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NEW GERMANY FUND INC  
Form N-CSR  
March 06, 2008  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number 811-5983

The New Germany Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

345 Park Avenue

New York, NY 10154

(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, including Area Code: (212) 454-7190

Paul Schubert

345 Park Avenue

New York, NY 10154

(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period: 12/31/07

**ITEM 1. REPORT TO STOCKHOLDERS**

**SUMMARY OF GENERAL INFORMATION**

**THE FUND**

The New Germany Fund, Inc. (the "Fund") is a diversified, actively-managed closed-end fund listed on the New York Stock Exchange with the symbol "GF." The Fund seeks long-term capital appreciation primarily through investment in middle-market German equities. It is managed and advised by wholly-owned subsidiaries of the Deutsche Bank Group.

**SHAREHOLDER INFORMATION**

Prices for the Fund's shares are published daily in the New York Stock Exchange Composite Transactions section of newspapers. Net asset value and market price information are published each Monday in *The Wall Street Journal* and each Saturday in *Barron's* and other newspapers in a table called "Closed End Funds". Daily information on the Fund's net asset value is available from NASDAQ (symbol XGFNX). It is also available by calling: 1-800-437-6269 (in the U.S.) or 212-454-6266 (outside of the U.S.). In addition, a schedule of the Fund's largest holdings, dividend data and general shareholder information may be obtained by calling these numbers.

The foregoing information is also available on our Website: [www.newgermanyfund.com](http://www.newgermanyfund.com).

**There are three closed-end funds investing in European equities managed by wholly-owned subsidiaries of the Deutsche Bank Group:**

- The European Equity Fund, Inc.—investing primarily in equity or equity-linked securities of companies domiciled in European countries that utilize the Euro currency.
- The New Germany Fund, Inc.—investing primarily in the middle market German companies and up to 20% elsewhere in Western Europe (with no more than 10% in any single country).
- The Central Europe and Russia Fund, Inc.—investing primarily in Central European and Russian companies.

Please consult your broker for advice on any of the above or call 1-800-437-6269 (in the U.S.) or 212-454-6266 (outside of the U.S.) for shareholder reports.

These funds focus their investments in certain geographical regions, thereby increasing their vulnerability to developments in that region. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes, and market risks. This may result in greater share price volatility.

**The New Germany Fund, Inc.**

**Annual Report**

**December 31, 2007**



**The New Germany  
Fund, Inc.**

**LETTER TO THE SHAREHOLDERS**

Dear Shareholder,

During the final quarter of the year, global equity markets continued to suffer from the negative effects of the subprime crisis in the United States (US). As the markets started to recover from their midsummer corrections, they were once again hit by a significant sell-off in November 2007. Multi-billion dollar write-downs in the banking sector triggered significant losses in the financial sector, and the deepening US housing crisis increased recession fears for the US economy. Important leading indicators such as the purchasing manager indices, continued to deteriorate further, both in Europe and the US. In Germany, the IFO Business Climate Index also continued to weaken, signaling slowing economic growth and the ZEW index, which measures German investors' economic expectations, fell to a 15-year low.<sup>1</sup> Rising inflation and another jump in commodity prices triggered inflation fears. The oil price continued to rise, closing in on the key psychological level of \$100 (USD), which burdened cyclical stocks, such as auto suppliers. Furthermore, the appreciation of the Euro to \$1.49 (USD) at its peak, was an additional burden for German exporters, especially industrials. Small- and mid-cap stocks were hit particularly hard and, in contrast to many large cap stocks, were not able to recover until year end: the large-cap German DAX Index gained 2.6% over the last quarter of 2007, while the mid-cap MDAX Index fell by 4.6%.<sup>2</sup>

For the fiscal year ended December 31, 2007, the New Germany Fund's total return was 25.17% based on net asset value and 25.14% based on share price. During the same period, the total return of the fund's benchmark, the Midcap Market Performance Index, was 22.10%.<sup>3</sup>

