

DEG Horizons

Our business is developing.

COUNTRY FOCUS

- Asia: good prospects despite SARS 2

PARTNERS AND PROJECTS

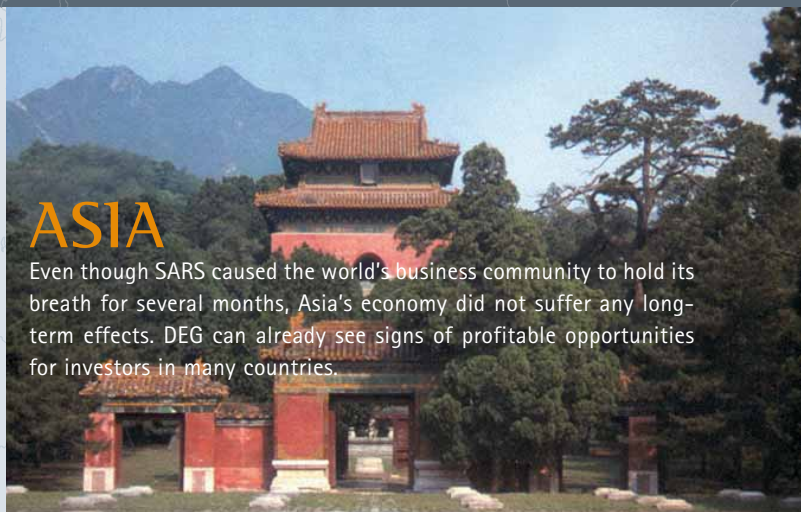
- Germano-Turkish organic-farming success story 3

FINANCING

- On the up: attractive solutions for equity capital 3

NEWS

- Bemvindo a São Paulo 4
- Investing successfully in Vietnam 4



ASIA

Even though SARS caused the world's business community to hold its breath for several months, Asia's economy did not suffer any long-term effects. DEG can already see signs of profitable opportunities for investors in many countries.

EDITORIAL

Following the summer heat wave and, hopefully, a restful holiday, it is now back to dealing with your company's future. Perhaps you are just in the process of considering new investment goals and how to finance them. This latest issue of DEG Horizons should give you a few ideas.

Developing and transition countries in which DEG manages the interests of investors, have plenty to offer. In Country Focus we show that Asia offers good prospects despite SARS. For some months, very little happened in China, which was particularly badly affected, but now one is looking forward to further economic development with optimism, as is the case in other parts of Asia.

In the Partners and Projects section, we carry a report on a successful Germano-Turkish organic farming venture and show how subsidiaries or joint ventures can be financed using shareholdings. In addition, you are cordially invited to visit our new office São Paulo.

The DEG Horizons editorial team wishes you pleasant reading.

IN BRIEF

Our perception of **Africa** is influenced by war, famine and misery – but there are countries and industries on the African continent where development is showing promise and which offer foreign investors interesting opportunities. At the inaugural meeting of the North Rhine Westphalian Africa Circle in June, 80 representatives from companies, associations and institutions got together to swap experiences. Businessmen wishing to invest in Africa can rely on DEG's 40-year investment experience. Our Africa portfolio currently stands at over 470 million euros.

The **Public Private Partnership Programme**, which DEG offers on behalf of the German federal government, can also be useful when it comes to preparatory or accompanying measures for investments in Africa and in developing or transition countries in general. For example, pilot projects or qualifying measures by European companies wanting to achieve a particularly effective development locally can be co-financed by up to 200,000 euros per project.

India's mobile phone market is growing. According to analysts, between 33 and 54 million Indians will be using mobile phones by 2006. This represents at least a threefold increase in the current number of users. DEG has awarded Bharti Cellular Ltd. (BCL), one of the leading private telecommunications providers in India, a long-term loan to finance the further expansion of its mobile phone network. So far, DEG has invested more than 70 million euros in telecommunications projects in Asia, Africa und Latin America.



COUNTRY FOCUS

ASIA: GOOD PROSPECTS DESPITE SARS.

An hitherto unknown illness made the globalised world feel very insecure at the end of 2002: SARS, an illness that has a rapid and severe effect on the respiratory tract, first appeared in the Chinese province of Guangdong and within a very short time spread to Toronto in Canada, via Hong Kong, Singapore and other Asian regions. For a time, it brought life in China to a halt; Singapore, the Philippines, Taiwan, Vietnam and Malaysia were also affected.

Despite this, experts believe the picture painted was gloomier than it really was. Measures taken to stem the spread of SARS by the WHO and the countries affected quickly took effect; the WHO has long since issued a global "all-clear". However, it is still not possible to foresee completely what the long-term economic repercussions will be.

