CHINA INVESTMENT CORPORATION

ANNUAL REPORT 2011

Focusing on the Future

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ANNUAL REPORT 2011

CONTENTS

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Message from the Chairman and CEO

We calibrated our asset allocation to better reflect the longer investment horizon and to enhance the flexibility of our investment portfolios

Lou Jiwei
Chairman & Chief Executive Officer

In 2011, China Investment Corporation (CIC) continued to invest on a commercial basis to seek long-term returns and prudently manage our fully deployed portfolio. We further strengthened our institutional capacity and investment management to navigate the complexities in global markets.

In the past year, the global economy recovered slowly on a path fraught with difficulties, marked by prolonged volatility in the financial markets. The US unemployment rate stayed high, and its credit rating downgrade sent shockwaves across the world. The spread of the euro zone sovereign debt crisis from the periphery to its core economies plunged the region into recession in the fourth quarter of 2011. The emerging economies kept a relatively high growth rate but remained vulnerable to inflationary pressure, consequences of austerity programs and sluggish global demand. With parts of the Middle East still in the grip of instability, global oil prices rose further. Combined, these events added to the complexity of the global investment environment.

We adapted to these changes in environment to fulfill our mandate as a long-term financial investor. Institutional investors are commonly evaluated on their investment returns over the long term in relation to benchmarks or stated investment objectives, rather than on short-term returns or individual portfolio performance. In January 2011, CIC's Board of Directors decided to extend our investment horizon to 10 years to better reflect our investment approach as a long-term investor. And we accordingly made appropriate adjustments to our strategic asset allocation, tactical asset allocation and risk management.

In 2011, we calibrated our asset allocation to better reflect the longer investment horizon and to enhance the flexibility of our investment portfolios. We gradually built up positions in nonpublic market assets, particularly direct investments and private equity investments in such industries as energy, resources, real estate and infrastructure. We bolstered our portfolios against market shocks, refined our risk management system and enhanced our overall risk management capacity. In 2011, against a subdued global economic landscape, the return on our global investment portfolio was –4.3%, and the cumulative annualized return since inception was 3.8%.

To further strengthen corporate governance, clarify the division of responsibilities and enhance operational efficiency, we adjusted our organization structure in 2011

To further strengthen corporate governance, clarify the division of responsibilities and enhance operational efficiency, we adjusted our organization structure in 2011. China Investment Corporation International Co., Ltd. (CIC International) was established on 28 September, with a mandate to make and manage overseas investments. CIC International continually pursued CIC's investment principles and approaches—to manage and invest a portion of China's foreign reserves based on commercial considerations, to seek maximum financial returns on its investment within acceptable risk tolerance. In December 2011, $30 billion was injected into CIC International in a bid to enhance its role as a vehicle to diversify China's foreign exchange holdings.

CIC also capitalized on our overseas branches to improve the ability to manage investment overseas. In 2011, CIC's wholly owned subsidiary, CIC International (Hong Kong) Co., Ltd., went into full operation with senior managers appointed. CIC International (Hong Kong) leverages on Hong Kong's deep talent pool, free information flow and sophisticated networks as a financial center to facilitate investment activities. CIC Representative Office in Toronto, Canada, continued to reach out to stakeholders in North America and contribute to our efforts to promote exchanges and explore business opportunities in the region. We also forged ties with business partners in the spirit of equal and open cooperation to seek win-win solutions and identify mutually beneficial investment opportunities.

CIC's success lies in cultivating a high-caliber, professional and committed staff. During the past year, we continued to recruit top professionals and bolster capacity across the company. With people so central to our success, we provided diverse training programs for employees at all levels to enhance competencies. These training programs are constantly reviewed and improved to help our employees better fulfill their responsibilities and develop their careers. To enhance our remuneration and benefit system, we formed a differentiated reward scheme that rewards employees based on performance and that supports our growth strategy.

CIC implemented the Santiago Principles in good faith and supported efforts aimed at promoting open, free and orderly capital flows and cross-border investments. In May 2011, we hosted the third annual meeting of the International Forum of Sovereign Wealth Funds in Beijing. Taking part were Forum members, major recipient countries, regional and global financial institutions and institutional investors. Participants had good exchanges and contributed their ideas on how to build an open and stable investment environment and other topics relevant for institutional investors.

Looking ahead, the global economy will continue to recover, but the process will be fragile. With fresh volatilities in the financial markets still posing serious risks, CIC will adhere to prudent investment approaches as embodied in our investment philosophy, adjust our asset allocation structure and align our investments with the prevailing global economic dynamics, in a bid to achieve good financial returns within acceptable risk tolerance over the long term.

We believe that with our vision and determination, we will rise above today's challenges and usher in a brighter future. To do so, we will make relentless efforts to fulfill our mandate, deliver more value and continue to demonstrate that CIC is a responsible global citizen and valued partner.

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Lou Jiwei
Chairman & Chief Executive Officer

CIC's success lies in cultivating a high-caliber, professional and committed staff

Corporate Review

As a financial investor, we primarily acquire minority equity positions in companies on a commercial basis

OVERVIEW

Headquartered in Beijing, CIC was founded on 29 September 2007 as a wholly state-owned company incorporated in accord with China's Company Law. It was established as a vehicle to diversify China's foreign exchange holdings and achieve higher long-term returns within acceptable risk tolerance on its investments.

As a financial investor, we primarily acquire minority equity positions in investee companies on a commercial basis. Our overseas investment portfolio mainly includes financial products and direct investments. We balance our portfolio assets between traditional financial products, such as equities and bonds in public markets, and nontraditional financial products, including hedge funds, commodities, private equity funds, real estate and infrastructure. In keeping with our asset allocation plan as a long-term investor, we have also increased our positions in direct investments and private equity investments in such industries as energy, resources, real estate and infrastructure.

Central Huijin Investment Ltd. (Central Huijin), a wholly owned subsidiary of CIC, holds controlling stakes in key state-owned financial institutions in China. It has also recapitalized selected domestic financial institutions. It is not involved in the operations of its investee companies, but it exercises its shareholder rights and fulfills its obligations to improve governance and preserve and enhance the value of state-owned financial assets.

To meet legal compliance obligations in China and overseas and improve the efficiency of investment operations, CIC International was incorporated on 28 September 2011 in accord with China's Company Law. Its clear mandate is to invest and manage deployable capital overseas. It thus covers all the overseas business of CIC.

CIC International and Central Huijin function as two distinct entities with completely separate operations. CIC International inherits CIC's investment principles and approaches to seek maximum long-term financial returns within acceptable risk tolerance on its investment based on independent decisionmaking and commercial considerations.

At the end of December 2011, $30 billion was injected into CIC International to enhance its role as a vehicle to diversify foreign exchange investments. The new funds will be deployed in line with the asset allocation strategy approved by CIC International's Board of Directors.

CIC set up a subsidiary and an office overseas to explore investment opportunities and further expand our presence overseas. In November 2010, CIC opened our first subsidiary in Hong Kong, CIC International (Hong Kong) Co., Ltd.. The company is now fully operational. In January 2011, CIC opened our first representative office in Toronto, Canada. Both CIC International (Hong Kong) and the CIC Representative Office in Toronto are incorporated under CIC International.

In 2011, CIC fully deployed our investible capital. Against volatile market conditions, we adjusted our investment assets based on intensive market research and prudent investment principles. We managed our portfolio risk profile effectively, continually refined our investment vehicles, boosted our capabilities and built up our professional expertise.

CULTURE AND CORE VALUES

Our corporate culture embodies the ethics and values across the company. And as a young and highly visible organization operating globally, we put a high premium on shaping and developing our culture. Committed to the concepts of "CIC Team" and "CIC Portfolio," we strive for an environment where accountability is pervasive, staff are rewarded according to performance and work is driven by quality and efficiency.

In 2011, we conducted analytical work and launched companywide discussions as part of a corporate culture–building scheme. We solicited input from all employees to identify and reinforce the CIC's corporate culture and enhance cohesiveness and solidarity across the institution.