During the fourth quarter, the fund established an overweight position in the industrial sector by increasing existing positions, despite trimming holdings in Heidelberger Druckmaschinen and Klöckner & Co.<sup>4</sup> In particular, management increased the fund's position in Q-Cells, the world's second largest producer of solar cells. Starting from scratch in 2001, the company has been among the fastest-growing players within the solar industry, and the stock posted strong performance during the fourth quarter. While we increased the fund's weight in Q-Cells, they remained skeptical about Conergy, Europe's biggest integrator of photovoltaic systems. During the fourth quarter, Conergy issued two profit warnings, the CEO and the CFO left the company, and an emergency capital injection signaled a severe liquidity crunch. Conergy was the poorest performer in the Midcap Market Index universe in the fourth quarter. As a result, the fund's underweight position in the stock helped performance, though overall the fund's overweight position in the industrial sector burdened performance. The fund's overweight position in Sartorius, a leading international laboratory and process technology provider covering the segments of biotechnology and mechatronics, detracted from performance for the quarter. The stock declined after management reduced its targets for 2007, resulting in analysts' downgrades, but we believe that the fundamentals of the business model remain solid.

At the end of the fourth quarter, the New Germany Fund had an overweight position in the financial sector. Overall, the fund's positions in the financial sector had a neutral impact on performance. Having no position in IKB, a German bank that was impacted by the US subprime crisis, helped the fund's performance, while an overweight in IVG Immobilien, a German real estate manager and owner, burdened the quarterly performance. IVG Immobilien's stock suffered from investors' fears about a global economic downturn with negative consequences for office space demand and, hence, for rent levels. Over the course of the

**For additional information about the Fund including performance, dividends, presentations, press releases, daily NAV and shareholder reports, please visit [www.newgermanyfund.com](http://www.newgermanyfund.com)**

**LETTER TO THE SHAREHOLDERS (continued)**

third quarter, the fund had built up a position in AWD, a financial advisory company, based on its attractive valuation and interesting investment case. In December, the Swiss insurance company Swiss Life offered an all cash tender, which valued AWD at a 36% premium to the weighted average share price of the last three months, and the fund sold its position in AWD.

Over the last quarter, the fund kept its overweight in the consumer discretionary sector; underweight positions in Arcandor and Praktiker helped the fund's performance. Both stocks suffered from a weak Christmas shopping quarter and tough fourth quarter comparisons as sales rose strongly in the fourth quarter of 2006 ahead of the VAT increase in 2007. Over the course of the fourth quarter, the fund maintained an overweight in the information technology sector, but stock selection in the sector detracted from the fund's performance. During the fourth quarter, shares of Versatel, an alternative provider of broadband and other telecommunications services to residential and business customers, rose by almost 140%, mainly triggered by takeover speculation. The fund's underweight position in the stock had a negative effect on performance. During the fourth quarter of 2007, the fund increased its underweight in the materials sector despite increasing its position in K+S, the manufacturer and marketer of commercial salt products and fertilizers. K+S contributed positively to fund performance as soaring global potash prices led to massive upgrades in analysts' earnings estimates for 2008. Over the course of 2007, K+S released two profit warnings as its hedging strategy was very costly and burdened profitability, but the underlying trends were so strong that market participants ignored 2007 results and started to take strong price increases and rising earnings for financial year 2008 into consideration. The reasons for the considerable price increases include strong demand for potash products amidst limited supply; the rising importance of renewable raw materials for energy generation, which need potash as a natural fertilizer; and rising crop prices, which enable farmers to pay higher potash prices.

Also noteworthy, the Fund settled the long outstanding litigation as discussed in Note 7 on page 23. The New Germany Fund's discount to net asset value averaged 9.53% for the year ending December 31, 2007, compared with 9.31% for the prior year.

The sources, opinions and forecasts expressed are as of the date of this report. There is no guarantee that the views, opinions and forecasts expressed herein will come to pass. This information is subject to change at any time based on market and other conditions and should not be construed as a recommendation for any specific security. Past performance does not guarantee future results.

