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NEW GERMANY FUND INC
Form N-CSR
March 09, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number 811-5983

New Germany Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

345 Park Avenue

New York, NY 10154

(Address of principal executive offices) (Zip code)

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

Paul Schubert

345 Park Avenue

New York, NY 10154

(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period: 12/31/06

ITEM 1. REPORT TO STOCKHOLDERS

SUMMARY OF GENERAL INFORMATION

THE FUND

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

SHAREHOLDER INFORMATION

Prices for the Fund's shares are published daily in the New York Stock Exchange Composite Transactions section of newspapers. Net asset value and market price information are published each Monday in *The Wall Street Journal* and *The New York Times*, and each Saturday in *Barron's* and other newspapers in a table called "Closed End Funds". Daily information on the Fund's net asset value is available from NASDAQ (symbol XGFNX). It is also available by calling: 1-800-GERMANY (in the U.S.) or 617-443-6918 (outside of the U.S.). In addition, a schedule of the Fund's largest holdings, dividend data and general shareholder information may be obtained by calling these numbers.

The foregoing information is also available on our Web site: www.newgermanyfund.com.

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

The European Equity Fund, Inc.-investing primarily in equity or equity-linked securities of companies domiciled in European countries that utilize the Euro currency.

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

The Central Europe and Russia Fund, Inc.-investing primarily in Central European and Russian companies.

Please consult your broker for advice on any of the above or call 1-800-GERMANY (in the U.S.) or 617-443-6918 (outside of the U.S.) for shareholder reports.

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

The New Germany Fund, Inc.

Annual Report

December 31, 2006

**The New Germany
Fund, Inc.**

LETTER TO THE SHAREHOLDERS

The German equity market continued to rise in the fourth quarter of 2006, concluding another strong year as macroeconomic data remained supportive for equity markets. The decline of interest rates in the third quarter led to a rebound of the leading indicators of the US housing market in the fourth quarter, thus triggering hopes that the worst of the United States (US) housing market recession may be over. Meanwhile, macroeconomic data in Germany continued to surprise positively. The IFO Business Climate Index¹ increased each month in the fourth quarter of 2006 reaching a new record high since German reunification, climbing above the previous peak reached in the year 2000. Aside from the favorable macroeconomic outlook, company profits continued to show solid growth while merger and acquisition (M&A) activity in the fourth quarter was very strong, pushing European M&A transaction volumes in 2006 above the 2000 level. On a sector level, cyclicals lifted the Mid Cap Market Performance Index² while financials slightly burdened overall performance.

For the fiscal year ended December 31, 2006, The New Germany Fund's total return was 43.94% based on net asset value and 44.13% based on share price. During the same period, the total return of the Fund's benchmark, the Midcap Market Performance Index, was 42.51%.

Over the course of the fourth quarter, the Fund implemented a neutral weight in the consumer discretionary and consumer staples sectors by increasing positions in Puma and ProSieben. The latter is a leading German free-to-air broadcaster that could benefit from a potential improvement in the TV advertising market in Germany and profit from a possible merger. The Fund's overweight in Hugo Boss and underweight in Südzucker were beneficial for the Fund, while having no exposure to names such as Fielmann and KarstadtQuelle, which performed well and are represented in the benchmark, burdened the Fund's performance relative to the benchmark.³ M&A activities and currency impact burdened share price performance. Among industrial stocks, having an underweight in Techem, which is engaged in sub-metering and billing services to more than 5.2 million German households, detracted from the Fund's performance. Australia's Macquarie European Infrastructure Funds increased its takeover offer for Techem from EUR 44 per share in cash to EUR 55. In the materials sector, the Fund's overweight positions in K+S and Salzgitter, one of Europe's leading steel and tube producers, contributed positively to performance. The Fund's exposure to Verbio, the largest German producer of bioethanol and biodiesel, was a drag on performance, as its shares suffered from lower oil prices and rising input prices for grains. The Fund increased its underweight in the materials sector during the fourth quarter by trimming its position in K+S following strong share price performance for the year. Long-term holding GPC Biotech, which is focused on oncology, boosted Fund performance. The company's main driver is a second-line chemotherapy treatment in prostate cancer that is in phase III clinical studies. The Fund's underweight position in Qiagen, which provides molecular diagnostics products, also helped performance. The company's shares underperformed the benchmark in the fourth quarter after third quarter results showed revenue growth in-line, but the operating margin was below expectations. The Fund's holdings in Air Berlin, EADS and Pfeiffer Vacuum contributed positively to relative performance for the quarter. In addition, completely exiting the position in Fraport, whose main asset is Frankfurt Airport, helped Fund performance. The company announced a flat profit outlook for the aviation division in 2007, as the division will be struggling from cost pressure and relatively low traffic growth due to capacity constraints.

The New Germany Fund purchased 155,500 of its shares in the open market during the first quarter of 2006. The Fund's discount to net asset value declined to an average of 9.31% for the year ended December 31, 2006, compared with 13.13% for 2005.

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

**The New Germany
Fund, Inc.**

LETTER TO THE SHAREHOLDERS

On June 5, 2006 the Board of Directors of The New Germany Fund, Inc. authorized a cash tender offer to occur if the discount from average daily net asset value of the volume-weighted average daily market price of Fund shares would be greater than 10% for the six-month period July 1, 2006 through December 31, 2006. A tender offer would then take place for up to 10% of the Fund's outstanding shares at a price of 95% of net asset value per share. As Fund's discount from average daily net asset value of the volume-weighted average daily market price was -9.72% during the applicable measurement period, the tender offer was accordingly not triggered.

¹ 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.

