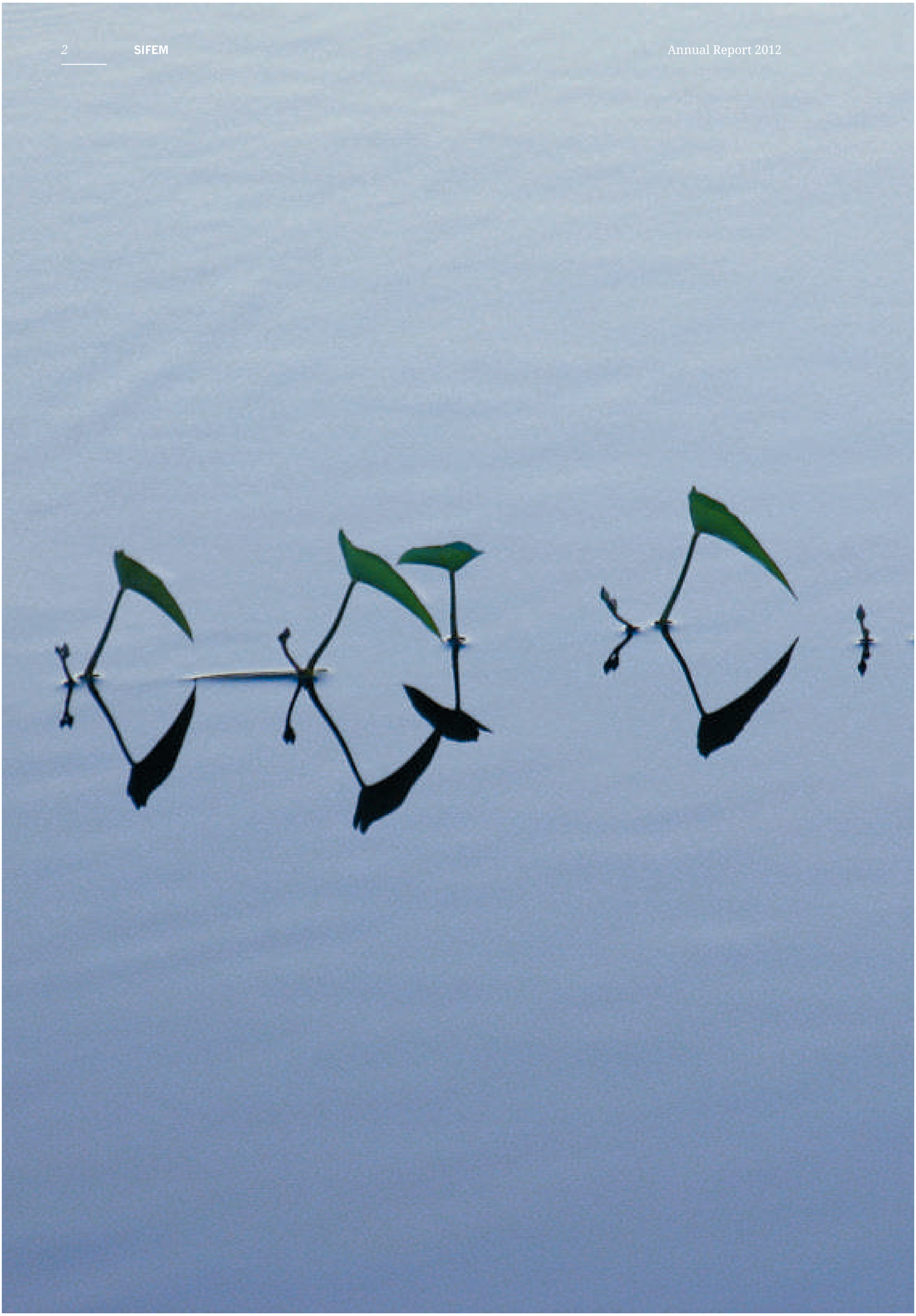
SIFEM SWISS INVESTMENT FUND FOR EMERGING MARKETS

Annual Report

2012



2012 Financial Highlights*

	2012	2011
Commitments and cash flows (in USDm)		
Total commitments made to date	505.4	477.7
Total active commitments	461.3	436.3
Uncalled commitments	142.0	139.9
Cumulative paid-in capital to date	370.3	337.8
Cumulative reflows received to date	262.0	238.9
Cumulative net cash flow to date	–108.3	–98.9
New investment commitments	29.0	57.1
Reflows from investments	47.9	26.8
Investment portfolio valuation		
Net Asset Value (USDm)	282.9	267.3
Internal Rate of Return (%)	10.22 %	11.19 %
Total Value over Paid-In (%)	147 %	161 %
Annual results (in CHFm)		
Investment profit	2.8	–2.5
Operating result	–3.1	–4.8
Total comprehensive income	–17.2	–13.9
Balance sheet (in CHFm)		
Balance sheet total	509.5	436.6
Cash and cash equivalents	260.3	208.0
Cash available for new investments	130.3	79.9
Financial assets	237.5	255.3
Long-term liabilities	364.4	303.8
Shareholder´s equity	144.7	159.6
Equity ratio	28.4 %	34.4 %
Development Effects		
Number of companies financed	312	305
Number of jobs supported**	over 222,000	over 170,000

* *Note: Annual result and balance sheet figures per IFRS account, portfolio data (30 Sep) and development effects (previous year) are the latest available at the time of the reporting.*

** *Note: Job numbers are only collected for investments made since 2006*

Dear Reader,

Following the establishment of SIFEM as Switzerland's DFI in 2011, we have the pleasure of reviewing its first full year of operations under the new structure. Throughout 2012 the Board and management concentrated on operationalizing the new policies and procedures defined at SIFEM's founding. Looking forward into 2013, SIFEM will concentrate on strategic and operational issues.

In close consultation with the Shareholder, represented by the State Secretariat for Economic Affairs (SECO), the Board is currently discussing ways in which SIFEM's investment strategy can be optimised to ensure its long-term sustainability in developmental, financial and operational terms. Last year, SECO commissioned an external evaluation of the developmental investment portfolio, which SIFEM took over in the course of its establishment in 2011. This provided a welcome opportunity for the Board to review SIFEM's investment strategy and approach. The Board is pleased to note that the evaluation confirmed the relevance, effectiveness, efficiency, sustainability and proper implementation of SIFEM's approach to development financing. While the Board does not foresee any fundamental changes in SIFEM's investment strategy, it is examining in detail the operational and technical recommendations of the evaluation.

Another key strategic issue concerns SIFEM's capital structure and scale of operations. The Board questioned whether SIFEM could maintain its operational and financial sustainability in the medium term with the current annual commitment capacity. It came to the conclusion that SIFEM should moderately increase its annual commitment capacity subject to reflows from the investment portfolio meeting projections and a possible additional capital injection by the Swiss Confederation. Discussions with the Shareholder are on-going on this issue.

SIFEM has to produce its financial statements in accordance with IFRS and SCO accounting standards, and its accounting systems have been overhauled to enable this to be achieved. Unfortunately, these two reporting standards use some assumptions that do not reflect the realities of SIFEM's business model. For instance, on the one hand the SCO accounting rules require SIFEM to hold the investment portfolio at values considerably below fair market valuations, which does not allow the accurate tracking of SIFEM's investment performance. On the other hand, IFRS regulations require SIFEM to account for a fictional interest charge on its shareholder loans, which are interest-free in reality, and to account for a paper currency loss on the these loans.

The IFRS accounts are the more meaningful of the two, because they reflect changes in the fair value of the portfolio. The highlights are that, for 2012, SIFEM's portfolio shows net income from investment operations of CHF 2.8 million (USD 2.9m), and an operating loss of CHF 3.1 million (USD 3.3m). These statistics are a material improvement from the previous year, when SIFEM recorded a net loss from investment operations of CHF 2.5 million (USD 2.8m) and an operating loss of CHF 4.8 million (USD 5.4m). The difference between the operating loss of CHF 3.1 million (USD 3.3m) and the total comprehensive loss of CHF 17.2 million (USD 15.1m) consists of the items mentioned in the paragraph above, namely paper currency losses of CHF 10.6 million (USD 8.3m) and the fictional interest charge of CHF 3.5 million (USD 3.5m).

Under SCO accounting rules, SIFEM recorded a profit of CHF 9.9 million (USD 12.6m) in 2012[1], which compares with a loss of CHF 11.3 million (USD 12.6m) in 2011. Since investments are held at below-market valuations under SCO rules, their true value can only be recognised at the time of realisation. The increased rate of reflows from the portfolio explains the entire profit made by SIFEM under SCO accounting rules.

In a portfolio consisting mostly of equity participations, the reflows from capital repayments, capital gains and dividends are bound to be subject to strong cyclicality, and the difficult economic conditions in some developing countries continued to weigh on SIFEM's financial performance in 2012. Despite this, the Internal Rate of Return (IRR) of the overall investment portfolio remained reasonably stable in the 10–11% range and reflows from investments increased to CHF 43.7 million (USD 47.9m), their highest level since the global financial crisis erupted in 2008.

It is pleasing to note that SIFEM has met or exceeded 11 of the 12 strategic objectives set by the Swiss Federal Council for the period 2009–2012. The only objective missed by SIFEM relates to the rate of reflows from investments, which fell sharply after the global financial crisis as mentioned above. While assessing the outcome of the independent evaluation and to avoid retroactive application of strategic targets, the Federal Council has decided to extend the validity of the current targets into 2013. New strategic objectives are currently being considered for the period 2014–2017, and should formally be adopted by the Federal Council in late 2013.

Finally, SIFEM's investments in its portfolio companies have helped to create more than 222,000 jobs over the years. Recent studies have confirmed that the most effective way of escaping poverty is by finding a job. SIFEM will take up this challenge and looks forward to continue contributing to broad-based economic growth in target countries, thereby creating jobs and alleviating poverty.

Yours faithfully,

Jean-Daniel Gerber
Chairman of the Board

[1] *The SCO results are derived from SIFEM's statutory, non-consolidated financial statements.*

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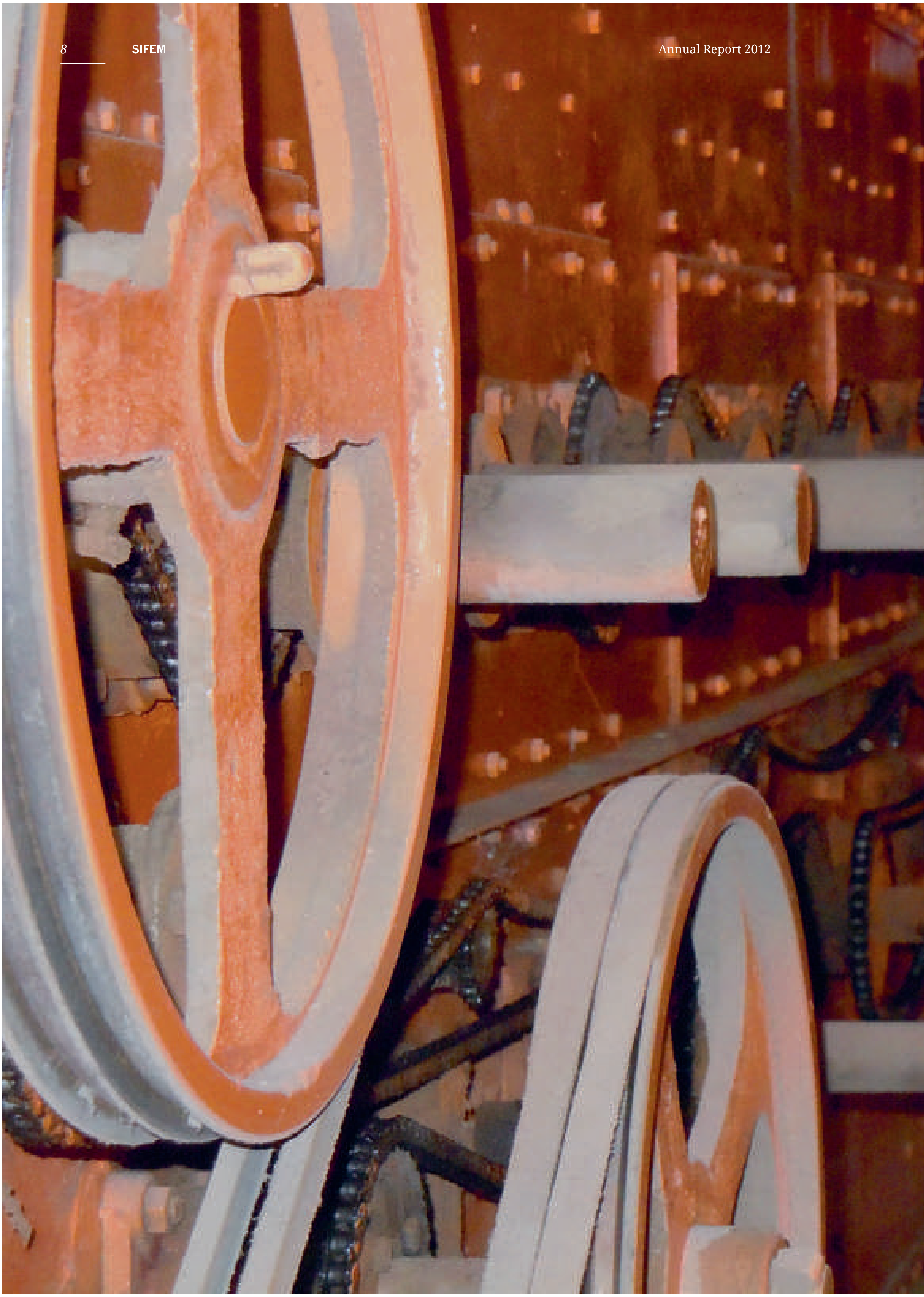


1. Normative Framework for SIFEM's Operations

SECO supports investment projects in developing and transition economies within its economic and trade policy framework in the field of development assistance. SECO's objective is to promote economic growth, reduce economic disparities, and facilitate integration of developing countries into the global economy. This mission is carried out, among other instruments, through private sector development and over the years SECO has developed a portfolio of investments in private equity funds financing growth companies and SMEs.

In order to increase the efficiency and professionalism of portfolio management – and in consistency with models in numerous other European countries – in 2011 the Swiss Federal Council established SIFEM as the Swiss DFI, to which the investment portfolio developed by SECO was transferred. The objective of externalising Switzerland's developmental private equity investment portfolio was proposed 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, and confirmed by the Federal Council in its 2005 and 2007 reports on Switzerland's foreign economic policy. The rationale for outsourcing portfolio management is to increase operational efficiency, attract and retain necessary know-how, allow co-investments with private investors and reduce liability risks for the Swiss Confederation.

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

1.1 SIFEM's 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[2]. On 5 March 2010, the Federal Council defined SIFEM's corporate structure and governance model, determined its strategic objectives, specified the profile of qualifications for Board members, and mandated SECO to prepare and submit a detailed proposal for its establishment. On 1 April 2010 the Federal Council changed the above ordinance to include a new paragraph 8 (Articles 30a to 30d), stating 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[3]. 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[4].

As an Aktiengesellschaft (AG) formed under SCO, 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. However, since 1 July 2012 SIFEM is subject to stamp duty in spite of its developmental mandate. The annual stamp duty cost is estimated at roughly CHF 60,000 going forward.

SIFEM was established on 17 August 2011. While SIFEM holds the investment portfolio, Obviam, an independent company with a team of emerging market finance specialists, performs day-to-day portfolio management and business functions.

[2] *Translation: ordinance on international development co-operation and humanitarian aid of 12 December 1977, SR 974.01*

[3] *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)*

[4] *Translation: ordinance on co-operation with Eastern European countries of 6 May 1992, SR 974.11; 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)*

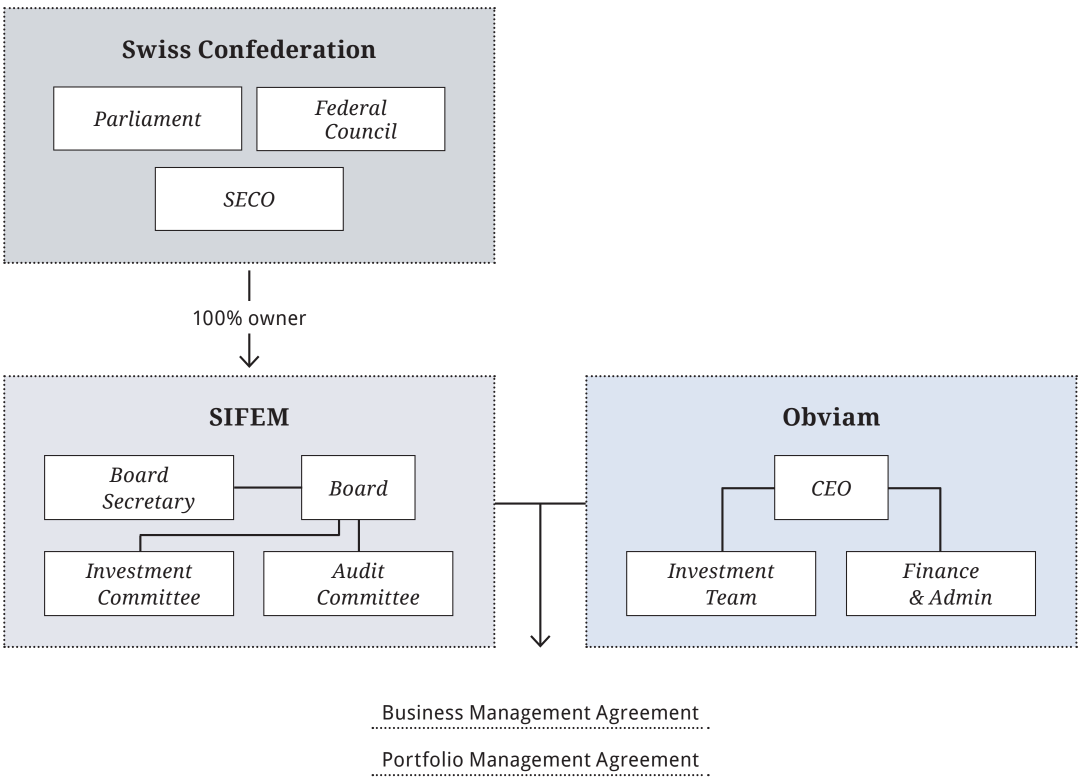
1.2 Corporate Structure and Governance

The Board of SIFEM retains the responsibility for investment decisions and other executive management tasks. As per its Organisational Regulations, the Board has formed two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment Committee. The Audit Committee validates valuations of SIFEM investments, reviews SIFEM's financial accounts and related matters, and liaises with the auditor. SIFEM does not have any employees beside the Board and its secretary.

The management of SIFEM's investment portfolio and its day-to-day operations have been delegated to Obviam. The core management team at Obviam has managed the investment operations of SIFEM's portfolio since 2005. As part of the establishment of SIFEM, the team created Obviam as a new and independent company. This facilitates the raising of third-party capital by Obviam, thus fulfilling SIFEM's objective of mobilising private investments into target countries, while shielding SIFEM and the Confederation from liability risks. The contractual framework between SIFEM and Obviam, which was prepared under SECO's guidance prior to SIFEM's establishment, is in line with international best practice for private equity fund managers, while assuring that the standards of the Swiss Confederation are applied.

The corporate structure of SIFEM 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 economies.

Figure 1: SIFEM's corporate structure and governance



1.3 Strategic Objectives and Guiding Principles

SIFEM's mission as established by the Federal Council is to invest in sustainable private sector development projects, demonstrate the economic viability of such projects, and mobilise private investments into them.

The following objectives were set for SIFEM by the Federal Council to form the strategic framework for SIFEM's decisions and investment activities.

- SIFEM shall become one of the pillars of the Federal Council's instruments to promote sustainable private sector-led growth in developing and transition economies, with a view to fostering economic growth, reducing economic disparities and facilitating the economic integration of those countries in the international economy.
- SIFEM shall assist the private sector in developing and transitional 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

SIFEM's strategic objectives are typically defined for four-year cycles, with the first four-year period originally envisaged to end in 2012. The Federal Council has decided to extend the validity of the current strategic targets until the year-end 2013, while new strategic objectives are being worked out for the period 2014–2017.

Based on the strategic objectives, SIFEM's investment guidelines describe 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 4 of this report.

2. Governance and Policy Actions

Following a busy start-up year in 2011, the various governance bodies of SIFEM had a full agenda in 2012, culminating in 12 meetings of the Board, and Investment and Audit Committees. The Board was responsible for the operationalization of SIFEM's key policies and procedures, steered long-term strategy discussions and oversaw investment portfolio performance. Six investments received final approval by the Investment Committee. The Audit Committee reviewed SIFEM's financial and management accounts, budgets, risk management and external controls, and provided recommendations and support to the Board in financial matters.

2.1 Actions of the Board

After the establishment of SIFEM in 2011 and the adoption of key policies and procedures, the Board spent a considerable amount of time in 2012 operationalizing these policies and procedures. For example, the adoption of the IFRS has led SIFEM to review its financial reporting process in close consultation with the accountants, auditors and the Federal Finance Administration.

The Board also gave much attention to SIFEM's investment portfolio performance. Sub-Saharan Africa was the first geographical region for which the Board conducted an in-depth review of SIFEM's exposure and discussed major market trends likely to affect SIFEM's activities in the region. The Board took note of challenges, such as increasing fund sizes requiring SIFEM to invest larger tickets in order to maintain its influence, as well as trade-off effects between SIFEM's objectives of market subsidiarity and mobilisation of private capital. This series of regional portfolio reviews will continue with the review of SIFEM's exposure in other regions. Furthermore, the Board discussed SIFEM's role in remuneration decisions of its local partners, as well as the performance of certain individual portfolio positions.

The Board recently commenced a review of two key aspects of SIFEM's strategy. First, the Board questioned whether SIFEM could maintain its operational and financial sustainability in the medium term with the current annual commitment capacity. It came to the conclusion that SIFEM should moderately increase its annual commitment capacity, subject to reflows from the investment portfolio meeting projections and a possible additional capital injection of the Swiss Confederation. Discussions with the Shareholder are on-going on this issue.

The second aspect of strategy review concerns SIFEM's investment approach. An independent evaluation of SIFEM's investment activities between 2003 and 2011 was commissioned by SECO, and it confirmed the relevance, effectiveness, efficiency, sustainability and proper implementation of SIFEM's approach to development financing (see section 4.2). A dialogue with SECO is on-going in view of the setting of new strategic objectives for SIFEM for the period 2014–2017, which are expected to be adopted by the Federal Council in late 2013.

The Board members regretted the resignation of Jean-Luc Bernasconi, who represented the Swiss Confederation in the Board of SIFEM. Mr. Bernasconi has left SECO and accepted a new challenge at the African Development Bank. The Board once again thanks him for his substantial contribution during SIFEM's establishment phase. SECO has nominated Ivo Germann as successor to Jean-Luc Bernasconi. Mr Germann has participated in Board meetings as observer pending the confirmation of his nomination by the Federal Council and his formal election at an extraordinary General Assembly in early 2013.