<sup>1</sup> The IFO Business Climate Index is a closely watched indicator of German business conditions, based on a monthly survey of about 7,000 companies. It is widely seen as a barometer for economic conditions in the whole of the Eurozone, which is a term used to describe the countries that joined the third stage of EMU and adopted the euro.

<sup>2</sup> DAX is a total rate of return index of 30 selected German blue chips stocks traded on the Frankfurt stock exchange. MDAX is a total rate of return index of 50 mid-cap issues that rank below the DAX.

<sup>3</sup> Midcap Market Performance Index is a total return index that is composed of various MDAX and TecDAX issues, reflecting the performance of the mid-caps across all sectors of the Prime Segment. TecDAX is a total return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Segment beneath the DAX.

Index returns assume reinvested dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

<sup>4</sup> "Overweight" means the fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the fund holds a lower weighting.

Sincerely,

Christian Strenger  
Chairman

Ralf Oberbanscheidt  
Lead Portfolio Manager

Michael G. Clark  
President and Chief  
Executive Officer

**For additional information about the Fund including performance, dividends, presentations, press releases, daily NAV and shareholder reports, please visit [www.newgermanyfund.com](http://www.newgermanyfund.com)**

## **ECONOMIC OUTLOOK**

The outlook for the world economy and equity markets in 2008 has become more clouded as repercussions from the US subprime crisis spread into wider areas of the financial sector, posing the risk of a sharp economic growth deceleration, triggered by credit tightening and deteriorating consumer confidence. Economists and equity strategists have taken a more cautious view and lowered their forecasts, as troubles in the financial sector deepened with the announcement of write-offs and softened the macro-economic indicators. The accelerating trend of wide-spread earnings downgrades by equity analysts and the continued weakness of the US dollar are key risk factors. At the same time, market participants are worried about inflation creeping up, not least on the back of rising food and energy prices, and also raising concerns of stagflation. We believe, however, these negatives will likely be balanced by continued strength in the ever more important emerging-market economies, strong financial health of the industrial sector and equities valuations, which are already pricing in a bearish earnings scenario. Given the increased uncertainty, volatility is likely to remain high and may offer tactical opportunities. Despite the VAT hike in 2007 and the falloff of consumer sentiment, German GDP grew at about a 2.5% pace in 2007, and the labor market continued to strengthen. The European Central Bank (ECB) raised interest rates twice during the course of 2007, ending December at 4.0%. Inflation rose to 2.8%, which is in line with the ECB's definition of price stability.

**FUND HISTORY AS OF DECEMBER 31, 2007**

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment returns and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [www.newgermanyfund.com](http://www.newgermanyfund.com) for the Fund's most recent performance.

**TOTAL RETURNS:**

|                    | For the years ended December 31, |            |            |            |            |
|--------------------|----------------------------------|------------|------------|------------|------------|
|                    | 2007                             | 2006       | 2005       | 2004       | 2003       |
| Net Asset Value(a) | 25.17%                           | 43.94%     | 13.68%     | 24.44%     | 93.07%     |
| Market Value(a)    | 25.14%                           | 44.13%     | 18.94%     | 30.50%     | 102.42%    |
| Benchmark          | 22.10% (1)                       | 42.51% (1) | 14.17% (1) | 23.46% (1) | 78.56% (2) |

(a) Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value. Each figure includes reinvestments of dividend and capital gain distributions, if any, at prices received under the Fund's dividend reinvestment plan. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares trade during the period.

(1) Represents the Midcap Market Performance Index.\*\*\*

(2) Represents an arithmetic composite consisting of 75% MDAX\*/25% NEMAX 50\*\* from 1/1/03–3/31/03 and 100% Midcap Market Performance Index from 4/1/03–12/31/03.

\* MDAX is a total rate of return index of 50 mid-cap issues that rank below the DAX. DAX is the total rate of return index of 30 selected German blue chips stocks traded on the Frankfurt stock exchange.

\*\* NEMAX 50 is comprised of the 50 largest technology issues from the Prime Segment that are ranked below the DAX.

