SIFEM SWISS INVESTMENT FUND FOR EMERGING MARKETS

Annual Report

2011

SIFEM AG
c/o Obviam DFI AG
Bubenbergplatz 11
3011 Bern
Switzerland
www.sifem.ch

The Board of Directors

Phone +41 (0) 31 310 09 30
Telefax +41 (0) 31 310 09 39

Dear Reader,

It is with great pleasure that the Board of Directors submits the first Annual Report for SIFEM, following its establishment as Switzerland's Development Finance Institution (DFI), which took place during the year 2011. Much of the time and energy of the Shareholders, the Board and the management team has been consumed by the need to implement the various new processes and procedures connected with the new structure. The start-up phase thus features very prominently in this first report.

During 2011, SIFEM has assumed responsibility for the existing developmental investment portfolio from SECO in the course of its establishment. Thus, there is also a full year of investment operations on which to report. According to its statutory financial statements, denominated in Swiss Francs and prepared in accordance with the Swiss Code of Obligations (SCO) accounting rules, SIFEM has produced a loss of CHF 11.3 million. Currency movements account for roughly seventy per cent of this paper loss. The year 2011 has seen high volatilities in foreign exchange markets, with a very strong pressure for the Swiss Franc to appreciate against the major international currencies in which SIFEM investments are denominated. Almost the entire remainder of SIFEM's paper loss for the year 2011 can be explained by the conservative investment valuation rules applicable under the SCO, which force SIFEM to recognise most of the downward movements in the portfolio while ignoring many of the increases in investment valuations.

Since the statutory financial statements do not reflect the true performance of the portfolio, this report also provides a summary of investment performance, as measured by SIFEM in US dollars at the latest available market values. Given the very challenging years, both during and since the global financial crisis, the business environment for SIFEM has remained difficult but more or less stable in 2011. The investment pace of SIFEM has accelerated in 2011 and is approaching pre-crisis levels. The key performance benchmarks have remained more or less stable. The reflows from investments continue to lag behind projections, but should pick up in 2012 if the macroeconomic environment improves. All in all, the Internal Rate of Return (IRR) since inception of the investment portfolio remains quite solid at 11.19%.

Starting in 2012, SIFEM will also produce financial statements in accordance with the International Financial Reporting Standards (IFRS). This will more clearly reflect the true financial performance of the investment portfolio because IFRS recognises the market value of SIFEM's investments.

The Swiss Federal Council's strategic objectives for SIFEM only became operationalized in the second half of 2011, leaving only a few months of operation under the new regime. In an attempt to provide a performance report which is as meaningful as possible, particularly in view of SIFEM's developmental objectives, this Annual Report includes a summary of SIFEM's latest available development impact measurement results. Since 2005, the investment portfolio now held by SIFEM has, together with other investors, supported and/or created over 170,000 jobs. Furthermore, all recent SIFEM investments mobilised additional capital for SMEs from local financial markets, and improved access to finance in SIFEM target countries. Most recent SIFEM investments have also shown positive training effects, contributed to financial sector diversification in SIFEM target countries, and resulted in operational improvements in portfolio companies.

In short, SIFEM in 2011 has met or even exceeded the majority of the short to medium-term strategic objectives. There remains, however, the challenge to achieve an asset volume (commitments plus cash available for investment) at a level that is sufficient for SIFEM's long-term financial sustainability, i.e. the ability to fully cover operating expenses and new investments out of investment reflows. Therefore, the Board, in close cooperation and dialogue with the Shareholder, is closely monitoring the situation and evaluating possible measures.

As an instrument of economic development, SIFEM is mandated to invest where private investors hesitate to venture. For this reason, SIFEM invests in high-risk projects and structures, such as Private Equity, and there is no guarantee against possible failures. SIFEM is active in difficult countries and in sectors where the regulatory framework is weak. Furthermore, SIFEM is exposed to high exchange rate market volatilities.

Finally, the Board wishes to express its deep gratitude to SIFEM's Shareholder for the tremendous work which has been done in recent years to prepare the way for the establishment of SIFEM, and for the trust which has been placed in the members of the Board, whose role it now is to oversee the continuation of this developmental and financial success story. The establishment would not have been possible without the diligent and meticulous assistance of the management team at Obviam, PricewaterhouseCoopers and Amstutz Greuter Rechtsanwälte. The Board is grateful for their impressive assistance.

Yours faithfully,

Jean-Daniel Gerber
Chairman of the Board

Annual Report 2011

Index

1 Normative Framework for SIFEM's Operations

The Swiss State Secretariat for Economic Affairs (SECO) on behalf of the Swiss Confederation has, for several years now, been supporting investment projects in developing countries and transition economies within the framework of the economic and trade policy measures it undertakes in the field of development assistance. The objective is to promote private sector development and poverty reduction, as well as raising living standards through economic growth. SECO has built a portfolio of investments in specialized private equity funds to finance small- and medium-sized enterprises (SMEs). These are predominantly private equity or mezzanine funds. The portfolio also includes some direct investments in financial intermediaries and structured products.

In order to increase the efficiency and professionalism of portfolio management – and in consistency with models in numerous other European countries – the Swiss Federal Council decided to establish the Swiss Investment Fund for Emerging Markets (SIFEM) as a Development Finance Institution (DFI) and to transfer to it the existing developmental investment portfolio.

SIFEM continues to provide long-term finance to specialised private equity funds and financial institutions in emerging markets. SIFEM's primary focus remains on institutions investing in the SME sector. On a selective basis, SIFEM also invests in microfinance. SIFEM's investment philosophy is guided by the belief that investing in commercially viable emerging market SMEs can provide investors with risk adjusted returns, and generate sustainable, long-term development effects in local communities.

1.1 History Leading to the Establishment of SIFEM in 2011

Having gathered more than five years of experience in private equity investment in developing countries, SECO proposed outsourcing this function to a publicly-owned DFI. This proposal was set out in the Federal Council's Message accompanying the credit envelope for the financing of economic and trade-related measures in the framework of development cooperation for 2003–08. The aim was to simplify operations, attract and retain the necessary know-how, allow co-investments with private investors and reduce liability risks for the Swiss Confederation. The proposal also sought to align SIFEM with best practice elsewhere in Western Europe. The Federal Council confirmed the objective of externalising Switzerland's developmental private equity investment portfolio in its 2005 and 2007 reports on Switzerland's foreign economic policy.

As a first step in this direction, the management of SECO's developmental investment portfolio was outsourced in 2005. The management mandate was granted to a team of emerging market finance specialists, who formed a new management company for this purpose. As a second step, with the transfer of the investment portfolio from SECO to SIFEM in August 2011, SIFEM was established as Switzerland's DFI. The management of the investment portfolio remains in the hands of the same specialist team, now organised into a new company called Obviam.

1.2 Legal Framework

SIFEM's role as Switzerland's DFI is legally anchored in the following ordinance of the Swiss Federal Council: Verordnung vom 12. Dezember 1977 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe (ordinance on international development co-operation and humanitarian aid of 12 December 1977, SR 974.01). The Federal Council modified this legal text on 1 April 2010 in order to include a new paragraph 8 (Articles 30a to 30d), which states that the Swiss Confederation shall form a limited company under private law with the purpose of holding its developmental investment portfolio and promoting economic development in partner countries. This ordinance is based on the following Swiss federal act: Bundesgesetz vom 19. März 1976 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe (Swiss Federal Act of 19 March 1976 on international development co-operation and humanitarian aid, Art. 15, SR 974.0).

As a basis for SIFEM's activities in transition countries in Eastern Europe, the same provisions were inserted as of 1 April 2010 in the following ordinance: Verordnung vom 6. Mai 1992 über die Zusammenarbeit mit den Staaten Osteuropas (ordinance on co-operation with Eastern European countries of 6 May 1992, SR 974.11); which in turn is based on the following federal act: Bundesgesetz vom 24. März 2006 über die Zusammenarbeit mit den Staaten Osteuropas (Federal Act of 24 March 2006 on co-operation with Eastern European countries, Art. 14, SR 974.1).

As an Aktiengesellschaft (AG) formed under the Swiss Code of Obligations, SIFEM is subject to Swiss commercial law. One exception was made with respect to taxation. Due to its public ownership and developmental mandate, SIFEM is exempt from regular communal, cantonal and federal company taxes. This was confirmed by the Tax Administration of the Canton of Bern, in their ruling dated 16 March 2010.

1.3 Establishment of SIFEM

The foundation for the establishment of SIFEM was laid by the Swiss Federal Council on 5 March 2010. On this date, the Federal Council amended the above-mentioned ordinances to create the necessary legal basis, defined the corporate structure and governance model, determined strategic objectives for SIFEM, specified the profile of qualifications for Board members, and mandated SECO to prepare and submit a detailed proposal for the establishment.

In close coordination with Obviam's team and the prospective Board members, SECO prepared the establishment and drafted the core legal documentation. SECO then obtained Federal Council approval to execute the legal documentation, and elect the new Board and the new auditor of SIFEM.

The establishment of SIFEM took place on 17 August 2011 in Bern. At the first General Assembly of SIFEM under public ownership and at a subsequent Board meeting, the following documents, among others, were approved and where necessary signed:

- Articles of Incorporation of SIFEM
- Sale and Purchase Agreement between the Swiss Confederation and SIFEM with regard to the investment portfolio (including an Addendum)
- Loan Agreement A resulting from the transfer of the investment portfolio
- Loan Agreement B resulting from the transfer of liquidity
- Mandate agreement between the Swiss Confederation and its representative in the Board
- Organizational Regulations of the Board
- Portfolio Management Agreement between SIFEM and Obviam
- Business Management Agreement between SIFEM and Obviam
- Call for Tenders of the Custodian & Administrator Mandate
- Concept for Controlling and Supervision of SIFEM
- Investment Guidelines
- SIFEM Business Plan

All of these founding documents were either drafted under the direction of SECO or were project managed by SECO and endorsed by the Board of SIFEM.

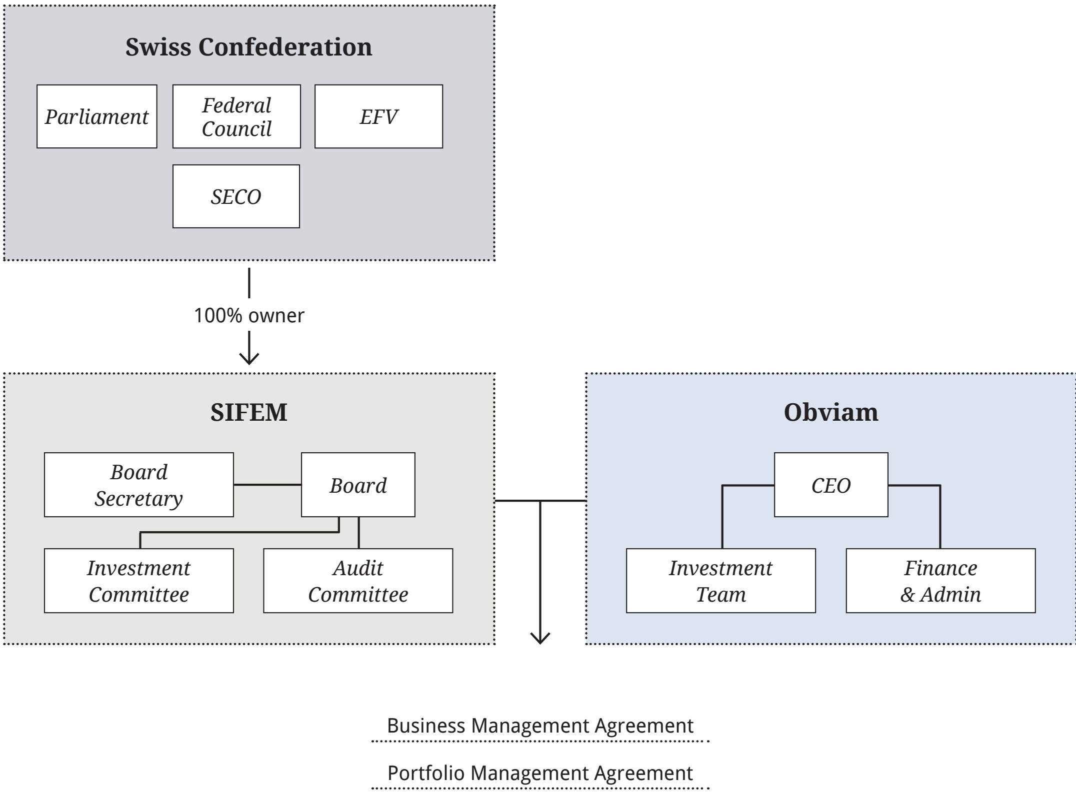
The Board of SIFEM repeats its thanks for SECO's tremendous work on the SIFEM project and expresses its deepest gratitude for putting SIFEM on a solid and well-prepared footing.

1.4 Corporate Structure and Governance

In its 5 March 2010 decision, the Federal Council chose to outsource the management of SIFEM's investment portfolio as well as its day-to-day operations to an external management company. The Board of SIFEM retains the responsibility for investment decisions and other executive management tasks. However, SIFEM does not have any employees beside the Board and its secretary. All operational tasks have been delegated to Obviam.

The corporate structure of SIFEM AG assures consistency with the principles of the Corporate Governance report of the Federal Administration and reflects a suitable vehicle for safeguarding, complementing and capitalizing on the know-how and quality of networks acquired over the past years in the area of private equity for developing and transition countries. The Board of SIFEM wishes to thank Obviam's management team, who greatly contributed to the establishment of SIFEM with considerable expertise and in-depth knowledge of SIFEM's portfolio and target countries. The Board looks forward to continuing this fruitful cooperation with Obviam.

As per its Organisational Regulations, the Board has formed two committees: the Investment Committee and the Audit Committee. The Board has delegated investment and divestment decisions to the Investment Committee. The Audit Committee shall validate the valuations of SIFEM investments, review SIFEM's financial accounts and related matters, and liaise with the auditor.



1.5 Strategic Objectives and Guiding Principles

The legal basis establishes the following objectives for SIFEM: it shall invest in sustainable private sector development projects, demonstrate the economic viability of such projects, and leverage private investments into them.

The legal basis also specifies that the Federal Council shall set strategic objectives for SIFEM, which form the strategic framework for SIFEM's decisions and investment activities. For the start-up period until year-end 2012, the Federal Council has specified the following goals for SIFEM:

- SIFEM shall become one of the pillars of the Federal Council's instruments to promote sustainable private sector-led growth in developing countries and transition economies, with a view to fostering economic growth, reducing economic disparities and facilitating the economic integration of these countries in the international economy.
- SIFEM shall assist the private sector in developing countries and transition economies either by investing in financial intermediaries that provide long-term capital and know-how to local SMEs or by directly co-financing sustainable private businesses. Success shall be measured by the capacity of SIFEM to commit annually at least CHF 25 million to developing and transition countries, at the conditions set in its investment policy and operational principles.

