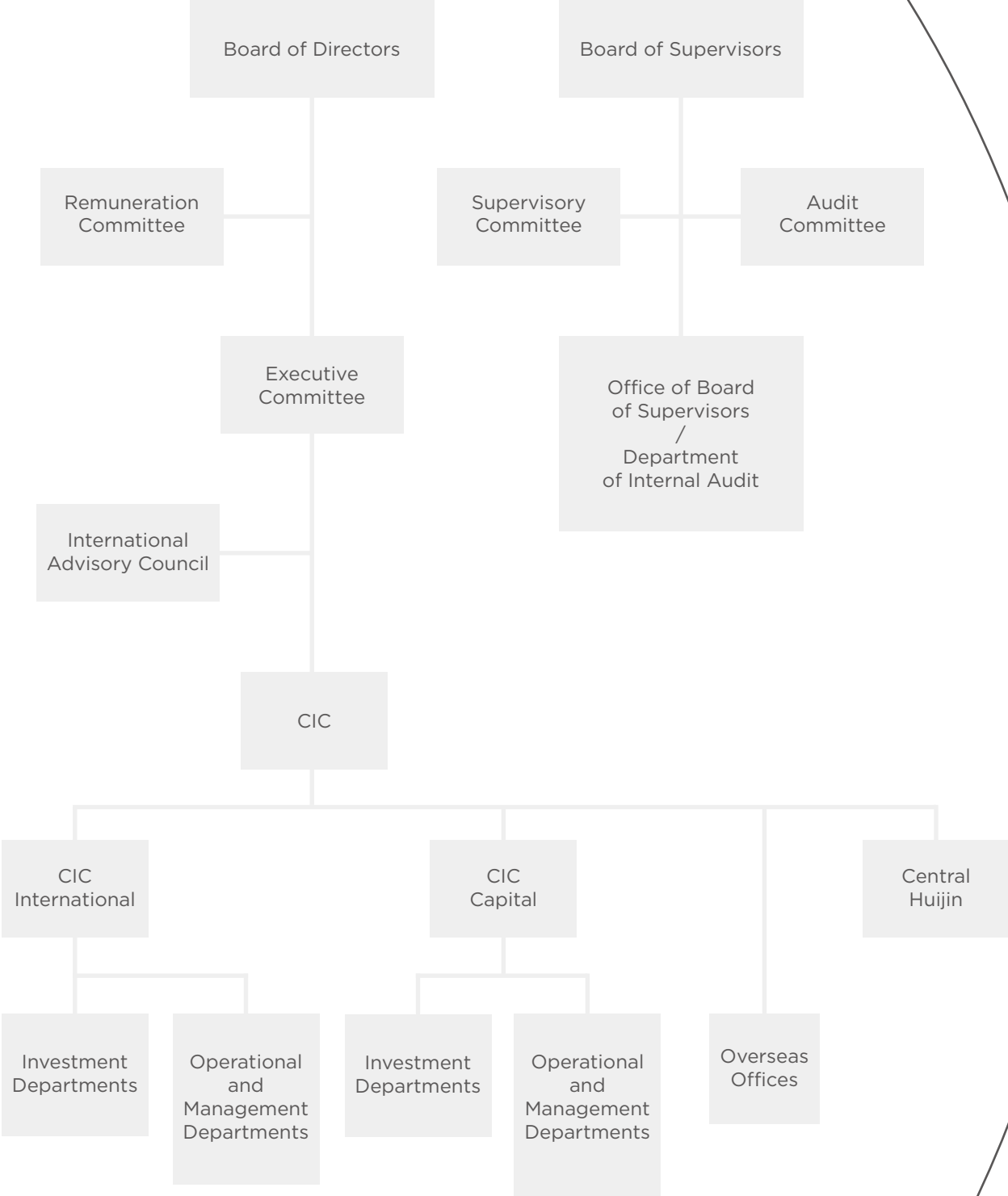
investment management and economic responsibility, it improved overseas investment management and increased competitiveness in the market. It also enhanced auditing investigation to promote accountable management, sound and effective enforcement of internal control and risk management practices.

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 2014, the Executive Committee conducted to develop strategic issues for the company, established the Investment Manager Accountability System and improved whole-process management of projects. It further strengthened the policies and procedures of the company to ensure sophisticated management on all fronts, and establish long-term mechanisms to strengthen cost management by implementing cost sharing based on cost-benefit analysis. It also continued to adjust internal structure of departments and personnel, and promote corporate culture to facilitate the improvement of human resources management system.

The CIC International Advisory Council comprises world renowned experts. It provides international perspective on CIC's major development strategies, overseas investments and significant decisions in the context of the global economy, investment opportunities and the regulatory issues. Pursuant to the Council's Charter, in September 2014 CIC appointed 17 experts from 12 countries and regions on five continents as Council members and convened the 6th annual meeting in Beijing.

During the meeting, the Council members conducted in-depth discussions on the new world economic order, trends and implications, asset allocation and investment strategy, international financial regulatory policy and risk management, as well as valuable insights for the growth of CIC. They also share their perspectives on global economic and political dynamics and outstanding issues through regular correspondences, visits, meetings and participation in company activities and events.

Figure 1: Organization Chart



BOARD OF DIRECTORS

Ding Xuedong

Chairman and Chief Executive Officer

Mr. Ding Xuedong is Chairman and 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 and Head of the General Office, State-owned Asset Administration Bureau.

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



Li Keping

Vice Chairman, President and Chief Investment Officer

Mr. Li Keping is Vice Chairman, President and Chief Investment Officer of CIC, Chairman of CIC International (Hong Kong). Immediately prior to this, he served as Executive Director, Executive Vice President and Chief Investment Officer of CIC. He also worked as Deputy Chairman of the National Council for the Social Security Fund, Head of Investment Department of the National Council for the Social Security Fund, Deputy Director General of the Macroeconomic System Department of the State Council Office for Restructuring the Economic Systems, Deputy Director General of the Macroeconomic System 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 is an Independent Director of CIC. Previously, he served as Vice Chairman of the National Development and Reform Commission, Secretary General of the State Development and Planning Commission, Director General of the Department of Foreign Investment at the State Planning Commission, 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, born in 1952, 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 Department of Social Development 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 Department of Foreign Capital and Overseas Investment at the State Development and Planning Commission.

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

Wang Baoan

Non-Executive Director

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

Mr. Wang, born in 1963, 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 Deputy China International Trade Representative. Previously, he served as Assistant Minister of the Ministry of Commerce (MOFCOM), Director General of the Department of Policy Research of MOFCOM, Deputy Representative and Minister of China's Permanent Mission to the World Trade Organization (WTO), Director General of the Department of WTO Affairs and the China WTO Notification and Inquiry Center, and Deputy Director General at the Department of International Trade and Economic Affairs of the Ministry of Foreign Trade and Economic Cooperation.

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



Hu Xiaolian

Non-Executive Director

Madam Hu Xiaolian is a Non-Executive Director of CIC. Previously, she served as Deputy Governor of the People's Bank of China (PBC), Assistant Governor of PBC. She also held several positions in State Administration of Foreign Exchange (SAFE), including Administrator of SAFE, Deputy Administrator of SAFE, Director General of the Department of Reserve Management and Deputy Director General of the Department of Policy, Law and Regulation.

Madam Hu, born in 1958, holds a master's degree in economics.

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). Previously, he served as Chief Accountant of SAFE and Deputy Administrator of SAFE Shanghai Branch, Vice President of People's Bank of China 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 is an Employee Director of CIC. Previously, he served as Head of Human Resources Department of CIC. Prior to this, he held several positions in the State Administration of Science, Technology and Industry for National Defense, including Director General of the Department of Finance and Audit, Director General of the Department of Finance and Deputy Director General of the General Office. He also served as engineer at the Ministry of Aerospace Industry and as division chief at the Ministry of Finance and at Xinhua News Agency (Hong Kong Branch).

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



FORMER DIRECTOR

Gao Xiqing (Vice Chairman and President from September 2007 to February 2014)

BOARD OF SUPERVISORS



Guo Haoda

Chairman of the Board of Supervisors

Mr. Guo Haoda is Chairman of the Board of Supervisors. Previously, he served as Executive Director and Executive Vice President of Agricultural Bank of China Ltd. (ABC). He held several positions during his career at ABC, including Executive Vice President of ABC and Head of Beijing Branch, Head of Jiangsu Branch, Head of Shenzhen Branch and Head of Suzhou Branch in Jiangsu Province.

Mr. Guo, born in 1957, holds a bachelor's degree and was accorded Senior Economist by the Ministry of Human Resources and Social Security. He is one of the awardees of the State Council Expert Special Allowance.

Dong Dasheng

Supervisor

Mr. Dong Dasheng is a member of the Board of Supervisors. Previously, he held several positions in the National Audit Office, including Deputy Auditor General of the National Audit Office, 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.

Mr. Dong, born in 1954, 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 and 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, born in 1957, 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, born in 1955, 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, born in 1964, holds a Ph.D. in economics from Xi'an Jiaotong University.