Through these efforts, we identified four core values:

RESPONSIBILITY We are committed to fulfilling our mandate with a strong sense of responsibility. Fundamental to our responsibilities is to effectively manage assets and make every individual investment a success. We fulfill these responsibilities conscientiously, observe strict work ethics, uphold integrity and honesty, abide by the rules and regulations applicable in China and recipient countries, and seek maximum returns within acceptable risk parameters for our shareholder.

SYNERGY Teamwork, guided by a common purpose, will bring out the best in individuals, the key to sustaining our development and success. We encourage cohesion and cooperation among departments to create synergy that spurs our company forward to achieve our stated goals.

PROFESSIONALISM Professionalism and strict work ethics lay the groundwork for success. We will carry forward our solid, prudent and disciplined investment approach, applying it in every instance. Striving for excellence in performance, we will enhance our professional expertise across the board.

ASPIRATION Aspiring to excellence will drive us forward and guarantee sustained and greater success. Committed to creating a learning environment, we encourage best practices and uphold the highest standards for greater achievement.

CORPORATE GOVERNANCE

A sound governance structure and a clear and effective division of roles and responsibilities support our operations and the achievement of our stated objectives.

CIC set up the Board of Directors and the Board of Supervisors in accord with China's Company Law. The three governing bodies of CIC include the Board of Directors, the Board of Supervisors and the Executive Committee.

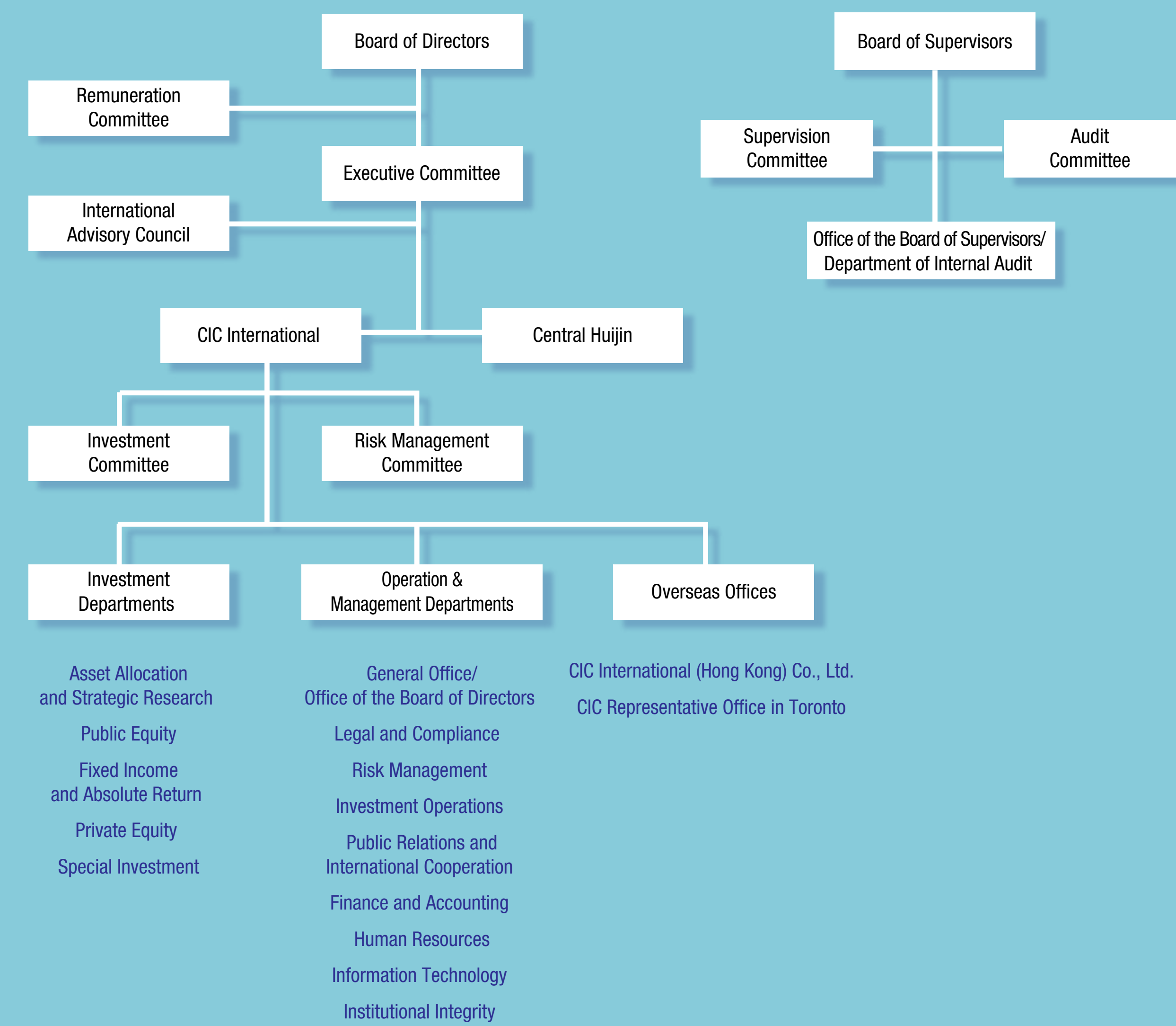
CIC's Board of Directors, mandated and authorized to oversee the company's operations and overall performance, makes decisions on important matters in accord with the company charter. Based on investment objectives and development strategies set by the shareholder, the Board of Directors reviews and approves the investment strategy and operational guidelines of the company. It also decides on ways to implement those strategies; identifies major issues that need to be referred to the shareholder; appoints managers and, if required, authorizes their removal; and delegates responsibilities and establishes committees as necessary. The Board of Directors creates the framework for the Executive Committee to manage and execute.

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

Entrusted by the Board of Directors, CIC's Executive Committee is responsible for translating guidance from the Board of Directors into detailed strategies and for overseeing CIC's day-to-day operations. It has the authority to make required operating decisions, including those for basic rules and systems, internal structures, operating mechanisms, performance evaluation and remuneration.

In 2011, the Executive Committee formulated medium- and long-term investment strategies for CIC's overseas investments. It set up a new wholly owned company, CIC International, to take over CIC's overseas investments. It improved the internal organization structure by consolidating functions of investment departments and completing the functions of CIC International (Hong Kong) Co., Ltd.. It further improved investment operations and information technology systems for more efficient investment management. It improved and strengthened internal management; launched corporate culture–building schemes; and enhanced accounting, expenditure management, performance evaluation and personnel management.

The Investment Committee and Risk Management Committee were established, with decisionmaking responsibilities, by the Executive Committee. The roles, responsibilities and memberships of these two committees are illustrated later in this report.



CIC International and Central Huijin each have separate Boards of Directors, Boards of Supervisors and investment managers and staff. There is a strict operational firewall between the global investment activities of CIC International and those of Central Huijin, which invests in key state-owned financial institutions in China.

The International Advisory Council comprises 15 internationally prominent experts, who provide global views on global economic, investment and regulatory issues. Their discussions and counsel broaden the perspective of CIC's leadership and efforts to expand overseas investments. In July 2011, the International Advisory Council met for its third annual meeting in Guiyang, Guizhou Province. We benefited tremendously from the valuable input from Council members on the global economic and financial markets outlook, opportunities and challenges for long-term investors, global regulatory reforms and risk management.