Based on the strategic objectives, SIFEM's investment guidelines prescribe the instruments that SIFEM may use in order to achieve its objectives. SIFEM shall seek to contribute to long-term economic growth in developing and transition countries by:

- investing primarily in funds managed by financial intermediaries and in other financial institutions (e.g. banks, leasing companies, investment funds, guarantee funds, securitisation notes) providing access to capital and know-how to local, growth-oriented businesses;
- investing directly in sustainable private businesses; and
- seeking to mobilize private sector resources (finance and know-how), and to channel these resources to the private sector in SIFEM target countries.

SIFEM investments shall be development-oriented and therefore aim at achieving a broad set of objectives beyond the financial rate of return. The strategic objectives require SIFEM to observe the following broad guiding principles:

- Leverage: SIFEM shall seek to maximize the flow of private investment to target countries and clients. It shall do this, wherever possible, by sharing both the political and/or commercial risks, and the financial returns, with private investors.
- Subsidiarity: SIFEM shall provide finance that the market does not provide, or does not provide on an adequate scale or on reasonable terms. Preference shall be given to investment opportunities where access to finance is combined with know-how transfer.
- Additionality: SIFEM shall be an active investor; it shall seek to enhance the business performance of its investments by providing assistance and expertise to its portfolio funds and companies, with a view to implementing appropriate management techniques and practices, cost accounting, corporate governance, reporting, quality control, marketing and business strategy.
- Sustainability: SIFEM shall adhere to the principle of sustainability in its widest sense. It shall be a triple bottom-line investor, with specific focus on the economic, social and environmental sustainability of its investments.

Based on the strategic objectives, a catalogue of operationalized objectives has been defined, which is set out in more depth in section 6 of this report.

2 Governance and Policy Actions

2.1 Preparation of the Establishment of SIFEM

Between 2005 and 2010, the current Obviam management team owned SIFEM, which was their vehicle for managing SECO's developmental investment portfolio. Due to legal considerations, the Federal Council decided to acquire the existing SIFEM from the management team and to restructure it for the purpose of establishing SIFEM as the Swiss DFI. While the bulk of contractual relationships and the entire balance sheet of the "old" SIFEM were transferred to the newly established Obviam in December 2010, SIFEM continued to provide portfolio management services until the establishment of the new structure on 17 August 2011 (while sub-outsourcing the management tasks to Obviam). The old management contract with SECO was automatically terminated when SIFEM was acquired by the Swiss Confederation and a new portfolio management agreement was signed between SIFEM and Obviam. Some positions in SIFEM's profit and loss statement for the year 2011, as well as the previous year figures, still reflect this old structure. Further comments are provided below.

2.2 Milestones in the Establishment of SIFEM

The first step in the establishment of the "new" SIFEM was the election of the new Board. The Federal Council has appointed the former Secretary of State for Economic Affairs, Mr Jean-Daniel Gerber, to become Chairman of the Board. The current head of operations at SECO's Economic Development and Cooperation Division, Mr Jean-Luc Bernasconi, represented the interests of the Swiss Confederation in the Board. The other Board members are: Ms Julia Balandina Jaquier, Mr Hugo Fasel, Ms Susanne Grossmann, Mr Michel Juvet and Mr Iain Tulloch. At its constitutive meeting on 17 August 2011, the Board accepted its Organisational Regulations. In accordance with these regulations, the Chairman of the Board shall also serve as Chairman of the Investment Committee. The Board elected Mr Michel Juvet as Vice-Chairman of the Board and Mr Iain Tulloch as Chairman of the Audit Committee. The Board also appointed Ms Alison Winzenried as Secretary of the Board. Short biographies of all Board members are provided in the annex.

One key aspect of the establishment of SIFEM as Switzerland's DFI was to increase capitalisation to a sufficient level considering its new role as owner of the developmental investment portfolio. This was done in four steps. First, an extraordinary General Assembly on 17 August 2011 decided that the statutory share capital shall be fully paid in by the new shareholder. Second, the Swiss Confederation granted SIFEM an interest-free loan (the A loan) thus enabling SIFEM to purchase the portfolio from the Swiss Confederation. Third, the Swiss Confederation transferred the liquidity positions related to the investment portfolio to SIFEM under a separate interest-free loan (the B loan). Fourth, an extraordinary General Assembly on 30 August 2011 agreed to increase the statutory share capital from CHF 100,000 to CHF 100 million.

Another milestone was the sale of the investment portfolio by SECO to SIFEM. For this purpose, a sale and purchase agreement was accepted by the Board and signed on 17 August 2011. All rights and obligations of SECO under the investment portfolio were retroactively transferred to SIFEM as of 1 January 2011. The transfer of the portfolio was made at a transitional valuation as of 31 December 2009, which had been reviewed and confirmed by PricewaterhouseCoopers. The final valuation as of 1 January 2011 was fixed at CHF 190,841,985. This figure was reviewed and confirmed by SIFEM's new auditor BDO, and approved by the Federal Council on 30 November 2011.

Moreover, on 17 August 2011 the Board appointed Obviam to perform portfolio management and day-to-day business management tasks on behalf of SIFEM. Under the Portfolio Management Agreement, SIFEM delegates to Obviam the investigation, structuring and negotiation of potential investments, the management of portfolio investments, as well as the provision of advice with respect to divestment opportunities. Under the Business Management Agreement, SIFEM delegates to Obviam the maintenance of records, the preparation of annual reports and accounts, the preparation of the audit process, the implementation of adequate systems for internal control, risk management and antimoney laundering, as well as a number of other administrative tasks.

2.3 Follow-Up to the Establishment of SIFEM

In May 2011, SECO launched a tender process in close consultation with Obviam, with the objective of appointing a bank as Custodian and Administrator of SIFEM. From those received, the Board deemed the bid from the Credit Suisse Group the most attractive and authorised Obviam to conduct negotiations on its behalf. On 2 December 2011, the Board accepted and signed a new Custodian Agreement with Credit Suisse AG, as well as a new Administration Agreement with Credit Suisse Funds AG.

The Board further reviewed and accepted the comprehensive operating process documents proposed by Obviam, covering topics such as the implementation of SIFEM's internal control system, the implementation of SIFEM's risk management system, anti-money laundering, as well as specifying the details of SIFEM's investment process. A substantial amount of work was also invested into clarifying the requirements related to SIFEM's reporting to the Swiss Confederation and specifying the according processes in cooperation with SECO and the Federal Finance Administration (EFV). The process for future reporting years is currently being developed.

The assumptions on which the business plan was based were reviewed in light of the weak macroeconomic environment and high currency volatility, which led the Board to question whether SIFEM had been established with a sufficient level of capitalisation.

Furthermore and among a range of other activities, action was taken with intellectual property authorities to protect the SIFEM brand, the regulatory status of SIFEM was clarified with respect to Swiss anti-money laundering legislation, and the performance of the investment portfolio was closely monitored. The performance of the portfolio in 2011 is discussed in section 5 of this report.

2.4 Investment Committee

At its initial meeting on 17 August 2011, the Board decided to re-approve four transactions that had already been accepted by SECO under the old structure, but which had not yet been executed. During the remainder of the year 2011, the Investment Committee met twice to review and approve two further transactions. The Investment Committee also granted concept approval to two new transactions, thereby allowing Obviam to further investigate and submit them to the Investment Committee for final approval in early 2012.

2.5 Audit Committee

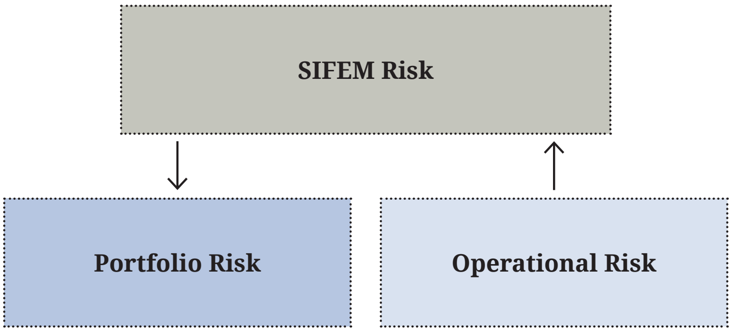
The Audit Committee held its constitutive meeting on 1 December 2011 to review the performance and valuation of the portfolio. It also reviewed the Custodian and Administration documentation, as well as the procedural documents relating to SIFEM's systems for internal control, risk management and anti-money laundering and recommended these documents to the Board for approval. Moreover, the Audit Committee supported the Board with a number of tasks related to remuneration.

3 Risk Management

Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as it affects its financial health and sustainability, its ability to generate development impact, and its reputation. Reputation risk is of particular importance for SIFEM for two main reasons (a) due to its public ownership, SIFEM is under close scrutiny by its shareholder and is being held to the highest standards; and (b) SIFEM operates in an emerging market environment, where corporate governance tends to be weak and the risk of incidents that could damage SIFEM's reputation is comparatively large.

For this purpose, SIFEM relies on a comprehensive Manual of Procedures which describes how the business is conducted. It has been approved by the Board of SIFEM, as a document detailing how Obviam implements the Portfolio Management Agreement, and in particular how risks are identified, mitigated, monitored and managed. All the relevant policies, procedure descriptions, and guidelines are an integral part of this manual.

The overall risk of the investment in SIFEM may be divided in two main areas: first, the SIFEM portfolio risk and second, the operational risk of SIFEM.



The monitoring of risk on each level follows specific procedures and processes applied throughout the operations, which ensure that the regulatory requirements are fulfilled. At each stage, the objective consists of reducing the risks for SIFEM to the minimum possible under the given investment guidelines. The risks addressed are monitored on a continuous basis. Any significant risk events such as violations of prudential limits or investment guidelines, or non-compliance with policies, events of substantial fraud, or significant deviations from set targets or changes in risk assessments or definitions are duly reported to the Board.

3.1 SIFEM Portfolio Risk Management

SIFEM's portfolio is a clear reflection of the institution's developmental mandate, as it primarily consists of investments in countries and projects with high structural risks. Therefore it is essential to have an adequate risk management system that takes special account of risk capacity in order to control these risks and by doing so, ensure that the business outcome safeguards SIFEM's ability to maintain and expand its development capabilities.

The portfolio risk management is based on four pillars:

- Investment Risk Management
- ESG Risk Management
- Treasury
- Investment management support through financial expertise

Investment Risk Management
Obviam is responsible for the identification, evaluation and selection of investment opportunities for SIFEM, as well as the monitoring of SIFEM's investments. At each stage of the investment process, Obviam applies specific tools and follows pre-defined procedures. Furthermore, Obviam actively monitors the portfolio, focusing in particular on the change in risk rating, valuations, reporting, performance of the investees and compliance with the various applicable policies and guidelines. Any violation of applicable policies or guidelines is reported to the Board, together with proposed actions to rectify the situation.

The approach to portfolio risk management is determined by an annual updated risk rating tool for each investment. Obviam uses its in-house risk rating tool which has been developed in joint venture with the Belgian and Finnish DFIs, and validated by SIFEM's auditor.

ESG Risk Management
Environmental, Social and Governance (ESG) matters are of increasing importance to investors, companies and society. As a responsible investor, SIFEM is committed to invest according to international best practice ESG standards in order to contribute to sustainable development in its target markets.

SIFEM has a comprehensive approach to responsible investment; this includes a Responsible Investment Policy which contains SIFEM's policy statement on responsible investment, SIFEM's Exclusion List, SIFEM's ESG requirements, and a description of SIFEM's ESG implementation. In order to monitor ESG risk, SIFEM's portfolio is subject to annual ESG risk rating review. Enhanced support is provided for investments where a serious ESG concern and/or insufficient ESG management systems were detected. ESG incidents are captured in a Management Information System and a Watch list is generated periodically to ensure early recognition of potential risks. An overview of ESG risk distribution of the portfolio is generated on a yearly basis.

Treasury
Obviam is responsible for ensuring compliance with liquidity risk limits. The calculation of the liquidity ratio and review of compliance with the limits are carried out by the Custodian under Obviam's supervision. Periodical cash flow forecasts are generated to ensure liquidity. Efficient cash management is performed via short term deposits in money market funds and time deposits.

Support for Investment Management by Financial Expertise
Obviam evaluates the financial risks of the investments. During Due Diligence as well as at SIFEM's investees' board meetings, financial support, analysis of key performance figures and risk evaluation is provided to Obviam. The quality of the financial reports from counterparties is constantly improved in a standardized process to ensure the early detection of risks.

3.2 Operational Risk Management

SIFEM bears operational risks which are inherent in the type of operations in which it is involved. A systematic review of operational risks and mitigants is presented in the Manual of Procedures. It identifies the type of risks SIFEM is exposed to and the actions to be taken to mitigate and manage them.

3.3 Internal Control System

SIFEM submits itself to a "full" audit according to the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing such a "full" audit are required to demonstrate the existence of an Internal Control System (ICS). The Board of Directors and the executive management in a company are required to grant due attention to the quality and documentation of their ICS.

The Procedure Manual serves as SIFEM's Internal Control System. It covers all of the operational processes and controls in depth. The accounting and financial reporting processes have been outsourced to the bank acting as Custodian & Administrator, and to an external bookkeeping agent.

4 Financial Results under SCO Accounting Standards

4.1 Introductory Comment on Accounting Standards

The enclosed financial statements for the year 2011 have been prepared in accordance with the statutory requirements, based on the Swiss Code of Obligations (SCO). With effect from the reporting year 2012, SIFEM will maintain its accounts in accordance with the International Financial Reporting Standards (IFRS). For statutory purposes, SIFEM will also continue to produce accounts in accordance with the minimum requirements of the SCO in the future.

Please note that, for an investment company like SIFEM, the main difference between SCO and IFRS lies in how its investments are valued:

- SCO requires SIFEM to hold investments at the lower of book value or market value. Accordingly, mark-ups in valuations above the book value of investments cannot be recognised in the financial statements.
- IFRS requires SIFEM to hold investments at their market value. Accordingly, mark-ups in valuations above the book value of investments must be recognised in the financial statements.

Since SCO accounting rules do not allow SIFEM to hold investments above their book values, gains from the portfolio can typically only be recognised when they are realised. This results in a highly conservative valuation of SIFEM's investment portfolio, which is almost certain to understate both its value and performance.

This effect is further accentuated by the recent transfer of the investment portfolio from SECO to SIFEM. For the transfer, the investments were also valued using the same SCO accounting standards, as per 1 January 2011. Therefore, SIFEM has acquired a number of portfolio positions at market value that were below the historical cost of investment. As the transfer of the portfolio involved a change of hands, SIFEM is forced to use the transfer values as book value (as opposed to historical cost of investment). Therefore, any appreciation above the transfer value cannot be recognised.

At most recently available market valuations, the investment portfolio is worth CHF 257.6 million, whereas its value under the SCO accounting rules is only CHF 196.1 million.

