

Edgar Filing: CENTRAL EUROPE & RUSSIA FUND, INC. - Form N-CSR/A

CENTRAL EUROPE & RUSSIA FUND, INC.

Form N-CSR/A

April 02, 2009

This report is being refiled because the graphic showing the country breakdown was not included. In repurposing this report, this graphic was accidentally deleted from the original HTML file.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number 811-06041

Central Europe & Russia Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

345 Park Avenue

New York, NY 10154-0004

(Address of principal executive offices) (Zip code)

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

Paul Schubert

345 Park Avenue

New York, NY 10154-0004

(Name and Address of Agent for Service)

Date of fiscal year end: 10/31

Date of reporting period: 10/31/08

**ITEM 1. REPORT TO STOCKHOLDERS**

**SUMMARY OF GENERAL INFORMATION**

**THE FUND**

The Central Europe and Russia Fund, Inc. (the "Fund") is a non-diversified, actively-managed closed-end fund listed on the New York Stock Exchange with the symbol "CEE." The Fund seeks long-term capital appreciation primarily through investment in equity and equity-linked securities of issuers domiciled in Central Europe and Russia. It is managed and advised by wholly-owned subsidiaries of the Deutsche Bank Group.

**SHAREHOLDER INFORMATION**

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

The foregoing information is also available on our Web site: [www.ceefund.com](http://www.ceefund.com).

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

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

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

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

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

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

**The Central Europe and**

**Russia Fund, Inc.**

**Annual Report**

**October 31, 2008**



## The Central Europe and Russia Fund, Inc.

### LETTER TO THE SHAREHOLDERS

Dear Shareholder,

In the current market environment, there is significant uncertainty about future market and economic performance. Despite historically low valuations following the market sell-off in September and October 2008, market volatility and price declines have continued in November. While we continue to diligently monitor the Fund's holdings and geographic exposure, it is difficult to predict the duration of the current economic slowdown and bear market.

The negative impact of the US economic crisis dominated the global financial markets during the final quarter of the Fund's 2008 fiscal year amidst concerns of slowing gross domestic product (GDP) growth worldwide, expected to result in weak corporate earnings reports. However, if governmental efforts to unfreeze the money markets and stabilize the global financial system are successful, we could see a rally in the markets around the globe (including emerging European markets) led (at least in the early stages) by those sectors under the greatest stress over the past quarter or two, financials and commodity-related stocks. During the fiscal year ended October 31, 2008, The Central Europe and Russia Fund's total return based on net asset value per share was -61.27% while its total return based on share price was -65.28%. The Fund's blended benchmark fell 57.49% during the same period.<sup>1</sup>

In the Fund's fiscal Q4 2008, each of the Fund's core markets was influenced by the overall situation in the financial markets, and performance of most shares was poor. The main reason for our underperformance is our overweight in Russia. After remaining fairly resilient during the earlier months of the year, the global financial crisis reached Russia (59.8% of portfolio assets) in September, when problems on international capital markets, coupled with domestic problems, triggered a near collapse of normal functioning within the local banking system and financial markets. Extremely high market volatility, lingering political tensions and continued outflows of investor funds completed a challenging setting for Russian equities. Falls in oil and metals prices undermined the profit outlook in the resources sector, while the credit crunch's impact stressed the banking sector. After the severe decline in the stock market, Russian equities are valued at an estimated 2009 4.88x price/earnings (P/E) ratio. We believe the market has overshot to the down side, but that the near-term upside potential of the Russian equity market is much reduced as commodity prices fall, input cost pressures remain elevated and debt becomes harder to come by and more expensive. During the fiscal fourth quarter, we reduced the Fund's holdings in real estate, steel, and oil stocks while adding positions in CTC Media and VTB Bank OJSC. Overall, the Fund maintained a significant overweight position in Russian equities, as we remain optimistic about the Russian market longer term, but the global economy must regain its footing and investor risk tolerance must return to more normal levels before the market can retest its recent highs. Russia's currency is currently managed by the Central Bank of Russia in a tight range against a currency basket made up of 55% USD and 45% euro. Concern of a possible ruble devaluation has increased over the past few weeks. At the same time, the Fund has reviewed the potential impact of a Ruble devaluation on its Russian holdings and may reduce the Fund's exposure to Russian assets, particularly those companies that are focused on the domestic market, as ruble earning companies may suffer disproportionately from a currency devaluation.

The Czech market (11.3% of portfolio assets) is likely to remain one of the more defensive of the emerging European markets in the case of any future sell-offs due to the make-up of its blue chip index and the generally healthy economic situation of the country (though some weakening of the economy is likely due to spill-over effects from Western Europe entering recession). However, most of the blue chips finished the year with considerable losses. With global recession now a reality, a shift towards defensive stocks seems warranted. As a result, we began to reduce the Fund's underweight in Czech equities relative to the benchmark during the quarter by adding positions in Erste Bank der Oesterreichischen Sparkassen (incorporated in Austria), Komerčni Banka, and Telefonica O2, though we sold the Fund's positions in Central European Media and coal mining company New World Resources.<sup>2</sup>

Hungary (3.3% of portfolio assets) continues to present unexciting growth prospects. Despite having outperformed the emerging Europe region over the past quarter, primarily due to the weak performance turned in by Russian shares, the medium-term outlook for the Hungarian equity market is not attractive in our view. We regard the Hungarian economy as fragile and expect that it may well stay that way until 2010. The forecast GDP

**LETTER TO THE SHAREHOLDERS (continued)**

growth of 2% is not expected to be enough to provide impetus for solid earnings per share (EPS) growth, in our opinion. The Fund holds a moderate underweight in Hungary relative to its benchmark, which we feel is appropriate despite the market's seemingly attractive valuation, given the country's reliance on exports in a slowing global growth environment and the domestic political uncertainty. We sold the Fund's position in Magyar Telekom during the quarter.

Poland's (14.5% of portfolio assets) market began falling in the third quarter of 2007, before other regional markets, and as a result, it fared better than most markets in the region during the quarter. Of the recent European Union (EU) entrants, we believe the Polish economy is the least exposed to a slowdown in Western Europe and has relatively low levels of bank lending to GDP. The political situation remains stable and Poland stands out for relatively solid macroeconomic data, supported by robust consumer and infrastructure spend and a lack of credit crunch-related issues in the banking sector. We sold the Fund's position in copper producer KGHM and trimmed a position in Bank Pekao during the quarter and are fairly comfortable with the Fund's current positioning in Poland, with the focus on Telekomunikacja Polska and Powszechna Kasa Oszczednosci Bank Polski (PKO BP), one of the largest financial stocks in Poland.

Turkey's (10.3% of portfolio assets) economic growth was decelerating even before the global financial crisis escalated in September and October, but the inflation outlook is a bright spot for the Turkish economy, aided by the correction in commodity prices and the central bank's tight monetary stance thus far. Recent global uncertainties made this even more important as the country continues to finance its growth with foreign funding. The better inflation outlook should allow domestic yields and interest rates to fall in coming quarters, supporting equities, which remain cheaply valued. We prefer the interest rate-sensitive banking and construction sectors as well as the domestic defensives over exporters and commodity names. During the quarter, we made a number of changes to the Fund's Turkish holdings, selling positions in Ford Otomotiv, Hurriyet, Migros and Trakya Cam while adding positions in Aksigorta AS, one of Turkey's leading non-life insurance companies; conglomerate Tekfen Holding AS, which may benefit from future infrastructure spending; and Turk Telekomunikasyon AS.

The Fund's discount to net asset value averaged 10.87% during the fiscal year ended October 31, 2008, compared with 11.43% for the same period last year. The Fund purchased 87,900 of its shares in the open market during the fourth fiscal quarter of 2008.

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

<sup>1</sup> A custom blend of 45% in Central Europe (CECE-Index), 45% Russia (RTX-Index) and 10% in Turkey (ISE National 30). The CECE is a regional capitalization-weighted index, including stocks from the Czech Republic, Hungary, Poland and Slovakia and is published daily by the Vienna Stock Exchange. The RTX is a capitalization-weighted index of Russian blue chip stocks and published daily by the Vienna Stock Exchange. The ISE National 30 is a capitalization-weighted index composed of National Market companies listed on the Istanbul Stock Exchange, except investment trusts and will also be used for trading in the Derivatives Market. Index returns assume reinvestment of dividends and, unlike Fund returns, do not include fees or expenses. It is not possible to invest directly into an index.

<sup>2</sup> "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

Sincerely,

Christian Strenger  
Chairman

Ralf Oberbanscheidt  
Lead Portfolio Manager

Michael G. Clark  
President and Chief  
Executive Officer

**For additional information about the Fund including performance, dividends, presentations, press releases, daily NAV and shareholder reports, please visit [www.ceefund.com](http://www.ceefund.com)**

## ECONOMIC OUTLOOK

### Czech Republic:

Gross domestic product (GDP) growth slowed to 4.5% year-over-year (y-o-y) in the second quarter from 5.3% y-o-y in the first quarter. Private consumption picked up to 3.4% y-o-y while poor capital investment translated into lower imports, allowing net exports to make the highest contribution to GDP since the fourth quarter of 2005. The country's persistently high inflation, which moderated to 6.0% y-o-y at the end of October, had been the key obstacle for the Czech National Bank (CNB) to cut its repo rate. Policy easing began in early November 2008 with a 75 basis point reduction in the key interest rate to 2.75%. The currency depreciated during the quarter, as the traditional safe-haven status of the Czech Koruna was challenged by a deteriorating economic outlook for the Central European region in general and for the Czech Republic specifically. The CNB will be watching to see if the economic sentiment turns gloomier and wage bargaining points to moderation in wage growth. Leading indicators have started to deteriorate sharply since mid-2008. This has been particularly pronounced in industry, where they point to a possible y-o-y contraction in industrial production by the end of 2008.

### Hungary:

Economic growth will be unable to decouple from the approaching global and Eurozone slowdown.<sup>1</sup> Export growth is already well off its peak, and the strong correlation with the German IFO Business Climate Index predicts export contraction.<sup>2</sup> The good news is that inflation eased to 5.7% y-o-y in September 2008. Partly due to previous extensive borrowing, Hungary's weakness remains high leverage and external debt. Amidst the credit crisis, the markets increasingly penalized countries with high external debt ratios. The Hungarian Central Bank raised rates 300 basis points to 11.5%, a week before the International Monetary Fund (IMF) and the European Union (EU) announced a \$25 billion assistance package. The IMF funding was largely expected but the package was notable because it was the first time since joining the EU that any of the new EU member countries has received IMF funding. In 2009, the Hungarian government targets a budget deficit of 2.6% of GDP and expects GDP to decline 1%.

### Poland:

The Polish economy seems least exposed to an economic slowdown in Western Europe. The economy has relatively low levels of bank lending to GDP and is supported by robust consumer and infrastructure spend and a lack of credit crunch-related issues in the banking sector. GDP rose by 5.8% y-o-y in the second quarter, mainly due to still strong domestic demand. Investment growth decreased slightly to 15.2% y-o-y in the second quarter versus 15.7% in the first quarter. Inflation stood at 4.5% y-o-y in September 2008 while retail sales grew by 11.6% y-o-y. Like other Eastern European currencies, the Polish Zloty, depreciated against the dollar. The manufacturing sector is starting to feel the effects of the slowdown while the consumer, bank, media and construction sectors continue to offer good prospects for growth, though at a slower rate than the last couple years. The Polish Central Bank has left interest rates unchanged at 6.0% since May. The political situation in Poland remains stable and the Prime Minister announced Poland's intentions of entering the European Monetary Union (EMU) by 2011 and adopting the euro in 2012.

### Russia:

Resiliency during the first half of the year has given way to a slowdown of economic growth since September 2008 that is expected to intensify in the future. Investment growth slowed to 7.9% y-o-y in August from over 20% in the first quarter of 2008 and is expected to slow even further. Industrial output growth rebounded to 4.7% y-o-y in August, although its continued strength seems increasingly unlikely amid escalating problems in the local banking system. On the other hand, consumer demand remains more resilient, supported by continued strength in wage and disposable income growth. Thus, retail sales continued to expand strongly at 14.2% y-o-y in September. Inflation remains high at 14.2% y-o-y in October, despite continued seasonal food deflation. However, inflation should start slowing due to the high base effect, and our view is that CPI could ease to 12.5% y-o-y by year end. The Central Bank of Russia (CBR) has moved to support the banks via injections of capital, raising the level of deposit guarantees for savers to 700,000 rubles and the opening of loan windows.

The CBR tapped its strong international reserves, which stood at US\$546 billion in the third quarter, to support the ruble. Fiscal policy for the near future includes tax cuts for the oil sector, aiming to boost investment and production. The current account, which increased to an all-time record surplus of US\$91.2 billion at the end of September, mainly due to record high oil prices, is likely to decline as the oil price has fallen 40% from its highs.

**Turkey:**

Second quarter GDP growth slowed to a seven-year low of 1.9% y-o-y from 6.7% in the first quarter, as the growth of exports of goods and services slowed to 2.3% y-o-y from 12.2%. With key sectors such as automotive and appliances seeing sharp slowdowns in sales domestically and with demand from Europe cooling due to the looming recession in the main economies, the growth outlook is not encouraging. There are some signs of resilience in the consumer sector, with the September 2008 consumer sentiment index improving for the third month in a row. Inflation pressures appear to be easing, as the CPI stood at 12.0% y-o-y in October after peaking at 12.1% in July. Despite the positive September inflation data, we do not expect the Central Bank to ease monetary policy in the near term, due to the need to support the lira. The government's AK Party has seen its public support rise above 50%, which may give it confidence to push ahead with reforms and privatizations.

1 The Eurozone (officially euro area, or informally Euroland) refers to a currency union among the European Union member states that have adopted the euro as their sole official currency.

2 The IFO Business Climate Index is a closely watched indicator of German business conditions, based on a monthly survey of about 7,000 companies. It is widely seen as a barometer for economic conditions in the whole of the Eurozone, which is a term used to describe the countries that joined the third stage of EMU and adopted the euro.

**FUND HISTORY AS OF OCTOBER 31, 2008**

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

**TOTAL RETURNS:**

|                                | For the years ended October 31, |                       |                       |                       |                       |
|--------------------------------|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                | 2008                            | 2007                  | 2006                  | 2005                  | 2004                  |
| Net Asset Value <sup>(a)</sup> | (61.27)%                        | 42.32%                | 48.55% <sup>(b)</sup> | 48.74%                | 35.20% <sup>(c)</sup> |
| Market Value <sup>(a)</sup>    | (65.28)%                        | 41.83%                | 19.25%                | 80.71%                | 18.73%                |
| Benchmark                      | (57.49)% <sup>(1)</sup>         | 38.95% <sup>(1)</sup> | 45.00% <sup>(1)</sup> | 37.81% <sup>(1)</sup> | 32.73% <sup>(2)</sup> |

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

<sup>(b)</sup> Return excludes the effect of the \$3.25 per share dilution associated with the Fund's rights offering.

<sup>(c)</sup> Return excludes the effect of the \$2.15 per share dilution associated with the Fund's rights offering.

<sup>(1)</sup> Represents an arithmetic composite consisting of 45% CECE\*/45% RTX\*\*/10% ISE National 30\*\*\*.

<sup>(2)</sup> Represents an arithmetic composite consisting of 70% CECE/30% RTX for the five months ended March 31, 2004 and 45% CECE/45% RTX/10% ISE National 30 for the seven months ended October 31, 2004. The Fund changed its benchmark from 70% CECE/30% RTX to 45% CECE/45% RTX/10% ISE National 30 on April 1, 2004.

\* The CECE is a regional capitalization-weighted index including stocks from the Czech Republic, Hungary, Poland and Slovakia and is published daily by the Vienna Stock Exchange.

\*\* The RTX is a capitalization-weighted index of Russian blue chip stocks and published daily by the Vienna Stock Exchange.

\*\*\* The ISE National 30 is a capitalization-weighted index composed of National Market companies on the Istanbul Stock Exchange which excludes investment trusts.

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

Investments in funds involve risks including the loss of principal.

This Fund is non-diversified and may focus its investments in certain geographical regions, thereby increasing its vulnerability to developments in that region. Moreover, this Fund can take larger positions in fewer companies, increasing its overall risk potential. Investing in foreign securities presents certain unique risks, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility.

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

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





**FUND HISTORY AS OF OCTOBER 31, 2008 (continued)****STATISTICS:**

|                    |                |
|--------------------|----------------|
| Net Assets         | \$ 372,957,095 |
| Shares Outstanding | 15,950,068     |
| NAV Per Share      | \$ 23.38       |

**DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:**

| Record Date | Payable Date | Ordinary Income | ST Capital Gains | LT Capital Gains | Total    |
|-------------|--------------|-----------------|------------------|------------------|----------|
| 12/15/08    | 12/31/08     | \$ 0.07         | \$               | \$               | \$ 0.07  |
| 12/21/07    | 12/31/07     | \$ 0.95         | \$ 0.47          | \$ 8.84          | \$ 10.26 |
| 12/21/06    | 12/28/06     | \$ 0.58         | \$ 1.94          | \$ 2.99          | \$ 5.51  |
| 12/20/05    | 12/30/05     | \$ 0.33         | \$ 0.21          | \$ 2.51          | \$ 3.05  |
| 12/22/04    | 12/31/04     | \$ 0.17         | \$               | \$               | \$ 0.17  |
| 12/22/03    | 12/31/03     | \$ 0.22         | \$               | \$               | \$ 0.22  |
| 11/19/01    | 11/29/01     | \$ 0.10         | \$ 0.13          | \$               | \$ 0.23  |

**OTHER INFORMATION:**

|                                 |       |
|---------------------------------|-------|
| NYSE Ticker Symbol              | CEE   |
| NASDAQ Symbol                   | XCEEX |
| Dividend Reinvestment Plan      | Yes   |
| Voluntary Cash Purchase Program | Yes   |
| Annual Expense Ratio (10/31/08) | 1.10% |

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

**10 LARGEST HOLDINGS AS OF OCTOBER 31, 2008 (As a % of Investment Portfolio excluding Securities Lending Collateral)**

|     |  |      |
|-----|--|------|
| 1.  | Gazprom                                  | 10.4 |
| 2.  | LUKOIL                                   | 7.6  |
| 3.  | Sberbank                                 | 7.4  |
| 4.  | Rosneft Oil Company                      | 7.2  |
| 5.  | Ceske Energeticke Zavody                 | 5.5  |
| 6.  | Telekomunikacja Polska                   | 5.0  |
| 7.  | MMC Norilsk Nickel                       | 5.0  |
| 8.  | Surgutneftegaz                           | 4.8  |
| 9.  | Telefonica 02 Czech Republic             | 4.2  |
| 10. | Powszechna Kasa Oszczednosci Bank Polski | 4.1  |

**COUNTRY BREAKDOWN AS OF OCTOBER 31, 2008 (As a % of Investment Portfolio excluding Securities Lending Collateral)\***

Country Breakdown and 10 Largest Holdings are subject to change and not indicative of future portfolio composition.

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

\* Securities listed in country where the significant business of the company is located.

**INTERVIEW WITH THE LEAD PORTFOLIO MANAGER Ralf Oberbannscheidt**

**Question:** Given that the Russian market was the worst performing of the Fund's core markets during the quarter, what measures has the Russian government taken in response to the global financial crisis?

**Answer:** The Russian market experienced its worst sell-off since the 1998 financial crisis as growing concerns about global growth, a sharp fall in oil and metals prices, and military conflict with Georgia rattled investors' nerves, leading to substantial capital flight. The collapse of local financial markets in mid-September 2008 triggered the state to tap oil funds and stage major intervention into the markets. Initial support came in the form of a dramatic reversal of monetary policy, as the Central Bank of Russia slashed minimum reserve requirements and the Finance Ministry directly pumped \$18 billion into the banking system. Rapid monetary expansion was supported by a hefty fiscal package, as the government effectively slashed oil export duties by about \$6 billion and announced plans to provide \$50 billion for refinancing external debt through a state-owned bank. In late September, extreme selling sparked a wave of margin calls that threatened to wipe out the fortunes of a number of oligarchs. Efforts taken by the government and central bank provided little support, as the magnitude of unfolding events seemed always to run ahead of their responses. In early November, the government released a 55-point plan to support the economy, including various measures targeted at supporting domestic industries, but details on the size of the plan have not been disclosed.

**Question:** How has the appreciation of the US dollar over the past few months impacted the outlook for investments in Central Europe, Russia, and Turkey?

