

GERMANY

A Plan to Shape the Future

An Interview with
Her Excellency Angela Merkel, Chancellor of Germany



Her Excellency Angela Merkel

EDITORS' NOTE Angela Merkel is the first female Chancellor of Germany, the first former citizen of the German Democratic Republic to lead the reunited Germany, and the first woman to lead Germany since it became a modern nation-state in 1871. She is also, at 53, the youngest person to be Chancellor since the Second World War. Merkel was born in Hamburg into a Lutheran clergy family. She studied physics at the University of Leipzig and at the Central Institute for Physical Chemistry of the Academy of Sciences, where she earned a doctorate in quantum chemistry. Following the fall of the Berlin Wall, she joined the Demokratischer Aufbruch Party and quickly became the Deputy Spokesperson of the new pre-unification caretaker government of the former East Germany. In 1990, she was elected to the Bundestag and oversaw her party's merger into the Christian Democratic Union (CDU). Soon after, Merkel became Chancellor Helmut Kohl's youngest cabinet minister, as head of the Ministry for Women and Youth. In 1994, she was made Minister for the Environment and Reactor Safety. When Kohl was defeated in 1998, Merkel was named Secretary-General of the CDU and two years later, she became the first female Chair of her party. In 2002, Merkel replaced Friedrich Merz as leader of the conservative opposition in the lower house of the Bundestag. In May 2005, the CDU nominated her as challenger to Chancellor Gerhard Schröder. She was elected as Chancellor in November. Merkel is also serving a one-year term as President of the European Council and is a Member of the Council of Women Leaders.

Are you confident that Germany will maintain friendly relations with the United States?

Since assuming office, I have endeavored to establish a close, open, and constructive relationship within the transatlantic partnership, which is absolutely priceless in my opinion. As we all know, global challenges will only be successfully tackled if we work together. During my visit to Washington shortly after taking over the reins of government, I talked to President Bush about our interest in working intensively with the United States and he responded very positively. Since then, President Bush and I have developed a good working relationship. We meet at various events and regularly consult each other about topical issues on

the telephone. Through this collaboration, we are able to develop joint solutions to international problems and more effectively discuss controversial issues.

What is your relationship with President Putin? Do you agree with those who say that European businesses should invest more in Russia?

I have a good relationship with President Putin. Germany is looking to enhance relations with Russia in all fields, and will not shy away from raising difficult issues. We want to further develop EU-Russia relations on the basis of shared values and common interests. The planned Partnership and Cooperation Agreement, which we hope will contain a meaty chapter on energy, will play a major role. The basis for foreign investor confidence in Russia is a reform-based, open economic policy. We view competition as the mainspring for innovation and diversification in Russia, as elsewhere.

How will the future of the EU affect Germany? And is the EU just a Christian Club that will never let in outsiders, like Turkey?

Germany is firmly embedded in Europe, and I am genuinely convinced that the concept that is Europe will provide the best path forward in the twenty-first century. But we now need to prepare Europe to meet the challenges of our times. Together, we have the power to actively influence the process of globalization and to solve problems that affect us all, like energy and climate. The EU has to function effectively if it is going to successfully master these challenges. For this reason, we in Europe need a constitutional treaty. The German EU Presidency will do all it can to ensure that a road map for the further constitutional process is in place by June 2007.

There is no doubt that Europe has Christian roots. But this does not mean that the EU thinks of itself as a "Christian Club." Interculturality is a reality in Europe. Several million Muslims live in Germany, as well as in France, Great Britain, Spain, and many other EU member states. But what holds the EU together are shared values: liberty, tolerance, democracy, the rule of law, respect for human rights and fundamental freedoms. Anyone who wants to join the EU, as Turkey does, must meet those criteria and the outcome of the accession negotiations is not a foregone conclusion. We must wait and see what happens.

What is Germany doing to help resolve conflicts in the Middle East?

I am following developments in the Middle East very closely. Of course, no solution can be imposed from outside if the regional actors don't want it. But I made it clear during my visit to some of the Gulf States this year that the Federal Government is determined to help foster progress towards resolving the Middle East conflict. The EU Presidency has an additional responsibility in this regard. The aim of our policy there is the creation of an independent, democratic Palestinian state that exists in dignity and peace, in secure and recognized borders, and guarantees the existence of Israel.

Are you concerned about terrorism within Germany's borders?

Last year Germany hosted the World Cup, during which millions of people gathered in high spirits and a peaceful atmosphere. They discovered that our country is one of the safest in the world. Our security agencies work hard every day to make sure it stays that way. Germany has so far been spared the horror of an Islamist terrorist attack. Nonetheless, we too are subjected to the international threat of terrorism. We take this threat very seriously. Security agencies in Germany are furnished with the necessary powers and instruments to enable them to continue providing us with the greatest possible security. I have toured the Counter-Terrorism Centre personally and witnessed the level of security that is being implemented.

Is Germany more attractive to foreign investors than other countries in the European Union?