² 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 chips 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 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

ECONOMIC OUTLOOK

The New Germany Fund Economic Outlook

Economic growth in 2006 was stronger than expected, particularly in Germany, where the growth rate was the strongest it has been since the year 2000. An improved labor market and increased contribution from domestic demand were key factors for GDP growth in the region, as Eurozone unemployment fell to 7.6%, the lowest level on record. German growth also benefited from stabilization of the construction sector, which had been declining for a decade. In 2007, we believe that global GDP growth will slow somewhat, primarily due to weaker private consumption in the US as a result of the cooling housing market. However, global growth should continue to receive support from increased consumption and infrastructure investments in emerging markets. The outlook for the Eurozone is decidedly more positive than it was at the beginning of 2006, in part due to increasing optimism with regard to Germany, the Eurozone's biggest economy. Driven by capital exp enditures, consumption and exports, we believe Eurozone growth will be approximately 2% in 2007, somewhat weaker than 2006 growth due to fiscal policy consolidation measures in Germany and Italy and the more moderate global growth environment. Key risks to this scenario include relapsing oil prices, further impact from the slowdown in the US housing market, a decline in global capital expenditure demand, and further appreciation of the euro, which would make European exports less attractive. The European Central Bank (ECB) raised interest rates five times in 2006, ending the year at 3.5%. We expect the ECB to tighten at least one more time in 2007, likely in the first quarter. However, with inflationary risks looking to be contained (we believe inflation will remain around 2% in 2007), the cycle of interest rate hikes is likely to come to an end in 2007.

The sources, opinions and forecasts expressed are as of January 2007. 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.

FUND HISTORY AS OF DECEMBER 31, 2006

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

TOTAL RETURNS:

	For the years ended December 31,				
	2006	2005	2004	2003	2002
Net Asset Value(a)	43.94%	13.68%	24.44%	93.07%	(39.60)%
Market Value(a)	44.13%	18.94%	30.50%	102.42%	(39.52)%
Benchmark					
....	42.51% ⁽¹⁾	14.17% ⁽¹⁾	23.46% ⁽¹⁾	78.56% ⁽²⁾	(37.58)% ⁽³⁾

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

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

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

(3) Represents 60% MDAX/40% NEMAX 50 for 1/1/02 8/31/02 and 75% MDAX/25% NEMAX 50 for 9/1/02 12/31/02.

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

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

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

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

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

Investments in funds involve risk including the loss of principal.

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

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

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

FUND HISTORY AS OF DECEMBER 31, 2006 (continued)**STATISTICS:**

Net Assets	\$ 397,932,629
Shares Outstanding	24,804,698
NAV Per Share	\$ 16.04

DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:

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

OTHER INFORMATION:

NYSE Ticker Symbol	GF
NASDAQ Symbol	XGFNX
Dividend Reinvestment Plan	Yes
Voluntary Cash Purchase Program	Yes
Annual Expense Ratio (12/31/06)*	1.30%

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

PORTFOLIO BY MARKET SECTOR AS OF DECEMBER 31, 2006 (As % of Portfolio's Market Value*)

10 LARGEST EQUITY HOLDINGS AS OF DECEMBER 31, 2006 (As a % of Portfolio's Market Value*)

1.	EADS	6.4%
2.	Fresenius	5.8%
3.	Puma	4.0%
4.	Salzgitter AG	4.0%
5.	Merck KGaA	3.8%
6.	K + S	3.5%
7.	United Internet	3.5%
8.	IVG Immobilien AG	3.0%
9.	Celesio	3.0%
10.	GEA Group	2.9%

*Percentage (%) of market value refers to all securities in the portfolio, except cash and equivalents.

Portfolio by Market Sector and 10 Largest Equity Holdings are subject to change.

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

INTERVIEW WITH THE LEAD PORTFOLIO MANAGER Ralf Oberbannscheidt

Question: After such strong performance in 2006, what do you think are the key attractions and risks for German small and midcap equities in 2007?

Answer: Despite strong performance in 2006, German equities remain attractive relative to bonds. For German small and mid caps, we believe there will be solid earning growth for the current year, which should be supportive for performance and justifies a valuation premium to their large cap peers. In addition, this asset class should profit from proposed tax reform measures in 2008 to a larger extent than DAX¹ companies, as their proportion of domestic earnings is generally higher, though companies such as EADS, Merck, Beiersdorf, Salzgitter, Fresenius, Puma and Celesio have a strong international client base. Underleveraged balance sheets, high demand from private equity funds and ongoing merger and acquisition activities should help the performance of German small and mid caps in 2007. Based on the seasonal performance pattern of past years, German small and mid caps may outperform their large cap peers during the first quarter of the year.

Question: Could you elaborate on the corporate tax reform issue and how it will impact companies in Germany?

Answer: Corporate tax reform is one of the key initiatives of the coalition government. Currently, the government is working on draft legislation that could be approved in 2007 and effective by January 1, 2008. There are two components to the current tax rate – a corporate tax and a trade tax. The details of the plan may change as the draft is debated in parliament, but the basic tenets are to reduce the corporate tax rate from 25% to 15% and lower the trade tax from 5% to 3.5%. As a result, the total corporate tax burden would be reduced from 38.6% to 29.8%. The tax cut will be financed by broadening the tax base through elimination of accelerated depreciation (only linear depreciation will be allowed) and limiting tax deductions for interest payments. Companies that generate a significant portion of their profits within Germany are expected to benefit the most from the proposed reform, while companies that have high debt levels may be negatively impacted.

Question: What are the primary factors driving your investment decisions in the Fund?