BOARD OF DIRECTORS

Lou Jiwei
Chairman & Chief Executive Officer

Gao Xiqing
Vice Chairman & President

Li Keping
Executive Director, Executive Vice President & Chief Investment Officer

Liu Zhongli
Independent Director

Wang Chunzheng
Independent Director

Zhang Xiaoqiang
Non-Executive Director; Deputy Chairman of the National Development and Reform Commission

Li Yong
Non-Executive Director;
Deputy Minister of Finance

Chen Jian
Non-Executive Director;
Deputy Minister of Commerce

Hu Xiaolian
Non-Executive Director; Deputy Governor of the People's Bank of China

Fang Shangpu
Non-Executive Director;
Deputy Administrator of the State Administration of Foreign Exchange

Li Xin
Employee Director

BOARD OF SUPERVISORS

Jin Liqun
Chairman of Board of Supervisors

Dong Dasheng
Supervisor; Deputy Auditor General of the National Audit Office

Zhou Mubing
Supervisor; Vice Chairman of the China Banking Regulatory Commission

Zhuang Xinyi
Supervisor; Vice Chairman of the China Securities Regulatory Commission

Cui Guangqing
Employee Supervisor

EXECUTIVE COMMITTEE

Lou Jiwei
Chairman & Chief Executive Officer

Gao Xiqing
Vice Chairman & President

Jin Liqun
Chairman of Board of Supervisors

Li Keping
Executive Director, Executive Vice President & Chief Investment Officer

Peng Chun
Executive Vice President

Fan Yifei
Executive Vice President

Xie Ping
Executive Vice President

Wang Jianxi
Executive Vice President

Liang Xiang
Executive Vice President & Secretary of Discipline Inspecting Commission

Zhou Yuan
Chief Strategy Officer

Guo Xiangjun
Chief Risk Officer

Hua Hua
Chief Technology Officer

Zhao Haiying
Member of the Executive Committee

INTERNATIONAL ADVISORY COUNCIL

Front row, from left to right: Merit E. Janow, Taizo Nishimuro, Shaukat Aziz, Zeng Peiyan, Lou Jiwei, Jean Lemierre, John J. Mack, Omari Issa

Back row, from left to right: Yingyi Qian, John L. Thornton, Knut N. Kjaer, Joseph Yam, Frederick Ma, Wang Shuilin

Not pictured: James D. Wolfensohn, Lord Nicholas H. Stern, Andrew Sheng

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, Citibank

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

Taizo Nishimuro
(Japan)
Former Chairman and Chief Executive Officer, Tokyo Stock Exchange Group; former Chairman and Chief Executive Officer, Toshiba Corporation

Yingyi Qian
(China)
Dean, School of Economics and Management at Tsinghua University; 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, Investment Climate Facility for Africa; Non-Executive Director, Millicom International Cellular, Luxembourg; Non-Executive Director, Geita Gold Mining Company, Tanzania

AMERICAS

Merit E. Janow
(United States of America)
Professor of International Economic Law and International Affairs, Columbia University; Chairman, NASDAQ Stock Market LLC; former member of the Appellate Body of WTO

John J. Mack
(United States of America)
Chairman 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; Non-Executive Chairman, HSBC North America; former President, Goldman Sachs Group

James D. Wolfensohn
(United States of America)
Chairman, Wolfensohn & Company; former President, World Bank Group; former Chairman, Citigroup International Advisory Board

EUROPE

Knut N. Kjaer
(Norway)
Chairman, FSN Capital Partners and Trient Asset Management; former Chief Executive Officer, Norges Bank Investment Management

Jean Lemierre
(France)
Advisor to the Chairman of BNP Paribas; former President, European Bank for Reconstruction and Development

Lord Nicholas H. Stern
(United Kingdom)
I.G. Patel Professor of Economics and Government, London School of Economics and Political Science; former Chief Economist, World Bank Group

SECRETARIAT

Wang Shuilin
(China)
Head and Managing Director, Department of Public Relations and International Cooperation, CIC; Secretary-General, Secretariat of International Advisory Council, CIC

Investment and Management Review

We will continue to pursue direct investments under our asset allocation strategy and build positions to capture stable returns in the long term

INVESTMENT STRATEGY AND MANAGEMENT

INVESTMENT STRATEGY AND PORTFOLIO OBJECTIVES

CIC is committed to being a prudent, professional and responsible institutional investor operating globally with a good track record. Four basic principles underlie our investment philosophy and strategy:

- We invest on a commercial basis. The underlying investment objective is to seek high, long-term and sustainable financial returns for our shareholder within acceptable tolerance for risk.
- We are a financial investor and do not seek to control any sector or company.
- We are a responsible investor, abiding by local laws and regulations in the countries we invest in and conscientiously assuming our corporate social responsibility.
- Our investments are research-driven to ensure sound, prudent investment decisions, and allocation-driven to guarantee a disciplined approach.

Our investment philosophy can be defined as follows:

- We take a holistic view in strategy design, portfolio analysis and management to ensure the integrity and consistency of our investment portfolio.
- As a long-term investor, we are well positioned to withstand short-term volatility in markets, to pursue contrarian investments and to build long-term positions that can capture the premium for less liquidity.
- We enhance the transparency and liquidity of public market assets to preserve the liquidity and flexibility of our investment portfolio.

We base our investment approach and benchmark portfolio structure on the mandate and investment policies set by the Board of Directors. In early 2011, the Board decided that the investment performance should be based on an extended 10-year horizon to reflect our long-term mandate and that a rolling 10-year annualized return would, over time, also be a major measure of performance. We accordingly adjusted our asset allocation structures—including the Strategic Asset Allocation and Tactical Asset Allocation—as well as our risk management processes.

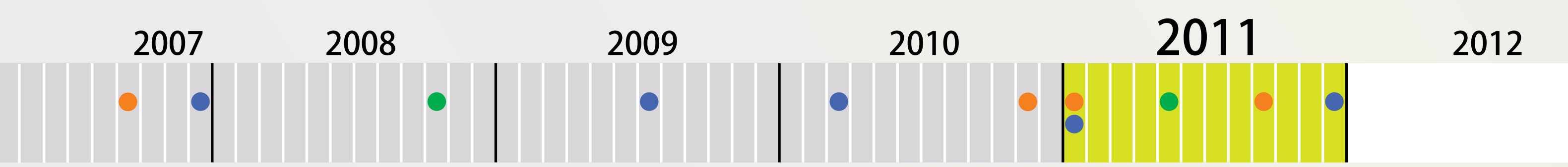
CIC's Strategic Asset Allocation has five asset classes: cash, equities, fixed income, absolute return investments and long-term investments. Absolute return investments are primarily hedge funds. Long-term investments are primarily private equity investments in resources, energy, real estate and infrastructure, and direct investments in other industries. Our investments are broadly diversified by sector, geography and asset class in line with our principles for asset allocation and prudent risk management.

5-YEAR TIMELINE AND BENCHMARK EVENTS

- OPERATION AND CORPORATE GOVERNANCE
- INVESTMENT STRATEGY AND MANAGEMENT
- INTERNATIONAL COOPERATION

2007 – 2010

- CIC's establishment: September 2007
- Investing $5.6 billion in Morgan Stanley: December 2007
- Co-drafting and signing the Santiago Principles: April–October 2008
- Investing $1.5 billion in Teck Resources: July 2009
- Investing $1.6 billion in AES: March 2010
- Opening of CIC International (Hong Kong) Co., Ltd.: November 2010



2011

- Extending our investment horizon to 10 years: January 2011
- Opening of CIC Representative Office in Toronto, our first office outside Asia: January 2011
- Hosting the 3rd annual meeting of the International Forum of Sovereign Wealth Funds: May 2011
- Establishing CIC International: September 2011
- Investing $3.15 billion in GDF Suez Exploration & Production International SA and $850 million in Atlantic LNG Company of Trinidad and Tobago: December 2011