Germany is located at the heart of a coalescing Europe, and is the strongest economy in the European Union. Our country has a first-class infrastructure, excellent educational and research institutions, as well as a highly qualified and motivated labor force. The symbiosis

between innovative corporate culture, technological progress, and stringent quality standards has long contributed to the international cachet enjoyed by the words "Made in Germany."

The ability to innovate is the key to prosperity in a wage-intensive country such as Germany. Last year, we adopted a high-tech strategy designed to strengthen corporate innovation in 17 areas we think will be of significance in tomorrow's world. Those include medical technologies, security technologies, energy technologies, and environmental technologies. To this end, we will invest an additional €6 billion in research and development over the next three years. This will advance us considerably towards our goal of spending 3 percent of our Gross Domestic Product on research and development by 2010.

We have already made some significant improvements and 2006 was a successful year. Germany's economic growth once again exceeded the Eurozone average. Unemployment is going down and the outlook for 2007 is good. Over the past few years, companies have



Chancellor Merkel in her office with a portrait of Konrad Adenauer, first Chancellor of the Federal Republic of Germany

responded to the challenges of globalization by focusing on innovation, improving quality, and lowering costs. The state has supported these positive steps with its deep-rooted structural reforms and targeted investment in key areas for the future.

So you are a business-friendly Chancellor?

Our strategies will improve conditions for small and medium-sized businesses, and foster technology-related start-ups. We will also continue to consolidate public finances. Businesses will benefit noticeably from a systematic reduction of bureaucracy and from the corporate tax reforms planned for 2008. By introducing competitive rates of taxation, these reforms will make Germany an even more attractive place for investment. Further, labor market reforms will lead to greater flexibility and will improve employment prospects, especially for low-skilled workers.

What about Germany's young people? Are you investing in them?

Education, research, and innovation are

among the government's top priorities. Not only is it of crucial importance for the life course trajectory of each individual, but also for the growth and prosperity of our society as a whole. Every young person in our country must receive the best educational opportunities possible, either on the job or at university. Instilling excellence, a sense of responsibility, and initiative are educational goals to which I personally subscribe. So we are working towards a modern, effective, and fair educational system. We are giving universities greater scope to set their own priorities and to establish their own international reputations. At the same time, we are stepping up activities in the innovative fields of tomorrow and are fueling projects to enthuse our younger generation's interest in research and technology.

What is Germany doing to address issues of climate change?

Climate change is one of the key challenges for humanity in the twenty-first century. As President of the European Council and Chairperson of the G8 Summit, it is my goal this year to work with our partner countries to lay the foundations for a post-2012 international climate agreement. Europe is ready to lead the way, but we will need the United States to join us. Fortunately, I have now received some encouraging signals from President Bush. If we are to effectively counter climate change, we further need to bring on board all the major greenhouse gas emitters because working with industrialized countries alone will not suffice. I will therefore lobby both business leaders as well as Heads of State on behalf of our demanding climate protection strategies. I have thus appointed Lars Josefsson, the CEO of Vattenfall, as our new climate advisor. Mr Josefsson's 3C plan, "Curbing Climate Change," is a sign that big business is ready to act. I look forward to yet more support.

Is it harder to lead as a woman?

I do not feel that I am treated any differently because I am a woman on the political stage. What ultimately counts – and what we are judged by – is what we achieve for the people of our country. My colleagues and I try to maintain a cooperative style.

What do you hope to accomplish before your term ends in 2009?

I would like to make a substantial contribution to getting our country in shape for the future. Many individual steps – both small and large – will be needed. One key task is further boosting Germany's growth dynamic and creating more jobs. To this end, we have to implement public financial reform in a lasting way, make social protection systems viable in the long term, and implement further structural reforms. Framework conditions conducive to investment and innovation are vital as well. In addition, I would like Germany to be seen by the world as a country that lives up to its responsibility and contributes to peace and freedom around the globe. ●



GERMANY

Innovation is the Edge

By **Heinrich von Pierer**,
Chairman of the Supervisory Board, Siemens AG, Munich



Heinrich von Pierer

EDITORS' NOTE *Heinrich von Pierer studied law and economics at the Friedrich-Alexander-University of Erlangen-Nuremberg. He joined Siemens in 1969 and then the company's power generation subsidiary, Kraftwerk Union AG (KWU), in 1977. In 1989, Pierer became President of KWU and a member of the Managing Board of Siemens AG. In 1992, he succeeded Karlheinz Kaske as CEO, a post he held until January 2005, when he was appointed Chairman of the Supervisory Board. Apart from his activities for Siemens, he is a member of the Supervisory Boards of Deutsche Bank, Hochtief, Münchner Rück, ThyssenKrupp, and Volkswagen, and until 2006 he was President of the Asia-Pacific Committee of German Business, which he helped to found in 1993. He also functions as an adviser to the German government under Chancellor Angela Merkel.*

