



# ANNUAL REPORT | FINANCIAL STATEMENTS MANAGEMENT REPORT

# 2010

Our business is developing.  
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH





# Annual Report 2010

Financial Statements and Management Report

DEG – Deutsche Investitions- und  
Entwicklungsgesellschaft mbH

# ANNUAL REPORT 2010

## FINANCIAL STATEMENTS AND MANAGEMENT REPORT

### CONTENTS

<b>Report by the Supervisory Board</b>	<b>3</b>
<b>DEG at a Glance</b>	<b>5</b>
<b>Management Report for 2010</b>	<b>6</b>
- Business development and climate	6
- Fields of business	7
- Non-financial performance indicators	10
- Profitability	12
- Financial Position	14
- Net worth Position	15
- Follow-up Report	16
- Risk Report	16
- Outlook	25
<b>Annual Statements of Accounts</b>	<b>27</b>
- Balance Sheet at 31 December 2010	28
- Profit and Loss Account for the Year ended 31 December 2010	30
- Appendix	31
- Auditor's Report	48
<b>Imprint</b>	

# REPORT BY THE SUPERVISORY BOARD

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The global economy rallied in the 2010 financial year, recovering more rapidly than expected from the global recession, especially in DEG's partner countries. This had an impact on the development of DEG's business. Demand on the part of enterprises for long-term finance and venture capital for investments rose markedly over the year. As a result, DEG was not only able to commit EUR 1.1 billion as planned, but actually exceeded its target and reached EUR 1.2 billion.

## ADVICE TO AND SUPERVISION OF THE BOARD OF MANAGEMENT

In the 2010 financial year, DEG's Supervisory Board concerned itself extensively with the company's situation. In addition to supervising the proper conduct of its activity, the Supervisory Board gave DEG's Board of Management the benefit of its advice. Members of the Supervisory Board received regular, timely and comprehensive oral and written reports from the Board of Management. Whenever decisions required the consent or cooperation of the Supervisory Board by law, under the Articles of Association, or by standing orders, the Supervisory Board was no less closely involved in the decision-making process than when decisions of fundamental importance to DEG were being taken.

## MEETINGS OF THE SUPERVISORY BOARD

During the past year, the Supervisory Board held four regular meetings. It was assisted in carrying out its work by the Audit Committee appointed from among its members. Consultations and resolutions relating to DEG's finance business were an integral part of all the meetings of the Supervisory Board. In cases of particular urgency, decisions on the finance business were taken outside the four regular meetings by the Chairman and his deputies (Executive Committee) following written procedures.

The Supervisory Board addressed the developmental impact of DEG's business in the context of the DEG projects

laid before it. Members welcomed the fact that the quantitative and qualitative assessment of the developmental impact of DEG's new business using DEG's GPR rating system continues to produce positive results.

In the context of the Board of Management's overall strategic policy, a key point of which is a further expansion of DEG's promotional activities, the Supervisory Board discussed business policy for 2011, annual planning for 2011 including the medium-term business outlook for 2012-2015, and the 2011 risk strategy.

In addition, the Supervisory Board addressed important strategic issues, e.g. closer cooperation among European bilateral private sector finance institutions, a further improvement of provision for German medium-size enterprises, and DEG's current situation and possible business outlook in Central Asia and Ukraine. The Supervisory Board also gave its consent to DEG's launching business operations in additional partner countries, e.g. Iraq.

Institutional issues such as DEG's Internal Control System and the revised method of stress testing to determine risk capacity were debated along with the regular reports due in the year under review, e.g. on the work of Internal Audit and on equal opportunities within the business. For the first time, the Supervisory Board was provided with information on DEG's work to improve environmental and social standards in the form of a thoroughly revised and redesigned Sustainability Report, which also dealt with the issue of including environmental and social experts in the review process in respect of risk.

Two other issues that stood out during the Supervisory Board's discussions were DEG's gender equality concept, which is designed specifically to promote qualified female top executives, and the company's standing orders, which were revised based on the recommendations contained in the German federal government's Public Corporate Governance Code.

### ANNUAL STATEMENTS OF ACCOUNTS AND MANAGEMENT REPORT

KPMG AG Wirtschaftsprüfungsgesellschaft Düsseldorf has audited and certified both the Management Report and the Annual Statements of Accounts, drawn up in accordance with statutory regulations.

The Audit Committee, appointed by the Supervisory Board, reviewed and discussed the Annual Statements of Accounts along with the Management Report on the basis of the Auditor's Report and recommended its approval to the members of the Supervisory Board. During a final detailed review by the Supervisory Board, no objections were raised. The members of the Supervisory Board agreed with the Audit Committee's recommendations and approved the findings of the Auditor's Report and the Annual Statements of Accounts including the Management Report.

The Supervisory Board recommended that the Shareholder's Meeting adopt the Annual Statements of Accounts for 2010 and discharge the Board of Management from its liabilities.

### CHANGES IN MEMBERSHIP OF THE SUPERVISORY BOARD

The 16th term of DEG's Supervisory Board came to an end in June 2010, and its expiration marked the departure of Etienne Viard from the board. Thanks are due to him for his valuable contribution and energetic support for the company.

On 23 March 2010 the Shareholders' Meeting appointed the Supervisory Board for the 17th term (2010-2013).

The following members were reappointed:

Gudrun Kopp	Ernst Burgbacher
Dr. Norbert Kloppenburg	Arndt G. Kirchhoff
Dr. Hans-Jörg Todt	Hartmut Koschyk
Dr. Peter Ammon	Siegmar Mosdorf
Eberhard Brandes	Dr. Ulrich Schröder

Marianne Sivignon-Lecourt was newly appointed.

At its first meeting on 24 June 2010 the Supervisory Board elected Gudrun Kopp as Chairwoman, Dr. Norbert Kloppenburg as First Deputy Chairman, and Dr. Hans-Jörg Todt as Second Deputy Chairman.

At the same meeting, the Supervisory Board chose an Audit Committee from among its members, consisting of Dr. Hans-Jörg Todt as chairman, Dr. Norbert Kloppenburg as deputy chairman, with Gudrun Kopp and Hartmut Koschyk as members.

### THANKS AND APPRECIATION

The Supervisory Board would like to express its gratitude and appreciation to the Board of Management for its co-operation, which has been both open and distinguished by a high level of trust.

Thanks and appreciation are also due to DEG's personnel. The extraordinary results achieved by DEG have only been possible thanks to the great dedication and capabilities displayed by members of staff.

The Supervisory Board is confident that DEG will continue to grow successfully, will further enhance its development performance and improve development quality. The Supervisory Board pledges to do everything in its power to support the company in this endeavour.

Cologne, 30 March 2011

The Chairwoman of the Supervisory Board  
Gudrun Kopp

## DEG at a Glance

EUR million

	2010	2009
<b>Project finance:</b>		
Total financial commitments in financial year	1,226	1,015
of which trust business	0	0
Project portfolio (commitment obligation) at year end	5,236	4,701
of which trust business	90	104
Total investments of co-financed enterprises at year end	34,051	32,083
<b>Consultancy and other services:</b>		
Income from consultancy services, trust business and other services	13	13
<b>Annual statements of accounts:</b>		
Balance sheet total	3,883	3,521
Subscribed capital	750	750
of which paid in	628	628
Reserves	585	637
Pre-tax operating result	272	-48
Taxes	4	3
Profit/loss for the financial year	268	-51
Transfer to/withdrawal from purpose-tied reserve fund	1	1
Net income/loss	270	-50
<b>Developmental impacts of commitments:</b>		
Net foreign exchange income p.a.	2,700	1,700
Tax revenue p.a.	490	568
Newly created and secured jobs (number)	335,000	360,000
direct	115,000	196,000
indirect	220,000	164,000

# DEG MANAGEMENT REPORT FOR 2010

## BUSINESS DEVELOPMENT AND CLIMATE

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH has the development policy mandate to promote the formation and growth of the private sector in developing and transition countries. With its financing and advisory services, it enables private enterprises to make investments. By promoting the private sector as the driving force for development, it contributes to sustainable economic and social progress in its partner countries. In the context of the German Federal Government's development policy, it contributes to achieving the internationally agreed Millennium Development Goals through development co-operation. The priorities are to reduce poverty and permanently improve people's living conditions.

DEG promotes only investments that are both reasonable in business and development policy terms and environmentally and socially sound. It draws on its own funds to provide enterprises with venture capital in the form of equity and mezzanine finance, long-term loans and guarantees on market-oriented terms. It also provides advice to the enterprises in question and arranges their investment projects. Small and medium-sized enterprises (SMEs) are a key client group. DEG not only makes capital available to them directly, it also finances banks and investment companies that provide finance to SMEs. As a development institution with a development policy mandate, it always operates on the subsidiarity principle, i.e. it provides enterprises with financial services that are unavailable or in short supply from commercial providers.

In fulfilling its mandate, DEG cooperates closely with bilateral development finance institutions from the group of European Development Finance Institutions (EDFI), with the European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD). It also works with the International Finance Corporation (IFC), which is part of the World Bank Group, as well as with regional development finance providers; the aim is to package finance and know-how, which helps to boost the broad-based and structural impact of projects. The division

of labour and standardisation further improves the effectiveness of development co-operation in keeping with the Paris Declaration and the Accra Agenda for Action. Strategic partnerships with selected commercial banks are designed to improve provision of specific financial services in key development sectors.

Comprehensive knowledge of the countries involved and a permanent presence in partner countries are crucial to fulfilling the promotional mandate. In 2010 DEG was on the ground with eleven representative offices: in Accra for West Africa, in Bangkok for Thailand, in Bangladesh, Cambodia, Laos and Vietnam, in Beijing for China and Mongolia, in Jakarta for Indonesia, in Johannesburg for southern Africa, in Lima for the Andean countries, in Mexico City for Mexico, in Moscow for the Russian Federation, in Nairobi for East Africa, in New Delhi for India and in São Paulo for the Mercosur region. It also has the option of sharing in the use of KfW Bankengruppe's representative offices.

Business development in 2010 was influenced by the world economy's unexpectedly rapid recovery after the 2009 year of recession. Global GDP grew by approx. 4%. As in the preceding years, there were considerable differences between various groups of countries. While the industrial nations recorded growth of barely 3%, emerging markets and developing countries grew more dynamically at roughly 7%. In addition to Asia – especially China and India – it was the Latin-American economies, led by Brazil, that drove this development.

In many of DEG's partner countries, enterprises remained hesitant about carrying out investment projects in the early months of 2010. Similarly, the demand for loans from banks and other finance institutions was initially cautious. However, over the year, the demand for DEG's financing and arrangement services increased markedly. In key target countries, there was also an increase in the finance on offer from commercial providers.

Against this backdrop, DEG was able to expand its financing business. The volume of new commitments reached a

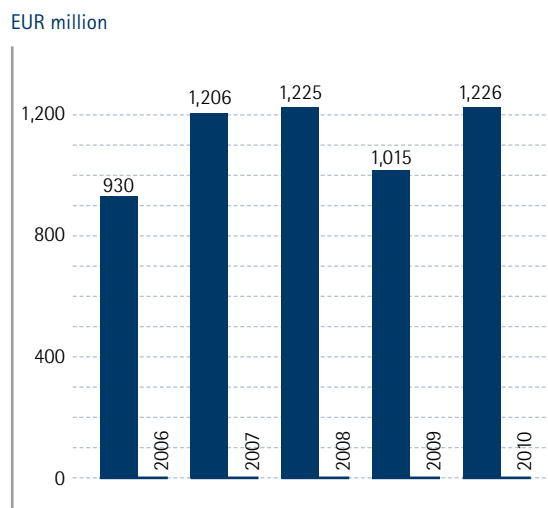
new record of EUR 1,226 million, exceeding the target set for 2010 (2009: EUR 1,015 million). New business built on the levels achieved in the 2008 financial year, before even DEG's promotional business was affected by the repercussions of the global economic crisis. Disbursements for 2010 came to EUR 869 million, exceeding the previous year's level (EUR 729 million) as planned. Including new commitments, total investments of approx. EUR 7,770 million are being mobilised – a substantial leverage effect.

The net commitment portfolio (project portfolio, own account and trust business) rose to EUR 5,236 million by year end (2009: EUR 4,701 million). The project portfolio extended across 526 enterprises in 85 partner countries and displayed a balanced risk structure. For more detailed information, cf. the risk report. DEG maintained its position as one of the largest European development finance providers dedicated to promoting the private sector.

The operating result before provision for risk was EUR 186 million (2009: EUR 130 million). The reason, in addition to the net interest result, was because disposals of participating interests produced much higher gains in 2010. Over the financial year, it became apparent that the previous year's increase in the provision for risk due to the global crisis and its repercussions, which could not be gauged at the time, could be considerably reduced. Project-related value adjustments in particular could now be written back, since the economic risk situation had improved for many project enterprises. There were also one-off effects due to an adjustment of the risk provisioning methodology. The result from ordinary activities was EUR 272 million (2009: EUR -48 million). After tax, this produced a profit for the financial year of EUR 268 million (2009: loss for the financial year of EUR 51 million). After taking into account withdrawals from the purpose-tied reserve fund for complementary measures to improve the developmental quality of projects, a net income of approx. EUR 270 million remained (2009: net loss of EUR 50 million).

Over the past three years DEG has achieved a return on equity of 6.1% on average before tax. In keeping with its development policy mandate, DEG's business goal, apart

## Annual financial commitments



from covering its running costs, is to make provisions for risk in its project finance business as well as building up sufficient reserves and earning an appropriate return on capital for asset maintenance. Given a further marked increase in equity, mainly due to the level of retained earnings, DEG maintains an appropriate risk capacity and a resilient foundation, allowing it to remain self-sufficient as it expands its promotional activities.

## FIELDS OF BUSINESS

### Investment finance and financial sector development

In the 2010 financial year DEG committed EUR 1,226.3 million (2009: EUR 1,014.8 million) in finance for 94 projects.

Commitments in 2010 were allotted to the following financial products: DEG took equity stakes in enterprises with EUR 169.8 million (2009: EUR 149.1 million). Lendings totalled approx. EUR 1,044.5 million (EUR 843.0 million); these included lendings in US dollars equivalent to EUR 643.7 million (EUR 598.8 million). Of the lendings, EUR

173.8 million were arranged as loans with equity features (2009: EUR 229.9 million). Venture capital in the form of equity and mezzanine finance accounted for EUR 343.6 million (EUR 379.0 million). Approximately EUR 12.0 million were committed for guarantees (2009: EUR 22.7 million).

