

CENTRAL EUROPE & RUSSIA FUND INC

Form N-2

November 10, 2005

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(As filed with the Securities and Exchange Commission on November 10, 2005)

SECURITIES ACT FILE NO. 333-  
INVESTMENT COMPANY ACT FILE NO. 811-06041

**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-2**

<b>REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933</b>	b
<b>Pre-Effective Amendment No.</b>	o
<b>Post-Effective Amendment No.</b>	o
<b>and/or</b>	
<b>REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940</b>	o
<b>Amendment No. 19</b>	b

**The Central Europe and Russia Fund, Inc.**  
 (Exact Name of Registrant as Specified in its Charter)  
**345 Park Avenue, New York, New York 10154**  
 (Address of Principal Executive Offices)  
 Registrant's Telephone Number, including Area Code: **(800) 437-6269**  
**Carole Coleman, Esq.**  
**The Central Europe and Russia Fund, Inc.**  
**c/o Deutsche Asset Management**  
**345 Park Avenue**  
**New York, New York 10154**  
 (Name and Address of Agent for Service)  
**Copies to:**

John T. Bostelman, Esq.  
 Sullivan & Cromwell LLP  
 125 Broad Street  
 New York, New York 10004

Thomas A. Hale, Esq.  
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 333 West Wacker Drive, Suite 2100  
 Chicago, Illinois 60606

**Approximate Date of Proposed Public Offering:** As soon as practicable after the effective date of this Registration Statement. If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective  when declared effective pursuant to Section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

Amount	Proposed Maximum Offering Price	Proposed Maximum Aggregate	Amount of Registration
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<b>Title of Securities Being Registered</b>	<b>Being Registered</b>	<b>Per Unit(1)</b>	<b>Offering Price(1)</b>	<b>Fee( )</b>
Common Stock, \$.001 par value	22,716	\$ 25.45	\$ 1,000,000	\$ 117.70

(1) Estimated solely for purposes of calculating the registration fee as required by Rule 457(c) under the Securities Act of 1933 based upon the average of the high and low sales prices reported on the New York Stock Exchange consolidated reporting system of \$44.02 on November 9, 2005.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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### CROSS REFERENCE SHEET

#### THE CENTRAL EUROPE AND RUSSIA FUND, INC.

#### Parts A and B of Registration Statement

<b>Item No.</b>	<b>Caption</b>	<b>Location in Prospectus or Statement of Additional Information ( SAI )</b>
1.	Outside Front Cover Page	Front Cover Page
2.	Cover Pages; Other Offering Information	Front Cover Page
3.	Fee Table and Synopsis	Fee Table and Prospectus Summary
4.	Financial Highlights	Financial Highlights
5.	Plan of Distribution	Front Cover Page; Prospectus Summary; Our Rights Offering
6.	Selling Shareholders	Not Applicable
7.	Use of Proceeds	Use of Proceeds
8.	General Description of the Registrant	Front Cover Page; Prospectus Summary; Market and Net Asset Value Information; Investment Objective and Policies; Risk Factors
9.	Management	Our Management; Custodian, Dividend-Paying Agent, Transfer Agent and Registrar
10.	Capital Stock, Long-Term Debt, and Other Securities	Front Cover Page; Market and Net Asset Value Information; Common Stock; Dividends and Distributions; Voluntary Cash Purchase Program and Dividend Reinvestment Plan; Taxation
11.	Defaults and Arrears on Senior Securities	Not Applicable

12.	Legal Proceedings	Not Applicable
13.	Table of Contents of the Statement of Additional Information	Table of Contents of Statement of Additional Information
14.	Cover Page of SAI	Cover Page of SAI
15.	Table of Contents of SAI	Cover Page of SAI
16.	General Information and History	General Information in SAI
17.	Investment Objective and Policies	Investment Objective and Policies in SAI; Investment Restrictions in SAI

EX-99.N: CONSENT OF PRICEWATERHOUSECOOPERS LLP

EX-99.R.2: CODE OF ETHICS

EX-99.R.3: CODE OF ETHICS

EX-99: POWER OF ATTORNEY

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18.	Management	Management in SAI; Investment Advisory and Other Services in SAI; Brokerage Allocation and Other Services in SAI
19.	Control Persons and Principal Holders of Securities	Control Persons and Principal Holders of Securities in SAI
20.	Investment Advisory and Other Services	Investment Advisory and Other Services in SAI
21.	Portfolio Manager	Investment Advisory and Other Services in SAI
22.	Brokerage Allocation and Other Practices	Brokerage Allocation and Other Practices in SAI
23.	Tax Status	Taxation in Prospectus
24.	Financial Statements	Financial Statement in SAI

**Part C of Registration Statement**

Information required to be included in Part C is set forth under the appropriate item, so numbered in Part C to this Registration Statement.