4.2 Introductory Comment on Valuation Dates

Private equity funds typically require 2-3 months after the end of each quarter to report to their investors. They first need to wait for their portfolio companies to produce financial statements, and then prepare their own reporting based on these figures. At the end of the reporting year, the time lag is usually even longer (3-4 months), since both the portfolio companies' and the funds' financial statements need to be audited. Therefore, SIFEM can, typically, only start preparing its year-end figures in May of the following year.

However, since SIFEM's financial statements needed to be issued by early March for the purposes of consolidation in the Swiss Confederation's accounts, a generally accepted substitute figure was calculated in order to value the portfolio. For the production of its 2011 financial statements, SIFEM used the latest available valuation of its investment portfolio as per 30 September 2011. In order to account for movements in the portfolio during the fourth quarter of 2011, these valuations were "rolled forward" to 31 December 2011, i.e. the price remained fixed but subsequent quantity effects were considered.

4.3 Key Positions in SIFEM's Balance Sheet as of 31 December 2011

As of the year-end 2011, SIFEM held cash worth CHF 208.0 million, of which CHF 100.2 million was held in foreign currencies to cover SIFEM's unfunded active investment commitments. The remaining CHF 107.8 million was held in Swiss Francs and available for new investment commitments. Since the Custodian and Administration Agreements with Credit Suisse were only signed in early December 2011, the reorganisation of SIFEM's cash accounts was not yet completed by the end of 2011. As per SIFEM's treasury agreement with EFV, SIFEM will henceforth only hold enough cash for its day-to-day investment operations at Credit Suisse. The balance of funds was transferred to SIFEM's treasury accounts with EFV in January 2012.

Valued in accordance with the Swiss Code of Obligation accounting rules, the investment portfolio of SIFEM was worth CHF 196.1 million at the end of 2011. This represents a net growth in value of CHF 5.3 million compared to the valuation as of 1 January 2011, which was used for the transfer of the portfolio from SECO to SIFEM. Please note that this growth in the portfolio is net of various effects, including reflows, capital gains, interest payments and foreign exchange losses.

On the liability side, SIFEM is entirely financed by its Shareholder, the Swiss Confederation. Beside the statutory share capital of CHF 100.0 million, the Swiss Confederation has granted SIFEM interest-free loans worth CHF 315.0 million.

4.4 Key Drivers of SIFEM's 2011 Net Result

While gains from investments can typically only be recognised when they are realised under SCO accounting rules, fluctuations in the portfolio value due to exchange rate movements are recognised immediately. Due to the nature of its investment policy, all SIFEM investments are held in foreign currencies. SIFEM's policies require uncalled investment commitments in these currencies to be covered by cash. Thus, a large share of SIFEM's cash positions is also held in foreign currencies.

In a macroeconomic environment marked by extreme currency volatility, it is not surprising that SIFEM has made a considerable foreign exchange loss in 2011. The appreciation pressure on the Swiss Franc was so massive during the year 2011 that the Swiss National Bank decided to intervene in the currency market in autumn to stem the rise. With both the investment portfolio and a large share of its cash held in foreign currencies, SIFEM's CHF-denominated balance sheet took a considerable hit due to the foreign exchange movements in 2011. Across all assets classes, the net foreign exchange loss amounts to CHF 7.8 million. This represents 69% of SIFEM's net loss in 2011.

The remainder of SIFEM's CHF 11.3 million net loss for the year 2011 is due to operating costs and a few downward corrections in valuations of underperforming investments. A short reiteration in this context: write-downs (below book value) are fully recognised, whereas mark-ups (above book value) are not recognised under SCO accounting rules. Therefore, the resulting net loss is primarily a paper loss and reflects the highly conservative valuation methodology applied for preparing the statutory financial statements for the year 2011.

4.5 Legacy Positions due to the Mode of Establishment of SIFEM

As mentioned previously, the Swiss Confederation established SIFEM in August 2011 based on an existing company. Therefore, the previous year figures as of 31 December 2010 are not comparable. Second, there are some positions in SIFEM's 2011 profit and loss statement originating from the preestablishment structure (1.1.-17.8.2011): the proceeds from services of CHF 1.77 million is entirely cancelled out by third-party costs of CHF 1.39 million, personnel cost of 0.29 million, and other administrative expenses of CHF 0.09 million. All pre-establishment operations have been balanced, their net effect is therefore zero.

5 Performance of the Investment Portfolio

5.1 Portfolio Construction and Legacy

The concept, approved by the Federal Council in 2010, of the establishment of SIFEM as a Development Finance Institution demanded that the new entity take over the active portfolio of the Swiss Confederation. At the time of the transfer in August 2011, the portfolio consisted of 62 investments, representing a total remaining commitment of USD 158.8 million and a residual value of USD 230.7 million. This portfolio was built up over a period of 14 years, with the first investments dating back to 1997.

Over the years, the portfolio has been assembled with a high degree of consistency in terms of investment guidelines and priorities. For instance, providing long term capital to SMEs, mobilizing private investors and acting in a manner subsidiary to the market have remained core tenets throughout. Nevertheless, the portfolio also reflects important strategic shifts in SECO's development cooperation during the last 14 years, covering four consecutive legislative periods (and the same number of Framework Credits), as well as the emergence of new themes, such as climate change and microfinance. The main change to the investment strategy and the nature of the portfolio was the modification of the list of priority countries. For instance, 15 years ago, India and China were on the priority list, but they have recently been withdrawn. In Eastern Europe, the ten countries which joined the EU in 2004 and 2007 were removed from the list of eligible countries at the time of their EU accession. Furthermore, the analysis of expected development effects of the investments, including financial sustainability and environmental, social and governance matters, has been continuously deepened to incorporate lessons from past experience and to comply with the latest international standards and best practices. Hence inevitably, not the entirety of the legacy project portfolio does in every respect represent the state-of-the-art and is completely in line with SIFEM's current strategy.

5.2 Valuation Guidelines for Performance Measurement

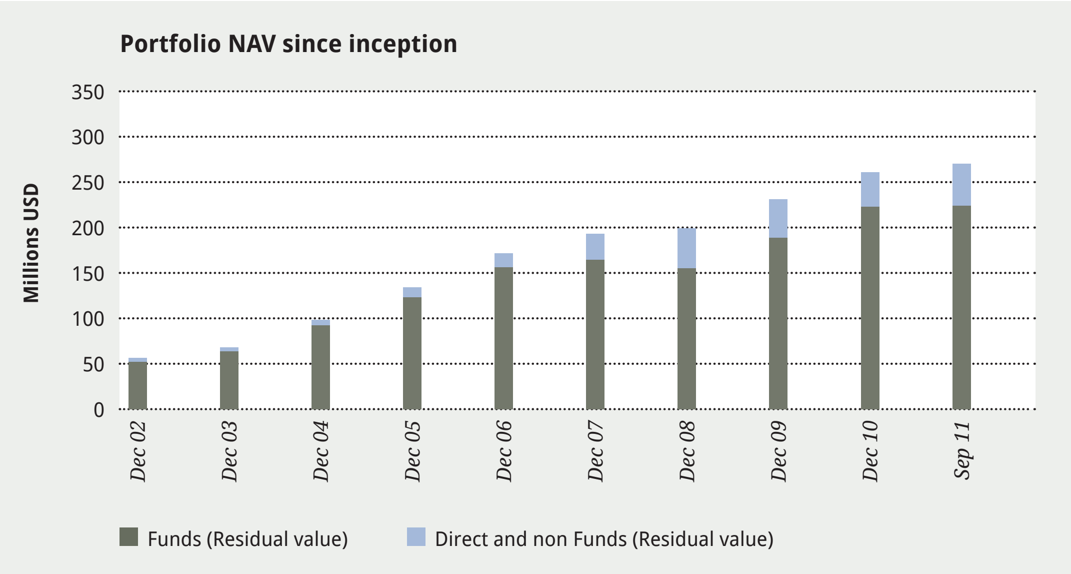
For performance measurement purposes, SIFEM uses the current market value of the investments in the portfolio, with the key benchmark being the historical cost of investments (prior to the transfer). To determine market values, SIFEM applies the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines). To reduce the effects of foreign exchange volatility in measuring the performance of its investment portfolio, SIFEM uses the US dollar as the functional base currency for performance measurement purposes.

Due to the time lag in reporting, as described above, the latest available market valuations are those per 30 September 2011. Therefore, the following discussion of the investment portfolio's performance focuses on the first three quarters of 2011.

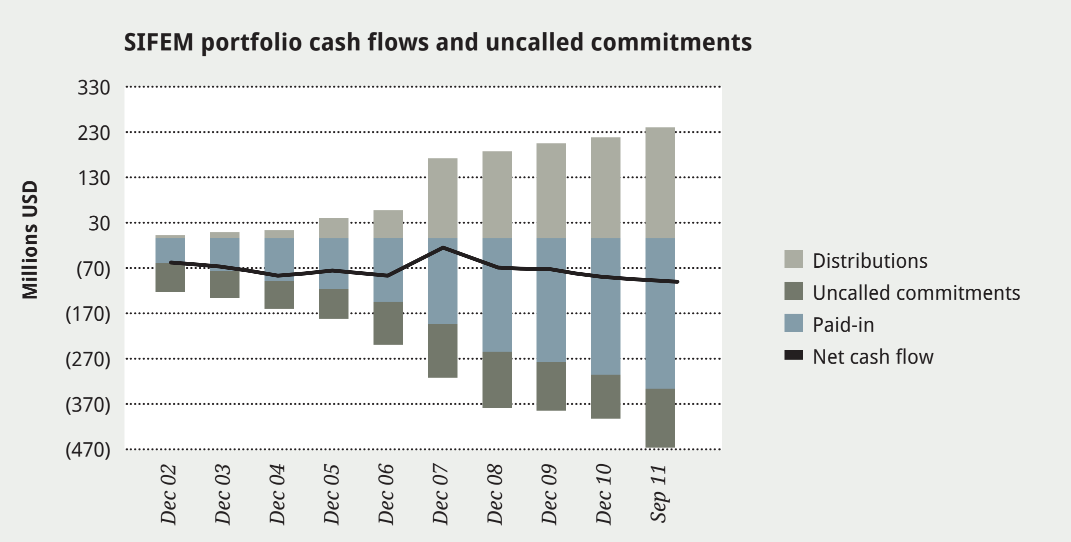
5.3 Evolution of Key Performance Benchmarks

As of 30 September 2011, SIFEM has committed USD 436.3 million to 47 primary private equity partnerships and 17 direct investments. When looking through the fund investments, SIFEM has indirectly invested in 311 underlying portfolio companies through its 64 investments.

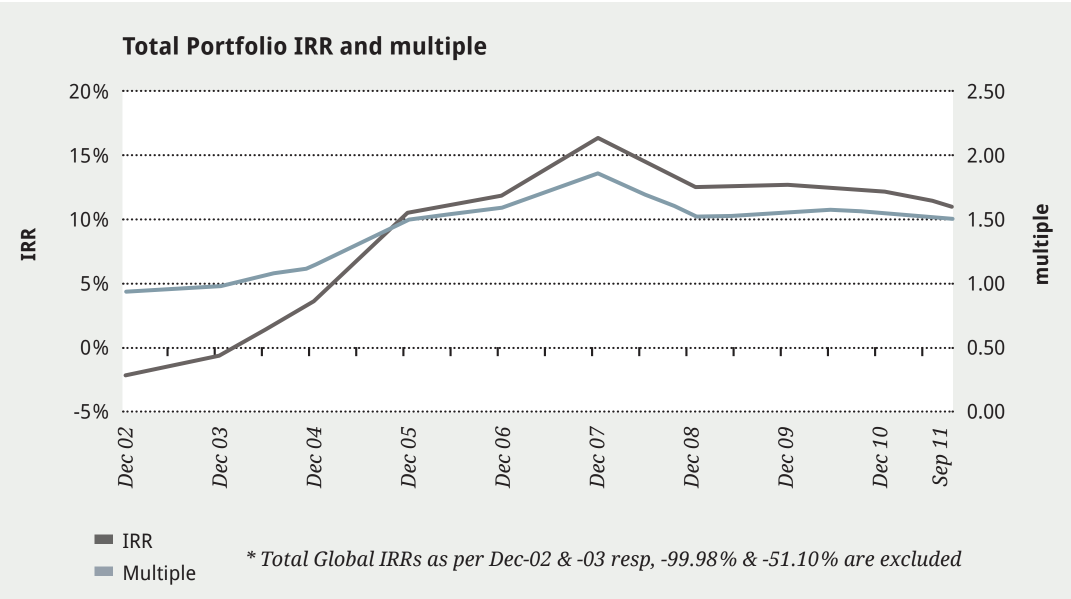
As of 30 September 2011, SIFEM's net asset value ("NAV" or "residual value") amounted to USD 271.7 million, an increase of USD 9.6 million or 3.7% compared to 31 December 2010. The NAV as of 30 March 2011 and 30 June 2011 amounted to USD 286.7 million and USD 279.1 million, respectively.



Since inception, USD 337.82 million has been drawn down and USD 238.8 million has been distributed from the SIFEM investment portfolio. The total value of SIFEM investments, including distributions of USD 238.8 million, amounted to USD 510.5 million versus paid-in capital of USD 337.82 million. As of 30 September 2011, the net cash flow of SIFEM's portfolio since inception amounted to USD -98.9 million: it is attributable to paid-in capital of USD 337.82 million and distributions of USD 238.8 million. This negative cash flow is due to the young age of many investments in the portfolio, as well as its growth in recent years.



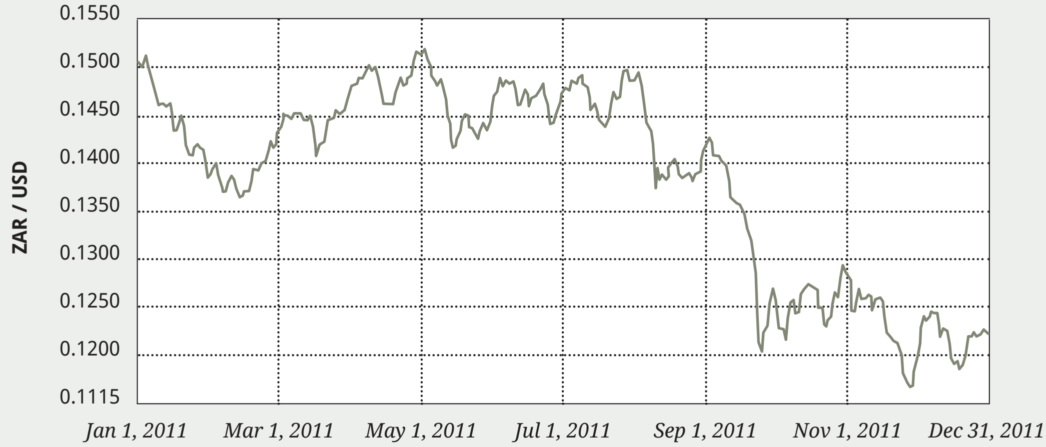
As of 30 September 2011, SIFEM's portfolio IRR was 11.19%, a decrease of -0.90% compared to 31 December 2010. The IRR as of 30 March 2011 and 30 June 2011 were 12.15% and 11.8% respectively. The IRR calculation is performed since inception. The SIFEM portfolio is a vehicle with no fixed-life investment pool, it is "evergreen" as SIFEM's shareholder can contribute additional capital and withdraw capital from the vehicle whenever it chooses.