\*\*\* Midcap Market Performance Index is a total return index that is composed of various MDAX and TecDAX\*\*\*\* issues, reflecting the performance of the mid-caps across all sectors of the Prime Segment.

\*\*\*\* TecDAX is a total return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Segment beneath the DAX.

Index returns assume reinvested dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Investments in funds involve risk including the loss of principal.

This Fund is diversified but primarily focuses its investments in Germany, thereby increasing its vulnerability to developments in that country. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes and market risks. This may result in greater share price volatility.

Closed-end funds, unlike open-end funds, are not continuously offered. Shares, once issued, are traded in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

The Fund has elected to not be subject to the statutory calculation, notification and publication requirements of the German Investment Tax Act (Investmentsteuergesetz). As a result, German investors in the Fund may be subject to less favorable lump-sum taxation under German law.

**FUND HISTORY AS OF DECEMBER 31, 2007 (continued)****STATISTICS:**

|                    |                |
|--------------------|----------------|
| Net Assets         | \$ 480,723,638 |
| Shares Outstanding | 24,804,698     |
| NAV Per Share      | \$ 19.38       |

**DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:**

| Record Date | Payable Date | Ordinary Income | LT Capital Gains | Total      |
|-------------|--------------|-----------------|------------------|------------|
| 12/21/07    | 01/10/08     | \$ 0.255        | \$ —             | \$ 0.255** |
| 05/03/07    | 05/15/07     | \$ 0.340        | \$ —             | \$ 0.340   |
| 12/21/06    | 12/28/06     | \$ 0.055        | \$ —             | \$ 0.055   |
| 05/05/06    | 05/15/06     | \$ 0.150        | \$ —             | \$ 0.150   |
| 12/22/05    | 12/30/05     | \$ 0.410        | \$ —             | \$ 0.410   |
| 05/19/05    | 05/27/05     | \$ 0.140        | \$ —             | \$ 0.140   |
| 12/22/04    | 12/31/04     | \$ 0.230        | \$ —             | \$ 0.230   |
| 05/06/04    | 05/14/04     | \$ 0.050        | \$ —             | \$ 0.050   |
| 12/22/03    | 12/31/03     | \$ 0.022        | \$ —             | \$ 0.022   |
| 07/24/03    | 07/30/03     | \$ 0.003        | \$ —             | \$ 0.003   |
| 11/20/00    | 11/29/00     | \$ 0.010        | \$ 1.30          | \$ 1.310   |
| 09/01/00    | 09/15/00     | \$ 0.070        | \$ 0.35          | \$ 0.420   |

**OTHER INFORMATION:**

|                                  |       |
|----------------------------------|-------|
| NYSE Ticker Symbol               | GF    |
| NASDAQ Symbol                    | XGFNX |
| Dividend Reinvestment Plan       | Yes   |
| Voluntary Cash Purchase Program  | Yes   |
| Annual Expense Ratio (12/31/07)* | 1.00% |

\* Represents expense ratio before custody credits. Please see "Financial Highlights" section of this report.

\*\* Although this distribution is payable in 2008, it is taxable in 2007.

Fund statistics and expense ratio are subject to change. Distributions are historical, will fluctuate and are not guaranteed.



**PORTFOLIO BY MARKET SECTOR AS OF DECEMBER 31, 2007 (As a % of Portfolio's Assets)**

**10 LARGEST EQUITY HOLDINGS AS OF DECEMBER 31, 2007 (As a % of Portfolio's Net Assets)**

|     |                 |      |
|-----|-----------------|------|
| 1.  | K + S           | 6.9% |
| 2.  | Fresenius       | 5.6% |
| 3.  | Q-Cells         | 5.3% |
| 4.  | EADS            | 4.7% |
| 5.  | SGL Carbon      | 3.8% |
| 6.  | GEA Group       | 3.7% |
| 7.  | Solarworld      | 3.3% |
| 8.  | IVG Immobilien  | 3.2% |
| 9.  | United Internet | 3.1% |
| 10. | Software        | 3.0% |

Portfolio by Market Sector and 10 Largest Equity Holdings are subject to change and is not indicative of future portfolio composition.