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**The information in this prospectus is not complete and may be changed. A registration statement relating to the securities has been filed with the Securities and Exchange Commission. We may not sell these securities until the registration statement is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer, solicitation or sale is not permitted.**

Subject to Completion

Preliminary Prospectus dated November 10, 2005

**The Central Europe and Russia Fund, Inc.**

**[ ] Shares of Common Stock**

**Issuable Upon Exercise of Rights to Subscribe for Such Shares**

We are issuing to our stockholders of record as of the close of business on [ ], 2005 transferable rights entitling the holders of those rights to subscribe for up to an aggregate of [ ] shares of our common stock. Stockholders of record will receive one right for each share of common stock held on the record date. These rights entitle the holders to purchase one new share of common stock for every three rights held, and holders who fully exercise their rights will be entitled to subscribe, subject to certain limitations and subject to allotment, for any shares not acquired by the exercise of rights. Our outstanding common stock is listed on the New York Stock Exchange ( NYSE ) and trades under the symbol CEE , as will be the shares offered for subscription in this rights offering. The rights are transferable and application will be made to list the rights for trading on the NYSE under the symbol [ ] during the course of this rights offering. See Our rights offering on page 19 in this prospectus for a complete discussion of the terms of this rights offering. The subscription price per share will be [ ]% of the lower of (i) the average of the last reported sale prices of a share of our common stock on the NYSE on the expiration date of the rights offering and the four preceding business days and (ii) the net asset value per share on the expiration date. **The offer will expire at 5:00 p.m., New York City time, on [ ], 2005, unless extended as described in this prospectus.**

We announced our intention to conduct this rights offering on November [ ], 2005. The net asset values per share of our common stock at the close of business on November [ ], 2005 and [ ], 2005 were \$[ ] and \$[ ], respectively, and the last reported sale prices of a share of common stock on the NYSE were \$[ ] and \$[ ], respectively, [ ]% and [ ]% of net asset value, respectively.

As a result of the terms of this rights offering, stockholders who do not fully exercise their rights, upon completion of this rights offering, will own a smaller proportional interest in us than they owned prior to this rights offering. In addition, because the subscription price per share will be less than the then current net asset value per share, the completion of this rights offering will result in an immediate dilution of the net asset value per share for all existing stockholders. Such dilution is not currently determinable because it is not known how many shares will be subscribed for, what the net asset value or market price of our common stock will be on the expiration date for the shares or what the subscription price will be. Such dilution could be substantial. Stockholders will experience a decrease in the net asset value per share held by them, irrespective of whether they exercise all or any portion of their rights. See Our Rights Offering Investment Considerations on page 32 of this prospectus and Risk Factors Dilution of Net Asset Value on page 42 of this prospectus.

If you have questions or need further information about this rights offering, please write or call Georgeson Shareholder Communications Inc., our information agent for this rights offering, at 17 State Street, New York, New York 10004 or [ ].

*(Continued on inside front cover)*

**Before buying any common stock, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 37. Certain of these risks are summarized in Prospectus Summary-Special Risk Considerations beginning on page 8.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	<b>Per share</b>	<b>Total (1)</b>
Estimated subscription price (2)	\$ [ ]	\$ [ ]
Estimated sales load (2)(3)	\$ [ ]	\$ [ ]
Proceeds, before expenses, to the Fund (2)(4)	\$ [ ]	\$ [ ]

*(Footnotes continued on inside front cover)*

[Dealer Manager]

**The date of this prospectus is [ ], 2005**

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[Insert map of all the countries]

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**AVAILABLE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and the Investment Company Act of 1940, as amended (the Investment Company Act ), and in accordance with these requirements, we file reports and other information with the United States Securities and Exchange Commission (the SEC ). Such reports and other information can be inspected and copied at the public reference facilities maintained by the SEC in Washington, D.C. Information about the operation of the SEC 's public reference facilities may be obtained by calling the SEC at 1-202-942-8090. Such reports and other information are also available on the SEC 's website at <http://www.sec.gov>.

