ANNUAL REPORT | FINANCIAL STATEMENTS MANAGEMENT REPORT

2009

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

DEG
KFW BANKENGRUPPE

ANNUAL REPORT 2009

FINANCIAL STATEMENTS AND MANAGEMENT REPORT

CONTENTS

REPORT BY THE SUPERVISORY BOARD

The global financial and economic crisis has not only affected the industrial nations, but also had an impact on developing and transition countries. Despite this difficult climate, and in keeping with its development mandate, DEG, as a reliable partner, was successful in providing support to the private sector in developing countries. Once again, it achieved more than a billion euros in new commitments with a high developmental impact.

ADVICE TO AND SUPERVISION OF THE BOARD OF MANAGEMENT

In 2009, DEG's Supervisory Board paid close attention to the company's financial development, its environment, the risk situation, planning and strategy, its internal controlling systems and its development activities. In addition to supervising the proper conduct of its activity, the Supervisory Board gave DEG's Board of Management the benefit of its advice. The latter in turn provided the members of the Supervisory Board with comprehensive information, both oral and written, in a regular and timely fashion. The Supervisory Board was closely involved in the decision-making process whenever decisions required the consent or co-operation of the Supervisory Board by law, under the Articles of Association, or by standing orders, or when decisions of fundamental importance to DEG were taken.

MEETINGS OF THE SUPERVISORY BOARD

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

The developmental impact of DEG's projects was the subject of exhaustive discussion by the Supervisory Board. Members welcomed the fact that the quantitative and qualitative assessment of the developmental impact of DEG's new business continues to produce very positive results; ratings were only slightly below the previous year's figures, which had been the best since the evaluation scheme was introduced.

As part of the Board of Management's overall strategic policy, the Supervisory Board discussed business strategy for 2010, risk strategy including annual planning for 2010, and the medium-term business outlook for 2011-2014. In view of the international economic crisis, the previous year's planning was reviewed and updated in early summer, as agreed by the Supervisory Board in 2008.

On the regular occasions when the Supervisory Board dealt with the impact of the financial crisis, the company's risk situation was debated. Although project and country risks have risen further for DEG, the company has adequate levels of equity capital, and this continues to ensure sufficient risk capacity even in times of global economic crisis.

Other issues that came up for discussion were selected key institutional and strategic matters and initiatives, e.g. the updating of the company's stress test methods; DEG's business activities in particular countries which are seen as problematic; or the company's non-profit status, its requirements and consequences. Also discussed were the regular reports due over the year under review: on internal auditing, DEG's work on environmental and social standards, and gender equality within the company. The Supervisory Board also agreed the SME Growth Initiative, highlighting the priority given within the company's activities to support for small and medium-sized enterprises.

Finally, the Supervisory Board discussed launching business operations in Yemen, in Eritrea and in Turkmenistan, as well as relaunching activities in Oman and in Sierra Leone.

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.

At its meeting on 11 March 2010, the Audit Committee, appointed from among members of the Supervisory Board, 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. Following 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 2009 and discharge the Board of Management from its liabilities.

CHANGES IN MEMBERSHIP OF THE SUPERVISORY BOARD

During the past financial year, Supervisory Board members Nicolette Kressl, Dagmar Wöhrl, Wolfgang Kroh and Erich Stather resigned from the board. The Supervisory Board would like to thank them for their valuable contributions, in some cases over many years, as well as for their energetic support for the company. Erich Stather as Chairman and Wolfgang Kroh as first Deputy Chairman successfully shaped both the board and the company over many years.

During the same period Gudrun Kopp, Ernst Burgbacher, Eberhard Brandes, Hartmut Koschyk and Dr. Ulrich Schröder were appointed as new members.

At the 193rd meeting of the Supervisory Board, members elected Gudrun Kopp as the new Chairwoman; Dr. Norbert Kloppenburg was chosen as First Deputy Chairman at the 192nd meeting.

On 30 September 2009, Dr. Winfried Polte retired after eight years as Chairman of the DEG Board of Management. The Supervisory Board would like to thank Dr. Polte for his many years of dedication and his role in the successful development of the company.

In agreement with Supervisory Board, the shareholder appointed Bruno Wenn as Chairman of the DEG Board of Management with effect from 1 October 2009.

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 marked by a high degree of trust.

Thanks and appreciation are also due to DEG staff, who, thanks to their great dedication and capabilities, have made an essential contribution to expanding DEG's development activities while at the same time successfully dealing with the impacts of the crisis in the financial markets.

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

Cologne, 18 March 2010

The Chairwoman of the Supervisory Board
Gudrun Kopp

DEG at a Glance

EUR million

	2009	2008
Project finance:		
Total financial commitments in financial year	1,015	1,225
of which:		
Risk subparticipation	1	134
Trust business	0	0
Total investments of co-financed enterprises (financial commitments)	4,574	6,166
Project portfolio at end of year	4,701	4,427
of which trust business	104	115
Total investments of co-financed enterprises (portfolio)	32,083	31,546
Consultancy and other services:		
Income from consultancy services, trust business and other services	13	11
Annual statements of accounts:		
Balance sheet total	3,643	3,755
Subscribed capital	750	750
of which paid in	628	628
Reserves	637	617
Pre-tax operating result	-48	25
Taxes	3	6
Loss/profit for the financial year	-51	19
Transfer/withdrawal purpose-tied reserve fund	1	1
Net loss/income	-50	20

Developmental impacts of commitments:		
Net foreign exchange income p.a.	1,700	2,100
Tax revenue p.a.	568	360
Newly created and secured jobs (number)	360,000	543,000
direct	196,000	153,000
indirect	164,000	390,000

DEG MANAGEMENT REPORT FOR 2009

BUSINESS PERFORMANCE AND CLIMATE

Since it was founded in 1962, DEG has been promoting private sector initiative in developing countries through entrepreneurial development co-operation. With its financing and advisory services, it enables enterprises to invest, supports the formation and development of a private sector and so contributes to sustainable economic and social progress in its investment countries. In the context of the German Federal Government's development policy, it is thus helping to achieve the Millennium Development Goals agreed at international level. The focus is on reducing poverty and permanently improving people's living conditions by creating jobs and providing incomes, especially in underdeveloped regions.

DEG, member of KfW Bankengruppe, finances investments by private enterprises in developing and transition countries. This is conditional on the projects being reasonable in business and development policy terms as well as environmentally and socially acceptable. DEG uses its own funds to provide long-term loans, guarantees and venture capital in the form of equity and mezzanine finance at market-oriented terms. It also provides advice to the enterprises it co-finances and arranges their investments. As a development institution, it always operates on the subsidiarity principle, i.e. it provides enterprises with financial services which are not available or in short supply from commercial providers. Enabling investments by small and medium-sized enterprises (SMEs) is one of its development priorities. On the one hand, it therefore provides firms with capital direct, but it also finances banks and investment companies whose clients specifically include medium-sized and small businesses.

In its work, DEG co-operates closely with other European bilateral 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 frequently works with the multilateral International Finance Corporation (IFC), which is part of the World Bank Group, as well as with regional and local development finance providers. This type of co-operation means that funds required for project finance and know-how can be packaged, especially in the case of complex, high-risk investments. This allows the broad-based and structural impact of the projects to be boosted; it also helps to improve the effectiveness of development co-operation through division of labour and standardisation in keeping with the Paris Declaration and the Accra Agenda for Action. DEG also works with selected commercial banks in strategic partnerships with a view to improving provision of specific financial services in sectors that are key to development, e.g. the agricultural industry.

If DEG is to successfully render development promotion in high-risk markets, comprehensive knowledge of the countries and sectors involved and the experience of its staff in dealing with political and economic crisis situations are essential. Its presence on the ground is a crucial in identifying new developments in a timely manner; it also means that clients and projects can be supported more closely. DEG currently has representative offices in Accra for West Africa, in Bangkok for Thailand, Bangladesh, Cambodia, Laos and Vietnam, in Beijing for China and Mongolia, in Jakarta for Indonesia, in Johannesburg for southern Africa, in Lima for die Andean countries, in Mexico City for Mexico, in Moscow for the Russian Federation, in Nairobi for East Afrika, in New Delhi for India und in São Paulo for the Mercosur region. Additionally, it has the option of using representative offices of KfW Bankengruppe. This way of proceeding facilitates both the acquisition of new business and the management of important regional project portfolios.

Business development in 2009 was affected by the continuing global financial and economic crisis, especially in the first half. The industrial nations were worst hit by the recession, but emerging markets and developing countries were also affected in varying degrees by the collapse of world trade and a definite slow-down in investment activity. For the first time since 1946, global GDP failed to grow and instead shrank by about 1%. The industrial nations were in the red by more than 3%, while the group of emerging markets and developing countries recorded –

albeit reduced – growth of 2%, mainly due to a comparatively speedy economic recovery in Asia's emerging market countries.

For DEG, the reduced demand on the part of enterprises for long-term loans and venture capital for investment projects took the form of a drop in applications for project finance compared with the previous year, especially during the early months of the financial year. Many enterprises delayed their planned investments for the time being. In view of the crisis in the world economy, looking after existing clients and supporting them with stabilisation measures took on additional importance. At the same time, country and project risks rose, and the prospect of gains from disposals of participating interests was considerably reduced.

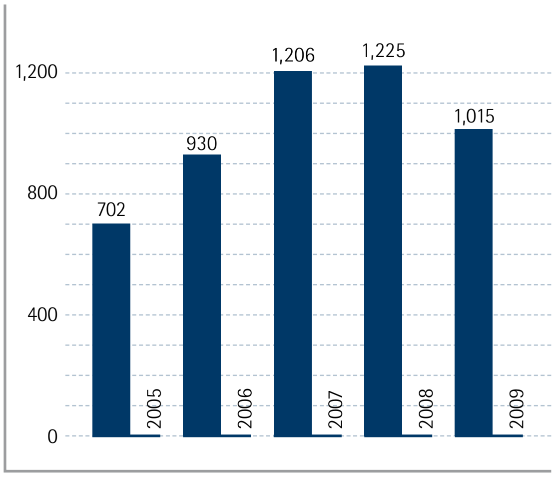
In many DEG countries, opportunities for finance from commercial providers were markedly reduced. This, and the revival of the economy over the course of the year, produced renewed demand for DEG's financing services, which in turn had a positive effect on the further development of new business.

Given this generally challenging business environment, DEG was able to maintain its finance business at a stable level in 2009. At EUR 1,015 million, the volume of new commitments was considerable, even by comparison with 2008 (EUR 1,225 million). For the third time in a row, it exceeded one billion. Disbursements totalled EUR 729 million, falling below the very high level of the previous year (EUR 1,131 million). This was mainly due to the fact that in many cases, new commitments were made during the final months of the year.

The net commitment portfolio (project portfolio, own account and trust business) rose to EUR 4,701 million by year end (2008: EUR 4,427 million) and displayed a balanced risk structure. The risk report provides information on the risk structure. The project portfolio extended across 518 enterprises in 88 partner countries. So DEG was once again able to consolidate its position as one of the largest European development finance providers dedicated to private sector development.