Financial commitments were allotted to investments in 32 countries (2009: 42). Among the least developed countries (LDC) in which DEG was involved in 2010 were Madagascar, Rwanda and Uganda.

For the first time, the lion's share of newly committed finance, EUR 360.0 million, went to projects in Latin America (2009: EUR 197.6 million), closely followed by EUR 350.9 million committed for projects in Asia (2009: EUR 463.1 million). EUR 226.9 million (2009: EUR 266.2 million) in finance was made available for investments in Africa – a priority for German and international development co-operation. Of this, supra-regional projects accounted for EUR 113.1 million, Sub-Saharan Africa for EUR 79.4 million and projects in North Africa for EUR 34.4 million. The European region was given financial commitments totalling EUR 258.5 million (EUR 80.5 million). EUR 30.0 million went to one supra-regional project (2009: EUR 7.4 million).

By sector, DEG committed EUR 403.8 million for the financial sector in 2010, just under 33% of new business (2009: EUR 305.5 million). The focus was on finance for banks and other financial institutions in order to improve the provision of financial services for enterprises in partner countries. Small and medium-sized enterprises were the main intended target. Equity and mezzanine funds fulfilled an important role in supplying venture capital, which is especially scarce. In addition, DEG promoted specialist providers such as insurance companies, both to close supply gaps in partner countries and to help set up systematic financial protection. To contribute to the professionalisation of the sector, DEG worked to strengthen the institutions it was promoting on an organisational level. To this end, it assisted them in, e.g. implementing good corporate governance standards.

EUR 398.1 million, more than 32% of new business, was earmarked for the industrial sector (2009: EUR 276.3 million). This was the highest volume ever committed to the segment in a single financial year, and also the bulk of direct investment finance in 2010. Enterprises in the manufacturing industry make a vital contribution to creating of skilled jobs in partner countries as well as encouraging the transfer of know-how and technology. That's why DEG makes a point of promoting the industrial sector. In 2010, it promoted investments by private enterprises in, e.g. the pharmaceutical industry as well as the textile, building materials and metal industries.

EUR 271.5 million were made available for infrastructure projects – a record for this important sector in development policy (2009: EUR 251.1 million). Around 22% of new business was allocated to project finance in the energy and water supply, telecommunications, health, transport and traffic sectors. The priorities were power plants using renewables and modern communications networks.

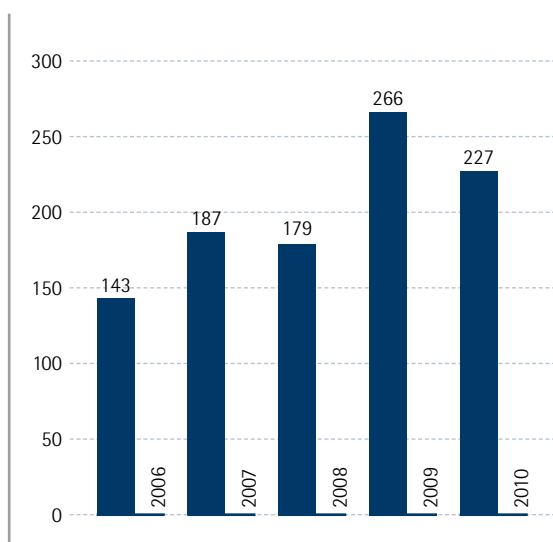
The agricultural and food industries – primary production, local processing and farming services – accounted for EUR 97.9 million or 8% of the funding volume (2009: EUR 140.9 million). EUR 55.0 million in finance went to the service industry (2009: EUR 41.0 million).

Climate protection is one of the stated goals of DEG's business strategy. In 2010, it made EUR 228.6 million available for 26 investment projects designed to protect the climate (2009: EUR 160.9 million). This represents a significant increase in its involvement, more than originally planned. It promoted mainly renewable energy projects and schemes to increase energy efficiency. A further 43 development measures and complementary measures germane to climate protection were co-financed with a total of EUR 6.8 million.

Direct investment finance of EUR 492.7 million was mainly targeted at enterprises from partner countries (2009: EUR 372.8 million). DEG financed projects by investors from EU countries in developing countries with EUR 57.0 million (2009: EUR 11.3 million) while making EUR 17.9 million

## New financial commitments for investments in Africa

EUR million



available for projects undertaken by enterprises from other industrial nations (2009: EUR 52.2 million). DEG committed EUR 28.2 million (EUR 47.1 million) for South-South co-operation involving enterprises from different developing countries.

Projects in co-operation with German partners received EUR 135.3 million (EUR 136.7 million). The funds were mainly intended for investments by the manufacturing industry in, e.g. Egypt, China, Croatia and Russia.

More than a third of newly committed finance was explicitly intended for small and medium-sized enterprises (SMEs). By promoting this sector, DEG made a systematic contribution to plugging the existing supply gap in long-term finance for SMEs in its partner countries.

At year end 2010, current financial commitments came to EUR 5,236.4 million (2009: EUR 4,700.6 million), an increase of more than 11%. Of this EUR 5,146.8 million, by far the

largest proportion, was finance at own risk. Finance on behalf of the German government and the European Union (trust business) made up EUR 89.6 million, which included EUR 28.7 million for project finance and EUR 60.9 million for loans from business start-up programmes.

## Consultancy and development programmes

In 2010, DEG continued to provide consultancy services to assist its clients in planning and devising their investments. In doing so, it not only drew on its experience of countries and industries, but above all applied its financial expertise. By arranging the best possible overall financial mix, it helped to improve the chances of success and the quality of investment projects.

In the development programmes carried out by DEG, public and private sector funds are used to promote developmentally prudent measures by private enterprises in partner countries. Among these is the programme for development partnerships with the private sector (Public-Private Partnership, PPP) operated by the Federal Ministry for Economic Cooperation and Development (BMZ), which DEG has been running since 1999. "develoPPP.de" helps German and other European enterprises to carry out developmentally prudent measures in partner countries. In 2010 DEG had EUR 15.7 million in BMZ funds available for this purpose. In the year under review, enterprises submitted 218 proposals, of which around 35% met the programme's requirements. In total, EUR 47.8 million were made available for 76 new PPP projects; of this, DEG provided EUR 20.4 million in public funds, while the private enterprises contributed EUR 27.4 million. Approximately 45% of projects related to the priority themes of resource conservation, climate protection and energy.

In 2010, the Federal Ministry for the Environment (BMU) and DEG newly agreed to enter into co-operation to promote enterprise investment in renewables, energy efficiency and adaptation to climate change in emerging and developing countries. "Climate partnerships with the private sector" fosters the spread of climate-friendly technologies

by promoting appropriate entrepreneurial activities. BMU made EUR 2.0 million in funds from the International Climate Initiative (ICI) available for the purpose. In addition, DEG used just under EUR 0.5 million in ICI funds to carry out an energy efficiency programme in China's industrial sector. This was aimed supplying know-how and advice in connection with measures by private enterprises.

Since 2009 DEG has been working with GTZ (German Technical Co-operation) on implementing a programme in Sub-Saharan Africa with funds from the Bill & Melinda Gates Foundation and BMZ. The aim is to improve the competitiveness and income levels of 265,000 local cotton farmers. Conceived as a four-year project, the Competitive African Cotton Initiative (COMPACI) has a volume of USD 55 million. Activities in 2010 included assimilating a project partner from Mozambique with 55,000 small farmers into the programme.

In Afghanistan, DEG further expanded a loan guarantee fund for small and medium-sized enterprises, for which BMZ and the development organisation USAID have made a total of approx. USD 14.7 million available since 2005. The fund underwrites 72% of the default risk for loans provided by two local partner banks. 420 guarantees were issued in 2010 for loans of USD 12.0 million. In total, aggregate commitments came to USD 51.4 million for 1,760 loans. To date, approximately 24,000 jobs have been created or secured as a result.

In 2010 as in previous years, DEG carried out complementary measures designed to increase the broad-based and structural impact of its projects on development. It used EUR 1.3 million of its own funds for the purpose, supplemented by EUR 1.95 million in budgetary funds from BMZ. 2010 saw the implementation of 54 complementary measures which enhance the economic, social and ecological sustainability of the projects being financed. As well as providing consultancy services and training, DEG carried out energy efficiency checks for enterprises in the manufacturing industry and launched a joint project with WWF on the issue of water risks in developing countries.

## International cooperation

For many years, DEG has been working closely with its European partner institutions under the umbrella of the European Development Finance Institutions (EDFI) – a group of 15 bilateral development finance providers that promote the private sector. Along with the European Investment Bank (EIB), DEG and eleven other EDFI members are partners in the co-financing vehicle European Financing Partners (EFP). EFP promotes private investments in countries in the African, Caribbean and Pacific regions (the ACP Group of States). In 2010, the EFP partners again decided to boost EFP funds after the whole of the EUR 570 million previously provided had been allocated to projects. This fourth tranche of finance has a volume of EUR 225 million. Of this, EIB contributed EUR 100 million from the EU's Cotonou Investment Facility funds, and EUR 125 million came from the bilateral institutions, with DEG contributing EUR 25 million of that sum.

Following the pattern of the successful EFP facility, the Interact Climate Chance Facility (ICCF) was set up in 2010. 12 EDFI members, EIB and the Agence Française de Développement (AFD) jointly devised this financing vehicle to promote climate-friendly private sector projects in developing countries. ICCF will be allocated approximately EUR 250 million in funding; DEG committed EUR 30 million for the purpose in 2010.

DEG again cooperated closely with FMO of the Netherlands and Proparco of France. Together, they committed approximately EUR 760 million in finance for a total of 24 projects, with DEG contributing 48%.

## NON-FINANCIAL PERFORMANCE INDICATORS

### Developmental impacts

Given DEG's explicit promotional mandate, the developmental effects and impacts of the projects it co-finances represent an important measure. Since 2002 DEG has

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been using Corporate Policy Project Rating (Geschäfts-politisches Projektrating GPR) to evaluate and control the quality of its projects in relation to business and development policy. Each project is assessed and awarded points in four categories, and then assigned to a developmental quality group according to the results. GPR, which was developed by DEG, allows for both ex ante and ex post evaluations. It is now used by 15 development finance institutions.

The most recent evaluations of the new commitments for 2010 have shown that once again, developmental quality was good, with an average rating of 2.6 (2009: 2.4). The investments co-financed in 2010 will create or secure some 115,000 jobs in the enterprises concerned. Added to this are more than 220,000 jobs with producers' suppliers and with ultimate borrowers in financial sector projects. Through their tax payments, project enterprises will additionally contribute roughly EUR 490 million annually to government revenues in partner countries and earn around EUR 2.7 billion a year in net foreign exchange income. This can be used to reduce budget deficits, enable investment and give a sustainable boost to foreign exchange revenue.

Some 64% of new commitment projects also make a direct contribution to achieving at least one of the eight International Millennium Development Goals (2009: 57%).

Many of the co-financed enterprises make a great effort to meet their social responsibility (Corporate Social Responsibility). For example, they offer additional pension or health insurance benefits, pay above-average wages, set up health centres and build nurseries and schools.

## Sustainability

An important condition of DEG's involvement is that any investment project it promotes must be environmentally and socially sound. An acceptable ecological and social basis is essential if projects are to achieve sustainable success. That is why DEG only supports and finances enterprises that share this conviction. Promoting investment

projects in developing countries offers great opportunities to improve the environmental and social situation on the ground, but there may also be significant inherent risks. The assessment of environmental and social risks is part and parcel of a general consideration of risk. In addition to any national regulations, DEG above all takes tough international standards into account when co-financing a project.

All the project finance newly committed by DEG in 2010 was subject to the IFC performance standards as environmental and social standards. All the co-financed enterprises also entered into a binding commitment to abide by the core labour standards set up by the International Labor Organization (ILO). At the same time, by agreeing these standards, DEG is taking on an important development policy role in improving environmental and social standards in the enterprises concerned. To fulfil this role, it made appropriate contributions to 80 of the 94 newly committed projects in 2010, e.g. by providing advanced environmental action plans.

The commitment to environmentally responsible action also extends to DEG's own operations. In addition to the health and safety of its own staff, the sparing use of resources is a priority. The building newly occupied by DEG in 2008 and awarded a gold seal of quality by the German Sustainable Building Council (DGNB) again recorded excellent consumption data in 2010. DEG offsets all its CO<sub>2</sub> emissions as part of the KfW Bankengruppe's policy of maintaining a climate neutral rating.

## Personnel

In 2010 as in previous years, DEG's highly motivated and qualified employees made a significant contribution to the institution's business success. DEG's personnel include mainly management experts, economists and lawyers with above-average levels of training. As well as professional experience in international investment finance, anyone working for DEG must above all have expert knowledge of development policy, country and sector know-how, and proficiency in foreign languages.

At year end 2010 DEG retained 436 employees (2009: 418). The institution also employed 38 students in temporary jobs. As in the previous year, the number of employees working part time was 57. 18 members of staff were deployed in DEG's representative offices in Accra, Bangkok, Beijing, Jakarta, Johannesburg, Mexico City, Moscow, Nairobi, New Delhi, São Paulo and Lima and in the regional office for Asia; they were supported by 22 local experts.

Staff numbers break down into three members of the Board of Management, 301 staff outside regular pay scales and senior staff, 116 staff on regular pay scales and 16 apprentices. 219 employees (50.2% of staff) were female (2009: 50.7%), while male employees accounted for 49.8% (49.3%) of the total. The average age was 42.6 years. The proportion of severely disabled people was 4.1% (4.4%).

In principle, the remuneration of DEG staff takes the form of a fixed salary. The basic annual salary consists of thirteen monthly salary payments. A variable, appropriately limited share of the remuneration is awarded depending on the success of the business and individual performance. The principles governing DEG's remuneration system are regulated by the company agreement on compensation management.

DEG's social benefits include mainly employer contributions to corporate pension schemes, group accident insurance and the granting of loans. In addition, there are recuperation allowances as well as support in case of illness and other emergencies. Employees are provided with a free pass for travel on public transport, partly for environmental reasons. DEG also supports preventative health measures and corporate sporting activities.