*(continued from front cover page)*

We were incorporated in Maryland on February 6, 1990. We are a non-diversified closed-end management investment company that seeks capital appreciation by investing primarily in equity or equity-linked securities of Central European and Russian companies. No assurance can be given that our investment objective will be achieved. Our investment manager is Deutsche Investment Management Americas Inc. and our investment adviser is Deutsche Asset Management International GmbH.

This prospectus sets forth concisely the information about us that a prospective investor ought to know before investing. Investors are advised to read this prospectus carefully and retain it for future reference. You may obtain additional information about us from our reports filed with the SEC. Where indicated, we have incorporated into this prospectus information from the Statement of Additional Information ( SAI ) dated [ ], 2005. You can find the table of contents for the SAI on page 61 of this prospectus. You may obtain a copy of the SAI or our reports filed with the SEC upon written or oral request free of charge by contacting the information agent at 17 State Street, New York, New York 10004 or [ ]. In addition, the SAI and other reports filed with the SEC, including material incorporated by reference into this prospectus or the SAI, are available on the SEC 's website at <http://www.sec.gov>.

*(continued from front cover page)*

- (1) Assumes that all rights offered in this rights offering were exercised at the estimated subscription price
- (2) Estimated on the basis of [ ]% of the last reported sales price of a share of our common stock on the NYSE on [ ], 2005
- (3) [ ] will act as dealer manager for this rights offering. We have agreed to pay the dealer manager a fee for its financial services equal to [ ]% of the subscription price per share. The dealer manager will reallow a part of its fees to other broker-dealers which have assisted in soliciting the exercise of rights. We have agreed to reimburse the dealer manager up to \$[ ] for its reasonable expenses incurred in connection with this rights offering. These fees will be borne by us and indirectly by all of our stockholders, including those who do not exercise their rights. We and our investment manager have each agreed to indemnify the dealer manager or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended (the Securities Act ). See Our Rights Offering Distribution Arrangements on page 29 of this prospectus.
- (4) Before deducting offering expenses payable by us estimated at \$[ ], including an aggregate of up to \$[ ] as partial reimbursement of the dealer manager for their out-of-pocket expenses. See Our Rights Offering Distribution Arrangements on page 29 of this prospectus.

Unless otherwise specified, all references in this prospectus to dollars, US \$ , U.S. dollars or \$ are to United States dollars.

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**PROSPECTUS SUMMARY**

*This is only a summary. This summary may not contain all of the information that you should consider before investing in us. You should review the more detailed information contained in this prospectus and our SAI, especially the information set forth under Risk Factors.*

**Purpose of Our Rights Offering**

Our board of directors has determined that it would be in our best interest and in our stockholders' best interest to increase our assets available for investment, thereby permitting us to take advantage more fully of investment opportunities. Our investment manager and investment adviser believe that the outlook for a number of industries and companies in Central Europe, Russia and Turkey is promising. In addition, our board of directors believes that increasing our assets available for investment should result in a modest lowering of our expenses as a percentage of average net assets because our fixed cost can be spread over a larger asset base.

There is no assurance that this rights offering will be successful or that by increasing our size, our aggregate expenses and, correspondingly, our expense ratio, will be lowered. See "Our Rights Offering Purpose of Our Rights Offering" on page 19 of this prospectus.

Our outstanding common stock is listed on the NYSE and trades under the symbol "CEE," as will be the shares offered for subscription in this rights offering.

**Important Terms of Our Rights Offering**

The following are a few of the important terms of our rights offering. For a detailed discussion of the terms of this rights offering, see "Our Rights Offering" on page 19 of this prospectus.

Aggregate number of shares of our common stock offered.	[ ]
Number of transferable rights issued to each stockholder.	One right for every share of our common stock held.
Subscription ratio.	One share of common stock for every three rights held (1-for-3).
Subscription price.	The subscription price per share will be [ ]% of the lower of (i) the average of the last reported sale prices of a share of our common stock on the NYSE on the expiration date of the rights offering and the four preceding business days and (ii) the net asset value per share on the expiration date.