Since 2005, the portfolio IRR has constantly moved between 10% and 15%. The highest IRR figures were achieved before the financial crisis with 16.86% (Jun-07) and 16.38% (Dec-07). During the years of the financial crisis (08/09) the portfolio value experienced a moderate decrease and the IRR reached a level around 12% to 13%. With the start of the European debt crisis in 2010 and its ripple effects on company valuations around the world, the IRR decreased again and now ranges between 11% and 12%.

5.4 Currency Effects

Using the US dollar for performance measurement purposes allows SIFEM to analyse the performance of its portfolio free of the impact of the Swiss Franc's volatility. This massively reduces the importance of currency markets as a driver of SIFEM's portfolio performance. While the mid-year results showed some gains due to the appreciation of the Euro against the US dollar, those currency effects almost fully disappeared at year-end with the Euro moving back to its January levels against the US dollar at the end of 2011 (-2.9% over the year). The third major currency to which SIFEM has direct exposure is the South African Rand (ZAR) which weakened from 0.1506 USD per ZAR to 0.1228, a decline of 18.5%. In summary, those direct currency movements amount to a loss of roughly USD 1.8 million.



The weakening of certain domestic currencies such as the Indian Rupee (-16% over the year against the US dollar) also weighed on the 2011 result. For funds denominated in USD or EUR, the devaluation of such domestic currencies led to lower valuations of their portfolio positions. Most of these losses may be of a temporary nature as domestic currencies tend to revert to the mean or – if not – are likely to increase the competitiveness of domestic economies and thus accelerate economic growth. It is difficult to quantify the aggregate loss stemming from these indirect currency exposures because investee fund accounting is only available in the funds' denomination currencies, i.e. USD and EUR.

5.5 Impact of the 'Arab Spring' on SIFEM's portfolio

The transition from authoritarian to democratic regimes in countries of the Maghreb and the Middle East, known as the Arab Spring, is still underway and the political and economic impact differs across the region. While the political situation has remained relatively stable in Algeria and Morocco, where economic growth has continued, the conditions remain challenging in Egypt, Libya and especially in Syria. The Islamist parties who came into power have been moderate and are expected to remain so as they continue building alliances and political recognition. In Tunisia, the democratic transition process seems to be evolving in a fairly orderly fashion, with little negative impact on the economy (one year of negative GDP growth of -0.7% in 2011) except for sectors such as tourism and exports to Libya.

SIFEM has five fund investments in the Maghreb/MENA region and one in Egypt. The Maghreb funds continue to perform well despite the context with a slowdown in only a few (2-3) companies, especially in the cyclical sectors, such as packaging and tourism. In fact, the main impact on the performance and valuation has been the depreciation of the dollar. The launch of the Sphinx Turnaround Fund in Egypt was significantly complicated by the current economic environment, resulting in only one deal being completed since inception. However, this investment is in a defensive sector (pharmaceutical) and is performing well.

5.6 Other Market Trends Affecting SIFEM's Portfolio

While all of SIFEM's target regions continued to experience strong growth relative to developed countries, 2011 saw a fall in GDP growth rates in all regions of the world, as well as declines in company valuations in many parts of the world. Overall, this had a small negative impact on the value of SIFEM's investment portfolio across all regions. For a more comprehensive analysis of the key macroeconomic and private equity market trends in emerging economies, please refer to section 9 annex.

5.7 New Investments Concluded in 2011

New commitments worth a total of USD 55.6 million were made to six private equity funds and two financial institutions in 2011. Commitments ranged across emerging markets and sectors. In 2011 three investments were sector agnostic SME funds, and SIFEM made its first dedicated investments to education, junior mining, and forestry specific funds.

Three commitments were made to the Asia region, the first to an education fund focused on India, the second to a sector agnostic SME fund dedicated to Cambodia and Laos, and the third to sector agnostic SME fund dedicated to Vietnam. Two commitments were made to the Sub-Saharan Africa region, the first to a regional junior mining fund and the second to a regional forestry fund. One commitment was made to the MENA region, specifically a sector agnostic SME fund dedicated to the Maghreb. One commitment was made to the Latin America region, specifically a financial institution focused on loans for education purposes. One commitment was made to a global developing country debt fund to private sector projects that reduce climate change by cutting greenhouse gas emissions.

The new portfolio positions are as follows:

- **Kaizen Private Equity:** a private equity fund that invests roughly USD 5 to 12 million per transaction in the education market value chain in India. This includes school management companies in the core education segment, vocational training providers in the parallel education segment, and education-specific technology providers in the ancillary education segment.

- **Cambodia Laos Development Fund:** a private equity fund that invests USD 0.25 to 2 million per transaction in established, fast-growing SMEs in Cambodia and Laos. The fund will invest in all sectors of the Cambodian and Lao economies.

- **Vietnam Investments II:** a small- and mid-cap private equity investor, this fund will seek diversified investments in the following sectors: education, tech-media-telecom, tourism and hospitality, financial services, retail and distribution, manufacturing and affordable housing.

- **New Africa Mining Fund II:** a USD 200 million private equity fund seeking to invest between USD 10-30 million in junior mining companies. In many Sub-Saharan countries, mining is a significant contributor to economic growth. The Fund invests in junior mining, which consists of identifying and developing new deposits before they become large-scale operations. At this early stage, it has a unique opportunity to ensure that operations and procedures of mines comply with international best practice in terms of environmental and social risk management. DFIs have an important role to play in investing responsibly in mining. For example, the fund adheres to best practice on environmental and social issues as prescribed by the IFC Performance Standards. Moreover, the Fund is a member of the Extractives Industry Transparency Initiative (EITI), an important step away from rent-seeking exploitative behaviour sometimes observed in the natural resources sector, towards transparency and governance.

- **Africa Sustainable Forestry Fund:** a USD 150 million fund that invests in timber and forestry-related assets in Sub-Saharan Africa. Assets will be managed according to Forest Stewardship Council (FSC) principles and IFC Performance Standards. Plantations and concessions will be harvested and planted in a manner that ensures a sustainable balance.

- **Maghreb Private Equity Fund III:** a EUR 96.5 million fund providing growth capital in the range of EUR 8-10 million to SMEs with the potential to become regional players in the Maghreb region (Tunisia, Algeria and Morocco), and opportunistically in Egypt, Libya and some European countries (SIFEM secured an opt-out for Libya and Europe).

- **Higher Education Finance Fund:** a USD 28 million debt fund providing loans and technical assistance to microfinance institutions (MFIs) offering higher education finance loans to young adults from low-income families. Target countries are Guatemala, Honduras, Bolivia, Peru, Paraguay, and the Dominican Republic

- **Interact Climate Change Facility (ICCF):** a joint investment facility for financing climate change and climate efficiency projects in developing countries. It is backed by the majority of the European Development Finance Institutions (EDFIs), to which SIFEM belongs. ICCF will provide long-term loans, guarantees and mezzanine finance of up to EUR 45 million to private sector projects that reduce climate change by cutting greenhouse gas emissions.

5.8 Concluding Remarks on Financial Performance

2008–2010 has been a very difficult period, not only for private equity but for the entire financial industry. With fears of a financial meltdown and global economic collapse, depressed enterprise valuations and record lows in terms of transaction values, it was difficult for SIFEM to find viable projects and co-investors so as to bring promising prospects to a closing.

In 2011, the business environment has remained difficult but relatively stable. During the first three quarters of 2011, SIFEM has beaten the full-year performance of the last three years in terms of total reflows and capital returned to investors. In terms of new commitments made during 2011, SIFEM is well on track to reach similar levels to those achieved in the mid-2000s. As these commitments materialise over the coming years, the amounts paid-in are also expected to pick up. The amount paid-in during 2011 already exceeds all previous annual figures with exception of the record years 2007 and 2008. The IRR, the key financial performance indicator over SIFEM's entire portfolio, has slightly suffered during 2011, but remains solid at 11.19%.

The discrepancy between the statutory financial statements under SCO accounting rules and the performance of the investment portfolio at market valuations is somewhat disconcerting. As a Swiss Aktiengesellschaft, SIFEM will continue producing its statutory financial statements in accordance with SCO accounting rules. Therefore, this discrepancy will persist. However, SIFEM remains hopeful that the production of financial statements in accordance with IFRS accounting standards starting in 2012 will further contribute to putting the SCO figures in perspective.


13=00
12=00
11=00


12=00
12=00
11=00
AHAAR
8=00
BASMATI

6.1 Operationalization of Strategic Objectives

In connection with the establishment of SIFEM, SECO has set up a controlling framework for monitoring SIFEM's performance against the strategic objectives set by the Federal Council. At its constitutive meeting on 17 August 2011, the Board took note of SECO's "Concept for Controlling and Supervision of SIFEM AG". This document sets out the parameters and describes the processes involved in the strategic control of SIFEM by various actors within the Swiss federal administration. The controlling of the strategic objectives is based on an operationalized catalogue of objectives.

The operationalized objectives are split into four thematic groups:

- Development impact: this group of objectives seeks to ensure that SIFEM's operations will have a positive development effect, in particular with respect to job creation, financial sector development, environmental and social aspects.
- Financial sustainability: with this group of objectives, SECO seeks to ensure that SIFEM reaches the critical size and generates sufficient return to sustain its economic independence over the long term.
- Compliance with operational principles: this group of objectives seeks to ensure that SIFEM complies with its investment policy and other operational principles.
- Institution building: this group of objectives allows SECO to check whether SIFEM has given itself an appropriate management and governance structure.

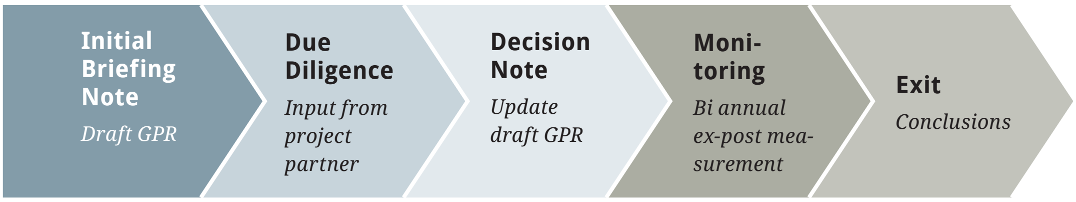
After the establishment, the Board worked on the annual targets for 2012, the performance against which will also impact Obviam's remuneration. The Board did not specify targets for the few remaining months of 2011. Henceforth, starting 2012, SIFEM expects to report on progress against the annual targets as well as on overall progress against the four-year operationalized objectives in its annual report.

The following section sets out the development impact measurement system used by SIFEM to assess many of the non-financial performance aspects. This system will play an important role in determining how SIFEM performs against the operationalized objectives.

6.2 SIFEM's Development Impact Measurement System

SIFEM invests via private equity funds (PEF) as well as financial institutions (FI) in developing and transition countries. With their local presence, these intermediaries are optimally placed to invest in SMEs on behalf of SIFEM. In order to assess the development effects of SIFEM's investments, Obviam has been using the GPR (Geschäftspolitisches Rating) tool developed by the German DFI DEG since 2006. The Excel based GPR tool is used throughout the life cycle of each SIFEM investment and consists of eight different development indicators and 42 sub-indicators.

Figure: the GPR tool covers the entire life cycle of an investment



In order to track the progress of an investment over time, a benchmark is established at the investment appraisal stage to reflect the expected development effects of a PEF or FI investment (GPR ex-ante process). After an investment is made, GPR data is collected every second year to track and monitor actual development effects when they occur (GPR post-investment process). For PEF investments, the post-investment process is done until the end of the investment period of a fund. For FI investments, post-investment GPRs are done until the maturity or prepayment of a credit facility or divestment from the FI. As job creation is an important objective for SIFEM, the job data of each investment is collected and assessed on an annual basis. For this purpose, Obviam has developed a job table that it uses to collect the job numbers of all portfolio companies of a PEF as well as job numbers at the subborrower level for SIFEM's FI investments.

Obviam compiles the GPR data once a year and reports annually the expected development effects of SIFEM's new commitments made the previous year. It also compares the expected development effects versus actual development effects of investments measured in ex-post data collections every two years. For those investments that reach the end of the GPR process in any given year, a summary conclusion report is presented as part of the respective annual GPR report.

6.3 Highlights of the 2010 GPR Report

The GPR report for 2011 is not yet available, because the necessary information is still being compiled from SIFEM's portfolio funds and companies. The 2011 GPR report is expected to be published in June 2012.

GPR ex-ante: expected development effects of new commitments in 2010
In 2010, SIFEM made new commitments to seven PEFs and one FI. The expected mobilisation factor in terms of co-investment is expected to be USD 480 million or 9.5x SIFEM's commitment. This is slightly higher than in the two previous years when the mobilisation factor was 7x. The expected total development effects of the eight new commitments are as follows: four investments "very good", one investment "good" and three investments "satisfactory". This is in line with the expected development effects of SIFEM's 2009 commitments and above the development effect results for 2007 and 2008 investments.

Job effects: SIFEM's 2010 investments are expected to contribute to a total of:

- 237 direct jobs in the seven PEFs and one FI in which SIFEM invested (with a large share of this figure originating from the FI);
- 9,928 indirect jobs in portfolio companies of the PEFs and client companies of the FI.

Other development effects: SIFEM's 2010 new commitments are expected to have the following development effects:

- 3 out of 8 investments will create positive gender effects;
- All investments will provide training for their employees (at the PEF and FI level);
- 7 out of 8 investments will mobilise further local capital;
- 6 out of 8 investments will contribute to the diversification of the local financial sector;
- All 2010 investments will provide access to finance for SMEs and/or start-ups; and
- All new investments will contribute to the development of SMEs in target countries.

GPR post-investment: actual development effects of SIFEM's 2005/06 and 2008 investments
Job Effects: Together with other investors, SIFEM's investment activities have supported and/or created a total of over 170,000 jobs since 2005.

Development effects of SIFEM's 2005/06 investments: Together with other investors, SIFEM's investment activities produced the following development effects:

- 9/10th of investments show training effects;
- All investments mobilised additional capital from local banks in target countries (on top of coinvestors in PEFs and FIs);
- Almost two thirds of the investments made a positive contribution to the diversification of the financial sector in target countries;
- All investments enhanced access to finance in the target countries (i.e. investment in new regions or new sectors); and
- All financial intermediaries SIFEM partnered with contributed to operational improvements in portfolio companies.

Compared to the ex-ante benchmark established for these investments at the due diligence stage, the actual development effects clearly surpassed the benchmark.