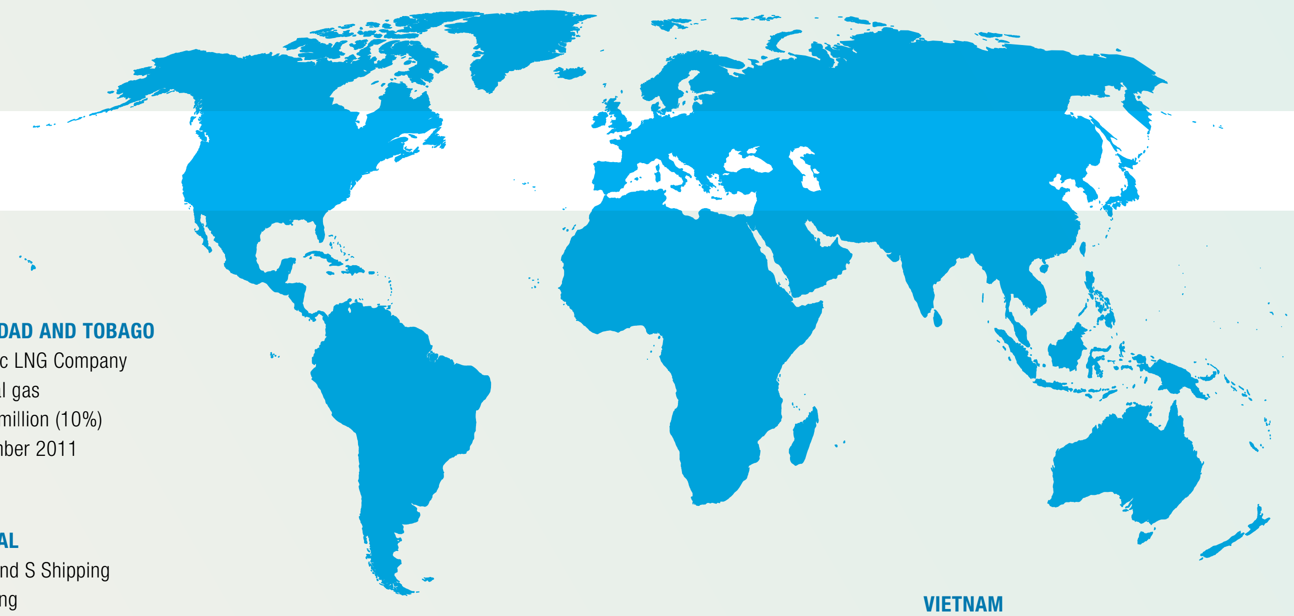
SELECTED DIRECT INVESTMENTS

CANADA
Sunshine Oilsands
Oil and gas upstream
CAD 150 million (7.43%)
February 2012

UNITED KINGDOM
Thames Water Utilities
Water utility
£276 million (8.68%)
January 2012

FRANCE
GDF Suez EPI SA
Oil and gas
$3.15 billion (30%)
December 2011

RUSSIA
Polyus Gold
Gold
$424.5 million (5% minus 1 share)
May 2012



TRINIDAD AND TOBAGO
Atlantic LNG Company
Natural gas
$850 million (10%)
December 2011

GLOBAL
Diamond S Shipping
Shipping
$100 million (10.5%)
July 2011

BRAZIL
BTG Pactual
Finance
$300 million (3.11%)
December 2010

SOUTH AFRICA
Shanduka Group
Mining
R 2 billion (25.8%)
December 2011

VIETNAM
AES-VCM Mong Duong Power
Power generation
$93 million (19%)
September 2011

AUSTRALIA
Horizon Roads
Toll roads
AUD 300 million (13.84%)
October 2011

In our public market asset positions, we are overweight on index and index-enhanced funds. In line with this approach, we are steadily building our in-house investment capacity, enriching our skill sets and developing an integrated investment supporting system.

We will continue to pursue direct investments under our asset allocation strategy and build positions to capture stable returns in the long term.

We will further refine our project management system across the project life cycle, including project identification, decisionmaking, postinvestment management and exit. And we are keen to explore ways to cooperate with our peers globally.

INVESTMENT MANAGEMENT PROCESS

Our Strategic Asset Allocation and Tactical Asset Allocation plans determine the structure of our portfolio. Determined by our long-term return objectives and risk profiles, the Strategic Asset Allocation plan defines the benchmark portfolio and provides long-term, consistent and stable guidelines for our investment practices.

In 2011, we continued to enhance and implement our Strategic Asset Allocation strategy based on intensified macroeconomic research and industrial analysis to meet long-term investment goals. Our Tactical Asset Allocation strategy is formulated on assessments of market conditions in the short- and medium-terms to adjust positions at the substrategy level to capture excess returns within acceptable risk parameters.

The Investment Committee directs CIC's investment process. In 2011, we further improved investment management through well-defined processes. The Investment Committee oversees all major investment decisions. The Investment Review Committee, chaired by the Chief Investment Officer, addresses the technical aspects of investments. And the investment teams set forth proposals based on the merits of each investment case.

We revised the project approval and postinvestment management processes to allow for greater flexibility in decisionmaking, and ensure that investment teams have adequate discretionary power while being accountable for investment decisions. Investment mandates are consistent with portfolio objectives, and decisionmaking has been consolidated to ensure that investment departments can perform their duties.

The Investment Committee comprises the Chairman and Chief Executive Officer; Vice Chairman and President; Executive Vice Presidents; Chief Investment Officer; Chief Strategy Officer; Chief Risk Officer; Heads of Department of Asset Allocation and Strategic Research, the other four functioning investment departments and Department of Risk Management; and President of CIC International (Hong Kong) Co., Ltd..

Based on decisions by the Investment Committee, investments and mandates are carried out by the four investment departments. Each formulates investment proposals based on sound analytical work within the overall portfolio and risk management framework, builds and manages its portfolios and recruits, manages and evaluates external fund managers in line with set standards.

In May 2011, we reorganized our investment departments to promote greater synergy and efficiency across departments. The new approach allows for deeper sectoral expertise within each department. More importantly, it allows managers to understand what is taking place across a sector's value chain and facilitates cross-department coordination and cooperation.

- The Department of Asset Allocation and Strategic Research develops and adjusts strategic and tactical asset allocation plans, manages overall investment objectives and formulates alternative and passive asset investment strategies.
- The Department of Public Equity implements active strategies by using external fund managers and conducting its own proprietary trading.
- The Department of Fixed Income and Absolute Return manages all fixed-income portfolios as well as credit derivatives, hedge funds and multiasset and commodity portfolios.
- The Department of Private Equity focuses on real estate, industries, science and technology, financial services, consumer goods and services, health care and biopharmaceuticals.
- The Department of Special Investment manages and executes investments in resources, energy, infrastructure, agriculture, precious metals and other sectors with concentrated positions.

CIC engages external investment managers across all asset classes wherever appropriate, as driven by our business needs. We select external managers based on exacting qualification standards and through an extensive review and evaluation process, which includes review by the appropriate investment department, the Department of Asset Allocation and Strategic Research, the Department of Risk Management and the Department of Legal and Compliance and approval by the Investment Committee.

INVESTMENT ACTIVITIES

We fully deployed our investible capital in 2011. In complex market conditions, we intensified our market research and took prudent actions to manage our portfolio. While working to enhance investment portfolio monitoring and optimizing portfolio structure, we further improved investment ability and postinvestment management and made investment decisions based on market projections.

In 2011, rising oil prices, the massive tsunami in Japan, inflation-induced policy tightening in emerging economies, downgrading of US sovereign bonds, the unfolding debt crisis in Europe—all caused global market shocks. In the wake of these events, risky assets trended downward primarily with the plunging value of global stock markets, especially in emerging markets.

In this time of major market turbulence, our investment portfolio was subject to great challenges. Though timely adjustments and rebalancings had positive effects, our equity portfolio in public markets still suffered losses.

On the whole, our bond and credit product portfolio outperformed stock holdings and generated relatively good returns in 2011. Most of our investment portfolios achieved positive returns and outperformed individual benchmarks.

In 2011, we built up our long-term asset portfolio and weighted it toward long-term assets. We steadily built positions in private equity investments across various industries, especially those in emerging markets. We also diversified our investment base through direct investments or coinvestments, invested selectively in quality credit assets and enhanced our real estate portfolio to pursue stable cash returns.

We continued to make direct investments in oil and gas, mining and infrastructure to gear investments toward lower risk assets, such as steady return assets and resource-related assets. In 2011, CIC completed several direct investments or coinvestments.