To ensure that its staff's professional, methodological and personal skills are maintained in keeping with current requirements, DEG provides an extensive programme of additional training. Staff can also benefit from the schemes offered by the KfW Bankengruppe and the development finance providers in the EDFI group. In 2010 DEG invested

around EUR 820,000 in internal and external training measures. To provide for the advancement of junior staff, DEG offers a trainee programme that is regularly updated. Seven trainees, four of them women, began work in 2010. DEG has also been involved in vocational training for many years. In the year under review, seven people started their training: three management assistants in office communications, three cooks and one IT specialist.

DEG has set itself the goal of actively promoting its staff's potential in a wide range of fields. In 2010, it devised gender equality policy designed, among other things, further to increase the proportion of women among DEG's senior staff over the coming years. The policy includes a catalogue of measures targeted at key fields of action, e.g. skills development, professional development of senior staff, promotion of women as an executive function, and work flexibility. 2010 also saw the improvement and extension of the corporate agreement on work-life balance.

The Board of Management would like to express its gratitude to all members of staff who have tirelessly, competently and creatively displayed their commitment. They have made a significant contribution to DEG's ability to fulfil its mandate and meet its corporate goals. Furthermore, the Board of Management would like to thank the employees' representative bodies – the Staff Council and the Economic Committee – as well as the Senior Staff Council for their cooperation, which has consistently proved loyal and constructive.

## PROFITABILITY

As well as income and charges from business operations, the profit on ordinary activities includes additional items resulting from an adjustment to the method of risk provisioning in the year under review.

Operating income showed a rise of EUR 58.5 million, from EUR 227.8 million to EUR 286.3 million. This increase was substantially due to income from the disposal of partici-

## Breakdown of income and charges

EUR million

Position	2010	2009
Operating income*	286.3	227.8
Other interest receivable and similar income	9.3	19.0
Total income (net)**	295.6	246.8
Provisions for risk (net)**	-86.7	178.4
Interest payable	17.0	36.5
Staff costs and operating charges	93.1	80.4
Pre-tax operating result	272.2	-48.5
Taxes	4.0	2.9
Profit for the financial year (prev. yr.: loss for the financial year)	268.2	-51.4
Withdrawal, purpose-tied reserve fund	1.3	1.0
Net income (prev. yr.: net loss)	269.5	-50.4

\* Income from participating interests, loans, consultancy services, trust business and other services as well as other operating income

\*\* Net: Gross charges for provisions with respect to risk were balanced out against income from write back of provisions for risk.

participating interests (EUR +53.2 million) and other income (EUR +12.3 million): this mainly consists of income from the disposal of bonds (EUR +7.0 million) and income from foreign currency valuation as per Article 256a of the German Commercial Code HGB (short-term investments with a residual term of less than a year) (EUR +0.8 million). There was a slight decline in income from lendings (EUR -3.1 million) and income from current participating interests in the form of dividends (EUR -3.4 million).

Other interest receivable and similar income fell overall by EUR 9.7 million to EUR 9.3 million. The previous year's figures were influenced by higher earnings from derivatives sales and earnings from interest rate options (EUR -9.1 million).

Under operating charges, staff costs rose by EUR 4.0 million to a total of EUR 46.4 million. Charges for wages and salaries (including social security contributions) increased by EUR 3.8 million due to a rise in staff numbers and higher wages/salaries. Charges for pension provision remained virtually at the same level as the previous year (EUR +0.2 million). Under the assessment criteria of the German

Accounting Law Modernisation Act (BilMoG), the previous year's reserve for pensions recorded an excess at the balance sheet date; this was retained in accordance with BilMoG regulations, so that only minor allocations were required.

Other operating charges rose by EUR 9.6 million from EUR 34.6 million to EUR 44.2 million.

For the first time, a foreign currency valuation for short-term investments with a residual term of less than 1 year was carried out as at 31 December 2010 as per Article 256a of the German Commercial Code HGB. By comparison to the previous year, this resulted in a higher cost arising from foreign currency translation (EUR +3.9 million). In addition, provisions for impending losses for other derivatives of EUR 5.5 million were made.

Despite a rise in the volume of refinance resulting from a concurrent drop in interest rates, interest charges were reduced by EUR 19.5 million, from EUR 36.5 million to EUR 17.0 million. On the one hand, the original interest charge for refinance fell compared to the previous year by EUR

22.7 million to EUR 15.9 million; on the other hand, income from hedging transactions was also reduced by EUR 2.9 million to EUR 0.3 million (2009: income of EUR 3.2 million). The interest rate margin for the year under review increased by EUR 6.7 million to EUR 163.9 million (2009: EUR 157.2 million).

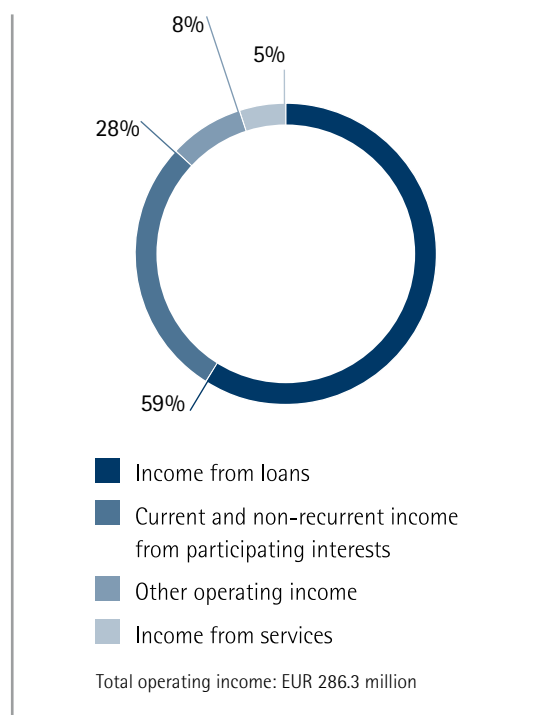
Gross charges for provisions for project and country risk (depreciation and value adjustments as well as transfers to provisions in respect of lending business and participating interests) fell by 67.3% in the year under review to EUR 90.1 million (2009: EUR 275.9 million). Income from write-ups and write-back of provisions in respect of lending business and participating interests rose by 81.3% to EUR 176.8 million (2009: EUR 97.5 million). On balance, there was a net write-back of provision for risk in the amount of EUR 86.7 million for the year under review, compared to a net write-up of EUR 178.4 million in the previous year. This was mainly due to the write-back of higher net amounts in respect of individual value adjustments to project risks of EUR +67.2 million thanks to the improved economic risk situation enjoyed by project enterprises, as well as an additional one-off item in the sum of EUR 26.9 million arising from an adjustment to the method of risk provisioning for participating interests.

The operating result before provision for risk came to EUR 185.5 million. The profit on ordinary activities rose to EUR 272.2 million (2009: EUR -48.5 million). After accounting for taxes of EUR 4.0 million (2009: EUR 2.9 million), the result was a profit for the year of EUR 268.2 million (2009: loss of EUR 51.4 million). The sum of EUR 1.3 million (2009: EUR 1.0 million) from the purpose-tied reserve was spent on complementary measures to enhance the developmental impact of DEG's projects in 2010 and withdrawn from reserves. This left a net profit of EUR 269.5 million (2009: net loss of EUR 50.4 million).

## FINANCIAL POSITION

In 2010, disbursements came to EUR 868.8 million in total (2009: EUR 728.5 million). Disbursements of EUR 0.4 million

## Breakdown of operating income for the 2010 financial year



were made in trust business (2009: no disbursements). Accordingly, business on own account (including risk sub-participations) accounted for EUR 868.4 million (2009: EUR 728.5 million).

On own account, disbursements for projects were financed from net cash flow, operating income and net borrowings. Net cash flow is generated by the disposal of participating interests and loan repayments, and includes amounts owed from the disposal of investments; in the year under review, it came to EUR 657.0 million (2009: EUR 504.0 million). Operating income rose to EUR 189.8 million (2009: EUR 129.4 million).

EUR 1,279.4 million in external funds were newly borrowed from the shareholder in the year under review (2009: EUR 1,085.6 million). EUR 1,234.2 million in external funds were

## Financing and funding structure on own account

EUR million

	2010	2009
<b>Operating activities before tax</b>	<b>189.8</b>	<b>129.4</b>
- Operating result before provisions for risk	185.5	130.1
- Non-cash expenses and procurement	4.3	-0.7
<b>External funds</b>	<b>45.2</b>	<b>18.0</b>
- New borrowings	1,279.4	1,085.6
- Repayment	-1,234.2	-1,067.6
<b>Investments in partner countries</b>	<b>-211.4</b>	<b>-224.5</b>
- Disbursements	-868.4	-728.5
- Net cash flow incl. amounts owed from disposal of investments	657.0	504.0
<b>Other changes</b>	<b>-21.0</b>	<b>25.6</b>
<b>Change in liquidity position</b> (Cash, balances with Bundesbank, balances with credit institutions)	<b>2.6</b>	<b>-51.5</b>

repaid as scheduled (2009: EUR 1,067.6 million). Accordingly, net borrowings rose by EUR 27.2 million to EUR 45.2 million compared to the previous year.

In total, given the increased volume of business, liquid funds (including bonds and notes) increased by EUR 2.6 million to EUR 138.4 million at year end 2010 (2009: EUR 135.8 million).

To offset the 2009 loss, EUR 50.4 million were withdrawn from other reserves as per shareholder resolution.

Taking into account the disbursement of EUR 1.3 million from the purpose-tied reserve fund for complementary measures, and the net profit of EUR 269.5 million in the year under review, own funds increased overall by EUR 268.2 million from EUR 1,214.2 million to EUR 1,482.4 million.

The increase in external funds is due to the rise in amounts owed in financing investment activities (+EUR 124.3 million); of this, EUR 80.9 million resulted from foreign currency valuation. Other amounts owed fell by EUR 2.8 million to EUR 28.6 million. This includes in particular EUR 6.6 million in funds from the Bill & Melinda

Gates Foundation and EUR 6.5 million in amounts owed to consortium banks.

## NET WORTH POSITION

Business volume (measured by balance sheet total without trust business) rose by 11.0% to EUR 3,786.9 million compared to the previous year. The equity ratio (proportion of equity capital to business volume) rose from 35.6% to 39.2% due to an increase of refinance volume.

Net investments in partner countries (i.e. after deduction of value adjustments) rose by EUR 438.0 million (+14.3%) to EUR 3,501.8 million (2009: EUR 3,063.8 million). Participating interests also recorded an increase of 22.8% thanks to a reversal of asset impairment, while the volume of lendings rose by 12.7% to EUR 2,890.5 million, of which 6.3% (EUR 161.3 million) related to foreign currency valuation.

Under current fixed assets (EUR 16.5 million), one convertible bond and one bond relating to the restructuring of project enterprise debt are itemised as bonds and notes.

Overall, amounts owed under current assets rose by a total of EUR 2.3 million. This increase related to amounts owed from investment business (EUR +1.5 million) and from disposals (EUR +0.8 million). Other amounts owed from consultancy and other services remained roughly at the previous year's level.

Other assets fell by EUR 75.0 million to EUR 24.7 million. This marked drop is due to a balancing item for accountancy purposes relating to foreign currency valuation, which comprises the valuations at the balance sheet date in accordance with the foreign currency valuation unit as per Article 254 of the German Commercial Code HGB; this came to EUR 0.2 million at 2010 year end (2009: EUR 84.6 million).

The bonds and notes item remained virtually unchanged at EUR 10.4 million (2009: EUR 11.0 million). A Lehman Brothers Holding bond was sold in the year under review. Balances at credit institutions rose slightly from EUR 125.0 million to EUR 128.1 million.

Amounts owed in foreign currency in cash liabilities of USD 2,883.5 million (2009: USD 2,804.8 million) and in current assets of USD 12.0 million (2009: USD 28.4 million) are hedged with corresponding refinance (USD 1,938.9 million/2009: USD 1,742.9 million) or with interest rate/currency swaps (USD 888.4 million/2009: USD 818.9 million).

## FOLLOW-UP REPORT

No significant events of special importance to profitability, financial or net worth position occurred after the end of the financial year.

## RISK REPORT

### Risk policy

DEG's portfolio is a clear reflection of the institution's development mandate in that it is largely made up of countries and addresses with a structurally higher risk.

So 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 DEG's ability to maintain and expand its development capabilities. To meet corporate policy and financial goals both now and in the future, new and existing business is subject to credit rating and corporate policy rating, both periodically and as occasion arises. Corporate policy rating examines not just profitability aspects, but above all developmental impacts.

To integrate DEG into KfW Bankengruppe's risk management system, corporation-wide instruments (e.g. rating methods) and processes were implemented which permit appropriate risk measurement. Furthermore, DEG has committed itself to applying the standards of the Bank Supervision Act, e.g. Minimum Requirements for Risk Management (MaRisk), and to complying with these in its business operations.

### Organisation of risk management

DEG's approach to risk policy is determined by its annually updated risk strategy and by applied risk management methods and processes which are subject to ongoing development.

DEG has an in-house risk manual that is regularly updated. This set of rules is designed to ensure that any risks arising from DEG's business activities are dealt with consistently, both in terms of risk policy and of process. The overriding principle is: "same risk – same rules". Comprehensive and timely monitoring of risks allows them to be detected early and managed.

The risk management process comprises the following activities designed to ensure that risks are systematically dealt with at DEG:

- risk identification and measurement,
- risk analysis and control, and
- risk monitoring.

Risk identification involves the systematic recording of significant risks or areas of risk within DEG, especially address non-payment risks including country risks, as well as possible overlaps with other types of risk. The risks that arise result mainly from DEG's project finance business.

In response to the increased counterparty risks caused by the crisis in the world economy and the financial markets, DEG introduced close coordination and monitoring of disbursement processes. These procedures were maintained in 2010.

Risk analysis deals with the aggregation of all types of risks occurring within DEG. The object of risk control is actively to influence the risks uncovered by risk identification and analysis.

Risk monitoring and risk management are designed to ensure that DEG's actual risk position remains within the limits laid down by the Board of Management in its risk strategy and approved by the Supervisory Board.

As the result of a project aimed at reviewing the way risk management was organised at DEG, and with a view to further centralising risk management functions within the institution, a number of areas of responsibility were separated out from the Planning and Controlling Department as of 1 November 2010 and transferred to the new Risk Controlling Department.