Other topics discussed by the Board in 2012 included, among many others, management of reputational risks, development of annual targets for Obviam, as well as SIFEM's public procurement and stamp duty status.

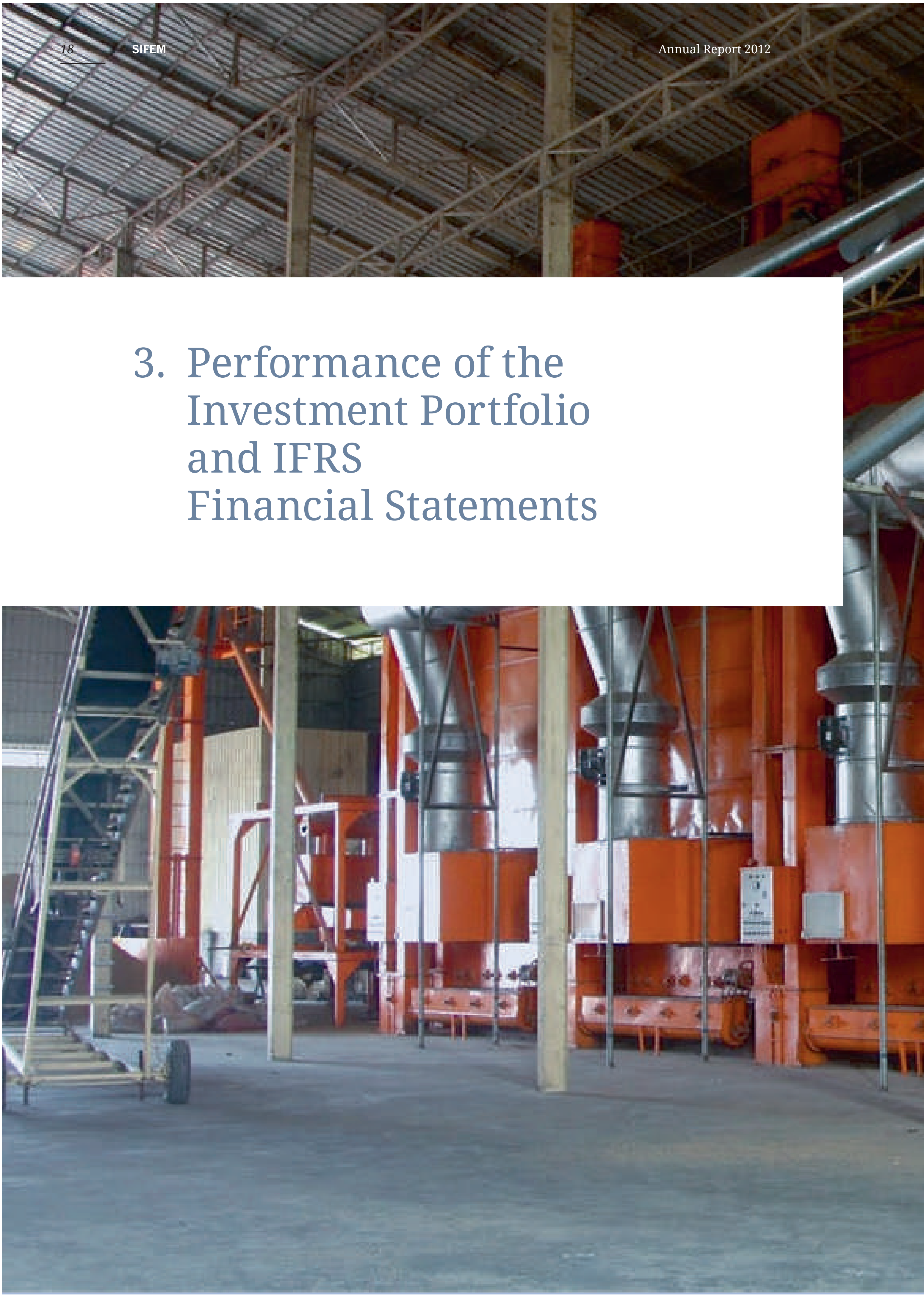
2.2 Investment Committee

In 2012 the Investment Committee met eight times, and reviewed nine transactions presented by Obviam. Concept approval was granted for five new transactions, allowing Obviam to conduct due diligence on these deals and submit them to the Investment Committee for final approval. Three of these transactions were re-submitted following due diligence, and received final investment approval from the Investment Committee. For the fourth transaction, due diligence was carried out in December 2012 and this transaction received final Investment Committee approval in early 2013. The fifth transaction is pending due diligence in 2013. The remaining four potential investments had previously received concept approval in 2011 and were approved for investment by the Investment Committee in 2012. Furthermore, the Investment Committee approved the restructuring of an under-performing existing investment in SIFEM's portfolio.

2.3 Audit Committee

The Audit Committee held four meetings in 2012, and examined a wide range of topics from portfolio performance and valuations to financial accounts, management accounts and budget, risk management and performance of the accountants, auditors and custodians. The Audit Committee recommended that the Board approve SIFEM's 2011 financial accounts compiled in accordance with SCO. The Audit Committee also met with SIFEM's auditor and accountant to receive comfort on internal controls and cash management policies. Moreover, the Audit Committee supported the Board in a number of areas related to remuneration and auditor appointment among others.

3. Performance of the Investment Portfolio and IFRS Financial Statements



3.1 SIFEM Result for 2012

In the financial year of 2012, under IFRS SIFEM made a net loss of USD 15.1 million which – when translated into SIFEM's reporting currency – results in a net loss of CHF 17.2 million. These figures only partially reflect the underlying performance of SIFEM, however, as significant accounting effects are distorting the picture (see more details in section 3.2 and 3.3 below).

The investment portfolio of SIFEM shows an overall positive performance for the year in form of a net gain of USD 2.9 million (CHF 2.8m). When adjusting for the gains realized due to favourable foreign exchange rate movements, the portfolio shows a flat performance with a minor loss of USD 0.2 million (CHF 0.2m). This result does not cover the total administrative and operational cost of SIFEM, which in the year 2012 amounted to USD 6.2 million (CHF 5.9m).

3.2 Adoption of IFRS in 2012

During the year 2012, SIFEM overhauled its accounting system to enable the production of financial statements in accordance with both IFRS and the statutory accounts in line with SCO accounting rules.

Since 70% of SIFEM's investments are denominated in USD, the Dollar plays a very prominent role in measuring SIFEM's investment performance and in preparing its accounts. Given the strong volatility in foreign exchange markets, particularly in the last two years, the investment performance of SIFEM would have been and would remain significantly distorted by currency effects if it were measured in Swiss Francs. After consultation with the Federal Finance Administration, SIFEM therefore decided to use the US Dollar as functional currency for the preparation of its IFRS accounts, as well as for performance measurement. All CHF figures provided below and in the accounts are translated from the underlying USD accounts.

Through the use of fair market valuation and the USD as functional base currency, IFRS more transparently reflects the movements in the unrealised value of SIFEM's portfolio investments, and therefore provides for a much more relevant picture of the performance of SIFEM's core business. However, certain accounting anomalies occur under IFRS regulations, which affect the financial performance of SIFEM: in particular, it is forced to account for fictional book losses on the interest-free loans received from the Shareholder and paper currency losses on these loans.

As mentioned above, the net income from the SIFEM investment portfolio was USD 2.9 million (CHF 2.8m) in 2012. This result is mostly explained by favourable underlying exchange rate movements within the investment portfolio (namely movements of the Euro and the South African Rand against the Dollar).

This positive portfolio performance is not sufficient for covering SIFEM's administrative and operational costs of USD 6.2 million (CHF 5.9m). It is important to note that in 2012 the reported management and administration expenses were higher than in 2011, since SIFEM accounted for a full year of operations in 2012, whereas in 2011 only the pro-rata share of costs since inception in August were charged. Moreover, 2012 expenses contain additional items such as the cost of the services provided by the custodian and administrator bank that was hired in December 2011. These operational expenses now reflect the normal and recurrent level. Overall, the results show that on a purely operational level, SIFEM is approximately USD 3.2 million (CHF 3.1m) short of being financially sustainable in a rather challenging year such as 2012.

When accounting for the implied cost of capital, the loss of SIFEM widens to USD 15.1 million (CHF 14.3m). This is due to a charge of USD 11.8 million (CHF 11.2m) from the exchange rate treatment and the amortization of the implied interest rate on the USD 398.1 million (CHF 364.4m) of shareholder loans to SIFEM. Since these shareholder loans are interest-free and non-repayable, this is a pure paper loss. This accounting effect explains 80% of the net loss of SIFEM in 2012.

Finally, once the USD results are translated into SIFEM's reporting currency, the net result is a loss of CHF 17.2 million. The foreign exchange rate loss of CHF 3.0 million due to translation from the operating currency into the reporting currency reflects the cumulative foreign exchange gains and losses made over the year, which are also paper losses.

3.3 SCO financials

Although SIFEM adopted IFRS, the reporting under SCO accounting standards is continued in parallel, primarily for compliance and statutory purposes.

While the financing and liabilities side of SIFEM's balance sheet is accurately reflected in the SCO accounts, the SCO accounting standards requires SIFEM to hold the investment portfolio at values considerably below fair market valuations, which is more conservative but also much less accurate. Much of the appreciation is recognised only at the time of realisation.

Under SCO accounting rules, SIFEM recorded a profit of CHF 9.9 million (USD 12.6m) in 2012[5], which compares with a loss of CHF 11.3 million (USD 12.0m) in 2011. The increased rate of reflows from the portfolio entirely explains the profit made by SIFEM under SCO accounting rules. The result would be even better, were foreign-exchange effects not to have reduced the value of SIFEM's assets by CHF 5.7 million.

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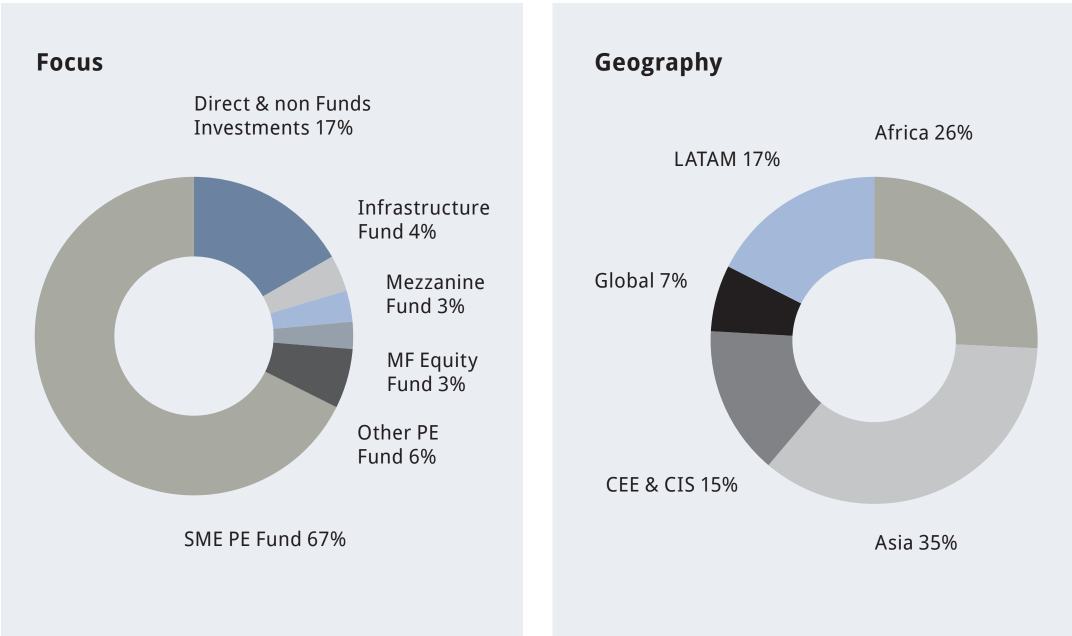
[5] *The SCO financial results for 2012, as presented in this report, are derived from SIFEM's statutory, non-consolidated financial statements. In addition, SIFEM produced a set of consolidated financial statements in accordance with SCO accounting principles. These accounts do not significantly contribute to interpreting the financial situation of SIFEM, but were only produced in order to meet the formal requirements of art. 663e SCO. Hence, they are not discussed in detail in this annual report.*

3.4 Portfolio Construction and Legacy

SIFEM's portfolio was built up over a period 14 years, with the first investments dating back to 1997. As of 30 September 2012, SIFEM's portfolio consisted of 67 investments, representing USD 505.4 million (CHF 552.1m) of commitments spread over 50+ countries in Africa, Asia, Eastern Europe and Latin America. While Asia historically has been the largest region, its share of the total portfolio has been slowly declining as China and India (where SIFEM has two of its largest exposures) ceased to be priority countries. Likewise, Eastern Europe's share of the portfolio has diminished as the ten countries which joined the EU in 2004 and 2007 were removed from the list of target markets at the time of their EU accession. Africa and Latin America's share of the portfolio has been slowly growing.

Figures 2 and 3: SIFEM portfolio by geography and focus as of Sept. 2012



The portfolio consists primarily of private equity funds investing in growth companies and SMEs (67%), infrastructure (4%), mezzanine (3%), and other private equity instruments (6%), and (3%) in microfinance funds. Direct equity and debt investments in financial institutions comprise 17% of the portfolio. SIFEM's investee funds have benefited more than 310 companies in a variety of sectors. This shows that over the years, the portfolio has been assembled with a high degree of consistency in terms of investment guidelines and priorities, thereby providing long term capital to SMEs and growth companies, mobilizing private investors and acting in a manner subsidiary to the market (cf. section 1.3). More recently SIFEM has seen the emergence of new investment themes, such as clean technologies and education. Furthermore, the analysis of expected development effects of the investments, including financial sustainability and environmental, social and governance matters, has been enhanced to incorporate lessons from past experience and to comply with the latest international standards and best practice.

3.5 Valuation Guidelines for Performance Measurement

For investment 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 IPEV Guidelines.

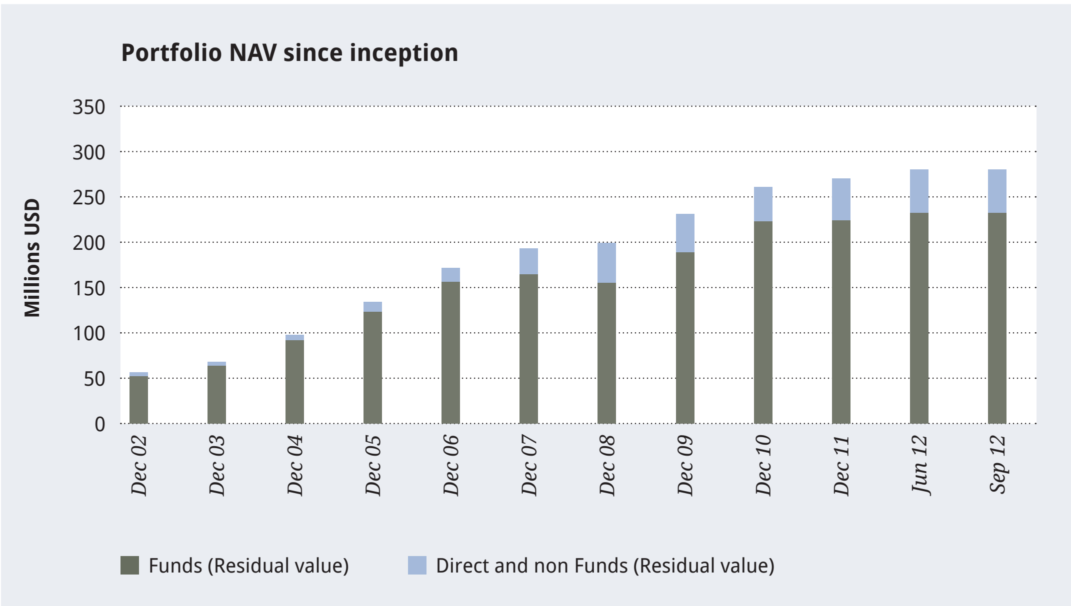
SIFEM's financial statements have to be audited by early March so that they can be consolidated in the Swiss Confederation's accounts. As the funds in which SIFEM has invested have not had the time to receive and report on the audited accounts of portfolio companies, the valuations in the SIFEM accounts are based on the funds' performance as at September. Any differences are unlikely to be material.

3.6 Evolution of Key Performance Benchmarks

As of 30 September 2012, SIFEM committed USD 505.4 million (CHF 552.1m) to 50 investment funds and 17 direct investments. When looking through the fund investments, SIFEM has indirectly invested in 312 underlying portfolio companies through its 67 investments.

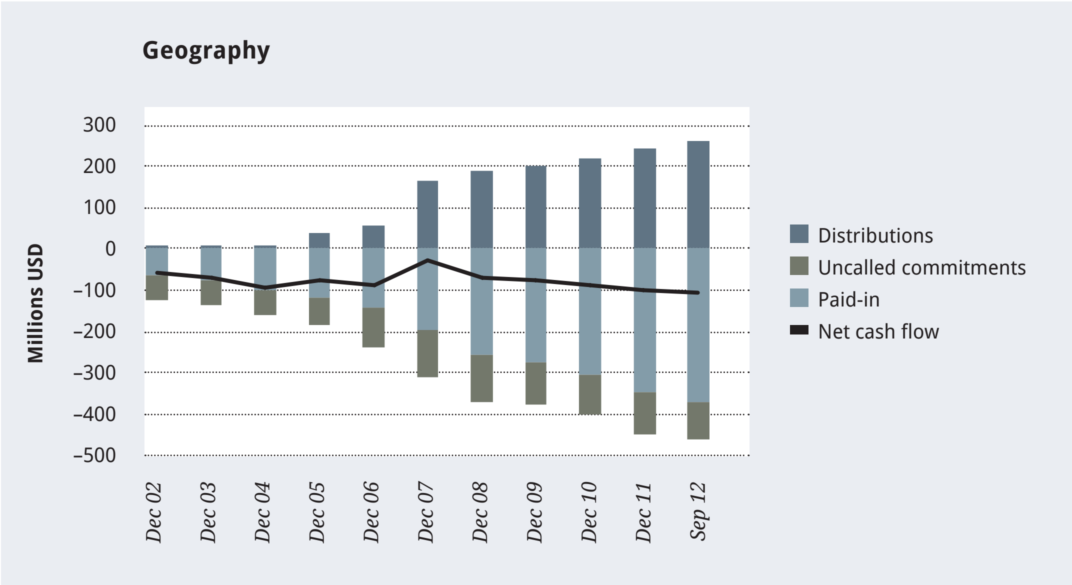
As of 30 September 2012, SIFEM's NAV amounted to USD 282.9 million (CHF 265.8m), an increase of USD 15.6 million or 5.8% compared to 31 December 2011. The NAV as of 30 March 2012 and 30 June 2012 amounted to USD 282.5 million and USD 283.9 million, respectively.

Figure 4: SIFEM portfolio NAV since inception



Since inception, USD 370.3 million (CHF 338.2m[6]) has been drawn down from the SIFEM investment portfolio and SIFEM received USD 262.1 million (CHF 239.4m[6]) of reflows. The total value of SIFEM investments including reflows amounted to USD 545.0 million (CHF 497.8m[6]) versus paid-in capital of USD 370.3 million (CHF 338.2m[6]). As of 30 September 2012, the cumulative net cash flow of SIFEM's portfolio since inception (i.e. excess of paid-in capital over reflows) amounted to USD –108.3 million. This negative cumulative cash flow is due to the young age of many investments in the portfolio, as well as its growth in recent years. How the cumulative net cash flow evolves henceforth will strongly depend on whether the investment portfolio continues to grow. At a stable size, it is fair to assume that the cumulative net cash flow will break even over the years, as the portfolio slowly matures. However, if the portfolio continues to grow, the proportion of younger investments will remain large and the cumulative net cash flow might further decline.

Figure 5: SIFEM cumulative cash flows and uncalled commitments (in mioUSD) since inception

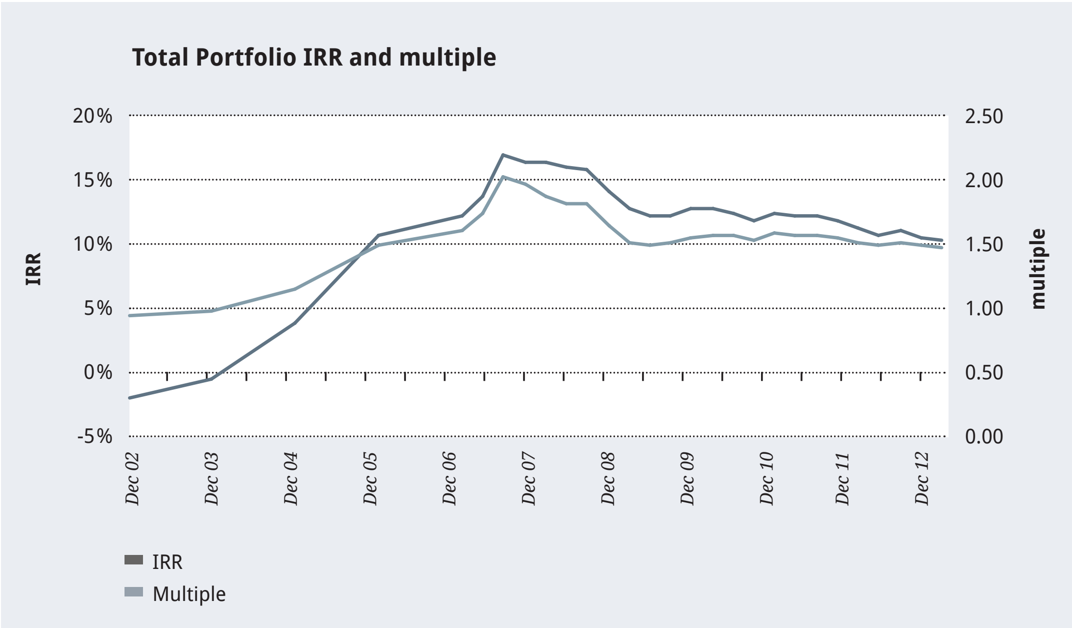


As of 30 September 2012, SIFEM's portfolio IRR was 10.22%. The IRR as of 30 March 2012 and 30 June 2012 were 10.94% and 10.50% respectively. The IRR calculation is performed since inception. The SIFEM portfolio is a vehicle with no fixed-life investment pool, it is "evergreen" as reflows from past investments can be reinvested.

[6] *Converted at current exchange rates*

Since 2005, the portfolio IRR has constantly moved between 10% and 18%. The highest IRR figures were achieved before the financial crises with 17.22% (June 07) and 16.61% (December 07). During the years of the financial crisis (2008–2009) 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 10% and 11%.

