NEW GERMANY FUND INC
Form N-CSRS
September 01, 2011

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: (201) 593-6408

Paul Schubert
100 Plaza One
Jersey City, NJ 07311
(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period:6/30/2011

ITEM 1. REPORT TO STOCKHOLDERS

SUMMARY OF GENERAL INFORMATION

THE FUND

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

SHAREHOLDER INFORMATION

Prices for the Fund's shares are published weekly in the New York Stock Exchange Composite Transactions section of certain 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 00-800-2287-2750 (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 this number.

The foregoing information is also available on our web site: 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 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 00-800-2287-2750 (outside of the U.S.) for shareholder reports.

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 fluctuations, political and economic changes and market risks. Any fund that concentrates in a particular segment of the market will generally be more volatile than a fund that invests more broadly.

The New Germany Fund, Inc.

Semi-Annual Report

June 30, 2011

The New Germany

Fund, Inc.

LETTER TO THE SHAREHOLDERS

The views expressed in the following discussion reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Dear Shareholder,

For the six months ended June 30, 2011, the New Germany Fund's total return in USD was 13.80% based on net asset value and 15.14% based on market price. During the same period, the total return of the Fund's benchmark, the Midcap Market Performance Index, was 16.19%.1

For the equity market overall, the first quarter corporate reporting season, followed by Greece's approval of another austerity package, proved mostly supportive of stock prices. Renewed fears of a slowdown in China, and sovereign debt issues with rising inflation readings and consequently higher interest rates within Europe in the second quarter led to a period of increased stock market volatility. Austerity package aside, given the growing concerns of a default or restructuring of Greek bonds with a rising probability of private sector participation, equity markets stalled in the latter part of the reporting period. During the first half of the year, Moody's further downgraded Portugal's debt rating to Ba2 (junk status); S&P cut its rating outlook for Italy to "negative," claiming weak growth prospects; and Spain saw its 10-year bond yield rise to an 11-year high above 5.5%.

Macro data released in the second quarter was not supportive, with Q1 GDP growth figures in Spain (+0.3% quarter-over-quarter), Italy (+0.1%) and Portugal (-0.7%) below expectations. The European Central Bank raised key interest rates twice to 1.50% from 1.00% as annual inflation in the Eurozone rose to 2.8%, the highest level since 2008. More monetary tightening continued in China, a key demand driver for German exports. Inflation there rose to 5.5%, a 34-month high. The Central Bank hiked key rates for the fourth time since October 2010 to 6.31%, and again increased the reserve ratio requirement to a new high of 21.5%.

Not all macroeconomic news out of Europe was poor. For example, in May, the reported Eurozone Q1 year-over-year gross domestic product growth beat expectations at 0.8% vs. 0.6% expected by the market, driven particularly by Germany, which delivered 5.2% growth (the highest in decades) vs. 4.5% expected. This positive surprise trend was repeated in June, when manufacturing orders (+2.8% vs. +2.0% expected), industrial production (+0.2% vs. -0.2%) and the IFO Business Climate Index survey (114 vs. 113) all beat expectations.

German companies beat their Q1 2011 sales and earnings-per-share consensus estimates by an average 5.8% and 11.7%, respectively. The earnings revision trend in Europe moderated significantly, with average earnings revisions during Q1 at +0-1% for the DAX and +0-1.5% for the MDAX. After having previously been the star performer, the TecDAX became the worst performer, down 4.0% for the quarter, while the MDAX rose 6.0% and the DAX rose 4.8%. Exceptionally strong was the automotive sector, with BMW* and Volkswagen* delivering very strong revenue and earnings growth.

The industrials sector remains the portfolio's largest weighting. Its two main performance drivers were overweight positions in Aurubis and MTU Aero Engines Holding. Aurubis had a very strong quarter, exceeding analysts' consensus expectations as it benefited from a recovery in the copper refining market. Similarly, MTU's Q1 operating results beat market expectations on the back of its efficiency improvements program. We made two relevant adjustments to

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our holdings within the sector. We took a new position in Singulus Technologies, the leading producer globally of optical disc production equipment (DVD, Blue-ray) and an emerging player in solar panel production equipment. Conversely, we sold part of our position in Kloeckner & Co, taking the stake to a slight underweight after the stock's strong performance from its trough in 2008 and lacking impetus for further steel price advances in the short term.

Our overweight in Hochtief within the construction sector was the largest performance drag. The stock came under pressure as its subsidiary, Leighton, disappointed in April and said it would sell stock worth about $800 million. Our overweight in the chemicals company Wacker Chemie also contributed negatively. While its solar silicon capabilities position it among the strategically most promising players in the solar value chain, the stock suffered from the broad-based sell-off in renewables and solar-related stocks. Within the software and technology sector, we initiated a position in Bechtle, taking advantage of the weakness in the share price. LBBW (a federal state bank) offered its 18.7% share in the company, complying with a new EU directive whereby federal state banks must sell non-core holdings.