COMPANY BRIEF *Munich-based Siemens AG was founded nearly 160 years ago. The company is a leader in the areas of medical technology, power, automation, transportation, communications, building technologies, water technologies, lighting, and home appliances. Eleven of Siemens' worldwide businesses are based in the United States. With worldwide sales of more than \$110 billion in fiscal 2006 and 475,000 employees throughout 190 countries, Siemens AG (NYSE:SI) is one of the world's largest global infrastructure and electrical engineering companies.*

In today's globalized world, competition isn't confined to the growing number of global players. More and more, we are seeing intensifying competition among locations. Which country or region offers the most attractive business conditions? Which can best hold its own against all the others and even keep a decisive edge? It's certainly not easy for highly industrialized nations like Germany, particularly considering the enormous pressure on the cost side. So what does this mean for Germany? No doubt about it: More reforms are necessary, including changes in cost structures and labor market flexibility. And many efforts are underway in this respect, and are showing results.

But there are other ways to remain competitive and to keep our businesses booming as well. In addition to relying on our country's political and social stability, dependable legal system, state-of-the-art infrastructures, and skilled labor, the formula for success is simple: If something has to be more expensive, then it must be better.

The answer is innovation – innovation fueled by even sharper concentration on premium manufacturing and services, by stronger government support of R&D, and by intensified R&D in the private sector. This innovation is also fueled by demands to safeguard one of the world's greatest brands – “Made in Germany.”

No one knows this better than Siemens. Innovation has been our lifeblood for nearly 160 years. And it's the key factor in securing our global competitiveness all along the value chain. Innovation is an enormous, expensive, and ongoing commitment to the future. We invested nearly €6 billion in R&D last year to develop new products, systems, and solutions. And we are getting results. Our 21,000 scientists and engineers in Germany alone – who account for less than half of our worldwide R&D workforce – generated on average some 20 inventions every working day. Company-wide, our researchers submitted over 10,000 invention reports in 2006, and we filed patent applications for about two-thirds of them. In fact, our patent applications were up 8 percent year-over-year, and we maintained our leadership in international patent statistics: number one in Germany, number two in Europe, and among the top 10 in the U.S. This ever-growing patent base, in turn, keeps our pipeline full of trendsetting, future-ready innovations.

Efforts like these have led to a continuous series of innovation prizes, industry firsts, and

market successes. And Siemens certainly isn't the only company in Germany securing its future competitiveness through innovation. Any number of German firms in the automotive, machine-tool, chemical, aerospace, pharmaceutical, software, and, naturally, electrical engineering and electronics sectors are helping make and keep our country the world's number-one exporter of goods through creativity, productivity, efficiency, and quality – all traditional German strengths of the “Made in Germany” brand. And we aren't just talking about the highly visible industry giants, but also about Germany's famed *Mittelstand* – the small and mid-sized companies that make up the backbone of our economy.

Of course, all of this ultimately depends on having a steady supply of highly talented, dedicated, and creative people. And they, in turn, are the product of Germany's excellent education system – a key pillar of our society. One of our most important tasks these days is to ensure that this educational system both attracts and produces the best and brightest, so that Germany can continue to prevail in the global economy. As Henry Ford so aptly put it: “The competitiveness of a country doesn't begin in the factory hall or in the research lab. It begins in the classroom.” Germany's tomorrow is beginning there today. ●

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GERMANY

New Energy for Germany

By **Jürgen Hambrecht**,
Chairman of the Board of Executive Directors, BASF Aktiengesellschaft, Ludwigshafen am Rhein



Jürgen Hambrecht

EDITORS' NOTE After receiving a doctorate in organic chemistry, Jürgen Hambrecht joined BASF in 1976 as a Chemist in the company's polymers laboratory. In 1985 he became Head of Research and Purchasing at Lacke und Farben AG (now BASF Coatings AG), and five years later, was appointed President of the Engineering Plastics division. In 1995, he moved to Hong Kong as President of BASF's East Asia division. Hambrecht was appointed to the Board of Executive Directors in 1997 and assumed his current position in 2003. He additionally serves on the Supervisory Board of the German construction company Bilfinger Berger AG, is Vice President of both the German Chemical Industry Association and the Federation of German Industries, and is Chairman of the Asia-Pacific Committee of German Business.

COMPANY BRIEF BASF is the world's leading chemical company. With a portfolio including chemicals, plastics, performance products, agricultural products, fine chemicals, crude oil, and natural gas, BASF (www.basf.com) is a partner to virtually all industries. BASF develops new technologies and uses them to expand additional market opportunities and combines economic success with environmental protection and social responsibility. BASF has more than 95,000 employees and posted sales of more than €52.6 billion (approximately \$69.4 billion) in 2006.

Suddenly, there's a feeling of greater energy in Germany. And it's not just as a result of the euphoria following last year's success in the soccer World Cup. There's something else. People seem to have a more positive outlook and more confidence. They recognize that it can be worthwhile to address issues that need to be changed. There is a sense that change can lead to success, as shown by corporate Germany.