**Answer:** All of the currencies in the Fund's core markets have undergone double-digit depreciation versus the US dollar during the Fund's fiscal fourth quarter. The Hungarian forint, Polish zloty, and Turkish lira all lost about 25% of their value while the Russian ruble and Czech koruna experienced more modest declines of 13% and 19%, respectively. As a result, we re-evaluate the Fund's investments to correctly position the portfolio in light of these developments (as well as the potential for a correction in the next few months) and their impact on the profitability of companies in which the Fund is invested. For example, financial and other companies with significant exposure to foreign currency debt may struggle, while export-oriented companies may become more competitive. Polish exporters, on the other hand, may suffer from decreased demand from a slowing European economy and the relative strength of its currency compared to its neighbors, making its exports less competitive. At the same time, we are closely following policy developments, such as Russia's decision in early November to widen the band of the ruble exchange rate against a basket of the US dollar and the euro, effectively allowing further depreciation of the ruble.

**Question:** At the end of October, the IMF and the European Union (EU) approved a \$25 billion package to support Hungary. What are the conditions that made this action necessary, and how will the package impact the Hungarian economy?

**Answer:** Hungary's high debt levels (97% of GDP as of the end of 2007), together with a sharp rise in bond yields, the depreciation of the forint, high levels of foreign ownership in the Hungarian banking system and increased risk aversion among global investors, have left the country particularly susceptible to ripple effects from the global financial crisis. The IMF acted swiftly, approving a support package under its fast-track emergency procedures. The IMF/EU package aims to restore confidence in the Hungarian market and bolster the country's economy by supporting the country's banking system, ensuring foreign currency liquidity, improving the current account deficit and supporting long-term debt obligations. The package, which is equal to about one-third of the government's outstanding debt, includes a component of technical assistance from the World Bank, aimed to support fiscal management and reforms in the financial sector. The Hungarian government is expected to make significant spending cuts and possibly abandon popular socialist policies as part of the program. By acting swiftly and compellingly, the IMF and EU hope to stem speculative bets against new EU member countries and quell market fears from spreading to other countries in the region.

The views expressed in this report reflect those of the named individuals only through the end of the period of the report stated on the cover. This information is subject to change at any time based on the market and other conditions and should not be construed as a recommendation. Past performance does not guarantee future results.



**DIRECTORS OF THE FUND**

| <b>Name,<br/>Address,<br/>Age*</b> | <b>Term<br/>of<br/>Office<br/>and<br/>Length<br/>of<br/>Time<br/>Served</b> | <b>Principal Occupation(s)<br/>During Past Five Years</b>   | <b>Other Directorships Held by Director</b>   |
|------------------------------------|---|---|---|
| Detlef<br>Bierbaum,<br>66(1)(2)    | Class<br>I<br>Since<br>1990   | Member of the Supervisory Board of Sal. Oppenheim Jr. & Cie KGaA (investment management) (over five years).   | Director, The European Equity Fund, Inc. (since 1986) and The New Germany Fund, Inc. (since 2008). Member, Supervisory Board, Tertia Handelsbeteiligungsgesellschaft mbH (electronic retailer). Member, Supervisory Board, Douglas AG (retailer). Member, Supervisory Board, LVM Landwirtschaftlicher Versicherungsverein (insurance). Member, Supervisory Board, Monega KAG. Member of Supervisory Board, AXA Investment Managers GmbH (Investment Company). Chairman of Supervisory Board, Oppenheim Kapitalanlagegesellschaft mbH (investment company). Chairman of the Supervisory Board, Oppenheim Real Estate Investment GmbH. Member of the Board of Dundee REIT, Toronto. |
| Dr. Kurt<br>W Bock,<br>50(1)       | Class<br>II<br>Since<br>2004  | Chairman and Chief Executive Officer of BASF Corporation (since 2007) and Member of the Board of Executive Directors and CFO, BASF Aktiengesellschaft (since 2003; since January 14, 2008 BASF SE). | Director of The European Equity Fund, Inc. (since 2004) and The New Germany Fund, Inc. (since 2008). Member to the Supervisory Board of Wintershall Holding AG (since 2006). Member of the Advisory Board of Gebr. Röchling KG (since 2004). Member of the Board of Deutsches Rechnungslegungs Standards Committee ("DRSC") (since 2003).   |
| John Bult,<br>72(1)(2)             | Class<br>II<br>Since<br>1990  | Chairman, PaineWebber International (since 1985)  | Director, The European Equity Fund, Inc. (since 1986) and The New Germany Fund, Inc. (since 1990). Director, The Greater China Fund, Inc. (closed end fund).  |

**DIRECTORS OF THE FUND (continued)**

| <b>Name, Address, Age*</b>           | <b>Term of Office and Length Served</b> | <b>Principal Occupation(s) During Past Five Years</b>  | <b>Other Directorships Held by Director</b>  |
|--------------------------------------|---|--|--|
| Ambassador<br>Richard R. Burt, 61(1) | Class I<br>Since 2000                   | Managing Director, McLarty Associates (international strategic advisory) (since 2007). Chairman, Diligence, Inc. (international information and risk management firm) (2002-2007). Chairman, IEP Advisors, LLP (information services firm) (1998-2001). Chairman of the Board, Weirton Steel Corp. (1996-2004). Formerly, Partner, McKinsey & Company (consulting firm) (1991-1994). U.S. Ambassador to the Federal Republic of Germany (1985-1989). | Director, The European Equity Fund, Inc. (since 2000) and The New Germany Fund, Inc. (since 2004). Board Member, IGT, Inc. (gaming technology) (since 1995). Director, UBS family of Mutual Funds (since 1998).  |
| John H. Cannon, 66(1)                | Class I<br>Since 2004                   | Consultant (since 2002); Vice President and Treasurer Venator Group/Footlocker Inc. (footwear retailer) (until 2001).  | Director of The New Germany Fund, Inc. (since 1990) and The European Equity Fund, Inc. (since 2004).   |
| Richard Karl Goeltz, 66(1)           | Class I<br>Since 2008                   | Consultant. Vice Chairman and Chief Financial Officer of American Express Co. (1996-2000).   | Director, The European Equity Fund, Inc. (since 2008) and The New Germany Fund, Inc. (since 2008). Independent Non-Executive Director of Aviva plc (financial services), Director of Delta Air Lines Inc.; Trustee, The American Academy in Berlin (since 2008), and The Warnaco Group Inc.; Member of the Court of Governors and the Council of the London School of Economics and Political Science. |

**DIRECTORS OF THE FUND (continued)**

| <b>Name,<br/>Address,<br/>Age*</b>       | <b>Term<br/>of<br/>Office<br/>and<br/>Length<br/>of<br/>Time<br/>Served</b> | <b>Principal Occupation(s)<br/>During Past Five Years</b>  | <b>Other Directorships Held by Director</b>  |
|--|---|--|--|
| Dr. Franz<br>Wilhelm<br>Hopp,<br>66(1)   | Class<br>III<br>Since<br>2008   | Former Member of the Boards of Management of ERGO<br>Versicherungsgruppe AG, ERGO Europa<br>Beteiligungsgesellschaft AG, and ERGO International AG<br>(insurance); Member of the Boards of Management of<br>VICTORIA Holding, VICTORIA Lebensversicherung AG,<br>VICTORIA Versicherung AG, VICTORIA International,<br>VICTORIA Rückversicherung AG and D.A.S.<br>Versicherungs-AG. (insurance) | Director, The European Equity Fund, Inc. (since 2008) and<br>The New Germany Fund, Inc. (since 2008). Chairman of the<br>Supervisory Board of Ideenkapital Media Finance. Member<br>of the Supervisory Boards of Jenoptik, AG; TMW<br>Immobilien AG; Oesterreichische Volksbanken;<br>KarastadtQuelle Bank GmbH; GFKL Financial Services AG;<br>MEAG Munich ERGO Kapitalanlagegesellschaft mbH;<br>Internationales Immobilieninstitut GmbH; TMW Real Estate<br>Group L.P., and Victoria Volksbanken, Oesterreich. Member<br>of the Administrative Boards of Frankfurter Volksbank and<br>HSBC Trinkaus & Burkhardt. Member of the Advisory<br>Boards of Dresdner Bank AG; EnBW Energie<br>Baden-Wuerttemberg AG; Falke Bank AG;<br>Landeskreditbank Baden-Wuerttemberg; Millenium<br>Entertainment Partners L.P. and MPE Hotel, LLC. |
| Dr.<br>Friedbert<br>Malt, 67(1)          | Class<br>II<br>Since<br>2007  | Vice Chairman and Member of the Executive Committee of<br>NOL Neptune Orient Lines Ltd., Singapore ("NOL") (since<br>2002).  | Member of the Board of NOL (since 2000). Director, The<br>European Equity Fund, Inc. (since 2007) and The New<br>Germany Fund, Inc. (since 2007). Director, TÜV Rheinland<br>of North America, Inc.  |
| Christian<br>H.<br>Strenger,<br>65(1)(2) | Class<br>III<br>Since<br>1990   | Member of Supervisory Board (since 1999) and formerly<br>Managing Director (1991-1999) of DWS Investment GmbH<br>(investment management), a subsidiary of Deutsche Bank<br>AG.   | Director of The European Equity Fund, Inc. (formerly The<br>Germany Fund, Inc.) (since 1986) and The New Germany<br>Fund, Inc. (since 1990). (Member, Supervisory Board,<br>Fraport AG (international airport business) and Hermes<br>Focus Asset Management Europe Ltd. (asset management).   |



**DIRECTORS OF THE FUND (continued)**

| <b>Name,<br/>Address,<br/>Age*</b>    | <b>Term<br/>of<br/>Office<br/>and<br/>Length<br/>Served</b> | <b>Principal Occupation(s)<br/>During Past Five Years</b>  | <b>Other Directorships Held by Director</b>   |
|---------------------------------------|---|--|---|
| Dr. Frank<br>Trömel,<br>72(1)         | Class<br>III<br>Since<br>2005                               | Deputy Chairman of the Supervisory Board of DELTON AG (strategic management holding company operation in the pharmaceutical, household products, logistics and power supply sectors) (2000-2006). Member (2000) and Vice-President (2002-2006) of the German Accounting Standards Board. | Director, The European Equity Fund, Inc. (since 2005) and The New Germany Fund, Inc (since 1990).   |
| Robert H.<br>Wadsworth,II<br>68(1)(3) | Class<br>II<br>Since<br>1990                                | President, Robert H. Wadsworth Associates, Inc. (consulting firm) (May 1983-present).  | Director, The European Equity Fund, Inc. (since 1986) and The New Germany Fund, Inc. (since 1992) as well as other funds in the Fund Complex as indicated.  |
| Werner<br>Walbröl,<br>71(1)           | Class<br>II<br>Since<br>1990                                | Delegate for North American Humboldt Universität (Berlin). Formerly, President and Chief Executive Officer, The European American Chamber of Commerce, Inc. (until 2008). Formerly, President and Chief Executive Officer, The German American Chamber of Commerce, Inc. (until 2003).   | Director of The European Equity Fund, Inc. (since 1986) and The New Germany Fund, Inc. (since 1990). Director, TÜV Rheinland of North America, Inc. (independent testing and assessment services). Director, The German American Chamber of Commerce, Inc. President and Director, German-American Partnership Program (student exchange programs). |

**DIRECTORS OF THE FUND (continued)**

| <b>Name, Address, Age*</b>    | <b>Term of Office and Length</b> | <b>Principal Occupation(s) During Past Five Years</b>   | <b>Other Directorships Held by Director</b>   |
|-------------------------------|----------------------------------|---|---|
| Peter Zühlsdorff, II<br>67(1) | Class II<br>Since 2008           | Managing Director of DIH Deutsche Industrie Holding (holding company) (since 1997). Managing Director of DSD Duales System Deutschland AG (recycling) (until 2006). | Director, The European Equity Fund, Inc. (since 2008) and The New Germany Fund, Inc. (since 2008). Chairman of the Supervisory Board, Sinn Leffers AG (retail). Member of the Supervisory Board, Kaisers Tengelmann AG (food and specialty retailing). Member of the Advisory Board, Tengelmann Verwaltungs-und Beteiligungsgesellschaft GmbH (food and specialty retailing) and Ziegler Film (TV and film productions). Member of the Supervisory Board of YOC AG (mobile marketing) (since 2007). |

(1) Indicates that each Director also serves as a Director of The European Equity Fund, Inc. and The New Germany Fund, Inc., two other closed-end registered investment companies for which Deutsche Investment Management Americas Inc. acts as manager.

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

(3) Indicates that Mr. Wadsworth also serves as Director/Trustee of the following open-end investment companies: Cash Account Trust, Cash Management Portfolio, Cash Reserve Fund, Inc., DWS Advisor Funds, DWS Balanced Fund, DWS Blue Chip Fund, DWS Communications Fund, Inc., DWS Equity Partners Fund, Inc., DWS Equity 500 Index Portfolio, DWS Equity Trust, DWS Global/International Fund, Inc., DWS High Income Series, DWS Institutional Funds, DWS International Fund, Inc., DWS Investment Trust, DWS Investments VIT Funds, DWS Investors Funds, Inc., DWS Money Funds, DWS Money Market Trust, DWS Mutual Funds, Inc., DWS Portfolio Trust, DWS Securities Trust, DWS State Tax-Free Income Series, DWS State Tax Free Trust, DWS Strategic Government Securities Fund, DWS Strategic Income Fund, DWS Target Date Series, DWS Target Fund, DWS Tax Free Trust, DWS Technology Fund, DWS Value Builder Fund, Inc., DWS Value Equity Trust, DWS Value Series, Inc., DWS Variable Series I, DWS Variable Series II, Investors Cash Trust and Tax-Exempt California Money Market Fund. Mr. Wadsworth also serves as a Director/Trustee of DWS Dreman Value Income Edge Fund, DWS Global Commodities Stock Fund, Inc., DWS Global High Income Fund, Inc., DWS High Income Trust, DWS Income Trust, DWS Multi-Market Income Trust, DWS Municipal Income Trust, DWS Municipal Trust, DWS RREEF Real Estate Fund, Inc., DWS RREEF Real Estate Fund II, Inc., DWS RREEF World Real Estate & Tactical Strategies Fund, Inc., DWS Strategic Income Trust and DWS Strategic Municipal Income Trust, closed-end investment companies. These Funds are advised by Deutsche Investment Management Americas Inc., an indirect wholly-owned subsidiary of Deutsche Bank AG.

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

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

The term of office for Directors in Class I expires at the 2010 Annual Meeting, Class II expires at the 2011 Annual Meeting and Class III expires at the 2009 Annual Meeting.

**OFFICERS OF THE FUND\***

| Name, Age   | Principal Occupations During Past Five Years  |
|---|---|
| Michael G. Clark(1,2), 43<br>President and Chief<br>Executive Officer | Managing Director(3), Deutsche Asset Management (2006-present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004-2006) and Director of Product Development (2000-2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999-2000) |
| Paul H. Schubert(2), 45<br>Chief Financial Officer<br>and Treasurer   | Managing Director(3), Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998-2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994-1998)  |
| David Goldman(2,4), 34<br>Secretary                                   | Director(3), Deutsche Asset Management  |
| John Millette(5,6), 46<br>Assistant Secretary                         | Director(3), Deutsche Asset Management  |
| Rita Rubin(2,7), 38<br>Assistant Secretary                            | Vice President and Counsel, Deutsche Asset Management (2007-present). Formerly, Vice President, Morgan Stanley Investment Management Inc. (2004-2007); Director and Associate General Counsel, UBS Global Asset Management (US) Inc. (2001-2004).   |
| Elisa D. Metzger(2,8), 46<br>Chief Legal Officer                      | Director(3), Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999-2005)   |
| Brett Rogers(2,9), 32<br>Chief Compliance<br>Officer                  | Director(3), Deutsche Asset Management (2008-present); formerly, Chief Compliance Officer, Deutsche Asset Management (Japan) Ltd. (2006); Vice President, Deutsche Asset Management (2005-2008); and Assistant Vice President, Deutsche Asset Management (2003-2005).   |

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

\* As a result of their respective positions held with the Manager, these individuals are considered "interested persons" of the Manager within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

- (1) Since June 15, 2006.
- (2) Address: 345 Park Avenue, New York, New York 10154.
- (3) Executive title, not a board directorship.
- (4) Since July 14, 2006.
- (5) Since July 14, 2006. From January 30, 2006 to July 14, 2006 served as Secretary to the Fund.
- (6) Address: One Beacon Street, Boston, Massachusetts 02108.
- (7) Since July 21, 2008.
- (8) Since January 30, 2006.
- (9) Since April 20, 2007.

## SHARES REPURCHASED AND ISSUED

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

| Fiscal year ended October 31,           | 2008      | 2007    | 2006      | 2005 | 2004      |
|---|-----------|---------|-----------|------|-----------|
| Shares repurchased                      | 111,900   | 47,900  |           |      | 97,300    |
| Shares issued for dividend reinvestment | 1,314,952 | 792,411 | 388,226   |      | 37,769    |
| Shares issued in rights offering        |           |         | 3,417,070 |      | 2,555,677 |

## PRIVACY POLICY AND PRACTICES

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

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

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

## CERTIFICATIONS

The Fund's chief executive officer has certified to the New York Stock Exchange that, as of July 16, 2008, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund's reports to the Securities and Exchange Commission on Forms N-CSR, N-CSRS and N-Q contain certifications by the Fund's chief executive officer and chief financial officer that relate to the Fund's disclosure in such reports and that are required by rule 30a-2(a) under the Investment Company Act.

## PROXY VOTING

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



**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**SCHEDULE OF INVESTMENTS    OCTOBER 31, 2008**

| Shares  | Description                            | Value <sup>(a)</sup> |
|---|--|----------------------|
| <b>INVESTMENTS IN RUSSIAN SECURITIES    55.8%</b>     |  |                      |
| <b>COMMON STOCKS    55.1%</b>                         |  |                      |
| <b>BUILDING PRODUCTS    0.3%</b>                      |  |                      |
| 5,900   | Gornozavodsktsement                    | \$ 1,253,750         |
| <b>COMMERCIAL BANKS    8.6%</b>                       |  |                      |
| 26,000,000  | Sberbank RF                            | 25,805,000           |
| 2,000,000   | VTB Bank OJSC GDR Reg S                | 6,300,000            |
|   |  | 32,105,000           |
| <b>CONSTRUCTION MATERIALS    0.3%</b>                 |  |                      |
| 504,000   | LSR Group (GDR) Reg S*                 | 1,254,960            |
| <b>DIVERSIFIED FINANCIAL SERVICES    0.1%</b>         |  |                      |
| 52,000  | Vostok Nafta Investment (SDR)*         | 203,662              |
| <b>DIVERSIFIED TELECOMMUNICATION SERVICES    4.7%</b> |  |                      |
|   | Comstar United Telesystems             |                      |
| 800,000   | (GDR) Reg S                            | 2,232,000            |
| 117,100   | Rostelecom (ADR)                       | 4,742,550            |
| 750,000   | Vimpel Communications (ADR)            | 10,455,600           |
|   |  | 17,430,150           |
| <b>ELECTRIC UTILITIES    0.1%</b>                     |  |                      |
|   | OJSC The Fifth Power Generation (GDR)* |                      |
| 216,633   |  | 469,660              |
| <b>ENERGY EQUIPMENT &amp; SERVICES    1.5%</b>        |  |                      |
| 430,751   | Eurasia Drilling Co. Ltd. (GDR)*       | 2,369,131            |
| 1,270,371   | Integra Group Holdings (GDR)*          | 2,185,038            |
| 91,000  | TMK (GDR) Reg S                        | 973,700              |
|   |  | 5,527,869            |
| <b>FOOD PRODUCTS    1.6%</b>                          |  |                      |
| 150,000   | Wimm Bill Dann Foods (ADR)*            | 5,925,450            |
| <b>MEDIA    0.4%</b>                                  |  |                      |
| 200,000   | CTC Media*                             | 1,462,000            |
| <b>METALS &amp; MINING    5.2%</b>                    |  |                      |
| 4,650,000   | Kuzbassrazrezugol*                     | 744,000              |
| 1,750,000   | MMC Norilsk Nickel (ADR)               | 17,517,500           |
| 580,000   | Raspadskaya                            | 1,218,000            |
|   |  | 19,479,500           |

| Shares  | Description | Value <sup>(a)</sup> |
|---|-------------|----------------------|
| <b>OIL, GAS &amp; CONSUMABLE FUELS    29.4%</b> |             |                      |