We maintain our guardedly positive view while underlying trends such as emerging-markets growth remain constructive and inflation pressures seem to subside. Domestic demand in developed markets seems to remain on track but investors are focused more on macroeconomic developments, volatile commodity prices and structural debt problems in Europe and the U.S., which present imminent risks to global economic growth.

Valuations are not expensive. The DAX trades at a P/E of 11.2 x 2011 earnings and 9.8x projected 2012 earnings, and the MDAX on 15.5x and 11.9x, respectively. This is backed up by much higher expected earnings growth for the MDAX of 24 – 25% for both 2011 earnings and 2012 earnings, compared with 7% and 15%, respectively, for the DAX. Overall, these risks seem at least partially reflected in the current valuation of equity markets as they do not seem to be overly demanding. Ample liquidity and the already strongly rebounding M&A activity (as seen, for example, with Tognum, Demag Cranes and Roth & Rau, from the Midcap Market Performance Index so far this year) should be supportive factors. While we see the markets moving sideways in the near term, we maintain a growth profile in our sector positioning, with overweights in industrials and materials versus underweights2 in consumer health care and telecoms.

The Fund's discount contracted by 5.54%, ending the period at 9.00% compared to 14.54% for the same period a year earlier. Management continued the Fund's share repurchase and tender offer programs in an ongoing effort to address the discount. Please see Note 7 for details regarding the Fund's tender offer and share repurchase programs.

Sincerely,

Christian Strenger Chairman	Rainer Vermehren Lead Portfolio Manager	W. Douglas Beck President and Chief Executive Officer

1 The Midcap Market Performance Index is a total-return index that is composed of various mid-cap securities across all sectors of the MDAX and TecDAX. MDAX is a total-rate-of-return index of 50 mid-cap issues that rank below the DAX. DAX is a 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, do not reflect any fees or expenses. It is not possible to invest directly in an index.

2 Underweight refers to a holding amount that is less than what is held in that of the benchmark.

* Not currently held in portfolio.

For additional information about the Fund including performance, dividends, presentations, press releases, market updates, daily NAV and shareholder reports, please visit www.dws-investments.com

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FUND HISTORY AS OF JUNE 30, 2011

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return 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, 2011(b)	For the years ended December 31, 2010	2009	2008	2007	2006
Net Asset Value(a)	13.80%	23.40%	45.22%	(46.75)%(c)	25.17%	43.94%
Market Value(a)	15.14%	32.21%	52.07%	(53.32)%	25.14%	44.13%
Benchmark(d)	16.19%	18.42%	42.33%	(47.86)%	22.10%	42.51%

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

(c) 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.

(d) Represents the Midcap Market Performance Index.*

* The Midcap Market Performance Index is a total-return index that is composed of various mid-cap securities across all sectors of the MDAX** and TecDAX***.

** 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.

Fund performance includes reinvestment of dividends and does not reflect any fees or expenses. It is not possible to invest directly in an index.

Investments in funds involve risks, 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 fluctuations, political and economic changes and market risks. Any fund that concentrates in a particular segment of the market will generally be more volatile than a fund that invests more broadly.

Closed-end funds, unlike open-end funds, are not continuously offered. Shares, once issued, are traded in the open market. 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 be subject to the statutory calculation, notification and publication requirements of the German Investment Tax Act (Investmentsteuergesetz) (the "Act") for the fiscal year ended December 31, 2010 and intends to elect to be subject to the Act for the fiscal year ending December 31, 2011.

FUND HISTORY AS OF JUNE 30, 2011 (continued)

STATISTICS:

Net Assets	$355,767,137
Shares Outstanding	17,685,351
Net Asset Value (NAV) Per Share	$ 20.12

DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:

Record Date	Payable Date	Ordinary Income	ST Capital Gains	LT Capital Gains	Total Distribution
05/19/11	05/31/11	$ 0.0400	$ —	$ —	$ 0.0400
12/31/10	01/28/11*	$ 0.0650	$ —	$ —	$ 0.0650
04/30/10	05/10/10	$ 0.0535	$ —	$ —	$ 0.0535
12/31/09	01/28/10**	$ 0.1601	$ —	$ —	$ 0.1601
05/04/09	05/14/09	$ 0.0176	$ —	$ —	$ 0.0176
12/15/08	12/31/08	$ 0.1274	$ —	$ —	$ 0.1274
05/06/08	05/15/08	$ 0.0594	$ —	$ —	$ 0.0594
12/21/07	01/10/08***	$ 0.2550	$ —	$ —	$ 0.2550
05/03/07	05/15/07	$ 0.3400	$ —	$ —	$ 0.3400
12/21/06	12/28/06	$ 0.0550	$ —	$ —	$ 0.0550
05/05/06	05/15/06	$ 0.1500	$ —	$ —	$ 0.1500
12/22/05	12/30/05	$ 0.4100	$ —	$ —	$ 0.4100
05/19/05	05/27/05	$ 0.1400	$ —	$ —	$ 0.1400
12/22/04	12/31/04	$ 0.2300	$ —	$ —	$ 0.2300