The positive mood is also underlined by hard economic facts. The global economy has grown for the third year in a row. The prospects for further global growth are good. Germany is also finally benefiting from this: Consumer demand has risen and there are, so far, no signs that tax increases have hurt spending. The news from the labor market is also more positive after years of gloomy reports. Even our European neighbors are starting to talk about a new economic miracle in Germany.

So is everything fine? Of course not. But we can clearly see the route we have to take to maintain our living standards and, more importantly, to offer our children a true perspective. This route, which we have to take together, is tough and confronts us with a number of obstacles that we must overcome. In recent years, however, the drivers of the German economy have shown that it is ready and willing to accept the challenge. After all, we all know that an upward path is always tough.

BASF is the world's leading chemical company. Together with our more than 95,000 employees worldwide we are also proceeding on this route to success. A glance backward shows that it is worth the effort: The past year was the best in the company's more than 140-year history. We passed the €50 billion sales mark for the first time. And we grew profitably and faster than the market. Even so, looking forward is much more important than looking backward. It's true that BASF is a company with strong roots in Germany. Approximately half of our employees work here, and our Verbund site in Ludwigshafen is not only the largest, but also the most efficient chemical production site in the world. But our market is the world – only 20 percent of our customers are based in Germany. The world doesn't wait for us. It expects us to be at the forefront of global competition. Our team is ambitious and will work hard to ensure that 2007 is another successful year for our company.

The key to our success is innovation. As

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“The Chemical Company,” BASF thrives on the know-how of its employees. On average, we apply for three patents per day. Our researchers have plenty of good ideas and develop products that the markets want. BASF makes materials to insulate homes so that they require only three liters of heating oil per square meter each year instead of more than 20. We make advanced plastics, which make vehicles lighter and reduce fuel consumption. We are conducting research into using hydrogen as a source of energy. We are investing heavily in green biotechnology to allow the cultivation of plants that are resistant to heat or drought, or that produce higher yields.

As a country with few raw materials, Germany can only maintain a leading position in the world by using innovative ideas and having the courage to explore new directions. I am confident that Germany will continue to play at the top of the league. We have a solid foundation based on a dense industrial network, a well-educated population, and a stable political climate. This offers fertile ground for new ideas. But we need to nurture, develop, and use this potential. With the new energy I can sense in Germany, I firmly believe that all of this is possible. ●



GERMANY

Reforming Deutsche Business

**An Interview with Josef Ackermann,
Chairman of the Management Board and
the Group Executive Committee, Deutsche Bank AG, Frankfurt**



Josef Ackermann

EDITORS' NOTE *Josef Ackermann studied economics and social sciences at the University of St. Gallen, and in 1977 joined Schweizerische Kreditanstalt (SKA). He eventually rose to become President of SKA in 1993. Ackermann joined Deutsche Bank's Board of Managing Directors in 1996, and assumed his current posts in May 2002. He is also a Supervisory Board Member of Bayer AG and Siemens AG, and the Chairman of the Institute of International Finance (IFF).*

COMPANY BRIEF *Founded in 1870 and headquartered in Frankfurt am Main, Germany, Deutsche Bank AG (NYSE:DB) is one of the largest banks in the world. The company offers investment banking, asset management, private wealth management, and retail banking services to corporate and private clients through its two operating segments: Corporate and Investment Bank, and Private Clients and Asset Management. With more than 68,800 employees working in 1,717 facilities throughout 73 countries around the globe, the bank (www.db.com) reported net profits of \$7.9 billion in 2006, a 89-percent increase from 2005, and one of the biggest in the company's history.*

How stable is support for Chancellor Merkel's programs among the business community?

There is broad support for the Chancellor's course. Looking at recent polls, almost two-thirds of Germany's business leaders agree that

the business environment is favorable. And we are looking forward to upcoming corporate tax reform as well. But the business community also acknowledges that there are policy constraints inherent in the present government coalition of social democrats and conservatives. More consistency in the reform policies and greater courage in liberalizing areas such as labor markets would be welcome. At the European and international level, we saw substantial improvements last year – German-U.S. relations being a particular case in point.

What is Germany doing to improve the economy's legal and regulatory framework?

There are a number of important initiatives for the financial markets already in the pipeline, including the introduction of REITs and several measures to improve the environment for public-private partnerships. Legal provisions on the treatment of private equity investments are also being revised and, importantly, the pending reform of corporate taxation will include the introduction of a definitive tax on capital earnings. All of these measures have been initiated and must now be carried through to successful implementations to enhance the business climate.

Finally, since most financial market regulation actually emanates from Brussels rather than Berlin, financial market integration must continue to be pursued vigorously at the E.U. level. Germany, which holds the E.U. presidency in the first half of 2007, is taking a leadership role in promoting deeper financial integration and streamlining supervision so that we can achieve a truly integrated European financial market.

What is your outlook for the global financial markets in 2007?

World GDP growth is slowing only moderately this year, interest rates are expected to remain at favourable levels, corporate earnings remain strong, and valuation attractive. Therefore, the equity markets should be supported very well in 2007. And investors will continue to increase their allocations to alternative asset classes, which will drive down returns in those markets. However, the downside risks to this favorable scenario have increased, as the correction over the past month shows, and, as always, an external shock could upset the balance in the markets.

