

NEW GERMANY FUND INC
Form N-CSRS
September 02, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSRS

Investment Company Act file number 811-05983

The New Germany Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

345 Park Avenue

New York, NY 10154-0004

(Address of Principal Executive Offices) (Zip Code)

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

Paul Schubert

345 Park Avenue

New York, NY 10154-0004

(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period: 06/30/09

ITEM 1. REPORT TO STOCKHOLDERS

SUMMARY OF GENERAL INFORMATION

THE FUND

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

SHAREHOLDER INFORMATION

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

The foregoing information is also available at www.dws-investments.com.

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

The European Equity Fund, Inc. investing primarily in equity and equity-linked securities of companies domiciled in countries utilizing the Euro currency (with normally at least 80% in securities of issuers in such countries).

The New Germany Fund, Inc. investing primarily in the middle market German companies with up to 20% in other Western European companies (with no more than 10% in any single country).

The Central Europe and Russia Fund, Inc. investing primarily in equity and equity-linked securities of issuers domiciled in Central Europe and Russia (with normally at least 80% in securities of issuers in such countries).

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

These funds focus their investments in certain geographical regions, thereby increasing their vulnerability to developments in that region. Investing in foreign securities presents certain risks, such as currency fluctuation, political and economic changes, and market risks.

The New Germany Fund, Inc.

Semi-Annual Report

June 30, 2009

**The New Germany
Fund, Inc.**

LETTER TO THE SHAREHOLDERS

Improving leading economic indicators and the reduction of risk aversion were the main drivers of strong equity markets in the second quarter of 2009. Results of some banks and cyclicals were better than expected for the first quarter. Many companies used the improvement in equity markets and investor sentiment to increase their capital and strengthen their balance sheets.

A sudden shift in investors' risk appetite saw equity markets strongly recovered from their steep losses in the first quarter. European and German equity indices rose more than 30% from their March lows. During the second quarter, Germany's large cap index, the DAX, posted its best quarterly performance since the fourth quarter of 2003, and the German small and midcap indices outperformed the large caps.¹ Within the fund's benchmark, the telecommunications, information technology and consumer staples sectors posted the best performance, while health care and consumer discretionary lagged. With increasing market confidence over the second quarter of 2009, investors started screening for cyclical value exposure with especially higher leveraged stocks starting to outperform as capital markets started to normalize.

For the six months ended June 30, 2009, the fund's total return was 8.73% based on net asset value and 7.35% based on share price. During the same period, the total return of the Fund's benchmark, the Midcap Market Performance Index, gained 7.33%.²

The fund's performance during the first half of 2009 benefited most from its positioning in the consumer discretionary, industrials, and materials sectors while information technology and consumer staples were a drag on performance. We kept our underweight in the consumer staples sector and decreased our weight in the consumer discretionary sector by selling the position in TUI.³ The fund had an overweight position in Praktiker, the second largest do-it-yourself retailer in Germany with a leading presence in several Eastern European countries, which was on of the top outperformers of the Mid Cap Market index in the second quarter, after having hurt fund performance in the first quarter of 2009. Having no exposure to Arcandor, the now insolvent department store operator in Germany, helped the fund's performance during the first half of 2009. Our neutral position in the technology sector burdened the fund's performance based on the effects of stock selection. Software AG was among the top detractors of the fund's performance after the company's first quarter results disappointed the market. In addition, the fund's underweight positions in outperforming Infineon (semiconductors) and Aixtron, the world leader in compound semiconductor equipment, were a drag on performance. In the industrials sector, the fund's underweight in EADS, an aerospace and defence company, was the strongest contributor to performance, further boosted by the fund's overweight positioning in Rheinmetall and ElringKlinger, both in the automotive sector. Within the financial sector, the fund's underweight position in Hypo Real Estate contributed positively to performance.

The fund purchased 447,200 of its shares in the open market during the first six months of 2009. The fund's discount to net asset value averaged 23.12% for the six months ending June 30, 2009, compared with 13.49% for the same period last year.

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

¹ The DAX is the total rate of return index of 30 selected German blue chips stocks traded on the Frankfurt stock exchange

LETTER TO THE SHAREHOLDERS (continued)

² The Midcap Market Performance Index is a total return index that is composed of various MDAX and TecDAX issues, reflecting the performance of the mid-caps across all sectors of the Prime Segment. MDAX is a total rate of return index of 50 midcap issues that rank below the DAX. TecDAX is a total return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Segment beneath the DAX.