Annual financial commitments

EUR million



The operating result before provision for risk amounted to a very respectable EUR 130 million (2008: EUR 122 million). But given the overall economic situation, there was again a marked rise in the need for risk provisioning, especially in respect of projects in the banking and manufacturing sectors in Eastern Europe, which led higher charges. However, actual write-offs remained below the previous year's level. Due mainly to the high level of net provisions for risk, the result from ordinary activities was EUR -48 million (2008: EUR 25 million). After tax, this produced a loss for the financial year of EUR 51 million (2008: profit for the financial year of EUR 19 million). After taking into account withdrawals from the purpose-tied reserve fund set up to pay for complementary measures to improve the developmental quality of projects, a net loss of EUR 50 million remained (2008: EUR 20 million net income).

Despite a net loss for the 2009 financial year DEG has been able to achieve a return on equity of 3% on average for the past three years.

In keeping with its development mandate, DEG's aim is not, on principle, to maximise its profits. Rather, it endeavours to cover its running costs and provisions for risk in its project finance business while building up sufficient reserves and earning an appropriate return on capital for asset maintenance, thus ensuring continuous expansion of its development activities. Given the increased equity, mainly due to the high level of retained earnings over past years, DEG still maintains an appropriate risk capacity and a good foundation upon which to grow its development activities.

FIELDS OF BUSINESS

Investment finance and financial sector development

In the 2009 financial year DEG committed EUR 1,014.8 million (2008: EUR 1,224.7 million) in finance for 90 projects. Of this, EUR 0.9 million (2008: EUR 134.2 million) was accounted for by risk sub-participations.

DEG took equity stakes in enterprises with EUR 149.1 million (2008: EUR 162.8 million). Lendings totalled approx. EUR 843.0 million (EUR 1,029.0 million); these included lendings in US dollars equivalent to EUR 598.8 million (EUR 726.7 million). Of the lendings, EUR 229.9 million were arranged as loans with equity features (EUR 253.5 million). Venture capital in the form of equity and mezzanine finance amounted to EUR 379.0 million (2008: EUR 416.3 million), around 37 % of new business. Approximately EUR 22.7 million were committed for guarantees (EUR 32.9 million).

Financial commitments in the year under review were intended for investments in 42 countries (42). Around 44 % of newly approved projects were in countries with a high risk and/or low per capita income. Among the least developed countries (LDC) in which DEG was involved in 2009 were Angola, Eritrea, Mozambique, Zambia and Uganda in Africa, and in Asia, Bangladesh and Laos.

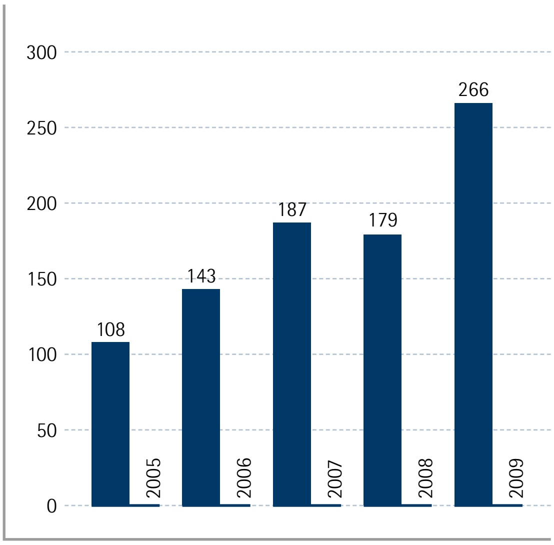
As in the preceding years, the lion's share of DEG finance, EUR 463.1 million, went to projects in Asia (2008: EUR 451.4 million). EUR 266.2 million (179.3 million EUR) were made available for investments in Africa – by far the largest volume DEG has ever committed to the African continent in a single financial year. Of this, Sub-Saharan Africa accounted for EUR 172.8 million, supra-regional projects for a further EUR 82.6 million, and projects in North Africa for EUR 10.8 million. This means that even in a challenging financial year, it was nevertheless possible further to increase support for this developmentally important continent. EUR 197.6 million in new commitments went to Latin America (EUR 341.8 million). More than EUR 80.5 million (EUR 248.2 million) in project finance was committed in the European region. EUR 7.4 million went to a supra-regional project.

One focus of DEG's involvement, with EUR 305.5 million und approx. 30 % of commitments (2008: EUR 487.5 million), was supporting the development of the financial sector. The emphasis was on finance for banks and other financial institutions that serve to improve the provision of financial services for enterprises in partner countries. Given the continuing crisis, this was a way in which DEG could contribute to easing financial bottlenecks. Small and medium-sized enterprises in particular can be targeted with long-term investment finance provided by DEG's partner banks, while equity and mezzanine funds fulfil an important development role in supplying venture capital, which is particularly scarce. In addition, DEG supported specialist providers such as leasing and insurance companies with a view to closing supply gaps in partner countries and helping to set up systematic financial protection. In order to contribute to the professionalisation of the financial sector, DEG advocated strengthening the co-financed institutions at an organisational level and assisted them in, e.g. implementing good corporate governance standards.

At EUR 276.3 million, project finance for enterprises in the manufacturing sector accounted for approximately 27 % of new business and hence the largest proportion of direct investment finance (EUR 282.3 million). The industrial sector makes a vital contribution to the creation of skilled jobs in partner countries as well as supporting the transfer of know-how and technology. That is why DEG makes a point of becoming involved with enterprises in the industrial and manufacturing sectors. With its new commitments in 2009, DEG enabled investments in, e.g. the building materials, chemical, pharmaceutical and metal industries as well as in vehicle manufacturing and engineering.

Financial commitments for projects in Africa

EUR million



EUR 251.1 million were made available for infrastructure schemes in the year under review – a new record for this economic sector (EUR 233.9 million). This means that around a quarter of new business was allocated to project finance in the energy and water supply, logistics, telecommunications, transport and traffic sectors. Important priorities were projects to improve energy supplies and to expand telecommunications networks and services.

The agricultural and food industries – primary production, local processing and farming services – accounted for EUR 140.9 million or 14 % of the funding volume (EUR 186.9 million). The service industry, including projects in the hotel and catering trades, accounted for EUR 41.0 million in new commitments (EUR 34.0 million).

Climate protection is one of the stated goals of DEG business strategy. New commitments included 25 investment schemes designed to help protect the climate; they received a total of EUR 160.9 million (2008: EUR 96.2 million). So in 2009 as in previous years, DEG was able significantly to increase its involvement climate protection. Its priority was developing renewables. A further 14 projects germane to climate protection were co-financed with EUR 2.6 million via PPP and complementary measures.

In 2009, investment finance (excepting development of the financial sector) was again directed primarily at enterprises from partner countries: EUR 372.8 million went to projects undertaken by local firms (2008: EUR 345.9 million). Projects in co-operation with German partners received EUR 136.7 million (EUR 164. 8 million). The funds were mainly intended for investments by the manufacturing industry in countries including Egypt, China, Colombia, Mexico, Namibia, Oman and Vietnam. DEG financed projects of investors from EU countries to the tune of EUR 11.3 million (EUR 88.0 million), while EUR 52.2 million went to projects undertaken by enterprises from other industrialised nations (EUR 37.9 million). DEG committed EUR 47.1 million (EUR 100.6 million) for South-South co-operation involving investors from different developing countries.

About a third of newly committed finance is explicitly intended for investments by small and medium-sized enterprises (SMEs). In the year under review, DEG set up the “SME Growth Initiative” in order to make a systematic contribution to plugging the supply gaps in long-term finance for SMEs in its partner countries.

At year end 2009, current financial commitments totalled EUR 4,700.6 million (2008: EUR 4,427.4 million), an increase of approximately 6 %. Finance at own risk accounted for EUR 4,596.9 million of the project portfolio, while finance on behalf of the German government and the European Union (trust business) made up EUR 103.7 million, including EUR 35.8 million for project finance and EUR 67.9 million for loans from business start-up programmes.

Consultancy and development programmes

With its consultancy services, DEG supports its clients and partners in planning and devising their investments.

It not only draws on its specific knowledge of countries and industries, but above all applies its financial expertise. By arranging the best possible overall financial mix, it helps to improve the chances of success and the quality of the investment projects.

DEG received a total of EUR 12.2 million to carry out the programme for development partnerships with the private sector (Public-Private Partnership, PPP) run by the Federal Ministry for Economic Cooperation and Development (BMZ). The programme was modified in 2009. Ideas competitions now take place several times a year, giving enterprises the opportunity to present suggestions for PPP measures. Priority themes ensure that important fields of activity are tackled. There is also the option of proposing measures that are especially innovative in character. Last year, enterprises submitted 173 suggestions for projects to DEG, 114 of which met competition requirements. In total, EUR 24.3 million were made available for 57 new PPP projects; DEG provided EUR 9.9 million of this in public funds, while the enterprises contributed EUR 14.4 million. 68 % of new projects fell within the priority themes of "Environmental Protection for Industry" and "Renewables".

Along with the Bill & Melinda Gates Foundation, DEG is carrying out a programme in cooperation with GTZ (German Technical Co-operation) which is designed to improve the competitiveness of African cotton in six countries – Benin, Burkina Faso, Ivory Coast, Malawi, Zambia and Uganda. The programme was launched in 2008 and has an overall project volume of USD 55.0 million; the Gates Foundation has provided USD 24.4 million, while BMZ has contributed funds equivalent to around USD 7.5 million. Local cotton producers have put in another USD 23.1 million. The development programme targets some 260,000 small farmers, providing training in sustainable cultivation methods and organisational support in obtaining certification and selling the cotton. The initiative also involves working with the Otto Group's "Cotton made in Africa" alliance. Among those involved in the alliance are not only textile producers and traders, DEG and GTZ, but also WWF Germany and German Welthungerhilfe. One focus of the work in 2009 was to promote local dialogue among all who contribute to the supply chain. Among the steps taken in support was a conference held in Burkina Faso.

To give small and medium-sized business in Afghanistan access to finance, DEG has set up a loan guarantee fund for which BMZ and the development organisation USAID have made a total of USD 9.7 million available. The fund underwrites 72 % of the default risk for loans, which are currently issued by two local partner banks. 529 guarantees were issued in 2009 for a volume of credit amounting to USD 17.6 million. In total, aggregate commitments come to USD 39.6 million for 1,328 loans. To date, this has allowed approximately 20,000 jobs to be created or secured. The partner banks employ around 40 members of staff in specially established SME departments; 18 local employees work in the project office, which is headed by a specialist from Germany.

To increase its projects' developmental impacts, broad-based and structural, DEG again carried out complementary measures in 2009. It contributed EUR 1.0 million of its own funds for the purpose, supplemented by EUR 1.9 million in budgetary funds from BMZ. This was used to finance 37 complementary measures designed to, e.g. provide advice on environmental or management aspects to enterprises it was co-financing. In 2009 DEG continued a series of workshops for clients from the financial sector designed to provide training to international standards on management systems and environmental and social issues.

INTERNATIONAL COOPERATION

For many years, DEG has been working in close cooperation with its European partner institutions under the umbrella of the European Development Finance Institutions (EDFI). Based in Brussels, EDFI is a group of 16 bilateral European development finance providers dedicated to supporting the private sector. Along with the European Investment Bank (EIB), twelve EDFI members including DEG are also partners in the co-financing vehicle European Financing Partners (EFP). EFP promotes private investments in developing countries in the African, Caribbean and Pacific regions (the ACP Group of States).