Figure 6: SIFEM total portfolio IRR & multiple since inception



3.7 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 depreciation of the Euro against the US Dollar weighed on mid-year results, 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 2012 (+2.3% over the year). Slight positive currency effects were recorded with regards to the Chinese Yen (+1.0% over the year against the US Dollar), the second currency to which SIFEM has significant direct exposure. The third major currency in SIFEM's portfolio is the South African Rand (ZAR) which weakened for the second consecutive year, from 0.1239 USD per ZAR at the beginning of 2012 to 0.1181 at year-end, representing a decline of 4.7%.

Figure 7: Currency movements EUR/USD and ZAR/USD in 2012

For funds denominated in USD or EUR, the devaluation of domestic currencies – the accounting currencies of the companies in which the funds are invested – 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 usually 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.

3.8 Regional Portfolio Trends

Africa

The environment in the MENA region, and particularly North Africa where SIFEM's investments lie, continues to be difficult in the aftermath of the Arab Spring. Outlook varies across countries with some like Morocco offering positive prospects while others, such as Egypt and Tunisia, remaining uncertain. In this context, the fundraising environment has not improved as investors continue to hold a prudent approach to the region. Consequently, the efforts needed and the length of the fundraising process has considerably increased. In this difficult context, DFIs, including SIFEM, play a critical counter cyclical role to keep investment activities afloat. The decision of the European Bank for Reconstruction and Development to become active in MENA is a welcome development in this regard. However, it requires increased coordination between the bilateral and multilateral agencies such as the International Finance Corporation and the European Investment Bank. Thus, much of the effort in terms of portfolio development was spent on the negotiation of the second closing of Maghreb Private Equity Fund III, managed by Tuninvest, and of Capital North Africa Venture Fund II, managed by Capital Invest, which should close in early 2013.

On the portfolio monitoring front, the news have been positive in MENA with the vast majority of portfolio companies performing better than in 2011. Some exits took place, a few others have been delayed, but performance is still good with most of the funds showing IRRs above 10% and multiples above 1.50x. One recent fund investment in Egypt has seen a slow start due to the difficult political and macro-economic environment.

In SSA, SIFEM invested USD 12 million in a generalist private equity fund and a microfinance fund in East Africa, both first time funds. A third investment planned for 2012 into a generalist mid-market PE fund focusing on Western and Southern Africa did not materialize, because the fund manager failed to raise enough financial commitment to implement its investment strategy. This episode is just one example among many others of the challenging fundraising environment in the region as not only first-time, but also mature teams struggle to reach critical mass. While there is an increasing interest for SSA, it hasn't yet translated into firm commitments. One problem is that the vast majority of the PE funds active in SSA are too small to accommodate institutional investors' large investment tickets, which cannot be absorbed by local PE funds focusing on SMEs. In this environment, close cooperation with other DFIs and IFIs is essential to ensure that the most promising fund managers are able to reach critical mass.

The deal-flow in SSA has been strong, with SIFEM reviewing 55 fund proposals in 2012. The majority of these were generalist PE funds focusing on SMEs or the mid-market, but the number of sector specific funds also increased. SIFEM was approached with renewable energy and clean technology, agriculture and infrastructure fund proposals, among others. SIFEM is actively screening these opportunities to assess whether they fit its investment strategy and guidelines.

The aftermath of the financial crisis is still acutely felt in SIFEM's portfolio in SSA. In particular, fund managers have experienced difficulties in deploying capital as well as realizing exits. SIFEM has been closely monitoring the situation and actively collaborating with fund managers and other co-investors to find solutions aimed at mitigating these difficulties. Unfortunately, this trend is expected to persist into 2013, which will also further exacerbate fundraising difficulties.

In 2012 the Trust Bank Ghana paid its last instalment of the SME credit line extended by SIFEM in 2007. While the Trust Bank complied with all of SIFEM's covenants and has never experienced arrears, the financial return for SIFEM is below expectations due to massive local currency depreciation against the USD (more than 107% or over 17% per annum). This example shows that local currency lending, while relevant in terms of development effects, remains a financial challenge.

Asia

Asia remains the most active investment region for emerging markets, with China and India leading in fundraising, investments and exits, driven by the sheer size of their economies and growing populations, as well as higher sophistication and specialization of managers. Overall, over 100 proposals were received and screened in 2012. SIFEM closed one investment into the Mongolian Opportunities Fund. Meanwhile, due diligence for a promising Indonesian sector-agnostic fund was put on hold, while several attractive opportunities were foregone as they were outside SIFEM's priority countries, or would require more capital than SIFEM can provide in its present set-up.

Monitoring efforts played a key role in 2012 as Obviam conducted a number of investee visits in Indonesia, Cambodia and India. While the developmental funds were closely monitored in their first years of operation, the more mature portfolio developed well in terms of underlying company activities and revenue growth. This is only partially reflected in the valuations due to downward pressure on benchmark valuations and currencies (primarily the Indian Rupee) since mid-2011. There were also some successful exits, especially in India.

Turning to SIFEM priority countries, Indonesia saw a re-awakening of its PE industry, which suffered from the 1990s Asian crisis and was dormant since, with local family offices and business groups doing most deals. Until recently, the few active local managers focused on large companies, privatizations and natural resource plays, while regional funds participated predominantly in larger deals. 2012 saw the closings of a few first-time funds looking at mid-sized deals. Obviam sees more opportunity for new funds in the coming years. Of the other South-east Asian economies, many are closely linked to China and growing between 4% and 7%. Favourable demographics leading to a growing and consuming middle class bode well for their prospects too.

While still offering attractive prospects in the longer term, Vietnam has seen a challenging year in 2012 on both the economic and political fronts. The situation improved at the end of the year and beginning of 2013, however. In this context, most of the efforts were spent on monitoring the portfolio which is a mix of mature and new investments. While the latter show interesting prospects, the former have proven difficult to exit and are requiring considerable follow-up and involvement. In terms of potential investments, deal flow has been strong, with a large number of the managers currently raising funds, but SIFEM has focused on other parts of Asia while waiting for the economic situation to settle down and have more visibility on current operations and exit environment.

Looking at former priority countries of SIFEM, India's economic slow-down continued in 2012. The Indian PE market remains active, with elevated investment activity, though still few exits. Despite a number of economic and policy challenges, Obviam continues to see a large number of opportunities to support broad-based economic development in India. Since India is no longer a priority country, SIFEM's focus there is to invest in developmental niches such as impact sector funds in clean energy, infrastructure, agriculture, education or healthcare. Outside these niches, the provision of growth capital is highly competitive, established and functioning. SIFEM is, therefore, less needed in sector- agnostic funds, unless it has an existing relationship and can secure the sustainability of developmental outcomes by remaining involved.

SIFEM still has considerable exposure in China, which has also fallen off the list of priority countries. A handful of sector funds were investigated, with clean energy, infrastructure and healthcare being the most promising for SIFEM. Finally, the diversification and development of neighbouring countries like Mongolia is closely linked to the export of natural resources to the northern China industrial belt.

Eastern Europe and the CIS

SIFEM's portfolio composition in Eastern Europe and the CIS has remained unchanged, with the last fund investment made into Europe Virgin Fund in Ukraine in 2010. The region has arguably been the most affected by the financial crisis which still severely impacts the economies. This translates into a weak deal flow with a

limited number of investment proposals for SIFEM. Moreover, SIFEM is no longer needed in most SE European countries that have joined the EU, or begun accession talks. A somewhat similar situation prevails in the CIS countries where most regional funds covering SIFEM priority countries operate out of and have a strong investment focus on Russia which is not a priority country. This essentially focuses SIFEM's new activities on Ukraine and the Caucasus region.

Most of the funds in the CEE / CIS portfolio continue to suffer from the challenging economic environment. The funds of pre-crisis vintages are all in the divestment stage and struggling to find buyers for their investee companies. Most of these funds will need an extension of their lifetime for at least one year if not more.

In addition to the funds, SIFEM has made loans to two Azeri banks in 2007 and 2008, both of which will be fully amortized in 2013. While the loans have been performing well and both banks have abided with SIFEM's covenants, competitive pressures have driven their margins down over the past years. The same phenomenon has also been noted in the microfinance debt sector where SIFEM is active through a global facility.

Latin America

2012 was a busy year of investment activity for Latin America, with SIFEM closing three transactions worth USD 12 million in two first-time private equity funds, one focusing on SME and growth companies and the other on renewable energy, and one microfinance debt fund serving the education sector. Obviam screened 13 direct transactions and 32 funds in 2012, many of which were generalist funds, though some sector trends were in renewables and agribusiness/forestry. The main challenge in deal selection remains the region's middle/high income status, which precludes SIFEM from investing in South American regional funds as most markets are considered to be too developed to be eligible for SIFEM investments. In light of this, SIFEM focuses exclusively on its priority countries of Colombia, Peru, the Central American region and Bolivia.

The existing Latin American portfolio is young and thus showing moderate performance. The profitability is weighed down on the one hand by the negative performance of the first generation funds of early 2000s vintages, and on the other hand by the relatively young, mostly unrealized portfolio of later vintage investments.

One important theme shows the difficulty of investing in the small-SME segment in difficult, small, informal and fragmented markets in Central America, where funds have been struggling financially. SIFEM will continue to collaborate with other DFIs and IFIs to find innovative approaches to suit the local conditions. This theme resonates beyond Central America, also in Peru, where some fund investees are too small to attract third party buyer interest. Funds investing into medium-sized companies with prospects for regional scale, capitalizing on both the domestic demand and regional growth, fare better in this regard.

In addition to PEFs, SIFEM has invested in several microfinance debts funds which are heavily weighted towards Latin America, notably the Global Microfinance Facility, Symbiotics MFLO III, the Emergency Liquidity Facility and most recently the Higher Education Finance Fund. All these debt facilities, with one exception are performing on-track. Notably, the fund managers of these instruments view the Tier I microfinance market as saturated both on the whole-sale level (i.e. MFIs receiving very cheap loans), and more alarmingly so, on the retail level where issues such as client over-indebtedness are a prevalent problem in markets such as Peru. Finally, SIFEM holds one loan to Bancentro in Nicaragua, which is compliant with all its covenants and current on interest payments. Bancentro is one of the largest banks in the country with a strong balance sheet, and not only has it avoided the down-falls of the microfinance industry, but in times of financial instability in Nicaragua, has been able to increase its deposits. Bancentro focuses primarily on SME loans.

3.9 New Investments Concluded in 2012

New commitments in 2012 were worth a total of USD 29.0 million (CHF 26.5m), showing a significant decrease from 2011 commitments of USD 57.1 million (CHF 53.7m[7]). This is explained by roughly USD 18 million of investments planned for 2012 being postponed to 2013 due to various market conditions (see regional discussions above). Moreover, given some question marks regarding the timeline over which the current uncommitted cash reserves are to be allocated, Obviam held back on several pipeline opportunities.

[7] *Converted at the respective year-end exchange rates*

The 2012 commitments were made to four private equity funds and two microfinance funds. Their regional breakdown was three projects in Latin America, two in Africa and one in Asia. Three investments were sector agnostic funds and three focused on renewable energy and microfinance. Notably, SIFEM invested in the first private equity fund in Mongolia, which has recently become a SIFEM priority country.

The new portfolio positions are as follows:

- **Catalyst Fund I:** a USD 125 million PEF investing in medium-sized companies in high-growth sectors in East Africa. With an objective to develop regional leaders, the fund works with portfolio companies towards achieving international operating best-practices, including environmental, social and governance standards. Catalyst seeks to drive revenue and profit growth through investment and strategic value-add initiatives. Catalyst Principal Partners, the manager of the fund, is a first time fund manager, that brings together an experienced team of East African investment professionals with diverse and complimentary international working experience and expertise.

- **CoreCo Central America Fund I:** a USD 54 million PEF investing growth equity into Central American companies as well as in the Dominican Republic. CoreCo invests USD 3–5 million in revenue-producing companies that are focusing on domestic demand-driven sectors and aiming to become regional leaders. Although not limited by sector, CoreCo targets companies primarily in the following industries: healthcare, financial services, IT/software, consumer goods, retail and logistics business services and telecom / wireless.

- **Latin Renewables Infrastructure:** a USD 40 million PEF investing in renewable energy generation projects primarily in Central America, and to a lesser extent in South America and the Caribbean. The fund targets investments of USD 5–25 million in asset-based, capital-intensive segments of renewable energy generation, mainly focusing on hydro, but also investing in wind, geothermal, and solar sub-sectors.

- **Higher Education Finance Fund:** a USD 28 million debt fund providing loans and technical assistance to MFIs offering higher education finance loans to low-income clients. Target countries are Costa Rica, Guatemala, Honduras, Bolivia, Peru, Paraguay, and the Dominican Republic. SIFEM extended a USD 1 million loan to the fund in 2012.

- **Mongolia Opportunities Fund:** at USD 31 million, the first Mongolian PEF, providing long-term capital between USD 2–8 million, mainly in the form of equity. The fund does not invest in the country's booming mining sector, but rather focuses on medium-sized enterprises that provide equipment, services and infrastructure, and therefore will help make Mongolia's economic growth more broad-based, inclusive and resilient.

- **Progression Eastern African Microfinance Equity Fund:** a USD 40 million PEF that invests in microfinance institutions providing financial services to low and middle income clients in East Africa. The Fund will invest USD 2-5 million in businesses whose core activity is to provide access to credit and savings to traditionally unbanked people. The fund is managed by Progression Capital Africa Ltd., a first-time team with a strong ability to add value to local microfinance institutions.

4. Development Impact and Evaluation

SIFEM's performance and development impact are defined by an operationalized catalogue of strategic objectives, whereby the general framework is set by the Federal Council every four years, while the specifics are defined annually by the Board based on progress and completion. The catalogue is split into four thematic groups: development impact, with particular focus on job creation, financial sector development, environmental and social aspects; financial sustainability based on critical size and sufficient return to bring SIFEM to long-term financial sustainability; compliance with investment mandate and other policies; and institution building via appropriate management and governance structures. The progress on these 2009–2012 objectives is expanded in detail in the following section. Moreover, in 2012 SIFEM underwent an external evaluation, which was overall quite positive, validating SIFEM's mandate, operations and value-add. In the last section SIFEM presents an overview of its development impact methodology, and the findings of its latest development impact report.

4.1 Performance against Operationalized Objectives

We are pleased to report having met 11 of the 12 objectives in accordance with the benchmarks approved by the Federal Council. The only target missed by SIFEM relates to the rate of reflows from investments, which remained depressed in the aftermath of the global financial crisis and throughout the entire validity period. This strong performance reflects SIFEM's careful approach in balancing developmental and financial objectives, the investment selection skills of Obviam's management team, as well as its hands-on approach to ensuring continued compliance with requirements and the maximisation of developmental and financial outcomes.

The following table lists the operationalized objectives 2009–2012 as specified in mid-2011 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)	As per the GPR report issued in June 2012 (2011 data), 91% of SIFEM's ex-post 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	As per the GPR report issued in June 2012 (2011 data), 70% of SIFEM's indirect investees (underlying fund portfolio companies) witnessed job increases over the time of investment.
	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	On a weighted three-year floating average, the aggregate number of jobs in all of SIFEM's indirect investees grew by 6,875 annually (excluding new investees added during the period).
	1.4 Financial sector development	Every SIFEM investment in some way contributes to diversifying the financial sector or credit allocation in target countries	All of SIFEM's investments contribute in some way to the diversification of the financial sector or the credit allocation in the target countries. This includes all GPR-rated investments (since 2005).
	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	The weighted five-year floating average reflow from investments between 2009 and 2012 is CHF 21.8m (data as per June 2012).
	2.2 Sufficient annual commitments	On a 3-year floating average, SIFEM shall commit at least CHF 25 million per year	The weighted three-year floating average annual commitment rate between 2009 and 2012 is CHF 41.7m (data as per June 2012).
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	70% of SIFEM's commitments since 2009 are directed toward priority countries of the Swiss development cooperation, as defined in the investment guidelines of SIFEM 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	In 81% of the investments made since 2009, the Decision Notes state that both Subsidiarity and Additionality effects are expected to be "positive" or "very positive" at the time of investment.
	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	In 60% of the fund investments made since 2009, every dollar invested by SIFEM mobilised more than two dollars of private investment (USD 3.82 on average).
4. Institution building	4.1 Appropriate management and governance structure	SIFEM shall implement and maintain a proper risk management system	SIFEM has met the Swiss Code of Obligations audit requirements in terms of risk management and internal control system. The new risk management system is fully implemented.
	4.2 Professional cooperation with Federal Administration		SIFEM and Obviam have upheld a high standard of professionalism in their cooperation with the Federal Administration, all requests were answered swiftly.

4.2 External Evaluation of SIFEM

Last year, SECO commissioned an external evaluation of the developmental investment portfolio, which SIFEM took over in the course of its establishment in 2011. The primary goal was measuring SIFEM's performance vis-à-vis the operationalized strategic objectives and evaluating its development effects. Overall, the evaluation was quite positive, validating SIFEM's mandate and operations, and highlighting its high additionality, especially given the relatively small size of its investment tickets, management team and limited resources:

"In interviews and site visits, fund managers consistently praised SIFEM for its practical and constructive approach. They were impressed by SIFEM's professionalism, engagement in fund operations, and recognition of the economic and financial context in which the fund managers operate. In particular, SIFEM stood out compared to other public and private investors as more responsive, more engaged, and more understanding of the operating environment."

In addition to validating SIFEM's fulfillment of operationalized objectives, the evaluation compared SIFEM to the OECD DAC Criteria, where SIFEM also scored very positively.

Summary

The evaluation established the following ratings for the development effects of the SIFEM portfolio in terms of DAC Criteria.

- **Relevance:** Satisfactory. SIFEM provides capital and expertise, which are the primary needs of its investees.
- **Effectiveness:** Highly satisfactory (at output level) and satisfactory (at outcome level).
- **Efficiency:** Highly satisfactory (for cost effectiveness, implementation, and management) and satisfactory (for monitoring and evaluation).
- **Sustainability:** Highly satisfactory. The portfolio's positive financial returns suggest that SIFEM investments will continue to be viable after SIFEM divestment.

The evaluation provided a welcome opportunity for the Board and management to review SIFEM's investment approach and strategy. The Board is pleased to note that the evaluation broadly confirmed SIFEM's approach to development financing. In the Board's view, no fundamental changes in the investment strategy are, therefore, needed. The recommendations of the evaluation provide helpful guidance for SIFEM and are being considered in detail. In close consultation with the Shareholder, the Board is currently discussing how the investment strategy can be optimised to ensure SIFEM's long-term sustainability in terms of development impact creation, as well as financially and operationally[8].

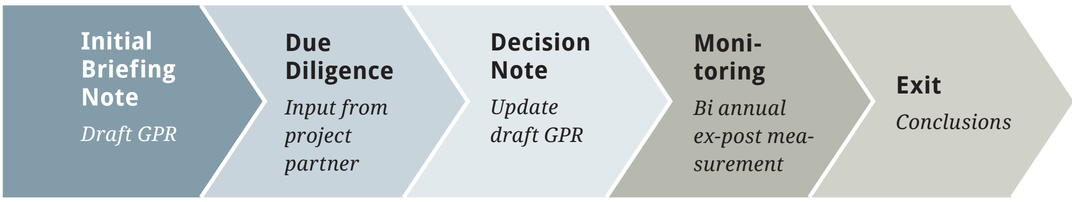
[8] *The evaluation report and SECO's response will shortly be made available under:* http://www.seco-cooperation.admin.ch/themen/01033/01130/05121/
and the Board's response shall shortly be published under: http://www.sifem.ch.

4.3 SIFEM's Development Impact

Measurement System

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. This tool is used by several other European DFIs in different forms, which to a certain extent facilitates implementation and comparability. This tool focuses on such areas as job creation and support, training, value-added support to investee companies, financial market deepening and development and many others. The GPR tool is used throughout the life cycle of each SIFEM investment and consists of eight different development indicators and 42 sub-indicators.

Figure 8: The GPR tool covers the entire life cycle of an investment



In order to track 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. For FI investments, post-investment GPRs are done until maturity, prepayment, or divestment. As job creation is an important objective for SIFEM, the job data of each investment is collected and assessed annually, on portfolio company level for PEFs and at the sub-borrower level for FIs.

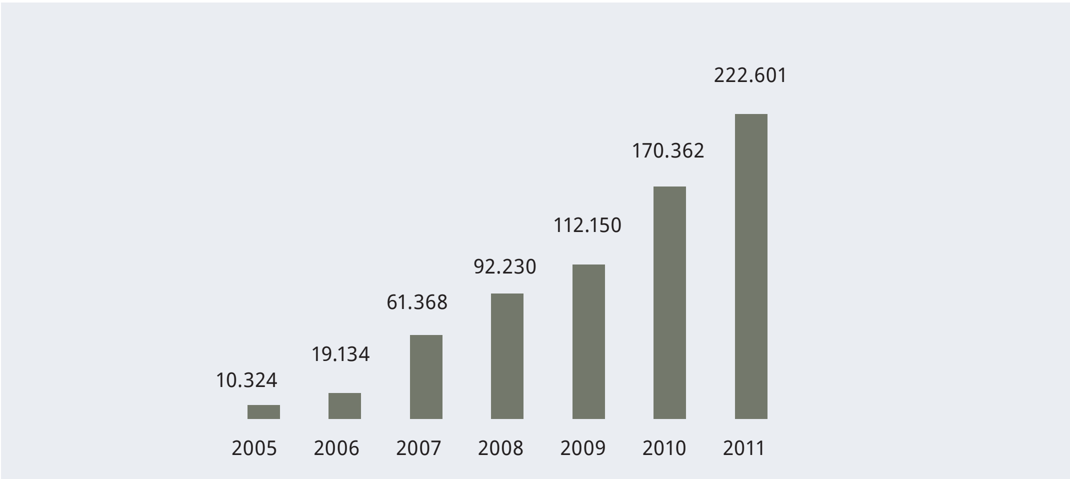
Annually, Obviam compiles GPR data and reports the expected development effects of SIFEM's new commitments. It also compares the expected versus actual development effects of investments measured in ex-post data collection every two years. For those investments that reach the end of the GPR process in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

Development Highlights

SIFEM's investment philosophy is guided by the belief that investing in commercially viable developing country SMEs and growth companies can provide investors risk adjusted returns, as well as generate sustainable, long-term development effects in local communities. SIFEM seeks to drive entrepreneurship, create jobs, deepen and strengthen the financial sector, and drive economic growth in its target countries.