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

³ "Overweight" means the fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the fund holds a lower weighting.

Sincerely,

Christian Strenger
Chairman

Ralf Oberbanscheidt
Lead Portfolio Manager

Michael G. Clark
President and Chief
Executive Officer

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For additional information about the Fund including performance, dividends, presentations, press releases, daily NAV and shareholder reports, please visit www.newgermanyfund.com

ECONOMIC OUTLOOK

In Germany, the ZEW Index rose to its highest level since May 2006 and the IFO expectations index rose for the sixth month in a row, but economic data remained weak amid the ongoing recession.¹ German gross domestic product (GDP, the value of all goods and services produced in the economy) contracted by 3.8% in the first quarter of 2009. At the end of the second quarter 2009, German GDP was -5.9%. The European Central Bank (ECB) cut its 2009 GDP forecast for the Eurozone to -5.1%.² Unemployment in Germany drifted up from 7.7% at the end of 2008 to 8.3% at the end of the first half of 2009. Overall, economic data were mixed on balance but the trend was mildly positive, compared to admittedly, very low levels, indicating that the pace of economic slowdown has moderated. Policy makers continued their supportive actions: the ECB cut key interest rates by another 50 basis points to a new record-low of 1.0%. In addition, the ECB said it will lend banks EUR 442 billion at 1% interest for 12 months, the most it has ever allotted in an auction, as it steps up efforts to unblock credit markets in the 16-nation euro region. If leading economic indicators, supported by an unprecedented monetary expansion and sizeable fiscal stimuli packages around the world, continue to improve, risk aversion should further normalize and hence equities should perform well in the second half of 2009, especially as higher than normal levels of cash are still on the sidelines. Although there is clearly some risk to the economic recovery scenario, in the past equity markets showed the strongest performance while ISM indicators recovered from the trough to levels around 50.³

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¹ The ZEW Index is a sentiment measure for German investor confidence. The IFO Business Climate Index is a closely watched indicator of German business conditions, based on a monthly survey of about 7,000 companies. It is widely seen as a barometer for economic conditions in the whole of the Eurozone, which is a term used to describe the countries that joined the third stage of EMU and adopted the euro. Index returns assume reinvested dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

² The Eurozone refers to a currency union among the European Union member states that have adopted the euro as their sole currency.

³ The ISM Manufacturing Index is a monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month.

FUND HISTORY AS OF JUNE 30, 2009

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

TOTAL RETURNS:

	For the six-months ended June 30,	For the years ended December 31,				
	2009(c)	2008	2007	2006	2005	2004
Net Asset Value(a)	8.73%	(46.75)%(b)	25.17%	43.94%	13.68%	24.44%
Market Value(a)	7.35%	(53.32)%	25.14%	44.13%	18.94%	30.50%
Benchmark(1)	7.33%	(47.86)%	22.10%	42.51%	14.17%	23.46%

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

(b) Return includes the effect of the \$0.18 per share accretion associated with the Fund's tender offer in-kind. Excluding this accretion, total return would have been 0.95% lower.

(c) Total returns shown for the six-month period are not annualized.

(1) Represents the Midcap Market Performance Index.*

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

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

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

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

Investments in funds involve risk including the loss of principal.

This Fund is diversified but primarily focuses its investments in Germany, thereby increasing its vulnerability to developments in that country. Investing in foreign securities presents certain risks, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility.

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

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

FUND HISTORY AS OF JUNE 30, 2009 (continued)**STATISTICS:**

Net Assets	\$ 210,174,896
Shares Outstanding	19,117,758
NAV Per Share	\$ 10.99

DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:

Record Date	Payable Date	Ordinary Income	LT Capital Gains	Total
05/04/09	05/14/09	\$ 0.018	\$	\$ 0.018
12/15/08	12/31/08	\$ 0.127	\$	\$ 0.127
05/06/08	05/15/08	\$ 0.059	\$	\$ 0.059
12/21/07	01/10/08	\$ 0.255	\$	\$ 0.255*
05/03/07	05/15/07	\$ 0.340	\$	\$ 0.340
12/21/06	12/28/06	\$ 0.055	\$	\$ 0.055
05/05/06	05/15/06	\$ 0.150	\$	\$ 0.150
12/22/05	12/30/05	\$ 0.410	\$	\$ 0.410
05/19/05	05/27/05	\$ 0.140	\$	\$ 0.140
12/22/04	12/31/04	\$ 0.230	\$	\$ 0.230
05/06/04	05/14/04	\$ 0.050	\$	\$ 0.050
12/22/03	12/31/03	\$ 0.022	\$	\$ 0.022
07/24/03	07/30/03	\$ 0.003	\$	\$ 0.003
11/20/00	11/29/00	\$ 0.010	\$ 1.30	\$ 1.310
09/01/00	09/15/00	\$ 0.070	\$ 0.35	\$ 0.420

OTHER INFORMATION:

NYSE Ticker Symbol	GF
NASDAQ Symbol	XGFNX
Dividend Reinvestment Plan	Yes
Voluntary Cash Purchase Program	Yes
Annualized Expense Ratio (6/30/09)	1.13%

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

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

PORTFOLIO BY MARKET SECTOR AS OF JUNE 30, 2009
(As a % of Common and Preferred Stocks)

10 LARGEST EQUITY HOLDINGS AS OF JUNE 30, 2009
(As a % of Common and Preferred Stocks)

1.	EADS	5.9%
2.	Bilfinger Berger	4.6%
3.	United Internet	4.4%
4.	Rheinmetall	4.4%
5.	GEA Group	4.3%
6.	Software	4.2%
7.	Wacker Chemie	4.0%
8.	MTU Aero Engines Holding	3.6%
9.	Lanxess	3.4%
10.	Hochtief	3.3%

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

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

INTERVIEW WITH THE LEAD PORTFOLIO MANAGER Ralf Oberbanscheidt

Question: In the US, it is widely believed that economic recovery depends on stabilization of the housing market; what are the factors that will drive a recovery in Germany?

Answer: During the global economic expansion of the past decade, Germany benefited from its export-oriented economy, but as trade came to a near stand-still at the depths of the economic crisis, it is not surprising that the German economy and corporate sector have been negatively impacted. Despite the massive global economic stimulus measures, the German economy has not yet seen an increase in demand for its export sector. Although unemployment in Germany has increased only slightly, the risk of a further rise in unemployment through the rest of this year and into next year could stifle domestic demand, further dampening German economic growth. In looking toward an economic recovery, resurgence in global demand will be a key driver for the German economy.

Question: Given that credit markets have been such an important aspect of the ongoing economic and financial crisis, how have the companies in the fund's universe been impacted by access to credit?

Answer: Germany may become a model for other European companies, as corporate debt in the European Monetary Union (EMU) has grown substantially over the past decade, though Germany's corporate debt has remained fairly stable. By 2008, debt servicing costs for most European companies had risen as companies borrowed to fund capital expenditures, but German companies actually saw a decline in interest payments and rise in their savings ratio. Thus, the balance sheets of German companies are generally healthier than those of their European peers, though German midcap companies did experience an up-tick in their net debt levels over the past couple years. German companies are, for the most part, well-positioned to fund capital investments, once the global economy recovers.

Question: What are the current investment themes expressed in the fund?

Answer: The volatile investment environment we have seen over the past year has required an increased focus on tactical positioning of the fund, at times moving to a defensive stance and at other times positioning the fund to benefit from a market rebound. On a longer term horizon, however, one of the key themes in the fund is agribusiness. We believe that agribusiness is one of the most interesting structural growth stories and should therefore be emphasized in the portfolio construction. Examples of German companies active in these areas that the fund has been invested in during 2009 include Symrise, a flavor and fragrance company; GEA, an engineering company that supplies equipment to food producers; and K+S, a fertilizer company. In addition, we have investigated German companies involved directly in food production, such as farming or crop producing companies, as well as food retailers and seed companies.

Question: How are the upcoming parliamentary elections in Germany expected to impact German equities?