Monitoring of credit risks, market price risks, counterparty risks in the financial investment and derivatives business, and country risks is carried out by the Risk Controlling Department using applied systems of limits. Address and country limits based on equity capital determine DEG's scope for action in relation to risk strategy; this is additionally embedded within limit structures that apply across the corporation. Occasional passive breaches of the limits in 2010 arose solely because some countries or borrowers had been downgraded.

Treasury Department is responsible for ensuring compliance with liquidity risk limits. The calculation of the liquidity

ratio and a review of compliance with the limits are carried out monthly by Risk Controlling.

A Risk Management Committee (RMC) was newly set up in October 2010 and meets monthly to discuss issues relating to methods of risk management employed at DEG. The body's remit includes deliberating and taking decisions on the following matters: risk strategy, risk capacity/stress tests, methods of risk control in relation to all types of risk, new products, and risk development in the portfolio. The RMC is empowered to make decisions in all matters that do not require approval by the Supervisory board or the shareholder, do not have a fundamental impact on risk strategy, and do not involve substantial changes to risk management. In addition to its decision-making function, the RMC provides a forum for information and discussion relating to all areas of DEG's risk management listed above. The RMC includes representatives of the Board of Management, the heads of the Regions, Sectors, Portfolio Management and Finance/Controlling divisions as well as the department heads of Credit Review, Planning and Controlling, Risk Controlling and Corporate Strategy/Communications. Additional members of staff may be co-opted on a case-by-case basis.

In distinction to the newly established RMC, reports on market price, counterparty and liquidity limits and excesses are made at least once a month to the "Asset/Liability Committee" (ALC). This body discusses the short and medium term financial position, based on DEG's positioning and taking current market developments into account. As critical elements of reporting, compliance with limits and liquidity status are updated daily by Risk Controlling or Treasury respectively, and made available to all those responsible. As well as performing an ongoing analysis of market influences (mainly interest rate developments and exchange rate movements) Risk Controlling verifies that treasury transactions with market partners are on market terms. If anomalies occur, or where limits have been breached, the Board of Management is immediately notified. The Auditing Committee and the Supervisory Board receive regular updates on DEG's current risk position.

As an agency operating independently of this process, Internal Audit, which is outsourced to an external auditing firm, reviews the adequacy and effectiveness of risk management and risk controlling and regularly reports the results of its reviews, its recommendations and assessments to the Board of Management.

### Risk capacity

DEG's project portfolio is mainly made up of loans and equity participations for the purpose of financing investments by private enterprises in developing and emerging market countries. In view of this special risk position, DEG maintains a comparatively high equity base. Earnings are ploughed back, allowing development activities to be expanded. To assess the overall risk situation, a calculation of risk capacity is carried out to determine capital requirements, and these are set against the capital available. The capital required is calculated in line with Germany's Solvency Regulation (SolvV) and spread across the three main risk types that apply to DEG. As per 31 December 2010, these are: address non-payment risk (88%), market price risk (7%), and operational risk (5%). The credit line pledged by KfW ensures adequate liquidity reserves.

A fundamentally revamped method of measuring address non-payment risk for risk capacity purposes was introduced as of 1 January 2010. Up to 31 December 2009, DEG had opted to use the Control and Risk Self-Assessment (CRSA) approach based on the Basel II framework to establish the capital requirement for address non-payment risk. All finance business items were given the highest risk rating of 150%. These risk-weighted assets were allotted an 8% capital ratio. Since the 1 January 2010 DEG has been calculating the capital requirement for address non-payment risks by using a simple credit portfolio model (Internal Rating Based Approach (IRBA) formulas as per SolvV) based on the risk inherent in each individual business. The level of capital requirement in each case depends on the individual ratings of the project enterprises and on product-related loss ratios. Compared to the previous method, this method makes the calculation of capital requirements more sensi-

tive to risk while still being based on a formula defined under supervisory regulations (IRBA-Model after Gordy incl. granularity adjustment).

Market price risks are monitored based on the German Federal Financial Supervisory Authority BaFin's standard interest rate shock designed to measure interest rate risks. The predicted yield curve shift is simulated with +130 and -190 basis points respectively. For operational risks, individual types of earnings in defined fields of business are weighted with special risk factors as required by the supervisory authority in the standard approach under Basel II rules.

These risks are quantified and the capital commitment established using the standard approach under Basel II rules and the Solvency Regulation (SolvV). A KfW project launched in 2010 is currently reviewing operational risks (OpRisk) and Business Continuity Management (BCM); the aim is to create an integrative approach in order to benefit from skills and process-related synergies. The project is due to be completed in 2011.

Paid-up share capital and reserves have been defined as available capital (risk coverage) for the risks identified as significant. Supplementary funds or tier 3 capital are not available.

This approach ensures adequate capital reserves while also taking account of DEG's specific portfolio mix, which is characterised by extensive involvement in high-risk countries.

The method used to determine risk capacity is due to be further developed in 2011, when the results of a corporate project designed to refine group risk management will be implemented.

### Stress tests

DEG defines stress tests as sensitivity or scenario analyses in which risk factors are exposed to very improbable but plausible changes and shocks, with the aim of assessing their impact on risk capacity. Stress tests are applied to

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address risks, market price risks, liquidity risks and operational risks and are carried out quarterly.

DEG's stress test approach was revised at the end of 2009 and a new approach introduced as of 1 January 2010. The refinement of the existing method applies to the measurement of address non-payment risks and country risks. Essentially, the following elements were further developed: the selection of, and setting of parameters for, stress tests; the calculation of risk capacity under stress conditions and of the capital requirements respectively; the merging of results from various stress test scenarios to create a "consolidated" stress test result; and the consideration of this result in assessing risk capacity.

Calculations for certain scenarios are carried out every quarter, for example "general" stress tests during which the ratings for all project enterprises are reduced; or scenarios based on historical events, which have been derived from the way historical financial crises developed. Depending on the situation, these standard scenarios are supplemented by hypothetical scenarios which might be derived, e.g. from early warning indicators, or take current developments in the global financial markets into account. The programme of stress tests is rounded off with a reverse stress test. Possible risk concentrations in DEG's portfolio are also assessed during the stress tests. Concentrations of risk may occur in relation to borrowers, borrower units, industries, individual countries and groups of countries.

For each stress scenario, the capital requirements are calculated, taking the stress scenario itself into account. In the case of address non-payment risks, the calculation of capital requirements is carried out based on the IRBA credit portfolio model. The stress tests also provide a figure for the level of additional provision for risk triggered by the stress scenarios.

As well as the revised stress tests for address non-payment risks, stress tests for liquidity risks were also included in the new approach. Here, DEG's unusual situation needs to be taken into account. The refinance pledge on the part of KfW, taken in combination with KfW's special position

in the capital markets, means that the stress tests can be confined to just some aspects of liquidity management. The stress test calculates the negative impact on DEG's interest income of a sudden rise in refinance surcharges caused by a lack of liquidity in the global financial markets.

For market price risks, the previous approach has been maintained. As in the past, DEG regards BaFin's standard interest rate shock (shift of yield curve by +130 and -190 basis points respectively), which is used in its daily risk measurement, as a stress test, so no special stress tests are carried out for market price risk.

For operational risks, loss scenarios are calculated and integrated into the economic capacity calculation.

The results from the stress scenarios are aggregated based on economically plausible combinations of individual scenarios. To calculate risk capacity, the results of the stress tests are set against the capital available for risk coverage in order to establish the remaining capital resources.

Given the size of DEG, the new approach, which has now been implemented, represents a sensible refinement of the existing stress tests, tailored to DEG's portfolio. The stress test categories listed in MaRisk and by CEBS (Committee of European Banking Supervisors) are covered.

Stress test results are used quarterly to assess risk capacity at the reporting date and taken into account in medium to long-term planning.

The Board of Management and the Supervisory Board are promptly notified about DEG's overall risk situation and risk capacity in the quarterly report. The analysis of risk capacity under stress conditions has shown that the risks taken on by DEG were tenable at all times, both on the effective date of 31 December 2010 and throughout the year.

The stress test methodology is likely to be further developed in 2011 when the results of a corporate project designed to refine group risk management are implemented.

## Portfolio on own account by region and sector

(commitment obligation as of 31 Dec. 2010)

	Africa	Asia	Europe	Latin America	Total	Previous year 31 Dec. 2009
Financial institutions	7.4%	11.4%	13.4%	8.5%	40.7%	41.5%
Manufacturing	2.8%	13.4%	6.6%	5.4%	28.2%	28.4%
Transport, telecommunications, infrastructure	3.0%	3.0%	0.9%	2.1%	9.0%	8.5%
Other services, trade, tourism	1.5%	1.2%	5.2%	2.1%	10.0%	9.4%
Energy and water supply.	1.3%	2.4%	0.8%	3.6%	8.1%	7.0%
Agriculture, forestry, fisheries	1.5%	0.9%	0.8%	0.4%	3.6%	4.6%
Mining, non-metallic minerals	0.1%	0.3%	0.0%	0.0%	0.4%	0.6%
<b>Total</b>	<b>17.6%</b>	<b>32.6%</b>	<b>27.7%</b>	<b>22.1%</b>	<b>100.0%</b>	
Prev. year, 31 Dec. 2009	17.2%	35.0%	28.0%	19.8%		100%

### Types of risk

The following paragraphs examine DEG's business activities from the point of view of various types of risk.

#### Address non-payment risks

DEG defines address non-payment risk as the risk of failure, in part or in full, to perform contractually agreed obligations. So these are address non-payment risks in the finance business and counterparty risks in the financial investment and derivatives business. In the finance business, a distinction is drawn between project and country risks, for which separate assessments are carried out and limits set. As a rule, the participating interests acquired by DEG are to be understood as replacing a loan with equity. That is why the risk of losses arising from providing equity capital to third parties is accounted for under address non-payment risks of the finance business rather than as shareholder risk.

As the breakdown of the commitment obligation by region (viewed by risk country) and by sectors shows, DEG's risk policy positioning necessitates certain portfolio priorities. For instance, looking at sectors, we find concentrations

in the financial and manufacturing industries, while the regional concentrations are to be found in Europe and Asia. In the "manufacturing industry" sector, the portfolio is spread across 20 industries and has a high level of diversification. From the point of view of risk, a concentration in the financial industry is acceptable because, with the help of banks, leasing companies and funds, DEG is indirectly fulfilling its development policy/promotional mandate in the real economy, where the financial sector operates as an intermediary in providing capital, especially to small and medium-sized enterprises, which generally have difficulty in gaining access to the capital markets. There are no major changes to portfolio mix compared to the previous year, the main one being that the level of involvement in financial institutions in Europe has fallen.

Address non-payment risks in the lending business are contained by a system of limits based on country rating and a credit rating. On the one hand, this ensures a degree of diversification in the project portfolio as a whole, depending on the respective country risks, while on the other hand, it places limits commensurate with the risk on individual lending commitments.

## Net commitment portfolio on own account by risk classes

Country or credit risk classes on the M scale	Default risk	Commitment obligation as at 31 Dec. 2010			
		Countries		Projects	
		EUR million	Per cent	EUR million	Per cent
M1 to M8	Investment Grade	2,451.1	47%	383.6	7%
M9 to M15	Speculative Grade	2,093.3	41%	3,783.9	74%
M16 to M18	Close supervision	602.4	12%	717.2	14%
M19 and M20	Default	-	-	262.1	5%
Total		5,146.8	100%	5,146.8	100%

Since 2009 DEG has also been integrated into KfW Bankengruppe's limits system (limits for countries, individual addresses and industries). Over the year, acute risks in countries and sectors are additionally limited based on risk barriers prescribed by the group; these use a traffic-light system to monitor and control transactions in the markets affected.

As well as its own in-house rating methods, DEG also uses group-wide credit ratings for banks and corporates. These rating methods meet the criteria of the German Solvency Regulation. Venture-capital and investment companies are assessed using DEG's own rating for funds.

The loan portfolio is monitored every month for interest or redemption payments in arrears for more than 90 days. In addition, the loan portfolio is analysed and monitored for arrears of between 30 and 90 days to extrapolate possible early warning indicators. Non-performing obligations as of 31 December 2010 amounted to EUR 284 million (2009: 325 EUR million), with arrears of over 90 days and in excess of EUR 10,000 coming to EUR 39 million (2009: EUR 38 million). As a proportion of cash obligations, the non-performing obligations amount to 7.1% (2009: 8.8%).

Because DEG's business model is shaped by development policy, its portfolio mix – as regards country and credit risk classes – displays a concentration of medium and high default risk, which is to be expected.

In addition to ongoing risk reporting and monitoring, a comprehensive quarterly portfolio analysis is undertaken as part of regular portfolio management. If problems with an involvement are spotted in the course of portfolio handling, it is subjected to close supervision involving special measures. If certain criteria apply (including serious performance impairments, enforcement measures, or the well-founded suspicion of criminal conduct on the part of project partners), it is transferred to the special department for problem management, regardless of type and level of involvement.

Counterparty risks in financial investments and derivatives transactions are limited in line with credit rating classes based on external ratings. Derivates are used to hedge currency risks and control interest rate risks in the asset book. There is no trading in the sense of items posted in the trading book. Money market and securities trading may be engaged in only for the purpose of investing funds not required for immediate use and only with addresses with a minimum rating. Commercial banks must achieve an international A rating, other partners (e.g. insurance companies) require an AAA rating.

Apart from occasional passive breaches, the limits defined for both individual projects and countries and at portfolio level were observed. Any such passive breaches (due to ratings being downgraded or movements in the currency exchange rate) were immediately notified and analysed.

On that basis, appropriate policy options were devised and measures implemented.

### **The new risk provisioning policy and its effects on address risk management**

The borrowers' ability to service their loans and the intrinsic value of all participating interests are regularly monitored by DEG. To take account of the address risk, DEG undertakes risk provisioning for both project and country risks. During the 2010 financial year, DEG made an adjustment to its risk provisioning methods.

The change in method made provision for risk more transparent and comprehensible. The processes are in keeping with those commonly employed by banks as well as with the methods in use by KfW Bankengruppe. Moreover, the change ensures harmonisation of the assessment methods based on national and international financial reporting standards. In the loans business, DEG now begins by deciding, based on "trigger events", whether risk provisioning is necessary for a given project. As soon as such an event occurs, the level of project risk provisioning is estimated, based on the present value of the repayments expected on the loan in question.