Answer: Investment decisions also are generally based on bottom-up stock selection, but broader themes occasionally enter into the investment rationale. For example, in 2005, we initiated positions in several solar companies, followed in 2006 with investments in biodiesel companies, as we expected these companies to benefit from rising oil prices and an increasing focus on renewable energy sources. Germany has been an important growth motor for the sector, helped by the German Renewable Energy Law (EEG). As a result, German solar companies have been leaders in the global solar market. As various countries, including Spain, China, and the US, followed Germany's example by adopting renewable energy regulations and providing subsidies to encourage the growth of the solar industry, we believe that German solar companies may benefit from increased demand with estimated annual market growth of 20% until 2010. Other investment themes that have been implemented include a focus on companies that gain cost advantages through off-shoring (though this may change with the proposed tax reform) and identifying companies that are in the midst of restructuring programs that could lead to sustainable growth.

¹ DAX is the total rate of return index of 30 selected German blue chips 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 reinvested dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

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DIRECTORS OF THE FUND

Name, Address and Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
John Bult, 70 ⁽¹⁾⁽²⁾ Class II	Chairman, PaineWebber International (since 1985)	Director, The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Director, The Greater China Fund, Inc. (closed end fund).
Ambassador Richard R. Burt, 59 ⁽¹⁾ Class I	Chairman, Diligence, LLC (international information and risk management firm) (since 2002). Chairman, IEP Advisors, Inc. (information services firm) (1998-2001). Chairman of the Board, Weirton Steel Corp. (1996-2004). Formerly, Partner, McKinsey & Company (consulting firm) (1991-1994). U.S. Ambassador to the Federal Republic of Germany (1985-1989).	Director, The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc. (since 2000). Board Member, IGT, Inc. (gaming technology) (since 1995). Board Member, EADS North America (defense and aerospace) (since 2005). Director, UBS family of Mutual Funds (since 1995).
John H. Cannon, 64 ⁽¹⁾ Class II	Consultant (since 2002); Vice President and Treasurer, Venator Group/Footlocker Inc. (footwear retailer) (until 2002).	Director of The Central Europe and Russia Fund, Inc. and The European Equity Fund, Inc. (since 2004).
Richard Karl Goeltz, 64 Class I	Consultant. Vice Chairman and Chief Financial Officer of American Express Co. (1996-2000); Former Chief Financial Officer and Member of the Board of Directors of National Westminster Bank Plc. (1992-1996). Former Executive Vice President-Finance (1986-1991) and Vice President-Finance (1976-1986) of The Seagram Company Ltd.	Independent Non-Executive Director of Aviva plc (financial services), Director of Federal Home Loan Mortgage Corp. ("Freddie Mac") and The Warnaco Group Inc.; Member of the Court of Governors and the Council of the London School of Economics and Political Science.

DIRECTORS OF THE FUND (continued)

Name, Address and Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Dr. Franz Wilhelm Hopp, 64 Class III	Former Member of the Boards of Management of ERGO Versicherungsgruppe AG, ERGO Europa Beteiligungsgesellschaft AG, and ERGO International AG (insurance) (over five years); Member of the Boards of Management of VICTORIA Holding, VICTORIA Lebensversicherung AG, VICTORIA Versicherung AG, VICTORIA International, VICTORIA Rückversicherung AG and D.A.S. Versicherungs-AG. (insurance)	Chairman of the Supervisory Board of Ideenkapital Media Finance. Member of the Supervisory Boards of Jenoptik, AG; TMW Immobilien AG; Oesterreichische Volksbanken; KarastadtQuelle Bank GmbH; GFKL Financial Services AG; MEAG Munich ERGO Kapitalanlagegesellschaft mbH; Internationales Immobilieninstitut GmbH; TMW Real Estate Group L.P., and Victoria Volksbanken, Oesterreich. Member of the Administrative Boards of Frankfurter Volksbank and HSBC Trinkaus & Burkhardt. Member of the Advisory Boards of Dresdner Bank AG; EnBW Energie Baden-Wuerttemberg AG; Falke Bank AG; Landeskreditbank Baden-Wuerttemberg; Millenium Entertainment Partners L.P. and MPE Hotel, LLC. Member of the District Advisory Board of Gerling- Konzern (until 2002); Chairman of the Rumanian Group in the German East-West Trade Committee (until 2002); Member of Advisory Council of Herder GmbH & Co. KG; Member of Supervisory Board of Photon AG. Member of the District Advisory Board of Deutsche Bank AG, Mannheim (until 1999).
Ernst-Ulrich Matz, 72 Class III	Consultant. Vice Chairman of the Supervisory Boards of Bopp & Reuther AG (valve, control, measurement and safety technology) (1990-2001). Chief Financial Officer and member of the Board of Directors of IKWA Aktiengesellschaft (production and manufacturing technology) (1978-2000). Member of the Supervisory Boards of Ex-Cell-O AG (machine tool and system manufacturer) (1996-2001) and ARO SA (1978-2000) (resistance welding).	