CIC's portfolio performance was negatively affected by two factors. First, many of our private equity investments in funds or projects are still at the investment stage. Second, a downward-trending market led to shrinking market values of portfolio companies in energy and resources.

BOX 1

THE GLOBAL ECONOMIC RECOVERY AND GENERATING NEW GROWTH DEMANDS

Central to the efforts to promote a strong global economic recovery is generating demand on a global scale, not only in developing countries but, more importantly, in developed countries. Developing countries have rolled out stimulus measures and aggressive reform programs to boost domestic consumption and shift economic growth patterns. These efforts have contributed to the global economic recovery and to sustainable growth.

The United States and Europe should take credible measures to boost investment, generate demand and foster new sources of economic growth to shore up the economic recovery, restore market confidence, boost employment and put economic growth on a sustained and solid footing.

Infrastructure development, an important means to generate demand, goes a long way in spurring overall economic growth. It will also improve productivity, lay the groundwork for sustained economic growth and boost employment quickly, lifting incomes and generating consumer demand.

Government involvement is essential in this process, primarily through policies to encourage investment. While gearing fiscal adjustments toward the medium and long terms, given the limited room for raising spending, governments should also take fiscal-neutral measures, reducing taxes and offering discounted loans to banks, to encourage investment in infrastructure and secure near-term economic growth targets.

Governments should also engage with the private sector and draw on its strengths in developing infrastructure. For commercially viable projects with high returns, governments can work together with the private sector through a public-private partnership arrangement or pursue equity coinvestment with local or overseas institutional investors to diversify risks and share returns.

(Excerpts from Chairman & CEO Lou Jiwei's remarks at the UK-China Infrastructure Investment Conference in November 2011)

BOX 2

CIC INVESTS IN SHANDUKA GROUP

On 28 December 2011, CIC acquired a 25.8% shareholding in Shanduka Group for R 2 billion ($247 million), marking its foray into Africa.

Shanduka Group is an investment holding company in South Africa, with businesses covering mining, finance and consumer goods. "We are extremely pleased with the investment by CIC in Shanduka," said Cyril Ramaphosa, Shanduka's Executive Chairman. "This partnership will allow us to jointly explore future investment opportunities in South Africa and other parts of Africa. We believe it will present broader opportunities for both organizations and be mutually beneficial."

As the second biggest shareholder, CIC maintains a close engagement with Shanduka and will leverage it to expand investments in Africa.

CIC's direct investments are research-driven and based on an in-depth understanding of the fundamentals of regions, sectors and companies we invest in. As a financial investor, we usually maintain a minority shareholder status and do not seek to control or influence investee companies. Nor do we always exercise our full ownership rights. When we do, we are consistent with our investment policy to protect the value of our investment. CIC continues to strengthen its postinvestment management process and strives to do what we can as a minority shareholder to help our investee companies achieve success. By helping these companies thrive, we also fulfills our own value creation objectives.

In November 2010, we opened our first subsidiary outside mainland China. Initially established to cover public market investments, CIC International (Hong Kong) will in time assist CIC International in direct investments and private equity investments in the Asia-Pacific region, covering the spectrum from deal-sourcing to due diligence to postinvestment management. The company is fully operational now, with its senior management appointed. It takes a market-based approach under the principle of measured progress and professional commitment in conducting investments. Guided by a clear mandate, its operations follow well-defined investment and risk management strategies.

In January 2011, we also opened our first office outside Asia, the CIC Representative Office in Toronto, Canada, to enhance and broaden communication with local and regional stakeholders and to explore new investment opportunities.

In addition, we engage in frequent dialogue and good communications with governments and business communities in recipient countries to understand the local investment climate and to explore more channels to tap potential investment opportunities.

CIC further improved our portfolio structure and enhanced our management capacity. We refined the Strategic Asset Allocation to improve asset classifications and adjust asset allocation accordingly. To enhance efficiency and flexibility in portfolio management, we adopted centralized management over our passive investment portfolio, contributing to greater transparency and liquidity and lower management and transaction costs. Our investment teams covering public market investments consolidated investment strategies for greater synergy, monitored the performance of external managers and optimized portfolio structure to improve our overall investment management capacity. We clarified the functions and responsibilities of the Trading Room, empowering it to execute transactions more efficiently. Investment departments were restructured, and investment management mechanisms improved. Building on these improvements, we boosted our capacities in investment decisionmaking, mandate assignment and project manager performance monitoring—while keeping our teams abreast of project progress and enabling more efficient decisionmaking.

BOX 3

REACH OUT GLOBALLY—EXPLORE NEW INVESTMENT OPPORTUNITIES

In 2011, CIC set up the Russia-China Investment Fund with Vnesheconombank (VEB), Russia's state development bank, and the Russia Direct Investment Fund (RDIF). We also launched the China Belgium Mirror Fund with Belgian Federal Holding and Investment Company (SFPI) and A Capital. CIC is committed to forging partnership with potential business partners in the spirit of respect, mutual benefit and equal and open cooperation, and to exploring business opportunities leading to win-win solutions.

In October 2011, CIC, VEB and RDIF signed a Memorandum of Understanding to establish Russia-China Investment Fund. The Memorandum of Understanding set the fund at $3 billion, with $1 billion committed by CIC and our related parties, and another $1 billion by RDIF and related parties. The fund will raise the remaining $1 billion from third-party international investors.

In October 2011, CIC, SFPI and A Capital signed a nonbinding letter of intent to launch the China Belgium Mirror Fund. The letter specified that SFPI and CIC will each commit €8.5 million as limited partners and cornerstone investors, with A Capital as the general partner. The fund will raise additional funds from third parties and invest in companies in Belgium and broader Europe. In April 2012, CIC's Investment Committee officially approved CIC's investment commitment for the fund.

We also developed and strengthened our supporting infrastructure. We bolstered our investment operations by building centralized data management, launching trade price verification, coordinating new product testing and strengthening management of special purpose vehicles and of collateral and margins. The Department of Information Technology improved the straight-through processing support for proprietary trading and management, risk analysis, investment process management and fiscal management.

We are committed to guaranteeing sound project management—including compliance, due diligence, investment structure design, taxation and document negotiations with stakeholders. We engaged with regulators overseas to discuss compliance issues and to ensure adequate monitoring and auditing in the postinvestment stage. And we set up a Budget Management Committee to oversee cost calculation, analysis and control and to ensure that our operating capital is deployed to good effect.

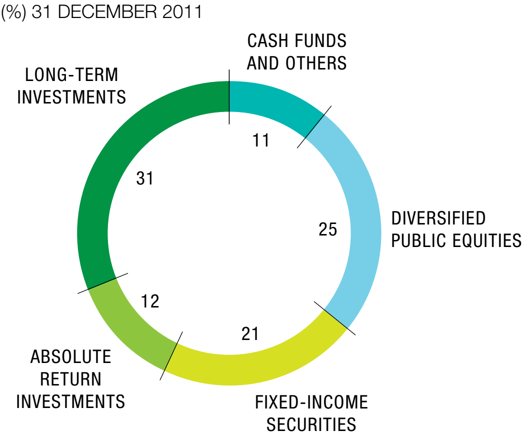
2011 INVESTMENT RESULTS

In 2011, CIC's overseas portfolio returned –4.3% and posted a cumulative annualized return of 3.8% since its inception (table 1).

Central Huijin's returns come from the profits of the financial institutions in its portfolio. Central Huijin's top five portfolio holdings are shown in table 2.