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**Transferability of Rights**

We are issuing to stockholders on the record date transferable rights to subscribe for additional shares of our common stock. The rights are transferable until the close of business on the last business day prior to the expiration date. Application will be made to list the rights on the NYSE under the symbol [ ], subject to notice of issuance. Trading in the rights on the NYSE is expected to be conducted on a when-issued basis from [ ], 2005 until the record date; thereafter, they will trade regular-way until the expiration date (including extensions). We will use our best efforts to ensure that an adequate trading market for the rights will exist, although there is no assurance that a market for the rights will develop. Assuming a market exists for the rights, the rights may be purchased and sold through usual brokerage channels or sold through the subscription agent.

Stockholders on the record date who do not wish to exercise any of the rights issued to them pursuant to this rights offering may instruct the subscription agent to sell any unexercised rights through or to the dealer manager. Subscription certificates representing the rights to be sold through or to the dealer manager must be received by the subscription agent on or before [ ], 2005, (or, if the subscription period is extended, on or before two business days prior to the extended expiration date). Alternatively, the rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the accompanying instructions.

See Our rights offering TRANSFERABILITY AND SALE OF RIGHTS on page 19 of this prospectus.

**Important Dates to Remember**

Record date	[ ]
Subscription period	[ ]*
Expiration date and pricing date	[ ]*
Notices for guarantees of delivery due	[ ]*
Payment for guarantees of delivery due	[ ]*
Confirmation mailed to participants	[ ]*
Final payment of shares	[ ]*

\* Unless this rights offering is extended

**Over-Subscription Privilege**

Shares not subscribed for during the subscription period will be offered, by means of the over-subscription privilege, only to stockholders on the record date who have exercised all rights

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issued to them (other than those rights that cannot be exercised because they represent in the aggregate the right to acquire less than one share of our common stock). Investors who are not stockholders on the record date, but who otherwise acquire rights to purchase shares of our common stock pursuant to this rights offering, are not entitled to subscribe for any shares of our common stock pursuant to the over-subscription privilege. If these requests for our common shares exceed the common shares available, the available common shares will be allocated pro rata among stockholders who over-subscribed based on the number of rights originally issued to them pursuant to this rights offering. See [Our Rights Offering Over-Subscription Privilege](#) on page 21 of this prospectus.

**Method for Exercising Rights**

Rights are evidenced by subscription certificates that will be mailed to stockholders of record or, if a stockholder's shares are held by Cede & Co. or any other depository or nominee, to Cede & Co. or such other depository or nominee. Rights may be exercised by filling in and signing the subscription certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the subscription agent, together with payment at the estimated subscription price for the shares. Rights may also be exercised by contacting your broker, banker or trust company, which can arrange, on your behalf, to guarantee delivery of payment and of a properly completed and executed subscription certificate. A fee may be charged for this service. Completed subscription certificates and payments must be received by the subscription agent prior to 5:00 p.m., New York City time, on the expiration date at the offices of the subscription agent. See [Our Rights Offering Exercise of Rights](#) on page 25 of this prospectus and [Our Rights Offering Payment for Shares](#) on page 26 of this prospectus.

**Distribution Arrangements**

[ ] will act as dealer manager for this rights offering. Under the terms and subject to the conditions contained in the dealer manager agreement, the dealer manager will provide financial advisory services and marketing services in connection with this rights offering and will solicit the exercise of rights and participation in the over-subscription privilege. We have agreed to pay the dealer manager a fee for its financial advisory, marketing and soliciting services equal to [ ]% of the aggregate subscription price for shares issued pursuant to this rights offering. The dealer manager will reallow a part of their fees to other broker-dealers which have assisted in soliciting the exercise of rights.

Other offering expenses incurred by us in connection with this rights offering are estimated to be \$[ ], which includes up to \$[ ] that may be paid to the dealer manager as partial reimbursement for its reasonable expenses incurred in connection with this rights offering. For additional information about the distribution arrangements, see [Our Rights Offering Distribution Arrangements](#) on page 29 of this prospectus.

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**Information Agent**

The Information agent for this rights offering is Georgeson Shareholder Communications Inc. If you have questions or need further information about this rights offering, please write or call the Information Agent at 17 State Street, New York, New York 10004 or [ ].