In 2009, EFP partners provided a third tranche of finance to boost EFP funds by a further EUR 230 million, after the whole of the EUR 340 million previously provided had been allocated to projects. While EIB contributed EUR 100 million from the EU's Cotonou Investment Facility funds in 2009, EUR 130 million came from the bilateral institutions.

2009 again saw DEG cooperating especially closely with FMO of the Netherlands and PROPARCO of France. Together, the institutions financed 27 projects with a volume of approximately EUR 749 million, to which DEG contributed 44%.

Development finance providers take on an important role in mobilising venture capital in developing and emerging market countries. In 2009, DEG and seven other EDFI members undertook to support the Private Equity Principles issued by the International Limited Partners Association (ILPA). This move is intended to set a long-term direction, and it is hoped that applying the principles will contribute to promoting transparency and good governance in venture capital funds as well as strengthening the shared interests of fund managers and investors. EDFI joins some 50 other institutional investors who already subscribe to the principles.

On the occasion of the World Bank/IMF Annual Meetings in October 2009, DEG signed an agreement with IFC (the International Finance Corporation, a member of the World Bank group), FMO and PROPARCO, aimed at introducing standardised processes and rules for jointly financing projects. Identical standards facilitate an approach based on division of labour and shorten processing times before finance is committed. They also reduce transaction costs and workload for the finance providers involved. As a result, the institutions are able to make a further contribution to enhancing the effectiveness of development cooperation.

In 2009 DEG also agreed to participate in the Infrastructure Crisis Facility launched by IFC. Its aim is to provide long-term capital for private enterprises in the infrastructure sector; due to the economic and financial crisis, this is currently not on offer from commercial finance providers. Over the next three years, DEG plans to make USD 400 million in finance available for this purpose.

DEVELOPMENTAL IMPACTS

In 2009 the developmental quality of DEG's new commitments was again ranked as good with an average rating of 2.4. That is only slightly less than the previous year's rating (2.3) – the best since the introduction of the qualitative and quantitative assessment method in 2002. DEG's system of Corporate Policy Project Rating (GPR) has already been adopted by 14 other international development finance providers.

The most recent evaluation has shown that the investments co-financed by DEG in 2009 secured or created approximately 196,000 jobs – 43,000 more than the previous year. Added to this are a further 164,000 jobs in ancillary industries and with ultimate borrowers in financial sector projects. Through their tax payments, the project enterprises will additionally contribute more than EUR 568 million annually to government revenues in partner countries and earn around EUR 1.7 billion in net foreign exchange income per annum. This can be used in a sustainable way to reduce budget deficits, enable investment and boost foreign exchange revenue.

Many of the co-financed enterprises make a conscious decision to meet their social responsibility as entrepreneurs: their rates of pay lie well above the legal minimum and they offer, e.g. social security and health insurance benefits, set up health centres, nurseries and schools, and provide their workforce with accommodation and free meals. In Africa in particular, HIV/AIDS prevention occupies an important place in corporate social responsibility activities.

The 2009 GPR analysis also showed that almost 57% of projects for which finance was newly committed made a direct contribution to achieving at least one of the eight international Millennium Development Goals (2008: 64%).

The developmental impacts of the investments co-financed by DEG were also the subject of the second "Dialogue in the Atrium": 120 guests from 40 countries took part in this specialist conference on development policy organised by DEG. The focus was on the worldwide financial and economic crisis, how it is affecting businesses in developing and emerging market countries, the special role of development finance institutions and their responses to this grave crisis.

ENVIRONMENTAL AND SOCIAL STANDARDS

An absolute prerequisite for involvement on the part of DEG is that an investment must not only be convincing in business and development terms, but also environmental and socially acceptable. In our view, a sound ecological and social basis is essential if projects are to achieve sustainable success. That is why we only support and finance enterprises that share these convictions.

Financing projects in developing countries frequently offers significant opportunities to improve the environmental and social situation; however there may also be significant attendant risks. The evaluation of environmental and social risks is part and parcel of a general risk assessment. In addition to national regulations, DEG above all applies challenging international standards when financing a project. In 2009, the performance standards of the World Bank Group subsidiary IFC were again included as environmental and social standards in the contractual agreements for all the projects DEG financed. Furthermore, all the enterprises it co-financed made a binding commitment to abide by the core labour standards set up by the International Labor Organzation (ILO). In 77 % of directly financed projects DEG has agreed an action plan and supports enterprises towards achieving international environmental and social standards. As a result, DEG has gained a good reputation internationally as a guarantor of international environmental and social standards.

Co-operating with other development finance providers, especially its European Development Finance Institution partners (EDFI), is of particular importance to DEG. On the occasion of EDFI's annual general meeting in Cologne in 2009, the "EDFI Principles of Responsible Financing" initiated by DEG were signed. With these principles, members emphasised their commitment to consistently applying recognised environmental and social standards. It was another occasion on which DEG made a major contribution to the crucial harmonisation effort among European players who operate bilaterally in the field of development cooperation.

But this is not confined to financial partners; we also work closely with civil society. In 2009 for instance, we reached a co-operation agreement with the nature conservation organisation WWF Germany, with which we have been jointly involved in projects for several years. Among the priority topics are agriculture and forestry, environmental and social standards, ecological innovation and climate protection.

In 2009, and in the context of its climate protection activities, DEG commissioned the first ever international study on how banks in emerging market and developing countries are handling the challenges posed by climate change. Some 150 DEG clients from the financial sector were approached for the study, 60 of whom provided detailed information. Almost two thirds confirmed that climate change is influencing their business; a third of banks take climate protection issues into consideration when taking investment decisions. Over 80 per cent have introduced a risk management system that takes account of sustainability aspects. 67 per cent already have environmental or sustainability guidelines; of which a third have a direct bearing on climate change. DEG is working with its financial sector clients and applying various consultation measures to improve this positive situation even more.

DEG also implements its special commitment to environmentally compatible action in its own operations. A visible sign of this was the certification by the German Sustainable Building Council (DGNB), which awarded a gold seal of quality to DEG's new building. The certification was partly awarded for the building's very high level of energy efficiency. DEG additionally offsets all its unavoidable CO_2 emissions by cancelling CO_2 emission credits certified under the Kyoto protocol to achieve carbon neutral status. The DEG building also stands out in relation to water use, with excellent consumption data.

PERSONNEL

Staff breakdown

At 2009 year end, DEG retained 418 employees; so compared to the previous year (412), staff numbers increased only moderately. The figure includes 57 employees working part time (2008: 52).

18 members of staff were deployed in DEG's representative offices in Accra, Bangkok, Jakarta, Johannesburg, Mexico City, Moscow, Nairobi, New Delhi, Beijing, São Paulo and Lima and in the regional office for Asia in Bangkok; they were supported by 23 local experts.

Staff numbers break down into three members of the Board of Management, 283 staff outside regular pay scales and senior staff, 116 staff on regular pay scales and 16 apprentices.

The proportion of female employees (212) was 50.7 % (2008: 52.9 %); male employees accounted for 49.3 % (4.71 %). The average age of employees was 42.5.

As in the previous year, the proportion of severely disabled people was 4.4 %.

Overall, the mix of staff was balanced in terms of age and seniority.

Qualification and further training

Having highly qualified staff is essential and forms the basis of our business success – especially given the dynamic developments in the market and complex client needs. DEG's personnel includes mainly experienced management experts, economists, lawyers and engineers with above-average levels of education. As well as professional experience in international investment finance, essential skills include expert knowledge of development policy, in-depth country and sector know-how and proficiency in foreign languages.

DEG has developed a tailor-made advanced training programme to ensure that staff members have the professional, methodological and personal capability required. This programme is regularly updated to meet current needs. In addition, staff are able to take advantage of seminars offered by European development finance providers belonging to EDFI and by the KfW Bankengruppe. In 2009, DEG invested approx. EUR 400,000 in in-house and external advanced training measures.

A development programme for senior staff (FEP) was established in 2009; this was organised in house and includes joint and individual qualification measures. This programme forms the basis of a systematic approach to strengthening leadership and management capabilities.

Remuneration and social benefits

In principle, the remuneration of DEG staff takes the form of a fixed salary. Basic annual salary consists of thirteen monthly salary payments. Variable portions of the remuneration are awarded depending on the success of the business, individual performance and conditions in the labour market.

Under the company agreement on compensation management in force since 2008, target agreements and performance assessment shall be used as part of the remuneration system to determine the performance-related development of salaries. This links DEG's business goals to its employees' targets. Of key importance in this connection are individual annual performance reviews and target agreements reached with employees. DEG's remuneration system is designed to be uniform across all posts and offers comparable opportunities for remuneration regardless of the individual field of employment.

DEG uses the Hay method of job description and evaluation as applied throughout KfW Bankengruppe. This approach is designed to provide a systematic analysis, record and assessment of posts outside the regular pay scale, based on uniform and objective criteria.

DEG's social benefits include mainly employer contributions to corporate pension schemes of various kinds, group accident insurance, and the granting of loans to members of staff. In addition, there are recuperation allowances, support in case of illness and other emergencies, and a staff canteen. With the environment in mind, DEG also provides employees with a free pass for travel on public transport. In addition, DEG supports its staff's corporate sporting activities, specifically football (soccer), gymnastics and running.

Gender equality

In 2003 DEG reached a in-company agreement on implementing gender equality, followed in 2008 by a second agreement on promoting work-life balance. DEG's basic human resources policy principle is to promote gender equality, especially in recruitment, employment, education, training and advanced training and promotion. The work-life balance is of overriding importance in this connection. Wherever possible, the priority is to help people deal with the special burden placed on mothers and fathers by the conflicting demands of family and work.

The following points of the corporate agreement on work-life balance were further developed in 2009:

- Increase of monthly child-care allowance, which was extended to cover care in the home;
- Additional allowances where the cost of care rises during business trips;
- Removal of the time limit on telecommuting and raising of the maximum age of children to 14 as a requirement for allowing telecommuting.

In addition, the opportunity of taking part in training courses was extended to the whole parental leave period.

The staff responded very enthusiastically to these proposals. The tendency to return early from parental leave remains unchanged.

DEG is furthermore committed to increasing the proportion of qualified female employees at all levels. To achieve this, it supports the promotion of in-house female colleagues to more senior roles. Especially noteworthy in 2009 is the fact that three head of department posts were successfully filled from in house with female colleagues who had previously worked as senior investment managers.

Training

To provide for the systematic advancement of junior staff, DEG has for many years offered a trainee programme, updated regularly. In 2009 we recruited six trainees for the current year, including three women. We also have a long tradition of actively supporting vocational training. In the year under review, five people started their training with DEG, three management assistants in office communications and two cooks, one female and one male. For the first time, we were able to recruit a male apprentice for the career path of management assistant in office communications.

Thanks and appreciation

We would like to express our gratitude to all our employees, who have displayed strong commitment, a wealth of ideas and great technical capabilities in championing the company's interests. Their special dedication has made a significant contribution to DEG's ability to fulfil its development mandate and meet its corporate goals despite the difficult climate.