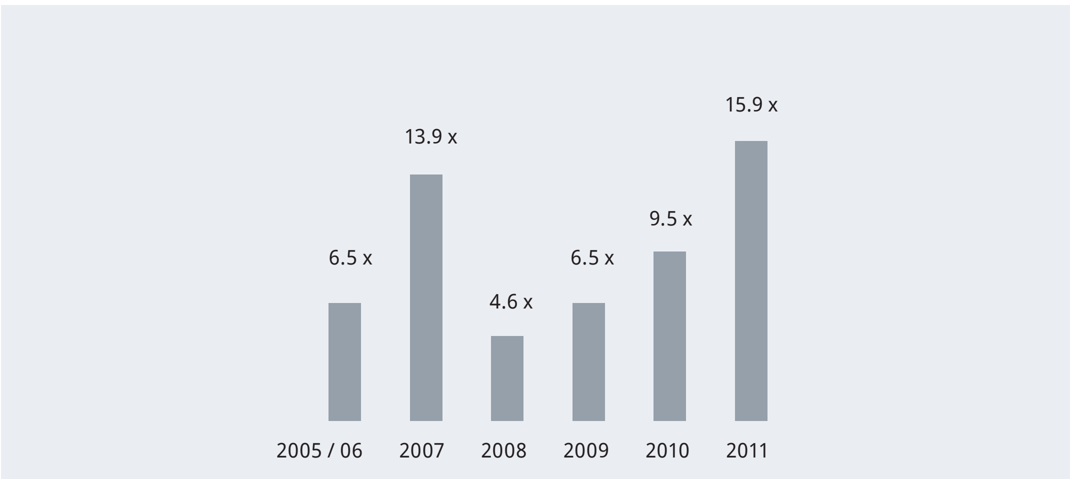
One of the most relevant and at the same time most tangible indicators for measuring SIFEM's impact on development is the number of jobs supported or generated by the portfolio. Employment is critical for development; it assists in the reduction of poverty and its far-reaching consequences such as malnutrition, disease and other poverty-related burdens on next generations. Higher levels of employment improve GDP per capita, living standards, as well as education and economic development. For most people a remunerated job is the only way out of the vicious cycle of poverty. Since its inception in 2005, SIFEM together with other investors has contributed to creating and supporting over 222,000 jobs in developing countries.

Figure 9: Jobs supported by SIFEM's overall portfolio since inception



Inadequate access to financing continues to be one of the most significant impediments to company creation, survival and growth. In many emerging and frontier markets, the financial sector is characterized by a narrow range of institutions, weak competition, low penetration and a lack of client focus. SIFEM seeks to address these issues by mobilizing additional capital from other private and institutional investors into target countries. In accordance with its mandate SIFEM operates in difficult, underdeveloped markets which are often avoided by private investors. It is SIFEM's mission to act as a pioneer, pave the way for other investors and demonstrate that achieving developmental results can also yield positive financial returns.

Figure 10: Expected investment mobilization in USD millions by vintage year



With its 2011 vintage PEF investments, each dollar invested by SIFEM was matched by 15.9 dollars from other investors. This so-called mobilisation factor was the highest recorded since SIFEM started using the GPR tool in 2005. The mobilization of capital is of high relevance because, in the medium to long term, the projects cannot count on public money and will have to refinance themselves via private investors. For example, in 2011, SIFEM was able to include other development finance institutions as well as private investors in order to bring a fund in Vietnam to a first close. The fund provides finance to SMEs and growth companies in sectors like education, communication, tourism, finance and affordable housing. Furthermore, SIFEM was actively involved in organizing technical assistance for this project to improve the management of environmental and social aspects. This is one example among many of how SIFEM contributes to the establishment of sustainable financial intermediaries on the ground.

Moreover, SIFEM is strongly committed to being an active investor with a very hands-on approach when it comes to managing its portfolio. Especially PEFs are benefitting from SIFEM's support in many different areas such as the reinforcement of the organization and management, improvement of information and control systems as well as risk management or the implementation of an environmental and social risk monitoring system. SIFEM's dedication to responsible investments asks for a strong involvement with its financial intermediaries, so that they can in turn assist their investee companies with valuable advice and support. The GPR tool evidences that all investments assessed for 2011 have benefitted from SIFEM's expertise and assistance.

Finally, all of SIFEM's fund managers have contributed to the development of the local companies, for example by providing consulting and technical support, guidance on strategic decisions, introducing environmental and social monitoring systems, improving accounting and reporting etc. Furthermore, all investments had positive effects on the training and up-skilling of the local staff or the community. The training of "human capital" is considered as one of the most important production and location factors for portfolio companies. Training and further education increase productivity and the income of employees accordingly, which is significantly contributing to poverty alleviation.

Highlights of the Latest GPR Report

As mentioned above, the GPR tool looks at investments by vintage year. Below, please find an overview of the latest available data.

GPR ex-ante: expected development effects of new commitments in 2011

Overall SIFEM expects good development effects from its 2011 investments, as supported by high aggregate development effects scores.

Figure 11: Expected development effects (vintage 2011)

SIFEM's 2011 investments (7 PEFs) are expected to:
- Support 96 direct jobs and 23,450 indirect jobs;
- deliver positive gender effects (one project, while the others are gender neutral);
- provide training to staff (six out of seven projects are expected to provide internal training, most on an organization-wide basis) and to a broader audience external to the organization (two out of seven projects);
- mobilize local capital (six out of seven projects);
- contribute to local financial sector diversification (five out of seven projects);
- improve credit and capital allocation diversification (all projects);
- support institution building at PEF managers (all projects); and
- assist investee companies in improving operational excellence (all projects).

GPR post-investment: overview of actual development effects of SIFEM's 2007 and 2009 investments

Overall, the average GPR score of new investments closed in 2007 by SIFEM is "good" or even "very good" in accordance with the measurement standards accepted by peer European DFIs. When comparing actual outcomes with the ex-ante assessments made before investing, the score tends to even improve by a slight margin. For instance, when comparing the expected development effects of 2007 vintage investments versus effects observed four years post investment, investments have performed 15% better than anticipated at the time of investment. This is a significant improvement allowing a general upgrade from a "good" vintage in terms of development effects to a "very good" vintage year.

Together with other investors, SIFEM's 2007 investment activities produced the following development effects:
- All investments showed training effects, half of them provide training also outside their organization;
- 9 out of 12 investments mobilised additional capital from local banks in target countries (on top of co-investors in PEFs and FIs);
- all projects made a positive contribution to the diversification of the financial sector in the target countries;
- 11 out of 12 investments enhanced access to finance in the target countries (i.e. investment in new regions or new sectors);
- all financial intermediaries SIFEM partnered with contributed to operational improvements in portfolio companies.

The assessment of the 2009 investments (4 PEFs) showed a good performance in comparison with the benchmark set pre-investment. Together with other investors, these investment activities resulted in the following development outcomes:
- All investments resulted in training for employees at the PEF level;
- all investments mobilised additional capital from local investors or banks in target countries;
- all investments provided access to finance for SMEs and/or start-ups;
- all portfolio companies were enhanced by the respective fund managers in terms of corporate governance and social and environmental standards.

5. Risk Management

Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as these risks could potentially affect SIFEM's 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 as well as stakeholders 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 is comparatively high.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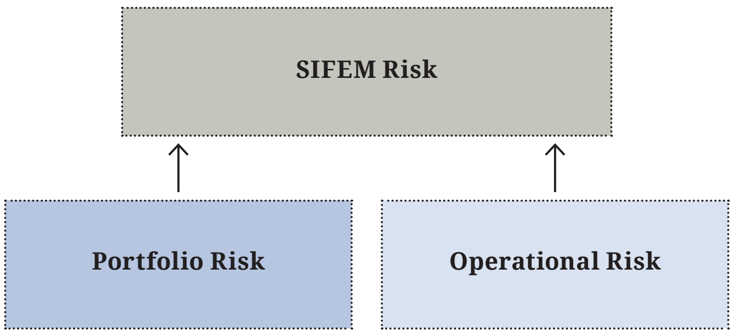
SIFEM relies on a comprehensive Manual of Procedures which was approved by its Board and contains all the relevant policies, procedures and guidelines for operations. The Manual details the ways in which Obviam implements the Portfolio Management Agreement, and in particular how risks are identified, mitigated, monitored and managed.

In 2012 Obviam developed and implemented a comprehensive portfolio-wide internal risk-rating system for all SIFEM investments, which is a useful tool for detecting, monitoring and managing the numerous risks inherent in SIFEM's investment activities.

SIFEM's potential risks may be divided in two main areas: first, the SIFEM portfolio risk and second, the operational risk for SIFEM.

Figure 12: SIFEM risk components



The monitoring of risk on each level follows specific procedures and processes applied throughout SIFEM's 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, non-compliance with policies, events of fraud, significant deviations from set targets or changes in risk assessments or definitions are duly reported to the Board.

5.1 Operational Risk Management and Internal Control System

SIFEM AG 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 and administrator, and to an external book-keeping agent.

5.2 Investment 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 a structurally high risk. Therefore it is essential to have an adequate risk management system that takes 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 investment risk management is based on three pillars:
- Portfolio Risk Management
- Treasury Management
- ESG Risk Management

Portfolio Risk Management
Obviam is responsible for 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 ratings, 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.

Obviam uses its in-house risk rating tool which has been validated by SIFEM's auditor. Each investment is rated on an annual basis. A comprehensive description of the tool is provided in section 5.3 and a portfolio risk analysis in section 5.4.

Treasury Management
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 bank under the supervision of Obviam. Periodical cash flow forecasts are generated to ensure liquidity. Safe keeping of cash reserves that are not needed at short term for investment operations is done with the Federal Finance Administration and the Swiss National Bank, adding an important layer of security. Unfunded commitments are backed by cash reserves in matching currencies in order to avoid currency risks.

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.

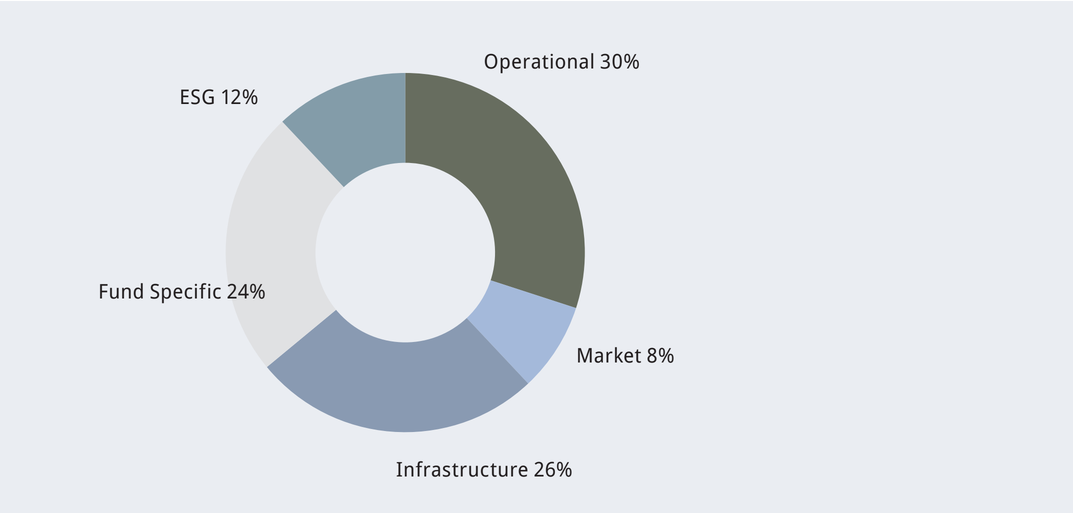
SIFEM has a comprehensive approach to responsible investment: this includes a Responsible Investment Policy which contains SIFEM's policy statement on responsible investment, SIFEM's Exclusion List, SIFEM's ESG requirements, and a description of SIFEM's ESG implementation. In order to monitor ESG risk SIFEM's portfolio is subject to an annual ESG risk rating review. Enhanced support is provided for investments where serious ESG issues 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 an early recognition of potential risks. An overview of ESG risk distribution of the portfolio is generated annually.

All active portfolio companies in the SIFEM portfolio have been individually rated for ESG risk. Moreover, all SIFEM PEF ESG Management Systems have been individually rated according to quality since 2005. When a problem is identified SIFEM becomes proactive. It coordinates with DFI co-investors to find a way to remedy the situation and help the company comply with ESG best practices. From time to time SIFEM mobilizes TA funding from SECO to reach that goal.

5.3 Portfolio Risk Rating Tool

In 2012 Obviam developed and implemented a comprehensive in-house risk rating system for the SIFEM portfolio, which was also validated by SIFEM's auditor. The system includes different rating metrics for PEFs, FIs and debt funds in microfinance or other asset classes. The system comprises of 30+ risk indicators that capture operational, market, infrastructure and ESG risks, as well as fund, debt instrument and FI-specific risks.

Figure 13: Risk weighting in SIFEM's risk rating tool



This data is aggregated and weighted into a risk score for every investment. The scores are then adjusted by some quantitative factors derived from their historical financial performance. In cases of microfinance or other debt funds with limited upside, further adjustments are made to cater for the different risk profiles of SIFEM's investment instruments.

The risk rating system is used throughout Obviam's investment process, with first risk assessments performed ex-ante during due diligence of potential investments. Post-investment, each project is re-rated on a regular basis to capture and monitor the evolution of risks.

The individual rating of each investment is rescaled into a risk score ranging from 1 (very high risk) to 5 (very low risk). Risk scores of 4 or 5 classify an investment as low risk or even very low risk, respectively, while a risk score of 3 indicates a moderate risk. A risk score of 2 however puts an investment on the watch list, which necessitates increased supervision. Finally, a risk score of 1 means that an investment is a work-out case for which a clear action plan needs to be drawn and implemented.

5.4 2012 SIFEM Portfolio Risk Ratings Overview

As per December 2012, the stratification of the SIFEM portfolio in terms of investments per risk category is as follows:

Figure 14: Number of SIFEM investments per risk category as of December 2012

(5)	Very low risk	8
(4)	Low risk	8
(3)	Moderate Risk	25
(2	High risk	10
(1)	Very high risk	13

As expected, the largest concentration of investments is found in the moderate risk categories. These are mainly investments which perform according to expectations or are too recent to be meaningfully assessed. Investments in the low risk or very low risk categories are mainly projects which exceed their expected performance.

The portfolio's split into the different investment categories (funds, structured debt instruments or direct loans to financial institutions) reveals a similar picture as shown in the table below. It is worth highlighting that none of the direct investments is "very high risk", and only two of them are on the watch list. The relatively high concentration of funds in the "very high risk" category reflects the very "raison d'être" of a DFI whose mandate is precisely to take risks that private investors are not yet willing to bear by venturing into new regions and sectors, testing innovative instruments and new teams. This needs constant monitoring by the Board and Obviam to ensure that an appropriate balance is found at the portfolio level, in order not to imperil the overall financial sustainability of SIFEM.

Figure 15: Number of SIFEM investments per risk category and type as of December 2012

		Funds		Debt. Instr.		Direct	
(5)	Very low risk	7	(15%)	1	(9%)	0	(0%)
(4)	Low risk	3	(6%)	3	(27%)	2	(33%)
(3)	Moderate Risk	18	(38%)	5	(46%)	2	(33%)
(2	High risk	8	(17%)	0	(0%)	2	(33%)
(1)	Very high risk	11	(24%)	2	(18%)	0	(0%)

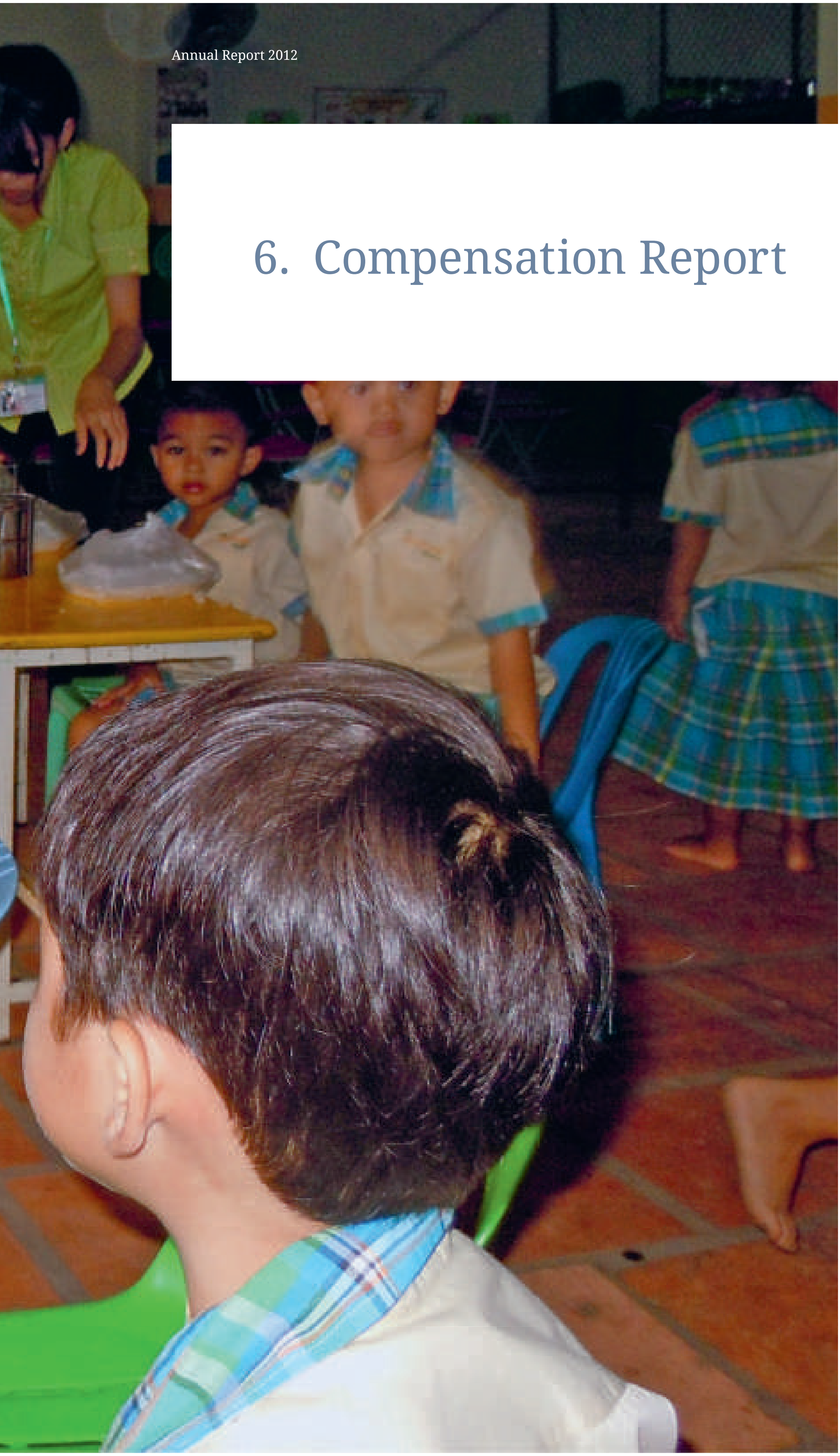
However, looking at the number of investments per risk category does not tell the whole story. It is important to weigh projects by the amount invested to obtain the effective USD amount exposed per risk category. Looking at the risk weighting by exposure, "very low risk" risk projects increase from 15% to 22% for funds, and, importantly, from 9% to 22% for debt investments. The same can be said of "very high risk" projects in the fund category, which increases from 24% to 29%. This distribution shows that it is important to control for USD exposure when considering project risks. Moreover, the exposure increase of "very low risk" projects highlights the importance of debt instruments in mitigating overall portfolio risk, as these tend to be larger and less risky exposures.

Figure 16: Current NAV of SIFEM portfolio per risk category and type as of December 2012

		Funds		Debt. Instr.		Direct	
(5)	Very low risk	49m	(22%)	6m	(22%)	0m	(0%)
(4)	Low risk	19m	(8%)	9m	(33%)	10m	(36%)
(3)	Moderate Risk	55m	(24%)	11m	(41%)	4m	(14%)
(2	High risk	38m	(17%)	0m	(0%)	14m	(50%)
(1)	Very high risk	65m	(29%)	1m	(4%)	0m	(0%)

Since this newly developed risk assessment tool was first introduced during the course of 2012, no comparison of movements over time from one risk category to the other can yet be presented. However, such an analysis will be presented in the next annual report.

6. Compensation Report



6.1 Board Compensation

As opposed to the Investment Committee members, the Audit Committee members were not remunerated in 2011. Since the workload for the Audit Committee turned out to be more substantial than expected, SIFEM requested the Federal Council to approve the introduction of remuneration for the Audit Committee. This was approved and introduced in 2012, therewith lifting the fixed annual compensation to a total of CHF 242,700 for the entire Board of SIFEM. This includes compensation for the extra effort required in the start-up period, which will be phased out over time: the total Board remuneration will drop to CHF 229,375 in 2013, and will thereafter be fixed at CHF 207,200 in accordance with the Organisational Regulations[9].

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 54,000 in 2012. This consists of a base compensation of CHF 30,000 for his role as Chairman of the Board and CHF 14,000 for his role as Chairman of the Investment Committee, as well as compensation for additional work-load in the start-up period of CHF 10,000.

6.2 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 actual costs 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

[9] *Figures include the Audit Committee remuneration, as introduced in 2012.*

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 the annual budget proposed by Obviam for 2012 under the aforementioned agreements. Small amendments were made during the year to cater for unforeseen needs. For the entire year 2012, the total budget for Obviam was CHF 4,768,689 (including VAT and accruals for variable compensation). This corresponds to 1.12% of the total active commitments of SIFEM as per 30 September 2012 (latest available figures). Including all other administrative expense items such as administration and custodian fees and Board compensation, the total administrative costs account for 1.34% of total active commitments. The threshold for total administrative expenses set by the Federal Council is 1.5% of SIFEM's total active commitments.

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.

In 2012 SIFEM began 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.

In accordance with the agreement above, the Board approved the disbursement of two different bonus components.

- Given Obviam's fulfilment of all its annual objectives for 2012, the Board approved the disbursement of an immediate bonus equal to 6.67% of Obviam's annual fixed salary cost.
- Furthermore, Obviam fulfilled all but one of its twelve operationalized objectives for the period 2009–12 (see section 4.1). As per the agreement, 2012 was treated as an individual one-year cycle. Therefore, the Board approved the disbursement of a retained bonus equal to 12.22% of Obviam's annual fixed salary cost.

7. Outlook for 2012

7.1 Strategy

Following two years marked by the establishment of SIFEM and the operationalization of its new policies and procedures, we expect SIFEM's strategy to take centre stage in 2013. In particular, two strategy discussions are on-going with SECO and should be completed within the year.

- First, the Board decided to moderately increase its annual commitment capacity in order to maintain SIFEM's operational and financial sustainability in the medium term. Since such an increase in the investment rate cannot be sustained over a longer period of time without adjustments to SIFEM's capital structure, the Board has reached out to SECO in order to discuss and evaluate possible measures.

- Second, a new set of strategic targets for the period 2014-2017 are due to be adopted by the Federal Council in late 2013. In the run-up, the Board will continue the close dialogue with SECO and propose measures to maximise its development impact without endangering SIFEM's financial sustainability. After the new strategic objectives are accepted, the Board will review SIFEM's investment guidelines as needed.