What is the potential for the German equity market in the next year?

We think the outlook for the German equity

market remains generally favorable due to solid economic growth and attractive valuation levels. The performance of German shares and the overall German economy are closely linked to the fate of the global economy. Exports now account for 40 percent of Germany's GDP, and two thirds of the rise in the earnings of the top 30 German corporations over the past three years were generated abroad. Some of the strongest German stocks in the past years were those that embraced globalization intelligently. We expect the global economy to perform almost as strongly in 2007 as it did in 2006, and German companies should benefit from that trend.

What are the most attractive sectors for foreign investors who want to invest in Germany?

Germany is a very attractive market for investments overall, and since it is the third-largest economy in the world, no firm can afford to overlook it. Germany is also an important gateway to the European Union, which is stronger than ever, with 27 member states and about 500 million residents who offer well-developed consumer markets. All major global corporations already have operations here, and any company aspiring to be a player on the world stage should already be establishing a presence. In particular, Germany has always excelled in high-tech industries such as automotives and engineering. But our country is also at the cutting edge in key sectors that are now developing innovative solutions to address climate change, like solar energy for example.

Are you planning further acquisitions?

Our primary strategy is to grow organically. But we will continue to take advantage of opportunities around the world when we identify firms that meet our strategic goals. We made a number of smaller acquisitions over the past year.

What role does Germany play for Deutsche Bank?

Germany is very important to us; it is where our roots are and where we traditionally have leading market positions in investment banking and in our business with private clients. In one sentence: Germany is our home market. However, I strongly believe that the success of a global company, such as Deutsche Bank, can no longer depend solely on its performance in its home market. Now more than ever, our success is influenced by our performance in all of the world's high-growth markets. ●



GERMANY

Come for the Beer, Stay for the Opportunity

By Dieter Zetsche, Chairman of the Board of Management,
DaimlerChrysler AG, and Head of Mercedes Car Group, Stuttgart



Dieter Zetsche

EDITORS' NOTE Originally from Istanbul, Dieter Zetsche studied electrical engineering at the University of Karlsruhe. He joined the research department of the then Daimler-Benz AG in 1976 and became Assistant to the Development Manager in the Commercial Vehicles business unit in 1981. Zetsche completed a doctorate in engineering in 1982 at the University of Paderborn. From 1984, as part of the Daimler-Benz Commercial Vehicles Management Development Team, he was responsible for the coordination of international development activities. He was appointed to positions of increasing authority and eventually became a Member of the Board of Management of DaimlerChrysler AG in 1998. Zetsche was one of the principal architects behind the Chrysler and Daimler-Benz merger and became the principal spokesman for the new company, appearing in a series of television, radio, print and Web ads during the "Ask Dr. Z" campaign. He was appointed to his current position in January 2006. That same year, Time magazine named him one of the 100 most influential people.

COMPANY BRIEF Formed via the 1998 merger of Daimler-Benz and Chrysler Corporation, DaimlerChrysler AG is the world's third-largest automobile manufacturer, with corporate headquarters in Stuttgart, Germany, and U.S. operations based in Auburn Hills, Michigan. In addition to its Chrysler, Dodge, Jeep, and Mercedes-Benz brands, its Freightliner unit is

America's largest heavy truck maker. In addition, the corporation holds stakes in Mitsubishi Motors and has joint ventures with Hyundai Motor Company. Traded on both the New York and Frankfurt stock exchanges as DCX, and employing nearly 385,000 people, DaimlerChrysler reported total revenues of \$200.1 billion and net income of \$4.3 billion in 2006.

There's an old saying about the three gifts Germany gave to the world, namely, "Great sausages, great beer, and great motors." I had to grin the first time I heard it. Like most stereotypes it's superficial, but there's also a grain of truth there. While food, drink, and motors (particularly those from Mercedes-Benz, I add with an admittedly strong personal bias) may be reason enough to visit Germany, they alone don't build a compelling business case to invest here.

Unfortunately, many companies seeking to expand their global operations disregard Germany due to old stereotypes about the country and the business environment. Companies should put Germany high on their list when weighing foreign investment and expansion options. The following are what I consider to be five of the most important reasons why. Included are some examples of how DaimlerChrysler leverages these strengths to its advantage.

1) Germany is the single largest and most important market in Europe. And in this case, size matters. Germany has the highest GDP, the largest population and, hence, the largest market of all European Union countries. Seventeen years after reunification, Germany has accumulated vast and valuable experience in east-west business and economic integration. Companies looking for a base of operations to target Eastern European markets can draw from this hard-won experience and minimize their own business risks.

2) Germany is at the center of Europe. The value of real estate is often said to be determined by three factors: location, location, and location. If you agree with that assumption, then Germany is prime property. Positioned in the geographic center of the European continent, businesses in Germany are perfectly positioned to reach the European Union, as well as Central and Eastern European markets with a total population of more than 850 million. Germany also boasts superb logistics, with air, railway, and roadway transportation systems that link its urban centers with those of Europe and beyond.