FORMER SUPERVISOR

Mr. Li Xiaopeng (Chairman of the Board of Supervisors from May 2013 to July 2014)



EXECUTIVE COMMITTEE

Ding Xuedong	Chairman and Chief Executive Officer
Li Keping	Vice Chairman, President and Chief Investment Officer
Guo Haoda	Chairman of the Board of Supervisors
Xie Ping	Executive Vice President
Liang Xiang	Executive Vice President and Secretary of the Discipline Inspecting Commission
Ju Weimin	Executive Vice President
Liu Guiping	Executive Vice President
Guo Xiangjun	Executive Vice President and Chief Risk Officer
Zhou Yuan	Chief Strategy Officer
Hua Hua	Chief Information Officer
Zhao Haiying	Member of the Executive Committee



From Left: Zhao Haiying, Guo Haoda, Zhou Yuan, Liu Guiping, Xie Zhichun, Ding Xuedong, Xie Ping, Liang Xiang, Ju Weimin, Li Keping, Guo Xiangjun, Hua Hua



Former Members

Gao Xiqing (Vice Chairman and President from September 2007 to February 2014)

Li Xiaopeng (Chairman of the Board of Supervisors from May 2013 to July 2014)

Fan Yifei (Executive Vice President from May 2010 to February 2015)

Xie Zhichun (Executive Vice President from May 2014 to May 2015)

INTERNATIONAL ADVISORY COUNCIL

ASIA

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

Justin Yifu Lin(China)

Honorary Dean and Professor, National School of Development, Peking University; former Chief Economist and Senior Vice President, World Bank

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)

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

AFRICA

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

John H. Maree (South Africa)

Senior Banker and former Chief Executive Officer, Standard Bank Group

AMERICAS

David Denison (Canada)

Former Chief Executive Officer, Canada Pension Plan Investment Board

Merit E. Janow (United States of America)

Dean, School of International and Public Affairs, and Professor of Practice, International Economic Law and International Affairs, Columbia University; Chairman, NASDAQ Stock Market LLC; former member of the Appellate Body of the World Trade Organization

Jorge Paulo Lemann (Brazil)

Director, H.J. Heinz Company, Pittsburgh

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

EUROPE

Knut N. Kjaer (Norway)

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

Jean Lemierre (France)

Chairman, BNP Paribas; former President, European Bank for Reconstruction and Development

OCEANIA

Paul Costello (Australia)

Member, Payments System Board, Reserve Bank of Australia; former Chairman, Blackstone Group Australia/New Zealand; former General Manager, Australian Future Fund; former Chief Executive Officer, New Zealand Superannuation Fund

SECRETARIAT

Liu Fangyu (China)

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

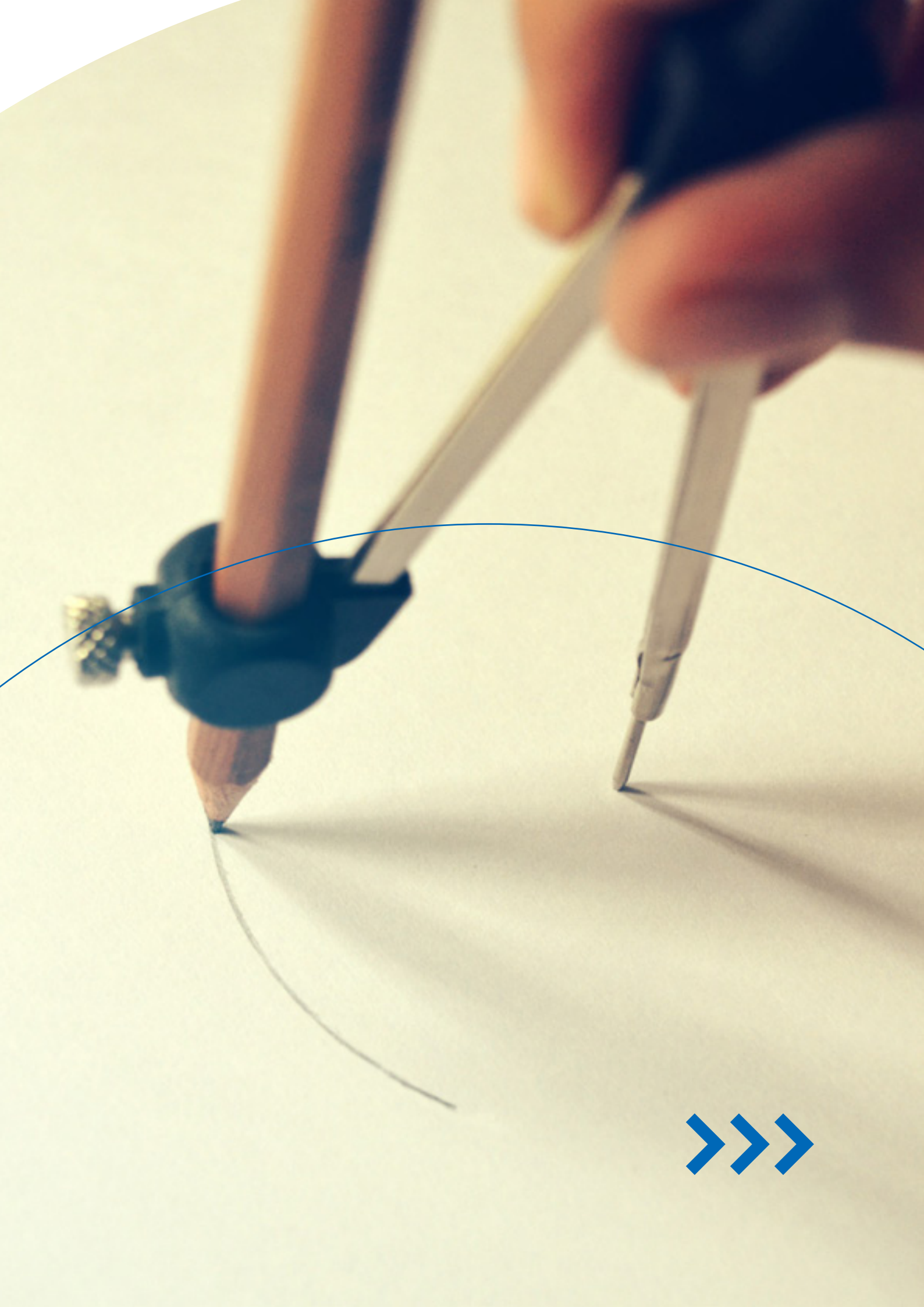
FORMER IAC MEMBER

James D. Wolfensohn (United States of America, member from 2008 to 2014)

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

INVESTMENT AND MANAGEMENT REVIEW

Against a backdrop of complicated and rapidly changing global market conditions, CIC continued to manage its overseas investment activities prudently and effectively, achieving the target of preservation and appreciation of assets under management.



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

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INVESTMENT STRATEGY AND MANAGEMENT

Investment Principles and Philosophies

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

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 or regions 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 continue to pursue risk diversification through spreading risk factor allocation in a bid to reduce portfolio volatility and curb downside risk.

Investment Decision-making

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 principles 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 (CIO). The Investment Committee convenes weekly (ad hoc sessions are held when necessary) and makes investment decisions independently. It comprises the Chairman and CEO, President and CIO, 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.