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|           |  |               |
|-----------|--|---------------|
| 3,398,000 | Gazprom  | \$ 16,446,320 |
| 1,000,000 | Gazprom (ADR)  | 19,870,000    |
| 300,000   | LUKOIL   | 11,100,000    |
| 411,500   | LUKOIL (ADR)   | 15,406,560    |
| 170,000   | NovaTek OAO (GDR) Reg S  | 6,715,000     |
| 5,500,000 | Rosneft Oil Company<br>(GDR) Reg S                                 | 25,300,000    |
| 2,200,000 | Surgutneftegaz (ADR)   | 14,190,000    |
| 52,000    | Vostok Gas Ltd.*   | 623,043       |
|           |  | 109,650,923   |
|           | <b>WIRELESS<br/>TELECOMMUNICATIONS<br/>SERVICES 2.9%</b>           |               |
| 1,000,000 | Mobile Telesystems   | 4,850,000     |
| 50,000    | Mobile Telesystems (ADR)   | 1,926,700     |
| 100,000   | Mobile Telesystems (GDR) Reg S                                     | 3,853,400     |
|           |  | 10,630,100    |
|           | Total Common Stocks<br>(cost \$287,717,167)                        | 205,393,024   |
|           | <b>PREFERRED STOCK 0.7%</b>  |               |
|           | <b>OIL, GAS &amp; CONSUMABLE<br/>FUELS 0.7%</b>                    |               |
| 1,200,000 | Surgutneftegaz (ADR)<br>(cost \$6,072,120)                         | 2,707,200     |
|           | Total Investments in<br>Russian Securities<br>(cost \$293,789,287) | 208,100,224   |
|           | <b>INVESTMENTS IN POLISH<br/>COMMON STOCKS 13.6%</b>               |               |
|           | <b>COMMERCIAL BANKS 6.3%</b>                                       |               |
| 200,000   | Bank Pekao   | 9,010,696     |
|           | Powszechna Kasa  |               |
| 1,303,000 | Oszczednosci Bank Polski   | 14,547,125    |
|           |  | 23,557,821    |
|           | <b>CONSTRUCTION &amp;<br/>ENGINEERING 0.4%</b>                     |               |
| 97,175    | Pol-Aqua*  | 1,357,867     |

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

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**SCHEDULE OF INVESTMENTS**    **OCTOBER 31, 2008 (continued)**

| Shares    | Description  | Value <sup>(a)</sup> |
|-----------|--|----------------------|
|           | <b>DIVERSIFIED TELECOMMUNICATION SERVICES 4.7%</b>                             |                      |
| 2,350,000 | Telekomunikacja Polska   | \$ 17,603,630        |
|           | <b>OIL, GAS &amp; CONSUMABLE FUELS 2.2%</b>                                    |                      |
| 560,000   | Polski Koncern Naftowy Orlen   | 5,646,991            |
| 149,500   | Polski Koncern Naftowy Orlen<br>(GDR) Reg S                                    | 2,541,500            |
|           |  | 8,188,491            |
|           | Total Investments in Polish<br>Common Stocks<br>(cost \$42,145,190)            | 50,707,809           |
|           | <b>INVESTMENTS IN CZECH REPUBLIC<br/>COMMON STOCKS 10.6%</b>                   |                      |
|           | <b>COMMERCIAL BANKS 1.5%</b>   |                      |
| 37,500    | Komercni Banka   | 5,541,677            |
|           | <b>DIVERSIFIED TELECOMMUNICATION SERVICES 3.9%</b>                             |                      |
| 700,000   | Telefonica 02 Czech Republic   | 14,795,162           |
|           | <b>ELECTRIC UTILITIES 5.2%</b>   |                      |
| 450,000   | Ceske Energeticke Zavody   | 19,287,405           |
|           | Total Investments in Czech<br>Republic<br>Common Stocks<br>(cost \$19,494,844) | 39,624,244           |
|           | <b>INVESTMENTS IN TURKISH<br/>COMMON STOCKS 9.7%</b>                           |                      |
|           | <b>AUTOMOBILES 0.7%</b>  |                      |
| 2,100,000 | Tofas Turk Otomobil Fabrikasi  | 2,429,864            |
|           | <b>COMMERCIAL BANKS 2.6%</b>   |                      |
| 5,999,998 | Turkiye Garanti Bankasi*   | 9,773,753            |
|           | <b>CONSTRUCTION &amp; ENGINEERING 0.4%</b>                                     |                      |
| 550,000   | Tekfen Holding   | 1,478,992            |
|           | <b>CONSTRUCTION MATERIALS 0.3%</b>   |                      |
| 676,500   | Akcansa Cimento  | 1,110,737            |
|           |  |                      |
| Shares    | Description  | Value <sup>(a)</sup> |
|           | <b>DIVERSIFIED TELECOMMUNICATION SERVICES 0.7%</b>                             |                      |
| 1,300,000 | Turk Telekomunikasyon*   | \$ 2,773,109         |
|           | <b>FOOD &amp; STAPLES RETAILING 1.5%</b>                                       |                      |
| 280,000   | Bim Birlesik Magazalar   | 5,610,860            |



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|  |   |            |
|--|---|------------|
|  | <b>INDUSTRIAL<br/>CONGLOMERATES 0.8%</b>                              |            |
| 799,999  | Enka Insaat ve Sanayi   | 2,973,493  |
|  | <b>INSURANCE 1.1%</b>   |            |
| 1,100,000  | Aksigorta   | 2,218,487  |
| 2,172,618  | Anadolu Hayat Emeklilik   | 1,895,950  |
|  |   | 4,114,437  |
|  | <b>OIL, GAS &amp; CONSUMABLE<br/>FUELS 0.7%</b>                       |            |
| 200,000  | Tupras-Turkiye Petrol Rafinerileri                                    | 2,521,008  |
|  | <b>WIRELESS<br/>TELECOMMUNICATIONS<br/>SERVICES 0.9%</b>              |            |
| 683,166  | Turkcell Iletisim Hizmetleri  | 3,356,213  |
|  | Total Investments in Turkish<br>Common Stocks<br>(cost \$51,406,736)  | 36,142,466 |
| <b>INVESTMENTS IN HUNGARIAN<br/>COMMON STOCKS 3.1%</b> |   |            |
|  | <b>COMMERCIAL BANKS 1.1%</b>  |            |
| 250,000  | OTP Bank*   | 4,164,606  |
|  | <b>OIL, GAS &amp;<br/>CONSUMABLE FUELS 0.7%</b>                       |            |
| 50,000   | MOL Hungarian Oil and<br>Gas Nyrt.                                    | 2,718,305  |
|  | <b>PHARMACEUTICALS 1.3%</b>   |            |
| 30,000   | Richter Gedeon Nyrt.  | 4,138,647  |
| 4,300  | Richter Gedeon Nyrt. (GDR)  | 589,530    |
|  |   | 4,728,177  |
|  | Total Investments in Hungarian<br>Common Stocks<br>(cost \$6,047,204) | 11,611,088 |

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

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**SCHEDULE OF INVESTMENTS**    **OCTOBER 31, 2008 (continued)**

| Shares  | Description  | Value <sup>(a)</sup>  |
|---|--|-----------------------|
| <b>INVESTMENTS IN AUSTRIAN COMMON STOCKS 0.7%</b> |  |                       |
|   | <b>COMMERCIAL BANKS 0.7%</b>                             |                       |
|   | Erste Bank der Oesterreichischen Sparkassen              |                       |
| 100,000   | (cost \$5,010,900)                                       | \$ 2,639,995          |
| <b>CLOSED-END INVESTMENT COMPANY 0.4%</b>         |  |                       |
|   | <b>RUSSIA 0.4%</b>                                       |                       |
|   | RenShares Utilities Limited*                             |                       |
| 2,043,084   | (cost \$3,249,402)                                       | 1,532,313             |
|   | Total Investments in Common and Preferred Stocks 93.9%   |                       |
|   | (cost \$421,143,563)                                     | 350,358,139           |
| <b>SECURITIES LENDING COLLATERAL 7.8%</b>         |  |                       |
|   | Daily Assets Institutional Fund, 2.63% <sup>(b)(c)</sup> |                       |
| 29,057,596  | (cost \$29,057,596)                                      | 29,057,596            |
|   | Total Investments 101.7%                                 |                       |
|   | (cost \$450,201,159)                                     | 379,415,735           |
|   | Other Assets and Liabilities, Net (1.7%)                 | (6,458,640)           |
|   | <b>NET ASSETS 100.0%</b>                                 | <b>\$ 372,957,095</b> |

\* Non-income producing securities.

All or a portion of these securities were on loan. The value of all securities loaned at October 31, 2008 amounted to \$25,839,936 which is 6.9% of the net assets.

(a) Values stated in US dollars.

(b) Represents collateral held in connection with securities lending. Income earned by the fund is net of borrower rebates.

(c) Affiliated fund managed by Deutsche Investment Management Americas, Inc. The rate shown is the annualized seven-day yield at period end.

ADR American Depositary Receipt

GDR Global Depositary Receipt

SDR Swedish Depositary Receipt

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

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**SCHEDULE OF INVESTMENTS October 31, 2008 (continued)**

**Fair Value Measurements**

*The following is a summary of the inputs used as of October 31, 2008 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note 1 in the accompanying Notes to the Financial Statements.*

| <b>Valuation Inputs</b> | <b>Investments in Securities</b> |
|-------------------------|----------------------------------|
| Level 1                 | \$ 261,265,098                   |
| Level 2                 | 118,150,637                      |
| Level 3                 |                                  |
| <b>Total</b>            | <b>\$ 379,415,735</b>            |

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



**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**October 31, 2008**

**ASSETS**

|   |                |
|---|----------------|
| Investments, at value, (cost \$421,143,563) including \$25,839,936 of securities loaned | \$ 350,358,139 |
| Investment in Daily Assets Fund Institutional (cost \$29,057,596)*                      | 29,057,596     |
| Total investments, at value (cost \$450,201,159)  | 379,415,735    |
| Foreign currency, at value (cost \$25,333,239)  | 25,358,851     |
| Receivable for investments sold   | 29,210,942     |
| Dividends receivable  | 2,750,331      |
| Foreign withholding tax refund receivable   | 57,234         |
| Interest receivable   | 86,962         |
| Other assets  | 41,817         |
| Total assets  | 436,921,872    |

**LIABILITIES**

|  |            |
|--|------------|
| Cash overdraft                           | 1,844,041  |
| Payable upon return of securities loaned | 29,057,596 |
| Payable for investments purchased        | 32,152,897 |
| Management fee payable                   | 220,050    |
| Investment advisory fee payable          | 104,977    |
| Payable for Directors' fees and expenses | 47,685     |
| Accrued expenses and accounts payable    | 537,531    |
| Total liabilities                        | 63,964,777 |

**NET ASSETS** \$ 372,957,095

Net assets consist of:

|  |                |
|--|----------------|
| Paid-in capital, \$.001 par (Authorized 80,000,000 shares; 3,528,654 shares held in Treasury)        | \$ 449,247,742 |
| Undistributed net investment income  | 657,980        |
| Accumulated net realized loss on investments and foreign currency                                    | (6,011,772)    |
| Net unrealized depreciation on investments and foreign currency                                      | (70,936,855)   |
| Net assets   | \$ 372,957,095 |
| Net asset value per share (\$372,957,095 ÷ 15,950,068 shares of common stock issued and outstanding) | \$ 23.38       |

\*Represents collateral on securities loaned.

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

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**STATEMENT OF OPERATIONS**

|   | <b>For the<br/>year ended<br/>October 31, 2008</b> |
|---|--|
| <b>NET INVESTMENT INCOME:</b>   |  |
| Dividends (net of foreign withholding taxes of \$3,599,074)   | \$ 20,355,481                                      |
| Interest  | 759,516  |
| Interest Cash Management QP Trust   | 337,896  |
| Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates | 476,200  |
| Total investment income   | 21,929,093   |
| Expenses:   |  |
| Management fee  | 4,558,398  |
| Investment advisory fee   | 2,252,465  |
| Custodian fee   | 1,408,879  |
| Services to shareholders  | 38,167   |
| Reports to shareholders and shareholder meetings  | 185,314  |
| Directors' fees and expenses  | 175,731  |
| Professional fees   | 527,379  |
| NYSE listing fee  | 29,355   |
| Insurance   | 50,876   |
| Miscellaneous   | 121,506  |
| Net expenses  | 9,348,070  |
| Net investment income   | 12,581,023   |
| <b>REALIZED AND UNREALIZED GAIN (LOSS)</b>  |  |
| Net realized gain (loss) from:  |  |
| Investments   | (4,919,056)  |
| Foreign currency  | (2,735,230)  |
| Payments by affiliates (Note 3)   | 834  |
| Change in net unrealized appreciation (depreciation) during the period on:                                |  |
| Investments   | (602,076,247)                                      |
| Foreign currency  | (964,730)  |
| Net loss on investments and foreign currency  | (610,694,429)                                      |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>                                    | <b>\$ (598,113,406)</b>                            |

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

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**

|   | For the<br>year ended<br>October 31, 2008 | For the<br>year ended<br>October 31, 2007 |
|---|---|---|
| <b>INCREASE (DECREASE) IN NET ASSETS</b>  |   |   |
| Operations:   |   |   |
| Net investment income   | \$ 12,581,023                             | \$ 6,023,642                              |
| Net realized gain (loss)  | (7,653,452)                               | 138,849,456                               |
| Change net unrealized appreciation (depreciation) on:   |   |   |
| Investments   | (602,076,247)                             | 169,020,887                               |
| Foreign currency  | (964,730)                                 | 774,695                                   |
| Net increase (decrease) in net assets resulting from operations   | (598,113,406)                             | 314,668,680                               |
| Distributions to shareholders:  |   |   |
| Net investment income   | (13,953,002)                              | (8,177,463)                               |
| Net realized gains  | (137,056,552)                             | (69,060,356)                              |
| Total distributions to shareholders   | (151,009,554)                             | (77,237,819)                              |
| Capital share transactions:   |   |   |
| Net proceeds from reinvestment of dividends (1,314,952 and 792,411 shares, respectively)  | 76,293,527                                | 42,332,949                                |
| Cost of shares repurchased (111,900 and 47,900 shares, respectively)  | (3,865,143)                               | (2,834,364)                               |
| Net increase in net assets from capital share transactions  | 72,428,384                                | 39,498,585                                |
| Total increase (decrease) in net assets   | (676,694,576)                             | 276,929,446                               |
| <b>NET ASSETS</b>   |   |   |
| Beginning of year   | 1,049,651,671                             | 772,722,225                               |
| End of year (including undistributed net investment income of \$657,980 and \$3,823,189, as of October 31, 2008 and October 31, 2007, respectively) | \$ 372,957,095                            | \$ 1,049,651,671                          |

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





**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**FINANCIAL HIGHLIGHTS**

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

|  | For the years ended October 31, |              |            |            |            |
|--|---------------------------------|--------------|------------|------------|------------|
|  | 2008                            | 2007         | 2006       | 2005       | 2004       |
| Per share operating performance:                           |                                 |              |            |            |            |
| Net asset value:   |                                 |              |            |            |            |
| Beginning of period  | \$ 71.18                        | \$ 55.18     | \$ 42.36   | \$ 28.64   | \$ 23.08   |
| Net investment income(a)                                   | .80                             | .41          | .55        | .27        | .20        |
| Net realized and unrealized gain (loss)                    | (38.16)                         | 21.22        | 18.67      | 13.62      | 7.97       |
| Increase (decrease) from investment operations             | (37.36)                         | 21.63        | 19.22      | 13.89      | 8.17       |
| Increase resulting from share repurchases                  | .04                             | .03          |            |            | .02        |
| Distributions from net investment income                   | (.95)                           | (.58)        | (.33)      | (.17)      | (.22)      |
| Distributions from net realized gains                      | (9.31)                          | (4.93)       | (2.72)     |            |            |
| Total distributions  | (10.26)                         | (5.51)       | (3.05)     | (.17)      | (.22)      |
| Dilution from rights offering                              |                                 |              | (2.85)     |            | (2.15)     |
| Dealer manager fees and offering costs                     |                                 |              | (.40)      |            | (.25)      |
| Dilution in NAV from dividend reinvestment                 | (.22)                           | (.15)        | (.10)      |            | (.01)      |
| Net asset value:   |                                 |              |            |            |            |
| End of period  | \$ 23.38                        | \$ 71.18     | \$ 55.18   | \$ 42.36   | \$ 28.64   |
| Market value:  |                                 |              |            |            |            |
| End of period  | \$ 18.94                        | \$ 64.20     | \$ 49.94   | \$ 44.89   | \$ 24.99   |
| Total investment return for the period:                    |                                 |              |            |            |            |
| Based upon market value                                    | (65.28)%                        | 41.83%       | 19.25%     | 80.71%     | 18.73%     |
| Based upon net asset value                                 | (61.27)%                        | 42.32%       | 48.55%*    | 48.74%     | 35.20%*    |
| Ratio to average net assets:                               |                                 |              |            |            |            |
| Total expenses before custody credits**                    | 1.10%                           | 1.01%        | 1.09%      | 1.20%      | 1.27%      |
| Net investment income                                      | 1.48%                           | .69%         | 1.08%      | .78%       | .81%       |
| Portfolio turnover   | 47.59%                          | 34.28%       | 31.86%     | 30.16%     | 45.29%     |
| Net assets at end of period (000's)                        | \$ 372,957                      | \$ 1,049,652 | \$ 772,722 | \$ 431,975 | \$ 292,027 |
| (a) Based on average shares outstanding during the period. |                                 |              |            |            |            |
| For U.S. tax purposes, total distributions consisted of:   |                                 |              |            |            |            |
| Ordinary income  | \$ (1.413)                      | \$ (2.524)   | \$ (.545)  | \$ (0.17)  | \$ (0.22)  |
| Long term capital gains                                    | (8.844)                         | (2.992)      | (2.507)    |            |            |
|  | \$ (10.257)                     | \$ (5.516)   | \$ (3.052) | \$ (0.17)  | \$ (0.22)  |

Total investment return based on market value is calculated assuming that shares of the Fund's common stock were purchased at the closing market price as of the beginning of the year, dividends, capital gains and other distributions were reinvested as provided for in the Fund's dividend reinvestment plan and then sold at the closing market price per share on the last day of the period. The computation does not reflect any sales commission investors may incur in purchasing or selling shares of the Fund. The total investment return based on the net asset value is similarly computed except that the Fund's net asset value is substituted for the closing market value.

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\* Return excludes the effect of the \$2.40 and \$3.25 respectively, for 2004 and 2006 per share dilution associated with the Fund's rights offering.

\*\* Prior to February, 2007, custody credits were earned on U.S. cash balances. The ratios of total expenses after custody credits to average net assets are 1.00%, 1.04%, 1.19% and 1.26% for 2007, 2006, 2005 and 2004, respectively.



**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS    OCTOBER 31, 2008**

**NOTE 1. ACCOUNTING POLICIES**

The Central Europe and Russia Fund, Inc. (the "Fund") is a non-diversified, closed-end management investment company incorporated in Maryland. The Fund commenced investment operations on March 6, 1990.

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

**Security Valuation:** Investments are stated at value. All securities for which market quotations are readily available are valued at the last sales price on the primary exchange on which they are traded prior to the time of valuation. If no sales price is available at that time, and both bid and ask prices are available, the securities are valued at the mean between the last current bid and ask prices; if no quoted asked prices are available, they are valued at the last quoted bid price. All securities for which market quotations are not readily available will be valued as determined in good faith by the Board of Directors of the Fund. The Fund calculates its net asset value per share at 11:30 a.m., New York time.

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective at the beginning of the Fund's fiscal year. FAS 157 establishes a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and requires additional disclosure about the classification of fair value measurements.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels.

Level 1    includes quoted prices in active markets for identical securities.

Level 2    includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3    includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The aggregate value by input level for the Fund's investments as of October 31, 2008 is included at the end of the Fund's Schedule of Investments.

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

**Securities Lending:** The Fund may lend securities to financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of liquid, unencumbered assets having a value at least equal to or greater than the "Margin Percentage" of the value of the securities loaned. "Margin Percentage" shall mean (i) for collateral which is denominated in the same currency as the loaned securities, 102%, and (ii) for collateral which is denominated in a currency different from that of the loaned securities, 105%. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. Deutsche Investment Management Americas Inc. receives a management fee (.07% annual effective rate as of October 31, 2008) on the

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS    OCTOBER 31, 2008 (continued)**

cash collateral invested in the affiliated money fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of fees paid to a lending agent, and a portion of the interest that is paid to the borrower of the securities. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

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

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

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

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

The cost of investments at October 31, 2008 was \$452,306,724 for United States Federal income tax purposes. Accordingly, as of October 31, 2008, net unrealized depreciation of investments aggregated \$72,890,989, of which \$74,320,153 and \$147,211,142 related to unrealized appreciation and depreciation, respectively.

