



View of DEG's future headquarters in the centre of Cologne.



NEWS

WEBSITE RE-LAUNCH.

DEG's Internet image has undergone a complete redesign. The address – www.deginvest.de – remains the same, but since March, visitors have discovered an expanded information portal with a more user-friendly layout. The site provides information about the mission, the available services, the regions and industries in which DEG is involved, while

also presenting key business indicators. Examples of projects illustrate the types of finance and advisory services on offer to private enterprises. The home page lists a changing selection of current topics, as well as the most recent press releases and the "DEG-Horizons" publication.

WORK STARTS ON NEW DEG HQ.

In mid-2008, DEG will move into its new headquarters in the centre of Cologne, and all the institution's staff, currently working out of three different locations, will be back under one roof. The groundbreaking ceremony was held on 6 April 2006 at Kämmergasse and

was attended not only by the building's future owners, but also by representatives of the KfW Bankengruppe and Cologne city council. It was the first visible evidence of a construction project designed by leading German firm JSK Architekten.

NEW ADDRESS FOR DEG'S BERLIN OFFICE.

DEG's Berlin office has moved. It is now located within the Berlin branch of the KfW Bankengruppe in impressive surroundings at Gendarmenmarkt.

Contact:
Charlottenstraße 33/33a, 10117 Berlin, Germany,
Phone: +49 30 2060792-0, Fax: +49 30 2060792-8,
E-mail: berlin@deginvest.de

DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging market countries for more than 40 years.
- DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from agribusiness to infrastructure and from manufacturing to services. We also focus on the development of the financial sector in order to facilitate reliable access to capital locally.
- So far, we have worked together with more than 1,300 companies. By providing EUR 7 billion of finance, we have contributed to a total investment of EUR 45 billion.
- Our aim is to establish and expand private enterprise structures in developing and transition countries, and thus create the basis for sustainable economic growth and a lasting improvement in the living conditions of the local population.

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DEG Horizons

Our business is developing.

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EASTERN EUROPE

is becoming increasingly attractive to business, both as a manufacturing location and as a market. Russia and Ukraine are two key examples.

EDITORIAL

World Water Day on 22 March: Since 1992, UN member states have been called upon to observe this day as a way of focussing on water, a commodity that is growing ever more scarce. Resources, their distribution and exploitation, are one of the most important issues of our time, whether we are dealing with oil, gas, alternative energy sources or simply water. A degree of awareness in handling raw materials and an increased use of renewables can play a part in meeting global needs even in the longer term.

For some years now, DEG has been financing projects such as power plants that employ renewables, while also making an effort to improve the energy efficiency of investments. In 2006, DEG plans to become more involved in this promising field. Which "new" regions in Eastern Europe or Asia offer business potential, and what enterprises wanting to invest there need to take into account: all these points are discussed in the current issue of DEG Horizons.

The DEG editorial team wishes you pleasant reading

IN BRIEF

A **success year** for DEG, with **EUR 672 million** of new finance approved in the 2005 financial year – equivalent to a growth rate of 19 percent compared to the preceding year. The **portfolio** also grew by more than ten percent to **EUR 2.75 billion** across 489 projects. But that was no reason to coast in 2006, explained Dr. Winfried Polte (Chairman), speaking on behalf of the board at the annual press conference on 9 March in Cologne. Rather, it should be seen as an incentive to continue pinpointing and financing projects that make sense in both business and development terms. Along with fellow board members Johannes-Jürgen Bernsen and Dr. Michael Bornmann, the chairman was commenting on the previous financial year and providing an outlook for 2006.

Protecting the climate is a focus for DEG, which sees some potential in developing and emerging economies. Over recent years, the institution has co-financed various wind and water power projects with a total volume of around EUR 60 million. DEG plans to add to these in the future and include additional investment projects which would e.g. exploit renewables such as biomass and geothermal energy. Enterprises looking for advice on emission certificates are also welcome to contact the "Kyoto Coaching Cologne" network, which was jointly set up by DEG and TÜV Rheinland. Additional information from: www.kyoto-coaching-cologne.de.





FOCUS

EASTERN EUROPE: "EARLY BIRDS" WANTED.

With the expansion of the European Union at the latest, investors have become more aware of the economies to the east of Poland and Hungary. Russia, for example, is increasingly seen as an attractive business location with a promising market by noted German and influential European entrepreneurs. Ukraine, especially post-Orange Revolution, is also thought to have potential with its major domestic market of around 50 million consumers. However, it remains to be seen how the 26 March elections affect the reforms proposed by the (new) government. It is certainly worth noting that the EU accorded Ukraine market economy status in December 2005.

Experts currently working on the ground are confident that investors who position themselves in the Ukraine at the earliest opportunity will enjoy the best prospects in a market that has yet to be shared out. Given advantageous labour costs, a well-trained workforce and the rise in purchasing power, DEG is among those who see investor opportunities in e.g. the metalworking and engineering industries, in agribusiness and in transport and communications. As earlier in the case of Russia, DEG is pursuing a dual strategy: on the one hand, promoting the financial sector as a key element of economic development, while also providing capital directly to enterprises making investments. As well as bank finance, DEG approved loans for investment in the manufacturing industry; for instance, long-term finance was made available to a manufacturer of cable looms and to a German company setting up a factory in Ukraine and producing veneers.