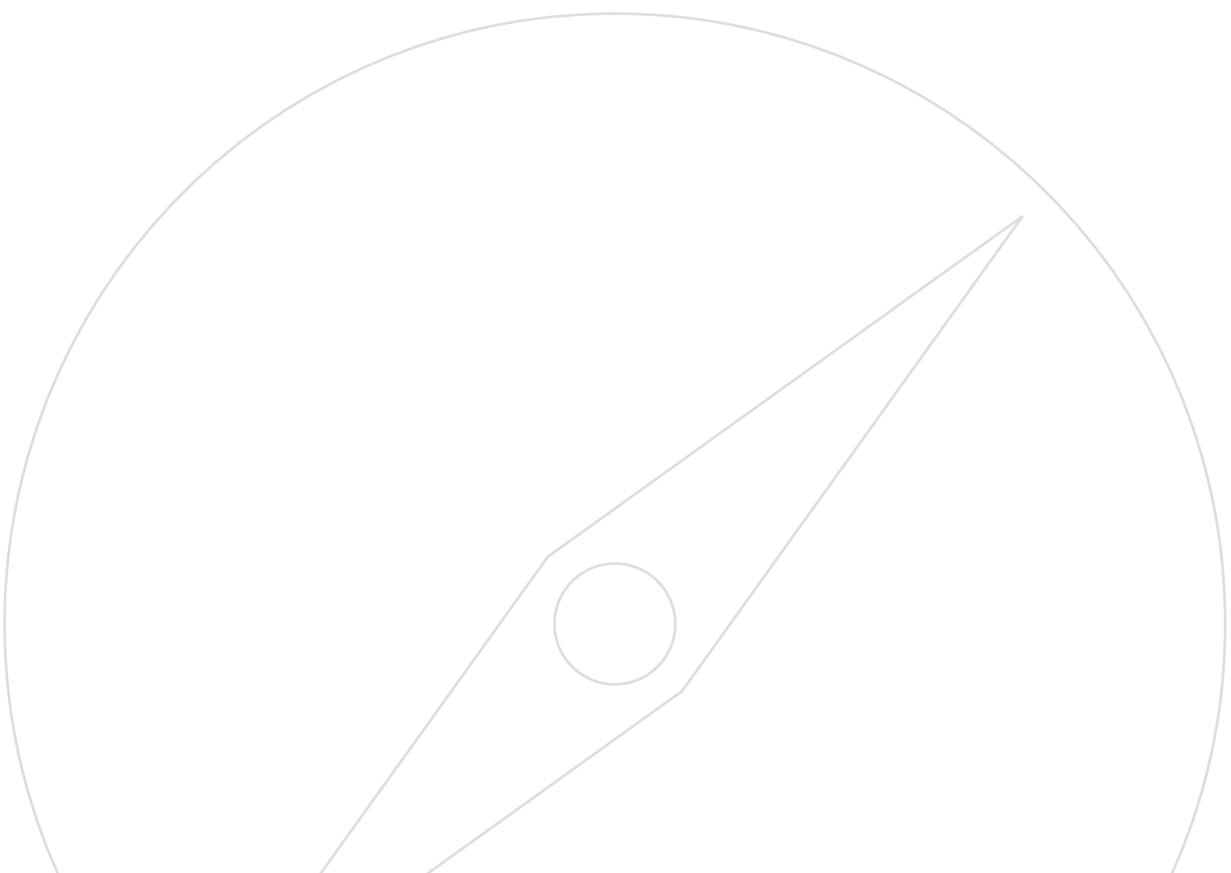


Figure 2: Decision-Making Flow Chart



Investment Departments

- The **Department of Asset Allocation and Strategic Research** is responsible for developing investment policies, proposing strategic asset allocation plans, policy portfolios and tactical allocation schemes, managing the overall portfolio and developing alternative portfolio substitution 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 procedural compliance and supervision and monitoring. It manages the trading room as well.
- 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, 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. Fixed income products include investment in treasury bonds of developed and emerging economies and agency bonds; and absolute return products include investment in hedge funds and risk parity.
- The **Department of Private Equity** is responsible for private equity investment through industry-wide private equity funds, direct investment and co-investment, real estate investment through direct investment and funds, as well as credit opportunity investment.

In January 2015, CIC set up a new subsidiary, CIC Capital, to specialize in making overseas direct investments and the entire **Department of Special Investments** was merged into the new vehicle. As CIC's direct investment arm, CIC Capital is mandated to make direct investments and manage bilateral and multilateral fund investments in order to pursue long-term financial returns and promote international investment cooperation. The organizational structure of CIC Capital is under further optimization.



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 investment activities and the overall 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 market dislocation.

CIC sets up a rebalancing mechanism that applies to all asset classes to manage portfolio deviation and maintain a disciplined approach to its asset allocation. Besides, CIC also adopts regional rebalancing within its public equity portfolio.

CIC uses derivatives to manage its portfolio when necessary.

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

Public equity Equity investment in listed companies

Fixed income Bonds including sovereign, corporate and agency bonds

Absolute return Hedge funds and risk parity

Long-term investments Industry-wide direct investment, industry-wide private equity, resources/commodities, real estate and infrastructure

Cash and others Cash, overnight deposits and US treasury bills

Table 2: Global Investment Portfolio Distribution (As of December 31, 2014)

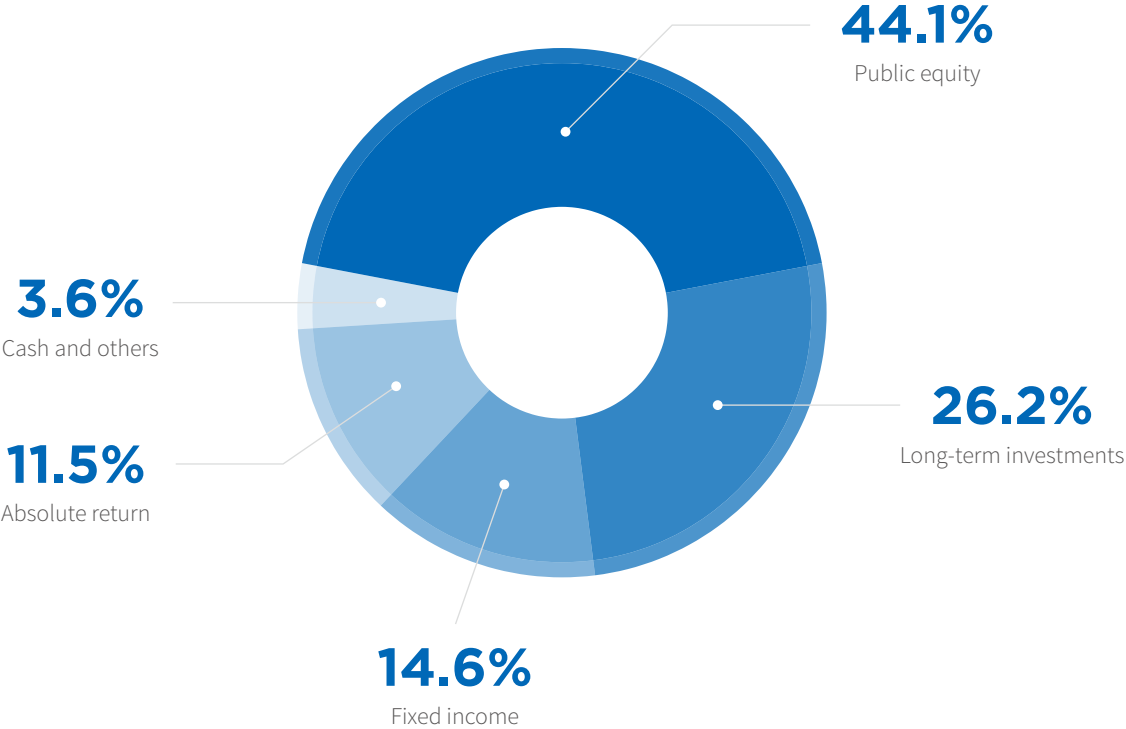


Table 3: Fixed Income in Global Portfolio (As of December 31, 2014)

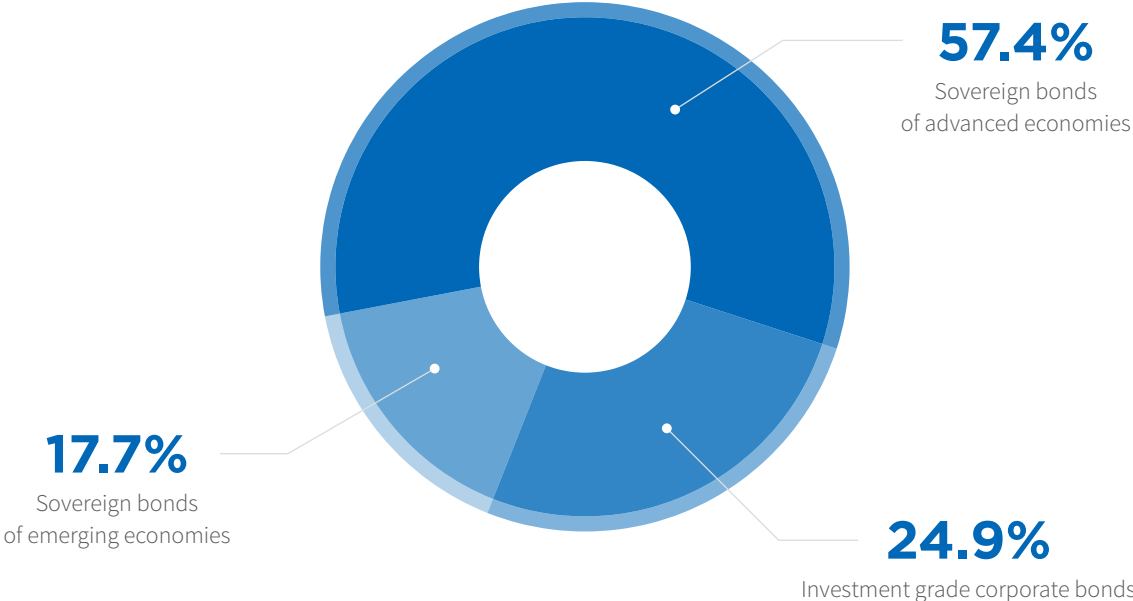
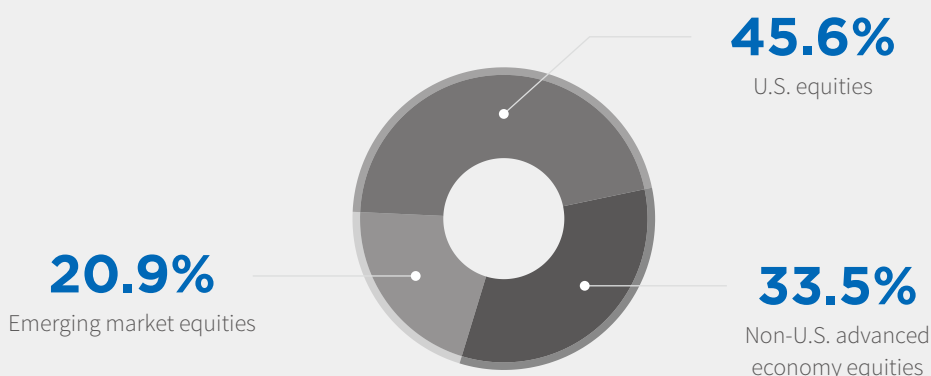


Table 4: Public Equity in Global Portfolio (As of December 31, 2014)