**Our Investment Objective and Policies**

We are a non-diversified closed-end management investment company registered under the Investment Company Act. Our investment objective is to seek long-term capital appreciation through investment primarily in equity and equity-linked securities of issuers domiciled in Central Europe and Russia. Under normal circumstances, at least 80% of our net assets will be invested in the securities of issuers domiciled in Central Europe or Russia. We may also invest in additional types of securities, such as warrants, if consistent with our investment objective, and participation certificates of issuers in any European country or Russia. For hedging purposes, we may also invest in put and call options on European or Russian securities and indices. We may invest up to 20% of our total assets in fixed income securities of European or Russian issuers. For temporary defensive purposes, we also may invest in money market instruments and lend our portfolio securities to banks, securities dealers and other institutions. Although we do not currently engage in foreign exchange transactions, we may, when our investment manager and our investment adviser deem it advisable, attempt to hedge our foreign currency exposure by entering into forward currency contracts. See **Investment Objective and Policies** on page 33 of this prospectus and page B-2 of the SAI and **Investment Restrictions** on page B-6 of the SAI.

**Management**

Under our investment advisory agreement, our investment adviser is Deutsche Asset Management International GmbH ( **DeAMI** ), and under our management agreement, our investment manager is Deutsche Investment Management Americas Inc. ( **DIMA** ). Both DeAMI and DIMA are wholly-owned direct or indirect subsidiaries of Deutsche Bank AG, a major German banking institution. See **Our Management** on page 46 of this prospectus and **Investment Advisory and Other Services** on page B-20 of the SAI.

**Management Fees**

We pay our investment manager a management fee, computed weekly and payable monthly, at the annual rate of 0.65% of our average weekly net assets up to \$100 million, and 0.55% of our assets in excess of \$100 million. We pay our investment adviser an advisory fee, computed weekly and payable monthly, at an annual rate of 0.35% of our average weekly net assets up to \$100 million and 0.25% of our assets in excess of \$100 million. See **Our Management** on page 46 of this prospectus and **Investment Advisory and Other Services** on page B-18 of the SAI.

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**Custodians**

Investors Bank & Trust Company acts as our custodian. Our custodian has agreements with a global network of sub-custodians. See **Custodians, Dividend-Paying Agent, Transfer Agent and Registrar** on page 60 of this prospectus.

**Dividend-Paying Agent, Transfer Agent and Registrar**

Investors Bank & Trust Company acts as our dividend-paying agent, transfer agent and registrar.

**Special Risk Considerations**

*Risks Relating to Foreign Investment Generally.* Foreign investments may involve certain considerations and risks not typically associated with those of domestic origin as a result of, among other things, 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.

Some foreign markets in which we invest are considered to be in emerging market countries. Investment in these countries subjects us to a greater risk of loss than investments in a country with more developed markets. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, greater risk of market shut down and more governmental limitations on foreign investment policy than those typically found in a developed market.

The economies of individual emerging market countries may differ favorably or unfavorably from the U.S. economy in many respects. The economies of emerging market countries generally are heavily dependent upon international trade and have been and may be adversely affected by trade restrictions, currency values and economic conditions in the countries with which they trade. In addition, foreign investment in certain emerging markets is restricted or controlled to varying degrees, which will increase our costs and expenses.

Some emerging market countries may require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if a deterioration occurs in an emerging market country's balance of payments, the country could impose temporary restrictions on foreign capital remittances. Investing in local markets in emerging market countries may require us to adopt special procedures, seek local government approvals or take other actions, each of which may involve additional costs to us.

An established secondary markets might not exist for many of the emerging market issuer securities in which we invest. This reduced secondary market liquidity may have an adverse effect on market price and our ability to dispose of particular instruments when necessary, and may make it more difficult for us to obtain accurate market quotations for purposes of valuing our portfolio and calculating our net asset value.

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For a detailed discussion of risk factors, see *Risk Factors* on page 36 of this prospectus.

*Risks Relating to Investment in Russia.* Investing in Russia subjects us to many of the same risks associated with investing in Central European countries, which are discussed below. There are significant risks inherent in securities of Russian issuers that are not typically associated with securities of companies in more developed countries. The value of Russian securities may be affected by various uncertainties, such as economic, political and social instability, investment and regulatory risk, including crime and corruption in government and business, and inconsistency and underdevelopment of Russia's tax and legal systems. As is the case with issuers in most emerging markets, securities of Russian issuers are subject to a higher degree of volatility than the securities of Western companies.