7.2 Operational Priorities

The independent evaluation of SIFEM activities conducted during 2012 made a few strategic recommendations which will necessitate in-depth analysis by the Shareholder and the Board, and will be considered, as appropriate, for the elaboration of the new strategic objectives of the Federal Council. The evaluation also made a number of recommendations that are more of an operational nature and have already been endorsed by SIFEM's Board. Their implementation has been incorporated in the 2013 annual targets for Obviam, such as a more sophisticated categorization of investments in terms of the trade-off between impact and financial sustainability and an enhanced system for collection for development indicators.

In 2012 enhanced tools to monitor the portfolio financial risk as well as to more closely monitor environmental, social and governance matters have been introduced. In 2013, these new instruments and processes will be fine-tuned and used consistently across the whole portfolio.

2012
Financial Statements – IFRS

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Report of the auditor on the financial statements to the Board of Directors

As mandated by you, we have audited the accompanying financial statements of SIFEM AG, which comprise the balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2012.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation 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, the Swiss Standards on Auditing (SA) and International Standards on Auditing (ISA). 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 and fair presentation 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 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 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS).

Emphasis of matter
As indicated in Note 10, the financial statements include unquoted investments stated at their fair values of CHF 237.5 million. Because of the inherent uncertainty associated with the valuation of such investments and the absence of a liquid market, these fair values may differ from their realisable values, and the difference could be material. The determination of the fair values of these investments is the responsibility of the Board of Directors. The valuation procedures used are disclosed in Note 10 of the financial statements. We have reviewed the procedures in valuing such investments and the underlying documentation.

While in the circumstances the procedures appear to be reasonable and the documentation appropriate, the determination of fair values involves subjective judgment which cannot be independently verified. Our opinion is not qualified in respect of this matter.

Zurich, 4 March 2013
BDO Ltd

Markus Eugster	ppa. Tobias Schüle
Licensed Audit Expert	*Auditor in charge, Licensed Audit Expert*

Statement of financial position

	Note	31.12.2012	31.12.2011	01.01.2011
		in 1000 CHF	in 1000 CHF	in 1000 CHF
Assets				
Cash and cash equivalents	7	260,319	207,977	2,072
Trade receivables				16
Other receivables and accrued income	8	11,710	325	144
Non-current assets held for sale	9			196
Total current assets		**272,029**	**208,302**	**2,428**
Direct Investments	10			
Equity Instruments		5,262	2,944	
Debt Instruments		33,346	37,742	
Investment Funds	10	198,883	214,587	
Total non-current assets		**237,491**	**255,273**	
Total assets		**509,520**	**463,575**	**2,428**
Liabilities and equity				
Trade payables		28	45	95
Other liabilites and accrued expenses		324	101	1,621
Total current liabilities		**352**	**146**	**1,716**
Loans and borrowings	11	364,446	303,795	
Total non-current liabilities		**364,446**	**303,795**	
Total liabilities		**364,798**	**303,941**	**1,716**
Share capital		100,000	100,000	100
Capital reserve (additionally paid in capital)		75,218	72,897	
Legal reserve		20	20	20
Translation reserve		13,137	16,097	
Retained earnings		–43,653	–29,380	592
Total equity	**12**	**144,722**	**159,634**	**712**
Total liabilities and equity		**509,520**	**463,575**	**2,428**

Statement of comprehensive income

	Note	31.12.2012	31.12.2011
		in 1000 CHF	in 1000 CHF
Interest income	13	3,205	3,215
Dividend income		21,259	4,663
Revenue from advisory services		71	1,649
Net foreign exchange gains/losses on cash and cash equivalents and on direct debt investments	14	2,908	–3,044
Net changes in fair value of investments at fair value through profit or loss	15	–24,687	–7,755
Impairment on direct debt investments			–1,207
Total net income (loss)		**2,756**	**–2,480**
Investment management fee		–4,891	–2,926
Administration and custodian fees	18	–257	–20
Personnel expenses		–312	–369
Administration expenses		–137	–124
Advertising expenses		–64	–52
Other operating result		–189	1,201
Operating result		**–3,094**	**–4,770**
Financial income	16	2	277
Financial expense	16	–11,181	–25,479
Loss before taxes		**–14,273**	**–29,972**
Tax expense			
Total loss for the year		**–14,273**	**–29,972**
Other comprehensive income			
Currency translation effect from translation to presentation currency		–2,960	16,097
Total comprehensive income		**–17,233**	**13,875**

Statement of changes in equity for the years ended 31 December 2012 and 2011

(in 1000 CHF)	Share Capital	Additional paid in capital	Legal reserves	Translation reserve	Retained earnings	Total
Balance at 1 January 2011	**100**		**20**		**592**	**712**
Total comprehensive income for the year						
Loss for the year					–29,972	–29,972
Foreign currency translation differences from translation to presentation currency				16,097		16,097
Total other comprehesive income for the year				16,097		16,097
Total comprehensive income for the year				**16,097**	**–29,972**	**–13,875**
Transactions with owners of the Company, recognised directly in equity issue of ordinary shares	99,900					99,900
Other capital contributions		72,897				72,897
Total transactions with owners of the Company	**99,900**	**72,897**				**172,797**
Balance at 31 December 2011	**100,000**	**72,897**	**20**	**16,097**	**–29,380**	**159,634**
Total comprehensive income for the year						
Loss for the year					–14,273	–14,273
Foreign currency translation differences from translation to presentation currency				–2,960		–2,960
Total other comprehesive income for the year				–2,960		–2,960
Total comprehensive income for the year				**–2,960**	**–14,273**	**–17,233**
Transactions with owners of the Company, recognised directly in equity						
Other capital contributions		2,321				2,321
Total transactions with owners of the Company		**2,321**				**2,321**
Balance at 31 December 2012	**100,000**	**75,218**	**20**	**13,137**	**–43,653**	**144,722**

Statement of cash flows

	Note	31.12.2012	31.12.2011
		in 1000 CHF	in 1000 CHF
Cash Flow from operating activities			
Loss for the year		–14,273	–29,972
Adjustments for:			
Interest income	13	–3,205	–3,215
Dividend income		–21,259	–4,663
Interest expense	16	3,497	3,000
Net foreign exchange loss		4,772	27,008
Changes in fair value of investments at fair value through profit or loss	15	24,687	7,755
Impairment on debt investmens			1,207
Changes in:			
Trade receivables			15
Other receivables, prepayments and accrued income		177	–228
Trade liabilities		–16	–48
Other liabilities and accrued expenses		232	–2,193
Purchase of investments		–32,974	–35,636
Proceeds from sale of investments		18,414	17,040
Interest received	13	2 ,609	3,215
Dividend received		12,776	4,663
Net cash used in operating activities		**–4,564**	**–12,052**
Cash flows from investing activities			
Proceeds from sale of fixed assets			186
Net cash from investing activities			**186**
Proceeds from issue of shareholder loans		60,423	210,707
Net cash from financing activities		**60,423**	**210,707**
Net increase in cash and cash equivalents		**55,859**	**198,842**
Cash and cash equivalents at 1 January	7	207,977	2,072
Effect of exchange rate flucutations on cash and cash equivalents		– 3,517	7,062
Cash and cash equivalents at 31 December	**7**	**260,319**	**207,977**


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Notes to the financial statements

1. Reporting entity

SIFEM AG – Swiss Investment Fund for Emerging Markets ("SIFEM" or the "Company") is a company domiciled in Switzerland. The address of the entity's registered office is c/o Obviam DFI AG, Bubenbergplatz 1, 3011 Bern. The Company's shares are fully owned by the Swiss Government.

SIFEM is the Development Finance Institution (DFI) of Switzerland. It is primarily involved in specialized investment funds to finance small- and medium-sized enterprises (SMEs). These are predominantly private equity or mezzanine funds. But the portfolio also includes some direct investment in financial intermediaries and structured products. 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 return, and generate sustainable, long term development effects in local communities.

Both the investment activities and the day-to-day business administration of the Company are delegated to Obviam DFI AG (acting as Portfolio Manager and Business Manager).

2. Basis of preparation

(a) Statement of compliance
The financial statements of the Company as at and for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) in addition to the statutory financial statements which are prepared in accordance with the Swiss Code of Obligations (SCO). These are the Company's first financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the adoption of IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 5.

The financial statements were authorised for issue by the Board of Directors on 1 March 2013.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency
These financial statements are presented in Swiss francs. The functional currency of the entity is US Dollar. All financial information presented in Swiss francs has been rounded to the nearest thousand.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated into USD at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into USD at the exchange rate at that date.

Non-monetary assets and liabilities in foreign currencies that are measured at fair value are translated into USD at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in profit or loss as net foreign exchange gain / loss, except for those arising on financial instruments at fair value through profit or loss, which are recognised as a component of net gain from financial instruments at fair value through profit or loss.

For the translation to the presentation currency all assets and liabilities are translated at the exchange rate at the balance sheet date. All equity items other than the profit or loss for the period are translated to the presentation currency at the historical exchange rate. Income, expenses and cash flows are translated using the average exchange rate of the reporting period, which approximates the exchange rate at the date of the transaction. The exchange differences on translating balance sheets and income statements are debited or credited as a translation adjustment in the statement of comprehensive income. Exchange differences on, translating cash, cash equivalents and related cash flows are separately disclosed in the cash flow statement as exchange effect on cash and cash equivalents. The following exchange rates were applied:

		2012		*2011*	*01.01.2011*
Rate	**Balance Sheet**	**Average**	**Balance Sheet**	**Average**	**Balance sheet rate**
USD/CHF	1.09	1.06	1.07	n/a	1.07
USD/EUR	1.32		1.30	n/a	n/a
USD/ZAR	0.12		0.13	n/a	n/a
USD/CNY	0.16		0.16	n/a	n/a
CHF/USD	0.92		0.94	0.89	0.93

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. At the moment, SIFEM does not have any significant subsidiary.

Investments in associates and jointly controlled entities

Investments in associates and jointly controlled entities are accounted for as venture capital investments and carried at fair value through profit or loss.

(c) Cash and cash equivalent

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in the fair value, and are used by the Company in the management of its short-term commitments.

(d) Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured at amortised cost (see accounting policy (f)).

(e) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Companies accounting policies. Thereafter the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale intangible assets and property, plant and equipment are no longer amortised or depreciated.

(f) Financial assets

Financial assets are classified either as "at fair value through profit or loss" or "loans and receivables". The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at the time of acquisition. Trade date accounting is applied for routine purchases and sales of financial assets. Financial assets at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. Financial assets not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. Financial assets are partially or fully derecognised if SIFEM's rights to the cash flows arising there from have either expired or were transferred and SIFEM is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Subsequent measurement – loans and receivables

Subsequent to initial measurement loans and receivables are measured at amortised cost. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Subsequent measurement – financial assets at fair value through profit or loss

Subsequent to initial measurement, all financial assets at fair value through profit or loss are measured at fair value. All changes in fair value, other than interest and dividend income and expense, are recognised in profit or loss as part of net change in fair value of investments at fair value through profit or loss.

The fair value is defined as the amount for which an asset could be exchanged, or a liability or financial instrument settled, between knowledgeable, willing and unrelated business partners in an arm's length transaction on the measurement date.

When available, SIFEM measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If market for a financial instrument is not active, then SIFEM establishes fair value using a valuation technique. Valuation techniques include comparison to similar instruments for which observable prices exist and other valuation models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to SIFEM, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. SIFEM calibrates valuation techniques and tests them for validating using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable market. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any differences between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later that when the valuation is supported wholly by observable market data or the transaction is closed out.

Impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s), and that loss event(s) had an impact in the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of amounts due or terms that SIFEM would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payments status of the borrower.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest in the impaired assets continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversible through profit or loss.

Direct investments

This position includes direct investments in financial intermediaries and structured products. These can be equity or loan. Equity instruments are accounted for at fair value through profit or loss, debt instruments at amortised cost.

Investments in funds

This position consists of investment in private equity or mezzanine funds to finance small- and medium-sized enterprises (SMEs). These investments are accounted for as at fair value through profit or loss.

(g) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

(h) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the statement of comprehensive income over the period of the loans and borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction cost of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-dawn occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(i) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

(j) Interest income and dividend income

Interest income is recognised in profit or loss, using the effective interest method. It includes interest income from cash and cash equivalent and from debt securities included in direct investments.

Dividend income is recognised in profit or loss on the date that the right to receive payment is established.

(k) Fees and commission expense

Fees and commission expenses are recognised in profit or loss as the related services are received.

(l) Tax

As an incorporated company formed under the Swiss Code of Obligations, SIFEM is subject to Swiss commercial law. One exception was made in respect to taxation. Due to its public ownership and developmental mandate, SIFEM is exempt from regular communal, cantonal and federal company taxes.

However, some dividend and interest income received by SIFEM are subject to withholding tax imposed in certain countries of origin. Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as tax expense.

(m) New and revised standards and interpretations not adopted

The following new, revised and amended standards and interpretations have been issued until the date of approval of the 2012 financial statements, but are not yet effective and are not applied early in these financial statements. Their impact on the financial statements of SIFEM has not yet been systematically analysed. The expected effects as disclosed below the table reflect only a tentative first assessment.

	Expected Effect	Effective date	Planned by
New Standards or Interpretations			
IFRS 10 Consolidated Financial Statements	***	1 January 2013	2013
IFRS 11 Joint Arrangements	***	1 January 2013	2013
IFRS 12 Disclosure of Interests in Other Entities	**	1 January 2013	2013
IFRS 13 Fair Value Measurement	**	1 January 2013	2013
IFRS 9 Financial Instruments	***	1 January 2015	2015
Revisions and amendments of Standards and Interpretations			
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	**	1 July 2012	2013
IAS 19 Employee Benefits (amended 2011)	*	1 January 2013	2013
IAS 27 Separate Financial Statements (2011)	*	1 January 2013	2013
IAS 28 Investments in Associates and Joint Ventures (2011)	***	1 January 2013	2013
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	*	1 January 2013	2013
Improvements to IFRSs (May 2012)	*	1 January 2013	2013
Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	***	1 January 2013	2013
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	*	1 January 2014	2014
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	***	1 January 2014	2014

* *No, or no significant, impact is expected on the financial statements of SIFEM.*

** *Mainly additional disclosures or changes in presentation are expected in the financial statements of SIFEM.*

*** *The impacts on the financial statements of SIFEM can not yet be determined with sufficient reliability*

4. Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are reviewed and in any future periods affected.

The following estimates used and assumptions made in applying the accounting policies have a critical influence on the financial statements:

(a) Determination of fair values
The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risk affecting the specific instrument. Refer also to notes 3 (f) and 10.

(b) Determination of functional currency
Functional currency is the currency of the primary economic environment in which SIFEM operates. When indicators or the primary economic environment are mixed, management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. Management has determined that the functional currency of SIFEM is the US Dollar.

Since globally active private equity funds-of-funds like SIFEM tend to be highly diversified, this factor does not give a clear indicator of SIFEMs functional currency. However, the US Dollar is the single most important currency affecting the pricing of transactions, not only for SIFEM but for the entire emerging markets private equity industry. Furthermore, SIFEM reports its investment performance to its investor in US Dollar only.

5. Explanation of transition to IFRS

As stated in note 2, these are the Company’s first financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the Company’s date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with the Swiss Code of Obligations (previous GAAP). An explanation of how the transition from previous GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Statement of financial position

(in '000 CHF)	Note	Swiss Code of Obligation	Impact of Conversion	IFRS	Note	Swiss Code of Obligation	Effect of change in functional currency	Swiss CO adjusted	Impact of Conversion	IFRS
			1 January 2011					31 December 2011		
Assets										
Cash and cash equivalents		2,072		2,072		207,977		207,977		207,977
Trade receivables		16		16		-		-		-
Other receivables and accrued income	B	94	50	144		325		325		325
Non-current assets held for sale	C	-	196	196		-		-		-
Total current assets		2,182	246	2,428		208,302	-	208,302	-	208,302
Direct Investments					F	39,925	12	39,937	-39,937	-
Equity instruments		-		-		-		-	2,944	2,944
Debt instruments		-		-		-		-	37,742	37,742
Investment funds		-		-	G	156,187	-123	156,064	58,523	214,587
Property, plant and equipment	C	66	-66	-		-		-		-
Intangible assets	C	130	-130	-		-		-		-
Non paid-up share capital	B	50	-50	-		-		-		-
Total non-current assets		246	-246	-		196,112	-111	196,001	59,272	255,273
Total assets		2,428	-	2,428		404,414	-111	404,303	59,273	463,575
Liabilities and equity										
Trade payables		95		95		45		45		45
Other liabilities and accrued expenses		1,439	182	1,621		101		101		101
Total current liabilities		1,534	182	1,716		146	-	146	-	146
Loans and borrowings		-		-	H	314,969		314,969	-11,174	303,795
Provisions		182	182							
Total non-current liabilities		182	-182	-		314,969	-	314,969	-11,174	303,795
Total liabilities		1,716	-	1,716		315,115	-	315,115	-11,174	303,941
Share capital		100		100		100,000		100,000		100,000
Capital reserve (additionally paid in capital)		-		-	I	-		-	72,097	72,097
Legal reserve		20		20		20		20		20
Translation reserve							17,089	17,089	992	16,097
Retained earnings		592		592		-10,721	-17,200	-27,921	-1,459	-29,380
Total equity		712	-	712		89,299	-111	89,188	70,446	159,634
Total liabilities and equity		2,428	-	2,428		404,414	-111	404,303	59,272	463,575

Statement of comprehensive income

for the year ended 31 December 2011	Note	Swiss Code of Obligation	Effect of change in functional currency	Swiss CO adjusted	Reclassi-fications	Value adjustments	IFRS
(in '000 CHF)							
Interest income	K, M	-		-	3,215		3,215
Dividend income	K	-		-	4,663		4,663
Revenue from advisory services		1,765	-116	1,649	-		1,649
Net foreign exchange gains/(losses)	K, L, M	-		-	-2,989	-55	-3,044
Net changes in fair value of investments at fair value through profit or loss	K, L	-		-	-10,055	2,300	-7,755
Impairment on direct debt investments	K	-		-	-1,207		-1,207
Total net income (loss)		**1,765**	**-116**	**1,649**	**-6,373**	**2,244**	**-2,480**
Investment management fee		-2,813	-112	-2,925			-2,926
Administration and custodian fees				-	-20		-20
Personnel expenses		-376	7	-369			-369
Administration expenses		-127	4	-123			-124
Advertising expenses		-55	4	-51			-52
General financial result	M	-3,256	-27,745	-31,001	31,001		-
Financial result from direct investments	K	-800	1,417	617	-617		-
Financial result from fund investments	K	-6,978	2,321	-4,657	4,657		-
Depreciation	N	-2		-2	2		-
Extraordinary result	O	1,329	7,021	8,350	-8,350		-
Other operating result	N, O, K	-		-	1,200		1,201
Operating result		**-11,313**	**-17,200**	**-28,513**	**21,499**	**2,244**	**-4,770**
Financial income	M	-		-	277		277
Financial expense	M, O, P	-		-	-21,796	-3,703	-25,499
Result before taxes		**-11,313**	**-17,200**	**-28,513**	**-**	**-1,459**	**-29,972**
Taxes		-		-		-	-
Total annual result		**-11,313**	**-17,200**	**-28,513**	**-**	**-1,459**	**-29,972**

A – Change in functional currency

Until 31 December 2011, the accounting records for statutory purposes were kept in Swiss francs and the financial statements in accordance with the Swiss Code of Obligations for the financial year 2011 were prepared in Swiss francs. As explained in notes 2 (a) and 4 (b) management has determined that the functional currency of SIFEM under IFRS is the US Dollar. The effect of the change of the functional, currency from Swiss franc to US Dollar is presented in a separate column in the reconciliation of the balance,sheet as at 31 December 2011 and the statement of comprehensive income for the year ended 31 December 2011.

B – Reclassification of non paid-up share capital

In the context of the restructuring of SIFEM the Board of Directors has decided to increase the share capital and to fully pay in the share capital. Under IFRS the non paid-up share capital in the amount of TCHF 50 represents a receivable and is therefore classified as current-asset.

C – Reclassification of property, plant and equipment and intangible assets

As described in note 9, in context with the planning of establishing SIFEM as Switzerland's DFI, it was decided that all property, plant and equipment as well as intangible assets shall be sold to Obviam AG. Consequently, the carrying amount of these assets will be recovered principally through sale and therefore are to be classified under IFRS as non-current assets held for sale.

This group of assets were sold at their carrying amount of TCHF 196 as per 31 January 2011. Consequently, the reclassification did not result in a remeasurement of the assets.

D – Acquisition of portfolio of financial assets

Effective as of 1 January 2011 SECO (i.e. the Swiss Confederation) sold the investment portfolio to SIFEM for an amount of TCHF 190,842. For the purpose of the determination of the purchase price of the portfolio, the financial assets included in the portfolio were measured as follows:

- Direct Investment: valuation at cost less any necessary impairment charge
- Private Equity Funds: valuation at their proportionate net asset value respectively at their cost less any necessary impairment charge
- Fixed Income Securities and Debt Instruments: Valuation at their nominal amount less any necessary impairment charge

IFRS requires the initial recognition of financial assets and liabilities at their fair value, which was as of 1 January 2011 TCHF 248,474. The difference between the fair value of the portfolio and the amount paid to the Swiss Confederation, i.e. the shareholder, in the amount of TCHF 57,631 is accounted for as a capital contribution in SIFEM's equity.

E – Financial asset remeasurement

SIFEM designated all equity instruments included in the portfolio acquired as financial assets designated as at fair value trough profit or loss as in accordance with the SIFEM's risk management and investment strategy these assets are managed and their performance is evaluated on the basis on their fair value. In accordance with IFRS, such financial assets are recognised and subsequently measured at their fair value.

Under Swiss Code of Obligations these financial assets were measured at the lower of cost or market.

Debt instruments included in the acquired portfolio are classified as financial assets at amortised cost (loans and receivables). Under IFRS, such financial assets are measured at the fair value at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Under Swiss Code of Obligations, debt instruments were measured at the lower of cost of market, using the nominal amount as cost.

F – Direct Investments

Direct investments consist of debt and equity instruments. As per 31 December 2011, SIFEM holds direct investments in the amount of TCHF 40,686 consisting of debt instruments in the amount of TCHF 37,742 and equity instruments in the amount of TCHF 2,944. The reconciliation amount of TCHF 749 consists on one hand of positive fair value adjustments on equity investments of TCHF 126. The remaining amount of TCHF 623 is mainly due to the fact that one debt investment was transferred to SIFEM at 1 January 2011 at an amount that was effectively below cost less necessary impairment.