For United States Federal income tax purposes, the Fund had a capital loss carry forward at October 31, 2008 of approximately \$4,279,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until October 31, 2016, whichever occurs first.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

The Fund has reviewed the tax provisions for each of the three open tax years as of October 31, 2008 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain subject to examinations by the Internal Revenue Service.

**Dividends and Distributions to Shareholders:** The Fund records dividends and distributions to its shareholders on the ex-dividend date. Income and capital gain distributions are determined in accordance with United States Federal income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences, which could be temporary or permanent in nature, may result in reclassification of distributions; however, net investment income, net realized gains and net assets are not affected.

At October 31, 2008, the Fund's components of distributable earnings (accumulated losses) on a tax-basis were as follows:

|  |    |              |
|--|----|--------------|
| Undistributed ordinary income*             | \$ | 1,037,034    |
| Undistributed net long-term capital gains  | \$ |              |
| Capital loss carryforward                  | \$ | (4,279,000)  |
| Net unrealized appreciation (depreciation) | \$ | (72,890,989) |

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS    OCTOBER 31, 2008 (continued)**

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

|  | Years Ended October 31 |               |
|--|------------------------|---------------|
|  | 2008                   | 2007          |
| Distributions from ordinary income*        | \$ 20,815,435          | \$ 35,342,323 |
| Distributions from long-term capital gains | \$ 130,194,119         | \$ 41,895,496 |

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

During the year ended October 31, 2008, the Fund reclassified permanent book and tax differences as follows:

|   | Increase<br>(decrease) |
|---|------------------------|
| Undistributed net investment income                               | \$ (1,793,230)         |
| Accumulated net realized loss on investments and foreign currency | 1,793,230              |

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

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

The Management Agreement provides the Manager with a fee, computed weekly and payable monthly, at the annual rates of 0.65% of the Fund's average weekly net assets up to \$100 million, 0.55% of such assets in excess of \$100 million and up to \$500 million, 0.50% of such assets in excess of \$500 million and up to \$750 million, and 0.45% of such assets in excess of \$750 million. The Investment Advisory Agreement provides the Investment Adviser with a fee, computed weekly and payable monthly, at the annual rates of 0.35% of the Fund's average weekly net assets up to \$100 million and 0.25% of such assets in excess of \$100 million. Accordingly, for the year ended October 31, 2008, the combined fee pursuant to the Management and Investment Advisory Agreements was equivalent to an annualized effective rate of 0.80% of the Fund's average net assets.

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

**NOTE 3. TRANSACTIONS WITH AFFILIATES**

DWS Investments Service Company ("DISC"), an affiliate of the Manager, is the transfer agent, dividend-paying agent and shareholder service agent of the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent and dividend-paying agent paying function to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended October 31, 2008, the amount charged to the Fund by DISC aggregated \$38,167, of which \$9,562 is unpaid.

For the period ended October 31, 2008, Deutsche Bank AG, the German parent of the Manager and Investment Adviser, and its affiliates received \$7,627 in brokerage commissions as a result of executing agency transactions in portfolio securities on behalf of the Fund, that the Board determined were effected in compliance with the Fund's Rule 17e-1 procedures.

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

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

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS    OCTOBER 31, 2008 (continued)**

Pursuant to an Exemptive Order issued by the SEC, the Fund may invest in the Cash Management QP Trust (the "QP Trust") and other affiliated funds managed by the advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Investment Manager a management fee for the affiliated funds' investments in the QP Trust.

In addition, during the year ended October 31, 2008, the Advisor fully reimbursed the Fund \$834 for losses on certain operation errors during the period. The amounts of the losses were less than .01% of the Fund's average daily net assets, thus having no impact on the Fund's total return.

**NOTE 4. PORTFOLIO SECURITIES**

Purchases and sales of investment securities, other than short-term investments, for the year ended October 31, 2008 were \$391,590,897 and \$464,787,762, respectively.

**NOTE 5. INVESTING IN FOREIGN MARKETS**

Foreign investments may involve certain considerations and risks such as 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. For example, there are significant risks inherent in securities of Russian issuers that are not typically associated with securities of companies in more developed countries.

**NOTE 6. CAPITAL**

During the years ended October 31, 2008 and October 31, 2007, the Fund purchased 111,900 and 47,900 of its shares of Common Stock on the open market at a total cost of \$3,865,143 and \$2,834,364 (\$34.54 and \$59.17 average per share), respectively. The weighted average discount of these purchased shares comparing the purchase price to the net asset value at the time of purchase was 13.84% and 12.19%, respectively. During the year ended October 31, 2008, these shares are held in Treasury and included under "paid-in capital" in the Statement of Assets and Liabilities. During the years ended October 31, 2008 and October 31, 2007, the Fund reissued 1,314,952 and 792,411 (\$58.02 and \$53.42 average per share) shares held in treasury as part of the dividend reinvestment plan, respectively. The average discount of these reissued shares comparing the reissue price to the net asset value at the time of reissuance was 4.35% and 5.13%, respectively.





**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
The Central Europe and Russia Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Central Europe and Russia Fund, Inc. (the "Fund") at October 31, 2008, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2008 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, NY  
December 19, 2008

**VOLUNTARY CASH PURCHASE PROGRAM AND DIVIDEND REINVESTMENT PLAN**  
**(unaudited)**

The Fund offers shareholders a Voluntary Cash Purchase Program and Dividend Reinvestment Plan ("Plan") which provides for optional cash purchases and for the automatic reinvestment of dividends and distributions payable by the Fund in additional Fund shares. A more complete description of the Plan is provided in the Plan brochure available from DWS Investments Service Company, the transfer agent (the "Transfer Agent"), P.O. Box 219066, Kansas City, Missouri 64105 (telephone 1-800-437-6269). Computershare, Inc. (the "Plan Agent") acts as the plan agent under the Plan. A shareholder should read the Plan brochure carefully before enrolling in the Plan.

Under the Plan, participating shareholders ("Plan Participants") appoint the Transfer Agent to receive or invest Fund distributions as described below under "Reinvestment of Fund Shares." In addition, Plan Participants may make optional cash purchases through the Transfer Agent as often as once a month as described below under "Voluntary Cash Purchases." There is no charge to Plan Participants for participating in the Plan, although when shares are purchased under the Plan by the Plan Agent on the New York Stock Exchange or otherwise on the open market, each Plan Participant will pay a pro rata share of brokerage commissions incurred in connection with such purchases, as described below under "Reinvestment of Fund Shares" and "Voluntary Cash Purchases."

**Reinvestment of Fund Shares.** Whenever the Fund declares a capital gains distribution, an income dividend or a return of capital distribution payable, at the election of shareholders, either in cash or in Fund shares, or payable only in cash, the Transfer Agent shall automatically elect to receive Fund shares for the account of each Plan Participant.

Whenever the Fund declares a capital gains distribution, an income dividend or a return of capital distribution payable only in cash and the net asset value per share of the Fund's common stock equals or is less than the market price per share on the valuation date (the "Market Parity or Premium"), the Transfer Agent shall apply the amount of such dividend or distribution payable to a Plan Participant to the purchase from the Fund of Fund Shares for a Plan Participant's account, except that if the Fund does not offer shares for such purpose because it concludes Securities Act registration would be required and such registration cannot be timely effected or is not otherwise a cost-effective alternative for the Fund, then the Transfer Agent shall follow the procedure described in the next paragraph. The number of additional shares to be credited to a Plan Participant's account shall be determined by dividing the dollar amount of the distribution payable to a Plan Participant by the net asset value per share of the Fund's common stock on the valuation date, or if the net asset value per share is less than 95% of the market price per share on such date, then by 95% of the market price per share. The valuation date will be the payable date for such dividend or distribution.

Whenever the Fund declares a capital gains distribution, an income dividend or a return of capital distribution payable only in cash and the net asset value per share of the Fund's common stock exceeds the market price per share on the valuation date (the "Market Discount"), the Plan Agent shall apply the amount of such dividend or distribution payable to a Plan Participant (less a Plan Participant's pro rata share of brokerage commissions incurred with respect to open-market purchases in connection with the reinvestment of such dividend or distribution) to the purchase on the open market of Fund shares for a Plan Participant's account. The valuation date will be the payable date for such dividend or distribution. Such purchases will be made on or shortly after the valuation date and in no event more than 30 days after such date except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of federal securities laws.

The Transfer Agent or the Plan Agent may aggregate a Plan Participant's purchases with the purchases of other Plan Participants, and the average price (including brokerage commissions) of all shares purchased by the Plan Agent shall be the price per share allocable to each Plan Participant.

For all purposes of the Plan, the market price of the Fund's common stock on a payable date shall be the last sales price on the New York Stock Exchange on that date, or, if there is no sale on such Exchange (or, if different, the

**VOLUNTARY CASH PURCHASE PROGRAM AND DIVIDEND REINVESTMENT PLAN**  
**(unaudited) (continued)**

principal exchange for Fund shares) on that date, then the mean between the closing bid and asked quotations for such stock on such Exchange on such date. The net asset value per share of the Fund's common stock on a valuation date shall be as determined by or on behalf of the Fund.

The Transfer Agent may hold a Plan Participant's shares acquired pursuant to the Plan, together with the shares of other Plan Participants acquired pursuant to this Plan, in non-certificated form in the name of the Transfer Agent or that of a nominee. The Transfer Agent will forward to each Plan Participant any proxy solicitation material and will vote any shares so held for a Plan Participant only in accordance with the proxy returned by a Plan Participant to the Fund. Upon a Plan Participant's written request, the Transfer Agent will deliver to a Plan Participant, without charge, a certificate or certificates for the full shares held by the Transfer Agent.

**Voluntary Cash Purchases.** Plan Participants have the option of making investments in Fund shares through the Transfer Agent as often as once a month. Plan Participants may invest as little as \$100 in any month and may invest up to \$36,000 annually through the voluntary cash purchase feature of the Plan.

The Plan Agent shall apply such funds (less a Plan Participant's pro rata share of brokerage commissions or other costs, if any) to the purchase on the New York Stock Exchange (or, if different, on the principal exchange for Fund shares) or otherwise on the open market of Fund shares for such Plan Participant's account, regardless of whether there is a Market Parity or Premium or a Market Discount. The Plan Agent will purchase shares for Plan Participants on or about the 15th of each month. Cash payments received by the Transfer Agent less than five business days prior to a cash purchase investment date will be held by the Transfer Agent until the next month's investment date. Uninvested funds will not bear interest. Plan Participants may withdraw any voluntary cash payment by written notice received by the Transfer Agent not less than 48 hours before such payment is to be invested.

**Enrollment and Withdrawal.** Both current shareholders and first-time investors in the Fund are eligible to participate in the Plan. Current shareholders may join the Plan by either enrolling their shares with the Transfer Agent or by making an initial cash deposit of at least \$250 with the Transfer Agent. First-time investors in the Fund may join the Plan by making an initial cash deposit of at least \$250 with the Transfer Agent. In order to become a Plan Participant, shareholders must complete and sign the enrollment form included in the Plan brochure and return it, and, if applicable, an initial cash deposit of at least \$250 directly to the Transfer Agent if shares are registered in their name. Shareholders who hold Fund shares in the name of a brokerage firm, bank or other nominee should contact such nominee to arrange for it to participate in the Plan on such shareholder's behalf.

If the Plan Participant elects to participate in the Plan by enrolling current shares owned by the Plan Participant with the Transfer Agent, participation in the dividend reinvestment feature of the Plan begins with the next dividend or capital gains distribution payable after the Transfer Agent receives the Plan Participant's written authorization, provided such authorization is received by the Transfer Agent prior to the record date for such dividend or distribution. If such authorization is received after such record date, the Plan Participant's participation in the dividend reinvestment feature of the Plan begins with the following dividend or distribution.

If the Plan Participant elects to participate in the Plan by making an initial cash deposit of at least \$250 with the Transfer Agent, participation in the dividend reinvestment feature of the Plan begins with the next dividend or capital gains distribution payable after the Transfer Agent receives the Plan Participant's authorization and deposit, and after the Plan Agent purchases shares for the Plan Participant on the New York Stock Exchange (or, if different, on the principal exchange for Fund shares) or otherwise on the open market, provided that the authorization and deposit are received, and the purchases are made by the Plan Agent prior to the record date. If such authorization and deposit are received after the record date, or if the Plan Agent purchases

**VOLUNTARY CASH PURCHASE PROGRAM AND DIVIDEND REINVESTMENT PLAN**  
**(unaudited) (continued)**

shares for the Plan Participant after the record date, the Plan Participant's participation in the dividend reinvestment feature of the Plan begins with the following dividend or distribution.

A shareholder's written authorization and cash payment must be received by the Transfer Agent at least five business days in advance of the next cash purchase investment date (normally the 15th of every month) in order for the Plan Participant to participate in the voluntary cash purchase feature of the Plan in that month.

Plan Participants may withdraw from the Plan without charge by written notice to the Transfer Agent. Plan Participants who choose to withdraw may elect to receive stock certificates representing all of the full shares held by the Transfer Agent on their behalf, or to instruct the Transfer Agent to sell such full shares and distribute the proceeds, net of brokerage commissions, to such withdrawing Plan Participant. Withdrawing Plan Participants will receive a cash adjustment for the market value of any fractional shares held on their behalf at the time of termination. Withdrawal will be effective immediately with respect to distributions with a record date not less than 10 days later than receipt of such written notice by the Transfer Agent.

**Amendment and Termination of Plan.** The Plan may only be amended or supplemented by the Fund or by the Transfer Agent by giving each Plan Participant written notice at least 90 days prior to the effective date of such amendment or supplement, except that such notice period may be shortened when necessary or appropriate in order to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory body.

The Plan may be terminated by the Fund or by the Transfer Agent by written notice mailed to each Plan Participant. Such termination will be effective with respect to all distributions with a record date at least 90 days after the mailing of such written notice to the Plan Participants.

**Federal Income Tax Implications of Reinvestment of Fund Shares.** Reinvestment of Fund shares does not relieve Plan Participants from any income tax which may be payable on dividends or distributions. For U.S. federal income tax purposes, when the Fund issues shares representing an income dividend or a capital gains dividend, a Participant will include in income the fair market value of the shares received as of the payment date, which will be ordinary dividend income or capital gains, as the case may be. The shares will have a tax basis equal to such fair market value, and the holding period for the shares will begin on the day after the date of distribution. If shares are purchased on the open market by the Plan Agent, a Plan Participant will include in income the amount of the cash payment made. The basis of such shares will be the purchase price of the shares, and the holding period for the shares will begin on the day following the date of purchase. State, local and foreign taxes may also be applicable.

**THE CENTRAL EUROPE AND RUSSIA FUND, INC.  
REPORT OF STOCKHOLDERS' MEETING (unaudited)**

The Annual Meeting of Stockholders of The Central Europe and Russia Fund, Inc. was held on June 20, 2008. At the Meeting, the following matters were voted upon by the stockholders. The resulting votes are presented below:

1. To elect seven Directors to serve for a term of various lengths and until their successors are elected and qualify.

|                        | Number of Votes |           |
|------------------------|-----------------|-----------|
|                        | For             | Withheld  |
| Dr. Kurt W. Bock       | 11,146,988      | 2,660,240 |
| John Bult              | 11,170,236      | 2,636,992 |
| Richard Karl Goeltz    | 11,143,224      | 2,664,004 |
| Dr. Franz Wilhelm Hopp | 11,145,053      | 2,662,175 |
| Dr. Friedbert H. Malt  | 11,144,658      | 2,662,570 |
| Robert H. Wadsworth    | 11,178,286      | 2,628,942 |
| Peter Zühlsdorff       | 11,136,842      | 2,670,386 |

2. To ratify the appointment by the Audit Committee and the Board of Directors of PricewaterhouseCoopers LLP, an independent registered public accounting firm, as independent auditors for the fiscal year ending October 31, 2008.

|  | Number of Votes |         |         |
|--|-----------------|---------|---------|
|  | For             | Against | Abstain |
|  | 13,668,252      | 99,374  | 39,604  |

In addition to the four Class II nominees, Dr. Kurt W. Bock, Mr. John Bult, Dr. Friedbert H. Malt and Robert H. Wadsworth proposed for re-election, the Nominating Committee of The Central Europe and Russia Fund, Inc. recommended and all of the current members of the Board of Directors approved the nomination for election of three current directors of The New Germany Fund, Inc. Mr. Richard Karl Goeltz, Dr. Franz Wilhelm Hopp and Mr. Peter Zühlsdorff. The purpose for the additional directors' nominations is to conform membership across the Boards of all the funds in the Family of Investment Companies consisting of The Central Europe and Russia Fund, Inc., The New Germany Fund, Inc. and The European Equity Fund, Inc. The Family of Investment Companies are closed-end funds that share the same investment adviser and manager and hold themselves out as related companies. Messrs. Goeltz, Hopp and Zühlsdorff will serve terms of office of various lengths and until his successor is elected and qualifies.

With the election of the above-named Directors, The Central Europe and Russia Fund, Inc. is governed by Detlef Bierbaum, Dr. Kurt W. Bock, John Bult, Ambassador Richard R. Burt, John H. Cannon, Richard Karl Goeltz, Dr. Franz Wilhelm Hopp, Dr. Friedbert H. Malt, Christian H. Strenger, Dr. Frank Trömel, Robert H. Wadsworth, Werner Walbröl and Peter Zühlsdorff.

**2008 U.S. TAX INFORMATION (unaudited)**

The Fund paid distributions of \$8.84 per share from net long-term capital gains during its year ended October 31, 2008, of which 100% represents 15% rate gains.

The Fund paid foreign taxes of \$3,599,074 and earned \$11,678,220 of foreign source income year during the year ended October 31, 2008. Pursuant to section 853 of the Internal Revenue Code, the Fund designates \$.23 per share as foreign taxes paid and \$.73 per share as income earned from foreign sources for the year ended October 31, 2008.

For Federal income tax purposes, the Fund designates \$26,350,000, or the maximum amount allowable under tax law, as qualified dividend income.

**INVESTMENT MANAGEMENT AGREEMENT AND  
INVESTMENT ADVISORY AGREEMENT APPROVAL**

The Fund's directors unanimously approved the continuance of the management agreement between the Fund and Deutsche Investment Management Americas Inc. ("DIMA") and the investment advisory agreement between the Fund and Deutsche Asset Management International GmbH ("DeAMI") (together called the "agreements") at a meeting held on July 21, 2008.

In preparation for the meeting, the directors had requested and evaluated extensive materials from DIMA and DeAMI, including performance and expense information for other investment companies with similar investment objectives derived from data compiled by Lipper Inc. ("Lipper"). Prior to voting, the directors reviewed the proposed continuance of the agreements with management and with experienced counsel who are independent of DIMA and DeAMI and received a memorandum from such counsel discussing the legal standards for their consideration of the proposed continuance. The directors also discussed the proposed continuance in a private session with counsel at which no representatives of DIMA or DeAMI were present. In reaching their determination relating to continuance of the agreements, the directors considered all factors they believed relevant, including the following:

1. information comparing the Fund's performance to other investment companies with similar investment objectives and to an index;
2. the nature, extent and quality of investment and administrative services rendered by DIMA and DeAMI;
3. payments received by DIMA and DeAMI from all sources in respect to the Fund and all investment companies in the Deutsche/Scudder family of funds;
4. the costs borne by, and profitability of, DIMA and DeAMI and their affiliates in providing services to the Fund and to all investment companies in the Deutsche/Scudder family of funds;
5. comparative fee and expense data for the Fund and other investment companies with similar investment objectives;
6. the extent to which economies of scale would be realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of investors;
7. DIMA's and DeAMI's policies and practices regarding allocation of the Fund's portfolio transactions, including the extent, if any, to which DIMA and DeAMI benefit from soft dollar arrangements;
8. the Fund's portfolio turnover rates compared to those of other investment companies with similar investment objectives;
9. fall-out benefits which DIMA, DeAMI and their affiliates receive from their relationships with the Fund;
10. the professional experience and qualifications of the Fund's portfolio management team and other senior personnel of DIMA and DeAMI; and
11. the terms of the agreements.