Development effects of SIFEM's 2008 investments: Together with other investors, SIFEM's investment activities resulted in the following development effects:

- All investments resulted in training for employees at the PEF and FI level;
- All investments mobilised additional capital from local banks in target countries;
- 7/10th of all investments contributed to the diversification of the financial sector in target countries;
- All investments improved access to finance in the target countries (in particular finance for new sectors or regions); and
- Via the value-add of financial intermediaries, all of SIFEM's investments contributed to the strengthening of local companies.

Comparing the ex-ante benchmark of SIFEM's 2008 investments with the actual development effects after two years, the results achieved were better than expected, surpassing the benchmark at an early stage of the investment.

6.4 Performance against Operationalized Objectives

The following table lists the operationalized objectives as specified in the Concept for Controlling and Supervision of SIFEM, alongside the most recent measurement figures relevant to each one.

Goals	Sub-goals	Targets	Relevant Measurements
1. Development impact	1.1 Positive overall development effect by internationally agreed standards	In ex-post measurements, 60% of SIFEM's investments shall score "good" or better in the development monitoring system accepted as best practice among European Development Finance Institutions (EDFI).	In the ex-post measurements made for the GPR reports 2009 and 2010, 94% of SIFEM's investments scored "good" or better overall.
	1.2 Company-level job creation	At least half of SIFEM's indirect investees have witnessed job increases over the time of investment	According to ex-post measurements made for the GPR report 2010, 81% of SIFEM's indirect investees (underlying fund portfolio companies) witnessed job increases over the time of investment (excluding the most recent investments made in 2010).
	1.3 Aggregate job creation	On a three-year floating average, the aggregate number of jobs in all of SIFEM's indirect investees (excluding new investees added during the period) shall witness a net annual increase	According to ex-post measurements made for the GPR reports 2010, the total number of jobs in indirect investee companies of vintage 2007 increased by 18% in three years, for indirect investees with vintage 2008, the increase in the first two years is 15%.
	1.4 Financial sector development	Every SIFEM investment in some way contributes to diversifying the financial sector or credit allocation in target countries	According to ex-post measurements made for the GPR reports between 2008 and 2010 (vintages 2005-08), every SIFEM investment contributed in some way to diversifying the financial sector or credit allocation in target countries.
	1.5 Positive environmental and social impact of investments	All SIFEM investees have committed to implement SIFEM's environmental and social standards	All SIFEM investee funds committed to implementing SIFEM's environmental and social standards (start of measurement in 2008).

Goals	Sub-goals	Targets	Relevant Measurements
2. Financial sustainability	2.1 Positive return on investments	On a five-year floating average, the annual investment reflows shall exceed all expenses and fees of SIFEM plus CHF 25 million	After the difficult years following the global financial crisis, the distributions began to increase again in 2011. Between 1 January and 30 September 2011, SIFEM already received USD 22 million of distributions, therewith beating the whole-year figures for 2008, 2009 and 2010. Taking into account the pre-crisis years, the average distributions per year between 2007 and 2011 (to date) amount to USD 36 million.
	2.2 Sufficient annual commitments	On a 3-year floating average, SIFEM shall commit at least CHF 25 million per year	In 2011, SIFEM committed USD 55.6 million to new investments. This compares with USD 31.8 million in 2010, USD 30.5 in 2009, and USD 46.4 in 2008.
3. Compliance with operational principles	3.1 Investing in priority countries of the Swiss development cooperation	60% of SIFEM's commitments shall be directed toward priority countries of Swiss development cooperation	SIFEM continues making over 60% of its commitments in priority countries of Swiss development cooperation (as defined at the time of investment).
	3.2 Subsidiarity and Additionality	At least 80% of SIFEM's investments shall be expected to have "positive" or "very positive" effects both in terms of Subsidiarity and Additionality at the time of investment	7 out of 8 investments closed in 2011 are expected to have "positive" effects both in terms of Subsidiarity and Additionality (as per the ex-ante estimates for the investment approval papers). 6 out of 8 are expected to have "very positive" effects in one of these two dimensions.
	3.3 Mobilisation of private capital for development	In at least half of the funds in which SIFEM invests, every dollar invested by SIFEM shall mobilise at least two dollars of private investments	According to a recent empirical report prepared by Obviam on all fund investments in the portfolio with a closing date between January 2004 and September 2010, each dollar invested by SIFEM was matched by USD 3.54 from other investors (excluding other DFIs and multilateral development banks).
4. Institution building	4.1 Appropriate management and governance structure	SIFEM shall implement and maintain a proper risk management system	In order to meet the requirements of the Swiss Code of Obligations, Obviam has designed a risk management system and an internal control system for SIFEM, both of which are currently being implemented. Further improvements, in particular with respect to rating individual investments, will be implemented in 2012.
	4.2 Professional cooperation with Federal Administration		SIFEM has proactively engaged with the Swiss Federal Administration during this establishment year, as highlighted in other parts of this report.

7 Compensation Report

7.1 Board Compensation

In accordance with the Organisational Regulations prepared by SECO, the annual compensation is fixed at a total of CHF 225,700 per annum for the entire Board of SIFEM during the start-up phase until 2 years after the establishment. Pro rata temporis for the period 17.8.–31.12.2011, the Board has been remunerated with CHF 84,715 (excluding social security contributions). The representative of the Swiss Confederation does not receive any compensation from SIFEM for his membership in the Board.

The Chairman of the Board received total compensation of CHF 20,268 for the period 17.8.– 31.12.2011. This consists of a base compensation of CHF 15,013 for his role as Chairman of the Board and CHF 5,255 for his role as Chairman of the Investment Committee.

7.2 Compensation of Obviam

The compensation of Obviam is determined in accordance with the Portfolio Management Agreement and the Business Management Agreement.

Under both agreements, Obviam is compensated for the actual cost incurred, within a budget that is approved annually in advance by the Board.

The original wording of Clause 4 of the Portfolio Management Agreement is as follows:

a. SIFEM will pay the Portfolio Manager an annual management fee (the "Management Fee") equal to an amount agreed before the end of the previous year by the Board and the Portfolio Manager.
b. The amount of the Management Fee shall be calculated using an annual budget to be approved by the Board, consisting of the expected human resource and other expenditure directly attributable to the services provided under this Portfolio Management Agreement, and a pro-rata share of the general expenses (not directly attributable to any mandate) of the Obviam Group. For the avoidance of doubt, the share of general expenses to be borne by SIFEM shall be calculated in accordance with the pro-rata share of SIFEM's active commitments against the total active commitments on all mandates of the Obviam Group [...]
j. [...] At the end of a business year, the Management Fee paid to the Portfolio Manager according to the annual budget shall be compared with the actual costs of the Portfolio Manager. If the Management Fee paid is in excess of the total effective cost of the Portfolio Manager for the management of the Portfolio, the amount in excess shall be returned to SIFEM [...]

The original wording of Clause 9 of the Business Management Agreement is as follows:

> SIFEM shall compensate the Business Manager with an allowance for its expenses, calculated ex-ante on the basis of an annual budget of the business management to be prepared by the Business Manager and approved by the Board of SIFEM. The expenses comprise any and all management costs, particularly secretarial work, copies, mailing costs, IT costs, telephone, travel costs, etc. [...] If the allowance paid is in excess of the actual costs of the Business Manager for the business management of SIFEM, the amount in excess shall be returned to SIFEM [...]

The Board of SIFEM agreed to adopt the annual budget which had been prepared by SECO and Obviam for 2011 under the old portfolio management mandate. For the entire year 2011, the total budget for Obviam was CHF 4,106,842 (including VAT, under both agreements together for the period 17.8.–31.12.2011). This corresponds to 1.05% of the total active commitments of SIFEM as per 30 September 2011 (latest available figures), which is well below the 1.5% threshold set by the Federal Council.

Obviam has complied with Clause 16 of the Portfolio Management Agreement, the original wording of which is repeated below:

> The Portfolio Manager [Obviam] undertakes to ensure that in the Obviam Group the proportion of the highest individual fixed salary which results from this Portfolio Management Agreement does not exceed salary class 32 of the Swiss Confederation. For the avoidance of doubt, this shall include any residence allowance and pension treatment that an employee of the Swiss Confederation earning salary class 32 would be entitled to.

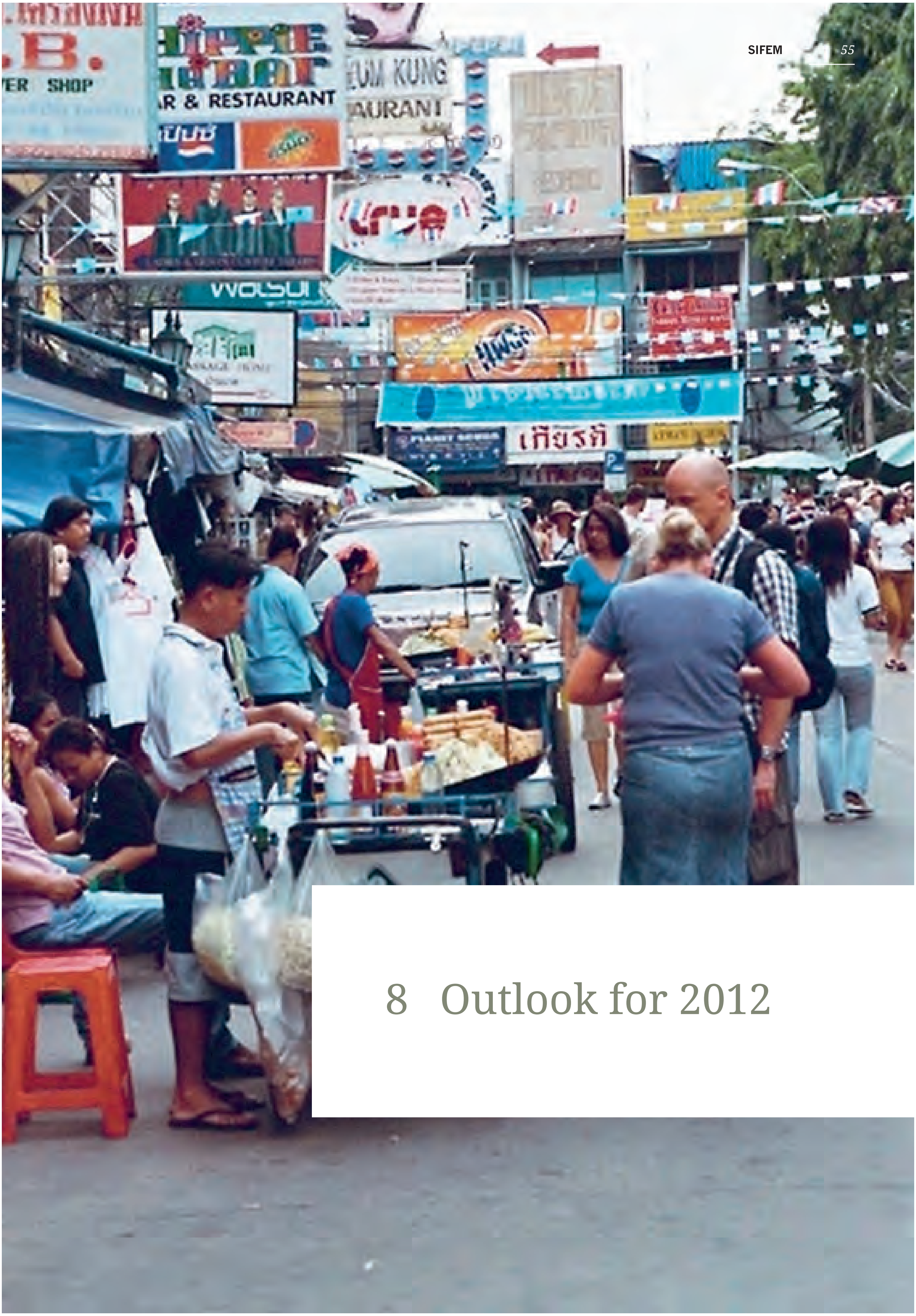
Starting in 2012, SIFEM will also start to implement a new bonus system, as specified in Clause 4 of the Portfolio Management Agreement, the original wording of which is repeated below:

e. The Board will allocate a performance bonus (the "Performance Bonus") equal to an amount up to 20% of the annual fixed salary costs indicated in the annual budget prepared in accordance with Clause 4 (b) of this Portfolio Management Agreement for the year in question. The objectives to be attained by the Portfolio Manager [Obviam] shall be specified yearly by the Board and agreed with the Portfolio Manager in the framework of the yearly budget process.

f. One third of such Performance Bonus shall be disbursed annually to the Portfolio Manager at the beginning of the year following the year in question (the "Immediate Bonus") depending on the progress made in a given year in attaining objectives specified annually in advance by the Board according to the operational objectives set out in the Supervision and Controlling Concept agreed between SIFEM and the Swiss Confederation.

g. Two thirds of such Performance Bonus shall be disbursed to a blocked account at the beginning of the year following the year in question (the "Retained Bonus"). Such Retained Bonus payments shall be retained on the blocked account, with the total amount on the blocked account to be disbursed to the Portfolio Manager at the beginning of the year following the expiry of the strategic objectives, depending on the progress made in attaining the objectives specified in advance by the Board in line with the strategic objectives. For the avoidance of doubt, any undisbursed amount remaining on the blocked account after such period due to non- or partial fulfilment of the agreed objectives shall be returned to SIFEM. Due to the fact that the current strategic objectives are valid until end-2012, the first disbursement of the Retained Bonus shall occur in early 2013. After the first disbursement, the Retained Bonus shall be paid out every four years, in line with the four-year duration of the strategic objectives.

Since this new bonus system will only become effective for the year 2012, the Board approved the disbursement for the entire Obviam team of CHF 50,000 as a bonus for 2011. This amount reflects the bonus agreed between SECO and Obviam in 2010 for the 2011 budget.



8 Outlook for 2012

8.1 Business Plan

As described above, the investment activity in SIFEM's portfolio is slowly finding its way back to normality after three difficult years in 2008-10. With new investment commitments accounting for USD 55.6 million (CHF 52.3 million) in 2011, SIFEM outperformed the strategic objective set by the Federal Council (CHF 25 million) and came close to reaching the long-term average target specified in its business plan (CHF 60 million). In 2011, finding sufficient investment opportunities that satisfy both SIFEM's financial viability and development impact criteria remained challenging. Reflows also lagged behind projections in 2011, due to the frothy exit markets. Nevertheless, SIFEM still has enough uncommitted capital to meet the business plan target of CHF 60 million of new commitments in 2012.

SIFEM's total asset volume currently stands at around CHF 530 million[1] according to the latest available figures as compared to the target range of CHF 620-650 million which has been projected in the preparatory phase in establishing SIFEM AG and based on the company's original USD based business plan in order to reach financial sustainability by way of entirely covering the operating expenses and new investment costs out of investment reflows. In view of a rapidly changing environment – which includes high foreign exchange fluctuations and substantial future investment needs, not least to remain on par with other middle-sized European DFIs – the question has arisen whether the capital base is sufficient in the medium to long-term in order to fully achieve financial sustainability. The Board, in close cooperation and dialogue with SIFEM's shareholder, will be closely monitoring the situation and evaluating possible measures.