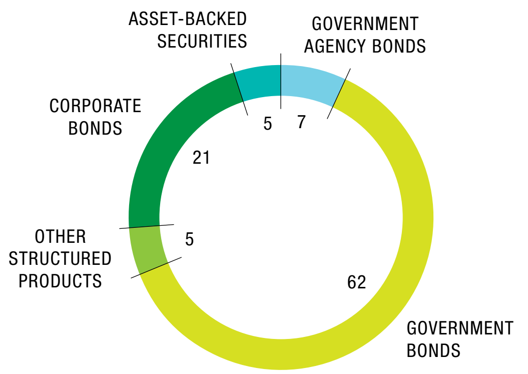
GLOBAL INVESTMENT PORTFOLIO DISTRIBUTION

(%) 31 DECEMBER 2011



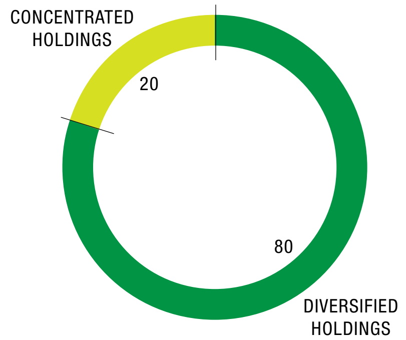
DIVERSIFIED FIXED-INCOME SECURITIES

(%) 31 DECEMBER 2011



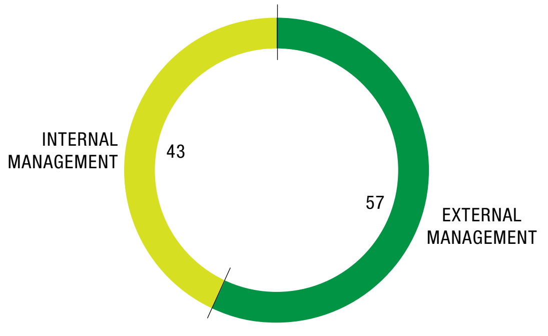
DIVERSIFIED HOLDINGS VERSUS DIRECT CONCENTRATED HOLDINGS

(%) 31 DECEMBER 2011



INTERNALLY MANAGED ASSETS VERSUS EXTERNALLY MANAGED ASSETS

(%) 31 DECEMBER 2011



DIVERSIFIED EQUITIES 31 DECEMBER 2011

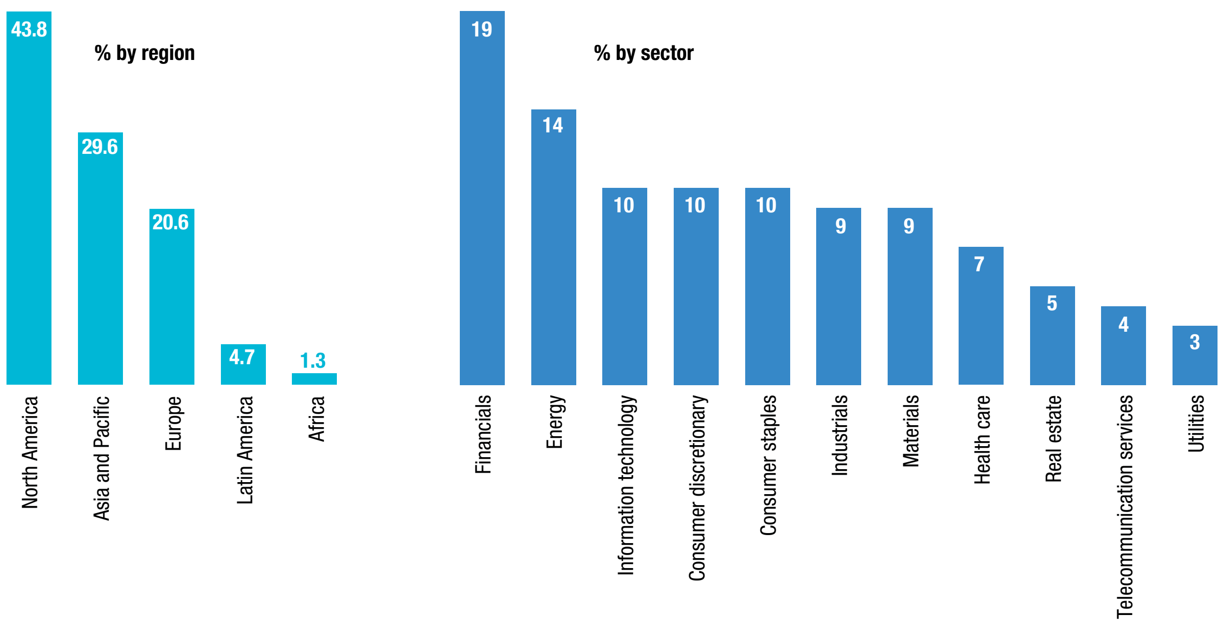


TABLE 1

INVESTMENT PERFORMANCE ON THE GLOBAL PORTFOLIO

Year	Cumulative annualized return (%)[a]	Annual return (%)
2008[a]	–2.1	–2.1
2009	4.1	11.7
2010	6.4	11.7
2011	3.8	–4.3

a. Cumulative annualized returns and the annual return for 2008 are calculated since inception on 29 September 2007.

TABLE 2

TOP FIVE PORTFOLIO HOLDINGS OF CENTRAL HUIJIN 31 DECEMBER 2011

Financial institution	Share of ownership (%)
China Development Bank	47.6
Industrial and Commercial Bank of China	35.4
Agricultural Bank of China	40.1
Bank of China	67.6
China Construction Bank	57.1

RISK MANAGEMENT

Risks arise from the uncertainty inherent in all investment activities and operations. Because risks are dynamic and constantly evolving, we need to add new channels to the market and new products to our portfolio. We have continually developed and strengthened our risk management framework since our inception, to better link our appetite for risk to our long-term return objectives, with a view to enhancing risk governance and strengthening our risk classification, identification, assessment, monitoring and management systems. In 2011, we continued our efforts to make risk management a core competency.

Risk management is a companywide effort involving every business line, every department and every individual. It is embedded throughout the investment life cycle and process—from the investment portfolio as a whole to individual investment vehicle portfolios and to specific investments and projects.

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

- Reviewing risk management strategies, policies and procedures.
- Determining the risk budgeting and allocation plan.
- Reviewing risk management and risk 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 direction of the Executive Committee.

The Risk Management Committee comprises the Chairman and Chief Executive Officer; Vice Chairman and President; Executive Vice Presidents; Chief Investment Officer; Chief Strategy Officer; Chief Risk Officer; and Heads of Department of Risk Management, Department of Legal and Compliance, Department of Public Relations and International Cooperation, Department of Asset Allocation and Strategic Research, Department of Investment Operations, Department of Finance and Accounting, Department of Internal Audit and General Office. The Commitee is mandated to facilitate comprehensive and integrated oversight of market, credit, operating, liquidity, country, legal and compliance, and reputation risks. Other members of senior management and the heads of the four investment departments attend Risk Management Committee meetings as needed.

The Department of Risk Management monitors and manages potential investment and operating risks, including market, credit, operation and liquidity risks, as well as project evaluation and performance attribution analysis.

The Department of Legal and Compliance is responsible for managing legal risk to ensure that CIC complies with the laws and regulations in recipient countries and jurisdictions.

Reputation risk and country risk are managed by the Department of Public Relations and International Cooperation.

We have developed a comprehensive risk control system and various risk indicators. The Department of Risk Management sets appropriate risk limits based on risk budgets developed by the Department of Asset Allocation and Strategic Research. We use an internationally accepted risk management system as our risk analysis and reporting backbone. Positions, including those managed by external investment managers, are monitored using this system, and comprehensive risk management reports are produced weekly, monthly and quarterly for management review. We also set up a new risk early warning system. Both process- and event-driven, it brings potential risk issues to the appropriate level of management based on assessment of the extent of potential losses.

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

In 2011, we made continual and effective efforts to enhance the portfolio's resilience against risks and the ability to manage risks across the board.

- We strengthened our risk management framework to better integrate internal controls and operational risk management. Rules have been put in place to manage risks associated with new products and strategies and to further improve the risk limit management system.
- We continually improved our integrated risk limit system and refined the management of asset integration, active risk, severe loss risk and counterparty risk exposure. The system uses a layering approach to risk limits and risk targets.