Answer: Germans will head to the polls at the end of September. The key issue ahead of the elections is taxes, so that is the policy area most likely to be addressed by the new government. However, the fallout from the economic crisis may limit the extent of any reforms. Historically, German equities have performed well following elections when there is a change in government. During the last election, no party won a majority, so a coalition government was formed. It is likely that another coalition will be formed following the September elections, but it is not clear which of the five parties currently represented in parliament will be part of the coalition. Chancellor Angela Merkel remains popular and is expected to continue as Chancellor; a conservative coalition, anchored by Chancellor Merkel's party, would be considered positive for German business. ONT>

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THE NEW GERMANY FUND, INC.
SCHEDULE OF INVESTMENTS JUNE 30, 2009 (unaudited)

Shares	Description	Value(a)
INVESTMENTS IN GERMAN SECURITIES 87.0%		
COMMON STOCKS 85.0%		
AEROSPACE & DEFENSE 3.5%		
199,084	MTU Aero Engines Holding	\$ 7,259,598
AIRLINES 0.4%		
170,000	Air Berlin*	810,645
AUTO COMPONENTS 2.7%		
90,000	Continental*	2,543,434
188,344	ElringKlinger	3,143,414
		5,686,848
CHEMICALS 9.5%		
272,760	Lanxess	6,755,760
360,000	Symrise	5,311,548
69,364	Wacker Chemie	7,961,641
		20,028,949
COMMERCIAL BANKS 2.5%		
210,000	Deutsche Postbank*	5,333,848
COMPUTERS & PERIPHERALS 2.7%		
102,727	Wincor Nixdorf	5,745,696
CONSTRUCTION & ENGINEERING 8.8%		
74,341	Bauer	2,652,457
198,181	Bilfinger Berger	9,200,107
131,567	Hochtief	6,624,366
		18,476,930
DIVERSIFIED FINANCIAL SERVICES 1.0%		
55,000	Grenkeleasing	2,044,915
ELECTRICAL EQUIPMENT 7.2%		
150,000	Q-Cells*	3,050,438
150,686	SGL Carbon*	4,651,529
171,957	Solarworld	4,044,416
264,800	Tognum	3,476,136
		15,222,519
HEALTH CARE PROVIDERS & SERVICES 4.0%		
130,000	Celesio	2,981,014
247,460	Rhoen Klinikum	5,462,766
		8,443,780
HOUSEHOLD DURABLES 0.6%		
118,886	Loewe	\$ 1,333,901

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	INDUSTRIAL	
	CONGLOMERATES 4.2%	
202,583	Rheinmetall	8,765,184
	INTERNET SOFTWARE & SERVICES 4.2%	
750,966	United Internet*	8,783,937
	IT SERVICES 0.7%	
100,000	IDS Scheer	1,504,883
	LIFE SCIENCES TOOLS & SERVICES 1.1%	
108,287	Gerresheimer	2,401,105
	MACHINERY 8.9%	
50,000	Demag Cranes	1,130,415
573,046	GEA Group	8,671,891
298,963	MAX Automation	813,433
52,714	Pfeiffer Vacuum Technology	3,861,436
35,000	Vossloh	4,199,436
		18,676,611
	METALS & MINING 1.2%	
85,000	Aurubis	2,460,546
	PHARMACEUTICALS 1.9%	
157,563	Stada Arzneimittel	3,935,691
	REAL ESTATE MANAGEMENT & DEVELOPMENT 2.8%	
96,965	Deutsche Euroshop	2,985,055
454,364	IVG Immobilien*	2,873,977
		5,859,032
	SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT 3.0%	
800,000	Infineon Technologies*	2,889,150
260,766	Kontron	3,346,377
		6,235,527
	SOFTWARE 4.0%	
120,000	Software	8,484,003
	SPECIALTY RETAIL 3.8%	
30,000	Douglas Holding	1,136,025
50,000	Fielmann*	3,302,186
353,465	Praktiker Bau- und Heimwerkermaerkte	3,445,356
		7,883,567

The accompanying notes are an integral part of the financial statements.

THE NEW GERMANY FUND, INC.
SCHEDULE OF INVESTMENTS JUNE 30, 2009 (unaudited) (continued)

Shares	Description	Value(a)
INVESTMENTS IN GERMAN		
SECURITIES 87.0% (continued)		
	TEXTILES, APPAREL & LUXURY	
	GOODS 0.6%	
5,647	Puma	\$ 1,235,270
	TRADING COMPANIES &	
	DISTRIBUTORS 1.4%	
140,000	Kloeckner & Co.*	