8.2 Deal Flow and Investment Pipeline

A healthy deal flow in all SIFEM target regions was observed in 2011. A total of 210 deals of potential interest for SIFEM were screened by Obviam. Approximately half of those investment opportunities were rejected outright, mostly because they did not fully comply with the investment policy requirements or limitations. Another 90 deals were rejected by Obviam during the screening process. About 5% of the deals screened were moved to the active pipeline and were analysed more deeply. During 2011, seven of them were presented to the SIFEM Investment Committee. The Investment Committee discussed these projects on the basis of an Initial Briefing Note, making comments and recommendations enabling all projects to be accepted. About 10% will require further screening in 2012. Assuming that the economic environment continues to improve, SIFEM therefore remains confident that its new investment activity will continue to grow in 2012.

[1] *This includes a SECO contribution of CHF 59.5 million divided into two equal tranches for fiscal years 2011 and 2012*

8.3 Operational Priorities

2012 will be SIFEM's first full year of operations under the new institutional structure and operational regime. Thus, on an operational level, much of the focus will be on fine-tuning the various new procedures and fully implementing all the new requirements.

As explained previously in this annual report, annual management targets will be determined starting in 2012, on the basis of the strategic objectives set by the Federal Council. The first set of strategic objectives expires on 31 December 2012, which corresponds to the end of the current framework credits for SECO's development co-operation budget. A new set of strategic objectives will be set by the Federal Council for the years 2013 to 2016.

Given the short time horizon for the first set of strategic objectives, the 2012 annual management objectives devote particular attention to further enhancing portfolio management tools and processes. Portfolio management plays a key role in ensuring that SIFEM investments result in the emergence and growth of successful and sustainable enterprises. In this regard, a new risk rating tool for financial institutions and funds will be implemented. It has been developed by Obviam, in cooperation with other Development Financial Institutions and validated by SIFEM's auditor (BDO) as a meaningful instrument to monitor the investment risk and to assess vulnerabilities.

Risk management for environmental, social and governance matters will also be strengthened through the implementation of an enhanced rating tool which will ensure early recognition of potential risks and allow more proactive mitigation.

Furthermore, the External Evaluations Committee of SECO has commissioned an independent evaluation of SIFEM's developments effects. This study will be carried out in 2012 and the results published in 2013. SIFEM and Obviam will devote all the necessary resources to support this exercise and look forward to using lessons learned to continuously improve and adapt strategies, instruments and processes in order to strengthen SIFEM's development impact on the ground.

9 ANNEX: Market Trends Affecting SIFEM's Investment Portfolio

Economic Growth Trends in Emerging Markets

Compared with the previous year, real GDP growth fell in 2011 in all major regions of the world. Among the emerging markets, Asia (excluding Japan) provided the strongest growth in 2011 at 7.2% real GDP growth. While still the strongest global growth region, forecasts for future growth in Asia have been dampened relative to recent performance. Real GDP growth of 6.2% is forecast for 2012 and 6.5% in 2013. China is predicted to export less, and many believe the government's balance sheet to be weaker than reported, making fiscal policies more difficult to implement. Aside from China and India, some of the fastest growing economies in the region include Laos, Indonesia, Vietnam and Sri Lanka. Emerging Asia is a very strong contributor to global GDP, and represents approximately 20% of global annual GDP.

Figure: Emerging Market Real GDP growth (%)

	2010	2011e	2012f	2013f
World	4.5	3.0	2.7	3.1
Developed States	3.1	1.3	1.0	1.9
Emerging Markets	6.8	5.5	5.0	5.3
Asia Ex-Japan	8.8	7.2	6.2	6.5
Latin America	6.0	4.0	3.8	3.4
Emerging Europe	4.5	4.0	2.6	4.1
Sub-Saharan Africa	5.0	4.2	5.9	6.0
Middle East and North Africa	3.9	3.4	4.3	4.5

Source: BMI Global Macro Monitor March 2012

Sub-Saharan Africa (including West, East, Central and Southern Africa) was the second strongest growth region in 2011 at 4.2% real GDP growth. Growth is expected to continue accelerating in the region from to 5.9% in 2012 and 6.0% in 2013. South Africa, Kenya and Nigeria are the most diverse and most dominant hubs of economic activity in Sub-Saharan Africa. That said, the strongest growth is expected in countries such as Angola and Zimbabwe in Southern Africa, Rwanda and Uganda in East Africa, and Sierra Leone and Ghana in West Africa. While Sub-Saharan Africa offers strong growth, this is off a very low-base, and the region presently only contributes approximately 2% of global annual GDP.

Latin America (including South America, Central America and the Caribbean) delivered 4.0% real GDP growth in 2011. Growth is expected to diminish slightly in 2012 and 2013, to 3.8% and 3.4% respectively. Argentina and Venezuela are expected to be pivotal for the region in 2012. Both economies have accumulated unsustainable macroeconomic imbalances that could generate a crisis that has knock–on effects for the rest of the region. Latin America represents approximately 5% of global annual GDP.

Real GDP grew 4.0% in Emerging Europe (including the Baltics, CIS, S.E Europe and the Western Balkans) in 2011. Growth is expected to diminish to 2.5% in 2012 and recover to 4.1% in 2013. The largest question mark in 2012 and 2013 looms over Hungary and Ukraine. Both countries face an economic slowdown, with Hungary being forced to pursue tighter fiscal policy to qualify for a new IMF/EU financing package, and Ukraine seeking compromise with the IMF on the same matter. The fastest growth in the region is expected to come from Uzbekistan, Turkmenistan and Moldova.

Private Equity Market Trends in Emerging Markets

In terms of private equity fundraising, per the most recent data, global emerging markets continue to recover from lows of USD 22 billion in 2009, to USD 32 billion as of September 2011. That said, while recovery is underway, the 30 September 2011 figures represent only 48% of the high of USD 66 billion in 2008. Further, while Emerging Asia is the emerging market powerhouse in terms of its contribution to global GDP, it also captures the lion's share of new funding, attracting approximately 73% of total emerging market PE commitments in 2011.

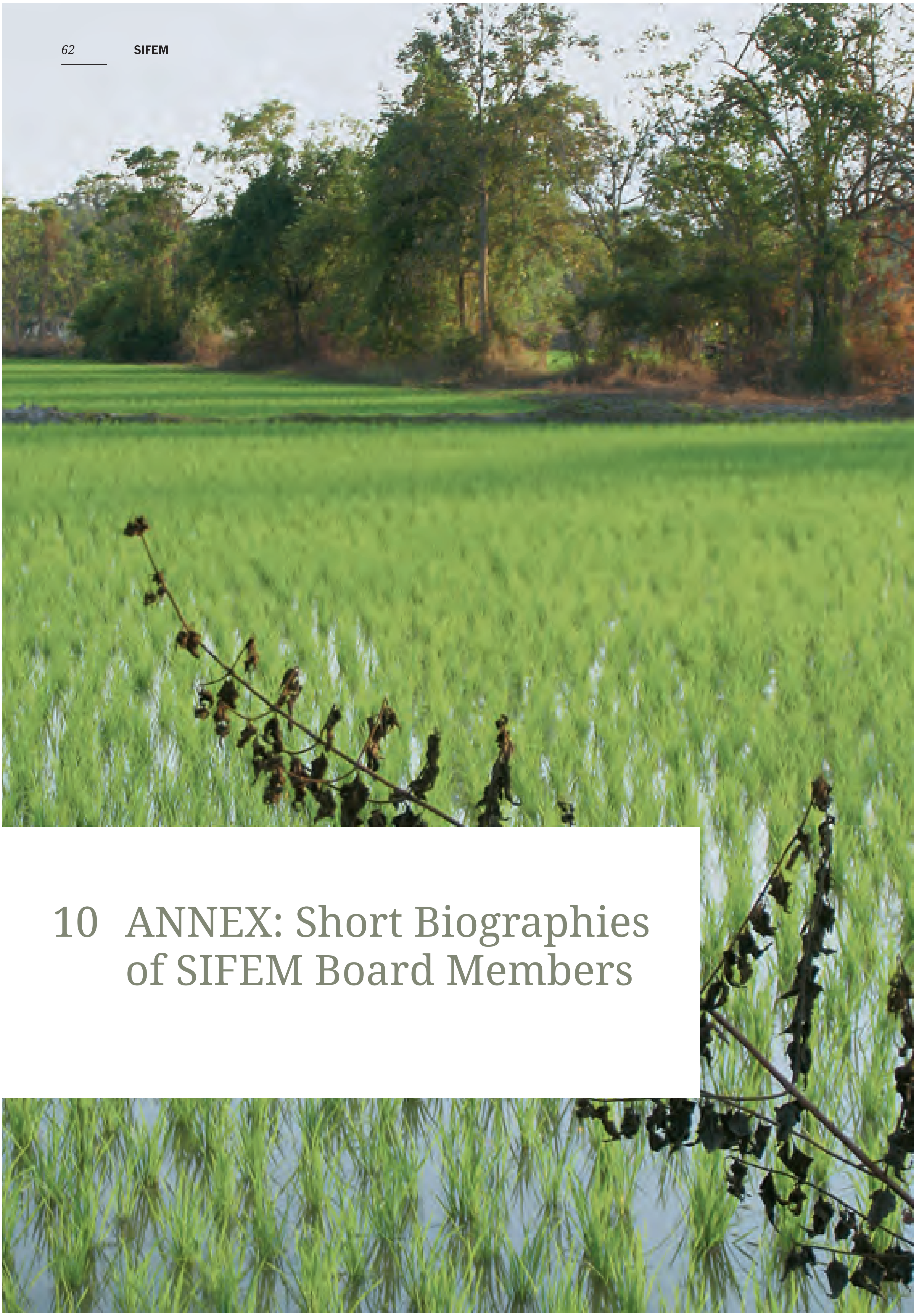
Figure: Emerging Market Private Equity Fundraising Totals by Region, 2007 – 30 Sept 2011 (USD million)

	Emerging Asia	*CEE & CIS*	*LatAm & Caribbean*	*MENA*	*Sub-Saharan Africa*	*Multi-region*	*Global EM*
2007	28,668	14,629	4,419	5,333	2,034	4,077	59,160
2008	39,660	5,559	4,461	6,875	2,241	7,721	66,517
2009	15,938	1,586	2,248	1,070	964	801	22,607
2010	14,206	1,192	5,608	448	1,499	524	23,478
YTD 2011	23,739	860	5,725	353	1,300	350	32,327
% of YTD 2011 Total	73%	3%	18%	1%	4%	1%	

In terms of private equity deal volume, per the most recent data, global emerging market funds seem to be having some difficulties in deploying capital and making deals. While September 2011 data does not account for fourth quarter deployments, the number of deals and the total capital invested are 20% lower than 2010 figures.

Figure: Emerging Market Private Equity Regional Deal Volume by Year, 2008 – YTD 2011

	2009		*2010*		*YTD 2011*	
	No. of Deals	*Total Capital Invested (USDm)*	*No. of Deals*	*Total Capital Invested (USDm)*	*No. of Deals*	*Total Capital Invested (USDm)*
Emerging Asia	473	13,867	576	18,308	482	15,752
CEE & CIS	76	3,323	117	2,398	80	2,853
LatAm & Caribbean	54	1,318	92	6,648	54	2,081
MENA	34	2,215	23	793	16	363
Sub-Saharan Africa	37	1,383	48	631	34	483
Emerging Markets	674	22,104	856	28,778	666	21,532



10 ANNEX: Short Biographies of SIFEM Board Members

Jean-Daniel Gerber
Chairman of the Board, Chairman of the Investment Committee

Jean-Daniel Gerber was Director of the State Secretariat for Economic Affairs (SECO) with the title of a State Secretary until he retired in 2011. During his career in the service of the Swiss Confederation, Jean-Daniel Gerber has been active in various areas of responsibility since 1973: in the trade sector as Swiss representative in the World Trade Organisation (WTO); in the field of development cooperation as Chief of Section for Developing Countries in the former Federal Office for Foreign Economic Affairs; in the diplomacy as Minister and Head of the Economic, Financial and Commercial Office of the Swiss Embassy in Washington; at the World Bank as Executive Director and Dean of the Executive Directors of the World Bank Group (1996/97); and as Director of the Federal Office for Migration (at this time Federal Office (1998-2004).

Jean-Daniel Gerber holds a degree in Economics from the University of Bern. In 2008, Jean-Daniel Gerber was awarded an honorary doctorate by the Faculty of Economics and Social Sciences of the University of Bern.

Michel Juvet
Vice-Chairman of the Board

Michel Juvet started his career at Bordier & Cie, a Geneva-based private bank, as an analyst and fund manager in 1984. He became head of research and fund management in 1997. In this function, he also became a member of the Executive Board of Bordier & Cie and he is a partner since January 1st 2012. Michel Juvet was a member of the advisory committee to the Swiss Government on economic development policies.

Julia Balandina Jaquier
Member of the Investment Committee, Member of the Audit Committee

Dr. Julia Balandina Jaquier is a seasoned investment executive with 19 years of experience focused on sustainable private equity and finance. She has led over USD 1 billion worth of investments in environmental technologies, renewable and conventional energy, healthy living and infrastructure in emerging and developed markets. Dr. Balandina Jaquier started her career in 1993 at McKinsey & Co. and subsequently held various senior positions at ABB Financial Services and AIG Investments, where, after co-managing the European direct private equity business, she pioneered and led a USD 150 million impact investment fund. She has served on boards of seven companies. Dr. Balandina Jaquier is a frequent speaker at impact investing conferences and a lecturer at the University of St. Gallen MBA program on responsible/impact investing. She is the author of “Guide to Impact Investing for Family Offices and High Net Worth Individuals.”

Dr. Balandina Jaquier holds an MBA (with honors) and PhD in finance from St. Petersburg University of Economics & Finance, and is a CFA charterholder.

Jean-Luc Bernasconi

Representative of the Swiss Federal Administration

Mr. Jean-Luc Bernasconi is currently Deputy Head and Chief of Operations of the Economic Development Co-operation Department at the Swiss State Secretariat for Economic Affairs (SECO). Previously, he served as Head of the Macroeconomic Support Division at the same Department until February 2009. From 1998 to 2004, Mr. Bernasconi worked in different positions for the World Bank, namely as Senior Country Economist in Sarajevo, Bosnia and Herzegovina for the World Bank's Europe and Central Asia Region and as Senior Country Economist in Washington D.C. for the Bank's Africa Region. Prior to that, he worked as Economist and Program Manager for the United Nations Development Program (UNDP) in Hanoi, Vietnam, after spending five years at the Economic Research Department of UBS in Switzerland.

Mr. Bernasconi graduated with honors in Economics from the University of Neuchâtel, Switzerland, with a focus on macroeconomics and international finance.