Even in previous financial years, when risk provisioning was assessed using the method provided by German commercial law, trigger events applied by analogy, and there was an implicit examination of expected repayments in terms of net present value. So the change of method has no effect on the level of individual value adjustments in the loans business.

As before, provision is made for country risks in the loans portfolio on a quarterly basis, taking in-house corporate country ratings into account

In the participating interests business, provision for project risk is determined at least semi-annually. If market prices are available, e.g. stock market quotations, DEG will check whether, following a critical review of the assumptions underlying the valuation and pricing, the stock market price represents an appropriate valuation. If the

participating interest was acquired less than a year earlier, DEG will generally fall back on the purchase price. However, if after acquiring the participating interest, DEG becomes aware of important factors affecting the value which did not enter into the determination of the purchase price, the purchase price is established using the Discounted Cash Flow (DCF) method taking the new findings into account, even during the first year after the participating interest was acquired. If there is a firm offer to purchase the participating interest, the proposed purchase price replaces the enterprise valuation as the basis for assessing the value of the participating interest as per the DCF method. For participating interests, country risks are taken into account as part of the individual assessment by an upward adjustment of the discount factors under the revised method. Project risk provisioning for participating interests is required if the value of the participating interest (fair value) is lower than the cost of acquiring the participation in question.

The adjustment to assessment methods for participating interests was carried out to increase the accuracy of assessments. In particular, estimates by experts were replaced by laying down comprehensive assessment standards. For participating interests, country risks are now taken into account as part of the individual assessment. To avoid factoring in country risks twice, the individual country value adjustments in respect of participating interests (previously carried out separately for country risks) and the reserves for non-disbursed commitments have been written back.

In total the write-back resulting from the change of method in the participating interest field was EUR 26.9 million as at 31 December 2010.

As at 31 December 2010, individual value adjustments to project risks came to EUR 342 million (2009: EUR 450 million).

### **Market price risks**

Market price risks are defined as the risk of losses that may accrue due to a change in the market price of securities,

foreign currencies or derivatives as well as interest rate and currency movements. Market influences in this context are changes in interest rates and currency relations. Appropriate scenario or stop-loss limits have been defined for present value changes or losses. A daily risk calculation is carried out using the latest Reuters data and employing customary calculation methods, both for the scenario simulations based on interest rate shock and variations derived from them, as well as for an ex-post analysis of present value changes (stop-loss limits). The interest rate risk accounts for most of the market price risk.

As applied to DEG's financing business, interest rate risk is defined as the potential loss that accrues because a fixed interest rate agreement for clients is only refinanced or secured at some later date or not at the same level. The aim is to keep the interest rate risk within defined limits. Any remaining interest rate risk due to fixed interest overhangs is limited and continuously monitored. The quantification of this risk is based on a sensitivity approach that determines the present value risk potential using prescribed standard scenarios. The relevant factor here is the yield curve shift based on the regulatory requirements as applied to risk capacity.

For present-value management, interest rate risks are entered into to a limited degree in order to achieve net interest income through maturity transformation. An existing fixed interest overhang, which generally stabilises the net interest result, carries the risk of increased refinancing costs, which cannot be offset by a rise in interest earned. As a result, both the operating result and the present value of DEG's portfolio, which is continuously monitored, are subject to a corresponding risk. These risks are conservatively controlled with derivatives by the Asset/Liability Committee (APS), which meets once a month.

Currency risk is understood to mean the potential for losses due to exchange rate movements. The aim is to minimise, as far as possible, currency risks that may arise in the foreign currency loan portfolio. Currency risks are secured by congruent refinance, currency swaps, futures transactions and

foreign currency options. As with interest rate risks, the risk is measured and limited by means of daily market data, used in ex-post analyses and scenario simulations applied to the portfolio currently being modelled. Existing currency risks are the result of a partial failure to secure margins as well as to incongruent cover, which may occur, e.g. due to disruptions in the flow of loan repayments. In the case of participating interests in foreign currency, the currency risk is only secured in occasional cases where cash flow is predictable. As an annual average, the risk of an ad-hoc exchange rate movement of 10%, as monitored daily across all present value foreign currency positions, excluding participating interests, was approximately EUR 17 million (2009: less than EUR 15 million). The increased risk resulted in part from a higher proportion of the loan portfolio being in USD, combined with the trend in the USD exchange rate, which remained very volatile throughout 2010. To limit the effects of this volatility, DEG has introduced concrete measures (tight control of risk position in relation to limit utilisation), which produced an appreciable reduction of limit utilisation over the year, ensuring that limits (amber traffic light) were not breached due to volatile markets or individual positions in the loans business (e.g. disbursements or fluctuations in individual value adjustments).

#### **Liquidity risk**

Liquidity risk denotes the danger of insolvency. In the context of its business operations, DEG does not regard liquidity risk as a significant risk as defined by MaRisk, since DEG and KfW Bankengruppe have a written agreement whereby KfW Bankengruppe has undertaken to provide DEG with capital market funds and time deposits. DEG counters the risk of any impairment of its solvency by holding liquidity reserves of at least 5% of non-disbursed commitments. As at 31 December 2010, liquidity reserves, mainly in the form of overnight funds and time deposits, came to approximately EUR 128 million (2009: EUR 125 million). With non-disbursed commitments (excluding trust funds) of EUR 1,098 million (2009: EUR 866 million), that amounts to liquidity reserves of 12% (2009: 14%), which is EUR 73 million above the lower limit set in house.

### Operational risks

Operational risks are defined as the danger of direct or indirect losses occurring due to shortcomings or failures of internal processes, personnel or systems, or because of external events. This definition includes legal risks, but excludes strategic risks. Operational risks are measured according to the standard Basel II or SolvV approach.

DEG has implemented the organisational framework for measuring and controlling operational risks and made decisions on staffing for the posts of senior managers for operational risk and operational risk analysts. Senior management is part of the Finance/Controlling back office division, while the analysts are allocated to the front office, back office and staff segments. Risk assessments are used to identify and control operational risks. In addition, an events database listing all cases of loss is maintained and evaluated. At the moment, the process used to measure and manage operational risks is undergoing thorough revision, which includes the general organisational framework. An ongoing KfW Bankengruppe project is reviewing both operational risks (OpRisk) and Business Continuity Management (BCM) to create an integrative approach designed to benefit from technical and process-related synergies. OpRisk management will then be decentralised and carried out in the individual divisions/departments by the respective heads of division/department and an authorised Divisional Coordinator for Operational Risks and Business Continuity Management (DOB). It is expected that a risk assessment based on this fresh approach will be carried out in the spring of 2011 as the new process is implemented.

The strategic risk of failing to meet long-term corporate goals based on underlying business assumptions and forecasts is dealt with by continuously aligning new business and the project portfolio with DEG's corporate policy development mandate, as well as by monitoring market conditions and conditions governing competition. Strategies and financial planning are devised using a systematic multi-year planning process, and the resulting investments and measures are regularly reviewed along with the portfolio mix.

For risks that may arise due to unforeseeable events, appropriate emergency prevention plans and crisis management schemes are in place. DEG has comprehensive insurance cover for insurable risks (e.g. fire or water damage).

Reputational risks are dealt with by carefully selecting, controlling and supervising involvements through the use of the Corporate Policy Project Rating, by performing money laundering checks, maintaining representative offices in key countries, carrying out ongoing training and by an exchange of experiences. In this context, special attention is paid to identifying and controlling any risks associated with the finance business that result from failing to meet environmental and social standards.

Operational risks in the human resources field are dealt with mainly through organisational arrangements and by ensuring that members of staff have the required level of qualification. The careful selection of qualified experts and ongoing training measures guarantee that project quality is assessed with confidence and accuracy. Job descriptions, including specification of tasks and competencies, are defined under MaRisk.

Operational risks in the IT field are much lower by comparison with commercial banks, but still need to be recorded and assessed. An effort is made to keep these risks at an acceptable level by applying the usual standards to IT strategy and operations, and by having regular external reviews. Emergency plans are in place. DEG has a backup computer centre at its disposal.

Legal risks play a comparatively important role for DEG, since its business operations extend across many countries with a variety of different legal systems and ways of applying the law. This affects the way contracts are worded, and the aim is to rule out risks to DEG's legal positions as far as possible by examining the formal and actual legal framework in investment countries. DEG employs its own qualified staff in its legal department, which is involved in contract negotiations at an early stage and brings in external experts both in Germany and from abroad as necessary.

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## The Internal Control System (ICS)

DEG defines its Internal Control System as all the principles, processes and measures introduced into the business by the management which are directed towards:

- securing the effectiveness and profitability of business operations,
- the compliance and reliability of internal and external financial reporting,
- safeguarding proper internal processes,
- asset protection and
- fulfilling any legal requirements that apply to the business.

Drawing on KfW Bankengruppe's ICS framework, DEG has formulated its own framework that describes the aim, structure and components of ICS. These principles establish the quality requirements and measures DEG will apply to implement its goals and identify, assess and reduce risks. ICS design and implementation are the responsibility of the management and/or process owners and DEG senior staff. ICS extends to all business units, including the representative offices, and applies to all corporate functions and processes.

Processes at DEG have been established in accordance with the principles of a separation of functions. Process descriptions and work instructions involve a detailed account of these processes and the way competencies and responsibility are assigned. They are updated in case of change and regularly reviewed.

ICS consists of the internal control system that includes all the regulations designed to control corporate activities, and the internal monitoring system intended to ensure the effectiveness of, and compliance with, these regulations. The implementation of the annual business and risk strategy is regularly monitored in the context of the internal control system, and reports are made to the appropriate bodies.

The internal monitoring system includes measures that are integral to the processes and implemented as checkpoints

within them, and internal monitoring which accompanies the processes. The latter is carried out by DEG's compliance agent within the scope of his or her remit under the law. The agent makes regular reports to the Management Board and the Supervisory Board. ICS is reviewed and assessed independently of the process by Internal Audit.

In the context of a project carried out during the 2010 financial year, and concentrating on the main points, DEG finished documenting its financial reporting processes and analysed the processes to verify whether its control operations are exhaustive. Measures to adjust the processes as necessary were launched in the 2010 financial year. A regular review of the structure of, and compliance with, control activities is due to begin in the 2011 financial year. The Supervisory Board, or the Auditing Committee on the board's behalf, will receive regular reports on ICS and on the results of these reviews.

## OUTLOOK

The 2009 global recession was followed by a rapid economic upturn, mainly sustained by emerging and developing countries, while the economies in the industrial nations were slow to pick up. Their budgets remain under considerable strain due to lower tax revenues, economic stimulus packages and financial sector support measures, and development budgets are likely to be affected.

A slight slow-down of the positive economic trend is considered likely in 2011. However, a second global downturn is not expected. World-wide growth of roughly 3.3% on average is forecast for 2011. Approximately 2% seems realistic for the industrial nations, while around 6% growth is expected in developing countries. In the emerging market countries of Latin America and Asia, growth is increasingly being driven by domestic demand, and accordingly, these countries are recording a strong inflow of private sector capital.

The growth predicted for many of DEG's partner countries, the attendant demand for investment goods and the continuing limited access to long-term finance experienced

by enterprises in developing countries all provide opportunities for DEG to expand its financing business. Uncertainties and risks remain following the global financial and economic crisis. One of several critical factors will be whether the global financial system can be permanently stabilised. Another is the worsening of the political situation in some North African and Middle Eastern partner countries. Although DEG does not expect any significant repercussions at the moment, developments are being closely monitored, and it will support project enterprises in those countries as necessary.

Against this backdrop, DEG plans to expand its promotional activities in the coming years. The applications for finance already received, from which DEG's new business derives, suggest continuing demand. At 2010 year end, they came to approx. EUR 1.5 billion, roughly the same as at the end of the previous year (2009: EUR 1.6 billion). The volume of finance already agreed but not yet contractually finalised was EUR 0.5 billion at year end (2009: EUR 0.4 billion).

For 2011 DEG is working to achieve EUR 1.2 billion in new business. In the medium term, new commitments are predicted to grow by about 6% annually. The project portfolio is scheduled to grow by approx. 7% in 2011 and the following years.

As DEG pursues this moderate growth fuelled by its own resources, there are plans to make further improvements to the quality of its promotion business. In all development regions the evidence shows that SMEs in particular do not have sufficient access to finance. In the coming years as in the past, providing guidance and finance to small and medium-size enterprises will therefore remain an important priority. DEG plans to offer more support to medium-size German enterprises as they do business in developing countries and provide them with finance commensurate with the risk. The services on offer to this group of clients are to be expanded.

Over recent years, the promotion of finance for climate protection has experienced dynamic growth and is being

continued. Energy efficiency and renewables projects will remain priorities in the future.

Venture capital – equity participations and mezzanine finance – is hard to obtain in many partner countries. Under current plans, it will make up 40% of DEG's new business. Entrepreneurial development in Africa, a key priority of German and international development policy, will again be strongly promoted.

DEG plans to extend its cooperative activities with its international partners in the finance business, especially the EDFI group. They allow know-how and financial resources to be packaged and contribute to efficient international development cooperation.

As to how returns may develop: a rise in the level of interest rates and hence higher interest charges are expected over the coming years. If the predicted economic upturn is sustained, DEG expects to be able to generate profits in years to come. They can be expected to achieve a level offset by the one-off items in 2010 – i.e. write-back of risk provisioning due to an improvement in the economic risk situation of many project enterprises, and a change in method.

DEG continues to aim for a pre-tax return on equity of 6% on a three-year average, a challenging goal for a development institution. Due regard must be given to the fact that DEG's financial success is influenced by net provisions for risk, and by its volatile income from participating interests, which is especially dependent on external market conditions.

In addition to sustainably fulfilling its development mandate, risk-conscious management of its project portfolio and cautious cost management will continue to be DEG's main priorities for the future.