The Board of Management also wishes to thank the employees' representative bodies – the Staff Council and the Economic Committee – as well as the Senior Staff Council – for their excellent, loyal co-operation based on a mutual desire to find consensual and constructive solutions.

Breakdown of income and charges

EUR million

	2009	2008
Operating income*	227.8	264.6
Other interest receivable and similar income	19.0	6.7
Total income (net)**	246.8	271.3
Provisions for risk (net)**	178.4	96.4
Interest payable	36.5	66.8
Staff costs and operating charges	80.4	83.0
Total charges (net)**	295.3	246.2
Pre-tax operating result	-48.5	25.1
Taxes	2.9	6.0
Loss/profit for the financial year	-51.4	19.1
Transfer/withdrawal purpose-tied reserve fund	1.0	1.3
Net loss/income	-50.4	20.4

* 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.

PROFITABILITY

Operating income showed a fall of EUR 36.8 million from EUR 264.6 million to EUR 227.8 million. There was a particular decline in income from the disposal of participating interests (EUR -28.9 million), income from lendings (EUR -5.6 million) and other income (EUR -8.0 million), which had been high the previous year due to one-off items. On the other hand, income from current participating interests in the form of dividends displayed an upward trend (EUR +5.7 million).

Earnings from time-deposit investments and interest hedging transactions increased by EUR 12.3 million to EUR 19.0 million. These include EUR 6.9 million in earnings from interest rate options and EUR 8.9 million from derivatives sales, as well as short-term investments (EUR 0.9 million) and sureties and guarantees (EUR 1.2 million).

Under operating charges, staff costs rose by EUR 3.7 million to a total of EUR 42.4 million. Charges for wages and salaries increased by EUR 3.0 million due to a rise in staff numbers and pay scale adjustments. The calculation of the reserve for pensions was based on an actuarial interest rate of 4.5% (2008: 4.3%).

Other operating charges fell by EUR 8.1 million to EUR 34.6 million. This is mainly due to higher write-offs on bonds and notes itemised under current assets in the previous financial year.

Interest charges were reduced by EUR 30.3 million EUR to EUR 36.5 million despite a slight increase in refinance, since interest rates fell over the period. On the one hand, the original interest charge for refinance was EUR 38.4 million lower than the year before, having fallen from EUR 77.0 million to EUR 38.6 million; on the other hand, income from hedging transactions was also reduced by EUR 7.8 million to EUR 3.2 million (2008: EUR 11.0 million in income). The interest rate margin for the year under review increased by EUR 37.0 million to EUR 157.2 million (2008: EUR 120.2 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) rose by 78.6 % in the year under review to EUR 275.9 million. (2008: EUR 154.5 million). Income from write-ups and write-back of provisions in respect of the lending business and participating interests rose by 67.8 % to EUR 97.5 million (2008: EUR 58.1 million). On balance, the net transfer to provision for risk for the year under review came to EUR 178.4 million, compared to EUR 96.4 the previous year. The main reason was a further deterioration of mainly the economic risk situation due to the global financial and economic crisis.

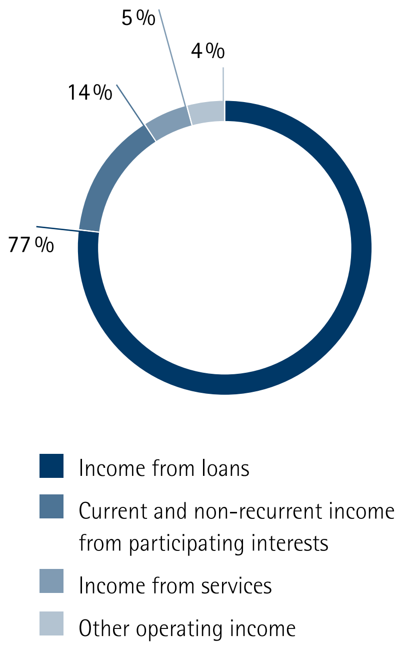
The operating result before provision for risk was EUR 130.1 million. The profit on ordinary activities fell to EUR -48.5 million (2008: EUR +25.1 million). After accounting for taxes of EUR 2.9 million (2008: EUR 6.0 million) the result was a loss for the year of EUR 51.4 million (2008: profit of EUR 19.1 million). EUR 1.0 million (2008: EUR 1.3 million) from the purpose-tied reserve fund were spent on complementary measures to enhance the developmental impacts of DEG's projects in 2009 and withdrawn from reserves. This left a net loss of EUR 50.4 million (2008 net profit of EUR 20.4 million).

FINANCIAL POSITION

Disbursements in 2009 came to a total of EUR 728.5 million (2008: EUR 1,131.1 million). Of this, EUR 31.1 million (2008: EUR 106.1 million) was allocated to third-party risk subparticipations in project enterprises. There were no disbursements in trust business (2008: EUR 0.4 million).

On own account, disbursements for projects were financed from net cash flow, operating income and net borrowings.

Breakdown of operating income for the 2009 financial year



Total operating income: EUR 227.8 million

The 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 504.0 million (2008: EUR 350.9 million). Operating income rose to EUR 129.4 million (2008: EUR 95.6 million).

In the year under review EUR 1,085.6 million in external funds were newly borrowed from the shareholder (2008: EUR 1,508.1 million). EUR 1,067.6 million in external funds were repaid as scheduled (2008: EUR 1,049.0 million). So net borrowings fell by EUR 441.1 million to EUR 18.0 million compared to the preceding year.

In total, liquid funds (including bonds and notes) were reduced by EUR 51.5 million to EUR 135.8 million (2008: EUR 187.3 million) at year end 2009.

Financing and funding structure on own account

EUR million

	2009	2008
Operating activities before tax	**129.4**	**95.6**
– Operating result before provisions for risk	130.1	121.5
– Non-cash expenses and procurement	-0.7	-25.9
External funds	**18.0**	**459.1**
– New borrowings	1,085.6	1,508.1
– Repayment	-1,067.6	-1,049.0
Investments in partner countries	**-224.5**	**-779.8**
– Disbursements	-728.5	-1,130.7
– Net cash flow incl. amounts owed from disposal of investments	504.0	350.9
Other changes	**25.6**	**-34.0**
Change in liquidity position (Cash, balances with Bundesbank, balances with credit institutions)	**-51.5**	**-259.1**

In own funds, the net income for 2008 of EUR 20.4 million was transferred to other reserves as per shareholder resolution. Given the disbursement of EUR 1.0 million from the purpose-tied reserve fund for Technical Assistance measures, and the net loss of EUR 50.4 million in the year under review, own funds decreased overall by EUR 51.4 million from EUR 1,387.7 million to EUR 1,336.3 million.

The reduction in external funds is due to the fall in amounts owed for financing investment activities (EUR -65.4 million). Other amounts owed rose by EUR 9.1 million to EUR 31.4 million. This includes in particular EUR 9.2 million in funds from the Bill & Melinda Gates Foundation and EUR 8.2 million in amounts owed to consortium banks.

NET WORTH POSITION

Business volume (measured by balance sheet total without trust business and after balancing outstanding deposits on the assets side against subscribed capital) fell by 2.9% to EUR 3,411.7 million compared to the previous year. The equity ratio declined from 36.0% to 35.6% given a slight rise in refinance volume.

The fall in the land and buildings item by EUR 7.8 million to EUR 49.2 million is mainly due to the disposal of the office buildings in Belvederestraße.

Net investments in partner countries (i.e. after deduction of value adjustments) remained virtually unchanged at EUR 3,063.8 million (2008 EUR 3,063.0 million). Lendings recorded a decline of EUR -13.6 million, while the volume of participating interests rose by 3.0% to EUR 498.0 million.

Two convertible bonds are itemised as bonds and notes under current fixed assets (EUR 7.8 million).

Overall, amounts owed fell by EUR 42.0 million. This comprises reductions in amounts owed from investment business of EUR 30.2 million, amounts owed from the disposal of investments of EUR 11.4 million, and amounts owed from consultancy and other services of EUR 0.4 million.

Other assets rose by EUR 1.1 million to EUR 99.7 million. This includes a balancing item for accountancy purposes relating to foreign exchange valuation, which comprises the valuation of all foreign currency positions at the balance-sheet date; it came to EUR 84.6 million (2008: EUR 90.2 million) at 2009 year end.

The bonds and notes item declined from EUR 18.5 million to EUR 11.0 million due to disposals as well as bonds and notes falling due. Balances at credit institutions also fell from EUR 169.2 million to EUR 125.0 million.

Amounts owed in foreign currency in the investment portfolio of USD 2,804.8 million (2008: USD 2,498.3 million) and in current assets of USD 28.4 million (2008: USD 36.8 million) are hedged with corresponding refinance (USD 1,742.9 million / 2008: USD 1,509.2 million) or with currency swaps (USD 818.9 million / 2008: USD 751.3 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

A glance at DEG's project portfolio immediately reveals the institution's development mandate: it is largely made up of countries and addresses with a structurally higher risk. That is why it is essential to have an adequate risk management system that takes special account of risk capacity in order to control these risks and hence ensure that the business outcome allows DEG 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 a credit rating and a corporate policy rating, both periodically and as occasion arises. Besides profitability aspects, the Corporate Policy Project Rating assesses mainly developmental impacts.

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

Organisation of risk management

DEG's risk policy approach is determined by its annually updated risk strategy and by applied risk management methods and processes, which are subject to ongoing development. 2009 saw implementation of the technical platform for an estimation of costs based on the RAROC measurement framework; this has further improved the basis for managing new business in a way that is commensurate with the risk.

In 2009 the focus was again on dealing with and adequately responding to the continuing manifest effects of the crisis in the world-wide economy and financial markets. With this in mind, short and medium-term planning was updated in spring of 2009. Based on the earnings situation forecast, the limits set on DEG's equity capital were reduced accordingly. There were occasional instances when a passive breach of the limits occurred; these were due to the downgrading of some countries and borrowers. To ensure timely reporting on how DEG was developing during the crisis, monthly reporting to the Supervisory Board's Auditing Committee was introduced.

The risk management process includes all activities involved in the systematic handling of risks at DEG:

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

To meet these requirements, all the regulations of critical importance to DEG's risk policy are summarised in an in-house risk manual. The aim of this set of rules is to ensure that any risks arising from DEG's business activities are consistently dealt with, both in terms of risk policy and of process. The overriding principle is: "same risk – same rules"; in other words, where the same risks exist, these are subject to the same minimum risk policy, process and reporting requirements.

This fosters appropriate risk awareness within DEG and creates transparency in relation to all the risks undertaken. This comprehensive and timely monitoring allows risks to be detected early and then managed.

Risk identification involves the systematic recording of significant risks or areas of risk within DEG – i.e., primarily address non-payment risks, including country risks, as well as possible overlaps with other types of risk.

The risks that arise mainly result from the project finance business in DEG's investment countries. In response to the additional counterparty risks caused by the crisis in the world economy and the financial markets, DEG introduced close co-ordination and monitoring of disbursement processes. These processes continued in 2009.

Risk analysis deals with the aggregation and measurement of all types of risks arising within DEG. The object of risk control is actively to influence the risks exposed in the course of risk identification and analysis.