G – Investment Funds

The difference of TCHF 58,523 represents the different valuation method under IFRS (Fair Value through profit or loss, see note D) and Swiss Code of Obligations (lower of cost or market), which is partly booked as capital contribution (TCHF 56,093) and partly as Net changes in fair value of investments at fair value through profit or loss (TCHF 2,598).

H – Valuation of loans and borrowings

In context of the establishment of SIFEM as Switzerland's DFI, the Swiss Confederation granted SIFEM an interest-free loan thus enabling SIFEM to purchase the portfolio from the Swiss Confederation. The Swiss Confederation also transferred the liquidity position related to the investment portfolio to SIFEM under a separate interest-free loan agreement.

IFRS requires the initial recognition of financial assets and liabilities at their fair value, whereas the fair value of an interest free loan is the present value of all future cash flows under the loan agreement, discounted using a market interest rate. The discount rate to be used is the prevailing market rate for a similar loan, i.e. the rate that a third party would charge the borrower for a loan with otherwise similar terms (currency, maturity, collateral, etc). The difference between the initial carrying amount of the loan and the proceeds received has to be accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The difference at initial recognition in the amount of TCHF 14,174 was recorded as a capital contribution in SIFEM's equity. An interest expense of TCHF 3,000 was recognised for the financial year 2011 calculated applying the effective interest method.

I – Additional paid in capital

In context with the restructuring of SIFEM the Swiss Confederation (acting through SECO) sold an investment portfolio and cash accounts to the Company and granted two interest free loans for the financing of this transaction. The transactions did not take place at market conditions and therefore resulted in additional paid in capital. TCHF 58,723 relate to the difference between the fair value of the portfolio and the cash accounts at the time of acquisition and the purchase price paid (portfolio: TCHF 57,631 (see also note D), cash accounts: TCHF 1,092). The remaining TCHF 14,174 is the difference between face and fair value of the loans granted (see also note H). Total capital contributions amount to TCHF 72,897.

J – Statement of comprehensive income – new presentation

IFRS specifies minimum disclosures to be made in the financial statements. In compliance with these minimum disclosures, the adjustments to presentation of the financial statements are allowed in order to represent the business of the group. In context of the restructuring of SIFEM the Board of Directors decided on a new form of presentation which better reflects the Company's business model. All reclassifications are presented in a separate column.

K – Reclassification of financial result from direct investments and from fund investments

The financial result from direct investments and from fund investments in the amount of TCHF –4,040 was reclassified to following line items:

(in 1000 CHF)	
Interest income	2,189
Dividend income	4,663
Net foreign exchange gains/(losses)	–163
Net changes in fair value of investments at fair value through profit or loss	–9,326
Impairment on direct debt investments	–1,207
Other operating result	–196
Total	–4,040

L – Value adjustment on net income / (expense)

The value adjustment relates to a change in the valuation difference on equity investments which are valued at fair value under IFRS and at lower cost or market under Swiss CO (TCHF 530). In addition the foreign exchange differences on direct debt investments had to be adjusted by an amount of TCHF –55.

M – Reclassification of general financial result

The general financial result was reclassified to the following line items:

(in 1000 CHF)	
Financial income	277
Financial expense	–29,477
Interest income	1,025
Net foreign exchange gains / (losses)	–2,826
Total	–31,001

N – Depreciation, amortisation and other extraordinary result

As under IFRS property, plant and equipment as well as software has been classified as assets held for sale and therefore ceased to depreciate. Depreciation in the amount of TCHF -2 has been netted with the profit/loss from the sale of the assets.

O – Extraordinary result

The presentation of extraordinary items is not allowed under IAS 1. The extraordinary result has been reclassified to the financial result (TCHF 6,953) and to other operating result (TCHF 1,397).

P – Financial expense

The interest expense resulting from the effective interest method applied on the loans granted by the Swiss Confederation in the amount of TCHF 3,000 has been accounted for in this line item. In addition, foreign exchange losses on cash and cash equivalents and on shareholder loans have been adjusted by an amount of TCHF 703.

6. Financial risk management

SIFEM has exposure to the following risks from financial instruments:
- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk.

This note presents information about SIFEM's exposure to each of the above risks, SIFEM's objectives, policies and processes for measuring and managing risk, and SIFEM's management of capital.

Risk management framework

Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as it affects its financial health and sustainability and its ability to generate development impact. For this purpose, SIFEM relies on a comprehensive manual of procedures which describes how the business is conducted. It has been approved by SIFEM's Board of Directors, as a document detailing how its investment manager 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 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 fraud, or significant deviations from set targets or changes in risk assessments or definitions are duly reported to the Board of Directors.

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
- Environmental, social and Governance matters (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 was partially developed in joint venture with other European DFIs, such as BIO from Belgium and Finnfund from Finland, and recognised by SIFEM's auditor.

Classification of financial instruments

The table below provides a reconciliation of the line items in SIFEMs statement of financial position to the categories of financial instruments.

in '000 USD	Designated as at fair value through profit or loss	Loans and receivables	Other liabilities at amortised costs	Total Carrying amount	Total Fair Value
1 January 2011					
Cash and cash equivalents		2,072		**2,072**	**2,072**
Trade receivables		16		**16**	**16**
Other receivables and accrued income		144		**144**	**144**
Total	-	**2,231**	-	**2,231**	**2,231**
Trade payables			95		**95**
Other liabilites and accrued expenses			289		**289**
Total	-	-	**384**	-	**384**

(in '000 USD)	Designated as at fair value through profit or loss	Loans and receivables	Other liabilities at amortised costs	Total Carrying amount	Total Fair Value
31 December 2011					
Cash and cash equivalents		207,977		**207,977**	**207,977**
Direct Investments					
- Equity instruments	2,944			**2,944**	**2,944**
- Debt instruments		37,742		**37,742**	**37,853**
Investment funds	214,587			**214,587**	**214,587**
Total	**217,531**	**245,719**	-	**463,250**	**463,360**
Trade payables			45	**45**	**45**
Other liabilites and accrued expenses			98	**98**	**98**
Loans and borrowings			303,795	**303,795**	**303,795**
Total	-	-	**303,938**	**303,938**	**303,938**
31 December 2012					
Cash and cash equivalents		260,319		**260,319**	**260,319**
Other receivables and accrued income		11,563		**11,563**	**11,563**
Direct Investments					
- Equity instruments	5,262			**5,262**	**5,262**
- Debt instruments		33,346		**33,346**	**33,346**
Investment funds	198,883			**198,883**	**198,883**
Total	**204,145**	**305,228**	-	**509,373**	**509,373**
Trade payables			28	**28**	**28**
Other liabilites and accrued expenses			38	**38**	**38**
Loans and borrowings			364,446	**364,446**	**364,446**
Total	-	-	**364,512**	**364,512**	**364,512**

The table above only includes financial instruments. Other receivables and accrued income and other liabilities and accrued expenses do therefore not include receivables and payables relating to taxes, prepaid costs and advances received.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with SIFEM, resulting in a financial loss to SIFEM. It arises principally from debt securities held, other receivables and accrued income and cash and cash equivalents and results in earnings volatility due to losses.

Management of credit risk
Obviam's approach to credit risk management is determined by its annual updated risk rating tool for financial institutions. Furthermore, Obviam regularly monitors the ability and willingness of an issuer to service its financial obligations in full and on a timely basis. The risk rating tool for financial institutions is capable to incorporate the following risk factors with the respective weightings:

- Financial Institutions Operating risks, 34%
- Financial Institutions financial risks, 26%
- Market risks, 6%
- Infrastructure risks in target region/country, 28%
- ESG risks, 6%

Each of these risk factors is divided in several sub-categories. A significant shift in the risk rating will be reported to the Board of Directors and a yearly risk report will be issued to the shareholders.

In case of a major event the risk rating will be adjusted to reflect to current inherent risk of the given investment. SIFEM's investment positions are monitored on a quarterly basis by the Finance and Risk Manager and the Investment Team.

SIFEM's maximum credit exposure (without taking into account collateral and other credit enhancements) at the reporting date is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position and amounts to TCHF 305'228 as of 31 December 2012 (31 December 2011: TCHF 245,719, 1 January 2011: TCHF 2,231).

Concentration of credit risk
Obviam's investment team reviews credit concentration of direct investments held based on geographical and counterparty allocations. There was no significant concentration in this portfolio of credit risk to any individual issuer or group of issuers at 31 December 2012 or 31 December 2011.

SIFEM's cash and cash equivalents are held with a Swiss bank, which is rated as an A based on the rating of Standard and Poor's, as well as with the Swiss Federal Finance Administration and the Swiss National Bank.

Liquidity risk

Liquidity risk is the risk that SIFEM will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk
SIFEM's policy and Obviam's approach managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damages to SIFEM's reputation.

SIFEM's liquidity risk is managed on a quarterly basis by Obviam's finance department and the custodian bank in accordance with policies and procedures in place. A detailed Cash Management policy is part of Obviam's procedure manual.

The overall liquidity risk is monitored on a quarterly basis by the Board of Directors. The Cash Management is monitored by the Audit Committee every six months.

Maturity analysis of financial liabilities:

(in '000 CHF)	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1 to 5 years	later
1 January 2011					
Trade payables	95	95	95	-	-
Other liabilites and accrued expenses	289	289	289	-	-
Total	**384**	**384**	**384**	-	-

(in '000 CHF)	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1 to 5 years	later
31 December 2011					
Trade payables	45	45	45	-	-
Other liabilites and accrued expenses	98	98	98	-	-
Loans and borrowings	303,795	303,795	-	303,795	-
Total	**303,938**	**303,938**	**143**	**303,795**	**-**

(in '000 CHF)	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1 to 5 years	later
31 December 2012					
Trade payables	28	28	28	-	-
Other liabilites and accrued expenses	38	38	38	-	-
Loans and borrowings	364,446	364,446	-	364,446	-
Total	**364,512**	**364,512**	**66**	**364,446**	**-**

The table above shows the undiscounted cash flows of SIFEM's financial liabilities on the basis of their earliest possible contractual maturity. The gross amount includes interest payable when appropriate. SIFEM's expected cash flows on these instruments may vary significantly from this analysis as it is assumed that existing loan contracts with the Swiss Confederation will be automatically extended upon maturity.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's credit standing) will affect SIFEM's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Management of market risk

SIFEM's strategy for the management of market risk is driven by its investment objective. SIFEM is a key pillar of the Swiss Confederation's efforts to promote sustainable private sector-led growth in developing and transition economies with a view towards reducing poverty and contributing to increased living standards in these countries.

SIFEM invests in a commercial way in companies that are most likely to be commercially viable and hence sustainable. Furthermore, SIFEM's investments are development-oriented, aiming to achieve a broad set of objectives beyond the financial rate of return. SIFEM aims to develop a comprehensive portfolio of equity participations in private equity funds targeting small and medium enterprises (SMEs). SIFEM may also act as co-investor in the underlying portfolio companies of its private equity funds, and make other direct investments. In order to manage the market risk SIFEM's investment management team constantly monitors the financial markets globally and in the relevant target markets, although its investments are private and rather illiquid, and verifies if actual movements in the financial markets would influence the risk of the underlying investments consequently shifting the overall risk of the portfolio.

As part of the market risk management approach a yearly risk assessment is performed using the risk rating tool for fund investments, mostly exposed to market risk, which is capable to incorporate the following risk factors with the respective weightings:

- Fund operations risks, 20%
- Market risks, 10%
- Infrastructure risks in target region/country, 32.5%
- Fund specific risks, 30%
- ESG risks, 7.5%

Each of these risk factors is divided in several sub-categories. A significant shift in the risk rating will be reported to the Board of Directors and a yearly risk report will be issued to the shareholders.

In case of a major event the risk rating will be adjusted to reflect the current inherent risk of the given investment. SIFEM's investment positions are monitored on a quarterly basis by Obviam's finance department and investment team based on the quarterly financial reporting provided by the underlying investments. Moreover, in order to reduce the market risk by increasing transparency and quality of financial data, the finance department supports the investment team regarding technical issues of reporting or requests further information for reporting in case available information is insufficient. A performance report is sent to the Board of Directors on a quarterly basis.

An overview of SIFEM's investment portfolio as at 31 December 2012 is set out in Appendix 1 (unaudited).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

SIFEM's exposure to interest rate risk is limited as SIFEM holds only limited interest rate bearing instruments which are mostly fixed-rate instruments.

As of the balance sheet date, SIFEM's interest rate profile was as follows (interest-bearing financial instruments):

(in '000 CHF)	31 December 2012	31 December 2011	1 January 2011
Direct investments	10,204	15,166	-
Fixed-rate instruments (assets)	**10,204**	**15,166**	**-**
Cash and cash equivalents	260,319	207,977	2,072
Direct investments	23,142	22,576	-
Variable rate instruments (assets)	**283,461**	**230,553**	**2,072**
Fixed rate loans and borrowings	364,446	303,795	-
Fixed-rate instruments (liabilities)	**364,446**	**303,795**	**-**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2'835 (31 December 2011: TCHF 2,306, 1 January 2011: TCHF 22). This analysis considers only floating-rate instruments and assumes that all other variables, in particular the foreign exchange rates, remain constant.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

SIFEM invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, primarily in Euro (EUR), Swiss Franc (CHF) and South African Rand (ZAR). Consequently, SIFEM is exposed to the risk that the exchange rate of its currency relative to other foreign currency may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of SIFEM's financial assets or liabilities denominated in currencies other than the US Dollar.

SIFEM does not hedge its foreign currency exposure due to the fact that future investment obligations are covered and kept in cash on the investment accounts. At the time of origination of the investment obligation the respective amount will be deposited on the investment account and is subject to differed disbursements in the future.

SIFEM's currency position and exposures are monitored on a quarterly basis by Obviam's finance department and SIFEM's Board of Directors.

At the reporting date the carrying amount of SIFEM's net financial assets and liabilities in individual foreign currencies expressed in CHF were as follows:

Currency (in '000 CHF)	31 December 2012	31 December 2011	1 January 2011
EUR	36,922	33,138	-
ZAR	1,909	6,338	-
CHF	-218,165	-188,229	2,296
GHS	-	240	-
Total net exposure	**-179,334**	**-148,513**	**2,296**

The following sensitivity analysis shows the impact on the income statement should the CHF/USD, the EUR/USD or the ZAR/USD exchange rates change by 5% in the applicable exchange rate at December 31, 2012 and December 31, 2011 and January 1, 2011, with all other variables held constant:

(in '000 CHF)	31 December 2012	31 December 2011	1 January 2011
Income impact on balance sheet items			
EUR	+/-1'846	+/-1'657	n/a
ZAR	+/-95	+/-317	n/a
CHF	+/-10'908	+/-9'411	+/-123

A strengthening of the US Dollar against the above currencies would have resulted in an equal, but opposite effect to the amounts above.

Other market price risk

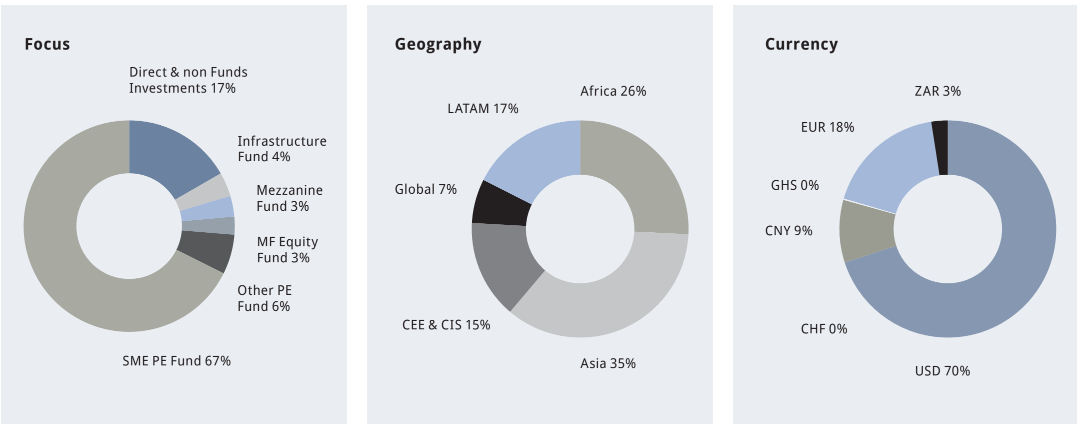
Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk and currency risk), whether caused by factors specific to an individual investments, its issuer or factors affecting all instruments traded in the market.

Price risk is managed by the investment manager by diversifying the portfolio.

Apart from the detailed information in the quarterly report concerning the investments and their performances, the distribution of the portfolio with respect to continents, currencies, types of funds and main industrial sectors covered by the direct primary investments in each fund is provided in the quarterly reports. Investments with a very high or high risk rating are subject to a constant monitoring.

The internal procedures require the investment manager to manage price risk continuously but at least on a quarterly basis based on the financial statements as well as valuations provided by underlying investments. In case of subsequent events action is taken immediately. SIFEM's procedures require price risk to be monitored on a quarterly basis by its board of directors.

Where the price risk is not in accordance with the investment policy or guidelines, the investment manager is required to rebalance the portfolio upon request of the Board of Directors within a given period of time. The following charts set out concentration (per active commitment, debt and equity investments) of the investment assets at 30 September 2012 (charts at reporting date were not yet available at the time of the preparation of these financial statements):



For limiting the overall risk, the SIFEM portfolio is well diversified across the eligible geographic regions and sectors and to some degree across currencies. Most of the investees are in a development stage, however, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total unrecoverability of an investment. The financial risk management objectives and policy of SIFEM are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. For not publicly listed investments a quantitative sensitivity analysis for the price risk is not meaningful as the performance is linked to fundamental data (technology, management, milestones, etc.) and therefore such an analysis is not presented.

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.

Capital management

In 2011 and 2012 SIFEM has received a capital contribution (share capital and shareholder loans) per year from SECO. No new capital contributions are currently foreseen for the near future, hence it is assumed that SIFEM has to finance new investments out of reserves and reflows going forward. Cash is held on investment accounts to cover undrawn investment commitments.

Reflows are forecasted but subject to changes due to their volatility. It is difficult to attach probabilities to the different scenarios until SIFEM's older investments reach their maturity in the coming few years. SIFEM aims to maintain enough uncommitted capital to meet the business plan targets.

7. Cash and cash equivalent

Cash and cash equivalent is denominated in CHF (52%), in USD (37%), in EUR (10%) and in ZAR (1%) as of December 31, 2012. (31 December 2011: CHF (56%), USD (29%), EUR (12%), ZAR (3%); 1 January 2011: CHF (85%), USD (15%).

(in 1000 CHF)	31 December 2012	31 December 2011	1 January 2011
Cash at Bank	145,749	191,235	2,072
Swiss Federal Finance Administration	114,571	16,742	-
Total cash and cash equivalent	**260,319**	**207,977**	**2,072**

8. Other receivables and accrued income

At 31 December 2012, other receivables and accrued income mainly include interest receivables due from direct investments (TCHF 577) and a receivable arising from a capital return (TCHF 2,769) and a distribution from one fund investment (TCHF 8,216).

9. Non current assets held for sale

All property, plant and equipment and intangible assets are presented as assets held for sale following SIFEM's commitment to restructure the Company. With the establishment of SIFEM as Switzerland's DFI it was decided that all property, plant and equipment as well as all intangible assets shall be sold. As of 1 January 2011 the effort to sell the assets has commenced and a contract has been entered into to sell the assets to Obviam, the future investment manager, in the first half year 2011. At 1 January 2011, the group of assets comprised assets in the amount of TCHF 196.

As the group of will be sold at their carrying amount as per January 31, 2010, the reclassification did not result in a remeasurement of the assets. The sale of the assets took place in January 2011.

(in '000 CHF)	1 January 2011
Property, plant and equipment	66
Intangible assets	130
Total non-current liabilities	**196**

10. Financial Investments

(in '000 CHF)	31 December 2012	31 December 2011	1 January 2011
Debt investments	33,346	37,742	-
Equity investments	5,262	2,944	-
Direct investments	**38,608**	**40,686**	**-**
Equity investments	198,883	214,587	-
Fund investments	**198,883**	**214,587**	**-**
	237,491	**255,273**	**-**

Valuation of financial instruments

SIFEM's accounting policy on fair value measurement is disclosed in the accounting policies (note 3).

SIFEM measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1: Quoted price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation technique based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The category includes instruments valued using: quoted prices as in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observables from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

The financial investments of SIFEM are typically not traded in active markets and therefore their fair value assessment cannot be based on quoted prices or dealer price quotes. For determining the fair value of financial instruments SIFEM applies valuation techniques following the best practices as described by the International Private Equity Valuation (IPEV) Guidelines. These valuation techniques are based on comparison to similar instruments for which observable prices exist and other valuation models. Typically, discounts for lack of liquidity of 20% are applied. The objective of these valuation techniques is to arrive at a fair value determination which reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and selection of appropriate discount rates.

SIFEM has an established control framework with respect to the measurement of fair values. This framework is based on the critical analysis (by SIFEM's representatives on the advisory committees or similar governing bodies of the portfolio investment vehicles) of the fair value determination, verification of observable pricing inputs and performance of model valuations; a review and approval process for new models and changes to such models, calibration and back testing of models against observable market transactions, analysis and investigation of significant valuation movements, review of unobservable inputs and valuation adjustments, and reporting of significant valuation issues to the Board of Directors. The Audit Committee of the Board of Directors, who has the overall responsibility for significant fair value determination, finally challenges these valuations on an independent basis and eventually proposes them to the Board of Directors for approval.

The table below analyses financial instrument measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

in 000 CHF	Level 1	Level 2	Level 3	Total
31 December 2011				
Direct investments	-	-	2,944	2,944
Fund investments	-	-	214,587	214,587
	-	**-**	**217,531**	**217,530**
31 December 2012				
Direct investments	-	-	5,262	5,262
Fund investments	-	-	198,883	198,883
	-	**-**	**204,145**	**204,145**

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

(in '000 CHF)	Direct Investments	Fund Investments	Total
Balance at 1 January 2011	-	-	-
Transfer from shareholder	3,518	212,630	216,148
Total gains/losses recognised in profit or loss	12	-7,769	-7,756
Purchases	7	24,557	24,564
Sales	-523	-12,398	-12,921
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Foreign currency exchange differences	-70	-2,434	-2,504
Balance as at 31 December 2011	**2,944**	**214,587**	**217,530**
Total gains or losses for the period included in profit or loss realting to assets and liabilities held at the end of the reporting period	12	-7,769	-7,756

(in '000 CHF)	Direct Investments	Fund Investments	Total
Balance as at 1 January 2012	**2,944**	**214,587**	**217,530**
Total gains/losses recognised in profit or loss	2,248	-26,936	-24,687
Purchases	209	31,131	31,340
Sales	-	-15,729	-15,729
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Foreign currency exchange differences	-139	-4,170	-4,309
Balance as at 31 December 2012	**5,262**	**198,883**	**204,145**
Total gains or losses for the period included in profit or loss realting to assets and liabilities held at the end of the reporting period	2,248	-26,936	-24,687

Although SIFEM believes that its estimates of the fair values are appropriate, the use of different methodologies or assumptions could have lead to different measurements of fair value. However, as explained in note 6, a quantitative sensitivity analysis has not been performed.