Distribution by Region



Distribution by Sector

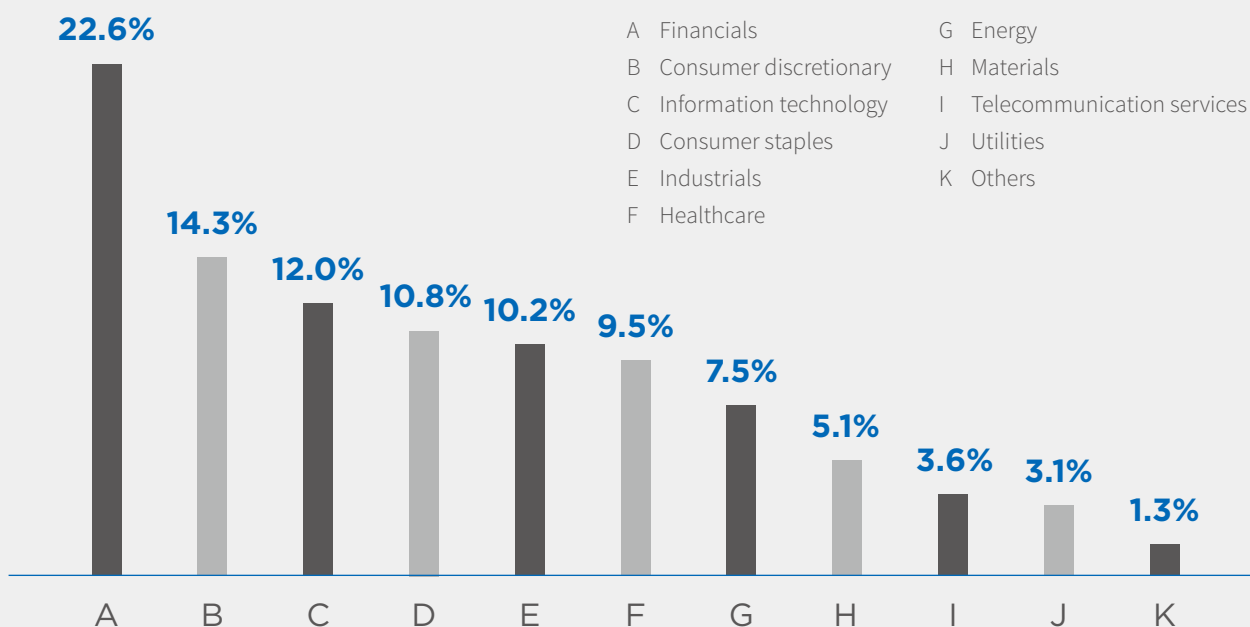
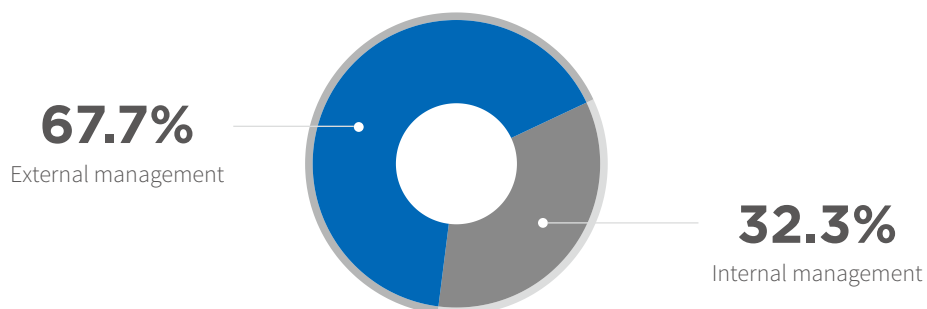


Table 5: Internally Managed Assets versus Externally Managed Assets in Global Portfolio (As of December 31, 2014)



Investment Activities

During 2014, the world economy was characterized by generally slow recovery across the globe, with regional variations in speed. With the improvement of its economic structure, the United States showed strong momentum for economic expansion and outpaced other developed countries in economic growth. Although systemic risk was contained and internal and external imbalances alleviated, the Eurozone showed a weaker-than-expected recovery, as inadequate credit and subdued economic confidence proved a drag on growth. Quantitative easing and currency depreciation bolstered the Japanese economy, while tax reforms blunted its economic momentum. Emerging markets encountered further downward pressure due to structural constraints and sluggish external demand. Export-oriented manufacturing economies saw stabilized growth, while commodity exporters remained economically fragile.

In 2014, developed economies diverged in their monetary policy stances. The United States phased out quantitative easing and began to normalize its monetary policy, while Europe and Japan adopted expansionary monetary policies. Renewed market volatility due to rapid appreciation of the US dollar and fluctuations in other currencies brought new challenges for investors around the globe. Geopolitical risk added to the complexity of the market environment.

Against a backdrop of complicated and rapidly changing global market conditions, CIC continued to manage its overseas investment activities prudently and effectively, achieving the target of preservation and appreciation of assets under management. In 2014, CIC's overseas portfolio posted a net annual return of 5.47% and a net cumulative annualized return of 5.66% since its inception.

For overall portfolio management, CIC fine-tuned its policy portfolio at the beginning of 2014 based on market analysis and portfolio characteristics, reducing exposure to emerging market bonds, US inflation-linked bonds and liquid commodities while beefing up equities of advanced economies. The tactical asset allocation was adjusted, and the portfolio was rebalanced as rebalancing conditions were triggered.

CIC continued to review its public market strategies and sub strategies in accord with its asset allocation goals, both exiting and adding some external managers in a bid to refine and consolidate its public market investment management. We also actively pursued long-term investments with a focus on real assets with stable returns while prudently implementing post-investment management of invested projects.

For public market investments, we further reviewed and refined portfolio strategies based on allocation planning and investment performance, removing or adjusting some strategies and sub strategies and fine-tuning benchmarks. As a result, the structure of the overall public market portfolio was further simplified and streamlined.

For externally managed investments, CIC consciously drew on best practices in external manager selection and evaluation. We continued to improve our strategies for externally managed investment by making portfolio adjustments in response to in-depth analysis of the market environment and external managers, which improved the efficiency and efficacy of our investments.

For internally managed investments, CIC focused on improving and refining in-house investment management systems and procedures for investment analysis. We emphasized long-term value investment and in-depth fundamental analysis, and we improved a performance evaluation system for research analysts to better integrate research with investment activities.

In addition, CIC set up a quantitative investment team and is building the related systems and facilities. In 2014, according to the eVestment database, the performance of our in-house managed global value portfolio ranked in the top 5% among comparable investment managers globally. Our absolute return team received an award from the Institutional Investor magazine for the second consecutive year.

For long-term investments, in response to a market environment featuring excessive liquidity and fierce competition for quality assets, CIC proactively strengthened exchanges and cooperation with domestic and foreign companies and peer institutions to further enhance its capabilities for deal sourcing and investment management. Post-investment management was further consolidated in parallel with greater efforts for new investments. In 2014, 44 deals were signed or approved, including private equity fund investments, co-investments and direct investments. CIC partially or fully exited 14 investment projects, harvesting good returns.

For direct investments, CIC adjusted and optimized its asset allocation among industries and strategies based on a thorough analysis of industry trends and regional markets. We weighted our long-term asset investments towards real assets that generated steady cash returns and paid more attention to exploring infrastructure investment opportunities in the emerging markets, including greenfield projects, while keeping a close watch on mature assets in the developed markets.

For fund investments, to further optimize its fund portfolio, CIC seized the opportunity for new rounds of fundraising to hire new top fund managers while renewing investment in existing fund managers with commendable performance. Meanwhile, we continued extensive communication and exchanges with our external managers and industry partners to proactively explore opportunities for investment cooperation. As a result, the total number and value of co-investments and club deals increased significantly.

For post-investment management, CIC thoroughly reviewed all direct

investment projects on a regular basis, formulated tailored post-investment management plans and exit strategies for individual projects, and made timely adjustments and optimization to cope with evolving market conditions and project progress to better manage risk and capture returns.

In 2014, guided by internal rules and disciplines, CIC International (Hong Kong) exercised active and prudent management and achieved good returns on the entrusted global investment-grade corporate bond strategy portfolio and the H-share equity strategy portfolio. Meanwhile, using its advantageous location in Hong Kong, CIC International has been closely following global and regional market movements. It has continued to strengthen exchanges and communications with peer institutions and to provide effective research, external relations and post-investment management support to Headquarters.

The Toronto Representative Office closely engaged with local government, business entities and the general public, and assisted Headquarters in research efforts by providing a unique North American perspective.

Box 2: Long-term Investment Philosophies

- CIC has a long-term investment horizon and low liquidity requirements, and is able to harvest favorable long-term returns by exploring inefficiency in the long-term assets market and capturing illiquid premiums of long-term assets.
- CIC selects long-term assets in line with its asset allocation and portfolio construction, and prefers real assets with high cash returns and stable valuation for steady returns and improved portfolio stability.
- CIC adopts a “best of the best” approach for selecting long-term investment projects to control project quality, and implements a whole-process supervision mechanism for post-investment management to realize return targets.
- CIC works closely with institutional investors and corporate partners to share risks and returns.

Box 3: Infrastructure Investment

It is a common practice for large financial investors, including sovereign wealth funds (SWFs) to assign a proportion of its portfolio towards stable returns over the long run. Infrastructure represents a suitable choice for such a strategy. In CIC’s diversified portfolio, infrastructure is an important asset class for seeking stable and sound financial returns, and it will remain an area of focus for our future investments.