The directors also considered their knowledge of the nature and quality of the services provided by DIMA and DeAMI to the Fund gained from their experience as directors of the European Equity Fund and, where relevant, the New Germany Fund and other Deutsche funds, their confidence in DIMA's and DeAMI's integrity and competence gained from that experience and DIMA's and DeAMI's responsiveness to concerns raised by them in the past, including DIMA's and DeAMI's willingness to consider and implement organizational and operational changes designed to improve investment results and the services provided to the Fund.

In their deliberations, the directors did not identify any particular information that was all-important or controlling, and each director attributed different weights to the various factors.

The directors determined that the overall arrangements between the Fund and DIMA, as provided in the management agreement, and between the Fund and DeAMI, as provided in the investment advisory agreement, were fair and reasonable in light of the services performed, expenses incurred and such other matters as the directors considered relevant in the exercise of their reasonable judgment.





**INVESTMENT MANAGEMENT AGREEMENT AND  
INVESTMENT ADVISORY AGREEMENT APPROVAL (continued)**

The material factors and conclusions that formed the basis for the directors' reaching their determination to approve the continuance of the agreements (including their determinations that DIMA and DeAMI should continue in those roles for the Fund, and that the fees payable to DIMA and DeAMI pursuant to the agreements are appropriate) were separately discussed by the directors.

**Nature, Extent and Quality of Services Provided by DIMA and DeAMI**

The directors noted that, under the management agreement, DIMA acts as the Fund's corporate manager and administrator and, subject to the supervision of the Fund's board of directors and pursuant to recommendations made by DeAMI, determines suitable securities for investment by the Fund. Under the investment advisory agreement, DeAMI, in accordance with the Fund's investment objectives, policies and limitations, makes recommendations with respect to the Fund's investments and, upon instructions given by DIMA as to suitable securities for investment by us, transmits purchase and sale orders and selects brokers and dealers to execute portfolio transactions on the Fund's behalf. Under the management agreement, DIMA also handles the Fund's relationships with shareholders, is responsible for compliance with regulatory and NYSE listing requirements, negotiates arrangements with third party service providers, provides the Fund's directors with relevant reports, prepares the Fund's tax returns and SEC and shareholder reports, calculates dividends and net asset value, oversees payment of the Fund's expenses and maintains books and records. DIMA also provides the Fund with such office facilities and executive and other personnel adequate to perform its services. DIMA pays all of the compensation of the Fund's directors and officers who are interested persons of DIMA.

The directors considered the scope and quality of services provided by DIMA and DeAMI under the agreements and noted that the scope of services provided had expanded over time as a result of regulatory and other developments. The directors noted that, for example, DIMA is responsible for maintaining and monitoring its own and the Fund's compliance programs, and these compliance programs have in recent years been refined and enhanced in light of evolving regulatory requirements. The directors considered the quality of the investment research capabilities of DIMA and DeAMI and the other resources they have dedicated to performing services for the Fund. The quality of administrative and other services, including DIMA's role in coordinating the activities of the Fund's other service providers, also were considered. The directors concluded that, overall, they were satisfied with the nature, extent and quality of services provided (and expected to be provided) to the Fund under the agreements.

**Costs of Services Provided and Profitability to DIMA and DeAMI**

At the request of the directors, DIMA provided information concerning profitability of DIMA's and DeAMI's respective investment advisory and investment company activities and their financial condition based on historical information for 2006 and 2007. The directors reviewed with DIMA assumptions and methods of allocation used by DIMA and DeAMI in preparing Fund specific profitability data. DIMA stated its belief that the methods of allocation used were reasonable, but it noted that there are limitations inherent in allocating costs to multiple individual advisory clients served by an organization such as DIMA and DeAMI where each of the advisory clients draws on, and benefits from, the research and other resources of the Deutsche Bank organization. The directors recognized that it is difficult to make comparisons of profitability from fund management contracts because comparative information is not generally publicly available and is affected by numerous factors, including the structure of the particular adviser, the types of funds it manages, its business mix, numerous assumptions regarding allocations and the adviser's capital structure and cost of capital. In considering profitability information, the directors considered the effect of possible fall-out benefits, on DIMA's and DeAMI's expenses, including any affiliated brokerage commissions.

The directors noted that during 2003 and 2004 DIMA discontinued using soft dollars to receive third party research from brokers that execute purchases and sales of securities for us, and revised their policies to prohibit consideration of the sale of shares of Deutsche funds when

**INVESTMENT MANAGEMENT AGREEMENT AND  
INVESTMENT ADVISORY AGREEMENT APPROVAL (continued)**

selecting broker dealers to execute portfolio transactions for the Fund or other Deutsche funds. DIMA and DeAMI may continue to allocate brokerage to receive research generated by executing brokers and to receive other information services.

The directors recognized that DIMA and DeAMI should, in the abstract, each be entitled to earn a reasonable level of profits for the services it provides to us and, based on their review, concluded that DIMA's and DeAMI's levels of profitability from their relationships with us were not excessive.

**Investment Results**

In addition to the information received by the directors for the meeting, the directors receive detailed performance information for the Fund at each regular board meeting during the year. The directors reviewed information showing the Fund's performance compared to that of other investment vehicles compiled by Lipper (a total of 41 funds, including us, consisting of exchange-traded funds, open-end funds and single-country funds). The directors also reviewed information showing performance of the Fund's benchmark index, currently a blend of 45% CECE index of 27 Central European stocks, 45% RTX index of 12 Russian stocks and 10% ISE 30 index of 30 Turkish stocks.

The comparative information showed that the Fund ranked in or near the top quartile for the one-, three-, five- and 10- year periods ended December 31, 2007. The Fund's results were significantly positive in absolute terms, and exceeded its benchmark each year since 2000. Taking into account these comparisons and the other factors considered, including the excellent performance since the Fund's increased emphasis on Russian investments that began in mid-2003, the directors concluded that the Fund's investment results over time were satisfactory.

**Management and Investment Advisory Fees and Other Expenses**

The directors considered the management and investment advisory fee rates paid by the Fund to DIMA and DeAMI. The directors recognized that it is difficult to make comparisons of management and advisory fees because there are variations in the services that are included in the fees paid by other funds. The Fund's expense comparison group consisted of 31 closed end country funds. As of December 31, 2007, the information showed that the Fund's effective management fee rate of 0.792% was in the lowest third of the comparison group and below the median for the comparison group. The directors noted that the Fund's effective fee rate reflects the effect of breakpoints and that DIMA had voluntarily added a breakpoint reducing the fee rate from 0.55% to 0.50% for net assets exceeding \$500 million, effective June 1, 2006, and a breakpoint reducing the fee rate from 0.50% to 0.45% for net assets exceeding \$750 million, effective August 1, 2007. The directors also considered the Fund's total expense ratio in comparison to the fees and expenses of funds within the comparison group. The directors recognized that the expense ratio information for the Fund potentially reflected on DIMA's provision of services, as DIMA is responsible for coordinating services provided to the Fund by others. The directors also noted that the Fund's expense ratio was the third lowest of the comparison group. DIMA explained that this difference was principally the result of the Fund's relatively low management and investment advisory fee and the Fund's relatively large asset base. The directors concluded that the Fund's expense ratio was highly satisfactory.

**Economies of Scale**

The directors noted that the Fund's management fee and investment advisory schedules do contain breakpoints that reduce the fee rate on assets above specified levels. The directors recognized that breakpoints may be an appropriate way for DIMA and DeAMI to share their economies of scale with some funds that have substantial assets or that may grow materially over the next year. However, they also recognized that there is no direct relationship between the economies of scale realized by funds and those realized by DIMA and DeAMI as assets increase, largely because economies of scale are realized (if at all) by DIMA and DeAMI across a variety of products and services, and not only in respect of a single fund. Having taken these factors into account, the directors concluded that the Fund's breakpoint arrangements were acceptable under the Fund's circumstances.

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**EXECUTIVE OFFICES**

*345 Park Avenue, New York, NY 10154*

**MANAGER**

*Deutsche Investment Management Americas Inc.*

**INVESTMENT ADVISER**

*Deutsche Asset Management International GmbH*

**CUSTODIAN**

*Brown Brothers Harriman & Co.*

**TRANSFER AGENT**

*DWS Investments Service Company*

**LEGAL COUNSEL**

*Sullivan & Cromwell LLP*

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

*PricewaterhouseCoopers LLP*

**DIRECTORS AND OFFICERS**

CHRISTIAN H. STRENGER

*Chairman and Director*

DETLEF BIERBAUM

*Director*

DR. KURT W. BOCK

*Director*

JOHN A. BULT

*Director*

RICHARD R. BURT

*Director*

JOHN H. CANNON

*Director*

RICHARD KARL GOELTZ

*Director*

DR. FRANZ WILHELM HOPP

*Director*

DR. FRIEDBERT MALT

*Director*

DR. FRANK TRÖMEL

*Director*

ROBERT H. WADSWORTH

*Director*

WERNER WALBRÖL

*Director*

PETER ZÜHLSDORFF

*Director*

MICHAEL CLARK

*President and Chief Executive Officer*

PAUL H. SCHUBERT

*Chief Financial Officer and Treasurer*

ELISA METZGER

*Chief Legal Officer*

BRETT ROGERS

*Chief Compliance Officer*

DAVID GOLDMAN

*Secretary*

JOHN MILLETTE

*Assistant Secretary*

RITA RUBIN

*Assistant Secretary*

R-7374-1 (12/08)

**VOLUNTARY CASH PURCHASE PROGRAM  
AND DIVIDEND REINVESTMENT PLAN**



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The Fund offers shareholders a Voluntary Cash Purchase Program and Dividend Reinvestment Plan ("Plan") which provides for optional cash purchases and for the automatic reinvestment of dividends and distributions payable by the Fund in additional Fund shares. Plan participants may invest as little as \$100 in any month and may invest up to \$36,000 annually. The Plan allows current shareholders, who are not already participants in the Plan, and first time investors to enroll in the Plan by making an initial cash deposit of at least \$250 with the plan agent. Share purchases are combined to receive a beneficial brokerage fee. A brochure is available by writing or telephoning the transfer agent:

DWS Investments Service Company  
210 W 10th Street 6th Floor  
Attn Closed End Fund Area  
Kansas City, MO 64105  
Tel. 1-800-437-6269

This report, including the financial statements herein, is transmitted to the shareholders of The Central Europe and Russia Fund, Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report. The information contained in the letter to the shareholders, the interview with the lead portfolio manager and the report from the investment adviser and manager in this report is derived from carefully selected sources believed reasonable. We do not guarantee its accuracy or completeness, and nothing in this report shall be construed to be a representation of such guarantee. Any opinions expressed reflect the current judgment of the author, and do not necessarily reflect the opinion of Deutsche Bank AG or any of its subsidiaries and affiliates.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase at market prices from time to time shares of its common stock in the open market.

Comparisons between changes in the Fund's net asset value per share and changes in the CECE, RTX and ISE National 30 indices should be considered in light of the Fund's investment policy and objectives, the characteristics and quality of the Fund's investments, the size of the Fund and variations in the foreign currency/dollar exchange rate.

Fund Shares are not FDIC - insured and are not deposits or other obligations of or guaranteed by any bank. Fund Shares involve investment risk, including possible loss of principal.

Copies of this report, monthly fact sheets and other information are available at:  
[www.ceefund.com](http://www.ceefund.com)

For latest net asset value, schedule of the Fund's largest holdings, dividend data and shareholder inquiries, please call 1-800-437-6269 in the U.S. or 617-443-6918 outside of the U.S.

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**ITEM 2. CODE OF ETHICS**

As of the end of the period, October 31, 2008, The Central Europe And Russia Fund, Inc. has a code of ethics, as defined in Item 2 of Form N-CSR, that applies to its Principal Executive Officer and Principal Financial Officer.

There have been no amendments to, or waivers from, a provision of the code of ethics during the period covered by this report that would require disclosure under Item 2.

A copy of the code of ethics is filed as an exhibit to this Form N-CSR.

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT**

The Fund's Board of Directors has determined that the Fund has at least one audit committee financial expert serving on its audit committee: Mr. John H. Cannon, and Mr. Robert H. Wadsworth. Each of these audit committee members is independent, meaning that he is not an interested person of the Fund (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940) and he does not accept any consulting, advisory, or other compensatory fee from the Fund (except in the capacity as a Board or committee member).

An audit committee financial expert is not an expert for any purpose, including for purposes of Section 11 of the Securities Act of 1933, as a result of being designated as an audit committee financial expert. Further, the designation of a person as an audit committee financial expert does not mean that the person has any greater duties, obligations, or liability than those imposed on the person without the audit committee financial expert designation. Similarly, the designation of a person as an audit committee financial expert does not affect the duties, obligations, or liability of any other member of the audit committee or board of directors.

**ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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

**FORM N-CSR DISCLOSURE RE: AUDIT FEES**

The following table shows the amount of fees that PricewaterhouseCoopers, LLP ( PWC ), the Fund's independent registered public accounting firm, billed to the Fund during the Fund's last two fiscal years. The Audit Committee approved in advance all audit services and non-audit services that PWC provided to the Fund.

The Audit Committee has delegated certain pre-approval responsibilities to its Chairman (or, in his absence, any other member of the Audit Committee).

**Services that the Fund's Independent Registered Public Accounting Firm Billed to the Fund**

| Fiscal Year Ended | Audit Fees Billed to Fund | Audit-Related Fees Billed to Fund | Tax Fees Billed to Fund | All Other Fees Billed to Fund |
|-------------------|---------------------------|-----------------------------------|-------------------------|-------------------------------|
| October 31, 2008  | \$86,500                  | \$0                               | \$9,630                 | \$0                           |
| 2007              | \$90,000                  | \$0                               | \$8,806                 | \$0                           |



**Services that the Fund's Independent Registered Public Accounting Firm Billed to the Adviser and Affiliated Fund Service Providers**

The following table shows the amount of fees billed by PWC to Deutsche Investment Management Americas, Inc. ( DeIM or the Adviser ), and any entity controlling, controlled by or under common control with DeIM ( Control Affiliate ) that provides ongoing services to the Fund ( Affiliated Fund Service Provider ), for engagements directly related to the Fund's operations and financial reporting, during the Fund's last two fiscal years.

| Fiscal Year<br>Ended | Audit-Related  | Tax Fees Billed to Adviser and<br>Affiliated Fund Service Providers | All  |
|----------------------|--|---|--|
|                      | Fees Billed to Adviser and<br>Affiliated Fund Service<br>Providers |   | Other Fees Billed to Adviser<br>and Affiliated Fund Service<br>Providers |
| October 31,<br>2008  | \$0  | \$19,000  | \$0  |
| 2007                 | \$58,500   | \$25,000  | \$0  |

The Audit-Related Fees were billed for services in connection with the agreed-upon procedures related to fund mergers and the above Tax Fees were billed in connection with tax consultation and agreed-upon procedures.

**Non-Audit Services**

The following table shows the amount of fees that PWC billed during the Fund's last two fiscal years for non-audit services. The Audit Committee pre-approved all non-audit services that PWC provided to the Adviser and any Affiliated Fund Service Provider that related directly to the Fund's operations and financial reporting. The Audit Committee requested and received information from PWC about any non-audit services that PWC rendered during the Fund's last fiscal year to the Adviser and any Affiliated Fund Service Provider. The Committee considered this information in evaluating PWC's independence.

| Fiscal Year<br>Ended | Total<br>Non-Audit Fees Billed to<br>Fund | Total Non-Audit Fees<br>billed to Adviser and<br>Affiliated Fund Service<br>Providers (engagements<br>related directly to the<br>operations and financial<br>reporting of the Fund) | Total Non-Audit Fees<br>billed to Adviser and<br>Affiliated Fund Service<br>Providers (all other<br>engagements) | Total of (A), (B)<br>and (C) |
|----------------------|---|---|--|------------------------------|
|                      |   | (A)   | (B)  |                              |
| October 31,<br>2008  | \$9,630                                   | \$19,000  | \$600,000  | \$628,630                    |
| 2007                 | \$8,806                                   | \$25,000  | \$0  | \$33,806                     |

All other engagement fees were billed for services provided by PWC for services related to consulting on an IT project.

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PwC advised the Fund's Audit Committee that PwC has identified two matters that it determined to be inconsistent with the SEC's auditor independence rules. In the first instance, an employee of PwC had power of attorney over an account which included DWS funds. The employee did not perform any audit services for the DWS Funds, but did work on a non audit project for Deutsche Bank AG. In the second instance, an employee of PwC served as a nominee shareholder (effectively equivalent to a Trustee) of various companies/trusts since 2001. Some of these companies held shares of Aberdeen, a sub advisor to certain DWS Funds, and of certain funds sponsored by subsidiaries of Deutsche Bank AG. The trustee relationship has ceased. PwC informed the Audit Committee that these matters could have constituted an investment in an affiliate of an audit client in violation of the Rule 2-01(c)(1) of Regulation S-X. PwC advised the Audit Committee that PwC believes its independence had not been impacted as it related to the audits of the Fund. In reaching this conclusion, PwC noted that during the time of its audit, the engagement team was not aware of the investment and that PwC does not believe these situations affected PwC's ability to act objectively and impartially and to issue a report on financial statements as the funds' independent auditor.

### **ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS**

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The registrant's audit committee consists of Werner Walbrol (Chairman), Robert H. Wadsworth, Dr. Frank Tromel, Richard R. Burt, Dr. Friedbert Malt and John H. Cannon.

### **ITEM 6. SCHEDULE OF INVESTMENTS**

Not Applicable

### **ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES**

#### **I. INTRODUCTION**

AM has adopted and implemented the following policies and procedures, which it believes are reasonably designed to ensure that proxies are voted in the best economic interest of clients, in accordance with its fiduciary duties and local regulation. In addition, AM's proxy policies reflect the fiduciary standards and responsibilities for ERISA accounts.

The attached guidelines represent a set of global recommendations that were determined by the Global Proxy Voting Sub-Committee (the GPVSC). These guidelines were developed to provide AM with a comprehensive list of recommendations that represent how AM will generally vote proxies for its clients. The recommendations derived from the application of these guidelines are not intended to influence the various AM legal entities either directly or indirectly by parent or affiliated companies. In addition, the organizational structures and documents of the various AM legal entities allows, where necessary or appropriate, the execution by individual AM subsidiaries of the proxy voting rights independently of any DB parent or affiliated company. This applies in particular to non U.S. fund management companies. The individuals that make proxy voting decisions are also free to act independently, subject to the normal and customary supervision by the management/boards of these AM legal entities.

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## II. AM'S PROXY VOTING RESPONSIBILITIES

Proxy votes are the property of AM's advisory clients. As such, AM's authority and responsibility to vote such proxies depend upon its contractual relationships with its clients. AM has delegated responsibility for effecting its advisory clients' proxy votes to Institutional Shareholder Services (ISS), an independent third-party proxy voting specialist. ISS votes AM's advisory clients' proxies in accordance with AM's proxy guidelines or AM's specific instructions. Where a client has given specific instructions as to how a proxy should be voted, AM will notify ISS to carry out those instructions. Where no specific instruction exists, AM will follow the procedures in voting the proxies set forth in this document. Certain Taft-Hartley clients may direct AM to have ISS vote their proxies in accordance with Taft Hartley voting Guidelines.

Clients may in certain instances contract with their custodial agent and notify AM that they wish to engage in securities lending transactions. In such cases, it is the responsibility of the custodian to deduct the number of shares that are on loan so that they do not get voted twice.

## III. POLICIES

### 1. *Proxy voting activities are conducted in the best economic interest of clients*

AM has adopted the following policies and procedures to ensure that proxies are voted in accordance with the best economic interest of its clients, as determined by AM in good faith after appropriate review.

### 2. *The Global Proxy Voting Sub-Committee*

The Global Proxy Voting Sub-Committee (the GPVSC) is an internal working group established by the applicable AM's Investment Risk Oversight Committee pursuant to a written charter. The GPVSC is responsible for overseeing AM's proxy voting activities, including:

- (i) adopting, monitoring and updating guidelines, attached as Exhibit A (the Guidelines), that provide how AM will generally vote proxies pertaining to a comprehensive list of common proxy voting matters;

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<sup>1</sup> For purposes of these Policies and Procedures, clients refers to persons or entities: for which AM serves as investment adviser or sub-adviser; for which AM votes proxies; and that have an economic or beneficial ownership interest in the portfolio securities of issuers soliciting such proxies.

- (ii) voting proxies where (A) the issues are not covered by specific client instruction or the Guidelines; (B) the Guidelines specify that the issues are to be determined on a case-by-case basis; or (C) where an exception to the Guidelines may be in the best economic interest of AM's clients; and

- (iii) monitoring the Proxy Vendor Oversight's proxy voting activities (see below).