Following the Fund's fiscal first and third quarter-ends, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The forms are available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.



**INTERVIEW WITH THE LEAD PORTFOLIO MANAGER — Ralf Oberbannschmidt**

***Question:*** One of the government's major initiatives over the past few years has been to address German unemployment. Has any progress been made?

***Answer:*** German unemployment fell to 8.4% in December — its lowest level in more than a decade — helped by contributions from stable growth in the economy and positive developments in the business cycle. Despite seeming high by United States (US) standards, the German unemployment rate is calculated differently and also represents a significant improvement over past years, when the rate had stubbornly lingered above 10%. The strong labor market performance should continue to support private consumption, as disposable income should benefit from the favorable trend in employment and wage growth. The recent rise in inflation to more than 3% year-over-year in Germany and still high capacity utilization should lead to an increase in negotiated wages, which we expect to increase in line with inflation in 2008. Despite the trend toward higher wages, we believe Germany continues to defend its market share in the face of fierce global competition. However, with one in five jobs in Germany linked to the export market, a potential slowdown in global demand could hinder the German employment picture.

***Question:*** Concerns of a potential recession in the US are increasingly troubling investors. Is Germany also facing a possible recession and what is the impact on German small- and mid-cap companies?

***Answer:*** The European Central Bank has maintained a bias toward containing inflation, indicating that it is not overly concerned about an economic slowdown. However, sentiment and other indicators have deteriorated, and while Germany and the rest of Euroland may not be facing a recession, we believe a slowdown is ahead and the risks are to the downside. In recent meetings, company managements have told us that they do not see any indications of a slowdown in their business, but we believe their vision may be limited at this point. Particularly with small- and mid-cap companies, uncertain economic times are when it is most important to keep in close contact with company managements. We will be talking regularly with the companies in which the fund invests and watching for any sign of a slowdown (such as an increase in order cancellations), as we continue to investigate not only which sectors are being impacted but also which companies appear best positioned to weather the storm.

***Question:*** In light of market movements over the past six months, how do small- and mid-cap stocks look from a valuation perspective?

***Answer:*** Over the last few months, 2008 earnings expectations for German MDAX companies were unchanged while EPS estimates for TecDAX companies were reduced by 5%. Consequently, the valuation premium of small- and mid-cap stocks compared to large caps almost disappeared. German MDAX companies trade at around 12.8x 2008 estimated earnings while German blue chips are trading at about 12.5x 2008 estimated earnings. However, in light of elevated macro-economic risks, we remain cautious as 2008 estimated earnings may see stronger downgrades for German small- and mid-cap stocks, though there are a number of German small- and mid-cap companies that are global leaders in their sector and thus well-positioned to pass on prices and maintain margins.

**DIRECTORS OF THE FUND**

| <b>Name,<br/>Address and<br/>Age*</b>                          | <b>Principal Occupation(s)<br/>During Past Five Years</b>   | <b>Other Directorships Held by Director</b>  |
|--|---|--|
| John Bult,<br>71 <sup>(1)(2)</sup><br>Class II                 | Chairman, PaineWebber International (since 1985)  | Director, The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Director, The Greater China Fund, Inc. (closed end fund).   |
| Ambassador<br>Richard R.<br>Burt, 60 <sup>(1)</sup><br>Class I | Senior Advisor, Kissinger McLarty Associates (international strategic advisory) (since 2007). Chairman, Diligence, LLC (international information and risk management firm) (2002-2007). Chairman, IEP Advisors, Inc. (information services firm) (1998-2001). Chairman of the Board, Weirton Steel Corp. (1996-2004). Formerly, Partner, McKinsey & Company (consulting firm) (1991-1994). U.S. Ambassador to the Federal Republic of Germany (1985-1989). | Director, The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc. (since 2000). Board Member, IGT, Inc. (gaming technology) (since 1995). Director, UBS family of Mutual Funds (since 1995). Board Member, IICL Technologies, Inc. (information technology and product engineering) (since 1999). Member, Textron Inc. International Advisory Council (aviation, automotive, industrial operations, and finance) (since 1996). |
| John H.<br>Cannon, 65 <sup>(1)</sup><br>Class II               | Consultant (since 2002); Vice President and Treasurer, Venator Group/Footlocker Inc. (footwear retailer) (until 2002).  | Director of The Central Europe and Russia Fund, Inc. and The European Equity Fund, Inc. (since 2004).  |
| Richard Karl<br>Goeltz, 65<br>Class I                          | Consultant. Vice Chairman and Chief Financial Officer of American Express Co. (1996-2000); Former Chief Financial Officer and Member of the Board of Directors of National Westminster Bank Plc. (1992-1996). Former Executive Vice President-Finance (1986-1991) and Vice President-Finance (1976-1986) of The Seagram Company Ltd.  | Independent Non-Executive Director of Aviva plc (financial services), Director of Delta Air Lines Inc., Federal Home Loan Mortgage Corp. ("Freddie Mac") and The Warnaco Group Inc.; Member of the Court of Governors and the Council of the London School of Economics and Political Science.   |