- We embedded risk management throughout the investment process and further enhanced our risk management capabilities by fostering an independent risk assessment process. We conducted stress tests under varied scenarios and closely monitored portfolio risks through an improved early warning system.

- We set up a robust performance evaluation and attribution system to provide objective ex post analysis and evaluation of investments.

- We built up the information technology platform by adopting a "classification, prioritization and modularization" management model. All our management activities are integrated on one information technology platform, incorporating 21 first-priority processes and 121 second-priority processes. With more refined classifications of responsibilities and better defined operational details, our overall management efficiency has largely improved.

- Consistent with global practices, we established a "three lines of defense" approach, with each department as the first line of defense, responsible for hands-on and timely monitoring of its own risk and internal control processes. The Internal Control Team in the Department of Risk Management is the second line of defense, responsible for reviewing and examining internal control status across departments. The Department of Internal Audit and Department of Institutional Integrity is the third line of defense, responsible for auditing, supervising and evaluating companywide internal control management.

Going forward, we will continually strengthen our efforts in risk management in four areas:

- Gearing our investment philosophy toward the medium and long terms. We set our investment return and risk target based on a 10-year horizon. With no imminent pressure for short-term cash outflows, we should be able to weather short-term volatility and liquidity risks to capture countercyclical investment opportunities and illiquidity premia.

- Strengthening research capabilities to build an early warning risk system. By integrating asset allocation, investment management and risk management, we will continue our quantitative analytical approach to build better forecasting models to identify and differentiate various investment risks.

- Enhancing the disciplinary and execution power of risk management and strengthening our risk management framework by enhancing execution and coverage.

- Aiming to lower the overall operational risk. To do this, we are promoting compliance awareness among staff, increasing interdepartmental cooperation by clarifying departmental responsibilities and integrating internal control and operational risk management functions.

HUMAN RESOURCES

We continue to develop our human resource management system and to foster an attractive environment to recruit, develop and retain talented people. Our global investment team grew from 342 at end-2010 to 405 in June 2012. Including Central Huijin, we had a staff strength of 542.

ATTRACTING TALENT

As one of the world's largest and most visible sovereign wealth funds, CIC offers an extensive and attractive career opportunity to investment management professionals. Because we are still young and fast-growing, we focus on recruiting experienced professionals with international investment management and related experience who also have a good grasp of Chinese culture and perspectives. But we also recruit talented professionals worldwide.

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

We hired 80 new staff for the global investment team in 2011. More than half were educated or worked overseas, or both (table 3).

TABLE 3
BACKGROUND SUMMARY OF CIC STAFF[a]
30 JUNE 2012

Number	Advanced degrees[b]	Overseas work experience	Overseas education	Overseas citizenship
405	334	165	224	44

a. Excludes Central Huijin Investment Ltd..
b. Refers to postgraduate or higher degrees.

DEVELOPING TALENT

As part of our great emphasis on the development of our people, we launched systematic and diversified training programs for staff at every level. The Department of Human Resources devises and provides training plans for all staff based on skills assessment and input from the performance evaluation process. Progress on these plans is constantly monitored and reviewed.

Training is carried out at the department and corporate levels through programs managed by the Department of Human Resources (table 4).

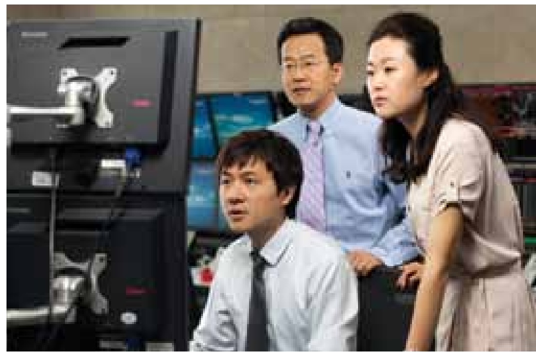
In addition to internal programs and online learning programs, we work with local universities and professional organizations to provide a broad perspective on management and leadership skills and keep our staff abreast of the latest trends in the global financial landscape and beyond. Such programs update our staff's skill sets and broaden their horizons and thus better equip them to fulfill their responsibilities.

While most training takes place in China, some overseas programs are arranged for employees, as appropriate. In 2011, CIC jointly launched training programs on management skills with prominent universities for middle and senior management. teams and give them better command of professional skills and our company culture in order to accomplish greater progress on the professional front and in management expertise alike.

TABLE 4

SELECTED CORPORATE TRAINING PROGRAMS

Risk Management and Internal Control
Valuation Modeling
Global Economic and Political Trends
Investment Expertise
Information Security
Anti-Corruption Policies and Practices
Executive Development
New Employee Orientation



We use a comprehensive performance management system to guide, evaluate and reward performance. The system includes the full cycle of performance planning, tracking and feedback. We also use a combination of Management-by-Objectives evaluation and 360-degree appraisal to allow a multidimensional approach to assessing staff performance, competency and achievement. The outcomes of performance evaluation are linked with reward under the incentive scheme and applied to career development and training programs.

RETAINING TALENT

We are constantly refining our compensation system to offer competitive salaries and benefits to attract and retain talent. The compensation system provides differentiated remuneration and links pay with performance. To align the compensation system with our overall development strategy, the bonus incentive scheme is designed to encourage exceptional performance among employees, especially core professional talent in investment teams, and reward them for performance measured against performance indicators. We constantly refine the scheme to incentivize and retain talented professionals.

OUTREACH

We continued to enhance international understanding of our mission and purpose as a sovereign wealth fund, boost our image as a valuable partner and a responsible global institutional investor and promote free, open and orderly flows of capital and cross-border investments.

As a major institutional investor, we are committed to dialogues and exchanges, greater transparency and compliance in our investment activity. With dedicated efforts since 2008, we have established CIC as a professional, prudent and responsible global investor with a good track record.

We have been active in sovereign wealth fund activities, playing a prominent role in drafting and implementing the Santiago Principles, which reflect the objectives and investment practices of sovereign wealth funds. We have implemented the Santiago Principles in good faith, demonstrating our commitment to timely information disclosure to meet compliance requirements, a practice appreciated by most recipient countries.

CIC is a charter member of the International Forum of Sovereign Wealth Funds and hosted the third annual meeting of the Forum in Beijing in May 2011, at which Mr. Jin Liqun, Chairman of the Board of Supervisors of CIC, was elected Chair of the Forum. We support and facilitate the work of the Forum secretariat to communicate and engage with Forum members and to broaden efforts to enhance understanding and trust of sovereign wealth funds globally, particularly among recipient countries.