Russia has made transitional movements from a centrally controlled command system to a market-oriented, democratic model of government, but its continued development, and the pace with which it continues to make this transition, remains uncertain. There has been widespread speculation recently about the future of Russia's presidency and political reforms. Russia's role and its reintegration into the global political economy are also unclear, and internal regional conflicts continue to exist.

The Russian economy relies heavily on the production and export of oil. Russia also has substantial trading links with Iraq. Because Russia is highly sensitive to changes in the world oil price and because of United States legal and military action against Iraq, it is even more difficult to predict future oil price movements with any certainty, and fluctuations in pricing may increase substantially.

A centralized public market for trading Russian securities has not developed, despite the number of stock exchanges in Russia, and trading occurs mostly over-the-counter. Corporate governance standards for Russian companies have also proven to be poor, and minority stockholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer-pricing practices. Stockholders of Russian companies also lack many of the protections available to stockholders of Western issuers. The events involving Yukos in 2004 led many investors to pull capital out of Russia over concerns of a lack of the rule of law and shareholder rights.

Accounting, financial and auditing reporting by Russian companies is also generally of lower quality and less reliable compared with Western companies. Laws and regulations involving foreign investment in Russian enterprises, title to securities and transfer of title are also relatively new and can change quickly and unpredictably. Moreover, Russia's taxation system is frequently subject to change and enforcement is inconsistent at federal, regional and local levels.

*Risks Relating to Investment in Central Europe.* Central European countries are in varying stages of transition towards developing market-oriented economies based on private and entrepreneurial initiatives, multi-party democracies, pluralism and market economies. These countries experienced extremely volatile market performance in the past decade, and investing in securities of Central European issuers entails all of the risks of investing in securities of foreign issuers to a heightened degree. In addition, a substantial portion of the economic growth, if any, of Central European countries is attributable to their export industries rather than domestic

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consumption; therefore, the Central European countries are also highly susceptible to economic downturns in Western European countries and the United States, which are substantial consumers of their exported products.

Central European markets continue to be relatively volatile, and our investments will remain subject to currency fluctuation and local political, economic and social uncertainties. Investing in any developing market means tolerating a certain amount of volatility and, in some cases, severe market corrections. In addition, investments in a single region, even though representing a number of different countries, may be affected by common economic forces and other factors.

Less developed markets involve higher levels of risk, and are subject to more substantial volatility and price fluctuations than securities that are traded in more developed markets.

*Risks Relating to Investment in Turkey.* Investing in Turkey subjects us to many of the same risks associated with investing in Central European countries that are described above; however, investments in Turkey should be considered to have greater risks. There are significant risks inherent in Turkish securities that are not typically associated with securities of companies in more developed countries. The value of Turkish securities may be affected by various uncertainties, such as economic, political and social instability, investment and regulatory risk. The Turkish equity market is significantly less developed than securities markets in the United States and Western Europe. The market in Turkey is smaller, less liquid, and more volatile.

Over the past two decades, the Turkish economy has transitioned from a highly regulated economy to a free market system. Despite a generally successful transition, the Turkish economy has experienced significant macroeconomic imbalances. High levels of government debt and the high current account deficit continue to threaten Turkey's economic stability.

Throughout its history, Turkey has been plagued by political instability, which could have an adverse effect on the investment climate. Over the past 80 years, 58 different governments have ruled in Turkey, with military coups occurring once every decade from 1960 to 1980. Despite the recent political stability, the potential for future political upheaval presents a very real risk to the implementation of important economic reforms.

Uncertainties relating to Turkey's bid for EU membership are an additional source of volatility in the Turkish financial markets. The criteria for joining the EU include implementation of a number of political, legislative and economic reforms, which Turkey may decide in the future that it is either unable or unwilling to fulfill. In addition, there is significant political pressure within the European Union to move toward a "privileged partnership" with Turkey rather than full membership. The negotiations are expected to last a decade, and market sentiment may fluctuate dramatically as the negotiations progress.

In addition to the domestic political uncertainty, terrorism and political instability in neighboring countries, such as Iran and Iraq, is another source of risk associated with investment in Turkey.