AM's Proxy Vendor Oversight, a function of AM's Operations Group, is responsible for coordinating with ISS to administer AM's proxy voting process and for voting proxies in accordance with any specific client instructions or, if there are none, the Guidelines, and overseeing ISS's proxy responsibilities in this regard.

### 3. *Availability of Proxy Voting Policies and Procedures and proxy voting record*

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Copies of these Policies and Procedures, as they may be updated from time to time, are made available to clients as required by law and otherwise at AM's discretion. Clients may also obtain information on how their proxies were voted by AM as required by law and otherwise at AM's discretion; however, AM must not selectively disclose its investment company clients' proxy voting records. The Proxy Vendor Oversight will make proxy voting reports available to advisory clients upon request. The investment companies' proxy voting records will be disclosed to shareholders by means of publicly-available annual filings of each company's proxy voting record for 12-month periods ended June 30 (see Recordkeeping below), if so required by relevant law.

#### **IV. PROCEDURES**

The key aspects of AM's proxy voting process are as follows:

##### ***I. The GPVSC's Proxy Voting Guidelines***

The Guidelines set forth the GPVSC's standard voting positions on a comprehensive list of common proxy voting matters. The GPVSC has developed, and continues to update the Guidelines based on consideration of current corporate governance principles, industry standards, client feedback, and the impact of the matter on issuers and the value of the investments.

The GPVSC will review the Guidelines as necessary to support the best economic interests of AM's clients and, in any event, at least annually. The GPVSC will make changes to the Guidelines, whether as a result of the annual review or otherwise, taking solely into account the best economic interests of clients. Before changing the Guidelines, the GPVSC will thoroughly review and evaluate the proposed change and the reasons therefore, and the GPVSC Chair will ask GPVSC members whether anyone outside of the AM organization (but within Deutsche Bank and its affiliates) or any entity that identifies itself as a AM advisory client has requested or attempted to influence the proposed change and whether any member has a conflict of interest with respect to the proposed change. If any such matter is reported to the GPVSC Chair, the Chair will promptly notify the Conflicts of Interest Management Sub-Committee (see below) and will defer the approval, if possible. Lastly, the GPVSC will fully document its rationale for approving any change to the Guidelines.

The Guidelines may reflect a voting position that differs from the actual practices of the public company(ies) within the Deutsche Bank organization or of the investment companies for which AM or an affiliate serves as investment adviser or sponsor. Investment companies, particularly closed-end investment companies, are different from traditional operating companies. These differences may call for differences in voting positions on the same matter. Further, the manner in which AM votes investment company proxies may differ from proposals for which a AM-advised or sponsored investment company solicits proxies from its shareholders. As reflected in the Guidelines, proxies solicited by closed-end (and open-end) investment companies are generally voted in accordance with the pre-determined guidelines of ISS. See Section IV.3.B.

Funds ( Underlying Funds ) in which Topiary Fund Management Fund of Funds (each, a Fund ) invest, may from time to time seek to revise their investment terms (i.e. liquidity, fees, etc.) or investment structure. In such event, the Underlying Funds may require approval/consent from its investors to effect the relevant changes. Topiary Fund Management has adopted Proxy Voting Procedures which outline the process for these approvals.

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**2. Specific proxy voting decisions made by the GPVSC**

The Proxy Vendor Oversight will refer to the GPVSC all proxy proposals (i) that are not covered by specific client instructions or the Guidelines; or (ii) that, according to the Guidelines, should be evaluated and voted on a case-by-case basis.

Additionally, if, the Proxy Vendor Oversight, the GPVSC Chair or any member of the GPVSC, a portfolio manager, a research analyst or a sub-adviser believes that voting a particular proxy in accordance with the Guidelines may not be in the best economic interests of clients, that individual may bring the matter to the attention of the GPVSC Chair and/or the Proxy Vendor Oversight.<sup>2</sup>

If the Proxy Vendor Oversight refers a proxy proposal to the GPVSC or the GPVSC determines that voting a particular proxy in accordance with the Guidelines is not in the best economic interests of clients, the GPVSC will evaluate and vote the proxy, subject to the procedures below regarding conflicts.

The GPVSC endeavors to hold meetings to decide how to vote particular proxies sufficiently before the voting deadline so that the procedures below regarding conflicts can be completed before the GPVSC's voting determination.

**3. Certain proxy votes may not be cast**

In some cases, the GPVSC may determine that it is in the best economic interests of its clients not to vote certain proxies. If the conditions below are met with regard to a proxy proposal, AM will abstain from voting:

Neither the Guidelines nor specific client instructions cover an issue;

ISS does not make a recommendation on the issue;

The GPVSC cannot convene on the proxy proposal at issue to make a determination as to what would be in the client's best interest. (This could happen, for example, if the Conflicts of Interest Management Sub-committee found that there was a material conflict or if despite all best efforts being made, the GPVSC quorum requirement could not be met).

In addition, it is AM's policy not to vote proxies of issuers subject to laws of those jurisdictions that impose restrictions upon selling shares after proxies are voted, in order to preserve liquidity. In other cases, it may not be possible to vote certain proxies, despite good faith efforts to do so. For example, some jurisdictions do not provide adequate notice to shareholders so that proxies may be voted on a timely basis. Voting rights on securities that have been loaned to third-parties transfer to those third-parties, with loan termination often being the only way to attempt to vote proxies on the loaned securities. Lastly, the GPVSC may determine that the costs to the client(s) associated with voting a particular proxy or group of proxies outweighs the economic benefits expected from voting the proxy or group of proxies.

The Proxy Vendor Oversight will coordinate with the GPVSC Chair regarding any specific proxies and any categories of proxies that will not or cannot be voted. The reasons for not voting any proxy shall be documented.

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<sup>2</sup> The Proxy Vendor Oversight generally monitors upcoming proxy solicitations for heightened attention from the press or the industry and for novel or unusual proposals or circumstances, which may prompt the Proxy Vendor Oversight to bring the solicitation to the attention of the GPVSC Chair. AM portfolio managers, AM research analysts and sub-advisers also may bring a particular proxy vote to the attention of the GPVSC Chair, as a result of their ongoing monitoring of portfolio securities held by advisory clients and/or their review of the periodic proxy voting record reports that the GPVSC Chair distributes to AM portfolio managers and AM research analysts.

**4. Conflict of Interest Procedures**

**A. Procedures to Address Conflicts of Interest and Improper Influence**

*Overriding Principle.* In the limited circumstances where the GPVSC votes proxies,<sup>3</sup> the GPVSC will vote those proxies in accordance with what it, in good faith, determines to be the best economic interests of AM's clients<sup>4</sup>.

*Independence of the GPVSC.* As a matter of Compliance policy, the GPVSC and the Proxy Vendor Oversight are structured to be independent from other parts of Deutsche Bank. Members of the GPVSC and the employee responsible for Proxy Vendor Oversight are employees of AM. As such, they may not be subject to the supervision or control of any employees of Deutsche Bank Corporate and Investment Banking division ( CIB ). Their compensation cannot be based upon their contribution to any business activity outside of AM without prior approval of Legal and Compliance. They can have no contact with employees of Deutsche Bank outside of the Private Client and Asset Management division ( PCAM ) regarding specific clients, business matters or initiatives without the prior approval of Legal and Compliance. They furthermore may not discuss proxy votes with any person outside of AM (and within AM only on a need to know basis).

*Conflict Review Procedures.* There will be a committee (the Conflicts of Interest Management Sub-Committee ) established within AM that will monitor for potential material conflicts of interest in connection with proxy proposals that are to be evaluated by the GPVSC. Promptly upon a determination that a vote shall be presented to the GPVSC, the GPVSC Chair shall notify the Conflicts of Interest Management Sub-Committee. The Conflicts of Interest Management Sub-Committee shall promptly collect and review any information deemed reasonably appropriate to evaluate, in its reasonable judgment, if AM or any person participating in the proxy voting process has, or has the appearance of, a material conflict of interest. For the purposes of this policy, a conflict of interest shall be considered material to the extent that a reasonable person could expect the conflict to influence, or appear to influence, the GPVSC's decision on the particular vote at issue. GPVSC should provide the Conflicts of Interest Management Sub-Committee a reasonable amount of time (no less than 24 hours) to perform all necessary and appropriate reviews. To the extent that a conflicts review can not be sufficiently completed by the Conflicts of Interest Management Sub-Committee the proxies will be voted in accordance with the standard guidelines.

The information considered by the Conflicts of Interest Management Sub-Committee may include without limitation information regarding (i) AM client relationships; (ii) any relevant personal conflict known by the Conflicts of Interest Management Sub-Committee or brought to the attention of that sub-committee; (iii) and any communications with members of the GPVSC (or anyone participating or providing information to the GPVSC) and any person outside of the AM organization (but within Deutsche Bank and its affiliates) or any entity that identifies itself as a AM advisory client regarding the vote at issue. In the context of any determination, the Conflicts of Interest Management Sub-Committee may consult with, and shall be entitled to rely upon, all applicable outside experts, including legal counsel.

Upon completion of the investigation, the Conflicts of Interest Management Sub-Committee will document its findings and conclusions. If the Conflicts of Interest Management Sub-Committee determines that (i) AM has a material conflict of interest that would prevent it from deciding how to vote the proxies concerned without further client consent or (ii) certain individuals should be recused from participating in the proxy vote at issue, the Conflicts of Interest Management Sub-Committee will so inform the GPVSC chair.

If notified that AM has a material conflict of interest as described above, the GPVSC chair will obtain instructions as to how the proxies should be voted either from (i) if time permits, the effected clients, or (ii) in accordance with the standard guidelines. If notified that certain individuals should be recused from the proxy vote at issue, the GPVSC Chair shall do so in accordance with the procedures set forth below.

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<sup>3</sup> As mentioned above, the GPVSC votes proxies (i) where neither a specific client instruction nor a Guideline directs how the proxy should be voted, (ii) where the Guidelines specify that an issue is to be determined on a case by case basis or (iii) where voting in accordance with the Guidelines may not be in the best economic interests of clients.

<sup>4</sup> The Proxy Vendor Oversight, who serves as the non-voting secretary of the GPVSC, may receive routine calls from proxy solicitors and other parties interested in a particular proxy vote. Any contact that attempts to exert improper pressure or influence shall be reported to the Conflicts of Interest Management Sub-Committee.

Note: Any AM employee who becomes aware of a potential, material conflict of interest in respect of any proxy vote to be made on behalf of clients shall notify Compliance. Compliance shall call a meeting of the conflict review committee to evaluate such conflict and determine a recommended course of action.

*Procedures to be followed by the GPVSC.* At the beginning of any discussion regarding how to vote any proxy, the GPVSC Chair (or his or her delegate) will inquire as to whether any GPVSC member (whether voting or ex officio) or any person participating in the proxy voting process has a personal conflict of interest or has actual knowledge of an actual or apparent conflict that has not been reported to the Conflicts of Interest Management Sub-Committee.

The GPVSC Chair also will inquire of these same parties whether they have actual knowledge regarding whether any director, officer or employee outside of the AM organization (but within Deutsche Bank and its affiliates) or any entity that identifies itself as a AM advisory client, has: (i) requested that AM, the Proxy Vendor Oversight (or any member thereof) or a GPVSC member vote a particular proxy in a certain manner; (ii) attempted to influence AM, the Proxy Vendor Oversight (or any member thereof), a GPVSC member or any other person in connection with proxy voting activities; or (iii) otherwise communicated with a GPVSC member or any other person participating or providing information to the GPVSC regarding the particular proxy vote at issue, and which incident has not yet been reported to the Conflicts of Interest Management Sub-Committee.

If any such incidents are reported to the GPVSC Chair, the Chair will promptly notify the Conflicts of Interest Management Sub-Committee and, if possible, will delay the vote until the Conflicts of Interest Management Sub-Committee can complete the conflicts report. If a delay is not possible, the Conflicts of Interest Management Sub-Committee will instruct the GPVSC whether anyone should be recused from the proxy voting process, or whether AM should vote the proxy in accordance with the standard guidelines, seek instructions as to how to vote the proxy at issue from ISS or, if time permits, the effected clients. These inquiries and discussions will be properly reflected in the GPVSC's minutes.

*Duty to Report.* Any AM employee, including any GPVSC member (whether voting or ex officio), that is aware of any actual or apparent conflict of interest relevant to, or any attempt by any person outside of the AM organization (but within Deutsche Bank and its affiliates) or any entity that identifies itself as a AM advisory client to influence, how AM votes its proxies has a duty to disclose the existence of the situation to the GPVSC Chair (or his or her designee) and the details of the matter to the Conflicts of Interest Management Sub-Committee. In the case of any person participating in the deliberations on a specific vote, such disclosure should be made before engaging in any activities or participating in any discussion pertaining to that vote.

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*Recusal of Members.* The GPVSC will recuse from participating in a specific proxy vote any GPVSC members (whether voting or ex officio) and/or any other person who (i) are personally involved in a material conflict of interest; or (ii) who, as determined by the Conflicts of Interest Management Sub-Committee, have actual knowledge of a circumstance or fact that could effect their independent judgment, in respect of such vote. The GPVSC will also exclude from consideration the views of any person (whether requested or volunteered) if the GPVSC or any member thereof knows, or if the Conflicts of Interest Management Sub-Committee has determined, that such other person has a material conflict of interest with respect to the particular proxy, or has attempted to influence the vote in any manner prohibited by these policies.

If, after excluding all relevant GPVSC voting members pursuant to the paragraph above, there are three or more GPVSC voting members remaining, those remaining GPVSC members will determine how to vote the proxy in accordance with these Policies and Procedures. If there are fewer than three GPVSC voting members remaining, the GPVSC Chair will vote the proxy in accordance with the standard guidelines, will obtain instructions as to how to have the proxy voted from, if time permits, the effected clients and otherwise from ISS.

### B. Investment Companies and Affiliated Public Companies

*Investment Companies.* As reflected in the Guidelines, all proxies solicited by open-end and closed-end investment companies are voted in accordance with the pre-determined guidelines of ISS, unless the investment company client directs AM to vote differently on a specific proxy or specific categories of proxies. However, regarding investment companies for which AM or an affiliate serves as investment adviser or principal underwriter, such proxies are voted in the same proportion as the vote of all other shareholders (i.e., mirror or echo voting). Master fund proxies solicited from feeder funds are voted in accordance with applicable provisions of Section 12 of the Investment Company Act of 1940.

Subject to participation agreements with certain Exchange Traded Funds ("ETF") issuers that have received exemptive orders from the U.S. Securities and Exchange Commission allowing investing DWS funds to exceed the limits set forth in Section 12(d)(1)(A) and (B) of the Investment Company Act of 1940, DeAM will echo vote proxies for ETFs in which Deutsche Bank holds more than 25% of outstanding voting shares globally when required to do so by participation agreements and SEC orders.

*Affiliated Public Companies.* For proxies solicited by non-investment company issuers of or within the Deutsche Bank organization, e.g., Deutsche bank itself, these proxies will be voted in the same proportion as the vote of other shareholders (i.e., mirror or echo voting).

Note: With respect to the QP Trust (not registered under the Investment Company Act of 1940), the Fund is not required to engage in echo voting and the investment adviser will use these Guidelines, and may determine, with respect to the QP Trust, to vote contrary to the positions in the Guidelines, consistent with the Fund's best interest.

### C. Other Procedures That Limit Conflicts of Interest

AM and other entities in the Deutsche Bank organization have adopted a number of policies, procedures and internal controls that are designed to avoid various conflicts of interest, including those that may arise in connection with proxy voting, including:

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*Deutsche Bank Americas Restricted Activities Policy.* This policy provides for, among other things, independence of AM employees from CIB, and information barriers between AM and other affiliates. Specifically, no AM employee may be subject to the supervision or control of any employee of CIB. No AM employee shall have his or her compensation based upon his or her contribution to any business activity within the Bank outside of the business of AM, without the prior approval of Legal or Compliance. Further, no employee of CIB shall have any input into the compensation of a AM employee without the prior approval of Legal or Compliance. Under the information barriers section of this policy, as a general rule, AM employees who are associated with the investment process should have no contact with employees of Deutsche Bank or its affiliates, outside of PCAM, regarding specific clients, business matters, or initiatives. Further, under no circumstances should proxy votes be discussed with any Deutsche Bank employee outside of AM (and should only be discussed on a need-to-know basis within AM).

Other relevant internal policies include the Deutsche Bank Americas Code of Professional Conduct, the Deutsche Bank Americas Confidential and Inside Information Policy, the Deutsche Asset Management Code of Ethics, the Sarbanes-Oxley Senior Officer Code of Ethics, and the Deutsche Bank Group Code of Conduct. The GPVSC expects that these policies, procedures and internal controls will greatly reduce the chance that the GPVSC (or, its members) would be involved in, aware of or influenced by, an actual or apparent conflict of interest.

## V. RECORDKEEPING

At a minimum, the following types of records must be properly maintained and readily accessible in order to evidence compliance with this policy.

AM will maintain a record of each vote cast by AM that includes among other things, company name, meeting date, proposals presented, vote cast and shares voted.

The Proxy Vendor Oversight maintains records for each of the proxy ballots it votes. Specifically, the records include, but are not limited to:

- The proxy statement (and any additional solicitation materials) and relevant portions of annual statements.

- Any additional information considered in the voting process that may be obtained from an issuing company, its agents or proxy research firms.

- Analyst worksheets created for stock option plan and share increase analyses.

- Proxy Edge print-screen of actual vote election.

AM will retain these Policies and Procedures and the Guidelines; will maintain records of client requests for proxy voting information; and will retain any documents the Proxy Vendor Oversight or the GPVSC prepared that were material to making a voting decision or that memorialized the basis for a proxy voting decision.

The GPVSC also will create and maintain appropriate records documenting its compliance with these Policies and Procedures, including records of its deliberations and decisions regarding conflicts of interest and their resolution.

With respect to AM's investment company clients, ISS will create and maintain records of each company's proxy voting record for 12-month periods ended June 30. AM will compile the following information for each matter relating to a portfolio security considered *at any shareholder meeting held during the period covered* by the report and with respect to which the company was entitled to vote:

- The name of the issuer of the portfolio security;

- The exchange ticker symbol of the portfolio security (if symbol is available through reasonably practicable means);

- The Council on Uniform Securities Identification Procedures number for the portfolio security (if the number is available through reasonably practicable means);

- The shareholder meeting date;

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- A brief identification of the matter voted on;
- Whether the matter was proposed by the issuer or by a security holder;
- Whether the company cast its vote on the matter;
- How the company cast its vote (e.g., for or against proposal, or abstain; for or withhold regarding election of directors); and
- Whether the company cast its vote for or against management.

Note: This list is intended to provide guidance only in terms of the records that must be maintained in accordance with this policy. In addition, please note that records must be maintained in accordance with the applicable AM Records Management Policy.

With respect to electronically stored records, properly maintained is defined as complete, authentic (unalterable) usable and backed-up. At a minimum, records should be retained for a period of not less than six years (or longer, if necessary to comply with applicable regulatory requirements), the first three years in an appropriate AM office.

### **VI. THE GPVSC S OVERSIGHT ROLE**

In addition to adopting the Guidelines and making proxy voting decisions on matters referred to it as set forth above, the GPVSC will monitor the proxy voting process by reviewing summary proxy information presented by ISS. The GPVSC will use this review process to determine, among other things, whether any changes should be made to the Guidelines. This review will take place at least quarterly and will be documented in the GPVSC s minutes.

### **Attachment A Global Proxy Voting Guidelines**

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These Guidelines may reflect a voting position that differs from the actual practices of the public company (ies) within the Deutsche Bank organization or of the investment companies for which AM or an affiliate serves as investment adviser or sponsor.

NOTE: Because of the unique structure and regulatory scheme applicable to closed-end investment companies, the voting guidelines (particularly those related to governance issues) generally will be inapplicable to holdings of closed-end investment companies. As a result, determinations on the appropriate voting recommendation for closed-end investment company shares will be made on a case-by-case basis.

**I. Board of Directors and Executives**

**A. Election of Directors**

Routine: AM Policy is to vote for the uncontested election of directors. Votes for a director in an uncontested election will be withheld in cases where a director has shown an inability to perform his/her duties in the best interests of the shareholders.

Proxy contest: In a proxy contest involving election of directors, a case-by-case voting decision will be made based upon analysis of the issues involved and the merits of the incumbent and dissident slates of directors. AM will incorporate the decisions of a third party proxy research vendor, currently, Institutional Shareholder Services (ISS) subject to review by the Proxy Voting Sub-Committee (GPVSC) as set forth in the AM's Proxy Voting Policies and Procedures.