Hugo Fasel

Board Member

Hugo Fasel acts as Director of the Swiss charity Caritas since 2008. He was an elected member of the Swiss National Assembly for four consecutive terms between 1991 and 2008, representing the Christian-Social Party from the Canton of Fribourg. During his time as MP, he acted as member of the Commission for Social Security and Health as well as of the Audit Commission. He also served as President of the Swiss labour union Travail Suisse.

Mr. Fasel studied Economics at the University of Fribourg, and worked there as an academic assistant for some time. He served as lecturer at a number of higher education institutions.

Susanne Grossmann

Member of the Investment Committee

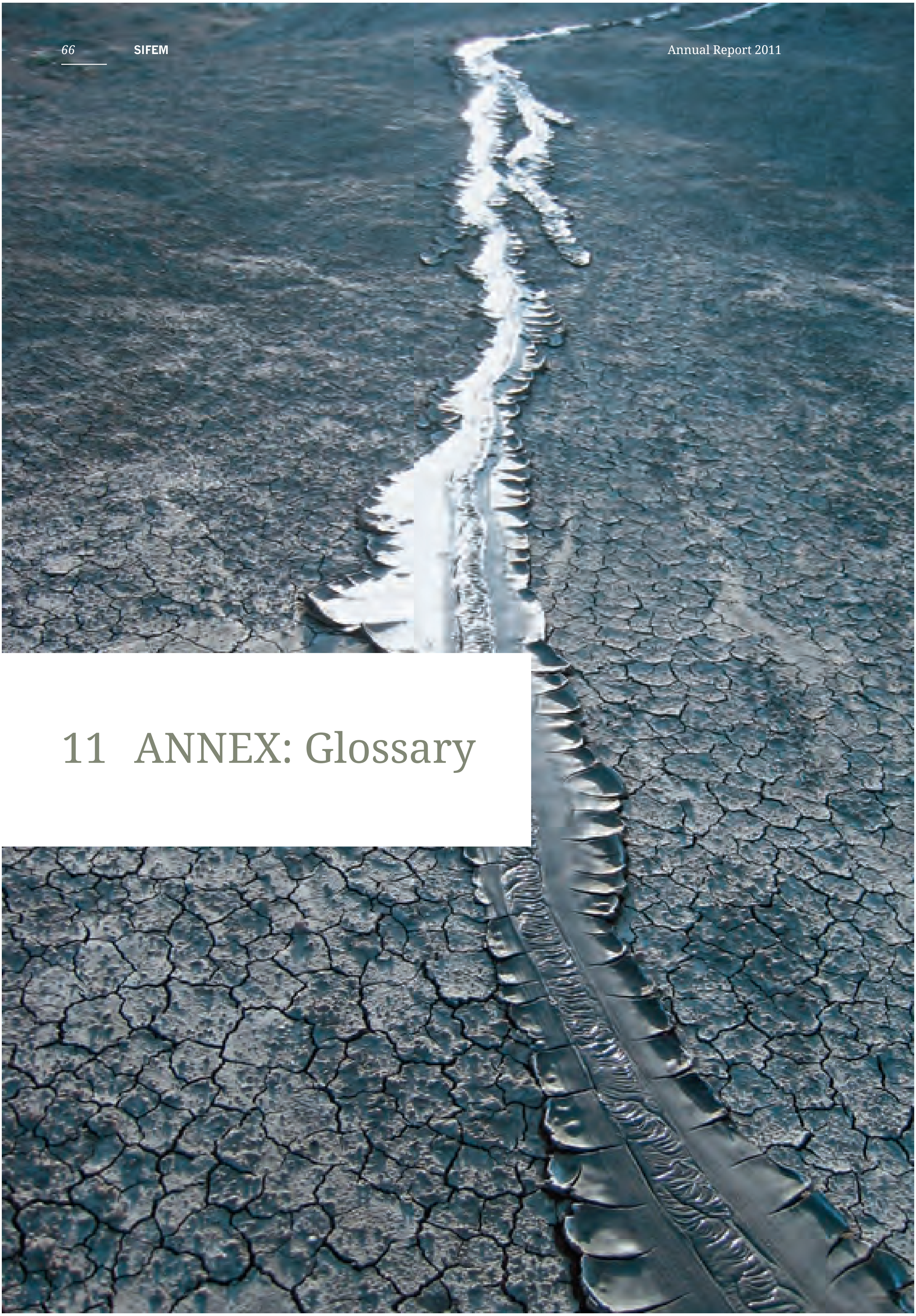
Susanne Grossmann is a Managing Partner at BTS Investment Advisors, a private equity fund advising on Indo-European business ventures. Mrs. Grossmann began her career at a Swiss Bank. She joined SECO in 1995 in the area of international trade negotiations. In 1999 Susan moved to the Division for Economic Cooperation where she was in charge of a number of private sector promotion initiatives focusing on venture capital funds and other financial intermediaries in developing and transition economies. From 2004-2007 Mrs. Grossmann was a member of the management team of the Swiss Organisation for Facilitating Investments (SOFI), where she was responsible for all SOFI activities in Asia and Africa.

Mrs. Grossmann holds a Master’s Degree in History and Economics from the University of Zurich, Switzerland, and a Post Graduate Degree in European Integration from the University of Basel, Switzerland.

Iain Tulloch

Chairman of the Audit Committee, Member of the Investment Committee

Iain Tulloch has over 30 years of experience in the venture capital industry, both in the United Kingdom and abroad. Mr. Tulloch served as a Council Member of the British Venture Capital Association between 1988 and 1994. Since 1998 he has worked in the consultant capacity in many countries including India, China, Tunisia, South Africa and Zimbabwe. Mr. Tulloch is also a director of numerous companies, and chairman of the Swiss Technology Venture Capital Fund in India.



11 ANNEX: Glossary

Custodian
Is a regulated, specialized financial institution responsible for safeguarding SIFEM's financial assets such as stocks, bonds and currencies.

Development Finance Institution ("DFI")
Is a term used to refer to the range of bilateral and multilateral institutions that provide risk capital to the private sector in developing countries.

European Development Finance Institutions ("EDFI")
Is the association of 15 European based, bilateral DFIs in which SIFEM is a member.

Internal Rate of Return ("IRR")
Is the annualized effective compounded rate of return for an investment and is commonly used to evaluate the desirability of investment projects. It is the standard measure of financial return used in the private equity industry.

International Financial Reporting Standards ("IFRS")
Are a set of accounting standards developed by the International Accounting Standards Board (IASB) for the preparation of public company financial statements.

International Private Equity and Valuation Guidelines ("IPEV")
Are a set of internationally recognized guidelines that set out best practice for private equity valuation, adopted by the leading global private equity associations.

Obviam
Is a Bern-based investment management company formed by the former management of SIFEM to act as Investment Advisor to the newly created SIFEM. The company is fully owned by its employees and does not have SIFEM or the Swiss Confederation as a shareholder.

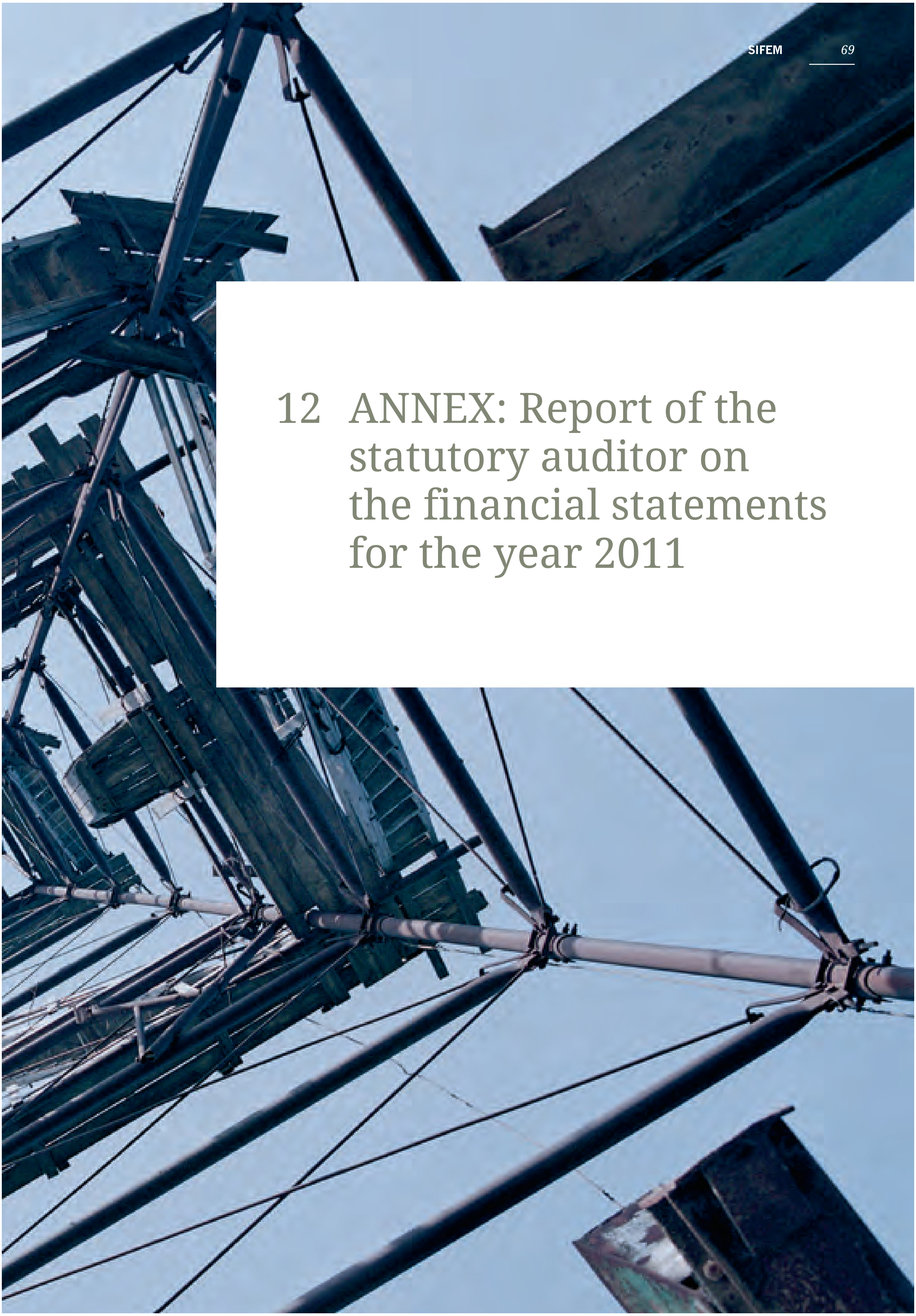
Private Equity
Is medium to long-term finance provided in return for an equity stake in growing companies, which are usually not listed on a public exchange.

Private Equity Fund
Is a closed-end, collective investment platform which aggregates capital from multiple investors to then invest in private equity companies.

Legacy Position
Refers to the portfolio of investments that have been made on behalf of the Swiss Confederation prior to the establishment of SIFEM.

Net Asset Value ("NAV")
Is the amount attributable to the investors of a portfolio on the basis of the fair value of its assets less its liabilities.

Mezzanine Fund
Is a closed-end, collective investment platform which aggregates capital from multiple sources to then invest in debt and quasi-debt securities of primarily private companies.



12 ANNEX: Report of the statutory auditor on the financial statements for the year 2011

As statutory auditor, we have audited the accompanying financial statements of SIFEM AG, which comprise the balance sheet, income statement and notes to the annual financial statements for the year ended 31 December 2011. The prior year comparative figures were audited by other auditors.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Zurich, 6 March 2012
BDO Ltd

Markus Egli
Licensed Audit Expert

Thomas Reisser
Auditor in Charge
Licensed Audit Expert

Balance Sheet

	31.12.2011	31.12.2010
	CHF	CHF
ASSETS		
Current assets		
Cash & cash equivalents	207’976’893.62	2’072’457.05
Bank	191’234’669.91	2’072’457.05
Swiss Federal Finance Administration (shareholder)	16’742’223.71	
Trade Receivables	0.00	15’540.79
Due from third parties	0.00	15’540.79
Other receivables	275’853.73	36’335.46
Withholding tax	64’539.45	2’136.15
Rental deposit	0.00	30’235.90
Due from affiliated parties	0.00	3’963.41
Value added tax	211’314.28	0.00
Deferred income	49’408.00	58’120.13
	208’302’155.35	**2’182’453.43**
Fixed assets		
Financial assets	196’112’432.15	0.00
Direct investments	39’924’756.10	0.00
Investments in funds	86’560’330.34	0.00
Participations (substantial equity interests)	69’627’345.71	0.00
Tangible assets	0.00	65’760.95
Fixtures and fittings	0.00	37’589.73
Office machinery and comp. Equipment	0.00	28’171.22
Intangible assets	0.00	130’208.25
IT software	0.00	130’208.25
Non paid-up share capital	0.00	50’000.00
	196’112’432.15	**245’969.20**
	404’414’587.50	**2’428’422.63**

Balance Sheet

	31.12.2011	31.12.2010
	CHF	CHF
LIABILITIES & SHAREHOLDER'S EQUITY		
Liabilities		
Trade liabilities	45'046.35	1'244'550.39
Payables, third parties	45'046.35	95'521.72
Deposits received from customers	0.00	1'149'028.67
Other short-term liabilities	3'375.50	93.09
Value added tax	0.00	93.09
Social insurances	3'375.50	0.00
Long-term liabilities	314'969'017.65	0.00
Shareholder loans	314'969'017.65	0.00
Accrued expenses	98'224.50	289'226.41
Provisions	0.00	182'300.00
	315'115'664.00	**1'716'169.89**
Shareholder's Equity		
Share capital	100'000'000.00	100'000.00
Statutory reserves	20'000.00	20'000.00
Retained earnings	-10'721'076.50	592'252.74
Profit brought forward	592'252.74	434'260.69
Annual result	-11'313'329.24	157'992.05
	89'298'923.50	**712'252.74**
	404'414'587.50	**2'428'422.63**

Income Statement

	2011	2010
	CHF	CHF
Operating income		
Revenue from services	1'765'501.16	3'161'796.51
Income from services	1'765'501.16	3'048'940.96
Other income	0.00	112'855.55
Costs for third party services	-2'813'338.82	-551'312.10
Third party services	-2'813'338.82	-529'877.63
Chargeable expenses	0.00	-21'434.47
Gross profit 1	**-1'047'837.66**	**2'610'484.41**
Personnel expenses	-376'422.00	-2'129'461.73
Salaries	-234'216.30	-1'521'572.05
Board compensation	-85'530.70	0.00
Social security expenses	-49'667.05	-276'572.00
Other personnel expenses	-7'007.95	-331'317.68
Gross profit 2	**-1'424'259.66**	**481'022.68**
Operating expenses		
Cost of premises	0.00	-145'084.18
Rental cost	0.00	-132'933.96
Cleaning	0.00	-12'150.22
Maintenance, repairs, replacement, leasing	0.00	-635.12
Maintenance, repairs, replacement office furnishings	0.00	-167.40
Maintenance, repairs, replacement office machinery	0.00	-467.72
Property insurances, fees	-29'609.90	-2'019.67
Administrative expenses	-97'516.81	-122'658.18
Office material, technical literature	0.00	-4'710.74
Communication	0.00	-31'379.56
Postage	0.00	-7'107.76
Accounting expenses	-55'638.80	-43'140.78
Consulting expenses	-1'878.01	-11'500.00
Audit expenses	-40'000.00	-24'819.34
IT expenses	0.00	-31'210.06
IT licenses	0.00	-23'500.79
IT maintenance	0.00	-6'676.58
IT small-scale investments	0.00	-1'032.69
Carried forward	**-1'551'386.37**	**179'415.47**