SARS had only a relatively small effect on DEG's business. Even in China, where hardly any movement was possible for months, the situation is now back to normal. Initially, DEG's office in Beijing responded to the emergency by interpreting SARS as "Stop All Required Sales-activities", but it is now going about its business with added drive. Generally speaking, there are signs that local businesses are increasingly improving their performance. DEG recently took a shareholding in a local private enterprise software house, which represents our first IT activity in China. In addition, we are currently examining possible financing for various projects with German and local partners in the processing industry.

Observers are reporting an upturn in the Philippines. However, it remains to be seen what effects the presidential election in 2004 will have. Strong growth is being reported, in particular in the service sector. Here, DEG has awarded a long-term loan to a telecommunications company. We are also dealing with interesting

looking projects in the processing and service industries concerning training and the provision of medical treatment.

Southern Asia was practically unaffected by SARS. DEG sees good opportunities for investments here, especially in India. There are various growth industries – e.g. electronics, telecommunications, steel –, services and agribusiness. In all probability, the volume of DEG's new business in India in 2003 will exceed last year's figure of 60 million euros. For instance, DEG is currently in discussions with companies from the textile and food processing industries.

Things are also now happening in those Asian countries that are not usually the focus of attention for investors. For example, Vietnam: the country is undergoing slow but continuous reform and is also developing economically. DEG is sounding out possible investments here, such as in the finance sector. We have been active in Vietnam for a long time via the federal government's Public Private Partnership Programme. Here we are co-financing a proportion of the costs for preparatory or accompanying measures for investments by companies; examples are training courses for the tourist industry and the agricultural sector, as well as for vocational training (see also p.4, "Investing successfully in Vietnam").

PARTNERS AND PROJECTS

GERMANO-TURKISH ORGANIC-FARMING SUCCESS STORY.

Nowadays, there is no longer just an aura of "healthy" eating about bio-foods. Many customers set store by products grown under ecologically controlled conditions, which are often superior in quality to foodstuffs grown using conventional methods. This is reflected in the development of Rapunzel Naturkost AG: the company has grown from a wholefood store, opened in 1974, into one of the leading suppliers of natural foods in the German-speaking region.

In order to ensure optimal quality, Rapunzel also grows its own raw materials in those countries where the climate is suitable. In 1985, the company started growing figs and sultanas in Turkey. The Turkish subsidiary, which was formed in 1997, now works together with about 700 farmers with whom it has signed contracts for cultivation and supply. More than 20 different fruits, such as figs, apricots, lentils and sesame, are now grown and processed at 14 locations. The main customer is the parent company but the subsidiary also sells directly to large chains of food-retail stores in Austria and Switzerland.

Stringent quality control plays a significant role in the company's success. Coding enables each delivery to be traced back to the individual farmer. All farmers under contract are subjected to checks by both the company and third parties to ensure they conform to the guidelines of the EU directive on biofoods. Turkish project managers are in charge of the locations. They advise the farmers, organise the sale of the harvest and are responsible for quality control. And they also look after the farmers' families and organise regular meetings for the farmers' wives and children. No wonder then that the farmers are happy to work for the company. At some locations, whole villages have gone over to organic farming.

With a long-term loan, DEG has co-financed the investments needed for expansion in Turkey – for cold storage cells, laboratory equipment, storage facilities and the updating of the EDP "scene". In addition, further funds have been made available via the Public Private Partnership Programme on a prorata basis to train the farmers.

FINANCING

ON THE UP: ATTRACTIVE SOLUTIONS FOR EQUITY CAPITAL.

If you do not have enough equity capital, you cannot get loan capital. No capital means no investments, and without investments there is hardly any prospect of lasting success – equity financing is becoming increasingly more interesting to medium-sized businesses as a way of breaking this vicious circle. For companies wishing to expand into emerging markets and set up a subsidiary or joint venture, DEG offers attractive equity capital solutions, including equity participation or mezzanine finance.

In the case of an equity participation, the investor acquires a stake in the company and thus participates as well in the profits and losses of the company. Strategic investors use their interests to pursue long-term objectives, such as the expansion of their own position or the development of new markets; on the other hand, DEG, as a finance investor, restricts itself to minority shareholdings and is thus primarily a provider of capital. The risk structure of the project and the wishes of the project partners will determine the flexibility with which the equity financing can be structured. Depending on the form of such criteria as voting rights, dividend rights and exit clauses, it is possible to have a whole range of solutions, from unrestrained risk sharing through to secured quasi-equity forms.