Since its inception, CIC has invested, directly or through fund managers, in diversified infrastructure projects around the globe, including both core assets and opportunistic assets in industries such as transportation, energy, power, communications, water and waste treatment in both developed and emerging markets. For direct investment, we invested in AES Corporation, Heathrow Airport, Thames Water, EastLink Highway in Melbourne, Mong Duong II power plant in Vietnam and a liquefied natural gas export station in Trinidad and Tobago. We also invest in global, American and European infrastructure funds and work with top infrastructure managers on co-investment or club deals in the energy and public utilities infrastructure sectors.

With a long-term and solid track record, CIC has built extensive and close relations with recipient countries or regions governments, institutional investors, multilateral development agencies, infrastructure fund managers and corporate and professional infrastructure construction and operation companies. We gradually set up a global infrastructure investment platform, built a strong investment team and gained positive returns on our infrastructure investments.

As a long-term investor, CIC is keen to explore infrastructure opportunities in developed markets as well as those in emerging markets with long-term growth potential, particularly opportunities arising from infrastructure connectivity projects in developing countries. Guided by commercial principles, we are ready to engage and partner with local governments, business organizations and like-minded investors to jointly explore good investment opportunities and pursue mutually beneficial, proactive and pragmatic collaboration.

Investment Management and Support

During 2014, CIC continued to improve its operations and management systems and further enhance its internal operations and investment support capacity with well-defined responsibilities, detailed operational procedures and robust management.

First, we revised investment decision-making policies and management rules to improve decision-making efficacy. We introduced the Investment Manager Accountability System that covers the entire process of investment management, with emphasis on evaluation, motivation, oversight and accountability requirements for investment managers. We formulated rules for supervising the progress of investment projects. And we improved the investment management system and fine-tuned the whole-process project management system.

Second, we continued to improve macro and strategic research capabilities, closely tracking international economic and market trends and major events, thus making our research more timely and predictive. We actively explored effective approaches to emphasize the role of research in investment decision-making and to better integrate internal research resources and promote information-sharing through collaboration across departments, asset classes and regions.

Third, we advanced the development of an overlay and exposure management platform to provide a flexible, efficient and cost-effective vehicle for portfolio adjustment and management. We explored tailored portfolio rebalancing mechanisms and enlarged the coverage of rebalancing. We formulated public market investment strategy guidelines to better reflect strategic allocation goals. We continued research and analysis of quantitative allocation models and paper portfolios. We improved the efficiency of liquidity management of the long-term assets substitution portfolio. And we set up trade execution benchmarks and implemented quantitative evaluation on the quality of trading execution.

Fourth, we completed Phase I and Phase II of the Enterprise Data Management Platform to enable automatic gathering, loading and verification of source data. We also implemented such projects as the Portfolio Analysis and Allocation System and the Quantitative Investment System, which further enhanced our system support capabilities.

Fifth, we continued to improve management accounting and established a management accounting system featuring financial budgeting, cost apportionment and benchmark analysis. We continued to improve the budget management model, developed a cost attribution system suited for the business characteristics of the company and completed cost-efficiency analysis at the company level and across all asset classes, elevating cost management capabilities. We also optimized cash management to gain favorable returns while ensuring security and liquidity.

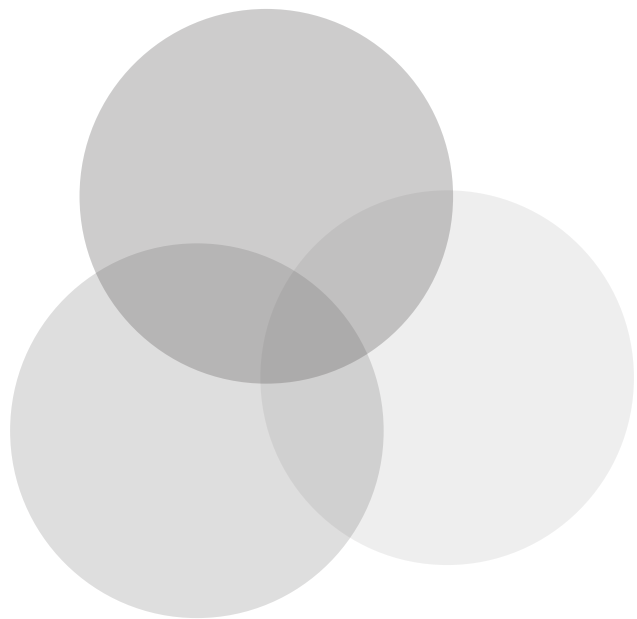
Sixth, we further improved the legal processes for the evaluation and selection of external legal counsels, post-investment management and project exit. We ensured legal compliance of the company's investment activities. And we conducted in-depth analysis of major regulatory issues in recipient countries or regions to duly identify, evaluate, manage and control legal and compliance risks.

Box 4: Portfolio Analysis and Allocation System

CIC developed the Portfolio Analysis and Allocation System for robust, automatic asset allocation, portfolio analysis and management. The system was built on the allocation and analytical framework CIC developed over the years and drew references from peer institutions. After more than two years of research and development, the system was put into operation in late 2014. The Portfolio Analysis and Allocation System was the second large-scale, comprehensive investment analysis and management system (the Risk and Performance Analysis System (the Fengye System) being the first) that CIC developed independently with proprietary intellectual property.

The Portfolio Analysis and Allocation System contains a data repository to facilitate asset allocation and portfolio analysis. It integrates the industry's most sophisticated analytical software with an independently developed optimization and analyzing model. The system enables such features as exposure calculating, portfolio monitoring, rebalancing monitoring, factor and scenario analysis, alternative investment analysis, allocation optimization and portfolio forecasting. It also features a comprehensive dashboard with rich contents, structurally organized information and a user-friendly interface. And it provides strong support for asset allocation, portfolio analysis and portfolio management.

Drawing on the company's years of experience in asset allocation, the system offers an integrated and efficient solution for the whole process of allocation analysis management. This significantly increases the effectiveness of allocation and management and lays a solid foundation for driving investment activities through research and asset allocation.



Investment Performance

In 2014, CIC's overseas portfolio posted a net annual return of 5.47%. Our net cumulative annualized return since inception was 5.66% (Table 6).

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 are listed in Table 7.