DIRECTORS OF THE FUND (continued)

Name, Address and Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Christian H. Strenger, 63 ⁽¹⁾⁽²⁾ Class I	Member of Supervisory Board (since 1999) and formerly Managing Director (1991-1999) of DWS Investment GmbH (investment management), a subsidiary of Deutsche Bank AG.	Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Member, Supervisory Board, Fraport AG (international airport business) and Hermes Focus Asset Management Europe Ltd. (asset management).
Dr. Frank Trömel, 70 ⁽¹⁾ Class III	Deputy Chairman of the Supervisory Board of DELTON AG (strategic management holding company operation in the pharmaceutical, household products, logistics and power supply sectors) (since 2000). Member (since 2000) and Vice-President (since 2002) of the German Accounting Standards Board; Chairman of the Board of Managing Directors of DELTON AG (1990-1999); Chairman of the Board of Managing Directors of AL TANA AG (1987-1990) (management holding company for pharmaceutical and chemical operation) and Member of the Board (1977-1987).	Director, The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc. (since 2005).
Robert H. Wadsworth, 66 ⁽¹⁾⁽³⁾ Class I	President, Robert H. Wadsworth Associates, Inc. (consulting firm) (May 1983-present). Formerly, President and Trustee, Trust for Investment Managers (registered investment companies) (April 1999-June 2002). President, Investment Company Administration, L.L.C. (January 1992 ⁽⁴⁾ -July 2001). President, Treasurer and Director, First Fund Distributors, Inc. (mutual fund distribution) (June 1990-January 2002). Vice President, Professionally Managed Portfolios (May 1991-January 2002) and Advisors Series Trust (registered investment companies) (October 1996-January 2002).	Director, The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990) as well as other funds in the Fund Complex as indicated.

DIRECTORS OF THE FUND (continued)

Name, Address and Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Werner Walbröl, 69 ⁽¹⁾ Class II	President and Chief Executive Officer, The European American Chamber of Commerce, Inc. Formerly, President and Chief Executive Officer, The German American Chamber of Commerce, Inc. (until 2003).	Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Director, TÜV Rheinland of North America, Inc. (independent testing and assessment services). Director, The German American Chamber of Commerce, Inc. President and Director, German-American Partnership Program (student exchange programs). Director, AXA Art Insurance Corporation (fine art and collectible insurer).
Peter Zühlsdorff, 65 Class II	Managing Director of DIH Deutsche Industrie Holding (holding company) (since 1997). Managing Director of DSD Duales System Deutschland AG (recycling) (since 2004). Managing Director of Tengelman Uniemahmetusgruppe (food and specialty retailing) (1998-2003). Managing Director of Bewerbungskomitee Leipzig 2012 GmbH (olympic bid committee) (2004) and Managing Director of PZ Sportpark GmbH (1996-2003).	Chairman of the Supervisory Board, Sinn Leffers AG (retail) and Escada AG (fashion). Member of the Supervisory Board, Deutz AG (heavy machinery and engines) and Kaisers Tengelman AG (food and specialty retailing). Member of the Advisory Board, Tengelman Verwaltungs-und Beteiligungsgesellschaft GmbH (food and specialty retailing), DSD-Duales System Deutschland GmbH, Bahlsen GmbH & Co. KG (bakery goods), Ziegler Film (TV and film productions) and Deutsche Sporthilfe.

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

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

(2) Indicates "interested" Director, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Mr. Bierbaum is an "interested" Director because of his affiliation with Sal. Oppenheim Jr. & Cie KGaA, which engages in brokerage with the Fund and other accounts managed by the investment advisor and manager; Mr. Bult is an "interested" Director because of his affiliation with PaineWebber International, an affiliate of UBS Securities Inc., a registered broker-dealer; and Mr. Strenger is an "interested" Director because of his affiliation with DWS-Deutsche Gesellschaft für Wertpapiersparen mbH ("DWS"), a majority-owned subsidiary of Deutsche Bank AG and because of his ownership of Deutsche Bank AG shares.

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

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

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

OFFICERS OF THE FUND

Name, Age	Principal Occupations During Past Five Years
Michael G. Clark ⁽³⁾⁽⁸⁾ , 41 President and Chief Executive Officer	Managing Director ⁽⁷⁾ , Deutsche Asset Management (2006-present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004-2006) and Director of Product Development (2000-2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999-2000)
Paul Schubert ⁽⁸⁾ , 43 Chief Financial Officer and Treasurer	Managing Director ⁽⁷⁾ , Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998-2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994-1998)
David Goldman ⁽⁴⁾⁽⁸⁾ , 33 Secretary	Vice President ⁽⁷⁾ , Deutsche Asset Management
John Millette ⁽⁵⁾⁽⁹⁾ , 44 Assistant Secretary	Director ⁽⁷⁾ , Deutsche Asset Management
Scott M. McHugh ⁽⁴⁾⁽⁹⁾ , 35 Assistant Treasurer	Director ⁽⁷⁾ , Deutsche Asset Management
Elisa D. Metzger ⁽²⁾⁽⁸⁾ , 44 Chief Legal Officer	Director ⁽⁷⁾ , Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999-2005)
Philip Gallo ⁽⁶⁾⁽⁸⁾ , 44 Chief Compliance Officer	Managing Director ⁽⁷⁾ , Deutsche Asset Management (2003-present); formerly, Co-Head of Goldman Sachs Asset Management Legal (1994-2003)

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

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

(2) Since January 30, 2006.

(3) Since June 15, 2006.

(4) Since July 14, 2006.

(5) Since July 14, 2006. From January 30, 2006 to July 14, 2006 served as Secretary to the Fund.

(6) Since October 5, 2004.

(7) Executive title, not a board directorship.

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

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

SHARES REPURCHASED AND ISSUED

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

Fiscal years ended December 31,	2006	2005	2004	2003	2002
Shares repurchased	155,500	689,500	1,245,300	1,079,300	870,500
Shares issued for dividend reinvestment		369,273	81,662	35,920	

PRIVACY POLICY AND PRACTICES

We never sell customer lists or information about individual clients (stockholders). We consider privacy fundamental to our client relationships and adhere to the policies and practices described below to protect current and former clients' information. Internal policies are in place to protect confidentiality, while allowing client needs to be served. Only individuals who need to do so in carrying out their job responsibilities may access client information. We maintain physical, electronic and procedural safeguards that comply with federal and state standards to protect confidentiality. These safeguards extend to all forms of interaction with us, including the Internet.