The shareholding of a financial investor is usually accompanied by a seat on the supervisory board. Companies can profit to a particularly

large extent from DEG's country and industry specific expertise as well as by making use of DEG's extensive local networks. On top of this, companies that set up a joint venture with a foreign partner appreciate the strengthening of the "German side" thanks to DEG's seat on the supervisory board. Before acquiring any participation, DEG checks the company concerned with respect to its finance and market structure, the feasibility of its planned investment and its environmental and social standards. If finance is approved, it is also a confirmation that the company has a good chance of success. Thus, not only does a DEG stake strengthen the equity capital base; it can be a help in finding other investors and facilitate access to additional borrowing.

Equity capital

- Participation in the equity capital of the company in the investment country (minority shareholding)
- Various forms of participation are possible
- On a case-by-case basis, voting rights and seat on supervisory board of the company
- Clearly defined exit clause

There will be more on mezzanine finance in the next issue.

NEWS

BEMVINDO A SÃO PAULO.

DEG has opened its first office in Latin America – in São Paulo, together with KfW. About 1,100 German subsidiaries are based in Brazil's economic heartland. Today, São Paulo is one of the most important locations in the world for German investments; many of the companies have had a local presence for a long time. They are increasingly reinvesting in the country and using it as a base to open up the markets of Mercosur, the Latin American economic community. According to the German Embassy, the companies will invest 2.5 billion euros by 2005.

DEG has been actively engaged in Brazil for 40 years. It has concentrated its efforts in particular on finance for investments by medium-sized companies and for small and medium-sized private infrastructure projects. It has been co-operating successfully with private Brazilian financial institutions for many years.

DEG's portfolio in the Mercosur countries is now almost 280 million euros.

The opening of an office in São Paulo means DEG can serve its customers locally and better assess current political and economical developments. Together with KfW, it can offer its customers the complete range of financing available from the KfW group of companies. Thomas Kessler, the head of DEG's local office, has many years' experience of Latin America and is an experienced investment manager – he is looking forward to seeing you in São Paulo!

DEG Representative Office Brasil

Rua Verbo Divino 1.488, 3. andar, 04719-904 São Paulo

Phone: +55 11 5182-7610, e-mail: tkessler@degbrasil.com.br

INVESTING SUCCESSFULLY IN VIETNAM.

After the People's Republic of China, Vietnam is showing the highest growth rates in the region. If your company has plenty of experience in Asia and is involved in the textile industry or the processing of agricultural products, Vietnam is certainly worth a look. Ostasiatischer Verein (OAV) and DEG invite you to find out more about investing in Vietnam. Oliver Massmann, a lawyer with Baker & McKenzie in Hanoi,

will familiarise you with the legal and taxation aspects. In addition, businessmen will be reporting on their own experience.

Wednesday, 1 October 2003, DEG, 50933 Köln, Belvederestr. 40
Registration and further information by phone on 0221 4986-580 or via e-mail at info@deginvest.de.

WHO SAID IT?

"Markets can remain irrational longer than you can remain solvent."

- a) André Kostolany, financial adviser and stock-market guru (1906-1999)
- b) John Maynard Keynes, economist (1883-1946)
- c) Klaus Schneider, chairman of the German Association for the Protection of Small Shareholders

Solution
Such a thought, or one quite similar, could have gone through the mind of any of the three at some time or other. However, the quotation is actually attributable to John Maynard Keynes, the British economist. His main work The General Theory of Employment, Interest and Money (1936), was written against the backdrop of the world economic crisis of 1929 and develops an idea that essentially calls for state intervention.

DEG

- DEG has been financing and structuring the investments of private companies in developing and transition countries for 40 years.
- DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from agriculture to infrastructure and manufacturing to services. We also focus on investments in local money markets in order to facilitate reliable access to capital locally.
- So far, we have worked together with more than 1,050 companies. By providing 5 billion euros of finance, we have achieved a total investment of 34 billion euros.
- Our aim is to establish and expand private enterprise structures in developing and transition countries, and thus create the basis for sustainable economic growth and a lasting improvement in the living conditions of the local population.

Publisher: DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH • Belvederestraße 40 • 50933 Köln • Germany • Phone: +49 221 4986-0 • Fax: +49 221 4986-290 • info@deginvest.de • www.deginvest.de **Editors:** Cordula Rinsche, Christiane Weiß **Design:** Werkstudio. werbung und design **Photos:** DEG/Markus tho Pesch (page 1), DEG/Claudia Wink (page 2, left), DEG/Ricarda Horst (page 2, right). © 2003 DEG.

DEG

MEMBER OF KFW GROUP