Risk monitoring and risk management are designed to ensure that DEG's actual risk position is within the limits laid down by the Board of Management in its the risk strategy. Credit risks, market price risks, counterparty risks in the financial investment and derivatives business, and country risks are monitored, using applied and co-ordinated systems of limits, by the Risk Controlling Division, which is part of the Planning and Controlling Department. Treasury is responsible for ensuring compliance with the liquidity risk limits. Calculating the liquidity ratio and ensuring that the limit is observed also falls to Risk Controlling. The division additionally carries out monitoring of risks and limits at least once a month.

Market price, counterparty and liquidity limits and excesses are reported at least once a month to the Asset/Liability Management Committee (APS). 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 this reporting, compliance with limits and liquidity status are updated daily by the Risk Controlling Division 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 movements in exchange rates) Risk Controlling verifies that Treasury transactions with market partners are at market terms. In the case of anomalies, or where limits have been breached, the Board of Management is immediately notified. The Auditing Committee and the Supervisory Board are regularly updated 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 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 to finance 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 compared with the available capital. The capital required is calculated in line with regulatory requirements and spread across the three main risk types that apply to DEG, address non-payment risk (81%), market price risk (13%), and operational risk (6%). The credit line pledged by the KfW Bankengruppe ensures adequate liquidity reserves.

To determine capital adequacy requirement for address non-payment risk, DEG has opted for the Control and Risk Self-Assessment (CRSA) approach based on the Basel II framework. All finance business items are given the highest risk rating of 150%. These risk-weighted assets are allotted an 8% capital ratio, producing an overall capital ratio of 12%. This approach guarantees adequate capital reserves and takes account of DEG's specific portfolio mix, which is characterised by an extensive involvement in high risk countries.

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.

Stress tests

To be able to cope with the potential effects of the crisis in the financial markets or the currently weak growth of the global economy, an additional capital buffer is added to capital requirements. This capital buffer was reviewed over the course of 2009 based on extensive stress tests and takes account of with the increased risks arising from the economic and financial crisis.

In DEG parlance, stress tests are sensitivity or scenario analyses in which risk factors are exposed to highly unlikely but plausible changes and shocks in order to assess their impact on risk capacity. At DEG, stress tests are applied to address risks, market price risks and operational risks and are carried out quarterly. In the case of address risks, the focus is on the finance business, so participating interests are included along with loans.

In addition to general (i.e. moderate stress tests for project enterprises where all ratings are reduced by between one and two levels) and special stress tests (where there is a concentration of particular industries and regions within DEG's project portfolio), what is known as "ad hoc stress tests" are carried out. This is a kind of early warning system that responds within a certain time frame to rate changes (e.g. of currencies, share indexes or CDS spreads in emerging markets) when pre-determined thresholds have been crossed. Based on these signals and depending on the situation, analyses are carried out and – if necessary – measures introduced. In 2009 DEG continued with its proven practice of a conservative approach to considering stress test results in ascertaining its available capital.

The Board of Management and the Supervisory Board receive timely updates on DEG's overall risk situation and risk capacity in each quarterly report. The analysis of risk capacity has shown that the risks taken on by DEG were tenable at all times, both on the effective date of 31 December 2009 and throughout the year.

The very conservative stress test approach adopted by DEG was revised at the end of 2009 in the light of the new MaRisk requirements. In relation to the measurement of address non-payment and country risks, the modification of the existing approach affected the selection of, and setting of parameters for, stress tests based on various scenarios; the calculation of risk capacity and capital requirements respectively, as well as 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. The previous system is being replaced in the first quarter of 2010.

Types of risk

Address non-payment risks

DEG defines address non-payment risk as the risk of a 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 financial investments and derivatives transactions. 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 portfolio by region (viewed by risk country) and by sectors shows, DEG's risk policy positioning determines certain portfolio priorities. For instance, looking at sectors, we find concentrations in the financial and manufacturing industries, with regional concentrations in Europe and Asia. Under risk aspects, a concentration in the financial industry is acceptable because, with the help of banks, leasing companies and funds, DEG is indirectly fulfilling its development 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. The "manufacturing industry" portfolio is spread across 20 industries and so has a high level of diversification. There were no major changes to portfolio mix compared to the previous year; the main one was the fall in the proportion of financial institutions in Europe.

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

Portfolio on own account by region and sector

(net commitment portfolio as of 31 Dec. 2009)

	Africa	Asia	Europe	Latin America	Total	Previous year 31 Dec. 2008
Financial institutions	6.2 %	12.5 %	15.8 %	7.0 %	**41.5 %**	**42.3 %**
Manufacturing	2.8 %	13.4 %	6.5 %	5.7 %	**28.4 %**	**29.4 %**
Transport, telecommunications, infrastructure	2.7 %	2.9 %	0.6 %	2.3 %	**8.5 %**	**8.2 %**
Other services, trade, tourism	1.6 %	2.1 %	3.7 %	2.0 %	**9.4 %**	**8.9 %**
Energy and water supply	1.5 %	2.7 %	0.5 %	2.3 %	**7.0 %**	**6.9 %**
Agriculture, forestry, fisheries	1.8 %	1.4 %	0.9 %	0.5 %	**4.6 %**	**3.9 %**
Mining, non-metallic minerals	0.6 %	-	-	-	**0.6 %**	**0.4 %**
Total	**17.2 %**	**35.0 %**	**28.0 %**	**19.8 %**	**100 %**	
Previous year, 31 Dec. 2008	15.4 %	32.5 %	33.4 %	18.6 %		100 %

Beginning in 2009, DEG has also been integrated into the KfW Bankengruppe system of global country and address country limits. The global country limit system limits unexpected losses based on economic capital. The address country limit system limits the risk for borrowers in individual countries. From 2010, industry risks will be monitored using a corporation-wide system of limits. 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.

To reduce risks at project portfolio level, DEG's limit management system additionally limits both country and credit risks in the M17[1] to M20 rating classes to a total of 20 % of the commitment obligation in each case. The current limit utilisation as of 31 December 2009 comes to 66 % for countries and 74 % for individual addresses (i.e. 13 % and 15 % respectively fell into the M17 to M20 range of M classes).

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 (SolvV). A uniform assessment of venture-capital and investment companies is achieved with a rating method that meets group-wide standards as well as Basel II criteria.

The loan portfolio is monitored every month for interest or redemption payments in arrears for more than 90 days. The investment portfolio at risk with arrears of more than EUR 10,000 as at 31 December 2009 came to EUR 238 million (2008: EUR 109 million), with EUR 135 million (2008: EUR 91 million) in arrears. The investment portfolio at risk as a proportion of the total loan portfolio came to 7.9 % (2008: 3.7 %). The increase compared to 2008 was due mainly to the high level of investment (EUR 82 million) in two commercial banks in Kazakhstan which have built up arrears on their redemption payments. The 2008 figure was also boosted by high disbursements.

Any individual value adjustments to project risks that may be required are established during the quarterly portfolio evaluation. Moreover, provisions are made for latent country risks to the investment portfolio, based on country risk and drawing on group-wide country ratings. As at 31 December 2009, the individual value adjustments to project risks came to EUR 450 million (2008: EUR 292 million), with EUR 123 million (2008: EUR 118 million) for country risks. Because DEG's business model is shaped by development policy, its portfolio mix – with reference to country and credit risk classes – displays, as expected, a concentration of medium and high default risk.

In addition to ongoing risk reporting and monitoring, a comprehensive portfolio analysis is undertaken a part of regular portfolio management. If problems with an involvement are spotted in the course of portfolio handling, this is subjected to close supervision involving special measures. If certain criteria apply (including serious impairments of performance, enforcement measures, or the well-founded suspicion of criminal conduct on the part of partners in the project), 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 ratings based on external credit rating classes. Derivates are used to hedge currency risks and to 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 the best addresses.

Defined limits for both individual projects and countries and at portfolio level were adhered to – apart from occasional passive breaches. Such passive breaches of the limits (due to ratings being downgraded or movements in the currency exchange rate) which did occur over the year as a result of the world-wide turmoil in the financial and capital markets were immediately communicated and analysed.

[1] Rating classes on the Master scale: M1 to M8 = Investment grade; M9 to M15 = Speculative grade; M16 to M18 = Close supervision; M19 and M20 = Default.

Net commitment portfolio on own account by risk classes

Country or credit risk classes on the M scale	Credit exposure	Net commitment portfolio as at 31 Dec. 2009			
		Countries		Projects	
		EUR million	Per cent	EUR million	Per cent
M1 to M8	Investment grade	1,398.4	30 %	313.6	7 %
M9 to M15	Speculative grade	2,345.0	51 %	3,115.0	68 %
M16 to M18	Close supervision	853.6	19 %	876.5	19 %
M19 and M20	Default	-	-	291.9	6 %
Total		4,597.0	100 %	4,597.0	100 %

Based on this, appropriate policy options were devised and measures implemented.

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 and foreign currency or in DEG's finance business. Market influences in this context are interest rate changes and shifts in currency relations. Appropriate scenario or stop-loss limits have been defined for present value changes or losses. A daily evaluation is carried out based on current Reuters data using customary calculation methods; these are used both for the scenario simulations based on the interest rate shock and for variations derived from these, as well as for an ex-post analysis of present value changes (stop-loss limits).

Interest-rate risk, which accounts for most of the market price risk, is understood to mean the potential loss that accrues because a fixed interest rate agreement for clients is only refinanced or secured at some later point 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 refinance 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 as used in ex-post analyses and scenario simulations and applied to the portfolio currently being modelled. Existing currency risks result from the failure to secure margins and incongruent cover, which may occur due to disruptions of the flow of loan repayments. With 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 15 million (2008: below EUR 10 million). The higher risk was due in part to a higher proportion of the loan portfolio being in US$ as well as the US$ exchange rate trend, which remained very volatile over the whole of 2009. Due to the above-mentioned change in the portfolio, the US$ currency limit was raised from 1 % to 2 % of present portfolio value as of 2009.

Liquidity risk

Liquidity risk denotes the risk of insolvency. In DEG's view, the liquidity risk does not represent a significant risk as defined by MaRisk, since DEG and the KfW Bankengruppe have a written agreement whereby the KfW Bankengruppe has undertaken to provide DEG with capital market funds and time deposits. DEG counters the risk of any negative impact on its solvency by holding liquidity reserves of at least 10 % of non-disbursed commitments. As at 31 December 2009, liquidity reserves, mainly in the form of overnight funds and time deposits, came to approximately EUR 125 million (2008: EUR 169 million). With non-disbursed commitments (excluding trust funds) of EUR 910 million (2008: EUR 775 million), that amounts to liquidity reserves of 14 % (2008: 22 %), which is 40 % above the lower limit set in house.

Operational risks

Operational risks are defined as the danger of direct or indirect losses arising due to shortcomings or failures of internal processes, personnel or systems, or as a result of external events. This definition includes legal risks, but excludes strategic and reputational risks. Operational risks are measured using the standard Basel II approach.

DEG has implemented the organisational framework for measuring and controlling operational risks, and decided on staffing for the posts of senior managers for operational risk and operational risk analysts. Senior management is part of the Finance/Controlling division, while the analysts are allocated to the Front Office and Staff segments. To identify and control operational risks, risk assessments are carried out at least once a year. In addition, an events database listing all cases of loss is maintained and evaluated.