In Russia, DEG has increased its involvement since 2003. In recent years, the institution initially invested mainly in the financial sector, providing long-term finance – equity and loans – to banks, investment funds and leasing companies with the aim of broadening access to investment capital among private enterprises. DEG is also co-financing investment in expansion for various German manufacturing sector companies operating in Russia. Over the past year, these included approvals for a factory producing plastic fastenings and for a manufacturer of agricultural machinery. In total, the portfolio in both countries amounts to around EUR 150 million, with the lion's share going to projects in Russia. Other submissions are due to be approved or are currently being assessed.

DEG plans to expand its business in Russia (in areas of industrial concentration as elsewhere) and to work with Russian enterprises that already have a proven record of success. In order to provide clients on the ground with a face-to-face contact and to be able to observe the market even more closely, DEG will have its own representative in Moscow, located at the KfW office.

Your contacts:

Franz-Josef Flosbach, Head of Department, Europe/Middle East/Central Asia, E-mail: fb@deginvest.de

For German corporates: Hans-Joachim Hebggen, Head of Department, German corporates, E-mail: heb@deginvest.de

FINANCING

DIRECT INVESTMENT: DEVELOPING COUNTRIES RATED HIGHLY.

Reading the business press, one might be forgiven for thinking that emerging countries like China and India were virtually on the point of "outpacing" the industrial nations. While it is true that the boom states have expanded very dynamically, with annual economic growth rates of between seven and ten percent, one mustn't forget that of course, it is all relative. Take China, for example. Although gross domestic product (GDP) has grown substantially over the past years, it still ranges at around USD 1,400 per capita, while the figure for India is just under USD 700. The equivalent values for Europe would be around the USD 30,000 mark.

Strong growth in direct investment highlights the fact that Asian developing and emerging countries in particular have become attractive. Further evidence was provided by stock markets, where shares and bonds from rising national economies easily boasted growth rates in double figures in 2005. German firms, and not just major companies, have discovered Asia as a location, even though they tend to prefer to invest in Eastern Europe because of its closeness both geographically and culturally.

Beyond the popular targets of the moment, on which there is already a major "run", there are other countries which may well be of interest to investors. Vietnam is a case in point. In the 1990s, it introduced "doi moi" (renewal), a programme of economic reforms designed to restructure the planned economy along market economy lines. In the

course of the reforms, large numbers of mostly small businesses were privatised or newly set up. Foreign direct investment has increased substantially over recent years. A high economic growth rate of over seven percent is again expected in the current year, making Vietnam one of the fastest-growing Asian economies. However, enterprises that choose to do business there must be aware that some structural problems remain, so staying power is needed. Areas in need of modernisation include the financial sector, the administration and the many state enterprises. Through its PPP programme, DEG is already supporting mainly German enterprises in Vietnam, helping them to carry out measures preparatory to and in support of investment, for example in providing basic and advanced training for employees. Last year, DEG took an equity stake in an investment fund in Vietnam which provides finance to small and medium-size Vietnamese-owned private enterprises. There are plans to expand these activities.

How to achieve success as a business in Vietnam is the theme of an upcoming event in Cologne in May, entitled "Vietnam. Ein Tiger auf dem Sprung" ("Vietnam. Pouncing Tiger"). DEG and IHK Köln will be pleased to welcome interested German companies for an exchange of views on opportunities and risks. Experts will give an insight into their experiences of Vietnam as a manufacturing location and procurement market. Date and time: 22 May, 09:30 to 13:30, IHK Köln. Additional information from: Heidrun Knackstedt, E-mail: kt@deginvest.de.

PARTNERS AND PROJECTS

DEG TAKES STAKE IN AFRICAN REINSURANCE PROVIDER: A SEGMENT WITH A FUTURE.

The African insurance sector is barely developed. African primary insurers are generally unable to take on major insurance risks because they lack the economic scale. By taking out reinsurance, primary insurers are able to spread the risk and thus accept more business while their capital outlay remains the same. As a result, the provision of primary insurance services in the market is improved.

The African Reinsurance Corporation (Africa Re), the only African reinsurance provider operating at a supra-regional level, was jointly established in the 1970s by member states of the African Union and the African Development Bank. The aim was to support the insurance industry and hence economic development more generally. After a period of successful growth, Africa Re increased its equity capital in 2005 in order to maintain a balanced capital base, safeguard future expansion and improve competitiveness by comparison with international reinsurance providers. Whereas share ownership had previously only been open to

African states or institutions, Africa Re was now opened up to foreign institutional investors. DEG took an equity stake in Africa Re in order to boost the growth of the only pan-African reinsurance provider; other institutions to join the circle of shareholders and increase the capital were the International Finance Corporation IFC and DEG's Dutch counterpart, FMO. The involvement of international development finance institutions is seen as an expression of confidence in the market while also improving Africa Re's corporate profile.

For DEG, this project represents a first venture into insurance. The institution will take a seat on the supervisory board, offer strategic advice to the Africa Re and help it to set up an anti-money laundering programme, for example. In future, DEG plans to provide more finance for the insurance sector, an industry that not only offers exciting growth opportunities, but is also of considerable importance in terms of development policy.