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Rationale: The large majority of corporate directors fulfill their fiduciary obligation and in most cases support for management's nominees is warranted. As the issues relevant to a contested election differ in each instance, those cases must be addressed as they arise.

### **B. Classified Boards of Directors**

AM policy is to vote against proposals to classify the board and for proposals to repeal classified boards and elect directors annually.

Rationale: Directors should be held accountable on an annual basis. By entrenching the incumbent board, a classified board may be used as an anti-takeover device to the detriment of the shareholders in a hostile take-over situation.

### **C. Board and Committee Independence**

AM policy is to vote:

1. For proposals that require that a certain percentage (majority up to 66 2/3%) of members of a board of directors be comprised of independent or unaffiliated directors.
2. For proposals that require all members of a company's compensation, audit, nominating, or other similar committees be comprised of independent or unaffiliated directors.
3. Against shareholder proposals to require the addition of special interest, or constituency, representatives to boards of directors.
4. For separation of the Chairman and CEO positions.
5. Against proposals that require a company to appoint a Chairman who is an independent director.

Rationale: Board independence is a cornerstone of effective governance and accountability. A board that is sufficiently independent from management assures that shareholders' interests are adequately represented. However, the Chairman of the board must have sufficient involvement in and experience with the operations of the company to perform the functions required of that position and lead the company.

No director qualifies as 'independent' unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).

Whether a director is in fact not "independent" will depend on the laws and regulations of the primary market for the security and the exchanges, if any, on which the security trades.

### **D. Liability and Indemnification of Directors**

AM policy is to vote for management proposals to limit directors' liability and to broaden the indemnification of directors, unless broader indemnification or limitations on directors' liability would effect shareholders' interests in pending litigation.

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Rationale: While shareholders want directors and officers to be responsible for their actions, it is not in the best interests of the shareholders for them to be risk averse. If the risk of personal liability is too great, companies may not be able to find capable directors willing to serve. We support expanding coverage only for actions taken in good faith and not for serious violations of fiduciary obligation or negligence.

### **E. Qualifications of Directors**

AM policy is to follow management's recommended vote on either management or shareholder proposals that set retirement ages for directors or require specific levels of stock ownership by directors.

Rationale: As a general rule, the board of directors, and not the shareholders, is most qualified to establish qualification policies.

### **F. Removal of Directors and Filling of Vacancies**

AM policy is to vote against proposals that include provisions that directors may be removed only for cause or proposals that include provisions that only continuing directors may fill board vacancies.

Rationale: Differing state statutes permit removal of directors with or without cause. Removal of directors for cause usually requires proof of self-dealing, fraud or misappropriation of corporate assets, limiting shareholders' ability to remove directors except under extreme circumstances. Removal without cause requires no such showing.

Allowing only incumbent directors to fill vacancies can serve as an anti-takeover device, precluding shareholders from filling the board until the next regular election.

### **G. Proposals to Fix the Size of the Board**

AM policy is to vote:

1. For proposals to fix the size of the board unless: (a) no specific reason for the proposed change is given; or (b) the proposal is part of a package of takeover defenses.
2. Against proposals allowing management to fix the size of the board without shareholder approval.

Rationale: Absent danger of anti-takeover use, companies should be granted a reasonable amount of flexibility in fixing the size of its board.

### **H. Proposals to Restrict Chief Executive Officer's Service on Multiple Boards**

AM policy is to vote For proposals to restrict a Chief Executive Officer from serving on more than three outside boards of directors.

Rationale: Chief Executive Officer must have sufficient time to ensure that shareholders' interests are represented adequately.

Note: A director's service on multiple closed-end fund boards within a fund complex are treated as service on a single Board for the purpose of the proxy voting guidelines.

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**I. Proposals to Restrict Supervisory Board Members Service on Multiple Boards (For FFT Securities)**

AM policy is to vote for proposals to restrict a Supervisory Board Member from serving on more than five supervisory boards.

Rationale: We consider a strong, independent and knowledgeable supervisory board as important counter-balance to executive management to ensure that the interests of shareholders are fully reflected by the company.

Full information should be disclosed in the annual reports and accounts to allow all shareholders to judge the success of the supervisory board controlling their company.

Supervisory Board Member must have sufficient time to ensure that shareholders' interests are represented adequately.

Note: A director's service on multiple closed-end fund boards within a fund complex are treated as service on a single Board for the purpose of the proxy voting guidelines.

**J. Proposals to Establish Audit Committees (For FFT and U.S. Securities)**

AM policy is to vote for proposals that require the establishment of audit committees.

Rationale: The audit committee should deal with accounting and risk management related questions, verifies the independence of the auditor with due regard to possible conflicts of interest. It also should determine the procedure of the audit process.

**II. Capital Structure**

**A. Authorization of Additional Shares (For U.S. Securities)**

AM policy is to vote for proposals to increase the authorization of existing classes of stock that do not exceed a 3:1 ratio of shares authorized to shares outstanding for a large cap company, and do not exceed a 4:1 ratio of shares authorized to shares outstanding for a small-midcap company (companies having a market capitalization under one billion U.S. dollars.).

Rationale: While companies need an adequate number of shares in order to carry on business, increases requested for general financial flexibility must be limited to protect shareholders from their potential use as an anti-takeover device. Requested increases for specifically designated, reasonable business purposes (stock split, merger, etc.) will be considered in light of those purposes and the number of shares required.

**B. Authorization of Blank Check Preferred Stock (For U.S. Securities)**

AM policy is to vote:

1. Against proposals to create blank check preferred stock or to increase the number of authorized shares of blank check preferred stock unless the company expressly states that the stock will not be used for anti-takeover purposes and will not be issued without shareholder approval.
2. For proposals mandating shareholder approval of blank check stock placement.

Rationale: Shareholders should be permitted to monitor the issuance of classes of preferred stock in which the board of directors is given unfettered discretion to set voting, dividend, conversion and other rights for the shares issued.

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**C. Stock Splits/Reverse Stock Splits**

AM policy is to vote for stock splits if a legitimate business purpose is set forth and the split is in the shareholders' best interests. A vote is cast for a reverse stock split only if the number of shares authorized is reduced in the same proportion as the reverse split or if the effective increase in authorized shares (relative to outstanding shares) complies with the proxy guidelines for common stock increases (see, Section II.A, above.)

Rationale: Generally, stock splits do not detrimentally effect shareholders. Reverse stock splits, however, may have the same result as an increase in authorized shares and should be analyzed accordingly.

**D. Dual Class/Supervoting Stock**

AM policy is to vote against proposals to create or authorize additional shares of super-voting stock or stock with unequal voting rights.

Rationale: The one share, one vote principal ensures that no shareholder maintains a voting interest exceeding their equity interest in the company.

**E. Large Block Issuance (For U.S. Securities)**

AM policy is to address large block issuances of stock on a case-by-case basis, incorporating the recommendation of an independent third party proxy research firm (currently ISS) subject to review by the GPVSC as set forth in AM's Proxy Policies and Procedures.

Additionally, AM supports proposals requiring shareholder approval of large block issuances.

Rationale: Stock issuances must be reviewed in light of the business circumstances leading to the request and the potential impact on shareholder value.

**F. Recapitalization into a Single Class of Stock**

AM policy is to vote for recapitalization plans to provide for a single class of common stock, provided the terms are fair, with no class of stock being unduly disadvantaged.

Rationale: Consolidation of multiple classes of stock is a business decision that may be left to the board and/management if there is no adverse effect on shareholders.

**G. Share Repurchases**

AM policy is to vote for share repurchase plans provided all shareholders are able to participate on equal terms.

Rationale: Buybacks are generally considered beneficial to shareholders because they tend to increase returns to the remaining shareholders.

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**H. Reductions in Par Value**

AM policy is to vote for proposals to reduce par value, provided a legitimate business purpose is stated (e.g., the reduction of corporate tax responsibility.)

Rationale: Usually, adjustments to par value are a routine financial decision with no substantial impact on shareholders.

**III. Corporate Governance Issues**

**A. Confidential Voting**

AM policy is to vote for proposals to provide for confidential voting and independent tabulation of voting results and to vote against proposals to repeal such provisions.

Rationale: Confidential voting protects the privacy rights of all shareholders. This is particularly important for employee-shareholders or shareholders with business or other affiliations with the company, who may be vulnerable to coercion or retaliation when opposing management. Confidential voting does not interfere with the ability of corporations to communicate with all shareholders, nor does it prohibit shareholders from making their views known directly to management.

**B. Cumulative Voting (For U.S. Securities)**

AM policy is to vote against shareholder proposals requesting cumulative voting and for management proposals to eliminate it. The protections afforded shareholders by cumulative voting are not necessary when a company has a history of good performance and does not have a concentrated ownership interest. Accordingly, a vote is cast against cumulative voting and for proposals to eliminate it if:

- a) The company has a five year return on investment greater than the relevant industry index,
- b) All directors and executive officers as a group beneficially own less than 10% of the outstanding stock, and
- c) No shareholder (or voting block) beneficially owns 15% or more of the company.

Thus, failure of any one of the three criteria results in a vote for cumulative voting in accordance with the general policy.

Rationale: Cumulative voting is a tool that should be used to ensure that holders of a significant number of shares may have board representation; however, the presence of other safeguards may make their use unnecessary.

**C. Supermajority Voting Requirements**

AM policy is to vote against management proposals to require a supermajority vote to amend the charter or bylaws and to vote for shareholder proposals to modify or rescind existing supermajority requirements.

\*Exception made when company holds a controlling position and seeks to lower threshold to maintain control and/or make changes to corporate by-laws.

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Rationale: Supermajority voting provisions violate the democratic principle that a simple majority should carry the vote. Setting supermajority requirements may make it difficult or impossible for shareholders to remove egregious by-law or charter provisions. Occasionally, a company with a significant insider held position might attempt to lower a supermajority threshold to make it easier for management to approve provisions that may be detrimental to shareholders. In that case, it may not be in the shareholders interests to lower the supermajority provision.

**D. Shareholder Right to Vote**

AM policy is to vote against proposals that restrict the right of shareholders to call special meetings, amend the bylaws, or act by written consent. Policy is to vote for proposals that remove such restrictions.

Rationale: Any reasonable means whereby shareholders can make their views known to management or effect the governance process should be supported.

**IV. Compensation**

Annual Incentive Plans or Bonus Plans are often submitted to shareholders for approval. These plans typically award cash to executives based on company performance. Deutsche Bank believes that the responsibility for executive compensation decisions rest with the board of directors and/or the compensation committee, and its policy is not to second-guess the board's award of cash compensation amounts to executives unless a particular award or series of awards is deemed excessive. If stock options are awarded as part of these bonus or incentive plans, the provisions must meet Deutsche Bank's criteria regarding stock option plans, or similar stock-based incentive compensation schemes, as set forth below.

**A. Establishment of a Remuneration Committee (For FFT Securities)**

AM policy is to vote for proposals that require the establishment of a remuneration committee.

Rationale: Corporations should disclose in each annual report or proxy statement their policies on remuneration. Essential details regarding executive remuneration including share options, long-term incentive plans and bonuses, should be disclosed in the annual report, so that investors can judge whether corporate pay policies and practices meet the standard.

The remuneration committee shall not comprise any board members and should be sensitive to the wider scene on executive pay. It should ensure that performance-based elements of executive pay are designed to align the interests of shareholders.

**B. Executive and Director Stock Option Plans**

AM policy is to vote for stock option plans that meet the following criteria:

- (1) The resulting dilution of existing shares is less than (a) 15 percent of outstanding shares for large capital corporations or (b) 20 percent of outstanding shares for small-mid capital companies (companies having a market capitalization under one billion U.S. dollars.)
  - (2) The transfer of equity resulting from granting options at less than FMV is no greater than 3% of the over-all market capitalization of large capital corporations, or 5% of market cap for small-mid capital companies.
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(3) The plan does not contain express repricing provisions and, in the absence of an express statement that options will not be repriced; the company does not have a history of repricing options.

(4) The plan does not grant options on super-voting stock.

AM will support performance-based option proposals as long as a) they do not mandate that all options granted by the company must be performance based, and b) only certain high-level executives are subject to receive the performance based options.

AM will support proposals to eliminate the payment of outside director pensions.

Rationale: Determining the cost to the company and to shareholders of stock-based incentive plans raises significant issues not encountered with cash-based compensation plans. These include the potential dilution of existing shareholders' voting power, the transfer of equity out of the company resulting from the grant and execution of options at less than FMV and the authority to reprice or replace underwater options. Our stock option plan analysis model seeks to allow reasonable levels of flexibility for a company yet still protect shareholders from the negative impact of excessive stock compensation. Acknowledging that small mid-capital corporations often rely more heavily on stock option plans as their main source of executive compensation and may not be able to compete with their large capital competitors with cash compensation, we provide slightly more flexibility for those companies.

**C. Employee Stock Option/Purchase Plans**

AM policy is to vote for employee stock purchase plans (ESPP's) when the plan complies with Internal Revenue Code 423, allowing non-management employees to purchase stock at 85% of FMV.

AM policy is to vote for employee stock option plans (ESOPs) provided they meet the standards for stock option plans in general. However, when computing dilution and transfer of equity, ESOPs are considered independently from executive and director option plans.

Rationale: ESOPs and ESPPs encourage rank-and-file employees to acquire an ownership stake in the companies they work for and have been shown to promote employee loyalty and improve productivity.

**D. Golden Parachutes**

AM policy is to vote for proposals to require shareholder approval of golden parachutes and for proposals that would limit golden parachutes to no more than three times base compensation. Policy is to vote against more restrictive shareholder proposals to limit golden parachutes.

Rationale: In setting a reasonable limitation, AM considers that an effective parachute should be less attractive than continued employment and that the IRS has opined that amounts greater than three times annual salary, are excessive.

**E. Proposals to Limit Benefits or Executive Compensation**

AM policy is to vote against

1. Proposals to limit benefits, pensions or compensation and
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2. Proposals that request or require disclosure of executive compensation greater than the disclosure required by Securities and Exchange Commission (SEC) regulations.

Rationale: Levels of compensation and benefits are generally considered to be day-to-day operations of the company, and are best left unrestricted by arbitrary limitations proposed by shareholders.

**F. Option Expensing**

AM policy is to support proposals requesting companies to expense stock options.

Rationale: Although companies can choose to expense options voluntarily, the Financial Accounting Standards Board (FASB) does not yet require it, instead allowing companies to disclose the theoretical value of options as a footnote. Because the expensing of stock options lowers earnings, most companies elect not to do so. Given the fact that options have become an integral component of compensation and their exercise results in a transfer of shareholder value, AM agrees that their value should not be ignored and treated as no cost compensation. The expensing of stock options would promote more modest and appropriate use of stock options in executive compensation plans and present a more accurate picture of company operational earnings.

**G. Management board election and motion (For FFT Securities)**

AM policy is to vote against :

the election of board members with positions on either remuneration or audit committees;  
the election of supervisory board members with too many supervisory board mandates;  
*automatic* election of former board members into the supervisory board.

Rationale: Management as an entity, and each of its members, are responsible for all actions of the company, and are - subject to applicable laws and regulations - accountable to the shareholders as a whole for their actions.

Sufficient information should be disclosed in the annual company report and account to allow shareholders to judge the success of the company.

**H. Remuneration (variable pay): (For FFT Securities)**

**Executive remuneration for Management Board**

AM policy is to vote for remuneration for Management Board that is transparent and linked to results.

Rationale: Executive compensation should motivate management and align the interests of management with the shareholders. The focus should be on criteria that prevent excessive remuneration; but enable the company to hire and retain first-class professionals.

Shareholder interests are normally best served when management is remunerated to optimise long-term returns. Criteria should include suitable measurements like return on capital employed or economic value added.



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Interests should generally also be correctly aligned when management own shares in the company even more so if these shares represent a substantial portion of their own wealth.

Its disclosure shall differentiate between fixed pay, variable (performance related) pay and long-term incentives, including stock option plans with valuation ranges as well as pension and any other significant arrangements.

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**Executive remuneration for Supervisory Board**

AM policy is to vote for remuneration for Supervisory Board that is at least 50% in fixed form.

Rationale: It would normally be preferable if performance linked compensation were not based on dividend payments, but linked to suitable result based parameters. Consulting and procurement services should also be published in the company report.

**I. Long-term incentive plans (For FFT Securities)**

AM policy is to vote for long-term incentive plans for members of a management board that reward for above average company performance.

Rationale: Incentive plans will normally be supported if they:

- directly align the interests of members of management boards with those of shareholders;
- establish challenging performance criteria to reward only above average performance;
- measure performance by total shareholder return in relation to the market or a range of comparable companies;
- are long-term in nature and encourage long-term ownership of the shares once exercised through minimum holding periods;
- do not allow a repricing of the exercise price in stock option plans.

**J. Shareholder Proposals Concerning Pay for Superior Performance**

AM policy is to address pay for superior performance proposals on a case-by-case basis, incorporating the recommendation of an independent third party proxy research firm (currently ISS) subject to review by the GPVSC as set forth in AM's Proxy Policies and Procedures.

Rationale: While AM agrees that compensation issues are better left to the discretion of management, they appreciate the need to monitor for excessive compensation practices on a case by case basis. If, after a review of the ISS metrics, AM is comfortable with ISS's applying this calculation and will vote according to their recommendation.

**K. Executive Compensation Advisory**

AM policy is to follow management's recommended vote on shareholder proposals to propose an advisory resolution seeking to ratify the compensation of the company's named executive officers (NEOs) on an annual basis.

Rationale: AM believes that controls exist within senior management and corporate compensation committees, ensuring fair compensation to executives. This might allow shareholders to require approval for all levels of management's compensation.

**V. Anti-Takeover Related Issues**

**A. Shareholder Rights Plans (Poison Pills)**

AM policy is to vote for proposals to require shareholder ratification of poison pills or that request boards to redeem poison pills, and to vote against the adoption of poison pills if they are submitted for shareholder ratification.

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Rationale: Poison pills are the most prevalent form of corporate takeover defenses and can be (and usually are) adopted without shareholder review or consent. The potential cost of poison pills to shareholders during an attempted takeover outweighs the benefits.

### **B. Reincorporation**

AM policy is to examine reincorporation proposals on a case-by-case basis. The voting decision is based on: (1) differences in state law between the existing state of incorporation and the proposed state of incorporation; and (2) differences between the existing and the proposed charter/bylaws/articles of incorporation and their effect on shareholder rights. If changes resulting from the proposed reincorporation violate the corporate governance principles set forth in these guidelines, the reincorporation will be deemed contrary to shareholder's interests and a vote cast against.

Rationale: Reincorporations can be properly analyzed only by looking at the advantages and disadvantages to their shareholders. Care must be taken that anti-takeover protection is not the sole or primary result of a proposed change.

### **C. Fair-Price Proposals**

AM policy is to vote for management fair-price proposals, provided that: (1) the proposal applies only to two-tier offers; (2) the proposal sets an objective fair-price test based on the highest price that the acquirer has paid for a company's shares; (3) the supermajority requirement for bids that fail the fair-price test is no higher than two-thirds of the outstanding shares; (4) the proposal contains no other anti-takeover provisions or provisions that restrict shareholders rights.

A vote is cast for shareholder proposals that would modify or repeal existing fair-price requirements that do not meet these standards.

Rationale: While fair price provisions may be used as anti-takeover devices, if adequate provisions are included, they provide some protection to shareholders who have some say in their application and the ability to reject those protections if desired.

### **D. Exemption from state takeover laws**

AM policy is to vote for shareholder proposals to opt out of state takeover laws and to vote against management proposals requesting to opt out of state takeover laws.

Rationale: Control share statutes, enacted at the state level, may harm long-term share value by entrenching management. They also unfairly deny certain shares their inherent voting rights.

### **E. Non-financial Effects of Takeover Bids**

Policy is to vote against shareholder proposals to require consideration of non-financial effects of merger or acquisition proposals.

Rationale: Non-financial effects may often be subjective and are secondary to AM's stated purpose of acting in its client's best economic interest.

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**VI. Mergers & Acquisitions**

Evaluation of mergers, acquisitions and other special corporate transactions (i.e., takeovers, spin-offs, sales of assets, reorganizations, restructurings and recapitalizations) are performed on a case-by-case basis incorporating information from an independent proxy research source (currently ISS.) Additional resources including portfolio management and research analysts may be considered as set forth in AM's Policies and Procedures.

**VII. Social, Environmental & Political Issues**

Social and environmental issues are becoming increasingly important to corporate success. We incorporate social and environmental considerations into both our investment decisions and our proxy voting decisions particularly if the financial performance of the company could be impacted.

