

DEG Horizons

Our business is developing.

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UPWARD TREND

Business has shown a positive development in 2005. In the first half alone, DEG has approved over 330 million euros to finance investments in developing countries.

EDITORIAL

"Millennium + 5 summit" – that was the title given to this year's UN General Assembly, held in Mid-September. Five years after the Millennium Summit, provided an interim follow-up: What had been achieved, and where did major challenges remain? The Millennium Declaration provided a compelling summary of what is required in the interests of every country and all the peoples in the world: development, eradication of poverty, peace, security, democracy and human rights. But these goals will not be easy to achieve, as the World Summit demonstrated.

In its own specific area of activity, DEG strives to promote development and better living conditions for people. The institution offers investors market and risk appropriate finance, combined with many years' experience of operating in developing countries and the willingness to enter into a long-term commitment. That this is attractive to many enterprises is evident from the business trend in the first half. Find out more about this and other subjects, such as e.g. leasing finance, in this issue of "DEG Horizons".

The DEG editorial team
wishes you pleasant reading

IN BRIEF

Following the Asian Crisis in the mid-1990s, more recent years have heralded renewed economic growth in the Far East – even if the players have changed. Today, **China** and **India** are the main growth engines influencing the region. While everyone has been talking about China for some considerable time now, India has virtually exploded on to the scene, becoming the focus of interest as an attractive investment location. The country scores points for a well-educated workforce, more predictable legal decisions and more transparency. Growth rates are expected to remain dynamic in the future.

DEG has been operating in both countries for many years and is present on the ground with representative offices in both Beijing and New Delhi. Elsewhere in Asia, DEG is also investing in economies like those of Indonesia, the Philippines or Vietnam and is financing investments by enterprises involved in those countries. In **Vietnam**, DEG recently agreed to take a stake in a fund that provides equity capital for Vietnamese private enterprises and advises them on management issues. DEG's aim is to help strengthen the private sector and develop the country's capital market.

EASTERN EUROPE ASIA LATIN AMERICA AFRICA FOCUS

STRONG FIRST HALF – NOT JUST IN CHINA.



In the first half of 2005, DEG has been able to approve 333 million euros in new commitments for 39 projects, of which 310 million was at its own risk. It's a very encouraging interim result, which is supplemented by disbursements totaling approximately 240 million euros. Over the whole year, DEG hopes to reach its target of over 600 million euros of new business.

The strong growth in Asia, driven by China and India, is reflected in DEG's operations: some 50 percent of new approvals to date represent finance for investments in South and South East Asia. In addition to new projects in the two top priority countries – which include taking four equity participations in India and three in China – DEG also committed finance for some projects in Indonesia and the Philippines. These

include a loan for a leading producer of activated carbon in Mindanao, who wants to modernize and expand his plant. Activated carbon is an export item used in air and water purification, e.g. in water filters. The raw material is coconut shells. The Philippines are the world's second largest coconut producer, with around 1.5 million farmers and their families making a living by growing the nuts. Without DEG's long-term commitment, the firm would not have been able to implement the necessary investments.

On a regional basis, Asia is followed by Central and South-Eastern Europe. Here, DEG approved approximately 70 million euros in new commitments. The projects include co-financing the expansion of the airport in the Albanian capital Tirana, loans for leasing companies in Bulgaria and Rumania, and finance for banks in Russia, Ukraine and Kyrgyzstan. Through its involvement, DEG is promoting the devel-

opment and diversification of the finance sector in those countries – one of its traditional areas of operation. In Azerbaijan, DEG and the Savings Banks Foundation for International Cooperation (SBFIC or Sparkassenstiftung für internationale Kooperation) have jointly acquired a participation in a small private bank, which DEG will support as it grows. The two partners DEG and SBFIC are following the same approach in China, where they recently acquired an equity stake in a regional bank in Nanchong.



In Latin America, the focus in the first half was on investment finance in smaller countries such as El Salvador, Costa Rica and Nicaragua. In Uruguay, DEG provided a long-term loan designed to co-finance investments for expansion by a meat-processing firm, a family business that produces mainly for export.

To date, finance for private enterprises in Africa has concentrated mainly on Eastern and Southern Africa. Along with other development finance institutions, DEG approved a tranche of mezzanine finance for a transaction which allowed one of Southern Africa's leading banks to grant sections of the population disadvantaged by apartheid a stake in the bank's capital. "Black Economic Empowerment", or BEE, is designed to help the black population take an active part in the country's economic life.

On present showing, there is a good chance that DEG will be able to stay on its present course and continue to grow. The increase in new commitments will be reflected in the overall portfolio, currently standing at 2.7 billion euros. Net income is also expected to be on the same scale as the previous year. For over 40 years, DEG has been providing long-term capital at market rates for investments by private enterprises in high-risk countries, and the basis for its involvement, which makes sense both in business and development terms, is its extensive experience and its expertise in the field of finance.



PARTNERS AND PROJECTS

FINANCE PACKAGE FOR WIND PARK WITH GERMAN KNOW-HOW.

These days, renewable energy resources are seen as a vital alternative to non-renewable raw materials – especially given the rocketing oil prices. For many years, DEG has been providing finance for e.g. power plants operating on a regenerative basis. One particular project approved in 2005 is Taiwan's first commercial wind park, which is being set up by German companies and jointly financed by DEG, IKB Deutsche Industriebank and KfW IPEX-Bank.