The strategic risk of failing to meet long-term corporate goals based on underlying business assumptions and forecasts is dealt with by continuously comparing 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 investments and measures that result are regularly reviewed along with the portfolio mix.

Appropriate emergency prevention plans and crisis management schemes are in place for risks that may arise due to unforeseeable events. 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 carrying out money laundering checks, maintaining representative offices in key countries, carrying out ongoing training and by an exchange of experience. In this connection, special attention is paid to identifying and controlling risks associated with the finance business which result from the failure to comply with environmental and social standards.

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

Compared to commercial banks, operational risks in the field of data processing are considerably lower, 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 data processing strategy and operations, and by having regular external checks carried out. Emergency schemes are in place. DEG has an alternative computer centre at its disposal.

Legal risks play a comparatively important role for DEG, since its business operations extend across many countries which have different legal systems and ways of applying the law. The aim is as far as possible to rule out risks to DEG's legal positions by wording contracts individually and 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.

OUTLOOK

Promotion of entrepreneurial development has become even more vital as a result of the world-wide financial and economic crisis and the credit crunch. That is why development finance institutions like DEG have a special role to play. Following the most serious global recession since the end of the Second World War, the economic recovery of the markets is expected to continue over the coming years, especially in developing and emerging market countries. World-wide growth of 3.1% is forecast for 2010; the industrial nations are expected to see their economies grow by 1.3%, with 5.1% growth in developing countries. That is likely to go hand in hand with a rise in demand for long-term finance. Drawing on its decades-long experience of involvement in high-risk countries and times of crisis, DEG will continue to pursue and expand its development activities.

At year end, qualified applications for finance, from which DEG's new business is derived, came to approximately EUR 1.6 billion (2008: EUR 1.3 billion). Finance already agreed but not yet contractually finalised had a volume of EUR 0.4 billion (2008: EUR 0.5 billion) at year end. Against this background, DEG is planning for EUR 1.1 billion in new business for 2010, equivalent to a 10% increase. In the medium term, new commitments are predicted to grow by 7.5% annually. The project portfolio is scheduled to grow by 8% in 2010, while the growth target for the following year is 7%.

As well as a return to this moderate growth trend, there are plans to further improve the quality of DEG's development business. For instance, venture capital finance – participating interests and mezzanine finance – will be expanded to make up 40% of new business, with participating interests rising to 20%. Given that venture capital is extremely scarce in many partner countries, an increased involvement in this segment of the financial industry is imperative from a development point of view. By actively managing its participating interests and taking on rights of supervision and joint decision-making power, DEG is also playing its part in promoting international corporate governance standards and demanding environmental and social standards. Given conditions in the equity markets, which have most recently been very difficult, it is expected that in the future, equity participations will again offer more business potential, provided the economic upturn in the target countries continues.

An important priority for the coming financial years will be to provide guidance and finance to small and medium-sized enterprises. In all development regions, SMEs in particular have insufficient access to finance. DEG will therefore continue with its "SME Growth Initiative", launched in 2009, and plans to make approx. EUR 1 billion in finance available via the initiative within three years.

Following the successes of recent years, entrepreneurial development in Africa, which is a key priority of German and international development policy, will receive targeted support. DEG will continue to work to persuade medium-sized German firms to take on greater involvement in African countries.

Activities in the business segment climate protection finance will continue; commitments of approximately EUR 150 million are planned for the coming financial year. The priority will be to finance renewables projects and investments designed to improve enterprises' energy efficiency.

DEG will step up its cooperation with its European partners, especially EDFI members, as well as with multilateral development banks. Such cooperative arrangements make it possible to offer more substantial tranches of finance to enterprises, share risks and work even more efficiently. Strategic partnerships with selected banks offer additional potential for reaching hitherto insufficiently accessible client groups in the private sector, especially small and medium-sized enterprises, and offering them financing and advisory services tailored to their needs.

Foremost among economic risk factors is the financial and economic crisis, which has not yet run its course. Although the global recession has evidently bottomed out, the world economy is recovering only slowly and remains vulnerable. In some countries, notably in Eastern Europe, regeneration is likely to proceed at a much slower pace. A crucial factor in future development will be whether the financial sector can once again achieve long-term stability. An additional factor in some partner countries, including Pakistan und Afghanistan, is that the political situation has deteriorated.

In the aftermath of the economic crisis, opportunities for DEG lie in the fact that demand for its financing and advisory services will increase, especially since commercial banks and financial services providers are withdrawing from the riskier markets in developing countries. This is where DEG can put its experience as a long-term, crisis-tested partner to the private sector to good use and make up for more financing shortfalls.

The number of applications for finance received reveals continuing demand on the part of enterprises for guidance on structuring and long-term investment capital. With this in mind, DEG assumes that it will be able to achieve the volume of new business planned for 2010 and 2011. DEG also expects that, from 2010, it will again generate a profit. The main determinants of DEG's financial success are still income from participating interests and net provisions for risk, and both, being dependent on external market conditions, are subject to considerable fluctuations.

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; but it can only be again met in the future if the economic upturn in DEG's partner countries proceeds as expected, if equity markets stabilise once again and the required net provision for risk returns to normal levels. Given the unusually deep global economic crisis, and in the context of the development activities pursued by DEG with its high equity ratio, a temporary failure to achieve the target return is acceptable.

In addition to fulfilling its development mandate and being risk-conscious in the management of its project portfolio, stabilisation and improvement of earnings performance and cautious management of costs remain DEG's main priorities for the future.

ANNUAL STATEMENTS OF ACCOUNTS 2009

BALANCE SHEET AT 31 DECEMBER 2009

WITH PREVIOUS YEAR'S FIGURES FOR COMPARISON

Assets

			31 Dec. 2009	31 Dec. 2008
	EUR	EUR	EUR	EUR thousand
A. Subscribed capital unpaid			122,147,630	122,148
B. Fixed assets				
I. Intangible assets				
1. Industrial property rights and similar rights and assets, including licences on such rights and assets			362,652	226
II. Tangible assets				
1. Land and buildings		49,177,891		57,026
2. Office equipment		3,927,464		3,911
			53,105,355	60,937
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	497,981,277			483,580
b) Loans to undertakings in which DEG has a participating interests	222,310,737			184,622
c) Other loans	2,343,546,895			2,394,839
		3,063,838,909		3,063,041
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	7,823,770			8,359
b) Other loans	1,054,213			1,224
		8,877,983		9,583
			3,072,716,892	3,072,624
Total B. (I. + II. + III.)			3,126,184,899	3,133,787
C. Current assets				
I. Debtors and other assets				
1. Amounts owed from investment activities		49,535,329		79,712
– of which amounts owed by undertakings in which DEG has a participating interest: EUR 3,086,699				
2. Amounts owed from disposal of investments		129,547		11,546
3. Amounts owed from consultancy and other services		104,728		505
4. Other assets		99,679,854		98,593
			149,449,458	190,356
II. Bonds and notes			11,001,251	18,455
III. Cash in hand, balances with Deutsche Bundesbank and with credit institutions			124,955,039	169,213
Total C. (I.+II.+III.)			285,405,748	378,024
D. Prepayments and accrued income			103,613	105
E. Assets held under trust			108,847,207	120,824
Total assets			**3,642,689,097**	**3,754,888**

Liabilities

			31 Dec. 2009	31 Dec. 2008
	EUR	EUR	EUR	EUR thousand
A. Shareholders' equity				
I. Subscribed capital			750,000,000	750,000
II. Share premium account				
1. Purpose-tied reserve fund				
as at 1 January	7,560,000			3,830
Transfer from net income for previous year	0			5,000
Transfer/Withdrawal reserve fund	-1,000,000			-1,270
as at 31 December		6,560,000		7,560
2. Other appropriated surplus				
as at 1 January	609,745,298			496,395
Transfer from net income for previous year	20,360,000			113,350
as at 31 December		630,105,298		609,745
			636,665,298	617,305
III. Net loss (prev. yr. Net profit)			-50,360,000	20,360
Total A. (I. + II. + III.)			1,336,305,298	1,387,665
B. Provisions for liabilities and charges				
1. Provisions for pensions and similar obligations		70,098,135		69,737
2. Provisions for taxation		2,350,000		2,350
3. Other provisions		31,144,801		31,223
Total B. (1. + 2. + 3.)			103,592,936	103,310
C. Creditors				
1. Amounts owed for financing investment activities to credit institutions		2,054,727,574		2,120,115
2. Trade creditors		1,170,463		671
3. Amounts owed to affilliated enterprises		6,681,413		0
4. Other creditors		31,364,206		22,303
– of which tax payable:		*1,324,554*		*798*
– of which social security:		*201*		*0*
Total C. (1. + 2. + 3. + 4.)			2,093,943,656	2,143,089
D. Accruals and deferred income			0	0
E. Liabilities for assets held under trust			108,847,207	120,824
Total liabilities			**3,642,689,097**	**3,754,888**

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

WITH PREVIOUS YEAR'S FIGURES FOR COMPARISON

Income		2009	2008
	EUR	EUR	EUR thousand
1. Income from participating interests		20,816,566	15,128
2. Income from long-term loans		174,705,150	180,324
– of which from affiliated enterprises		*6,187,857*	*3,593*
3. Other interest receivable and similar income		19,018,221	6,649
– of which from affiliated enterprises		*3,852,848*	*730*
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	91,060,140		53,738
b) Write-up of amounts owed from project activities and from disposal of investments	2,619,266		3,449
c) Write back of provisions in respect of lending business and participating interests	3,781,000		950
		97,460,406	58,137
5. Other operating income			
a) from disposal of participating interests		10,851,534	39,790
b) from consultancy services		4,167,171	5,681
c) from trust transactions		915,133	1,072
d) from other services		7,887,943	4,391
e) other		8,525,239	18,263
		32,347,020	69,197
Total income		**344,347,363**	**329,435**

Charges		2009	2008
	EUR	EUR	EUR thousand
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	268,686,658		148,580
b) Depreciation and value adjustments in respect of amounts owed from project activities and disposal of investments	5,108,201		2,500
c) Provisions in respect of lending business and participating interests	2,147,000		3,455
		275,941,859	154,535
7. Interest payable and similar charges		36,535,935	66,761
– of which to affiliated enterprises		*36,136,399*	*72,326*
8. Staff costs			
a) Wages and salaries		33,338,192	30,315
b) Social security, pensions and other benefits		9,050,903	8,348
– of which pensions		*4,600,040*	*4,190*
		42,389,095	38,663
9. Depreciation and adjustments for impairment of tangible assets		3,344,505	1,658
10. Other operating charges		34,566,704	42,714
Total (6.+7.+8.+9.+10.)		392,778,098	304,331
11. Profit on ordinary activities		-48,430,735	25,104
12. Tax on profit		2,921,764	5,998
13. Other taxes		7,501	16
14. Loss for the financial year (prev. yr. Profit for the financial year)		-51,360,000	19,090
15. Transfer/Withdrawal purpose-tied reserve fund		1,000,000	1,270
16. Net loss (prev. yr. Net profit)		**-50,360,000**	**20,360**

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. Itemisation in the Profit and Loss Account is based on income from participating interests.

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 exempted 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 new provisions of German Income Tax Act Article 6, paragraphs 2 and 2a, have been applied at DEG for low-value fixed assets in office furniture and equipment since 1 January 2008.