# ANNUAL STATEMENTS OF ACCOUNTS 2010

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BALANCE SHEET

PROFIT AND LOSS ACCOUNT

APPENDIX

# BALANCE SHEET AT 31 DECEMBER 2010

WITH PREVIOUS YEAR'S FIGURES FOR COMPARISON

## Assets

	31 Dec. 2010			31 Dec. 2009
	EUR	EUR	EUR	EUR thousand
<b>A. Fixed assets</b>				
I. Intangible assets				
1. Industrial property rights and similar rights and assets, including licences on such rights and assets			346,062	363
II. Tangible assets				
1. Land and buildings		48,495,731		49,178
2. Office equipment		3,598,090		3,927
			52,093,821	53,105
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	611,288,982			497,981
b) Loans to undertakings in which DEG has a participating interest	200,279,196			222,311
c) Other loans	2,690,158,991			2,343,547
		3,501,727,169		3,063,839
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	16,462,626			7,824
b) Other loans	848,210			1,054
		17,310,836		8,878
			3,519,038,005	3,072,717
Total B. (I. + II. + III.)			3,571,477,888	3,126,185
<b>B. Current assets</b>				
I. Debtors and other assets				
1. Amounts owed from investment activities		51,040,931		49,535
– of which amounts owed by undertakings in which DEG has a participating interest: EUR 4,193,002				
2. Amounts owed from disposal of investments		947,298		129
3. Amounts owed from consultancy and other services		99,770		105
4. Other assets		24,722,420		99,680
			76,810,419	149,449
II. Bonds and notes			10,385,055	11,001
III. Cash in hand, balances with Deutsche Bundesbank and with credit institutions			128,127,391	124,955
Total C. (I. + II. + III.)			215,322,865	285,405
<b>C. Prepayments and accrued income</b>			110,820	104
<b>D. Assets held under trust</b>			95,849,839	108,847
<b>Total assets</b>			<b>3,882,761,412</b>	<b>3,520,541</b>

## Liabilities

	31 Dec. 2010			31 Dec. 2009
	EUR	EUR	EUR	EUR thousand
<b>A. Shareholders' equity</b>				
I. Subscribed capital				
1. Subscribed capital			750,000,000	750,000
2. Subscribed capital unpaid			-122,147,630	-122,148
Called up capital			627,852,370	627,852
II. Share premium account				
1. Purpose-tied reserve fund				
as at 1 January	6,560,000			7,560
Transfer from net income for previous year	0			0
Transfer/Withdrawal reserve fund	-1,310,000			-1,000
as at 31 December		5,250,000		6,560
2. Other appropriated surplus				
as at 1 January	630,105,298			609,745
Transfer from net income for previous year	-50,360,000			20,360
as at 31 December		579,745,298		630,105
			584,995,298	1,264,517
III. Net profit (prev. yr. Net loss)			269,540,000	-50,360
Total A. (I. + II. + III.)			1,482,387,668	1,214,157
<b>B. Provisions for liabilities and charges</b>				
1. Provisions for pensions and similar obligations		69,985,950		70,098
2. Provisions for taxation		0		2,350
3. Other provisions		25,668,554		31,145
Total B. (1. + 2. + 3.)			95,654,504	103,593
<b>C. Creditors</b>				
1. Amounts owed for financing investment activities to credit institutions		2,179,021,393		2,054,728
2. Trade creditors		1,198,702		1,171
3. Amounts owed to affiliated enterprises		0		6,681
4. Other creditors		28,649,306		31,364
- of which tax payable:		700,858		1,325
- of which social security:		386		1
Total C. (1. + 2. + 3. + 4.)			2,208,869,401	2,093,944
<b>D. Liabilities for assets held under trust</b>			95,849,839	108,847
<b>Total liabilities</b>			<b>3,882,761,412</b>	<b>3,520,541</b>

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

WITH PREVIOUS YEAR'S FIGURES FOR COMPARISON

Income	2010		2009
	EUR	EUR	EUR thousand
1. Income from participating interests		17,421,843	20,817
2. Income from long-term loans		171,631,811	174,705
– of which from affiliated enterprises		2,350,191	6,188
3. Other interest receivable and similar income		9,287,755	19,018
– of which from affiliated enterprises		4,135,168	3,853
4. Income from write-ups and write back of provisions in respect of lending business and participating interests			
a) Write-up of financial fixed assets	164,531,134		91,060
b) Write-up of amounts owed from project activities and from disposal of investments	3,777,738		2,619
c) Write back of provisions in respect of lending business and participating interests	8,479,991		3,781
		176,788,863	97,460
5. Other operating income			
a) from disposal of participating interests		64,073,029	10,852
b) from consultancy services		3,780,140	4,167
c) from trust transactions		800,257	915
d) from other services		8,878,125	7,888
e) other		19,730,367	8,525
		97,261,918	32,347
<b>Total income</b>		<b>472,392,190</b>	<b>344,347</b>
<b>Charges</b>		<b>2010</b>	<b>2009</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR thousand</b>
6. Depreciation, value adjustments and provisions in respect of lending business and participating interests			
a) Depreciation and value adjustments in respect of financial fixed assets	85,561,799		268,687
b) Depreciation and value adjustments in respect of amounts owed from project activities and disposal of investments	3,465,926		5,108
c) Provisions in respect of lending business and participating interests	1,032,000		2,147
		90,059,725	275,942
7. Interest payable and similar charges		17,002,565	36,536
– of which to affiliated enterprises		13,885,614	36,136
8. Staff costs			
a) Wages and salaries		36,804,864	33,338
b) Social security, pensions and other benefits		9,549,100	9,051
– of which pensions		4,752,847	4,600
		46,353,964	42,389
9. Depreciation and adjustments for impairment of tangible assets		2,549,861	3,344
10. Other operating charges		44,225,267	34,567
Total (6.+7.+8.+9.+10.)		200,191,382	392,778
11. Profit on ordinary activities		272,200,808	-48,431
12. Tax on income and profit		3,961,580	2,922
13. Other taxes		9,228	7
14. Profit for the financial year (prev. yr. Loss for the financial year)		268,230,000	-51,360
15. Withdrawal purpose-tied reserve fund		1,310,000	1,000
<b>16. Net profit (prev. yr. Net loss)</b>		<b>269,540,000</b>	<b>-50,360</b>

## NOTES ON THE STATEMENTS OF ANNUAL ACCOUNTS

### Form of Annual Accounts

The Balance Sheet and Profit and Loss Account were laid out in compliance with the provisions for large corporations in Articles 266 and 275 of the German Commercial Code (HGB).

Due to business conducted, the items in the Balance Sheet and the Profit and Loss Account have been supplemented or re-designated in accordance with Article 265 of the German Commercial Code (HGB). Itemisation in the Profit and Loss Account is based on income from participating interests.

The provisions of the German Accounting Law Modernisation Act (BilMoG) were applied from 1 January 2010. In accordance with the transitional arrangements as per Article 67 Section 8 Clause 2 of the Introductory Act to the Commercial Code (EGHGB), the previous year's Balance Sheet and Profit and Loss Account figures were not adjusted, excepting only adjustments arising from the changes in classification of the Balance Sheet.

In accordance with the provisions of the German Commercial Code and clarification by Article 1 of the Ordinance Regulating the Presentation of Accounts by Credit Institutions, DEG is exempt from the provisions on financial statement forms.

### Accounting/valuation criteria

Intangible and tangible assets are activated at original costs and subject to straight-line depreciation across their average useful life.

The choice to activate internally produced intangible assets under current fixed assets under the provisions of Article 248 Paragraph 2 of the German Commercial Code was not exercised.

The choice under Article 67 Section 4 Clause 1 of the Introductory Act to the Commercial Code (EGHGB), according to which lower valuations of assets based on depreciation under Article 254 of the German Commercial Code HGB (old version) may be retained, is exercised for the building in respect of the one-off tax depreciation from the transfer of silent reserves according to Article 6b of German Income Tax Law.

For the 2008 and 2009 financial years, the pooling system provided for in Article 6, Section 2a of German Income Tax Law was used for low-value assets under Office Equipment, where the value was more than EUR 150 and less than EUR 1,000.

From 1 January 2010 low value assets were again dealt with in accordance with Article 6, Section 2 of German Income Tax Law, i.e. where the value is less than EUR 410, they are recorded under other operating charges.

Financial fixed assets are recognised at original cost or at fair value if lower.

To take account of address risk, DEG carries out risk provisioning for both project and country risks. The value adjustments are set off in the respective asset items. In the 2010 financial year, DEG made an adjustment to its methods of risk provisioning which has increased the accuracy of the assessments and enhanced the transparency of the way provision is made for risk, making it more comprehensible.

The value of a participating interest is now generally determined using the Discounted Cash Flow (DCF) method. Where market prices, e.g. stock market quotations, are available, DEG will verify whether, following a critical review of the assumptions underlying the valuation and pricing, the stock market price represents an appropriate valuation. If the participating interest was acquired less than a year earlier, DEG will generally fall back on the purchase price. However, if after acquiring the participating interest, DEG becomes aware of important factors affecting the value which did not enter into the determination of the purchase price, the DCF method is used to determine the purchase price, taking the new findings into account. This applies even during the first year after the participating interest was acquired. If a firm offer has been made to purchase the participating interest, the proposed purchase price replaces the enterprise value as the basis for assessing the value of the participating interest as per the DCF method. For participating interests, country risks are taken into account as part of the individual assessment by an upward adjustment of the discount factors under the revised method. In total, the change to the method in respect of participating interests has resulted in a write-back of EUR 26.9 million.

In the loans business, trigger events are now used to make an initial assessment of whether risk provisioning is basically required. The level of project risk provisioning is then estimated based on the present value of future repayments expected on the loan in question. This change in method has had no impact on the level of individual value adjustments. Provision for country risk in the loans portfolio is still carried out by taking the corporate country rating into account.

Amounts owed and other assets are recognised at their nominal value. Actual default risks are catered for by value adjustments.

Assets and debts that are exempt from creditor access and serve only to settle debts from pension liabilities under the deferred compensation scheme were offset against those debts in the sum of EUR 0.5 million as at balance sheet date as provided for by Article 246 Section 2 Clause 2 of the German Commercial Code.

Bonds and notes under current assets are recognised at original cost, applying the strict lowest value principle and observing the value appreciation requirement.

Provisions for pensions and similar obligations are calculated at their going-concern value using the Mortality Tables 2005 G (Richttafeln 2005 G) published by Dr. Klaus Heubeck.

Other provisions were made at the level of anticipated demand and take all actual risks and liabilities of uncertain cost into account. Any provisions with a residual term of more than one year were discounted in accordance with their residual terms at the average market rate across the past seven years published by Deutsche Bundesbank.

Amounts owed are recorded as liabilities with repayment amounts.

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Deferred tax liabilities were offset against deferred tax assets. The choice not to activate deferred tax liabilities that exceed deferred tax assets was exercised under the provisions of Article 274 Section 1 Clause 2 of the German Commercial Code.

Participating interests purchased with foreign currency are converted into euros at the rate of exchange current at the time of purchase. From 1 January 2010, overnight and time-deposits, balances with banks and a small number of loans not hedged in foreign currency are valued at the mean rate of exchange at the balance sheet date as per Article 256a of the German Commercial Code (BilMoG).

Other assets, debts and pending foreign currency transactions are summarised in valuation units pursuant to Article 254 of the German Commercial Code. Along with one macro valuation unit for assets, debts and pending transactions in USD, additional micro valuation units were established for the other foreign currencies (HKD, MXN, ZAR, PHP, RUB, PLN, TND, JPY). The foreign currency valuation units are reported in the balance sheet using the gross hedge presentation method.

In accordance with the risk strategy, currency risks are hedged against contrary changes in value in planned foreign currency cash flows from loans, matching currency refinance or pending foreign currency transactions. For the macro valuation unit in USD, all on-balance-sheet activities in USD (lending/deposit activities) are considered jointly; the resulting (net) currency risk remaining is hedged with appropriate derivatives transactions. For the micro valuation units, the currency risks resulting from individual basic transactions are hedged with individual hedging instruments. Currency risks are further limited by currency. It can therefore be assumed that the hedging relationship will be effective.

The valuation units comprise basic transactions in the form of loans in foreign currency with a book value of EUR 2,116.1 million, bonds and notes under current fixed assets of EUR 15.7 million and foreign currency refinance (borrowers' notes and overnight loans) of EUR 1,312.3 million. The level of remaining (net) currency risks that required hedging was EUR 819.5 million as at 31 December 2010. This net position was hedged with off-balance sheet futures transactions (interest rate swaps and forward exchange deals) in the sum of EUR 671.5 million.

The market value of the basic transactions shown in these foreign currency valuation units was EUR 0.2 million at balance sheet date. Hedging transactions with a positive market value of EUR 9.7 million as at balance sheet date are used to hedge the currency risk. The market values were determined using the dollar-offset method.

For derivatives, which are used in actively controlling interest rate risks, no provision is made for contingent losses where the market value is negative. This is due to the interest surplus from interest-bearing transactions. Derivatives transactions that neither enter into the foreign currency valuation unit nor serve to control interest rate risk are valued according to the imparity principle at the balance sheet date. In pursuance of Article 249 Section 1 Clause 1 of the German Commercial Code, this results in provision for contingent losses of EUR 5.5 million. Accrued interest is recognised for all derivatives.

## Movements in fixed asset balances

	Original costs				
	Balance carried forward to 1 Jan. 2010	Additions 2010	Book transfers 2010	Disposals 2010	As of 31 Dec. 2010
<b>I. Intangible assets</b>					
1. Purchased industrial property rights and similar rights and assets, including licences on such rights and assets	3,862,285	177,701	-	62,658	3,977,328
<b>II. Tangible and intangible assets</b>					
1. Land and buildings	51,848,381	567,790	-	-	52,416,171
2. Office equipment	6,601,832	819,558	-	625,914	6,795,476
Total (I. + II.)	62,312,498	1,565,049	0	688,572	63,188,975
<b>III. Financial fixed assets</b>					
1. Investments in partner countries					
a) Participating interests	657,968,916	110,785,040	23,559,559	63,218,045	729,095,470
b) Loans to undertakings in which DEG has a participating interest	250,699,191	46,467,534	-35,910,846	41,810,626	219,445,253
c) Other loans	2,728,197,822	1,113,361,649	2,562,320	837,247,848	3,006,873,943
Total 1. (a + b + c)	3,636,865,929	1,270,614,223	-9,788,967	942,276,519	3,955,414,666
2. Other financial fixed assets					
a) Bonds and notes under current fixed assets	7,704,575	1,573,479	9,788,967	2,871,599	16,195,422
b) Other loans	1,054,213	118,269	-	324,272	848,210
	8,758,788	1,691,748	9,788,967	3,195,871	17,043,632
Total III. (1. + 2.)	3,645,624,717	1,272,305,971	0	945,472,390	3,972,458,298
<b>Total (I. + II. + III.)</b>	<b>3,707,937,215</b>	<b>1,273,871,020</b>	<b>0</b>	<b>946,160,962</b>	<b>4,035,647,273</b>

## NOTES ON ASSETS

## Fixed assets

For details, please cf. the table "Movements in fixed asset balances".