**DIRECTORS OF THE FUND (continued)**

| <b>Name,<br/>Address and<br/>Age*</b>                 | <b>Principal Occupation(s)<br/>During Past Five Years</b>   | <b>Other Directorships Held by Director</b>   |
|---|---|---|
| Dr. Friedbert<br>Malt, 66 <sup>(1)</sup><br>Class III | Vice Chairman and Member of the Executive Committee of NOL Neptune Orient Lines Ltd., Singapore ("NOL") (since 2002). Advisor to the Board of Managing Directors of DZ Bank, Frankfurt (2002).  | Member of the Board of NOL (since 2000). Director, The European Equity Fund, Inc. (since 2007) and The New Germany Fund, Inc. (since 2007). Director, TÜV Rheinland of North America, Inc. (independent testing and assessment services).   |
| Dr. Franz<br>Wilhelm<br>Hopp, 65<br>Class III         | Former Member of the Boards of Management of ERGO Versicherungsgruppe AG, ERGO Europa Beteiligungsgesellschaft AG, and ERGO International AG (insurance) (over five years); Member of the Boards of Management of VICTORIA Holding, VICTORIA Lebensversicherung AG, VICTORIA Versicherung AG, VICTORIA International, VICTORIA Rückversicherung AG and D.A.S. Versicherungs-AG. (insurance)   | Chairman of the Supervisory Board of Ideenkapital Media Finance. Member of the Supervisory Boards of Jenoptik, AG; TMW Immobilien AG; Oesterreichische Volksbanken; KarastadtQuelle Bank GmbH; GFKL Financial Services AG; MEAG Munich ERGO Kapitalanlagegesellschaft mbH; Internationales Immobilieninstitut GmbH; TMW Real Estate Group L.P., and Victoria Volksbanken, Oesterreich. Member of the Administrative Boards of Frankfurter Volksbank and HSBC Trinkaus & Burkhardt. Member of the Advisory Boards of Dresdner Bank AG; EnBW Energie Baden-Wuerttemberg AG; Falke Bank AG; Landeskreditbank Baden-Wuerttemberg; Millenium Entertainment Partners L.P. and MPE Hotel, LLC. |
| Ernst-Ulrich<br>Matz, 73<br>Class III                 | Consultant. Vice Chairman of the Supervisory Boards of Bopp & Reuther AG (valve, control, measurement and safety technology) (1990-2001). Chief Financial Officer and member of the Board of Directors of IWKA Aktiengesellschaft (production and manufacturing technology) (1978-2000). Member of the Supervisory Boards of Ex-Cell-O AG (machine tool and system manufacturer) (1996-2001) and ARO SA (1978-2000) (resistance welding). | Member of the District Advisory Board of Gerling- Konzern (until 2002); Chairman of the Rumanian Group in the German East-West Trade Committee (until 2002); Member of Advisory Council of Herder GmbH & Co. KG; Member of Supervisory Board of Photon AG. Member of the District Advisory Board of Deutsche Bank AG, Mannheim (until 1999).  |