The wind park is being built on the north-west coast of Taiwan and consists of 25 wind turbines produced by German manufacturer Enercon, with a capacity of about 50 megawatts. The electricity generated will supply the energy needs of more than 30,000 households. The initiators of the project are the German companies VWind AG und WPD AG. Most of the finance is in the form of loans from IKB Deutsche

Industriebank and KfW IPEX-Bank. For the first time, the credit risk involved in financing a wind farm in local currency will be insured within the framework of Hermes. With this type of cover, the finance can be provided in Taiwan Dollars, largely protecting the local operating company from exchange risks. DEG has provided 7.5 million euros of mezzanine finance. Since the 1980s, power consumption has quadrupled in Taiwan; the government plans to improve supplies through increased promotion of renewable energy sources. This includes changing the law in line with the German model.

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FINANCING

LEASING: AN ATTRACTIVE WAY TO FINANCE EQUIPMENT.

For small and medium-sized enterprises in particular, the purchase of capital equipment such as machines is a considerable financial strain. That is why many opt for leasing, which combines elements of both renting and buying. A leased asset remains the property of the leasing company for the term of the contract; so in a sense, the lessee is renting. He pays lease rates for the use of the asset, and these include interest on capital as well as a depreciation fee, which is calculated based on the proposed term of the contract.

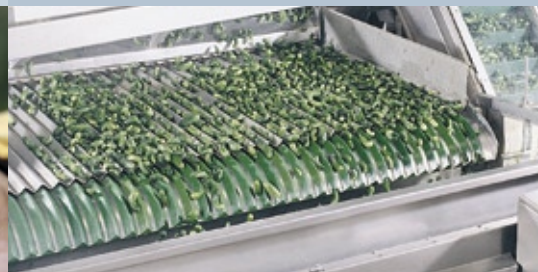
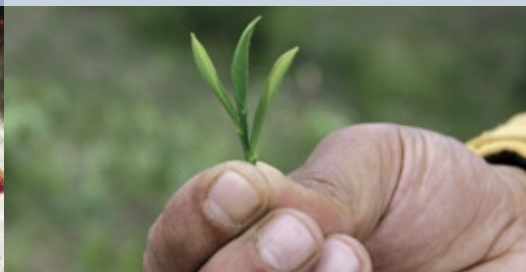
An "operating lease" is designed specifically for short-term use; a popular example is leasing a car. But there is also the "finance lease", which comes into its own in the case of large-scale capital equipment designed for long-term use. Leases accordingly run medium to long term, and neither of the contracting parties can cancel the agreement during the base term. First, the lessee selects the asset to be leased, and this is then purchased by the lessor. The term of the contract depends on the useful life of the asset, which is almost completely amortized during this period. The investment risk is borne by the lessee, while the lessor is compensated for the investment and any additional costs, and for interest expenditure.

For the lessee, the system has the following advantages: leasing is balance sheet neutral, the leased asset is financed from the lessor's

cash-flow, collateralization is provided mostly by the asset itself, and in addition to the tax advantages offered in many countries, the contracts are drawn up along fairly simple lines. In addition, the lessee can benefit from the leasing company's know-how and the better purchasing terms.

For enterprises in developing countries, which often are unable to provide bankable securities, leasing is a particularly suitable form of finance. It allows even small businesses to carry out investments with a relatively small capital outlay. Leasing companies also fulfill an important function in relation to development policy: they boost investment in capital assets, increase diversification in the finance sector and, as institutional investors, promote the development of capital markets.

DEG provides finance for leasing companies in developing and emerging market countries with a view to broadening access to this attractive financing alternative. Over the past year and a half, the institution has approved new investments totaling some 49 million euros for this purpose, most recently in Bulgaria, Turkey and Romania. DEG is also involved in very poor countries such as Nicaragua, where in 2004, a long-term loan went to a company which provides leasing finance for machines and equipment for e.g. farms.



NEWS

DEG AT ANUGA 2005.

"Taste the future" is the motto of this year's ANUGA exhibition, the world's largest food & beverage trade fair which is held every two years in Cologne. In early October, 160,000 trade visitors from more than 150 countries will again explore the 290,000 square meters of exhibition space and find out about developments and innovations in the industry. They include many food producers and retailers with whom DEG has been working for some considerable time. On the occasion of the

ANUGA exhibition, the institution traditionally holds an evening reception at the Messturm tower, giving DEG's German and international business partners an opportunity to do some networking high above the rooftops of Cologne. This year's event will be held on the 10th of October.

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JUST OUT: INVESTMENT GUIDE TO SOUTH-EAST ASIA.

The ASEAN member states find themselves under pressure due to price competition and economic impulses from China, the rising economic power in the region. While market opportunities for smaller suppliers are dwindling, in the field of mass-produced electronic items for example, China's demand for imports is growing, boosting exports in the countries of South-East Asia. These nations are looking to cooperate with the region's "heavyweights" and are making an increased effort to secure foreign inward investment to drive the development of technology.

The Investment Guide to South-East Asia, published by the F.A.Z.-Institut, DEG and Rödl & Partner, provides support for German com-

panies when they first enter this market and as they pursue their business activities in this important region. It gives a description of all ten ASEAN nations. Following an overview of the region, the individual nations are presented, along with their political and economic development, legal framework and general tax conditions. The focus is on the type of business entity foreign enterprises may opt for, how to set up a business, tax consequences and labor laws. The volume also contains important contact details and useful website addresses where additional information can be found.

Available from: deutschermarkt@deginvest.de

TEST YOUR KNOWLEDGE OF FINANCIAL TERMINOLOGY

What exactly is an "equity kicker"?

a) A rugby player with the Wellington-based "Equity" team who specializes in free kicks and penalties.

b) The right of an investor providing mezzanine finance to purchase, at an option price, shares in the business to be financed – in compensation for his financial involvement, which carries a risk.

Solution: The rugby player may well kick the ball around, but the team only exists in our imagination. On the other hand, b) is entirely accurate.

DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging markets 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 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 1,200 companies. By providing 6.2 billion euros of finance, we have contributed to a total investment of 41 billion euros.
- 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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