In the normal course of business, we may obtain information about stockholders whose shares are registered in their names. For purposes of these policies, "clients" means stockholders of the Fund. (We generally do not have knowledge of or collect personal information about stockholders who hold Fund shares in "street" name, such as through brokers or banks.) Examples of the nonpublic personal information collected are name, address, Social Security number and transaction and balance information. To be able to serve our clients, certain of this client information may be shared with affiliated and nonaffiliated third party service providers such as transfer agents, custodians, and broker-dealers to assist us in processing transactions and servicing the client's account with us. The organizations described above that receive client information may only use it for the purpose designated by the Fund.

We may also disclose nonpublic personal information about clients to other parties as required or permitted by law. For example, we are required or we may provide information to government entities or regulatory bodies in response to requests for information or subpoenas, to private litigants in certain circumstances, to law enforcement authorities, or any time we believe it necessary to protect the firm from such activity.

PROXY VOTING

A description of the Fund's policies and procedures for voting proxies for portfolio securities and information about how the Fund voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site www.germanyfund.com or on the SEC's Web site www.sec.gov. To obtain a written copy of the Fund's policies and procedures without charge, upon request, call us toll free at (800) 437-6269.

CERTIFICATIONS

The Fund's chief executive officer has certified to the New York Stock Exchange that, as of July 19, 2006, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund's reports to the Securities and Exchange Commission on Forms N-CSR, N-CSRS and N-Q contain certifications by the Fund's chief executive officer and chief financial officer that relate to the Fund's disclosure in such reports and that are required by rule 30a-2(a) under the Investment Company Act of 1940.

2006 U.S. TAX INFORMATION

The Fund paid foreign taxes of \$709,758 and earned \$3,599,976 of foreign source income year during the year ended December 31, 2006. Pursuant to section 853 of the Internal Revenue Code, the Fund designates \$.03 per share as foreign taxes paid and \$.15 per share as income earned from foreign sources for the year ended December 31, 2006.

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THE NEW GERMANY FUND, INC.
SCHEDULE OF INVESTMENTS DECEMBER 31, 2006

Shares	Description	Value ^(a)
INVESTMENTS IN GERMAN SECURITIES 89.0%		
COMMON STOCKS 77.8%		
AEROSPACE & DEFENSE 2.3%		
195,000	MTU Aero Engines Holding	\$ 9,118,415
BIOTECHNOLOGY 1.0%		
160,000	GPC Biotech*	4,072,146
CHEMICALS 8.8%		
505,000	GEA Group	11,367,655
125,200	K + S	13,571,322
170,000	Lanxess*	9,523,124
5,000	Wacker Chemie*	649,987
		35,112,088
COAL AND CONSUMABLE FUELS 0.7%		
160,000	Verbio*	2,890,590
CONSTRUCTION & ENGINEERING 2.2%		
122,200	Bilfinger Berger	8,946,778
DIVERSIFIED FINANCIALS 4.5%		
Bayerische Hypo-und		
190,000	Vereinsbank	8,275,766
45,000	Deutsche Postbank	3,796,076
MPC Muenchmeyer Petersen		
55,000	Capital	4,845,629
20,000	Sixt	1,120,631
		18,038,102
DIVERSIFIED TELECOMMUNICATION SERVICES 2.6%		
255,000	Mobilcom	7,431,534
450,000	QSC*	2,967,075
		10,398,609
ELECTRICAL EQUIPMENT 4.8%		
130,000	Q-Cells*	5,840,654
340,000	SGL Carbon*	8,388,778
77,000	Solarworld	4,833,299
		19,062,731
ELECTRONIC EQUIPMENT & INSTRUMENTS 5.3%		
442,720	Kontron	\$ 6,421,964
371,600	Suess MicroTec*	3,405,701

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120,000	Utimaco Safeware	2,028,688
60,000	Wincor Nixdorf	9,325,318
		21,181,671
	HEALTHCARE PROVIDERS & SERVICES 1.4%	
111,000	Rhoen-Klinikum	5,377,843
	HOUSEHOLD PRODUCTS 1.6%	
99,483	Beiersdorf	6,443,966
	INSURANCE 1.7%	
150,000	Hannover Rückversicherungs	6,938,999
	INTERNET SOFTWARE & SERVICES 3.4%	
820,000	United Internet	13,549,115
	LIFE INSURANCE 1.5%	
42,000	AMB Generali Holding	6,064,701
	MACHINERY 10.4%	
145,000	Heidelberger Druckmaschinen	6,860,669
38,000	Krones	5,804,812
65,234	Pfeiffer Vacuum Technology	5,539,950
96,709	Rheinmetall	7,330,434
120,000	Salzgitter	15,674,067
		41,209,932
	MULTILINE RETAIL 1.8%	
134,625	Douglas Holding	6,953,850
	PHARMACEUTICALS 9.1%	
216,000	Celesio	11,575,864
142,000	Merck KGaA	14,707,039
35,000	Schwarz Pharma	4,404,062
95,000	Stada Arzneimittel	5,443,264
		36,130,229
	REAL ESTATE 6.2%	
110,000	Aareal Bank*	5,116,160
60,000	Deutsche Euroshop	4,443,492
270,000	IVG Immobilien	11,585,834
40,000	Interhyp*	3,454,994
		24,600,480

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

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THE NEW GERMANY FUND, INC.
SCHEDULE OF INVESTMENTS DECEMBER 31, 2006 (continued)