11. Loans and borrowing

(in '000 CHF)	31 December 2012	31 December 2011	1 January 2011
Loan A	185,912	184,071	-
Loan B	120,921	119,724	-
Loan C	28,853	-	-
Loan D	28,760	-	-
Total non-current liabilities	**364,446**	**303,795**	**-**

The Swiss Confederation granted SIFEM four interest-free loans with a nominal amount of TCHF 314,969 in 2011 and with a nominal amount of TCHF 59,475 in 2012. These loans are measured at amortised cost.

IFRS requires the initial recognition of financial assets and liabilities at their fair value, whereas the fair value of an interest free loan is the present value of all future cash flows under the loan agreement, discounted using a market interest rate. A discount rate of 1% was applied to determine the present value of all loans. The discount rate to be used is the prevailing market rate for a similar loan, i.e. the rate that a third party would charge the borrower for a loan with otherwise similar terms (currency, maturity, collateral, etc). The application of the effective interest method resulted in an interest expense of TCHF 3,497 (2011: TCHF 3,000).

The loans have a minimum term until 17 August 2015 (loans granted in 2011) and 19 December 2015 (loans granted in 2012) respectively. The term of the loans is extended for an additional four years on an ongoing basis unless either party cancels a loan one year in advance.

For more information please refer to note 5 (H) – explanation of transition to IFRS, note 6 – risk management and note 17 – related parties.

12. Equity

Share capital:
On 31 December, 2012, the number of outstanding shares amounted to 10,000,000 shares (31 December 2011: 10,000,000 and 1 January 2011: 10,000). As per 31 December 2012 SIFEM did not hold any treasury shares (31 December 2011: 0 and 1 January 2011: 0).

On 31 December 2012, all shares issued by the Company were fully paid in, which was decided in an extraordinary General Assembly of the shareholders on 17 August 2011.

At the extraordinary General Assembly on 30 August 2011 it was agreed to increase the share capital from CHF 100,000 to CHF 100 million by issuing 9,990,000 registered shares with a nominal value of CHF 10.00 each.

Dividends:
The amount available for dividend distribution is based on the available distributable retained earnings of SIFEM AG, determined in accordance with the legal provisions of the Swiss Code of Obligations. The Company did not distribute a dividend in 2011 and 2012. At 31 December 2012 the Company has an accumulated deficit in its financial statements prepared in accordance with SCO and therefore does not have distributable retained earnings.

Capital reserve:
The capital reserve relates to capital contributions which arose from interest free shareholder loans and from the sale of the investment portfolio from the shareholder to the Company below fair value. For further information refer to notes 5) I and 11.

Translation reserve:
The translation reserve comprises all foreign currency translation differences arising from the translation of the Company’s financial statements from its functional currency (USD) into the presentation currency (CHF).

13. Interest income

(in '000 CHF)	2012	2011
Interest income from cash and cash equivalents	232	1,025
Interest income from direct debt investments	2,973	2,190
Total interest income	**3,205**	**3,215**

At 31 December 2012, an amount of TCHF 577 has not been received yet in cash and is included in other receivables and accrued income.

14. Net foreign exchange gains / (losses)

(in '000 CHF)	2012	2011
Net foreign exchange gain / (loss) from cash and cash equivalents	2,714	-2,826
Net foreign exchange gain / (loss) from direct debt investments	194	-218
Revenue from fund investments	**2,908**	**-3,044**

15. Net changes in fair value of investments at fair value through profit or loss

(in '000 CHF)	2012	2011
Increase in fair value of direct equity investments	2,248	46
Increase in fair value of fund investments	12,466	9,555
Decrease in fair value of direct equity investments	-	-34
Decrease in fair value of fund investments	-39,401	-17,323
Net changes in fair value of investments at fair value through profit or loss	**-24,687**	**-7,755**

16. Financial income / expense

in '000 CHF	2012	2011
Foreign exchange gain	2	277
Financial income	**2**	**277**

Interest expense	3,497	3,000
Foreign exchange loss	7,680	22,471
Charges	4	8
Financial expense	**11,181**	**25,479**

Interest expense arises from the application of the effective interest rate method on the shareholder loans (refer note 11).

The foreign exchange loss in 2012 and 2011 mainly arose from the shareholder loans granted in Swiss francs (2012: TCHF 7,681; 2011: TCHF 22,420).

17. Related parties and other key contracts

Shareholder
SIFEM is fully owned by the Swiss Confederation. The Swiss Confederation comprises the various departments and administrative bodies of the Swiss Confederation, governmental agencies and other companies controlled by the Confederation.

The Swiss Confederation granted SIFEM interest free loans in the total amount of TCHF 374,444 (refer note 11).

SIFEM on the other hand holds a deposit account with the Swiss Federal Finance Administration (refer note 7). The interest rate is at arms length.

All other transactions with the government, governmental agencies and companies controlled by the Swiss Confederation are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties, in specific the interest payment on the deposit account SIFEM holds with the Swiss Federal Finance Administration.

Portfolio and business manager
SIFEM appointed Obviam DFI AG, a specialised emerging market investment management company incorporated in Switzerland, as its portfolio and business manager. 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 of Directors. The fee approved for 2012 amounts to 1.12% of SIFEM's total active commitments as of 30 September of the same year (2011: 1.05%). The combined portfolio and business management fee budgeted for the financial year 2012 amounted to TCHF 4,769 (2011: TCHF

4,107). The investment management contract can be terminated by SIFEM at any time. The increase from the previous year is directly linked to SIFEM's new corporate structure.

Total administrative expenses (investment management fee, administration and custodian fees, personnel expenses, administration expenses and advertising expenses) in 2012 amount to 1.34% of SIFEM's total active commitments as of 30 September of the same year (2011: n/a). The threshold for total administrative expenses set by the Federal Council is 1.5% of SIFEM's total active commitments, whereby a certain degree of flexibility is applied until the current uncommitted cash reserves are committed to new investments.

Key management personnel compensation
As opposed to the Investment Committee members, the Audit Committee members were not remunerated in 2011. Since the workload for the Audit Committee turned out to be more substantial than expected, SIFEM requested the Federal Council to approve the introduction of remuneration for the Audit Committee. This was approved and introduced in 2012, therewith lifting the fixed annual compensation to a total of CHF 242,700 for the entire Board of SIFEM (2011: CHF 84,715). This includes compensation for the extra effort required in the start-up period, which will be phased out over time: the total Board remuneration will drop to CHF 229,375 in 2013, and will thereafter be fixed at CHF 207,200 in accordance with the Organisational Regulations.

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 54,000 in 2012 (2011: 20,268). This consists of a base compensation of CHF 30,000 (2011: 15,013) for his role as Chairman of the Board and CHF 14,000 (2011: 5,255) for his role as Chairman of the Investment Committee, as well as compensation for the extra effort in the start-up period of CHF 10,000.

Post employment benefits for the members of the Board amounted to TCHF 5 (2011: TCHF 1).

18. Other key contracts

On 2 December 2011, the Board of Directors accepted and signed a new Custodian Agreement with Credit Suisse AG, as well as a new Administration Agreement with Credit Suisse Funds AG. The depository and custodian functions were transferred from the Swiss Administration to Credit Suisse AG, and the role of the transfer and payment agent from UBS AG to Credit Suisse AG. Under the new administration agreement, Credit Suisse receives a fee in arrears at an annual rate of 7 basis points for the first TCHF 200 of NAV, 6 basis points for the second TCHF 200, and 5 basis points thereafter. Under the custodian agreement, Credit Suisse receives a fee of 3 basis points for the first TCHF 200 of NAV, and 2 basis points thereafter. A transaction and settlement fee arises per incident on the custodian mandate. The administration fee for the financial year 2012 amounted to TCHF 176 (2011: TCHF 14) and the custodian fee for the financial year 2012 amounted to TCHF 72 (2011: TCHF 6). The administration and custodian fees for both years have not been paid yet and are included in other liabilities and accrued expenses. The Custodian and Administration Agreement can be terminated by SIFEM at any time.

19. Capital commitments

As of 31 December 2012 the Company had capital commitments with direct investments and funds which were not yet called by the relevant investment manager for TCHF 129,996.

20. Subsequent event

No events occurred between 31 December 2012 and 1 March 2013 that would require adjustments to the amounts recognised in these consolidated financial statements or would need to be disclosed under this heading.

Portfolio overview (unaudited as of September 30, 2012)

Direct & non Funds Investments

Direct & non Funds Investments	Sign. date	CCY	Total commitment signed	Residual Value	IRR
African Banking Corporation Holding					
SHARE EUR	21.06.2000	EUR	1'300'000	-	7.44%
BTS Investment Advisors					
SHARE	03.12.2001	CHF	100'000	-	2.74%
Sino Swiss Venture Capital company					
SHARE	24.10.2002	CNY	3'315'226	3'315'226	1.89%
IMS					
SHARE	01.01.2003	USD	700'000	-	0.18%
responsAbility Global Microfinance Fund					
SHARE USD	27.11.2003	USD	2'003'000	-	3.70%
SHARE CHF	05.01.2004	CHF	1'001'500	-	1.51%
Emergency Liquidity Facility					
SHARE	01.03.2004	USD	1'000'000	1'000'000	-
LOAN	03.03.2005	USD	500'000	-	-
Fidelity Capital Partners					
SHARE	20.10.2004	USD	20'000	20'000	2.28%
Global Microfinance Facility					
A NOTES	22.11.2004	USD	5'000'000	5'000'000	4.96%
B NOTES	30.05.2007	USD	3'000'000	2'057'000	8.02%
C NOTES	30.05.2007	USD	500'000	500'000	-
Socremo					
SHARES	04.11.2005	USD	600'000	-	40.17%
Symbiotics MFLO1					
MFLO1 Serie 1 B NOTES	28.11.2005	EUR	572'789	-	10.06%
MFLO1 Serie 1 C NOTES	28.11.2005	EUR	70'540	-	-24.60%
MFLO1 Serie 2 C NOTES	06.04.2006	EUR	61'735	-	-26.77%
MFLO1 Serie 2 B NOTES	06.04.2006	EUR	486'842	-	10.70%
MFLO1 Serie 3 B NOTES	13.10.2006	EUR	880'000	-	9.61%
MFLO1 Serie 3 C NOTES	13.10.2006	EUR	120'000	-	-30.59%
FINARCA					
LOAN	16.12.2005	USD	2'000'000	-	9.82%
European Financing Partners SA					
SHARE	09.05.2006	EUR	25'100	6'000	-20.06%
LOAN (EFP II)	09.05.2006	EUR	1'468'968	1'177'360	4.43%
LOAN (EFP III)	05.05.2009	EUR	4'658'259	1'232'614	4.76%
LOAN (EFP IV)	08.12.2010	EUR	5'000'000	-	-
The Trust Bank Limited					
LOAN USD	16.05.2007	USD	500'000	55'556	7.33%
LOAN GHS	16.05.2007	GHS	1'893'840	210'427	16.94%
Business Leasing Uzbekistan					
LOAN	14.09.2007	USD	1'000'000	233'000	10.61%
Symbiotics MFLO3					
MFLO3 C NOTES	18.09.2007	USD	983'338	-	-99.99%
MFLO3 A NOTES	18.09.2007	USD	527'957	527'957	6.85%
AccessBank					
LOAN	30.11.2007	USD	6'000'000	1'500'000	8.56%
Credins					
LOAN	19.12.2007	EUR	2'000'000	2'000'000	5.23%
SHARE	19.12.2007	EUR	1'000'000	1'951'349	15.67%
LOAN (2nd)	04.12.2008	EUR	2'120'000	2'120'000	4.34%
SHARE (2nd)	28.09.2010	EUR	221'738	1'041'996	119.09%
Banco de Crédito Centroamericano S.A.					
LOAN	15.10.2008	USD	5'000'000	5'000'000	4.90%
DemirBank OSJC (AzDB)					
LOAN	19.12.2008	USD	7'000'000	2'333'333	10.05%
E+Co					
LOAN	19.03.2010	USD	4'000'000	340'000	-61.55%
Corporacion Interamericana para el Financiamiento de Infraestructura S.A.					
LOAN	30.07.2010	USD	10'000'000	10'000'000	3.35%
Interact Climate Change Facility					
LOAN	15.02.2011	EUR	5'000'000	1'382'333	0.31%
SHARE	15.02.2011	EUR	6'000	6'000	-
Higher Education Finance Fund					
SHARE	14.12.2011	USD	2'000'000	220'760	-
LOAN	14.12.2011	USD	1'000'000	-	-

Funds Investments

Funds Investments	Vintage	CCY	Total commitment signed	Residual Value	IRR
ProFund	1995	USD	3'208'604	-	4.51%
CEE Environmental Investment Fund	1996	EUR	1'599'980	26'629	-13.44%
SwissTec	1997	USD	21'500'000	31'960'657	12.31%
IDFC	1998	USD	10'000'000	-	28.97%
Tuninvest International ltd.	1998	USD	2'000'000	433'199	8.85%
Sino Swiss Partnership Fund	1998	CNY	268'050'270	301'853'981	1.11%
Terra Capital Investors	1998	USD	3'000'000	-	-89.99%
African Infrastructure Fund	2000	USD	10'000'000	700'817	21.33%
Maghreb Private Equity Fund I	2000	USD	3'000'000	3'406'081	10.28%
SEAF Trans Balkan Fund	2000	USD	3'000'000	-	5.94%
Fidelity Equity Fund I	2000	USD	4'000'000	685'280	-7.69%
SEAF Central and Eastern European Growth Fund	2000	USD	4'500'000	2'590'887	4.80%
Horizon Techventures	2001	ZAR	15'000'000	-	24.99%
Solar Investment Fund	2001	USD	3'000'000	-	-68.35%
Mekong Enterprise Fund	2002	USD	3'000'000	438'014	-1.42%
SEAF Central Asia Small Enterprise Fund	2002	USD	4'600'000	845'619	-13.83%
Aureos Central America Fund	2002	USD	5'000'000	36'428	-26.73%
SEAF Trans Andean Fund	2003	USD	5'000'000	2'139'843	1.55%
Aureos East Africa Fund	2003	USD	7'000'000	5'729'308	9.79%
ASEAN China Investment Fund	2004	USD	15'997'058	1'500'415	34.49%
SEAF South Balkan Fund	2005	EUR	3'282'420	2'046'736	-3.85%
Vietnam Equity Fund	2005	EUR	2'000'000	-	109.06%
Euroventures Ukraine II	2005	USD	5'000'000	3'313'774	-7.55%
Solidus Investment Fund	2005	USD	2'400'000	1'863'029	2.69%
Balkan Financial Sector Equity Fund	2005	EUR	8'000'000	6'593'255	-2.84%
Mekong Enterprise Fund II	2006	USD	5'000'000	7'186'887	15.17%
Capital North Africa Venture Fund	2006	EUR	3'000'000	3'191'945	15.22%
Maghreb Private Equity Fund II	2006	EUR	6'000'000	5'772'000	5.68%
BTS India Private Equity Fund	2006	USD	12'000'000	11'309'007	4.62%
GroFin East Africa Fund	2006	USD	3'000'000	439'104	-4.96%
7L Capital Partners Emerging Europe L.P.	2007	EUR	7'000'000	3'624'029	-15.64%
KD Private Equity Fund B.V.	2007	EUR	5'000'000	-	-99.99%
Horizon Equity III	2007	ZAR	39'004'748	32'847'086	8.04%
Central American Small Enterprise Investment Fund II	2007	USD	5'000'000	2'700'248	-6.51%
SEAF Blue Waters Growth Fund	2007	USD	7'000'000	4'630'630	-3.30%
Fidelity Equity Fund II	2007	USD	3'000'000	883'064	-15.78%
Vantage Mezzanine Fund	2006	ZAR	55'000'000	50'892'151	9.87%
rABOP	2007	USD	4'000'000	2'686'650	-3.24%
Aureos Latin America Fund II	2007	USD	10'000'000	10'118'382	4.86%
VenturEast Proactive Fund LLC	2007	USD	4'000'000	3'040'694	4.65%
JS Private Equity Fund I	2006	USD	10'000'000	1'673'128	-26.76%
SEAF LATAM Growth Fund	2008	USD	7'000'000	4'712'552	1.24%
VI (Vietnam Investments) Fund I	2008	USD	7'000'000	6'666'980	0.09%
Evolution One	2008	USD	8'000'000	4'397'350	-3.77%
AfricInvest Fund II	2009	EUR	7'000'000	4'523'251	-2.06%
Altra Private Equity Fund I L.P.	2009	USD	8'000'000	9'426'509	10.11%
EV Amadeus Asian Clean Energy Fund L.P.	2009	USD	7'800'000	575'278	-42.84%
Sphinx Turnaround Fund	2009	USD	8'500'000	1'453'516	-
Kendall Court Mezzanine (Asia) Bristol Merit Fund	2008	USD	8'000'000	4'546'800	-1.33%
Europe Virgin Fund	2010	USD	7'000'000	1'790'704	-
NAMF II	2011	USD	10'000'000	388'138	-
Kaizen Private Equity	2011	USD	8'000'000	2'040'000	-
EMI Cambodia-Laos Development Fund	2009	USD	3'500'000	1'238'879	-38.16%
Maghreb Private Equity Fund III	2011	EUR	7'000'000	585'573	-
GEF Africa Sustainable Forestry Fund	2011	USD	10'000'000	6'586'762	13.69%
VI (Vietnam Investments) Fund II	2011	USD	7'500'000	1'847'968	-
Catalyst Fund I	2010	USD	8'000'000	1'221'705	-
CoreCo Latin America Fund I	2012	USD	4'000'000	428'961	-
Latin Renewables Infrastructure Fund	2012	USD	7'000'000	145'935	-

2012
Swiss Code of Obligations Financial Statements

Audit Opinion
Financial Statements
Notes to the SCO Financial Statements

Report of the statutory auditor on the financial statements for the year 2012

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 2012.

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 2012 comply with Swiss law and the company's articles of incorporation.

Emphasis of matter
The financial statements include unquoted investments valued at CHF 201,9 million. Because of the inherent uncertainty associated with the valuation of such investments and the absence of a liquid market, these values may differ from their realisable values, and the difference could be material. The determination of the values of these investments is the responsibility of the Board of Directors. We have reviewed the procedures in valuing such investments and the underlying documentation. While in the circumstances the procedures appear to be reasonable and the documentation appropriate, the valuation involves subjective judgment which cannot be independently verified. Our opinion is not qualified in respect of this matter.

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 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, 4 March 2013
BDO Ltd

Markus Eugster
Licensed Audit Expert

ppa. Tobias Schüle
Auditor in charge, Licensed Audit Expert

Balance Sheet

	31.12.2012	31.12.2011
	CHF	CHF
ASSETS		
Current assets		
Cash & cash equivalents	260,319,527.19	207,976,893.62
Bank	145,748,600.42	191,234,669.91
Swiss Federal Finance Administration (Shareholder)	114,570,926.77	16,742,223.71
Other receivables	73,030.35	275,853.73
Withholding tax	73,030.35	64,539.45
Value added tax	0.00	211,314.28
Accounts receivable	11,637,222.11	49,408.00
	272,029,779.65	**208,302,155.35**
Fixed assets		
Financial assets	201,943,921.88	196,112,432.15
Direct investments	35,701,152.24	39,924,756.10
Investments in funds	97,752,752.38	86,560,330.34
Substantial equity interests	68,490,017.26	69,627,345.71
	201,943,921.88	**196,112,432.15**
	473,973,701.53	**404,414,587.50**

Balance Sheet

	31.12.2012	31.12.2011
	CHF	CHF
LIABILITIES		
Debt capital		
Trade liabilities	28,570.45	45,046.35
Payables, third parties	28,570.45	45,046.35
Other short-term liabilities	5,473.50	3,375.50
Social insurances	5,473.50	3,375.50
Long-term liabilities	374,444,017.65	314,969,017.65
Shareholder loans	374,444,017.65	314,969,017.65
Accrued expenses	318,440.15	98,224.50
	374,796,501.75	**315,115,664.00**
Equity		
Share capital	100,000,000.00	100,000,000.00
Statutory reserves	20,000.00	20,000.00
Retained earnings	–842,800.22	–10,721,076.50
Profit carried forward	–10,721,076.52	592,252.74
Annual result	9,878,276.30	–11,313,329.24
	99,177,199.78	**89,298,923.50**
	473,973,701.53	**404,414,587.50**

Income Statement

	2012	2011
	CHF	CHF
Operating income		
Revenue from services	70,553.30	1,765,501.16
Income from services	70,553.30	1,765,501.16
Costs for third party services	–4,928,972.86	–2,813,338.82
Third party services	–4,928,972.86	–2,813,338.82
Gross profit 1	**–4,858,419.56**	**–1,047,837.66**
Personnel expenses	–317,352.61	–376,422.00
Salaries	–24,606.05	–234,216.30
Board compensation	–244,876.00	–85,530.70
Social security cost	–38,775.60	–49,667.05
Other personnel cost	–9,094.96	–7,007.95
Gross profit 2	**–5,175,772.17**	**–1,424,259.66**
Operating expenses		
Property insurances, fees	–75,889.00	–29,609.90
Administrative expenses	–63,171.80	–97,516.81
Fiduciary expenses	0.00	–55,638.80
Consulting expenses	0.00	–1,878.01
Auditor's costs	–63,171.80	–40,000.00
Carried forward	**–5,314,832.97**	**–1,551,386.37**

Income Statement

	2012	2011
	CHF	CHF
Carried forward	**–5.314.832,97**	**–1.551.386,37**
Advertising expenses	–64,430.01	–54,877.80
PR: CDs, brochures	0.00	–336.10
Sponsorship, membership contributions	–64,430.01	–54,541.70
Operating earnings before interest and depreciation	**-5,379,262.98**	**-1,606,264.17**
General financial result	–26,230.40	–3,255,951.19
Financial income	226,054.76	991,112.90
Financial losses	–252,285.16	–29,107.72
Foreign exchange income	0.00	8,233,144.96
Foreign exchange losses	0.00	–12,451,101.33
Financial result from direct investments	4,607,446.12	–800,376.52
Distributions	4,722,853.02	1,945,300.90
Expenses	–15,179.67	–6,424.55
Capital gains	0.00	41,486.03
Capital losses	–100,227.23	–1,271,734.65
Foreign exchange income	0.00	31,293.65
Foreign exchange losses	0.00	–1,540,297.90
Financial result from fund investments	16,470,550.36	–6,977,696.41
Distributions	19,132,189.54	3,865,640.45
Expenses	–76,709.94	–173,211.90
Capital gains	0.00	0.00
Capital losses	–2,584,929.24	–8,596,648.81
Foreign exchange income	0.00	1,920.939.42
Foreign exchange losses	0.00	–3,994,415.57
Fx Result of Currency Change USD to CHF	–5,698,746.86	0.00
Depreciation	0.00	–1,584.40
Depreciation on fixtures and fittings	0.00	–1,584.40
Operating result	**9,973,756.24**	**–12,641,872.69**
Extraordinary result		
Extraordinary result	–77,407.72	1,328,543.45
Extraordinary income	38,000.00	1,328,543.45
Extraordinary losses	–115,407.72	0.00
Annual result before taxes	**9,896,348.52**	**–11,313,329.24**
Taxes (Stamp Duty)	–18,072.22	0.00
Annual result	**9,878,276.30**	**–11,313,329.24**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	31.12.2012 CHF	31.12.2011 CHF
Substantial equity interests	68,490,017.26	69,786,430.36
Overview provided on next page		

Risk assessment

The Board has carried out risk assessments on a periodic basis, and properly addressed any issues arising therefrom.