3) Germany is the economic heavyweight

of the European economy. The German business infrastructure is second to none within the European Union and ranks among the best in the world. Germany's enforcement of law, including the safeguard of intellectual property rights, provides a predictable and stable business environment.

Major corporations such as DaimlerChrysler aren't alone at the foundation of the German economy. Small and medium-sized enterprises (SMEs), or, in German, *Mittelstaendler*, have traditionally been a major strength and economic asset to the country. SMEs are especially active in the manufacturing sector, but have a growing presence in high-tech industries, including nano- and bio-technology. SME's also play a significant role in Germany's vibrant service economy, which accounts for more than 70 percent of total employment.

4) Germany has a culture of, and commitment to, innovation. What do the tea bag, the computer, the television, MP3s, and toothpaste have in common? They were all invented in Germany. Every 23 minutes a German patent is registered at the European Patent Office, and 18 percent of all patents worldwide are registered here.

5) German goods are synonymous with high quality. "Made in Germany" is effectively a brand or product attribute. This reputation has been built on a highly trained and skilled workforce that prizes craftsmanship and a long history of producing premium goods. In fact, half of the cars built in Germany are now premium models, up significantly from just 10 years ago. Although Germany accounts for only 10 percent of DaimlerChrysler's total sales, almost half of our employees work in Germany. Furthermore, nearly 40 percent of the trainees in Germany's automotive industry are in training programs at DaimlerChrysler. There is also a close-knit network of relationships between industry, science, and research in Germany, and SMEs help foster continuous improvement in the quality of processes and products for original equipment manufacturers and suppliers alike.

There are many considerations that go into building a business case for foreign investment. The combination of the German market, location, economy, and its culture of innovation and quality make it an attractive alternative for any business seeking to expand or diversify its European or global operations. You won't be disappointed. And, of course, the sausages, beer and motors are as good as ever. ●



GERMANY

“Made in Germany” is Back on the Map

By **Wolfgang Reitzle**,
Chief Executive Officer, Linde AG, Wiesbaden



Wolfgang Reitzle

EDITORS' NOTE Wolfgang Reitzle studied mechanical engineering at Munich Technical University, receiving his doctorate in engineering in 1974. He continued his studies in labor and business economics at the university before going to work for BMW AG in 1976 as a specialist for manufacturing technology. He held various executive positions and completed the Advanced Management Program at Harvard Business School before becoming a member of the Executive Board of BMW AG in 1987. He served as Chairman of Rover Group from October 1995 to March 1997. From 1999 to 2002, Reitzle worked for the Ford Motor Company in the U.S. as Group Vice President. He joined Linde AG as a member of the Executive Board in 2002.

COMPANY BRIEF The Linde Group is a world-leading industrial gas and engineering company with more than 53,000 employees working in around 70 countries worldwide. Following its 2006 acquisition of The BOC Group, the company has gas and engineering sales of approximately €12 billion. The strategy of The Linde Group is geared toward earnings-based growth and focuses on the expansion of its international business with forward-looking products and services.

Of course, Germany never truly disappeared. Nor has this rather large European country just been discovered because of a soccer tournament we won by losing in style – the World

Cup. We have simply become more self-confident and that with reason: Germany is doing business.

Stephen Roach, Chief Economist of the investment bank Morgan Stanley, has talked about a new *wirtschaftswunder* in the private sector in Germany. What he means is that German business has become very productive and cost-efficient in recent years. Flexibility has increased, often through local agreements with unions; the shorter working week has lengthened; investment in it has risen; and M&A activity has surged.

We at Linde have, of course, participated actively in this period of restructuring, expanding our core business to become both more international and more focused, while selling a subsidiary activity to achieve this. Our aim is higher growth and improved returns. We are not alone.

One puzzle in recent years has been the contrast between strong German exports and the weaker overall German economy. The reason for this is that the consumer has remained conservative and concerned about the future. Major retailers ran into problems as penny-pinching became in vogue, resulting in weak demand.

There are signs that this is changing. The high street may not be booming but there is definitely more to cheer about. Growth was higher last year and may yet surprise us pleasantly this year and next. Meanwhile, international and non-consumer businesses like ours remain strong, reflecting world economic growth driven by globalization.

This means Germany offers benign conditions for future investment. Not only is the economy stable, but business generally is flourishing. Take a high-speed train from Frankfurt to Munich via Stuttgart and you will see, apart from a pleasant and varied countryside, town after town with proud, well-ordered infrastructure, and well-built schools and housing.

After this journey, you will understand why Germany ranks third in competitiveness after the U.S. and Japan and eighth overall, according to the Competitiveness Index system. The protection it affords intellectual property and the sophistication of its business community is peerless.

This means that German companies are, by and large, well run and that talented management teams can be found everywhere in those neatly built factories and offices. To me this is

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This is the German

way – real, incremental

improvement, year in,

year out.
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vital. Behind the scenes, companies have been improving their products, improving productivity, improving efficiency, and improving flexibility. This is the German way – real, incremental improvement, year in, year out. This explains why Germany is seeking much stronger productivity growth than its Euro neighbors and why investing in Germany makes sense.