*Dilution of Net Asset Value.* You will experience a dilution of the aggregate net asset value per share of our common stock upon the completion of this rights offering because the



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subscription price may be less than our then current net asset value per share. This dilution, which may be substantial, will be experienced by all stockholders, irrespective of whether they exercise all or any portion of their rights. Also, stockholders who do not fully exercise their rights should expect that they will own a smaller proportional interest in us after the completion of the rights offering. The distribution to stockholders of transferable rights which themselves may have intrinsic value will afford non-participating stockholders the potential of receiving a cash payment upon sale of their rights, receipt of which may be viewed as partial compensation for the dilution of their interest in us. No assurance can be given that a market for the rights will develop, or as to the value, if any, that rights will have.

*Net Asset Value Discount.* Shares of closed-end investment companies frequently trade at a discount from net asset value. This is a risk separate and distinct from the risk that our net asset value will decrease. We cannot predict whether our common stock will trade at, above or below net asset value. Our shares of common stock have generally traded at a discount. See *Market and Net Asset Value Information* on page 18 of this prospectus. Stockholders wishing to sell their shares of common stock during this rights offering should be aware that there is greater risk that a discount to net asset value, which may increase during this rights offering, will adversely affect them. This increased risk is because, among other things, the market price per share may reflect anticipated dilution that will result from this rights offering. There can be no assurance that, after the completion of this rights offering, our shares will trade at the same level relative to net asset value as they currently do.

*Exchange Rate Fluctuations and Foreign Currency Considerations.* Substantially all of our assets are invested in Russia and Central Europe, and substantially all of the income we receive from these investments will be in euros or other foreign currencies. Since we will compute and distribute income in U.S. dollars, and the computation of income will be made on the day we earn the income, any fluctuation in the value of foreign currency relative to the U.S. dollar between the earning of the income and the time at which we convert the foreign currencies to U.S. dollars may have an adverse impact on us. In addition, since we will invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates will affect the value of our securities in our portfolio and the unrealized appreciation or depreciation of our investments.

We generally expect that the foreign currencies received by us with respect to most of our investments will be freely convertible into U.S. dollars on foreign exchange markets and that in most cases the U.S. dollars received will be fully repatriable out of the various foreign countries in which we invest. However, our investments in Russia are in securities denominated in Russian rubles, which are not externally convertible into other currencies outside of Russia.

We do not currently, nor do we expect to, engage in foreign exchange transactions as an investment strategy. However, we may enter into forward currency transactions in the future in order to hedge the value of our portfolio, if our investment manager and investment adviser deem it necessary.

*Interest Expense.* We may, subject to limitations, borrow money for temporary or emergency purposes for the clearance of transactions. Borrowing money will subject us to interest expenses and we may incur other transaction costs.

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*Certain Provisions of Our Articles of Incorporation and Bylaws.* We have provisions in our articles of incorporation and bylaws that could have the effect of delaying, deferring, preventing or otherwise limiting the ability of other entities or persons to acquire control of us, to cause us to engage in certain transactions or to modify our structure.

*Foreign Custody.* Our foreign securities and cash are generally held in foreign banks and securities depositories by a global network of custodians. There may be limited or no regulatory oversight over their operations. Also, the laws of certain countries may limit on our ability to recover our assets if a foreign bank, depository or issuer of a security, or any of their agents, goes bankrupt.

*Market Disruption.* As a result of terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, some of the U.S. securities markets were closed for a four-day period. These terrorist attacks and related events led to increased short-term market volatility. U.S. military and related action in Iraq and events in the Middle East could have significant adverse effects on U.S. and world economics and markets. A similar disruption of the U.S. or world financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to our common stock.

**Table of Contents****FEE TABLE****Shareholder transaction expenses**

Sales load (as a percentage of offering price) (1)	[ ]%
Dividend reinvestment and cash purchase plan fees (2)	None
<b>Annual expenses</b> (as a percentage of net assets attributable to common shares)	
Advisory and management fees (3)(4)	[ ]%
Other expenses (5)	[ ]%
Total annual expenses (4)	[ ]%

(1) The dealer manager will receive a fee for its financial advisory, marketing and soliciting services equal to [ ]% of the aggregate subscription price for shares issued pursuant to this rights offering. The dealer manager will reallow to broker-dealers included in the selling group to be formed and managed by the dealer manager selling fees equal to [ ]% of the subscription price per share for each share issued pursuant to this rights offering as a result of their selling efforts. In addition, the dealer manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and

have solicited the exercise of rights solicitation fees equal to [ ]% of the subscription price per share for each share issued pursuant to the exercise of rights as a result of their soliciting efforts, subject to a maximum fee based on the number of shares held by each broker-dealer through DTC on the record date. We have also agreed to reimburse the dealer manager for out-of-pocket expenses up to an aggregate of \$[ ]. These fees will be borne by us and indirectly by all of our stockholders, including those who do not exercise their rights. See Our Rights Offering Distribution Arrangements on page 29 of this prospectus.