Overview of contingent obligations (Commitments / in USD)

Investments	
European Financing Partners (Loan)	7,748
European Financing Partners (Loan)	3,271,364
European Financing Partners (Loan)	5,000,000
Interact Climante Change Facilty (Loan)	3,617,667
E+Co. (Loan)	2,300,000
Funds	
7L Capital Partner Emerging Europe L.P.	446,880
AfricInvest Fund II	2,271,950
Balkan Financial Sector Equity Fund	662,871
Capital North Africa Venture Fund	767,545
Maghreb Private Equity Fund II	498,715
Maghreb Private Equity Fund III	5,307,555
SEAF South Balkan Fund	628,918
African Infrastructure Fund	604,496
Altra Private Equity Fund I L.P.	258,305
ASEAN China Investment Fund	1,428,333
Aureos Central America Fund	1,235,092
Aureos East Africa Fund	62,751
Aureos Latin America Fund	189,092.56
BTS India Private Equity Fund	2,244,900.00
Cambodia-Laos Development Fund	1,947,050.00
Catalyst Fund I	6,209,671.00
Central American Small Enterprise Investment Fund II	1,438,446.24
CoreCo Central America	3,545,693.53
European Virgin Fund	3,306,190.56
Euroventures Ukraine II	297,896.04
EV Amadeus Asian Clean Enegry Fund L.P.	5,399,476.00
Evolution One	2,458,121.00
Fidelity Equity Fund I	USD 500.00
Fidelity Equity Fund II	1,111,820.00

	31.12.2012 CHF	31.12.2011 CHF
Funds Overview of contingent obligations (Commitments, continued)		
GEF Africa Sustainable Forestry Fund	4,055,225.00	
HEFF	2,779,240.00	
JS Private Equity Fund I	5,879,866.00	
Kaizen Private Equity	5,960,000.00	
Kendall Court Mezzanine (Asia) Bristol Merit Fund	3,309,614.00	
Latin Renewables Infrastructure Fund	6,109,090.22	
Mongolia Opportunities Partners Ltd.	3,990,531.00	
NAMF II	9,607,903.00	
rABOP	972,274.00	
SEAF Blue Waters Growth Fund	1,970,132.00	
SEAF Central and Eastern European Growth Fund	407,468.00	
SEAF Central Asia Small Enterprises Fund	399,954.00	
SEAF LATAM Growth Fund	1,356,908.00	
SEAF Trans Andean Fund	261,663.00	
Sphinx Turnarround Fund	7,046,484.00	
VenturesEast Proactive Fund LLC	1,067,605.00	
VI (Vietnam Investments) Fund I	124,382.00	
VI (Vietnam Investments) Fund II	5,250,000.00	
Horizon Equity III	ZAR 12,624,253.80	
Vantage Mezzanine Fund	ZAR 2,397,495.00	

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

Substantial equity holdings 2012

	Book value Fx	Book value in CHF	SIFEM's Commitment	Fund Size	% held
Sino Swiss Partnership Fund	CNY 218,017,987.31	32,030,766.66	CNY 268,850,270.00	CNY 383,035,322.00	70.19%
SwissTec	USD 1,858,624.99	1,701,294.24	USD 21,500,000.00	USD 21,502,930.00	99.99%
SEAF Central+Eastern Europ. Growth Fund	USD 2,211,992.00	2,024,749.09	USD 4,500,000.00	USD 20,600,000.00	21.84%
SEAF Central Asian Small Enterprise Fund	USD 845,619.00	774,038.20	USD 4,600,000.00	USD 10,958,000.00	41.98%
Fidelity Equity Fund I	USD 334,031.48	305,756.05	USD 4,000,000.00	USD 8,500,000.00	47.06%
ASEAN China Investment Fund	USD 1,500,200.18	1,373,209.73	USD 15,997,058.00	USD 75,997,258.00	21.05%
SEAF South Balkan Fund	EUR 1,717,975.03	2,073,252.27	EUR 3,282,420.00	EUR 10,756,175.00	30.52%
SEAF Blue Waters Growth Fund	USD 4,488,154.00	4,108,236.25	USD 7,000,000.00	USD 25,000,000.00	28.00%
Aureos Latin America Fund	USD 9,749,121.71	8,923,868.31	USD 10,000,000.00	USD 35,353,535.00	28.29%
Altra Private Equity Fund I L.P.	USD 7,741,695.49	7,086,368.71	USD 8,000,000.00	USD 18,556,701.00	43.11%
SEAF Trans Andean Fund	USD 2,161,251.67	1,978,303.88	USD 5,000,000.00	USD 12,620,000.00	39.62%
SEAF LATAM Growth Fund	USD 4,635,225.00	4,242,857.84	USD 7,000,000.00	USD 17,000,001.00	41.18%
Kaizen Private Equity Fund	USD 2,040,000.00	1,867,316.04	USD 8,000,000.00	USD 27,580,000.00	29.01%

Sino-Swiss Partnership Fund
The fund has been 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 experience. 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 in a variety of sectors ranging from pharmaceuticals to supermarkets and is now fully invested. The key co-investors in the fund are the International Finance Company of the WorldBank group, FinnFund the Finnish Development Finance Institution and 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 nine companies in Uzbekistan, Kazakhstan and Kyrgyzstan and the 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 Company of the WorldBank 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 and they vary from software focused enterprise to a microfinance institution and 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 into 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 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 a six companies within 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 investments 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 Colombia, Peru and Central America and is still within its investment period. The investments vary across sectors from consumer finance to manufacturing. The key co-investors are FMO and 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 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 based out of Lima, Peru and Bogota, Colombia.

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 USD 5,000,000 with the majority of those investments located in Peru. The fund is still within its investment period. The key co-investors are BIO and FinnFund. 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.

Proposal for the Application of the Retained Earnings

The Board of Directors proposes that the retained earnings be allocated as follows

	2012 CHF	2011 CHF
Profit carried forward	–10,721,076.50	592,252.74
Annual result	9,878,276.30	–11,313,329.24
Retained earnings	**–842,800.20**	**–10,721,076.50**
Dividends	0.00	0.00
Allocation to the statutory reserve	0.00	0.00
Allocation to the free reserve	0.00	0.00
Carried forward to the new account	**–842,800.20**	**–10,721,076.50**

Miscellaneous

Market Trends Affecting SIFEM's Investment Portfolio

2013 Global Themes

The 2013 global outlook is slightly more positive than 2012, which was a year of transition when the global economy narrowly avoided recession posting 2.9% growth. Still the big questions such as whether the Eurozone will hold together and surrounding the growth trajectory of the Chinese economy await resolution in 2013. In Europe the various bail-out mechanisms implemented by ECB will have a significant bearing on economic affairs, while the US seems to have turned around the corner, having avoided the fiscal cliff. The worrying deterioration in global trade in 2012 is expected to modestly reverse in 2013 as demand picks up. However, as countries abandon inflation-targeting monetary policies in favour of monetary and fiscal growth stimuli, currency wars are likely to take place in 2013, even leading to a possibility of an emerging markets currency bubble forming as foreign investment flows into some local markets beyond their saturation point. The Middle East will continue to be the geo-political hotspot, with potential risks of an Iran-Israel-sparked war in the Persian Gulf, continued uncertainty in Arab Spring states such as Egypt, and non-abating civil war in Syria also affecting neighbouring Lebanon and Jordan.

Looking at developed versus emerging markets ("EM"), the developed states still have a long way to go before recovering pre-crisis output levels, while emerging market performance will be mixed. The aggregate regional forecasts are steady; however the 2013 outlook has been down-graded for some major EM economies such as Turkey, the Czech Republic, Poland, Brazil and India. While EM economies on the whole posted positive growth thanks to Chinese demand, they have not been able to detach completely from Western demand. Thus, there has been some EM decoupling from developed states in terms of growth, but not in terms of economic cycles, which are a function of policy, macro fundamentals and deleveraging requirements. Thus, during the credit boom even the most uncompetitive economies were dragged along for the ride, which in the current deleveraging phase are under-performing significantly as well.

Figure 17: Emerging Market Real GDP growth (%) *Source: BMI Global Macro Monitor February 2013*

	2011e	*2012f*	*2013f*	*2014f*
World	3.1	2.5	2.9	3.4
Developed States	1.4	1.0	1.3	1.9
Emerging Markets	5.6	4.7	5.0	5.1
Asia Ex-Japan	7.2	6.1	6.2	6.0
Latin America	4.1	3.0	3.4	3.7
Emerging Europe	4.8	2.6	3.2	4.0
Sub-Saharan Africa	4.0	4.2	6.1	5.8
Middle East and North Africa	3.9	5.1	3.9	4.8

Economic Trends in Emerging Markets

Emerging Asia (ex-Japan) is a strong contributor to global GDP, and represents approximately 20% of global annual GDP excluding China, which itself accounts for nearly 12% of global GDP. Emerging Asia provided the strongest growth of 6.1% in 2012. While a cyclical rebound in Asian economies, particularly China is underway, prompting slightly higher growth projections for 2013 at 6.2%, major risks, such as the widening of global trade imbalances, credit market excesses, and high regional asset valuations remain, weighing on long-term regional growth prospects. China is expected to continue as the fastest growing economy in Asia, fuelling growth prospects for South-East Asian countries of Indonesia, Thailand, Malaysia and the Philippines. Major themes to observe in Asia in 2013 are the path of China's recovery (and risks of it coming unstuck), continuing South-East Asia boom (particularly in Vietnam and India), a property bubble in Hong Kong and Singapore, and an oncoming recession in Australia.

Sub-Saharan Africa ("SSA" - West, East, Central and Southern Africa) was the second strongest growth region, albeit from a very low level, producing 4.2% real GDP growth in 2012. The outlook for the region is very favourable, with forecasts of 6.1% GDP expansion in 2013 coming close to Asian GDP growth rates. Angola, Ghana, Mozambique and Zambia are high performers on the back of their resource booms, while Nigeria, Tanzania and Uganda are expected to outperform with more broad-based growth. The majority of other countries are expected to post at least 4% growth in 2013, due to favourable structural factors such as natural resource wealth, youthful demographics, urbanisation and infrastructure improvements. The inflation outlook remains mixed for the continent, with inflation bottoming out and likely on the rise in East Africa, stable in Southern Africa with the exception of South Africa where it is expected to trend up, and slightly declining in West Africa, particularly Nigeria. Political events and policy trends to watch in 2013 are: elections in Kenya, negative economic policy signs in Uganda, government instability in Cote-d'Ivoire, and structural issues including race-based inequality and widespread poverty in South Africa. Another policy trend to watch is changes in extractive industries policies of some countries (Nigeria, Uganda, Zambia and Tanzania), which ar generally expected to bring SSA into line with global norms, while keeping these industries as highly profitable.

Emerging Europe (Baltics, CIS, S.E Europe and the Western Balkans) produced the weakest GDP growth in 2012, at 2.6%. However, growth is expected to accelerate as countries post recovery, depending on which economies in the wider EU they are most inter-connected with. The Baltic economies are expected to return to robust growth thanks to integration with Scandinavian countries. The recovery in Central European countries will primarily depend on the performance of the Eurozone, while South-Eastern European economies and Balkans are facing less favourable prospects due to their exposure to troubled Greece, Italy and France. Fiscal consolidations will continue through 2013 as new EU members have little choice but to persevere with austerity given the threat of EU funds suspension. Facing deep political and economic challenges, Ukraine and Belarus are expected to orientate their policies away from the West and towards Russia. The fastest growth in Emerging Europe is expected from Mongolia, Uzbekistan and Turkmenistan, while agribusiness has been singled out as a positive long-term investment prospect given the region's vast arable land supply, and strong government support for upgrading the Soviet-era agriculture complex.

Latin America (South America, Central America and the Caribbean), representing approximately 8% of global GDP, delivered 3.0% real GDP growth in 2012. After diminishing from the previous year, growth is expected to pick up again in coming years, with forecasts of 3.4% GDP growth in 2013 and 3.7% in 2014. Key themes for 2013 include the continued detrimental impact of a weaker Chinese economy on the region's industrial metal exporters (Chile, Brazil and Peru), as well as a turbulent period of exchange rate devaluation and economic deterioration in Argentina and Venezuela. Meanwhile, growth seems to be well anchored in Brazil and Mexico thanks to key economic reforms improving the investment climate and strong FDI. The negative effect of falling mineral exports is expected to be modestly offset by additional monetary stimuli as Peru, Chile and Brazil cut interest rates. This should help the currencies depreciate against USD, and push down local yields, providing liquidity to domestic financial sectors. Risks to the downside include a potential debt default in Argentina, and volatile political climate brought by the up-coming transition of power in Venezuela.

The Middle East and North Africa's ("MENA") economic and political prospects are likely to remain in flux in 2013. Growth is expected to slow in the Gulf states, while picking up in North Africa. Other trends defining the region are policy risks, growing balance of payments strains, and a continuation of crises in Iran and Syria. Two years since the onset Arab Spring policymakers and investors have accepted a "new normal" for the region with outperforming hydrocarbon Gulf states, lagging net-oil importers in North Africa and Levant. However, growth in the regional economy is slowing, while non-hydrocarbon activity is set to grow supported by loose monetary and fiscal policies. Nevertheless, historical growth drivers as tourism and construction, while improving, remain below 2010 levels. Political risks in Gulf states will take the form of erratic policy decisions, while in North Africa and Levant centre on policy slippages or reversals. Given their burgeoning fiscal and current account deficits, political instability is expected to be elevated as governments will need to push for unpopular reforms. Also to watch is the decline in foreign currency reserves as North African countries suffer from structural balance of payments strains.

Private Equity Market Trends in Emerging Markets

Although improving, the fundraising environment for emerging markets private equity funds remains challenging. Following the USD 22 billion low of 2009, fundraising for private equity in emerging markets has embarked on a rising trend, reaching nearly USD 39 billion in 2011 and USD 40 billion in 2012. However, fundraising levels still remain far from pre-crisis levels, with the 2012 amount representing merely 61% of the USD 67 billion raised in 2008. Fundraising has proven to be particularly challenging for mid-market funds which find it increasingly difficult to attract capital as investors, in a perceived flight to quality, tend to favour larger funds. In fact, during the last four years, the average size of funds achieving a final close has grown from USD 83m in 2009 to USD 392m in 2012, while the ten largest funds accounted for 55% of all capital raised, compared to 37% in 2011 and 35% in 2010. This concentration at the top has come at the expense of mid-market funds (defined by a size of USD 100-499m), where only 30 funds closed in 2012, the lowest number since 2006. . As in previous years, Emerging Asia attracted most attention from investors, with 63% of all emerging market PE funds committed to that region in 2012.

Figure 18: Emerging Markets Private Equity Fundraising Totals by Region, 2008–2012 (USD million)
Source EMPEA 2013

	Emerging Asia	CEE & CIS	LatAm & Caribbean	MENA	Sub-Saharan Africa	Multi-region	Global EM
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
2011	26,251	1,752	8,441	423	1,332	350	38,549
YTD 2012	25,502	4,903	4,211	548	1,448	3,726	40,338
% of YTD 2012 Total	63%	12%	10%	1%	4%	9%	

In recent years, commitments to emerging markets PE have increasingly concentrated on a limited number of large funds active in a few core markets. While this, in itself, is not a detriment to the industry, it is concerning insofar as SMEs - the vast majority of companies driving growth in emerging markets - will not have access to capital from these large-cap funds. Moreover, neglecting these mid-market opportunities represents a missed opportunity to achieve attractive returns for LPs. The misalignment between LP commitments and optimal EM PE fund sizes is problematic as few emerging market economies feature sufficient number of companies capable of absorbing large investments. Too much capital chasing a limited number of large deals will inevitably depress valuations and drag down returns. Furthermore, by investing only into larger funds in a few select markets, LPs are limited in their choice of potential fund managers. Consequently, certain markets have been dominated by the same few “brand” managers over the last several fund cycles (in 2011/12, more than half of all EM PE commitments by leading North American pension funds were made to large-cap fund managers on their 3rd or more funds), making it difficult for a new generation of fund managers to emerge.

Alongside a trend toward larger fund sizes is a growing concentration of capital in a few select markets, particularly the BRICs. While regional funds used to dominate the EM PE landscape in the past, they have given way to local single country funds as fund managers and LPs are increasingly aware of the importance of being local as opposed to the “fly-in-fly-out” operating model. As a result, while in 2008, the 10 largest emerging markets PE funds all had a regional focus, in 2011, 9 out of the 10 were single country funds, targeting primarily China and Brazil. However, in 2012 LPs have also shown increasing demand for funds targeting non-BRIC emerging markets, such as Turkey and Indonesia – essentially markets that are large enough to sustain a single country fund. This contrasts PE developments in Colombia, Peru, Vietnam and, recently, Myanmar, among others, which, despite attracting greater investor interest, are unlikely to achieve sufficient scale to attract sizable country-specific commitments from large institutional investors in the near term.

Both the number and volume of private equity deals in emerging markets decreased by 7% and 11% in 2012 compared to 2011. Continuing the trend from previous years, emerging Asia accounted for 59% of all deals, with China and India taking 70% of Asia’s deal flow. Likewise the lion’s share of deals in Latin America of over 88% went to Brazil. Notably, the number of PE deals in MENA doubled from 2011, though this is attributed to re-bound activity in the Gulf states. PE activity in CEE & CIS, on the other hand, has seen a reduction, particularly in the volume of PE deals, as the region is still struggling with the difficult economic environment and its heavy dependence on the developments in Western Europe.

Figure 19: Emerging Market Private Equity Regional Deal Volume by Year, 2010–2012
Source EMPEA 2013

	2010		*2011*		*2012*	
	No. of Deals	*Total Capital Invested (USDm)*	*No. of Deals*	*Total Capital Invested (USDm)*	*No. of Deals*	*Total Capital Invested (USDm)*
Emerging Asias	576	18,308	607	18,714	481	13,947
CEE & CIS	117	2,398	114	3,480	112	2,093
Latam & Caribbean	92	6,648	88	3,245	121	4,959
MENA	23	793	22	385	44	1,554
Sub-Saharan Africa	48	631	45	1,059	61	1,162
Emerging Markets	856	28,778	876	26,884	819	23,714

Finally, in terms of performance, although one-year net IRRs across emerging markets were negative at –4% as of Q2 2012, EM PE and VC continued to outperform its comparable public market benchmark, the MSCI EM Index, over a one- and five-year periods. Even emerging Asia, which is the highest performer on a three and five-year basis, lags MSCI EM over 10 years. Meanwhile, the most stable EM region for long-term performance is Latin America, which, while volatile over 1 and 3 years, shows consistent performance of 8% over 5 and 10 years.

Figure 20: Comparative End-to-End Returns by Region (as of 30 June 2012)
Source: Cambridge Associates 2012

Index	*One Year*	*Three Years*	*Five Years*	*Ten Years*
Emerging Markets PE & VC	–4.02	15.47	7.81	11.35
Emerging Asia PE & VC	–3.29	16.99	9.06	11.39
CEE & Russia PE & VC	–11.25	11.87	2.69	15.01
Latin America & Caribbean PE & VC	–6.46	13.72	8.99	8.42
MSCI Emerging Markets	–15.67	10.10	0.21	14.42
US VC	6.00	12.67	4.85	5.28
US PE	6.19	16.62	6.01	12.85
Western Europe PE	–4.32	13.98	1.61	16.96
S&P 500	5.45	16.40	0.22	5.33

Short Biographic Profiles 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 USD1 bn 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 USD150 m 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.

Ivo Germann
Representative of the Swiss Federal Administration

Mr. Germann is currently Deputy Head and Chief of Operations of the Economic Development Cooperation Department at the Swiss State Secretariat for Economic Affairs (SECO). Prior to his current function, he was the head of the Private Sector Development Section at SECO. Mr. Germann has served SECO since 1999, holding various positions in the Macroeconomic Support and Economic Cooperation Departments. From 2007 to 2010, he represented SECO at the European Bank for Reconstruction and Development (EBRD) in London.

Mr. Germann holds a degree in economics from the University of Zurich.

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 Co-operation 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. Iain served as a Council Member of the British Venture Capital Association between 1988 and 1994. Since 1998 he has worked as a consultant in many countries including India, China, Tunisia, South Africa and Zimbabwe. Mr. Tulloch is chairman of the Swiss Technology Venture Capital Fund in India and sits on a number of investment committees.

Glossary

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

Development Finance Institution ("DFI")
European Development Finance Institutions ("EDFI") Is the association of 15 European based, bilateral Development finance institutions whereby 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 Intentional 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 the best practice where private equity investments are reported at fair value and have been 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 hold 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 close ended, collective investment platform which aggregates capital from multiple investors to then invest in private equity securities.

Reflows
Refers to any type of payments received in return from SIFEM's investment portfolio, including capital repayments, realized capital gains, dividends, interest.

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

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

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.

Net income
In SIFEM's IFRS financial statements IFRS, net income refers to the result from investment activities. It consists of the sum of interest income, dividend income, investment-related services income, foreign exchange gains/losses on investments, changes in NAV of investments, and impairment losses on debt investments.

Operating Result
In SIFEM's IFRS financial statements IFRS, the operating result is calculated by subtracting administrative and operating costs from the net income.

Total Comprehensive Income
In SIFEM's IFRS financial statements IFRS, total comprehensive income is calculated by adding the financial result and currency translation effects to the operating result.

Annual Report 2012

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
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPEV	International Private Equity Valuation Guidelines
IRR	Internal Rate of Return
m	million
LATAM	Latin America
MENA	Middle East and North Africa
MFI	Microfinance Institution
NAV	Net Asset Value
No.	Number
OECD	Organisation for Economic Cooperation 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
SSA	Sub-Saharan Africa
SSPF	Sino-Swiss Partnership Fund
TA	Technical Assistance
TVPI	Total Value over Paid-In
USD	United States Dollar
VIF II	Vietnam Investments II
YTD	year to date
ZAR	South African Rand

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