Income Statement

	2011	2010
	CHF	CHF
Carried forward	**-1'551'386.37**	**179'415.47**
Advertising expenses	-54'877.80	-119'643.50
PR: CDs, brochures	-336.10	-11'403.25
Sponsorship, membership contributions	-54'541.70	-91'148.88
Conference fees	0.00	-17'091.37
Operating earnings before interest and depreciation	**-1'606'264.17**	**59'771.97**
General financial result	-3'255'951.19	-37'339.61
Financial income	991'112.90	20'109.78
Financial losses	-29'107.72	-57'449.39
Foreign exchange income	8'233'144.96	0.00
Foreign exchange losses	-12'451'101.33	0.00
Financial result from direct investments	-800'376.52	0.00
Distributions	1'945'300.90	0.00
Expenses	-6'424.55	0.00
Capital gains	41'486.03	0.00
Capital losses	-1'271'734.65	0.00
Foreign exchange income	31'293.65	0.00
Foreign exchange losses	-1'540'297.90	0.00
Financial result from fund investments	-6'977'696.41	0.00
Distributions	3'865'640.45	0.00
Expenses	-173'211.90	0.00
Capital gains	0.00	0.00
Capital losses	-8'596'648.81	0.00
Foreign exchange income	1'920'939.42	0.00
Foreign exchange losses	-3'994'415.57	0.00
Depreciation	-1'584.40	-5'431.22
Depreciation on fixtures and fittings	-1'584.40	-5'431.22
Depreciation on office mach., comp. equip.	0.00	0.00
Operating result	**-12'641'872.69**	**17'001.14**
Extraordinary result		
Extraordinary result	1'328'543.45	140'990.91
Extraordinary income	1'328'543.45	140'990.91
Annual result before taxes	**-11'313'329.24**	**157'992.05**
Taxes	0.00	0.00
Annual result	**-11'313'329.24**	**157'992.05**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	31.12.2011 CHF	31.12.2010 CHF
Participations (substantial equity interests)	69’786’430.36	0.00
Overview provided on next page		
Net dissolution of hidden reserves	0.00	140’990.91
Fiduciary relationships	0.00	192’787’264.00
Trust principal: Bank accounts and securities with UBS and Credit Suisse		
Trustee: SIFEM AG		
Trustor: Staatssekretariat für Wirtschaft SECO		

Changes to the consistency and to valuations

In August 2011, the company purpose of SIFEM AG has been redefined. The activities of SIFEM AG, as they existed per 31 December 2010 have been transferred to Obviam DFI AG. At the same time, the accounts and securities held by SIFEM AG as fiduciary relationships were operationally transferred into SIFEM AG’s assets. For this reason, the 2011 figures are not comparable with the 2010 figures.
The securities in SIFEM AG’s fixed assets were valued at the lower of acquisition value or market value.

Risk assessment

The Board of Directors has carried out adequate risk assessments on a periodic basis and introduced any resultant arising in order to ensure that the risk of material misstatements in the submission of the financial statements is to be categorised as small.

No further details in accordance with Art. 663b OR (Swiss Code of Obligations) are required.

Participations (substantial equity interests) 2011

		Book value Fx		Book value CHF		SIFEM's Commitment		Fund Size	% held
Sino Swiss Partnership Fund	CNY	218'017'987.31	CHF	32'390'932.38	CNY	268'850'270.00	CNY	383'035'322.00	70.19%
Swiss Technology Venture Capital Fund Ltd.	USD	6'810'670.99	CHF	6'368'651.63	USD	21'500'000.00	USD	21'502'930.00	99.99%
SEAF Central and Eastern Europe Growth Fund LLC	USD	2'179'527.00	CHF	2'038'073.52	USD	4,500'000.00	USD	20'600'000.00	21.84%
Central Asia Small Enterprise Fund LLC	USD	1'123'035.00	CHF	1'050'148.92	USD	4,600'000.00	USD	10'958'000.00	41.98%
Fidelity Equity Fund I Ltd.	USD	1'286'227.00	CHF	1'202'749.59	USD	4,000'000.00	USD	8'500'000.00	47.06%
Asean China Investment Fund, L.P.	USD	2'200'499.00	CHF	2'057'684.42	USD	15'997'058.00	USD	75'997'258.00	21.05%
SEAF South Balkan Fund B.V.	EUR	1'840'041.03	CHF	2'233'625.80	EUR	3,282'420.00	EUR	10'756'175.00	30.52%
SEAF Blue Waters Growth Fund Ltd.	USD	4'404'994.00	CHF	4'119'105.48	USD	7,000'000.00	USD	25'000'000.00	28.00%
Aureos Latin American Fund II, L.P.	USD	6'749'344.00	CHF	6'311'304.81	USD	10'000'000.00	USD	35'353'535.00	28.29%
Altra Private Equity Fund I, L.P.	USD	6'455'221.00	CHF	6'036'270.71	USD	8,000'000.00	USD	18'556'701.00	43.11%
SEAF Transandean Early Stage Equity Fund LLC	USD	829'102.00	CHF	775'292.43	USD	5,000'000.00	USD	12'620'000.00	39.62%
Latam Growth Fund Ltd.	USD	4'763'679.00	CHF	4'454'511.47	USD	7,000'000.00	USD	17'000'001.00	41.18%
Kaizen Private Equity Fund Ltd.	USD	800'000.00	CHF	748'079.20	USD	8,000'000.00	USD	20'900'000.00	38.28%

Sino-Swiss Partnership Fund
The fund was established in 1998 as a joint initiative between the Swiss and Chinese governments. The original purpose of the fund was to enhance the cooperation and technology development among Chinese and OECD companies through the creation of Chinese based Joint Ventures, with the fund providing primarily capital by way of debt and equity and the local partners providing local know how and operational expertise. The articles of the fund were amended in 2006 to remove the restriction on joint venture financing, allowing the fund to invest directly into existing Chinese-based companies. To date, the fund has invested in thirteen companies and is now fully invested. The fund is domiciled in Beijing, China and the key co-investor on behalf of the Chinese government is China Development Bank Capital. The fund manager is based out of Beijing, China.

Swiss Technology Venture Capital Fund Ltd.
The fund was established in 1997 with the Swiss government, acting through SECO, as the sole investor. It was one of the first India-dedicated SME focused funds and has invested in nineteen companies, ranging from infrastructure to pharmaceuticals. Most investments have been made in small to midsize, founder-led enterprises where the fund invested alongside with significant equity interests and is now fully invested. The fund is domiciled in Mauritius and the fund manager is based out of Mumbai, India.

SEAF Central and Eastern Europe Growth Fund LLC
The fund was established in 2000 as a generalist private equity fund investing in small and medium-sized enterprises in Central and Eastern Europe. The fund has invested in nine companies across the region with a third in Poland and the rest in Estonia, Croatia and Romania. Most investments have been made in sectors ranging from pharmaceuticals to supermarkets and the fund is now fully invested. The key co-investors in the fund are the International Finance Corporation of the World Bank Group, FinnFund (the Finnish Development Finance Institution) and DEG (Deutsche Investitions- und Entwicklungsgesellschaft). The fund is domiciled in Delaware, U.S.A and the management team is based out of Tallinn, Estonia.

Central Asia Small Enterprise Fund LLC
The fund was established in 2002 as a generalist private equity fund investing in small and medium-sized enterprises in Central Asia. The fund aimed to invest in companies that could leverage regional synergies with the assistance of the fund manager who operated in both Kazakhstan and Uzbekistan. It has invested in nine companies in Uzbekistan, Kazakhstan and Kyrgyzstan, and investments have varied from fish farming to leasing companies. The fund is now fully invested. The key co-investors in the fund are the International Finance Corporation of the World Bank Group and USAID. The fund is domiciled in Delaware, U.S.A and the management team is based primarily out of Tashkent, Uzbekistan.

Fidelity Equity Fund I Ltd.
The fund was established in 2000 as a generalist private equity fund investing in small and medium-sized enterprises in Ghana. The fund focused on investing small amounts, averaging around $500,000 per company. It has invested in eleven companies varying from software focused enterprises to a microfinance institution and the fund is now fully invested. All investments are based in Ghana in partnership with local entrepreneurs. The key co-investor is FMO, the Dutch Development Finance Institution. The fund is domiciled in Ghana and the fund manager is based out Accra, Ghana.

Asean China Investment Fund, L.P.
The fund was established in 2000 as a regional generalist private equity fund targeting growth capital opportunities within member ASEAN countries and China. The fund targeted companies across all sectors and sought to leverage inter-trade opportunities within ASEAN states. It invested in fifteen companies in sectors as

diverse as food distribution, manufacturing and fish farming and is now fully invested. A little over half of the investments were made into China while the others were across the region in Vietnam, Indonesia, Malaysia and Thailand. The key co-investors are the Asia Development Bank, China Development Bank Capital, Japan Asia Investment company and United Overseas Bank of Singapore. The fund is domiciled in Delaware, U.S.A and the fund manager is based in Singapore.

SEAF South Balkan Fund B.V.
The fund was established in 2005 as a regional fund investing in small and medium sized enterprises in the Balkan region. It would invest an average of $1,000,000 per company in six companies in Serbia and is now fully invested. Investments are primarily significant minority positions in founder-led enterprises. The sectors varied from Computer and Software services to trade receivables. The key co-investors are FMO (the Dutch Development Finance Institution), FinnFund (the Finnish Development Finance Institution) and USAID. The fund is domiciled in the Netherlands and the fund manager is based out of Belgrade, Serbia.

SEAF Blue Waters Growth Fund Ltd.
The fund was established in 2007 as a generalist fund providing debt and quasi debt instruments to small and medium sized enterprises in Vietnam. Target companies are seeking flexible debt-based instruments tailored to their cash flow requirements. The fund has invested in seventeen companies to date with an average investment size of just under $900,000 in sectors that vary from furniture construction to healthcare clinics. The fund is still within its investment period. The key co-investors are Finnfund (the Finnish Development Finance Institution), FMO (the Dutch Development Finance Institution) and Norfund (the Norwegian Development Finance Institution). The fund is domiciled in the Cayman Islands and the fund manager operates out of Ho Chi Min City, Vietnam.

Aureos Latin American Fund II, L.P.

The fund was established in 2007 as a generalist private equity fund investing in small and medium-sized enterprises in the Andean region and Central America. The fund has invested in six companies to date and is still within its investment period. The investments are located in Colombia, Peru and Costa Rica and vary across sectors from an information management system integrator to a leasing company. The key co-investor is Norfund (the Norwegian Development Finance Institution). The fund is domiciled in Canada and the fund manager operates primarily out of San Jose, Costa Rica.

Altra Private Equity Fund I, L.P.

The fund was established in 2009 as a generalist private equity fund focusing on mid-sized companies in the Andean region of Peru and Colombia and Central America. Target investments are in more established enterprises seeking growth capital as part of national and regional expansion strategies. This can include family-owned enterprises seeking transition to professional and independent management. The fund has invested in five companies in Columbia, Peru and Honduras and is still within its investment period. The investments vary across sectors from consumer finance to manufacturing. The key co-investor is CDC, the U.K Development Finance Institution. The fund is domiciled in the Cayman Islands and the fund manager operates out of Bogota, Colombia.

SEAF Transandean Early Stage Equity Fund LLC

The fund was established in 2003 as a generalist private equity fund focusing on small and medium sized enterprises in the Andean region of Peru and Colombia. It has invested in twelve companies that range from a fruit cultivator and exporter to a health services company. The investment allocation is roughly evenly distributed across both Colombia and Peru and the fund is now fully invested. The key co-investors are the BIO (the Belgian Development Finance Institution), USAID and local pension funds. The fund is domiciled in Delaware, U.S.A and the fund manager is primarily based out of Lima, Peru.

Latam Growth Fund Ltd.

The fund was established in 2008 as a general private equity fund focusing on primarily small and medium-sized enterprises in Peru. Target companies are expected to be generally cash flow positive and seeking expansion capital in the form of a combination of debt and equity instruments. The fund has invested in eight companies to date for an average investment size of over $1,000,000 with the majority of those investments located in Peru. The fund is still within its investment period. The key co-investors are BIO (the Belgian Development Finance Institution) and FinnFund (the Finnish Development Finance Institution). The fund is domiciled in Cayman Islands and managed out of Lima, Peru.

Kaizen Private Equity Ltd.

The fund was established in 2011 as an education-focused private equity fund, investing in medium-sized enterprises in India. Target companies will operate in offering education services or related education service products to primarily the domestic Indian market. The fund has invested in one company that provides training solutions and is currently within its investment period. The key co-investor is the International Finance Corporation of the World Bank Group. The fund is domiciled in Mauritius and the fund manager operates primarily out of Mumbai, India.

Annual Report 2011

List of Abbreviations

AG	Swiss public limited company (Aktiengesellschaft)
Art.	Article
BMI	Business Monitor International
CEE	Central and Eastern Europe
CHF	Swiss Franc
CIS	Commonwealth of Independent States
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German DFI)
DFI	Development Finance Institution
e	estimate
EDFI	European Development Finance Institutions
EFV	Swiss Federal Finance Administration
EITI	Extractive Industries Transparency Initiative
EM	Emerging Market(s)
EU	European Union
EUR	Euro
f	forecast
FI	Financial Institution
FSC	Forest Stewardship Council
GDP	Gross Domestic Product
GPR	Corporate-Policy Project Rating Tool (developed by DEG)
ICCF	Interact Climate Change Facility
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRR	Internal Rate of Return
m	million
MENA	Middle East and North Africa
MFI	Microfinance Institution
NAV	Net Asset Value
No.	Number
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PEF	Private Equity Fund
Q4	Fourth quarter
SCO	Swiss Code of Obligations
SE Europe	South East Europe
SECO	Swiss State Secretariat for Economic Affairs
SIFEM	Swiss Investment Fund for Emerging Markets
SME	Small and Medium-sized Enterprise
SR	Classified Compilation of Swiss Federal Legislation
SSPF	Sino-Swiss Partnership Fund
USD	United States Dollar
VIF II	Vietnam Investment Fund II
YTD	year to date
ZAR	South African Rand

SIFEM AG
c/o Obviam DFI AG
Bubenbergplatz 11
3011 Bern
Switzerland
www.sifem.ch

Phone +41 (0) 31 310 09 30
Telefax +41 (0) 31 310 09 39