Shares	Description	Value ^(a)
	SOFTWARE 2.7%	
135,000	Software	\$ 10,635,188
	SPECIALTY RETAIL 1.8%	
130,000	Hugo Boss Ag -Ord	7,028,671
	TEXTILES, APPAREL & LUXURY GOODS 4.0%	
40,500	Puma	15,790,951
	Total Common Stocks (cost \$183,682,968)	309,545,055
	PREFERRED STOCKS 11.2%	
	DIVERSIFIED FINANCIALS 0.3%	
32,600	Sixt	1,272,493
	ELECTRICAL EQUIPMENT 2.5%	
222,050	Sartorius	9,662,972
	HEALTHCARE PROVIDERS & SERVICES 5.7%	
105,354	Fresenius	22,619,246
	MEDIA 2.7%	
333,400	Prosieben Sat.1 Media	10,925,416
	Total Preferred Stocks (cost \$20,758,206)	44,480,127
	Total Investments in German Securities (cost \$204,441,174)	354,025,182
	INVESTMENTS IN DUTCH COMMON STOCKS 6.3%	
	AEROSPACE & DEFENSE 6.3%	
730,000	EADS (cost \$8,708,395)	25,182,950
	INVESTMENTS IN IRISH COMMON STOCKS 2.5%	
	DIVERSIFIED FINANCIAL SERVICES 2.5%	
570,000	Depfa Bank (cost \$2,709,635)	10,184,980
	INVESTMENTS IN LUXEMBOURG COMMON STOCKS 0.6%	
	REAL ESTATE 0.6%	
70,000	Gagfah (cost \$2,296,181)	\$ 2,218,185
	Total Investment in Common and Preferred Stocks (cost \$218,155,385)	391,611,297
	SECURITIES LENDING COLLATERAL 39.7%	
157,960,138	Daily Assets Fund Institutional, 5.27% (cost \$157,960,138)	157,960,138

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Total Investments	138.1%	
(cost \$376,115,523)		549,571,435
Liabilities in excess of cash and other assets	(38.1%)	(151,638,806)
NET ASSETS	100.0%	\$ 397,932,629

* Non-income producing security.

All or a portion of these securities were on loan. The value of all securities loaned at December 31, 2006 amounted to \$151,158,972 which is 38.0% of the net assets.

Represents collateral held in connection with securities lending. Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.

(a) Values stated in US dollars.

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

THE NEW GERMANY FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2006

ASSETS

Investments, at value (cost \$218,155,385) including \$151,158,972 of securities loaned	\$ 391,611,297
Investment in Daily Assets Fund Institutional (cost \$157,960,138)*	157,960,138
Cash and foreign currency (cost \$6,104,484)	6,134,481
Interest receivable	4,022
Foreign withholding tax refund receivable	108,230
Due from insurance provider	661,658
Other assets	21,586
Total assets	556,501,412

LIABILITIES

Payable upon return of securities loaned	157,960,138
Distribution payable	26,502
Management fee payable	167,338
Investment advisory fee payable	79,308
Payable for Directors' fees and expenses	7,202
Accrued expenses	328,295
Total liabilities	158,568,783

NET ASSETS **\$ 397,932,629**

Net assets consist of:

Paid-in capital, \$.001 par (Authorized 80,000,000 shares)	\$ 432,297,808
Cost of 9,944,643 shares held in treasury	(95,213,277)
Distributions in excess of net investment income	(836,571)
Accumulated net realized loss on investments and foreign currency transactions	(111,801,036)
Net unrealized appreciation of investments and foreign currency transactions	173,485,705
Net assets	\$ 397,932,629
Net asset value per share (\$397,932,629 ÷ 24,804,698 shares of common stock issued and outstanding)	\$ 16.04

*Represents collateral on securities loaned.

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

THE NEW GERMANY FUND, INC.
STATEMENT OF OPERATIONS

	For the year ended December 31, 2006
NET INVESTMENT INCOME	
Investment income	
Dividends (net of foreign withholding taxes of \$709,758)	\$ 4,853,370
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	601,179
Interest	63,422
Total investment income	5,517,971
Expenses	
Management fee	1,968,211
Investment advisory fee	947,949
Custodian and Transfer Agent's fees and expenses	248,626
Reports to shareholders and shareholder meeting	356,260
Directors' fees and expenses	189,920
Legal fee	625,710
Audit fee	58,376
NYSE listing fee	21,674
Miscellaneous	49,280
Total expenses before custody credits	4,466,006
Less: custody credits*	(7,804)
Net expenses	4,458,202
Net investment income	1,059,769
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS	
Net realized gain (loss) on:	
Investments	47,015,213
Foreign currency transactions	662,679
Net unrealized depreciation during the year on:	
Investments	74,232,326
Translation of other assets and liabilities from foreign currency	29,997
Net gain on investments and foreign currency transactions	121,940,215
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 122,999,984

*The custody credits are attributable to interest earned on U.S. cash balances held on deposit at the custodian.

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

THE NEW GERMANY FUND, INC.
STATEMENT OF CHANGES IN NET ASSETS

	For the year ended December 31, 2006	For the year ended December 31, 2005
INCREASE (DECREASE) IN NET ASSETS		
Operations		
Net investment income (loss).	\$ 1,059,769	\$ (187,841)
Net realized gain on:		
Investments	47,015,213	37,272,578
Foreign currency transactions	662,679	(586,475)
Net unrealized appreciation (depreciation) on investment transactions during the period on:		
Investments	74,232,326	(3,936,151)
Translation of other assets and liabilities from foreign currency	29,997	(75,128)
Net increase in net assets resulting from operations	122,999,984	32,486,983
Distributions to shareholders from:		
Net investment income	(5,084,963)	(13,583,003)
Capital share transactions:		
Net proceeds from reinvestment of dividends (0 and 369,273 shares, respectively)		3,762,886
Cost of shares repurchased (155,500 and 689,500 shares, respectively)	(1,807,438)	(6,651,609)
Net decrease in net assets from capital share transactions	(1,807,438)	(2,888,723)
Total increase in net assets	116,107,583	16,015,257
NET ASSETS		
Beginning of year	281,825,046	265,809,789
End of year (including distributions in excess of net investment income of \$836,571 and \$10,214,230, as of December 31, 2006 and December 31, 2005, respectively)	\$ 397,932,629	\$ 281,825,046

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

THE NEW GERMANY FUND, INC.
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1. ACCOUNTING POLICIES

The New Germany Fund, Inc. (the "Fund") was incorporated in Maryland on January 16, 1990 as a non-diversified, closed-end management investment company. The Fund commenced investment operations on January 30, 1990.