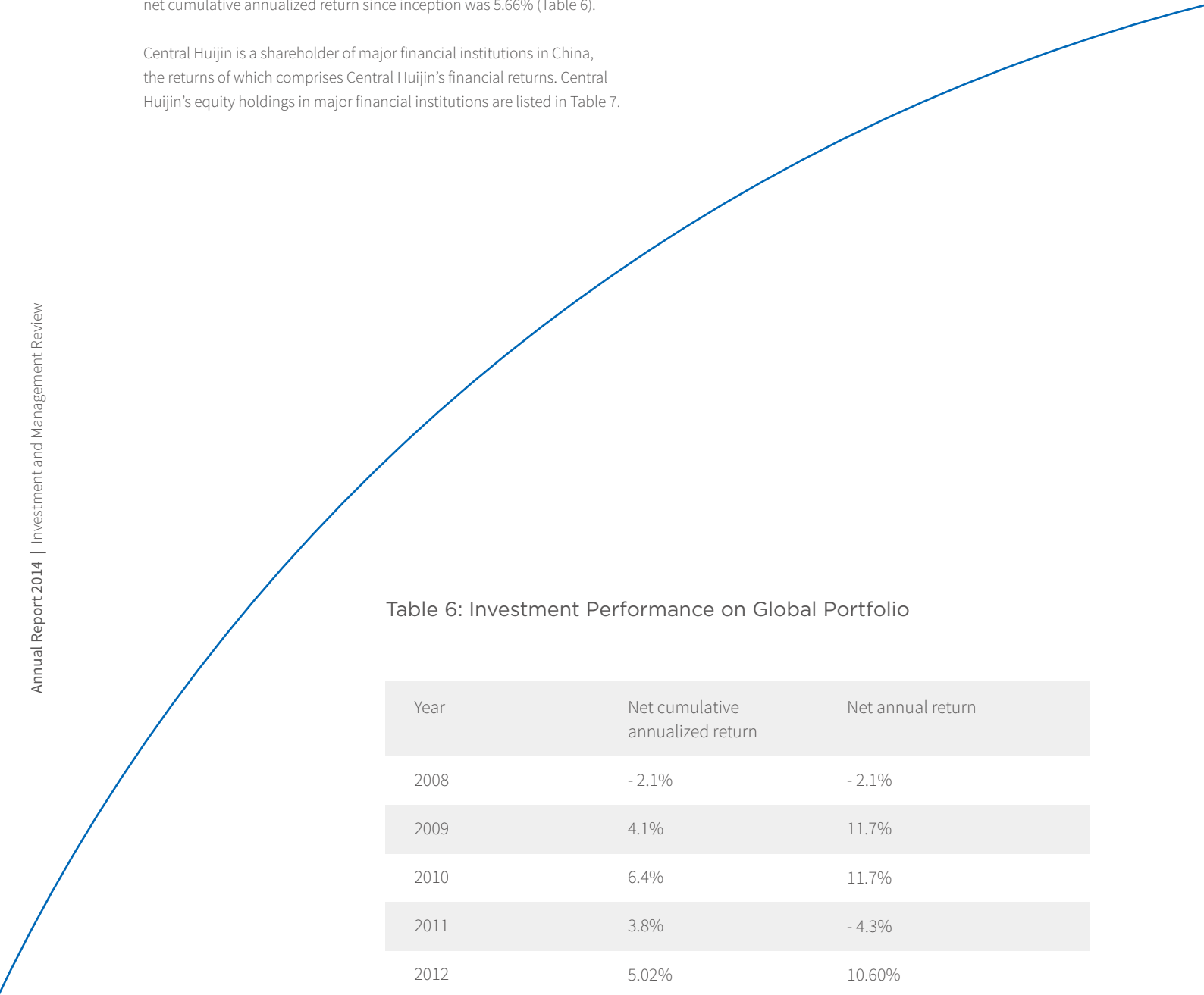


Table 6: Investment Performance on Global Portfolio

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%
2014	5.66%	5.47%

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

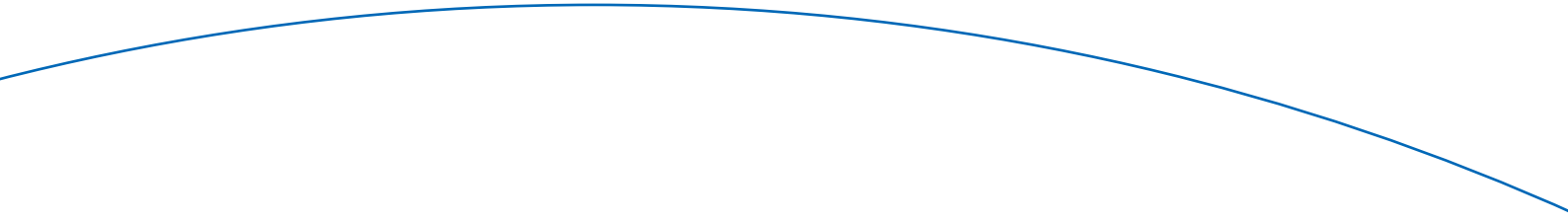
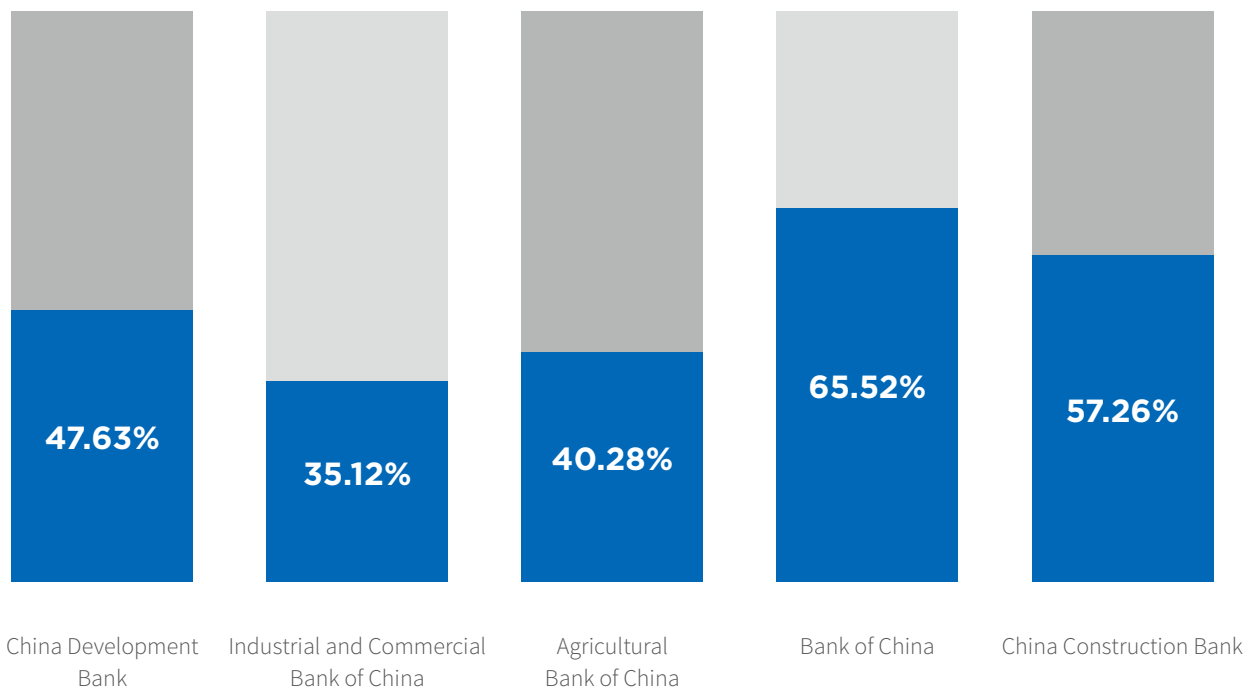


Table 7: Major Portfolio Holdings of Central Huijin (As of December 31, 2014)



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The objective of risk management is to put in place effective policies, mechanisms, systems and processes for investments and operations to maximize the returns for its shareholder within acceptable risk tolerance.

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RISK MANAGEMENT

Objective and Approach

The objective of risk management is to put in place effective policies, mechanisms, systems and processes for investments and operations to maximize the returns for its shareholder within acceptable risk tolerance.

Risk management is a company-wide effort involving every business line, department and individual. It is embedded throughout the investment life cycle—from the overall portfolio to general asset classes and to specific investment strategies and sub strategies.

System and Mechanism

CIC has a comprehensive risk classification and management system, involving the Executive Committee, Risk Management Committee and relevant departments to manage all kinds of risks: market, credit, operational, liquidity, strategy, legal, reputational 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, policies and procedures
- 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, which oversees the risks in CIC's investment and operation activities, comprises the Chairman and CEO, President and CIO, related Executive Vice Presidents, Chief Risk Officer, Chief Strategy 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, Department of Internal Audit and General Office. Other members of senior management and the heads of the investment departments attend Risk Management Committee meeting as needed. The Operational Risk Management Committee and the Valuation Committee are two subcommittees established under the Risk Management Committee.

Figure 3: Comprehensive Risk Management System

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-tiered system

- Company-wide, interdepartmental 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 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, the 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 when they may arise

Management of Multiple Types of Risks

During 2014, to adapt to a complex and volatile global economic environment, CIC took several steps to build its risk management capacity. Reviewing current risk management policies and procedures, we revised five risk management guidelines, including the guideline on direct investment. We established a risk monitoring and early warning process covering all asset classes and assigned diversified monitoring parameters to cover market risk, credit risk and counterparty risk. We increased the effectiveness of risk monitoring and the responsiveness of risk alert systems by strengthening quantitative risk monitoring and streamlining risk warning procedures. We continued development of the Fengye System and built a multilayered analytical system for risk and performance attribution, resulting in improved capabilities to identify and evaluate risks. And we tightened internal controls and operational risk management to further enhance our overall capacity to prevent and manage risk.

Market Risk Management

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

- We worked on risk management of the overall portfolio overlay and public market active risk allocation strategy. And we conducted in-depth analysis of implications of market risk events, such as a low-volatility environment, steep declines in oil prices and appreciation of the dollar.
- We continued analysis of risk factors, tested each of the six risk asset classes of equities, real assets, interest rate, credit, hedge funds and risk parity on their risk-return profiles and relative weight in the overall portfolio.
- We further developed the risk warning and measurement module in the Fengye System and the risk early warning interactive module in the Investment Management System. We also defined risk warning parameters, reinforced market risk early warning mechanisms and further improved the overall risk early warning system.

Credit Risk Management

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

- We tested our sovereign credit risk model and its credit rating threshold retrospectively. We regularly published the *Sovereign Credit Risk Report* covering more than 100 countries and regions and occasionally produced thematic reports on market movements to issue early warnings of sovereign credit risk.
- We improved the counterparty credit risk monitoring and early warning system based on market indicators and external data. And we digitized the process of counterparty management, increasing the efficiency and transparency in counterparty management.
- We constantly tracked the credit risk profile of our invested assets and improved credit risk budget systems built on analysis of different sources and variables of credit risk to control credit risk.



Internal Control and Operational Risk Management

CIC continues to improve its policies and procedures and to refine its operational risk management capabilities by setting up a tailored internal control and operational risk management framework to support business development.

- We reviewed and streamlined the existing risk management and internal control system, revising or abandoning policies according to business needs. We also introduced the Guidelines on Direct Investment Risk Management and the Investment Manager Accountability System (see Box 5), among others.
- We intensified monitoring of investment processes and enforcement of related management support procedures. We continued to improve the investment management system and provided business compliance recommendations to increase the compliance of CIC's investment activities.
- We improved the identification and management of operational risk and established comprehensive internal control procedures, including regular operational risk assessment, transaction and investment process monitoring, internal control inspections and operational risk event investigations.
- We placed greater emphasis on supervising employee behavior and encouraged orderly enforcement of an integrated working mechanism for preventing conflicts of interest that covers the procedures for reporting, evaluating, responding and giving feedback.

CIC attaches great importance to the prevention and management of reputational risk. When selecting investment projects and partners, we always consider reputational risk as a major factor in decision-making. In this way, we hope to fulfill our corporate social responsibility and create a favorable image of a responsible corporate citizen and a respectable partner.