Of course, there are problems. The World Economic Forum's criticism of Germany, highlighting labor market inefficiency and budget deficits, echoes the complaints of international businessmen. But this should not dissuade investors from backing well-managed German companies with internationally competitive products. They are thriving. I do not need to name names – you can find examples in every sector. “Made in Germany” is definitely back on the map. ●



Performance Improvement

An Interview with Anthony Harvey,
Managing Director, Thomas Group, Inc., Frankfurt



Anthony Harvey

EDITORS' NOTE After completing his education in finance and information services in England and Germany, Anthony Harvey started his management career in Great Britain with the Midland Bank. He then began a 19-year career with Clark Equipment Company, a multinational materials handling and services conglomerate, where he held executive positions in information technology, strategic planning, industrial trucks, and dealer distribution networks in Europe and the United States, before becoming President of one of its services divisions. He then became Managing Director of European Operations for Unipart Group of Companies, a large automotive services company. He joined Thomas Group, Europe, in 1993 as a Managing Partner.

COMPANY BRIEF Internationally headquartered outside Dallas, Thomas Group, Inc. (www.thomasgroup.com) is an international, publicly traded, professional services firm that creates and implements customized strategies for sustained performance improvements in all facets of the business enterprise. With offices across the world, including Switzerland and Hong Kong, Thomas Group (Nasdaq: TGIS) offers a unique brand of process improvement and performance management services, enabling businesses to enhance operations, improve productivity and quality, reduce costs, generate cash, and drive higher profitability.

Can you give a brief overview of Thomas Group's business in Europe?

Thomas Group started in the semi-conductor business in Europe in the late '70s and built up a successful business serving many large blue-chip corporations in Central Europe. After a period of constriction post 9/11, we are now rolling out new strategies that have been successful in the U.S. and EU countries. Protocol now is to work beside our clients, providing them with "hands on" operational assistance and practical insights, with a sharp focus on improving results. That means we're helping companies all over the world get from point A to point B with improvement programs that radically impact their performance in areas like customer service, growth, and top and bottom line financial results. We uncover obstacles to reaching their goals, and place a special emphasis on management and people issues that tend to make the difference between success and failure. Today our efforts range from developing organizations and coaching people to reinforcing and strengthening all their business processes. Most large corporations here in Europe have almost completed their globalization efforts. Now, the whole value chain of suppliers and mid-sized companies need to model the behavior of these multinational corporations in order to survive and grow in this global marketplace.

What major trends happening globally most affect your business?

Changes in equity ownership are shaking up many of the traditional family and institutionally owned companies here in Europe. And with the change of ownership they are being forced to improve performance, as well as deal with issues of growth. Also, new members of the European Union, as well as most favored neighbors in the Central European bloc – new energetic companies in Poland, Turkey, Hungary, the Ukraine, are working to get established. Our job is to fully integrate them into the European market and bring them up to speed with the more progressive economies of Europe. Finally, Chinese corporations and entrepreneurs will be increasingly establishing themselves in the heart of Europe. We need to help them understand capitalistic values and how to do business here.

Do you focus on some industries more than others?

It seems that we are becoming increasingly specialized, but we also have accumulated a lot

of very broad expertise over the 20 years we've been working in Europe. In Germany, automotive, engineering, electronics, equipment manufacturing, telecommunications, logistics, and product development have been primary focus areas. There's an enormous dependency on the automotive industry here that has spurred other technology sectors. The energy sector is also going through a revival – not just the fossil fuels like coal, gas, and oil, but the renewable energy sector as well. This resurgence brings its own unique challenges, and opens up the possibility of a reemergence of the nuclear industry.

What sets Thomas Group apart from other European consultancies?

We are not consultants. Thomas Group does not write reports or do studies that others implement. Thomas Group differentiates by not only making recommendations for performance, time, and quality improvements but also implementing the recommendations. I think most managers in industry, commerce, and finance feel over-consulted today. I think that's partly because they're confronted with young consultants who do not have the depth of industry experience to drive the intended results.

We tend to hear this in many countries that we operate in, so we refuse to send anybody to a company who hasn't had hands-on experience at the CEO or board level. Having senior executives with years of experience is what enables us to make a difference with the clients we are working with in Europe. We are able to really customize and tailor our proprietary improvement methodology, known as Process Value Management, to very specific client situations.

How does Thomas Group respond to the growing trend of so much young talent migrating to hedge funds and private equity? Are you able to recruit the talent you need?