**DIRECTORS OF THE FUND (continued)**

| <b>Name,<br/>Address and<br/>Age*</b>               | <b>Principal Occupation(s)<br/>During Past Five Years</b>  | <b>Other Directorships Held by Director</b>   |
|---|--|---|
| Christian H. Strenger, 64 <sup>(1)(2)</sup> Class I | Member of Supervisory Board (since 1999) and formerly Managing Director (1991-1999) of DWS Investment GmbH (investment management), a subsidiary of Deutsche Bank AG.  | Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Member, Supervisory Board, Fraport AG (international airport business) and Hermes Focus Asset Management Europe Ltd. (asset management).   |
| Dr. Frank Trömel, 71 <sup>(1)</sup> Class III       | Deputy Chairman of the Supervisory Board of DELTON AG (strategic management holding company operation in the pharmaceutical, household products, logistics and power supply sectors) (2000-2006). Member (since 2000) and Vice-President (2002-2006) of the German Accounting Standards Board; Chairman of the Board of Managing Directors of DELTON AG (1990-1999); Chairman of the Board of Managing Directors of AL TANA AG (1987-1990) (management holding company for pharmaceutical and chemical operation) and Member of the Board (1977-1987). | Director, The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc. (since 2005).   |
| Robert H. Wadsworth, 67 <sup>(1)(3)</sup> Class I   | President, Robert H. Wadsworth Associates, Inc. (consulting firm) (May 1983-present).  | Director, The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990) as well as other funds in the Fund Complex as indicated.  |
| Werner Walbröl, 70 <sup>(1)</sup> Class II          | President and Chief Executive Officer, The European American Chamber of Commerce, Inc. Formerly, President and Chief Executive Officer, The German American Chamber of Commerce, Inc. (until 2003).  | Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Director, TÜV Rheinland of North America, Inc. (independent testing and assessment services). Director, The German American Chamber of Commerce, Inc. President and Director, German-American Partnership Program (student exchange programs). |

**DIRECTORS OF THE FUND (continued)**

| <b>Name,<br/>Address and<br/>Age*</b> | <b>Principal Occupation(s)<br/>During Past Five Years</b>  | <b>Other Directorships Held by Director</b>   |
|---------------------------------------|--|---|
| Peter<br>Zühlsdorff, 66<br>Class II   | Managing Director of DIH Deutsche Industrie Holding (holding company) (since 1997). Managing Director of DSD Duales System Deutschland AG (recycling) (since 2004). Managing Director of Tengelmänn Unternehmensgruppe (food and specialty retailing) (1998-2003). Managing Director of Bewerbungskomitee Leipzig 2012 GmbH (olympic bid committee) (2004) and Managing Director of PZ Sportpark GmbH (1996-2003). | Chairman of the Supervisory Board, Sinn Leffers AG (retail) and Escada AG (fashion). Member of the Supervisory Board, Deutz AG (heavy machinery and engines) and Kaisers Tengelmänn AG (food and specialty retailing). Member of the Advisory Board, Tengelmänn Verwaltungs-und Beteiligungsgesellschaft GmbH (food and specialty retailing), DSD-Duales System Deutschland GmbH, Bahlens GmbH & Co. KG (bakery goods), Ziegler Film (TV and film productions) and Deutsche Sporthilfe. |

Each has served as a Director of the Fund since the Fund's inception in 1990 except for Mr. Wadsworth, who was elected to the Board on June 19, 1992; Dr. Hopp, who was elected on June 18, 1993; Mr. Matz who was elected on June 29, 1995; Mr. Zühlsdorff, who was elected on June 20, 1997; Ambassador Burt, who was elected on April 23, 2004, Mr. Walbröl, who was elected on April 23, 2004 and Dr. Malt was elected to the Board on July 23, 2007. The term of office for Directors in Class I expires at the 2010 Annual Meeting, Class II expires at the 2008 Annual Meeting and Class III expires at the 2009 Annual Meeting.