Financial fixed assets are accounted for at original cost or the lower of cost or market (LCM) value. Value adjustments (in respect of project and country) are set off in the respective asset items.

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

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 according to their going-concern value in accordance with Article 6a of German Income Tax Law. An actuarial interest rate of 4.5% has been applied to the calculation (2008: 4.3%).

Other provisions were made at the level of anticipated demand and take all actual risks and liabilities of uncertain cost into account.

Amounts owed are recorded as liabilities with repayment amounts.

Participating interests purchased with foreign currency are converted into euros at the rate of exchange current at the time of purchase. All other balance sheet items in foreign currency are at average exchange rates prevailing on 31 December 2009.

Derivatives transactions intended to control DEG's interest rate risks overall are managed with finance transactions and hence are not itemised separately.

Movements in fixed asset balances

	Original costs				
	Balance carried forward to 1 Jan. 2009	Additions 2009	Book transfers 2009	Disposals 2009	As of 31 Dec. 2009
I. Intangible assets					
1. Industrial property rights and similar assets, also licenses in such rights and assets	3,566,773	295,512	-	-	3,862,285
II. Tangible and intangible assets					
1. Land and buildings	64,390,436	7,075	-	12,549,130	51,848,381
2. Office equipment	8,401,837	1,035,571	-	2,835,576	6,601,832
Total (I. + II.)	76,359,046	1,338,158	0	15,384,706	62,312,498
III. Financial fixed assets					
1. Investments in partner countries					
a) Participating interests	603,104,216	93,880,970	-	39,016,270	657,968,916
b) Loans to undertakings in which DEG has a participating interest	212,328,141	67,663,899	-4,087,849	25,205,000	250,699,191
c) Other loans	2,657,633,894	587,570,551	4,087,849	521,094,472	2,728,197,822
Total 1. (a + b + c)	3,473,066,251	749,115,420	0	585,315,742	3,636,865,929
2. Other financial fixed assets					
a) Bonds and notes under current fixed assets	8,226,680	-	-	522,105	7,704,575
b) Other loans	1,224,195	116,839	-	286,821	1,054,213
	9,450,875	116,839	0	808,926	8,758,788
Total III. (1. + 2.)	3,482,517,126	749,232,259	0	586,124,668	3,645,624,717
Total (I. + II. + III.)	**3,558,876,172**	**750,570,417**	**0**	**601,509,374**	**3,707,937,215**

NOTES ON ASSETS

Fixed assets

Details are contained in the table “Movements in fixed asset balances”.

Tangible assets

Allowable tax depreciation for 2009 was EUR 3.2 million (previous year: EUR 1.5 million). This includes depreciation on office furniture and equipment of EUR 0.9 million and on buildings of EUR 2.3 million.

For the 2009 financial year, depreciation on the building in Kämmergasse includes one-off tax depreciation under Article 254 of the German Commercial Code of EUR 1.0 million from the transfer of silent reserves arising according to Article 6b of German Income Tax Law from the proceeds of the sale of the land and buildings in Belvederestraße. The land and buildings in Belvederestraße were disposed of by notarized sale in the 2008 financial year. Transfer of ownership and payment of the balance took place in February 2009.

(continued)	Value adjustments		Book value	Depreciation
	Write-up 2009	Accumulated depreciation	As of 31 Dec. 2009	2009
I. Intangible assets				
1. Industrial property rights and similar assets, also licenses in such rights and assets	-	3,499,633	362,652	159,353
II. Tangible and intangible assets				
1. Land and buildings	-	2,670,490	49,177,891	2,281,490
2. Office equipment	-	2,674,368	3,927,464	903,662
Total (I. + II.)	0	8,844,491	53,468,007	3,344,505
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	18,273,651	159,987,639	497,981,277	69,288,156
b) Loans to undertakings in which DEG has a participating interest	4,898,255	28,388,454	222,310,737	8,932,823
c) Other loans	67,888,234	384,650,927	2,343,546,895	190,461,057
Total 1. (a + b + c)	91,060,140	573,027,020	3,063,838,909 [1]	268,682,036
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	-	-	7,704,575 [2]	-
b) Other loans	-	-	1,054,213	-
	0	0	8,758,788	0
Total III. (1. + 2.)	91,060,140	573,027,020	3,072,597,697	268,682,036
Total (I. + II. + III.)	**91,060,140**	**581,871,511**	**3,126,065,704**	**272,026,541**

1) Of which EUR 214,801,980 secured by unfunded risk participation
2) Without accrued pro rata interest

Investments in partner countries

This item shows investments from funds on own account. The investment portfolio of EUR 3,063.8 million is made up of participating interests and loans. Investments from trust funds of EUR 108.8 million are itemised as assets held under trust.

Own-account investments were made in 458 enterprises in 85 countries. These include three enterprises where the investments were partly financed out of federal trust funds and by other trustee lenders. In fifteen enterprises, third parties entered into risk sub-participations in the form of counter-guarantees.

Foreign currency loans to the value of EUR 2,065.4 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	20.3
c) Other loans	413.7
2. Other financial fixed assets	
a) Bonds and notes in current fixed assets	0.2
b) Other loans	0.0
Total	**434.2**

Bonds and notes in current fixed assets

The item Bonds and notes under current fixed assets (EUR 7.8 million) contains two convertible bonds from project companies. These are convertible bonds of EUR 0.8 million and EUR 6.9 million respectively, plus accrued interest of EUR 0.1 million.

Amounts owed from investment activities

The EUR 33.5 million in amounts owed comprise 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 16.0 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 a balancing item derived from the valuation of currency receivables secured by swaps (EUR 84.6 million), amounts owed by the Tax Office (EUR 10.6 million), travel advances (EUR 0.6 million), and accrued pro-rata interest (EUR 0.5 million).

Residual maturity profile of debtors, investments and other assets

EUR million

	Residual maturity				
	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Amounts owed					
1. from investment activities	49.5	-	-	-	49.5
2. from disposal of investments	0.1	-	-	-	0.1
3. from consultancy and other services	0.1	-	-	-	0.1
4. from other assets	95.7	0.4	1.9	1.7	99.7
Total	**145.4**	**0.4**	**1.9**	**1.7**	**149.4**

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 11.0 million.

Balances with banks

Balances with banks covers mainly overnight and time deposits of EUR 118.0 million and current account balances of EUR 6.9 million. This item also includes 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 22.0 million, loans of EUR 77.5 million and additional trust funds from BMZ of EUR 4.1 million, as well as trust funds of EUR 2.7 million from the American development agency USAID and amounts owed on a trust basis of EUR 2.5 million.

EUR 64.8 million of lending is accounted for by the "Federal Republic of Germany's Lending Programme for Business Start-Ups" designed 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.

NOTES ON LIABILITIES

Subscribed capital

Subscribed capital remains unchanged at EUR 750.0 million. 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.

Purpose-tied reserve fund for technical assistance (TA) measures

Technical Assistance 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 2009 financial year, EUR 1.0 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 taxation

Provisions for taxation pertain to corporate and trade tax for the 2009 financial year.

Other provisions

Other provisions largely cater for risks in respect of project finance of EUR 13.2 million, which is not yet included in project and country value adjustments. There are also provisions for legal risks for a project company in China (EUR 4.7 million), for variable remuneration (EUR 3.8 million), for interest saved for future project finance in ACP countries (EUR 1.9 million) and for the new office building in Kämmergasse (EUR 1.8 million).

Amounts owed to credit institutions for financing investment activities

Amounts owed here refers primarily to loans against borrowers' notes in the amount of EUR 1,903.7 million placed with the Shareholder KfW (previous year: EUR 1,976.0 million).

Amounts owed to affiliated enterprises

These amounts owed are due to the Shareholder from the legal obligation to pass on funds for guarantees called in.

Other creditors

This item breaks down into EUR 8.9 million from liabilities in respect of consortium partners and project companies, EUR 9.2 million from the Bill & Melinda Gates Foundation, EUR 4.1 million from funds held in trust, and EUR 3.2 million in net cash flow for Technical Assistance measures in South-Eastern Europe.

Residual maturity profile of amounts owed to creditors

EUR million

	Residual maturity				
	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
1. For financing investment activities					
a) to credit institutions	174.4	109.7	1,010.9	759.7	2,054.7*
b) to other creditors	-	-	-	-	-
2. To trade creditors	1.2	-	-	-	1.2
3. Amounts owed to affilliated enterprises	6.7	-	-	-	6.7
3. To other creditors	22.1	-	9.2	-	31.3
Total	**204.4**	**109.7**	**1,020.1**	**759.7**	**2,093.9**

*Of which EUR 2,038.5 million (previous year: EUR 2,098.9 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 101.7 million from the BMZ, a further EUR 4.1 million for business start-up loans in Afghanistan, EUR 2.7 million from the US development agency USAID, and EUR 0.3 million from the European Union (EU).

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. Regional break-down (leaving aside the swap result) is as follows:

	2009 EUR million	2008 EUR million
Africa	29.7	27.5
America	42.1	41.0
Asia	75.0	76.5
Europe	39.5	51.8
Total	**186.3**	**196.8**

Other interest receivable and similar income

For the most part, this item includes income from derivatives transactions (EUR 16.1 million), which is made up of earnings from interest rate options (EUR 6.9 million) and derivatives sales (EUR 8.9 million), from sureties and guarantees (EUR 1.2 million) and from money market funds and time deposits (EUR 0.9 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.

Other operating income

This item includes in particular income from the disposal of participating interests (EUR 10.9 million), from other services (EUR 7.9 million), and from consultancy commissions (EUR 4.2 million).

Out-of-period income resulted from the write-back of EUR 7.4 million in other provisions, EUR 3.8 million of which relate to write-backs of provisions in respect of the lending business and participating interests.

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 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 adjustments to pay rates.

Pensions and other benefits mainly comprises provisions for pensions, 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 11.8 million), charges for legal risks for a project in China (EUR 4.7 million), for exchange rate differentials in foreign currency positions (EUR 4.4 million), and travel expenses (EUR 3.5 million).

Taxes on income and profit

The amount shown relates almost wholly to foreign tax charges for the 2009 financial year of EUR 2.9 million.

LOSS FOR THE FINANCIAL YEAR/NET LOSS

The net loss of EUR 50.4 million shown is lower than the loss for the financial year by EUR 1.0 million, the amount withdrawn from the purpose-tied reserve fund; under the Articles of Association, it must be withdrawn from Other appropriated surplus.