The talent and attributes that Thomas Group recruits aligns with years of executive leadership and results-based experience. Young talent may be of great value when writing reports and consulting, but Thomas Group performs a much greater role. Our firm is called in by executives who want to drive change and deliver results to their stakeholders and customers. To that end, Thomas Group enlists only accomplished men and women with over 30 years of "hands-on" industry and business experience to work side by side with the customer delivering end-game value. ●



Five Fields of Competence

**An Interview with Count Anton Wolfgang von Faber-Castell,
Chairman and Chief Executive Officer, Faber-Castell AG, Stein**



Count Anton Wolfgang von Faber-Castell

EDITORS' NOTE *With a law degree from the University of Zurich and an MBA from IMEDE Lausanne, Anton von Faber-Castell began his career as an investment banker, working for Credit Suisse First Boston in London and New York. He joined Faber-Castell as a Limited Managing Partner in 1977, and became Sole Managing Partner in 1978. Among numerous honors and affiliations, Von Faber-Castell serves as Honorary Consul to Brazil, Chairman of the management board of the Industrieverband Schreib- und Zeichengeräte (an industrial association for the writing and drawing implement industry), a member of the supervisory board of the Nürnberg Insurance Group, and a member of the supervisory board of LGA (Bavarian Trade Association).*

COMPANY BRIEF *Founded in 1761 as a pencil factory in Stein – near Nuremberg – Faber-Castell AG (www.faber-castell.com) is one of the world's leading manufacturers and sellers of high-quality products for writing, coloring, and creative design. Its 6,500 employees in 19 factories worldwide produce 2,000 distinct products, ranging from wax crayons to fountain pens and including more than 2 billion black-lead and color pencils a year, making it one of the world's largest manufacturers of wood-cased pencils.*

Would you provide an overview of the Faber-Castell collection and the range of products that you offer?

Faber-Castell is one of the world's leading companies for high-quality products for writing, coloring, and creative design. The Faber-Castell Group produces almost two billion black-lead and color pencils a year, making it the world's biggest manufacturer in its core field of wood-cased pencils. Two thousand different articles, ranging from wax crayons for children to exclusive fountain pens, are divided into five fields of competence: playing and learning, art and graphic, premium, general writing, and marking.

What is your outlook for growth through 2007?

For the current fiscal year, the group expects – assuming stable exchange rates – a growth in sales of 10 percent and an accompanying rise in the operating margin. In the long run, Faber-Castell defines two major areas for sustainable growth and profitability: children's products and premium products. Our company, which promotes creativity from childhood onwards as a “companion for life,” is now increasingly focusing on creativity for adults. We continue also with consistent development of our premium products with a focus on “best of class” in all fields of competence. We believe that the flourishing global luxury-goods industry is open for new initiatives such as the Graf von Faber-Castell Collection. Accordingly, Faber-Castell will strategically strengthen its premium position and increase brand visibility through the worldwide rollout of shop-in-shop and boutique concepts.

Would you highlight the premium collection your company produces for the high-end market?

Faber-Castell created the “world of pencil-writing” as an alternative to the “world of ink-writing.” The Graf von Faber-Castell collection was introduced in 1993 with the concept of creating exclusive lead writing implements and accessories, which launched the pencil to a new level. The launch of the “Perfect Pencil” with an elegant pencil extension in silver, featuring an integrated sharpener and eraser, as well as the first prestigious pencil holder, positioned the company in the top end of the writing-implements market – in a lone market-leading position. Starting from the success of our first products, a complete range of writing implements was created, consisting today of a variety of prestigious writing desk accessories and top-end leather goods. The Graf von Faber-Castell Collection includes our limited edition

Pen of the Year fountain pens, which are prized collector's items. The combination of precious materials and expert craftsmanship are brought to perfection year after year. Graf von Faber-Castell products have, in their design and material combination (wood and precious metals), remained unique throughout the world.

How important is the concept “Made in Germany” to your company?

It is important for us that Faber-Castell remains an international company with German roots. Now in its eighth generation, our company is striving to pave the way for the next generation after us. Not only do we want to secure jobs for the future, we want to safeguard the know-how we have created over many generations and guarantee the brand name's anchor in Germany. For us, “Made in Germany” is an important element of the Faber-Castell philosophy. However, production in Germany must also be profitable. Therefore, we have to concentrate on products that are associated with high added value and special know-how.

Faber-Castell operates in a competitive market. How do you define what makes the brand unique?

To be better than, and different from, the competition requires a quest for innovation. The more positively a company distinguishes itself from the competition, in terms of customer benefits, the better the opportunities for sustained growth. This also means that one must continuously search for unique products and services. The product advantage, however, must be understandable to the customer and represent the solution to a relevant problem. With the introduction of our Graf von Faber-Castell collection, our company has managed to open up a new, previously non-existent market segment for high-quality luxury pencils and accessories.

Do you see strong business opportunities for the brand in the U.S. market?

The Faber-Castell brand has long historical roots in the U.S. In 1849, the company's first sales office outside Germany was established in New York. There followed offices in Paris, London, Vienna, and St. Petersburg. Furthermore, it is one of the oldest registered trademarks in the U.S., and, for the moment, we are concentrating on the high end of the market, with products such as the exclusive Graf von Faber-Castell collection, various design products, products from our Art & Graphic line, and also an extensive range of children's products. ●