Box 5: Investment Manager Accountability System

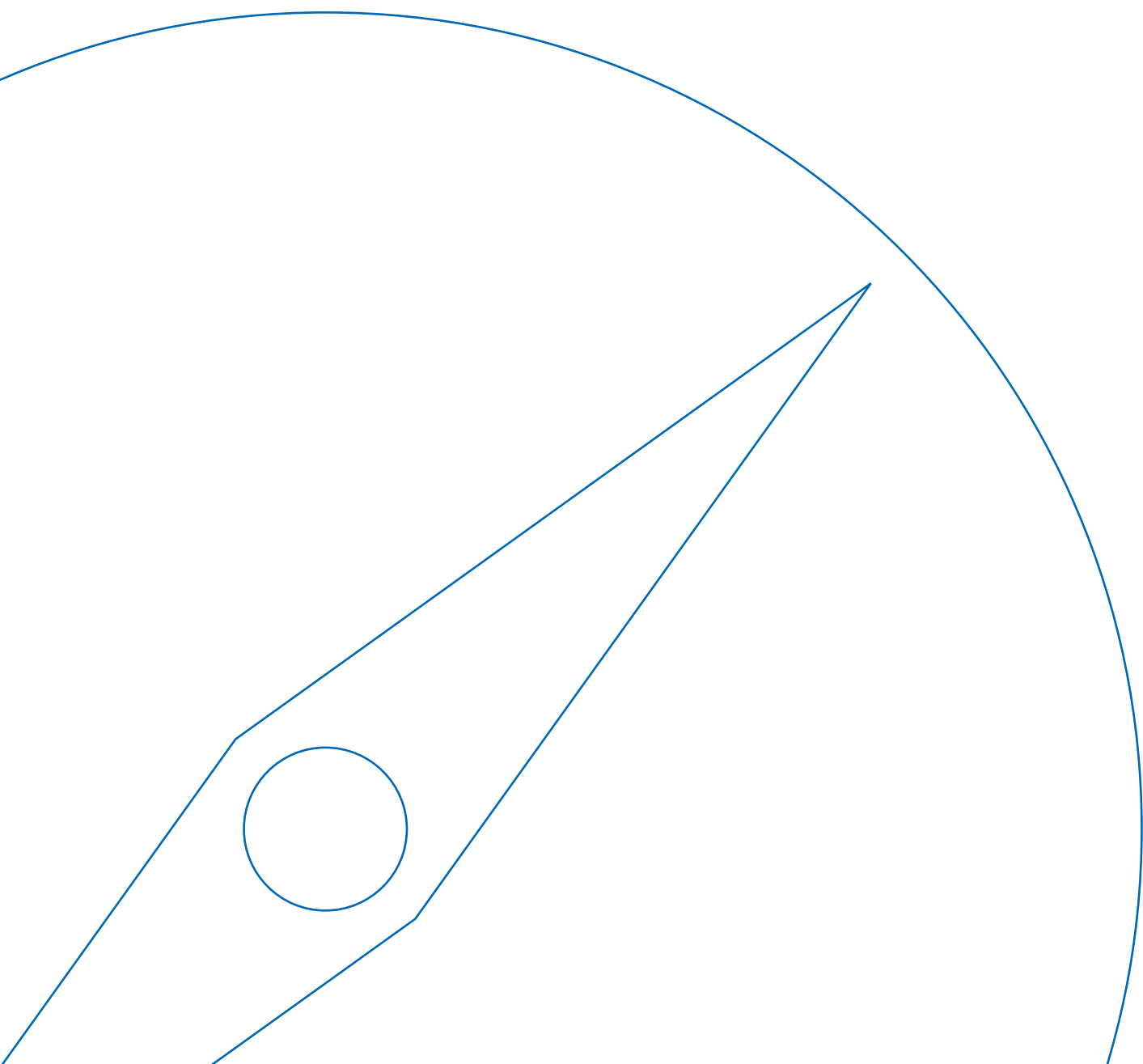


In 2014, to further improve our investment management system and to pursue sound risk-adjusted investment returns, we developed and implemented the Investment Manager Accountability System.

The Investment Manager Accountability System aims to establish and define the accountability of professional investment managers for the assets under their management. The system covers five underlying principles: matching investment managers' accountability to assets under their management, matching powers and responsibilities, offering compatible incentives, having clearly defined responsibilities at each level and throughout the whole process of project management.

Mindful of the business characteristics of CIC's three-layered portfolio mix of "overall portfolio—strategy—sub strategy (portfolio, fund or project)", we require investment managers to sign a responsibility checklist to establish clearly defined relationships among "asset, investment managers and responsibilities" for accountability in every step of investment management. This strengthens the evaluation, motivation, supervision and accountability of investment managers.

We also reviewed and optimized relevant supporting procedures and mechanisms such as performance reviews, investment authorization and investment loss accountability to ensure the integrity and fairness of the Investment Manager Accountability System.



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We offer an extraordinary platform for professionals to give full play to their talents and develop their careers.

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HUMAN RESOURCES

Recruiting Talent

As an international company undergoing fast growth with a large overseas portfolio under its management, CIC recruits experienced 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 operate a fair, rigorous and transparent recruitment process globally. All candidates must apply through our online recruitment system. After initial screening, candidates are invited to take an online test. Those who pass the online test are shortlisted for interviews. To enhance the rigor and fairness of the selection process, we introduced a multi-dimensional assessment methodology, inviting external human resource experts to participate in the interview. Candidates applying for positions of managing director or above are interviewed by the senior executives.

To attract and retain key talent, we have a talent database to keep potential candidates in reserve for mid-level and senior executive positions. This allows us to respond quickly to demands for more targeted and professional recruitment. We also use external human resource agents to search for the talent we need.

As of June 30, 2015, our overall staff strength was 588, including global investment staff of 455. Among global investment staff, more than 60% of them educated or having worked overseas.

Table 8: Background Summary of Global Investment Staff (As of June 30, 2015)



Developing Talent and Teams

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

We work with prestigious universities and professional institutions from China and abroad to leverage both in-house and external resources. We develop training programs focusing on both theory and practice. We bring in trainers and send trainees abroad. We conduct training online and face-to-face programs. Those training programs offer different perspectives and systematic learning, and target employees at different levels and in different fields. Gradually, we have developed a training system tailored to the human resource development of the company.

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

In 2014, we provided 61 training programs covering four categories with 1,900 days of training in cumulative terms.

Table 9: Selected Corporate Training Programs

Risk management and internal control
Valuation modeling
Global economic and political trends
Investment expertise
Compliance and prevention of conflicts of interest
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 management characteristic. This aligns the quantitative assessment system of performance with our business ideals, development strategy and culture. Outcomes of performance assessments set benchmarks for future training, career planning and incentive schemes.

Retaining Talent

Since its inception, CIC has registered a fairly low turnover rate. We remain an employer of choice for many talented professionals returning from overseas, which could be attributed to the attractive job opportunities, sound corporate culture and rewarding work environment.

The Position Mapping Program, the Competency Model and the Career Planning Program apply throughout the entire process of employee management, an important foundation for retaining talent. In 2014, we further promoted these major programs, standardizing position setting, developing explicit job descriptions and promoted the rationality and institutionalization of position management. We developed a competency model adapted for our business requirements to unify talent management guidelines, define criteria for talent assessment and upgrade the matching level between talents and positions. We built a Y-shaped career development system concentrating on the improvement of employee professional skills along with the appointment of several management positions. We broadened the space of career development path for employees and developed a flexible employee management mechanism. We further improved and standardized our recruitment and training process by pursuing a more accurate, selective and efficient approach to attracting talent. We encouraged employees to improve themselves and to train their subordinates according to job descriptions and the Competency Model.

CIC continually improves and optimizes its remuneration system to move to a market-oriented incentive scheme with a clear direction that suits our development strategy and culture. Performance bonuses are important incentives, distributed in favor of investment departments and crucial talents, while emphasizing both material and other incentives.

To retain the core talent and stabilize the team, CIC has developed a long-term incentive mechanism to better serve the company's long-term objectives.



Human Resource Planning

In 2014, pursuant to the 2012–2016 Human Resource Strategic Plan, CIC focused on building “four teams”, improving “eight systems”, and implementing Human Resource Planning. The “four teams” include investment professionals, operations service professionals, equity management professionals and operational management professionals. Through the Position Mapping Program, the Competency Model and the Career Planning Program, we developed systems focusing on the positions management, position competency and strategic planning. Through building the global talent database and compensation database, we improved systems covering the labor relationship management, compensation distribution, and performance management. We enriched the training development system and knowledge and information management system through multi-layered and multi-disciplinary course design. Meanwhile, based on the newly announced Competency Model, we improved the online assessment system to improve talent selection for the “four teams”. The construction of “eight systems” and “four teams” has perfected our human resource management system. Talent is becoming a stronger driver in several important investment sectors, and a strategic human resource management mechanism has been put into place.