## Tangible assets

For 2010, depreciation came to EUR 2.4 million in total (previous year: EUR 3.2 million). This comprises depreciation on office furniture and equipment of EUR 1.1 million and on buildings of EUR 1.3 million.

For the 2010 financial year, depreciation on the DEG building in Kämmergasse includes one-off tax depreciation under Article 254 of the German Commercial Code (old version) of EUR 1.0 million from the transfer of silent reserves from the proceeds of the sale of the land and buildings in Belvederestraße as per Article 6b of German Income Tax Law. The 2010 annual result increased by the sum of EUR 29,636 as a result.

(continued)	Value adjustments		Book value	Depreciation
	Write-up 2010	Accumulated depreciation	As of 31 Dec. 2010	2010
<b>I. Intangible assets</b>				
1. Purchased industrial property rights and similar rights and assets, including licences on such rights and assets	-	3,631,266	346,062	194,291
<b>II. Tangible and intangible assets</b>				
1. Land and buildings	-	3,920,440	48,495,731	1,249,950
2. Office equipment	-	3,197,386	3,598,090	1,105,620
Total (I. + II.)	0	10,749,092	52,439,883	2,549,861
<b>III. Financial fixed assets</b>				
1. Investments in partner countries				
a) Participating interests	62,500,585	117,806,488	611,288,982	30,077,743
b) Loans to undertakings in which DEG has a participating interest	8,487,503	19,166,057	200,279,196	1,643,381
c) Other loans	93,930,885	316,714,952	2,690,158,991	53,840,675
Total 1. (a + b + c)	164,918,973	453,687,497	3,501,727,169 <sup>1)</sup>	85,561,799
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	-	-	16,195,422 <sup>2)</sup>	-
b) Other loans	-	-	848,210	-
	0	0	17,043,632	0
Total III. (1. + 2.)	164,918,973	453,687,497	3,518,770,801	85,561,799
<b>Summe (I. + II. + III.)</b>	<b>164,918,973</b>	<b>464,436,589</b>	<b>3,571,210,684</b>	<b>88,111,660</b>

1) Of which EUR 150,683,224 secured by unfunded risk participation

2) Without accrued pro rata interest

## Investments in partner countries

This item shows investments from funds on own account of EUR 3,501.7 million, which are made up of participating interests and loans. Investments from trust funds of EUR 95.8 million are itemised as assets held under trust.

Own-account investments were made in 466 enterprises in 84 countries. These include three enterprises where the investments were partly financed out of German federal trust funds and by other trustee lenders. In the case of 11 enterprises, third parties entered into risk sub-participations in the form of counter-guarantees.

Foreign currency loans to the value of EUR 2,244.0 million are almost wholly hedged by currency swaps and by taking up foreign currency loans.

## Financial fixed assets with a residual maturity term of up to one year

	EUR million
1. Investments in partner countries	
a) Participating interests	-
b) Loans to undertakings in which DEG has a participating interest	26.7
c) Other loans	446.9
2. Other financial fixed assets	
a) Bonds and notes in current fixed assets	0.3
b) Other loans	0.0
<b>Total</b>	<b>473.9</b>

### Bonds and notes in current fixed assets

The item Bonds and notes under current fixed assets (EUR 16.5 million) contains a convertible bond (EUR 0.5 million) and one bond in respect of project enterprise debt restructuring (EUR 15.7 million), plus accrued interest of EUR 0.3 million.

### Amounts owed from investment activities

The EUR 35.6 million in amounts owed comprises largely dividends and interest due (including accrued interest at year end and commitment fees, as well as other amounts owed but not yet payable) and various reimbursement claims. This item also includes pro-rata accrued interest from swap agreements (EUR 15.4 million).

### Amounts owed from disposal of investments

This item shows the purchase money proceeds from the sale or transfer of participating interests and loans as well as amounts owed with respect to these (e.g. interest payable on purchase money proceeds).

### Amounts owed from consultancy and other services

These are reimbursements from trust funds charged to the Federal Ministry for Economic Cooperation and Development (BMZ).

### Other assets

Other assets largely consists of amounts owed by the Tax Office (EUR 17.6 million), amounts owed by consortium partners (EUR 5.6 million) and travel advances (EUR 0.6 million).

## Residual maturity profile of debtors, investments and other assets

EUR million

	Residual maturity				Total
	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	
Amounts owed					
1. from investment activities	51.0	-	-	-	51.0
2. from disposal of investments	1.0	-	-	-	1.0
3. from consultancy and other services	0.1	-	-	-	0.1
4. from other assets	21.1	0.6	2.4	0.6	24.7
<b>Total</b>	<b>73.2</b>	<b>0.6</b>	<b>2.4</b>	<b>0.6</b>	<b>76.8</b>

### Bonds and notes under current assets

The item Bonds and notes under current assets comprises corporate funds not yet invested in enterprises in partner countries and held as temporary investments. The securities itemised in the balance sheet pertain to bonds and debentures worth EUR 10.4 million. Two bonds with a nominal amount of EUR 1.1 million are due to mature in 2011.

### Balances with banks

Balances with banks covers overnight and time deposits of EUR 96.8 million and current account balances of EUR 31.3 million. These include corporate funds temporarily awaiting investment in enterprises in partner countries.

### Assets held under trust

This item includes investments in partner countries from trust funds in the form of participating interests of EUR 17.8 million, loans of EUR 68.1 million and additional trust funds from BMZ of EUR 4.5 million, as well as trust funds of EUR 2.5 million from the American development agency USAID and amounts owed on a trust basis of EUR 2.9 million.

EUR 57.9 million of lending is accounted for by the "Federal Republic of Germany's Lending Programme for Business Start-Ups to Promote Start-ups of Small and Medium-sized Enterprises by Natural Persons in Developing Countries", based on special joint lending funds with partner countries or institutions.

### Deferred tax assets

There are taxable temporary differences that result in deferred tax liabilities of EUR 2,912. These are offset by deductible temporary differences, especially from risk provisioning and amounts owed from the investment business. These are not recognised in the balance sheet. The choice to refrain from taking the excess into consideration was exercised.

The deferred tax liabilities were assessed based on an overall tax rate of 32.45%.

### NOTES ON LIABILITIES

#### Subscribed capital/Called up capital

Due to the changes introduced in the German Accounting Law Modernisation Act BilMoG in respect of the duty to deduct unpaid subscribed capital (Article 272 Section 1 Clause 3 of the German Commercial Code), Called up capital comes to EUR 627.9 million in total. The previous year's figure was adjusted in line with the changes to the classification of the balance sheet.

Sole Shareholder is KfW, Frankfurt am Main.

As a subsidiary of KfW, Frankfurt am Main, DEG is included in the consolidated accounts. These, along with the Management Report, can be obtained from KfW.

As a general rule under DEG's Articles of Association, profits are not distributed. Therefore, the limitation of profit distribution provided for by Article 268 Section 8 of the German Commercial Code for possible sums from the activation of internally produced intangible assets under current assets or the activation of deferred tax does not apply.

#### Purpose-tied reserve fund for complementary measures

Complementary measures are designed to enhance the developmental impacts of existing DEG finance projects and facilitate new ones. They include in particular: project-related training and qualification measures, complementary environmental and social measures, pre-investment studies, specific consultancy measures, and the assignment of external experts.

In the 2010 financial year, the sum of EUR 1.3 million was transferred from existing reserves for such measures. After transfer to reserves, the funds are appropriated for a term of up to five years.

#### Provisions for pensions and similar obligations

Because of the change in valuation due to the transition from the German Commercial Code (old version) to the provisions of the German Accounting Law Modernisation Act BilMoG, a potential write-back (debit balance) of EUR 4.6 million arose at the point of the change-over from 31 December 2009 to 1 January 2010 which was no longer present on 31 December 2010.

DEG exercised its right to choose to retain the higher valuation in accordance with Article 67 Section 1 Clause 2 of the Introductory Act to the Commercial Code (EGHGB), since actuarial evidence showed that a transfer in the amount of the potential write-back will be required by 31 December 2024 at the latest.

In accordance with Article 253 Section 2 clause 2, provisions were discounted across the board at the average market interest rate for the past seven years, as published by Deutsche Bundesbank in October 2010, which results from an assumed residual maturity of 15 years. The interest rate was 5.16%, compared to the previous year's 4.5%. A rise in annual salaries of 3% and a pension rise of 2% or 1% respectively was assumed, depending on remuneration or pension scheme.

## Other provisions

Other provisions largely cater for risks in respect of project finance for sureties and guarantees of EUR 5.3 million. In addition, there are provisions for derivative agreements that neither enter into the foreign currency valuation units nor are used to control interest rate risks; these take the form of a provision for contingent losses (EUR 5.5 million), for variable remuneration (EUR 4.6 million) and for savings on interest for future finance in ACP countries (EUR 2.0 million).

## Amounts owed for financing investment activities to credit institutions

Amounts owed here refers primarily to loans against borrowers' notes in the amount of EUR 1,971.2 million placed with the Shareholder KfW Bankengruppe (previous year: EUR 1,903.7 million).

## Other creditors

Other creditors includes specifically EUR 6.5 million from liabilities in respect of consortium partners and project enterprises, EUR 6.6 million in respect of Bill & Melinda Gates Foundation funds, EUR 5.7 million from funds held in trust and EUR 2.9 million in net cash for Technical Assistance measures in South-Eastern Europe.

## Residual maturity profile of amounts owed to creditors

EUR million

	Residual maturity				Total
	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	
1. For financing investment activities					
a) to credit institutions	273.7	128.3	1,187.7	589.3	2,179.0*
b) to other creditors	-	-	-	-	-
2. To trade creditors	1.2	-	-	-	1.2
3. Amounts owed to affiliated enterprises	-	-	-	-	-
3. To other creditors	14.9	2.5	6.6	4.7	28.7
<b>Total</b>	<b>289.8</b>	<b>130.8</b>	<b>1,194.3</b>	<b>594.0</b>	<b>2,208.9</b>

\*Of which EUR 2,166.6 million (previous year: EUR 2,038.5 million) to the Shareholder

## Liabilities for assets held under trust

The following were made available to DEG on a trust basis for the purpose of financing investments in partner countries and for business start-up loans: EUR 88.5 million from BMZ, a further EUR 4.5 million for business start-up loans in Afghanistan, EUR 2.5 million from the US development agency USAID, and EUR 0.3 million from the European Union (EU).

## Deferred tax liabilities

Since these were balanced out against deferred tax assets, they are not shown.

## NOTES ON INCOME

### Income from participating interests and loans

Income from participating interests and from loans in partner countries is largely made up of dividends, interest on loans and related hedging transactions, commitment fees and commissions on loans. Break-down by region (excluding the swap result) is as follows:

	2010 EUR million	2009 EUR million
Africa	35.4	29.7
America	45.8	42.1
Asia	69.8	75.0
Europe	35.4	39.5
<b>Total</b>	<b>186.4</b>	<b>186.3</b>

### Other interest receivable and similar income

For the most part, this item includes income from derivatives transactions (EUR 6.9 million), which is made up of earnings from interest rate options (EUR 3.9 million) and derivatives sales (EUR 2.8 million) from sureties and guarantees (EUR 1.5 million) and from money market funds and time deposits (EUR 0.3 million).

### Income from write-ups and write-back of provisions in respect of lending business and participating interests

The income is made up of project and country write-ups as well as write-backs of redundant value adjustments and provisions for project and country risks. It includes a one-off item of EUR 26.9 million from changes to risk provisioning in respect of participating interests.

It also includes out-of-period income from the write-back of provisions in respect of guarantees of EUR 1.7 million.

### Other operating income

This item includes in particular income from the disposal of participating interests (EUR 64.1 million), income from other services (EUR 8.9 million), and proceeds from the disposal of notes and bonds (EUR 8.0 million).

Income of EUR 0.8 million resulted from foreign currency valuation as per Article 256a of the German Commercial Code (HGB) where residual maturity is < 1 year.

Out-of-period income resulted from the write-back of EUR 4.9 million in other provisions.

## NOTES ON CHARGES

### Depreciation, value adjustments and provisions in respect of lending business and participating interests

The item Depreciations and value adjustments in respect of financial fixed assets and amounts owed shows provisions for actual and potential risks. The value adjustments cover actual project risks and potential country risks.

### Interest payable and similar charges

Interest and similar charges were incurred largely on loans against borrowers' notes, bank loans and related hedging transactions.

### Staff costs

Wages and salaries increased due to a rise in staff numbers and salary adjustments.

Pensions and other benefits mainly comprises pension payments and contributions to the Pension Association of Publicly Sponsored Companies (Versorgungsverband bundes- und landesgeförderter Unternehmen e.V. – VBLU).

### Other operating charges

This item includes in particular charges for expert consultants and advisors (EUR 13.8 million), for foreign currency valuation as per Article 256a of the German Commercial Code (HGB) where residual maturity is < 1 year (EUR 8.3 million) and travel expenses (EUR 3.9 million).

A charge of EUR 5.5 million relates to provision for contingent losses in respect of the currency risk from other derivatives that may not be subsumed under the macro valuation unit.

### Statement of auditing fees as provided by Article 285 clause 1 No. 17

In the 2010 financial year, the following auditing fees were taken into consideration:

	EUR
Auditing fee	235,000
Other certification services	33,104
Tax consultancy services	1,450
Other services	131,927
<b>Total</b>	<b>401,481</b>

In the statement of auditing fees, write-backs of provisions from 2009 in the sum of EUR 98,868 were offset.

### Taxes on income and profit

Tax charges of EUR 11.8 million in total, comprising tax on profit of EUR 10.4 million and foreign tax charges of EUR 1.4 million, are set against proceeds from the write-back of provisions for tax of EUR 2.4 million for the 2008 financial year and income from tax rebates of EUR 5.5 million for the same year.