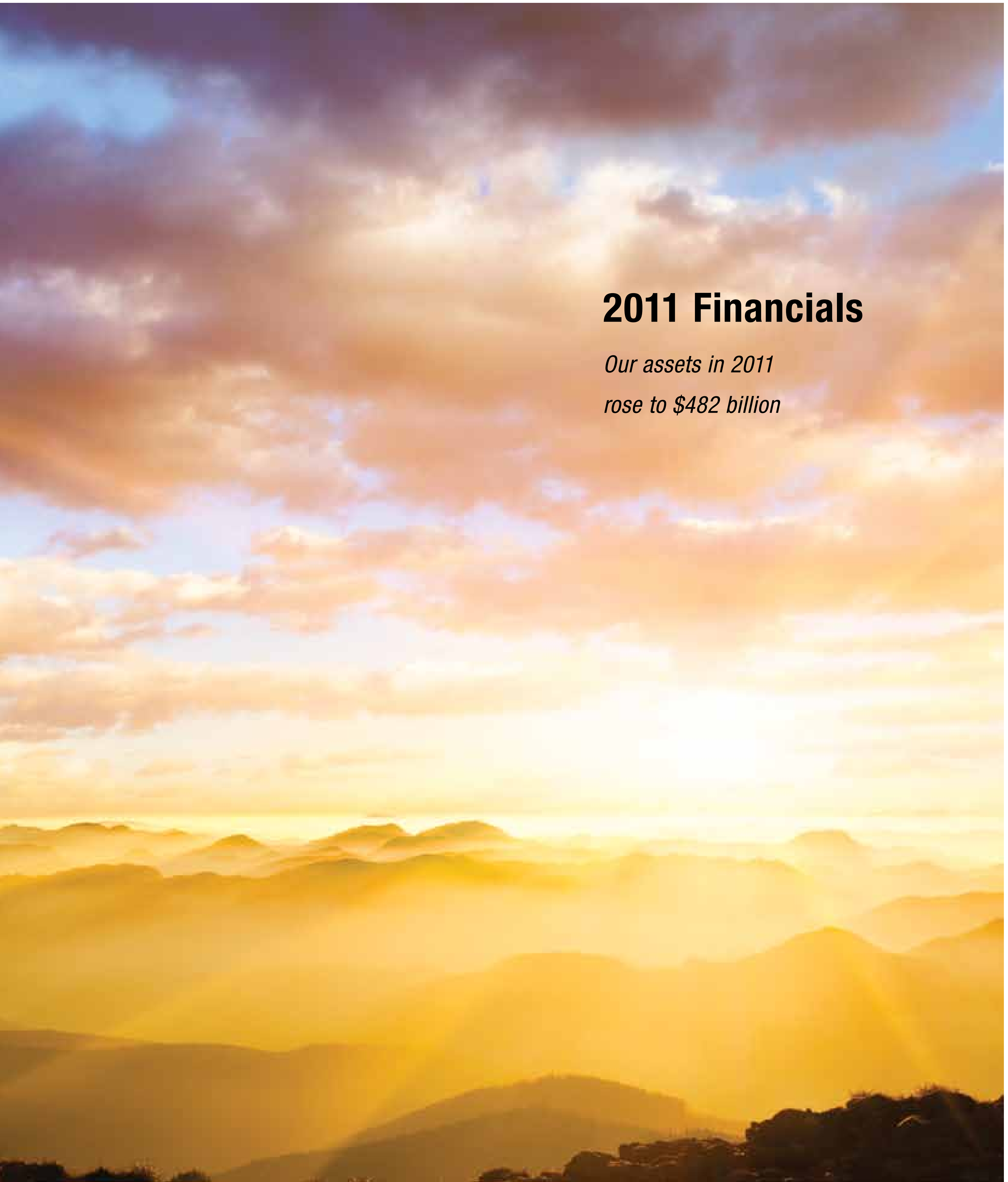
We firmly believe that an open and candid dialogue builds understanding and trust. In 2011, we maintained regular and open dialogue with stakeholders in the financial and economic sectors and demonstrated our commitment to being a long-term financial investor investing responsibly and on a purely commercial basis. Executives of CIC met regularly with senior government officials, regulators, buiness community and industrial experts from Asia, Europe, North America, Latin America and Africa, to learn and better understand their government policy priorities and investment environments to find common interests and create win-win situations.

CIC's senior management attended high-profile multilateral and international events to introduce our views on major issues in global investment, such as the China-US CEO Summit, the China-UK Business Luncheon, the UK-China Infrastructure Investment Conference, the Second China-US CEO and Former Senior Officials' Dialogue, the Sino-US Business Leaders Partnership Initiative, the G20 High-Level Panel of Development and the Russia Direct Investment Fund promotion meeting.

CIC received a large number of international visitors in 2011 for discussions on the global business and investment environment and on the challenges ahead. In March 2012, we hosted the CIC International Investor Forum in Hong Kong, convening prominent institutional investors and asset managers to exchange views on the global economic outlook and investment strategies and opportunities.

CIC is actively engaged in exchanges and communications with governments and regulatory authorities from recipient countries to promote understanding of our investment policies and practices and maintain a high degree of transparency. Our annual report details CIC's governance, investment and risk management policies and practices and provides information on our global investment portfolio and annual financial results. We enhanced our "spokesman information disclosure" mechanism, which supplements our proactive and timely disclosure and update of information, such as major transactions and organization structure change, through press releases on our website and other media. CIC's senior management also sat for interviews and published articles with major media from China and overseas—to provide information on our investment philosophy and performance.

We remain committed to strict compliance with applicable rules and regulations, to implementing the Santiago Principles conscientiously and to continuing to prove that CIC is a valuable partner and responsible global investor.



2011 Financials

Our assets in 2011 rose to $482 billion

BASIS OF PRESENTATION

China Investment Corporation (the "Company")'s consolidated financial statements 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. The Company's consolidated financial statements were audited by its independent auditors with an unqualified opinion reported thereon. The Company believes that the financial statements represent a true and fair view of the Company's financial position, operating results and cash flows for the year ended 31 December 2011.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's policies. These judgments, assumptions and estimates affect the financial assets and liabilities, income and expense presented in the financial statements.

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

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

CONSOLIDATED BALANCE SHEETS
As of 31 December

(millions of US dollars)

	2011	2010
ASSETS		
Cash and deposits	20,088	14,480
Financial assets at fair value through profit or loss		
Cash management products	8,058	3,458
Equities	59,718	65,645
Fixed-income securities	38,644	34,932
Alternative investments	40,470	29,274
Total financial assets at fair value through profit or loss	**146,890**	**133,309**
Receivables and prepayments	5,923	4,210
Available-for-sale investments	119	113
Held-to-maturity investments	2,000	2,000
Long-term equity investments[a]	304,880	253,340
Deferred tax assets	1,742	1,046
Other assets	525	1,081
Total assets	**482,167**	**409,579**

a. Principally investments by Central Huijin.

	2011	2010
LIABILITIES		
Financial liabilities at fair value through profit or loss	491	2,637
Bonds payable[a]	17,461	16,609
Deferred tax liabilities	1,505	3,772
Other liabilities[b]	37,615	12,259
Total liabilities	**57,072**	**35,277**
OWNER'S EQUITY		
Owner's capital	200,000	200,000
Capital reserves and others	225,095	174,302
Total owner's equity	**425,095**	**374,302**
Total liabilities and owner's equity	**482,167**	**409,579**

a. Represent bonds issued by Central Huijin.

b. As of 31 December 2011, the Company received a capital injection of $30 billion from the State Administration of Foreign Exchange. It was recorded as other liabilities because the capital registration process in government authority was still ongoing.

CONSOLIDATED INCOME STATEMENTS
For the year ended 31 December

(millions of US dollars)

	2011	2010
INVESTMENT INCOME		
Interest income	2,293	2,052
Dividend income	1,525	1,109
Realized gains on investments	2,621	1,838
Unrealized gains (losses) from changes in fair value of investments	(11,350)	9,784
Investment income from long-term equity investments	53,383	40,761
Foreign exchange gains (losses)	70	(175)
Other income	47	24
Total investment income	**48,589**	**55,393**
EXPENSE		
Investment expense[a]	(385)	(311)
General and administrative expense	(135)	(79)
Finance expense	(660)	(213)
Impairment loss	–	12
Total expense	**(1,180)**	**(591)**
Operating income	**47,409**	**54,802**
Others, net	(2)	(1)
Income before taxes	**47,407**	**54,801**
Income taxes	1,015	(3,241)
NET INCOME	**48,422**	**51,560**

a. Mainly management fees to external managers, transaction fees, professional consultation fees and custody fees.

SUMMARIZED ACCOUNTING POLICY OF FINANCIAL INSTRUMENTS

CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

FINANCIAL ASSETS AND LIABILITIES AT FVTPL

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

AVAILABLE-FOR-SALE ("AFS") INVESTMENTS

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

HELD-TO-MATURITY INVESTMENTS

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

LOANS AND RECEIVABLES

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market.

OTHER FINANCIAL LIABILITIES

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

MEASUREMENT OF FINANCIAL INSTRUMENTS

- Financial instruments are initially measured at fair value. Subsequent measurement of held-to-maturity investments are measured at amortized cost by using the effective interest method.

- For financial instruments at FVTPL, gains or losses from change in fair value are recognized in profit or loss.

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

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

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

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

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

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