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Security Valuation: Investments are stated at value. All securities for which market quotations are readily available are valued at the last sales price on the primary exchange on which they are traded prior to the time of valuation. If no sales price is available at that time, and both bid and ask prices are available, the securities are valued at the mean between the last current bid and ask prices; if no quoted asked prices are available, they are valued at the last quoted bid price. All securities for which market quotations are not readily available will be valued as determined in good faith by the Board of Directors of the Fund. The Fund calculates its net asset value per share at 11:30 a.m., New York time, in order to minimize the possibility that events occurring after the close of the securities exchanges on which the Fund's portfolio securities principally trade would require adjustment to the closing market prices in order to reflect fair value.

In September 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2006, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

Securities Transactions and Investment Income: Securities transactions are recorded on the trade date. Cost of securities sold is calculated using the identified cost method. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Such dividend income is recorded net of unrecoverable foreign withholding tax.

Securities Lending: The Fund may lend securities to financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of liquid, unencumbered assets having a value at least equal to or greater than the "Margin Percentage" to the value of the securities loaned. "Margin Percentage" shall mean (i) for collateral which is denominated in the same currency as the loaned securities, 102%, and (ii) for collateral which is denominated in a currency different from that of the loaned security, 105%. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund (containing short term high quality securities) pursuant to Exemptive Orders issued by the SEC. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. The Fund is subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translation: The books and records of the Fund are maintained in United States dollars.

Assets and liabilities denominated in Euros and other foreign currency amounts are translated into United States dollars at the 11:00 a.m. mid-point of the buying and selling spot rates quoted by the Federal Reserve Bank of New York. Purchases and sales of investment securities, income and expenses are reported at the rate of exchange prevailing on the respective settlement dates of such transactions. The resultant gains and losses arising from exchange rate fluctuations are identified separately in the Statement of Operations, except for such amounts attributable to investments which are included in net realized and unrealized gains and losses on investments.

At December 31, 2006, the exchange rate was EURO .7576 to US \$1.00.

THE NEW GERMANY FUND, INC.
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 (continued)

Contingencies: In the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet been made. However, based on experience, the Fund expects the risk of loss to be remote.

Taxes: No provision has been made for United States Federal income tax because the Fund intends to meet the requirements of the United States Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to shareholders.

The cost of investments at December 31, 2006 was \$384,289,744 for United States Federal income tax purposes. Accordingly, as of December 31, 2006, net unrealized appreciation of investments aggregated \$165,281,691, of which \$167,136,965 and \$1,855,274 related to unrealized appreciation and depreciation, respectively.

For United States Federal income tax purposes, the Fund had a capital loss carry forward at December 31, 2006 of approximately \$111,588,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$23,349,000) and December 31, 2010 (\$88,239,000), whichever occurs first. During the year ended December 31, 2006, the Fund utilized \$33,830,000 of its capital loss carryforward.

In July 2006, FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for the Fund a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether the Fund is taxable in certain jurisdictions), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006. On December 22, 2006 the SEC indicated that, they would not object if a Fund implements FIN 48 in the first required financial statement reporting period for its fiscal year beginning after December 15, 2006. Management has begun to evaluate the application of the Interpretation to the Fund and is not in a position at this time to estimate the significance of its impact, if any, on the Fund's financial statements.

Dividends and Distributions to Shareholders: The Fund records dividends and distributions to its shareholders on the ex-dividend date. Income and capital gain distributions are determined in accordance with United States Federal income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in foreign denominated investments, investments in passive foreign investment companies, recognition of certain foreign currency gains (losses) as ordinary income (loss) and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such periods. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

At December 31, 2006, the Fund's components of distributable earnings (accumulated losses) on a tax-basis were as follows:

Undistributed ordinary income*	\$ 7,124,737
Capital loss carryforward	\$ (111,588,000)
Net unrealized appreciation	\$ 165,281,691

*For tax purposes short-term capital gains are considered ordinary income.

In addition, the tax character of distributions paid to shareholders by the Fund is summarized as follows:

	Year's Ended December 31	
	2006	2005
Distributions from ordinary income	\$ 5,084,963	\$ 13,583,003

During the year ended December 31, 2006, the Fund reclassified permanent book and tax differences as follows:

**Increase
(decrease)**

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Distribution in excess of net investment income	\$ 13,402,852
Accumulated net realized loss on investments and foreign currency transactions	\$ (13,402,352)
Paid-in capital	\$ (500)

**NOTE 2. MANAGEMENT AND INVESTMENT
ADVISORY AGREEMENTS**

The Fund has a Management Agreement with Deutsche Investment Management Americas Inc. (the "Manager"). The Fund has an Investment Advisory Agreement with Deutsche Asset Management International GmbH (the "Investment Adviser"). The Manager and the Investment Adviser are affiliated companies.