### PROFIT FOR THE FINANCIAL YEAR/NET INCOME

The net income for the financial year of EUR 269.5 million exceeds the profit for the financial year by EUR 1.3 million, the sum withdrawn from the purpose-tied reserve fund; as stipulated in the Articles of Association, it may not be distributed.

### NOTES ON DERIVATIVES TRANSACTIONS

In the context of risk management, DEG regularly engages in futures trading and makes use of derivatives products. These instruments are not used for trading purposes in the sense of items posted in the trading book, but are primarily deployed to hedge interest rate and currency risks in the asset book.

The positive market values of derivatives held in the portfolio represent current replacement costs. The positive and negative market values recorded are largely calculated based on in-house models. The main determinants of these models are interest rate ratios and related rates of exchange.

## Derivatives transactions

### Volumes

EUR million

	Nominal values		Positive market values	Negative market values
	31 Dec. 2009	31 Dec. 2010	31 Dec. 2010	31 Dec. 2010
<b>Contracts with interest-rate risks</b>				
Interest-rate swaps	1,037.9	1,401.7	48.2	19.1
Interest-rate options				
Long	-	-	-	-
Short	100.0	143.7	-	2.0
Interest-rate cap and floor agreements	0.0	-	-	-
Other interest-rate derivatives transactions	-	-	-	-
Total interest-rate risks	1,137.9	1,545.4	48.2	21.1
<b>Contracts with currency risks</b>				
Forward foreign exchange transactions, swaps	74.6	166.1	1.1	1.9
Currency and cross-currency interest-rate swaps	818.7	839.9	45.3	22.7
Foreign currency options				
Long	-	-	-	-
Short	-	-	-	-
Other forward supply transactions	-	-	-	-
Total currency risks	893.3	1,005.9	46.4	24.6
<b>Contracts with stock-market risks</b>				
Stock options				
Long	1.9	-	-	-
Short	-	-	-	-
Total stock-market risks	1.9	-	-	-
<b>Total</b>	<b>2,033.1</b>	<b>2,551.3</b>	<b>94.6</b>	<b>45.7</b>

### Counterparties

EUR million

	Nominal values		Positive market values	Negative market values
	31 Dec. 2009	31 Dec. 2010	31 Dec. 2010	31 Dec. 2010
OECD banks	2,033.1	2,551.3	94.6	45.7
Banks outside the OECD	-	-	-	-
Other counterparties	-	-	-	-
Public agencies in the OECD	-	-	-	-
<b>Total</b>	<b>2,033.1</b>	<b>2,551.3</b>	<b>94.6</b>	<b>45.7</b>

### Maturities

Nominal values, EUR million

	Interest-rate risks		Currency risks		Stock-market risks	
	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010
<b>Residual maturities</b>						
Up to 3 months	0.0	0.0	114.0	191.1	-	-
More than 3 months to 1 year	255.4	230.4	177.1	55.1	1.9	-
More than 1 to 5 years	414.6	535.5	236.7	200.3	-	-
More than 5 years	467.9	779.5	365.4	559.4	-	-
<b>Total</b>	<b>1,137.9</b>	<b>1,545.4</b>	<b>893.3</b>	<b>1,005.9</b>	<b>1.9</b>	<b>-</b>

For derivatives with a negative market value, provision for contingent losses of EUR 5.5 million was made as at the balance sheet date.

## MISCELLANEOUS

### Liability/Contingent liabilities

DEG stands surety to the value of EUR 53.0 million for 11 project enterprises as collateral for borrowing.

Project-related provision of EUR 1.6 million was made in respect of the possibility that contingent liabilities may be incurred. Provision of EUR 3.6 million was made for potential country risks.

Given the credit ratings of the project enterprises in question, there is no expectation that any liability/contingent liabilities incurred will go beyond the scope of the provision made for this purpose as at the balance sheet date.

### Other financial obligations

DEG is required to pay a total of EUR 0.1 million annually under tenancy agreements that run until 2015.

A total of EUR 0.2 million is payable in fees on leasing contracts for the remaining term until 2013.

Obligations from undisbursed participating interests and loans amount to EUR 1,097.6 million. In addition, commitments to stand surety in the sum of EUR 24.2 million have been made.

## AVERAGE NUMBER OF STAFF OVER THE YEAR

Staff not covered by regular pay scales and senior executives	282
Staff covered by regular pay scales	149
Number of female staff	216
Number of male staff	215
<b>Total</b>	<b>431</b>

These figures include part-time staff (57) and temporary staff (35), but not the Board of Management, staff on parental leave, apprentices or local staff in foreign countries.

## REMUNERATION OF CORPORATE BODIES

Total charges for the Supervisory Board in the year under review came to EUR 23,941.

Remuneration for the Board of Management for the 2010 financial year came to EUR 1.060,936 in total. This includes the sum of EUR 79,792 for benefits in kind and other payments. Current annual salary components were set at a uniform rate of EUR 327,048 for all members of the Board of Management.

Total pension allowances for former members of the Board of Management and surviving dependents amounted to EUR 770,612 in total. EUR 10,810.636 was set aside for pension provisions for these persons.

## Information on investment holdings as per article 285, no. 11 of the German Commercial Code (HGB)

The following table lists DEG's investment holdings as of 31 December 2010 in accordance with article 285 No. 11 of the German Commercial Code (HGB) from 20%.

	P. No.	Business name and registered office	Currency <sup>1)</sup>	Rate 1.00 EUR = ... CU <sup>2)</sup> (as of 31 Dec. 2010)	DEG holding in per cent	Equity in TCU <sup>3)</sup>	Result in TCU <sup>3)</sup>
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### A. Home

1.	P 4216	PCC-DEG Renewables GmbH Duisburg, Germany	EUR	1.00000	40.00	7,438	-115
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### B. Abroad

#### I. Africa

2.	P 1147	Banque Nationale de Développement Agricole Bamako, Mali	XOF	655.95700	21.43	14,673,751	2,019,012
3.	P 3199	Corporate Leasing Company Egypt Cairo, Egypt	EGP	7.75839	22.20	109,156	23,208
4.	P 4181	Tourism Promotion Services Ltd. Kigali, Rwanda	RWF	791.21000	29.07	6,299,016	-41,315
5.	P 4422	Banyan Tree Growth Capital Port Louis, Mauritius	USD	1.33620	27.00	16,828	-91

#### II. America

6.	P 2782	The SEAF Central and Eastern Europe Growth Fund Washington, USA	USD	1.33620	25.00	10,467	-158
7.	P 4534	Kendall Court Mezzanine (Asia) Bristol Merit Fund L.P., Cayman Islands	USD	1.33620	24.37	14,203	1,567
8.	P 4557	Tolstoi Investimentos S.A. Sao Paulo, Brazil	BRL	2.21800	38.00	69,129	-13,086
9.	P 4580	Acon Latin American Opportunities Fund-A, L.P. Washington, USA	USD	1.33620	40.00	303	-1,444

1) ISO currency code

2) CU currency units in local currency

3) TCU = 1,000 local currency units

Continued on following page →

## APPENDIX

	P. No.	Business name and registered office	Currency <sup>1)</sup>	Rate 1.00 EUR = ... CU <sup>2)</sup> (as of 31 Dec. 2010)	DEG holding in per cent	Equity in TCU <sup>3)</sup>	Result in TCU <sup>3)</sup>
<b>III. Asia</b>							
10.	P 2502	H&Q Philippine Holdings, Inc. Manila, Philippines	PHP	58.33600	50.00	42,042	5,025
11.	P 2787	Benetex Industries Ltd. Dhaka, Bangladesh	BDT	94.32355	28.30	278,214	8,763
12.	P 3283	Langfang Hess Building Materials Machinery, Co. Ltd., Langfang, China	CNY	8.82200	40.00	37,290	4,874
13.	P 3594	Jade Cargo International Co. Ltd. Shenzhen, China	CNY	8.82200	24.00	-671,444	13,209
14.	P 3599	The New Baghlan Sugar Company Ltd. Baghlan-e Sonhati, Afghanistan	AFN	45.76000	30.31	880,160	-12,673
15.	P 3763	HaPe International Ningbo Ltd. Ningbo, China	CNY	8.82200	37.50	77,857	8,523
16.	P 3807	Wanfeng MotorcycleWheel Co. Ltd. Xinchang, China	CNY	8.82200	34.78	519,976	119,684
17.	P 3878	Ace Power Pvt. Ltd. Colombo, Sri Lanka	LKR	148.27800	26.00	4,283,276	1,125,226
18.	P 4518	OJSC Tourism Promotion Services Dushambe, Tadjikistan	TJS	5.88315	21.01	-59	-90
19.	P 4791	PT Avrist Assurance Jakarta, Indonesia	IDR	12.04187	23.00	905,092,000	147,073,000

## IV. Europe

20.	P 2562	TOO Knauf Gips Kaptschagajj GmbH Kapchagai, Kazakhstan	KZT	197.24000	40.00	5,957,699	1,797,831
21.	P 2762	PII TOW Ukrspoon LLC Kiev, Ukraine	EUR	1.00000	22.60	1,104	315
22.	P 3445	Tirana Airport Partners SHPK Rinas, Albania	EUR	1.00000	31.70	33,313	3,246
23.	P 3511	Center-Invest Bank Rostov-on-Don, Russ. Federation	RUB	40.82000	22.45	5,442,300	66,614
24.	P 3665	TOO Isi Gips Inder Inderborski, Kazakhstan	KZT	197.24000	40.00	1,392,651	23,121
25.	P 4095	Emerging Europe Leasing and Finance (EELF) B.V. Amsterdam, Netherlands	EUR	1.00000	25.00	13,401	-79

1) ISO currency code

2) CU currency units in local currency

3) TCU = 1,000 local currency units

## CORPORATE BODIES

### Supervisory Board

**Gudrun Kopp**

Chairwoman  
Parliamentary State Secretary,  
Federal Ministry for Economic  
Cooperation and Development,  
Berlin

**Dr. Norbert Kloppenburg**

First Deputy Chairman  
Member of the Board of Managing  
Directors, KfW, Frankfurt am Main

**Dr. Hans-Jörg Todt**

Second Deputy Chairman  
Managing Director, AKA –  
Ausfuhrkredit-Gesellschaft mbH,  
Frankfurt am Main

**Dr. Peter Ammon**

State Secretary,  
Federal Foreign Office, Berlin

**Eberhard Brandes**

CEO WWF Germany,  
Frankfurt

**Ernst Burgbacher**

Parliamentary State Secretary,  
Federal Ministry of Economics and  
Technology, Berlin

**Arndt G. Kirchhoff**

Managing Partner,  
Kirchhoff Automotive GmbH & Co. KG,  
Attendorn

**Hartmut Koschyk**

Parliamentary State Secretary  
Federal Ministry of Finance, Berlin

**Siegmar Mosdorf**

Parliamentary State Secretary (ret.)  
Partner, CNC – Communications &  
Network Consulting AG, Berlin

**Dr. Ulrich Schröder**

Chairman of the Managing Board,  
KfW, Frankfurt am Main

**Marianne Sivignon-Lecourt**

Director of the Legal Dept./  
General Counsel  
Proparco, Paris  
(as of 24 June 2010)

**Etienne Viard**

Director, Mediterranean &  
Middle East Department  
Agence Française de Développement,  
Paris  
(up to 23 June 2010)

### Board of Management

**Dr. Michael Bornmann**

**Philipp Kreutz**

**Bruno Wenn (Chairman)**

Cologne, 14 February 2011

DEG – Deutsche Investitions- und  
Entwicklungsgesellschaft mbH

Board of Management  
Dr. Bornmann   Kreutz   Wenn

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## AUDITOR'S REPORT

We have audited the Annual Statements of Accounts – consisting of the Balance Sheet, the Profit and Loss Account and Appendix – including the accounting system and the Management Report – of DEG, Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, for the financial year from 1 January to 31 December 2010. The responsibility for keeping the books and records and preparing the Annual Statements of Accounts and the Management Report, in compliance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the Articles of Association, rests with the Company's Board of Management. Our task is to provide an opinion, based on our audit, on the Annual Statements of Accounts, including the accounting system, and on the Management Report.

We conducted our audit of the Annual Statements of Accounts in accordance with Article 317 of the German Commercial Code (HGB) and in compliance with the generally accepted German standards for auditing financial statements established by the Institut der Wirtschaftsprüfer (German Institute of Accountants – IDW). Those standards require that we plan and perform the audit with reasonable assurance of detecting material misstatements and infringements affecting the presentation of the net worth, financial and earnings position in the Annual Statements of Accounts as prepared in accordance with German accounting principles, as well as in the Management Report. The audit procedures adopted take account of information about the Company's business activities and its economic and legal environment as well as possible errors. For the most part,

the effectiveness of the accounting-related internal audit system and evidence supporting the amounts and disclosures in the books and records, the Annual Statements of Accounts and the Management Report, are examined on the basis of spot checks. The audit includes assessing the accounting principles used and significant estimates made by the members of the Company's Board of Management, as well as evaluating the overall presentation of the Annual Statements of Accounts and the Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not given rise to any objections.

In our judgment, based on the audit findings, the Annual Statements of Accounts comply with the statutory regulations and the supplementary provisions in the Articles of Association and give a true and fair view of the net worth, financial and earnings position of the Company in accordance with German accounting principles. The Management Report conforms to the Annual Statements of Accounts, provides a true understanding of the Company's position overall and presents an accurate picture of the opportunities and risks of future development.

Düsseldorf, 15 February 2011

**KPMG AG**  
**Wirtschaftsprüfungsgesellschaft**

Jörg Kügler  
Auditor

Myriam Lehen  
Auditor

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## IMPRINT

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Kämmergasse 22  
50676 Cologne, Germany  
PO Box 10 09 61, 50449 Cologne, Germany  
Phone +49 221 4986-0  
Fax +49 221 4986-1290

info@deginvest.de  
www.deginvest.de

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DEG – Deutsche Investitions- und  
Entwicklungsgesellschaft mbH

Kämmergasse 22  
50676 Cologne, Germany  
Phone +49 221 4986-0  
Fax +49 221 4986-1290  
[info@deginvest.de](mailto:info@deginvest.de)  
[www.deginvest.de](http://www.deginvest.de)