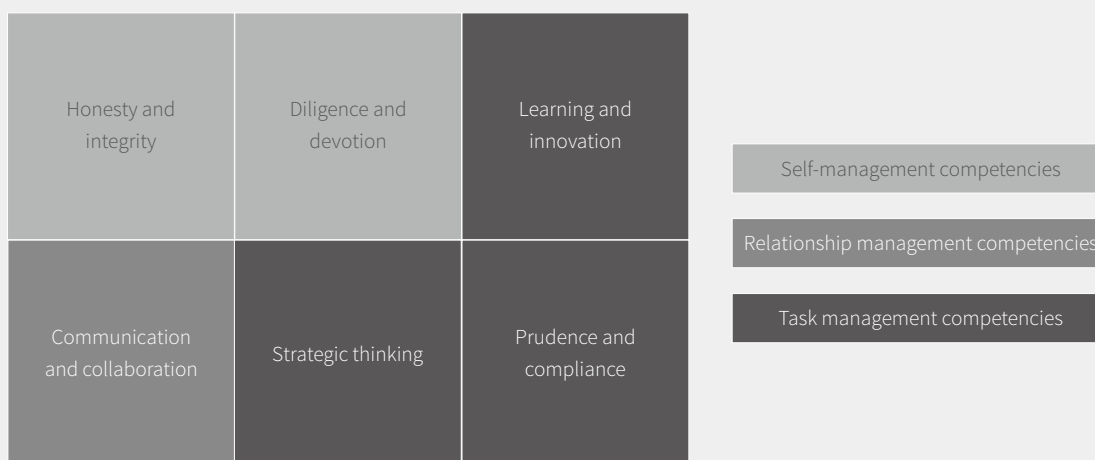


Box 6: Competency Model

In 2014, CIC identified 6 general competencies and 12 additional competencies for employees in investment management positions in line with “reflecting the strategic culture, focusing on conduct, providing forward guidance and showing observable results”. Such competencies were determined by analyzing the company strategy and culture, benchmarking with industry peers, interviewing mid- and senior-level employees, and surveying with questionnaires and at behavioral events. These competencies became the universal language for talent management and talent recognition criteria.

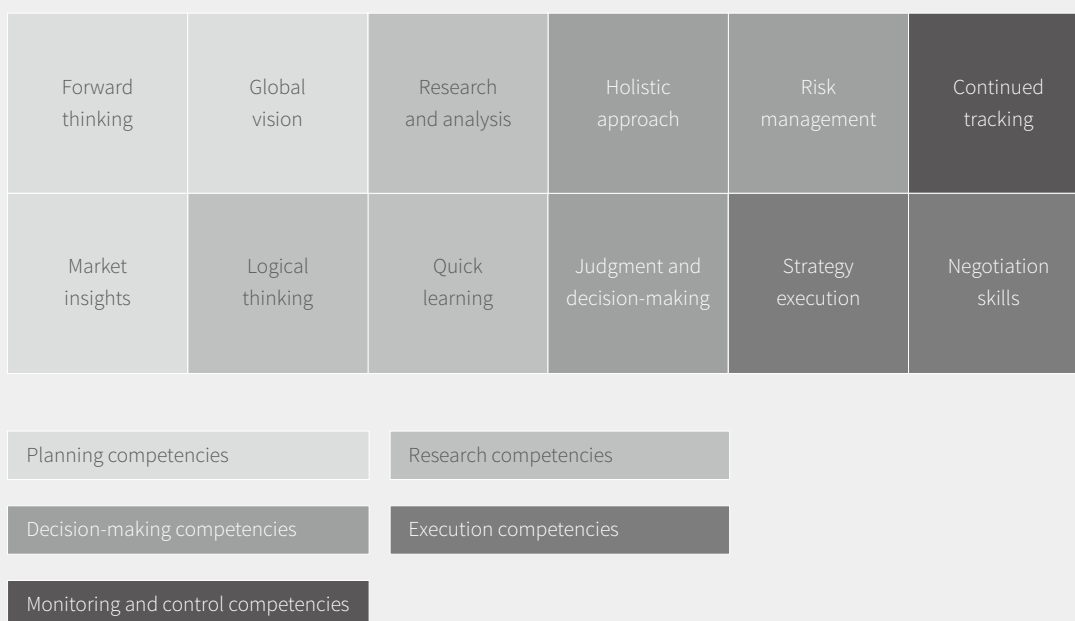
General Competencies

General competencies were determined based on such factors as company strategy and culture. They reflect the core values and apply to all employees as the minimum requirements of skills and competencies. The 6 universal competencies include:



Competencies Specific to Investment Positions

Competencies specific to investment positions are required for employees involved in investment activities. We identified different categories of such competencies based on the nature of activities on the investment value chain. The 12 competencies specific to investment positions include:



GLOBAL OUTREACH

As a charter member of the International Forum of Sovereign Wealth Funds (Forum), CIC has implemented the Santiago Principles in good faith and actively participated in activities of the Forum. CIC is committed to facilitating the wider acceptance of the Santiago Principles, engaging in investment and risk management cooperation among SWFs, and contributing to the improvement of global investment environment. In the 2014 Annual Meeting of the Forum held in Doha, Qatar, the CIC delegation participated in decision-making of key issues relating to the Forum's governance and development, playing a constructive role to the sound development of the Forum.

In 2014, CIC continued to engage in open and frank dialogues with global partners. Our executives visited many countries and regions and we received more than 200 visiting delegations from governments, corporations, investment institutions, academia and think-tanks. Chairman and CEO Ding Xuedong attended major conferences and events, including the Asia Financial Forum in Hong Kong, the World Economic Forum in Davos, the Strategic Attractiveness Council Meeting in Paris, the St. Petersburg International Economic Forum and the Cross-Strait CEO Summit in Taipei, etc. Through these interactions, we strengthened communications with governments, regulatory authorities, business entities and the general public to demonstrate our commitment to be a long-term financial investor and our practice of investing responsibly on a commercial basis. We endeavored to mitigate the negative impact of investment protectionism and to foster an open, fair and non-discriminatory environment for international investment. We shared experiences in corporate management, explored potential investment opportunities and cooperated with all stakeholders for a win-win situation.

In 2014, CIC continued to foster a high degree of transparency, a practice appreciated by recipient countries or regions and business partners. Through our official website, annual report, spokespersons, press releases and other channels, we disclosed our corporate governance, investment strategy and philosophies, major investments activities, financial results and other key operational and management events. In April 2014, we revamped our website with enriched content and a more user-friendly interface.

In 2014, Chairman and CEO Ding Xuedong, Vice Chairman and President Li Keping, Chairman of the Board of Supervisors Guo Haoda and members of the Executive Committee attended various conferences at home and abroad, took interviews and published articles with mainstream media from China and abroad, providing information on CIC's investment philosophies and willingness to cooperate and showcasing CIC's image as a professional, responsible and open-minded international institutional investor.

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 valued global institutional investor.



“

CIC is committed to facilitating the wider acceptance of the Santiago Principles, engaging in investment and risk management cooperation among SWFs, and contributing to the improvement of global investment environment.

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7.24

\$150

300

\$995.40

4.60



A decorative blue curved line starts from the top left and arcs across the page towards the right. On the far left edge, there is a partial view of a map with various colors and lines.

2014 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.

BASIS OF PRESENTATION

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. These accounting standards have substantially converged with the International Financial Reporting Standards (IFRS). Having been audited by independent auditors, CIC'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 December 31, 2014.

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 CIC's policies. These judgments, assumptions and estimates are applied to financial asset valuation and income tax recognition.

CIC's accounting period is from January 1 to December 31. The reporting and functional currency of CIC and CIC International 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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These statements represent a true and impartial view of CIC's financial position, operating results and cash flows for the year ended December 31, 2014.

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FINANCIAL STATEMENTS

Consolidated Balance Sheet

As of December 31, 2014

(Amount in millions of US dollars)

	2014	2013
Assets		
Cash and deposits	23,939	27,884
Financial assets at fair value through profit or loss	225,321	205,197
Receivables and prepayments	2,877	3,437
Available-for-sale investments	668	421
Loans	-	754
Long-term equity investments	489,147	412,416
Deferred tax assets	1,648	1,556
Other assets	3,130	1,498
Total assets	746,730	653,163
Liabilities		
Financial liabilities at fair value through profit or loss	1,744	2,189
Bonds payable	17,990	18,051
Deferred tax liabilities	7,023	5,828
Other liabilities	10,624	7,865
Total liabilities	37,381	33,933
Owner's equity		
Owner's capital	200,000	200,000
Capital reserves and others	509,349	419,230
Total owner's equity	709,349	619,230
Total liabilities and owner's equity	746,730	653,163

Consolidated Income Statement

For the year ended December 31, 2014

(Amount in millions of US dollars)

	2014	2013
Investment income		
Interest income	2,448	2,643
Dividend income	3,368	3,289
Net realized gains on investments	9,141	3,952
Unrealized gains (losses) from changes in fair value of investments	1,217	9,796
Investment income from long-term equity investments	79,383	73,259
Foreign exchange gains (losses)	(821)	(548)
Other income	133	109
Total investment income	94,869	92,500
Expenses		
Investment expense	(342)	(444)
General and administrative expense	(171)	(156)
Finance expense	(647)	(642)
Total expense	(1,160)	(1,242)
Operating income	93,709	91,258
Others, net	(1)	(1)
Income before taxes	93,708	91,257
Income taxes	(4,611)	(4,356)
Net income	89,097	86,901



SUMMARY OF ACCOUNTING POLICY

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 (AFS) investments, loans and receivables. 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 include trading financial assets and liabilities and those initially designated as financial assets and liabilities at FVTPL. AFS investments are any non-derivative financial assets designated by the Company on initial recognition as available for sale. Loans and receivables refer to non-derivative financial assets on an active market that are unquoted and with fixed or determinable recovery cost. 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.

Measurement of Financial Instruments

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. Other financial instruments are measured at fair value and the future trade expense will not be deducted.

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.

As for 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.

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. When applying the valuation techniques, the market parameters are adopted at the most, as the specific parameters related with the Company less. The Company periodically evaluates its valuation techniques to ensure their reasonableness.

Measurement of Income Tax

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 accordance 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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Annual Report 2014 online



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