- (2) See Voluntary Cash Purchase Program and Dividend Reinvestment Plan on page 52 of this prospectus.
- (3) See Our Management on page 46 of this prospectus and Investment Advisory and Other Services on page B-20 of the SAI for additional

information.

- (4) The indicated advisory and management fees and the expense ratio assume that this rights offering is fully subscribed, yielding estimated net proceeds of approximately \$[ ] million. It also assumes that net assets attributable to our common stock will not increase or decrease due to price or currency fluctuation.

- (5) Other Expenses have been estimated for the current fiscal year.

This fee table is intended to assist investors in understanding the costs and expenses that an investor will bear directly or indirectly by investing in our shares.

**Example**

An investor would directly or indirectly pay the following expenses on a \$1,000 investment, assuming a 5% annual return throughout the periods:

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	1 year	3 years	5 years	10 years
Total expenses incurred	[ \$ ]	\$[ ]	\$[ ]	\$[ ]

This example assumes that all dividends and all other distributions are reinvested at net asset value and that the percentage amounts listed under Annual expenses remain the same in the years shown. The example also reflects payment of the [ ]% sales load and other expenses incurred in connection with this rights offering. The above tables and the assumption in this example of a 5% annual return are required by SEC regulations applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of our shares. For a more complete description of our costs and expenses, see Our Management on page 46 of this prospectus, Investment Advisory and Other Services on page B-20 of the SAI and Brokerage Allocation and Other Practices on page B-29 of the SAI.

**This example should not be considered a representation of future expenses or rate of return, and our actual expenses may be greater or less than those shown.**

**Table of Contents****FINANCIAL HIGHLIGHTS**

Set forth below and on the next page is selected data for a share of common stock outstanding throughout each of the years indicated. The information below and on the next page for fiscal years 2004-1995 has been audited by PricewaterhouseCoopers LLP ( PwC ), our Independent Registered Public Accounting Firm, whose report thereon was unqualified. The information should be read in conjunction with the financial statements and notes contained therein. The unqualified report of PwC for the year ended October 31, 2004 is included in the SAI under Financial Statements. The information below for the six months ended April 30, 2005 is unaudited.

	<b>For the six months ended April 30, 2005 (unaudited)</b>	<b>2004</b>	<b>For the year ended October 31,</b>			<b>2000</b>
		<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	
<i>Per share operating performance</i>						
Net asset value:						
Beginning of period	\$ 28.64	\$ 23.08	\$ 15.93	\$ 13.83	\$ 16.14	\$ 15.99
Net investment income (loss)	(.08)	.20	.21	(.07)	.10	(.09)
Net realized and unrealized gain (loss) on investments and foreign currency transactions	2.64	7.97	6.86	2.37	(2.70)	(.38)
Increase (decrease) from investment operations	2.56	8.17	7.07	2.30	(2.60)	(.47)
Increase resulting from share repurchases		.02	.08	.06	.29	.62
Distributions from net investment income	(.17)	(.22)		(.10)		
Distributions from net realized foreign currency gains				(.13)		
Distributions from net realized short-term capital gains						
Distributions from net realized long-term capital gains						
Total distributions <sup>(1)</sup>	(.17)	(.22)		(.23)		
Dilution from rights offering		(2.15)				
		(.25)				

Dealer manager fees and offering costs

Dilution in NAV from dividend reinvestment

(.01)

(.03)

Net asset value:

End of period	\$	31.03	\$ 28.64	\$ 23.08	\$ 15.93	\$ 13.83	\$ 16.14
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Market value:

End of period	\$	27.65	\$ 24.99	\$ 21.25	\$ 13.25	\$ 10.95	\$ 11.875
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Total investment return for the period:<sup>(2)</sup>