THE NEW GERMANY FUND, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 (continued)

The Management Agreement provides the Manager with a fee, computed weekly and payable monthly, at the annual rates of .65% of the Fund's average weekly net assets up to \$100 million, .55% of such assets in excess of \$100 million and up to \$500 million, and .50% of such assets in excess of \$500 million. The Investment Advisory Agreement provides the Investment Adviser with a fee, computed weekly and payable monthly, at the annual rates of .35% of the Fund's average weekly net assets up to \$100 million and .25% of such assets in excess of \$100 million. Accordingly, for the year ended December 31, 2006, the combined fee pursuant to the Management and Investment Advisory Agreements was equivalent to an annualized effective rate of .85% of the Fund's average net assets.

Pursuant to the Management Agreement, the Manager is the corporate manager and administrator of the Fund and, subject to the supervision of the Board of Directors and pursuant to recommendations made by the Fund's Investment Adviser, determines the suitable securities for investment by the Fund. The Manager also provides office facilities and certain administrative, clerical and bookkeeping services for the Fund. Pursuant to the Investment Advisory Agreement, the Investment Adviser, in accordance with the Fund's stated investment objectives, policies and restrictions, makes recommendations to the Manager with respect to the Fund's investments and, upon instructions given by the Manager as to suitable securities for investment by the Fund, transmits purchase and sale orders and selects brokers and dealers to execute portfolio transactions on behalf of the Fund.

NOTE 3. TRANSACTIONS WITH AFFILIATES

For the year ended December 31, 2006, Deutsche Bank AG, the German parent of the Manager and Investment Adviser, and its affiliates received \$69,039 in brokerage commissions as a result of executing agency transactions in portfolio securities on behalf of the Fund, that the board determined were effected in compliance with the Fund's Rule 17e-1 procedures.

Certain officers of the Fund are also officers of either the Manager or Deutsche Bank AG.

The Fund pays each Director not affiliated with the Manager retainer fees plus specified amounts for attended board and committee meetings.

NOTE 4. PORTFOLIO SECURITIES

Purchases and sales of investment securities, excluding short-term investments, for the year ended December 31, 2006, were \$154,756,019 and \$164,686,157, respectively.

NOTE 5. INVESTING IN FOREIGN MARKETS

Foreign investments may involve certain considerations and risks not typically associated with those of domestic origin as a result of, among others, the possibility of political and economic developments and the level of governmental supervision and regulation of foreign securities markets. In addition, certain foreign markets may be substantially smaller, less developed, less liquid and more volatile than the major markets of the United States.

NOTE 6. CAPITAL

During the years ended December 31, 2006 and December 31, 2005, the Fund purchased 155,500 and 689,500 of its shares of common stock on the open market at a total cost of \$1,807,438 and \$6,651,609, respectively. The weighted average discount of these purchased shares comparing the purchased price to the net asset value at the time of purchase was 10.1% and 12.7%, respectively.

NOTE 7. LITIGATION

On June 6, 2005, Robert H. Daniels, a shareholder of the Fund, filed a putative class action complaint on behalf of all Fund shareholders against the Fund and its Directors, in the Circuit Court for Baltimore City, Maryland. This litigation arises out of an attempt in 2005 by a shareholder of the Fund to nominate and elect directors who were not qualified as Directors pursuant to the Fund's director qualification bylaw, which sets forth certain eligibility requirements for directors, including a requirement of relevant experience and country knowledge consistent with the Fund's strategy of investment in German companies. Mr. Daniels seeks declaratory and injunctive relief, as well as attorneys' fees, experts' fees and costs.

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On July 12, 2005, the Fund and its Directors removed the case to the United States District Court for the District of Maryland. On August 26, 2005, the Fund and its directors filed a motion to dismiss the complaint on various grounds. On March 29, 2006, the court denied that motion. Discovery has now been completed and, pursuant to the

THE NEW GERMANY FUND, INC.
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 (continued)

court's scheduling order, summary judgment motions are due on March 21, 2007.

NOTE 8. SUBSEQUENT EVENTS

At meetings in December and January, the Audit Committee of the Board of Directors approved the appointment of new service providers for the Fund. The Board approved the appointment of Brown Brothers Harriman & Co. as the Fund's new accounting agent, custody agent, and foreign custody manager, DWS Scudder Investments Service Company as the Fund's new transfer agent, and UMB Bank, N.A. as plan agent under the Fund's Dividend Reinvestment and Voluntary Cash Purchase Plan. The new service providers replace Investors Bank & Trust Company. The appointment of the new service providers was effective as of February 1, 2007.

THE NEW GERMANY FUND, INC.
FINANCIAL HIGHLIGHTS

Selected data for a share of common stock outstanding throughout each of the years indicated:

	For the years ended December 31,				
	2006	2005	2004	2003	2002
Per share operating performance:					
Net asset value:					
Beginning of year	\$ 11.29	\$ 10.51	\$ 8.72	\$ 4.53	\$ 7.50
Net investment income (loss)	0.04	(.01)(a)	(.01)(a)	.00	(.03)
Net realized and unrealized gain (loss) on investments and foreign currency transactions	4.91	1.32	2.00	4.17	(2.97)
Increase (decrease) from investment operations	4.95	1.31	1.99	4.17	(3.00)
Increase resulting from share repurchases	0.01	.04	.08	.05	.03
Distributions from net investment income	(0.21)	(.55)	(.28)	(.03)	
Distributions from net realized short-term capital gains					
Distributions from net realized long-term capital gains					
Total distributions	(0.21)	(.55)	(.28)	(.03)	
Dilution in net asset value from dividend reinvestment		(.02)	.00(b)	.00(b)	
Net asset value:					
End of year	\$ 16.04	\$ 11.29			