Derivatives transactions

Volumes

EUR million

	Nominal values		Positive market values	Negative market values
	31 Dec. 2008	31 Dec. 2009	31 Dec. 2009	31 Dec. 2009
Contracts with interest-rate risks				
Interest-rate swaps	1,437.5	1,037.9	31.0	-24.2
Interest-rate options				
Long	-	-	-	-
Short	100.0	100.0	-	-1.8
Interest-rate cap and floor agreements	3.8	0.0	0.0	0.0
Other interest-rate derivatives transactions	-	-	-	-
Total interest-rate risks	1,541.3	1,137.9	31.0	-26.0
Contracts with currency risks				
Forward foreign exchange transactions, swaps	153.7	74.6	0.0	-1.0
Currency and cross-currency interest-rate swaps	813.0	818.7	94.0	-8.9
Foreign currency options				
Long	-	-	-	-
Short	-	-	-	-
Other forward supply transactions	-	-	-	-
Total currency risks	966.7	893.3	94.1	-9.9
Contracts with stock-market risks				
Stock options				
Long	1.5	1.9	0.0	0.0
Short	-	-	-	-
Total stock-market risks	1.5	1.9	0.0	0.0
Total	**2,509.5**	**2,033.1**	**125.1**	**-35.8**

Counterparties

EUR million

	Nominal values		Positive market values	Negative market values
	31 Dec. 2008	31 Dec. 2009	31 Dec. 2009	31 Dec. 2009
OECD banks	2,509.5	2,033.1	125.1	-35.8
Banks outside the OECD	-	-	-	-
Other counterparties	-	-	-	-
Public agencies in the OECD	-	-	-	-
Total	**2,509.5**	**2,033.1**	**125.1**	**-35.8**

Maturities

Nominal values, EUR million

	Interest-rate risks		Currency risks		Stock-market risks	
	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009
Residual maturities						
Up to 3 months	9.3	0.0	227.1	114.0	-	-
More than 3 months to 1 year	545.6	255.4	51.8	177.1	-	1.9
More than 1 to 5 years	648.1	414.6	390.1	236.7	1.5	-
More than 5 years	328.3	467.9	297.7	365.4	-	-
Total	**1,541.3**	**1,137.9**	**966.7**	**893.3**	**1.5**	**1.9**

NOTES ON DERIVATIVES TRANSACTIONS

As part of its risk management, DEG regularly engages in futures trading and makes use of derivatives products. There is no intention to deal as principal as itemised in the trading book. These instruments 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.

MISCELLANEOUS

Liability/Contingent liabilities

DEG stands surety to the value of EUR 42.8 million for 12 project enterprises as collateral for borrowing.

Other financial obligations

DEG is required to pay a total of EUR 0.1 million under tenancy agreements that run until 2010.

A total of EUR 0.3 million is payable in fees on leasing contracts for the remaining term until 2013.

Obligations from undisbursed participating interests and loans amount to EUR 865.8 million. DEG has additionally committed to guarantee liabilities of EUR 43.8 million.

AVERAGE NUMBER OF STAFF THROUGHOUT THE YEAR

Staff not covered by regular pay scales and senior executives	272
Staff covered by regular pay scales	115
Number of female staff	193
Number of male staff	194
Total	**387**

These figures include part-time staff (57), but not staff on parental leave and local personnel working abroad.

REMUNERATION OF CORPORATE BODIES

Total charges for the Supervisory Board in the year under review came to EUR 29,190. Remuneration for the Board of Management for the 2009 financial year totalled EUR 1,124,788. This includes the sum of EUR 141,206 for benefits in kind and other payments. Current annual salary components were set at a uniform rate for all members of the Board of Management of EUR 327,048.

Total pension allowances for former members of the Board of Management and surviving dependents amounted to EUR 695,145. EUR 9,648,293 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 2009 in accordance with article 285 No. 11 of the German Commercial Code (HGB) from 20%.

	P. No.	Business name and registered office	Currency[1)]	Rate 1.00 EUR = ... CU[2)] (as of 31 Dec. 2009)	DEG holding in per cent	Equity in TCU[3)]	Result in TCU[3)]
A. Home							
1.	P 4216	PCC-DEG Renewables GmbH Duisburg, Germany	EUR	1.00000	40.00	6,242	-372
B. Abroad							
	I. Africa						
2.	P 1147	Banque Nationale de Développement Agricole Bamako, Mali	XOF	655.64500	21.43	14,155,283	576,075
3.	P 1305	PREFUND Project Rehabilitation Fund Ltd. Nairobi, Kenya	KES	108.81000	85.40	282,078	132,704
4.	P 2337	Industrial Promotion Services Uganda Ltd. Kampala, Uganda	UGX	2,731.50000	20.00	1,668,999	24,789
5.	P 3199	Corporate Leasing Company Egypt Cairo, Egypt	EGP	7.88625	22.20	85,949	3,688
6.	P 3958	BNP Paribas Nouakchott, Mauritania	MRO	378.15500	20.00	3,252,797	-94,262
7.	P 4181	Tourism Promotion Services Ltd. Kigali, Rwanda	RWF	821.01500	29.10	6,340,331	355,422
8.	P 4422	Banyan Tree Growth Capital Port Louis, Mauritius	USD	1.44060	37.10	4,957	-666
9.	P 4507	India Agri Business Fund Ltd. Port Louis, Mauritius	USD	1.44060	21.05	158	-1,158
	II. America						
10.	P 2782	The SEAF Central and Eastern Europe Growth Fund Washington, USA	USD	1.44060	25.00	7,117	69
11.	P 3977	SAE Towers, LP. Washington, USA	USD	1.44060	26.92	18,086	-4,010
12.	P 4534	Kendall Court Mezzanine (Asia) Bristol Merit Fund L.P., Cayman Islands	USD	1.44060	28.50	18,084	627
13.	P 4557	Tolstoi Investimentos S.A. Sao Paulo, Brazil	BRL	2.50690	30.60	101,569	11,590
14.	P 4580	Acon Latin American Opportunities Fund-A, L.P. Washington, USA	USD	1.44060	28.85	4)	4)

1) ISO currency code
2) CU currency units in local currency
3) TCU = 1,000 local currency units
4) Enterprise in start-up phase, no annual statements of accounts available to date.

Continued on following page →

	P. No.	Business name and registered office	Currency[1]	Rate 1.00 EUR = ... CU[2] (as of 31 Dec. 2009)	DEG holding in per cent	Equity in TCU[3]	Result in TCU[3]
	III. Asia						
15.	P 2502	H&Q Philippine Holdings, Inc. Manila, Philippines	PHP	66.87150	50.00	47,935	3,666
16.	P 2787	Harvest Rich Ltd. Dhaka, Bangladesh	BDT	99.03195	28.30	269,451	6,763
17.	P 2818	Sanner Pharmaceutical and Medical Packing Materials Kunshang Co Ltd., Kunshan, China	CNY	9.83500	40.00	15,513	2,636
18.	P 3283	Langfang Hess Building Materials Machinery, Co. Ltd., Langfang, China	CNY	9.83500	40.00	32,436	2,602
19.	P 3594	Jade Cargo International Co. Ltd. Shenzhen, China	CNY	9.83500	24.00	-684,653	-385,987
20.	P 3763	HaPe International Ningbo Ltd. Ningbo, China	CNY	9.83500	37.50	74,909	8,477
21.	P 3807	Wanfeng MotorcycleWheel Co. Ltd. Xinchang, China	CNY	9.83500	34.78	453,410	102,836
22.	P 3878	Ace Power Pvt. Ltd. Colombo, Sri Lanka	LKR	164.49000	26.00	3,829,453	1,194,516
23.	P 3923	Orient Power Company Ltd. Lahore, Pakistan	PKR	121.58664	24.98	2,957,910	-24,378
24.	P 4006	Sapphire Electric Company Ltd. Muri, Pakistan	PKR	121.58664	20.00	3,101,503	-24,690
25.	P 4169	Atlas Bank Ltd. Karachi, Pakistan	PKR	121.58664	24.90	3,656,944	-1,331,930
26.	P 4518	OJSC Tourism Promotion Services Dushambe, Tadjikistan	TJS	6.29744	21.00	-51	-16
	IV. Europe						
27.	P 2562	TOO Knauf Gips Kaptschagaij GmbH Kapchagai, Kazakhstan	KZT	213.55000	40.00	6,614,902	1,811,373
28.	P 2762	PII TOW Ukrspon LLC Kiev, Ukraine	EUR	1.00000	20.24	790	-1,053
29.	P 3445	Tirana Airport Partners SHPK Rinas, Albania	EUR	1.00000	31.70	30.068	8,035
30.	P 3511	Center-Invest Bank Rostov-on-Don, Russ. Federation	RUB	43.15400	22.45	5,479,107	307,505
31.	P 3665	TOO Isi Gips Inder Inderborski, Kazakhstan	KZT	213.55000	40.00	966,501	146,444
32.	P 4095	Emerging Europe Leasing and Finance (EELF) B.V. Amsterdam, Netherlands	EUR	1.00000	25.00	17,160	910

1) ISO currency code
2) CU currency units in local currency
3) TCU = 1,000 local currency units
4) Enterprise in start-up phase, no annual statements of accounts available to date.

CORPORATE BODIES

Supervisory Board

Gudrun Kopp
Chairwoman
(as of 10 December 2009)
Parliamentary State Secretary, Federal Ministry for Economic Cooperation and Development, Berlin
(as of 24 November 2009)

Erich Stather
Chairman
(to 23 November 2009)
State Secretary (ret.), Federal Ministry for Economic Cooperation and Development, Bonn
(to 23 November 2009)

Dr. Norbert Kloppenburg
First Deputy Chairman
(as of 1 October 2009)
Member of the Board of Managing Directors, KfW, Frankfurt am Main

Wolfgang Kroh
First Deputy Chairman
(to 30 September 2009)
Member of the Board of Managing Directors, KfW, Frankfurt am Main
(to 30 September 2009)

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
(as of 31 March 2009)

Ernst Burgbacher
Parliamentary State Secretary, Federal Ministry of Economics and Technology, Berlin
(as of 8 December 2009)

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

Hartmut Koschyk
Parliamentary State Secretary, Federal Ministry of Finance, Berlin
(as of 1 December 2009)

Nicolette Kressl
Parliamentary State Secretary, Federal Ministry of Finance, Berlin
Member of the Bundestag
(to 24 November 2009)

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
(as of 1 October 2009)

Etienne Viard
Director, Mediterranean and Middle East Department, Agence Française de Développement, Paris

Dagmar Wöhrl
Parliamentary State Secretary, Federal Ministry of Economics and Technology, Berlin
Member of the Bundestag
(to 7 December 2009)

Board of Management

Dr. Michael Bornmann

Philipp Kreutz

Dr. Winfried Polte (Chairman)
(to 30 September 2009)

Bruno Wenn (Chairman)
(as of 1 October 2009)

Cologne, 17 February 2010

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

Board of Management
Dr. Bornmann Kreutz Wenn

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 2009. 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 members of the Board of Management. Our responsibility is to express 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 anticipated 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 a test basis. 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 overall a true understanding of the Company's position and presents an accurate picture of the opportunities and risks of future development.

Düsseldorf, 18 February 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Jörg Kügler	Myriam Lehnen
Wirtschaftsprüfer	Wirtschaftsprüferin

IMPRINT

Published by:

DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH
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

Design and Layout:

Werkstudio: Werbung und Design GmbH
Düsseldorf

Translation:

Delphine Lettau
London

Printed by:

Margreff Druck und Medien GmbH
Essen

Photos:

Front cover: iStockphoto (left and centre);
Danper Trujillo S.A.C., Peru (right)

ISSN: 0946-1728

The Annual Report with Financial Statements
and Management Report is also available
in German.

Cologne, March 2010

DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH

Kämmergasse 22
50676 Cologne, Germany
Phone +49 221 4986-0
Fax +49 221 4986-1290
info@deginvest.de
www.deginvest.de

DEG
KFW BANKENGRUPPE