(1) Indicates that Messrs. Bult, Burt, Cannon, Malt, Trömel, Walbröl, Wadsworth and Strenger each also serve as a Director of The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc., two other closed-end registered investment companies for which Deutsche Investment Management Americas, Inc. acts as manager.

(2) Indicates "interested" Director, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Mr. Bult is an "interested" Director because of his affiliation with PaineWebber International, an affiliate of UBS Securities Inc., a registered broker-dealer; and Mr. Strenger is an "interested" Director because of his affiliation with DWS-Deutsche Gesellschaft für Wertpapiersparen mbH ("DWS"), a majority-owned subsidiary of Deutsche Bank AG and because of his ownership of Deutsche Bank AG shares.

(3) Indicates that Mr. Wadsworth also serves as Director/Trustee of the following open-end investment companies: DWS Balanced Fund, DWS Blue Chip Fund, DWS Equity Trust, DWS High Income Series, DWS State Tax-Free Income Series, DWS Strategic Income Fund, DWS Target Fund, DWS Technology Fund, DWS U.S. Government Securities Fund, DWS Value Series, Inc., DWS Variable Series II, Cash Account Trust, Investors Cash Trust, Investors Municipal Cash Fund, Tax-Exempt California Money Market Fund and DWS Money Funds. Mr. Wadsworth also serves as Director of Dreman Value Income Edge Fund, Inc., DWS High Income Trust, DWS Multi-Market Income Trust, DWS Municipal Income Trust, DWS Strategic Income Trust, and DWS Strategic Municipal Income Trust, closed-end investment companies. These Funds are advised by Deutsche Investment Management Americas Inc., an indirect wholly-owned subsidiary of Deutsche Bank AG.

(4) Inception date of corporation which was predecessor to the LLC.

\* The address of each director is 345 Park Avenue, New York, NY 10154.

**OFFICERS OF THE FUND\***

| <b>Name, Age</b>  | <b>Principal Occupations During Past Five Years</b>  |
|---|--|
| Michael G. Clark <sup>(2)(5)</sup> , 42 President and Chief Executive Officer | Managing Director <sup>(4)</sup> , Deutsche Asset Management (2006-present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004-2006) and Director of Product Development (2000-2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999-2000) |
| Paul Schubert <sup>(1)(5)</sup> , 44 Chief Financial Officer and Treasurer    | Managing Director <sup>(4)</sup> , Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998-2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994-1998)  |
| David Goldman <sup>(2)(5)</sup> , 34 Secretary                                | Vice President, Deutsche Asset Management  |
| John Millette <sup>(2)(6)</sup> , 45 Assistant Secretary                      | Director <sup>(4)</sup> , Deutsche Asset Management  |
| Elisa D. Metzger <sup>(2)(5)</sup> , 45 Chief Legal Officer                   | Director <sup>(4)</sup> , Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999-2005)   |
| Brett Rogers <sup>(3)(5)</sup> , 31 Chief Compliance Officer                  | Vice President, Deutsche Asset Management (2005-present). Formerly, Assistant Vice President, Deutsche Asset Management  |

Each also serves as an Officer of The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc., two other closed-end registered investment companies for which Deutsche Investment Management Americas Inc. acts as manager.

\* As a result of their respective positions held with the Manager, these individuals are considered "interested persons" of the Manager within the meaning of the 1990 Act. Interested persons receive no compensation from the Fund.

(1) Since 2004.

(2) Since 2006.

(3) Since 2007.

(4) Executive title, not a board directorship.

(5) Address: 345 Park Avenue, New York, New York 10154.

(6) Address: Two International Place, Boston, Massachusetts 02110.



**SHARES REPURCHASED AND ISSUED**

The Fund has been purchasing shares of its common stock in the open market. Shares repurchased and shares issued for dividend reinvestment for the past five years are as follows:

| Fiscal years ended December 31, | 2007 | 2006    | 2005    | 2004      | 2003 |
|---------------------------------|------|---------|---------|-----------|------|
| Shares repurchased              | —    | 155,500 | 689,500 | 1,245,300 |      |