With increasing frequency, shareholder proposals are submitted relating to social and political responsibility issues. Almost universally, the company management will recommend a vote against these proposals. These types of proposals cover an extremely wide range of issues. Many of the issues tend to be controversial and are subject to more than one reasonable, yet opposing, theory of support. More so than with other types of proxy proposals, social and political responsibility issues may not have a connection to the economic and corporate governance principles effecting shareholders' interests. AM's policy regarding social and political responsibility issues, as with any other issue, is designed to protect our client shareholders' economic interests.

Occasionally, a distinction is made between a shareholder proposal requesting direct action on behalf of the board and a request for a report on (or disclosure of) some information. In order to avoid unduly burdening any company with reporting requirements, AM's policy is to vote against shareholder proposals that demand additional disclosure or reporting than is required by the Securities and Exchange Commission unless it appears there is a legitimate issue and the company has not adequately addressed shareholders' concerns.

**A. Labor & Human Rights**

AM policy is to vote against adopting global codes of conduct or workplace standards exceeding those mandated by law.

Rationale: Additional requirements beyond those mandated by law are deemed unnecessary and potentially burdensome to companies

**B. Diversity & Equality**

1. AM policy is to vote against shareholder proposals to force equal employment opportunity, affirmative action or board diversity.  
Rationale: Compliance with State and Federal legislation along with information made available through filings with the EEOC provides sufficient assurance that companies act responsibly and make information public.

2. AM policy is also to vote against proposals to adopt the Mac Bride Principles. The Mac Bride Principles promote fair employment, specifically regarding religious discrimination.  
Rationale: Compliance with the Fair Employment Act of 1989 makes adoption of the Mac Bride Principles redundant. Their adoption could potentially lead to charges of reverse discrimination.

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**C. Health & Safety**

1. AM policy is to vote against adopting a pharmaceutical price restraint policy or reporting pricing policy changes.  
Rationale: Pricing is an integral part of business for pharmaceutical companies and should not be dictated by shareholders (particularly pursuant to an arbitrary formula.) Disclosing pricing policies may also jeopardize a company's competitive position in the marketplace.
2. AM policy is to vote against shareholder proposals to control the use or labeling of and reporting on genetically engineered products.  
Rationale: Additional requirements beyond those mandated by law are deemed unnecessary and potentially burdensome to companies.

**D. Government/Military**

1. AM policy is to vote against shareholder proposals regarding the production or sale of military arms or nuclear or space-based weapons, including proposals seeking to dictate a company's interaction with a particular foreign country or agency.  
Rationale: Generally, management is in a better position to determine what products or industries a company can and should participate in. Regulation of the production or distribution of military supplies is, or should be, a matter of government policy.
2. AM policy is to vote against shareholder proposals regarding political contributions and donations.  
Rationale: The Board of Directors and Management, not shareholders, should evaluate and determine the recipients of any contributions made by the company.
3. AM policy is to vote against shareholder proposals regarding charitable contributions and donations.  
Rationale: The Board of Directors and Management, not shareholders, should evaluate and determine the recipients of any contributions made by the company.

**E. Tobacco**

1. AM policy is to vote against shareholder proposals requesting additional standards or reporting requirements for tobacco companies as well as against requesting companies to report on the intentional manipulation of nicotine content.  
Rationale: Where a tobacco company's actions meet the requirements of legal and industry standards, imposing additional burdens may detrimentally effect a company's ability to compete. The disclosure of nicotine content information could affect the company's rights in any pending or future litigation.
  2. Shareholder requests to spin-off or restructure tobacco businesses will be opposed.  
Rationale: These decisions are more appropriately left to the Board and management, and not to shareholder mandate.
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**VIII. Environmental Issues**

AM policy is to follow management's recommended vote on CERES Principles or other similar environmental mandates (e.g., those relating to Greenhouse gas emissions or the use of nuclear power).

Rationale: Environmental issues are extensively regulated by outside agencies and compliance with additional requirements often involves significant cost to companies.

**IX. Miscellaneous Items**

**A. Ratification of Auditors**

AM policy is to vote for a) the management recommended selection of auditors and b) proposals to require shareholder approval of auditors.

Rationale: Absent evidence that auditors have not performed their duties adequately, support for management's nomination is warranted.

**B. Limitation of non-audit services provided by independent auditor**

AM policy is to support proposals limiting non-audit fees to 50% of the aggregate annual fees earned by the firm retained as a company's independent auditor.

Rationale: In the wake of financial reporting problems and alleged audit failures at a number of companies, AM supports the general principle that companies should retain separate firms for audit and consulting services to avoid potential conflicts of interest. However, given the protections afforded by the recently enacted Sarbanes-Oxley Act of 2002 (which requires Audit Committee pre-approval for non-audit services and prohibits auditors from providing specific types of services), and the fact that some non-audit services are legitimate audit-related services, complete separation of audit and consulting fees may not be warranted. A reasonable limitation is appropriate to help ensure auditor independence and it is reasonable to expect that audit fees exceed non-audit fees.

**C. Audit firm rotation**

AM policy is to support proposals seeking audit firm rotation unless the rotation period sought is less than five years.

Rationale: While the Sarbanes-Oxley Act mandates that the lead audit partner be switched every five years, AM believes that rotation of the actual audit firm would provide an even stronger system of checks and balances on the audit function.

**D. Transaction of Other Business**

AM policy is to vote against transaction of other business proposals.

Rationale: This is a routine item to allow shareholders to raise other issues and discuss them at the meeting. As the nature of these issues may not be disclosed prior to the meeting, we recommend a vote against these proposals. This protects shareholders voting by proxy (and not physically present at a meeting) from having action taken at the meeting that they did not receive proper notification of or sufficient opportunity to consider.

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**E. Motions to Adjourn the Meeting**

AM Policy is to vote against proposals to adjourn the meeting.

Rationale: Management may seek authority to adjourn the meeting if a favorable outcome is not secured. Shareholders should already have had enough information to make a decision. Once votes have been cast, there is no justification for management to continue spending time and money to press shareholders for support.

**F. Bundled Proposals**

AM policy is to vote against bundled proposals if any bundled issue would require a vote against it if proposed individually.

Rationale: Shareholders should not be forced to take the good with the bad in cases where the proposals could reasonably have been submitted separately.

**G. Change of Company Name**

AM policy is to support management on proposals to change the company name.

Rationale: This is generally considered a business decision for a company.

**H. Proposals Related to the Annual Meeting**

AM Policy is to vote in favor of management for proposals related to the conduct of the annual meeting (meeting time, place, etc.)

Rationale: These are considered routine administrative proposals.

**I. Reimbursement of Expenses Incurred from Candidate Nomination**

AM policy is to follow management's recommended vote on shareholder proposals related to the amending of company bylaws to provide for the reimbursement of reasonable expenses incurred in connection with nominating one or more candidates in a contested election of directors to the corporation's board of directors.

Rationale: Corporations should not be liable for costs associated with shareholder proposals for directors.

**J. Investment Company Proxies**

Proxies solicited by investment companies are voted in accordance with the recommendations of an independent third party, currently ISS. However, regarding investment companies for which AM or an affiliate serves as investment adviser or principal underwriter, such proxies are voted in the same proportion as the vote of all other shareholders. Proxies solicited by master funds from feeder funds will be voted in accordance with applicable provisions of Section 12 of the Investment Company Act of 1940.

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Investment companies, particularly closed-end investment companies, are different from traditional operating companies. These differences may call for differences in voting positions on the same matter. For example, AM could vote for staggered boards of closed-end investment companies, although AM generally votes against staggered boards for operating companies. Further, the manner in which AM votes investment company proxies may differ from proposals for which a AM-advised investment company solicits proxies from its shareholders. As reflected in the Guidelines, proxies solicited by closed-end (and open-end) investment companies are voted in accordance with the pre-determined guidelines of an independent third-party.

Subject to participation agreements with certain Exchange Traded Funds ("ETF") issuers that have received exemptive orders from the U.S. Securities and Exchange Commission allowing investing DWS funds to exceed the limits set forth in Section 12(d)(1)(A) and (B) of the Investment Company Act of 1940, DeAM will echo vote proxies for ETFs in which Deutsche Bank holds more than 25% of outstanding voting shares globally when required to do so by participation agreements and SEC orders.

Note: With respect to the QP Trust (not registered under the Investment Company Act of 1940), the Fund is not required to engage in echo voting and the investment adviser will use these Guidelines, and may determine, with respect to the QP Trust, to vote contrary to the positions in the Guidelines, consistent with the Fund's best interest.

### ***K. International Proxy Voting***

The above guidelines pertain to issuers organized in the United States, Canada and Germany. Proxies solicited by other issuers are voted in accordance with international guidelines or the recommendation of ISS and in accordance with applicable law and regulation.

## **ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES**

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The names of the persons primarily responsible for the day-to-day management of the Fund's portfolio and their business experience during at least the past five years are set forth below.

Ralf Oberbanscheidt, Director

Joined Deutsche Asset Management in 1999 and the Fund in 2006.

Prior to that, served as senior portfolio manager for Global Equities and Global Sector head of Telecommunications, after 3 years of experience, including portfolio management at SEB Enskilda, Luxembourg and various positions at Dresdner Bank AG, Germany.

Masters Degree in business administration from the University of Trier, MBA International Business, MIIS Monterey, USA, completed bank training at Dresdner Bank, Duesseldorf.

Robert Kalin, CFA, Director

Joined Deutsche Asset Management in 2002 and the Fund in 2002.

Prior to that, served as fund manager for European emerging markets at Zurich Investment in 2001, as advisor to Zurich Investment from 1998 to 2001, as fund manager at Corus Funds from 1996 to 1997, analyst at Value Line from 1993 to 1995.

Studies of Economics and Computer Science, State University of New York at Plattsburgh.

### **Roles and Responsibilities**

The Fund is managed by a team of investment professionals employed by the Investment Manager and the Investment Advisor, who collaborate to develop and implement the Fund's investment strategy.

The Investment Advisor's portfolio managers make recommendations to the Investment Manager's portfolio managers with respect to the Fund's investments; the Investment Manager's portfolio managers determine which securities are suitable for the Fund's investment. Upon instructions given by the Investment Manager's portfolio managers as to which securities are suitable for investment, the Investment Advisor's portfolio managers transmit purchase and sale orders and select brokers and dealers to execute portfolio transactions on the Fund's behalf.

### **Compensation of Portfolio Managers**

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Portfolio managers are eligible for total compensation comprised of base salary and discretionary incentive compensation.

**Base Salary** Base salary generally represents a smaller percentage of portfolio managers' total compensation than discretionary incentive compensation. Base salary is linked to job function, responsibilities and financial services industry peer comparison through the use of extensive market data surveys.

**Discretionary Incentive Compensation** Generally, discretionary incentive compensation comprises a greater proportion of total compensation as a portfolio manager's seniority and compensation levels increase. Discretionary incentive compensation is determined based on an analysis of a number of factors, including among other things, the performance of Deutsche Bank, the performance of the Asset Management division, and the employee's individual contribution. In evaluating individual contribution, management will consider a combination of quantitative and qualitative factors. A portion of the portfolio manager's discretionary incentive compensation may be delivered in long-term equity programs (usually in the form of Deutsche Bank equity) (the Equity Plan). Top performing portfolio managers may earn discretionary incentive compensation that is a multiple of their base salary.

The quantitative analysis of a portfolio manager's individual performance is based on, among other factors, performance of all of the accounts managed by the portfolio manager (which includes the fund and any other accounts managed by the portfolio manager) over a one-, three-, and five-year period relative to the appropriate Morningstar and Lipper peer group universes and/or benchmark index(es) with respect to each account. Additionally, the portfolio manager's retail/institutional asset mix is weighted, as appropriate for evaluation purposes. Generally the benchmark index used is a benchmark index set forth in the fund's prospectus to which the fund's performance is compared. Additional or different appropriate peer group or benchmark indices may also be used. Primary weight is given to pre-tax portfolio performance over three-year and five-year time periods (adjusted as appropriate if the portfolio manager has served for less than five years) with lesser consideration given to portfolio performance over a one-year period. The increase or decrease in a fund's assets due to the purchase or sale of fund shares is not considered a material factor.

The qualitative analysis of a portfolio manager's individual performance is based on, among other things, the results of an annual management and internal peer review process, and management's assessment of overall portfolio manager contributions to investor relations, the investment process and overall performance (distinct from fund and other account performance). Other factors, including contributions made to the investment team, as well as adherence to Compliance Policies and Procedures, Risk Management procedures, the firm's Code of Ethics and living the values of the Advisor are also factors.

The quantitative analysis of a portfolio manager's performance is given more weight in determining discretionary incentive compensation than the qualitative portion.

Certain portfolio managers may also participate in the Equity Plan. The amount of equity awarded under the long-term equity programs is generally based on the individual's total compensation package and may comprise from 0% to 30% of the total compensation award. As discretionary incentive compensation increases, the percentage of compensation awarded in Deutsche Bank equity also increases. Portfolio managers may receive a portion of their equity compensation in the form of shares in the proprietary mutual funds that they manage or support.

### **Fund Ownership of Portfolio Managers**

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The following table shows the dollar range of shares owned beneficially and of record by each member of the Fund's portfolio management team in the Fund including investments by their immediate family members sharing the same household and amounts invested through retirement and deferred compensation plans. This information is provided as of the Fund's most recent fiscal year end.

| Name of<br>Portfolio Manager | Dollar Range of<br>Fund Shares Owned |
|------------------------------|--------------------------------------|
| Ralf Oberbanscheidt          | \$0                                  |
| Robert Kalin                 | \$0                                  |

### Conflicts of Interest

In addition to managing the assets of the Fund, the Fund's portfolio managers may have responsibility for managing other client accounts of the Advisor or its affiliates. The tables below show, for each portfolio manager, the number and asset size of (1) SEC registered investment companies (or series thereof) other than the Fund, (2) pooled investment vehicles that are not registered investment companies and (3) other accounts (e.g., accounts managed for individuals or organizations) managed by each portfolio manager. Total assets attributed to each portfolio manager in the tables below include total assets of each account managed by them, although the manager may only manage a portion of such account's assets. The tables also show the number of performance based fee accounts, as well as the total assets of the accounts for which the advisory fee is based on the performance of the account. This information is provided as of the Fund's most recent fiscal year end.

### Other SEC Registered Investment Companies Managed:

| Name of Portfolio Manager | Number of<br>Registered<br>Investment<br>Companies | Total Assets of<br>Registered<br>Investment<br>Companies | Number of<br>Investment<br>Company<br>Accounts with<br>Performance<br>Based Fee | Total Assets of<br>Performance- Based<br>Fee Accounts |
|---------------------------|--|--|---|---|
| Ralf Oberbanscheidt       | 3  | \$352,871,303  | -   | \$0   |

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|              |   |     |   |     |
|--------------|---|-----|---|-----|
| Robert Kalin | - | \$0 | - | \$0 |
|--------------|---|-----|---|-----|

**Other Pooled Investment Vehicles Managed:**

| <b>Name of Portfolio Manager</b> | <b>Number of Pooled Investment Vehicles</b> | <b>Total Assets of Pooled Investment Vehicles</b> | <b>Number of Pooled Investment Vehicle Accounts with Performance-Based Fee</b> | <b>Total Assets of Performance- Based Fee Accounts</b> |
|----------------------------------|---|---|--|--|
| Ralf Oberbanscheidt              | 5   | \$1,583,800,266                                   | -  | \$0  |
| Robert Kalin                     | 3   | \$460,054,113                                     | 1  | \$279,103,695  |

**Other Accounts Managed:**

| <b>Name of Portfolio Manager</b> | <b>Number of Other Accounts</b> | <b>Total Assets of Other Accounts</b> | <b>Number of Other Accounts with Performance-Based Fee</b> | <b>Total Assets of Performance- Based Fee Accounts</b> |
|----------------------------------|---------------------------------|---------------------------------------|--|--|
| Ralf Oberbanscheidt              | -                               | \$0                                   | -  | \$0  |
| Robert Kalin                     | -                               | \$0                                   | -  | \$0  |

In addition to the accounts above, an investment professional may manage accounts in a personal capacity that may include holdings that are similar to, or the same as, those of the Funds. The Advisor has in place a Code of Ethics that is designed to address conflicts of interest and that, among other things, imposes restrictions on the ability of portfolio managers and other access persons to invest in securities that may be recommended or traded in the Funds and other client accounts.

Real, potential or apparent conflicts of interest may arise when a portfolio manager has day-to-day portfolio management responsibilities with respect to more than one fund or account, including the following:

Certain investments may be appropriate for the Fund and also for other clients advised by the Advisor, including other client accounts managed by the Fund's portfolio management team. Investment decisions for the Fund and other clients are made with a view to achieving their respective investment objectives and after consideration of such factors as their current holdings, availability of cash for investment and the size of their investments generally. A particular security may be bought or sold for only one client or in different amounts and at different times for more than one but less than all clients. Likewise, because clients of the Advisor may have differing investment strategies, a particular security may be bought for one or more clients when one or more other clients are selling the security. The investment results achieved for the Fund may differ from the results achieved for other clients of the Advisor. In addition, purchases or sales of the same security may be made for two or more clients on the same day. In such event, such transactions will be allocated among the clients in a manner believed by the Advisor to be most equitable to each client, generally utilizing a pro rata allocation methodology. In some cases, the allocation procedure could potentially have an adverse effect or positive effect on the price or amount of the securities purchased or sold by the Fund. Purchase and sale orders for the Fund may be combined with those of other clients of the Advisor in the interest of achieving the most favorable net results to the Fund and the other clients.

To the extent that a portfolio manager has responsibilities for managing multiple client accounts, a portfolio manager will need to divide time and attention among relevant accounts. The Advisor attempts to minimize these conflicts by aligning its portfolio management teams by investment strategy and by employing similar investment models across multiple client accounts.

In some cases, an apparent conflict may arise where the Advisor has an incentive, such as a performance-based fee, in managing one account and not with respect to other accounts it manages. The Advisor will not determine allocations based on whether it receives a performance-based fee from the client. Additionally, the Advisor has in place supervisory oversight processes to periodically monitor performance deviations for accounts with like strategies. The Advisor and its affiliates and the investment team of the Funds may manage other mutual funds and separate accounts on a long-short basis. The simultaneous management of long and short portfolios creates potential conflicts of interest including the risk that short sale activity could adversely affect the market value of the long positions (and vice versa), the risk arising from sequential orders in long and short positions, and the risks associated with receiving opposing orders at the same time. The Advisor has adopted procedures that it believes are reasonably designed to mitigate these potential conflicts of interest. Included in these procedures are specific guidelines developed to ensure fair and equitable treatment for all clients whose accounts are managed by each Fund's portfolio management team. The Advisor and the portfolio management team have established monitoring procedures, a protocol for supervisory reviews, as well as compliance oversight to ensure that potential conflicts of interest relating to this type of activity are properly addressed.

The Advisor is owned by Deutsche Bank AG, a multi-national financial services company. Therefore, the Advisor is affiliated with a variety of entities that provide and/or engage in commercial banking, insurance, brokerage, investment banking, financial advisory, broker-dealer activities (including sales and trading), hedge funds, real estate and private equity investing, in addition to the provision of investment

management services to institutional and individual investors. Since Deutsche Bank AG, its affiliates, directors, officers and employees (the Firm) are engaged in businesses and have interests other than managing asset management accounts, such other activities involve real, potential or apparent conflicts of interest. These interests and activities include potential advisory, transactional and financial activities and other interests in securities and companies that may be directly or indirectly purchased or sold by the Firm for its clients' advisory accounts. These are considerations of which advisory clients should be aware and which may cause conflicts that could be to the disadvantage of the Advisor's advisory clients. The Advisor has instituted business and compliance policies, procedures and disclosures that are designed to identify, monitor and mitigate conflicts of interest and, as appropriate, to report them to the Fund's Board.

**ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS**

| Period | (a)<br>Total Number of Shares Purchased | (b)<br>Average Price Paid per Share | (c)<br>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs |
|--------|---|-------------------------------------|---|
|--------|---|-------------------------------------|---|

|                                  |         |         |     |     |
|----------------------------------|---------|---------|-----|-----|
| November 1 through November 30   | 24,000  | \$60.39 | n/a | n/a |
| December 1 through December 31   | 0       | \$0.0   | n/a | n/a |
| January 1 through January 31     | 0       | \$0.0   | n/a | n/a |
| February 1 through February 28   | 0       | \$0.0   | n/a | n/a |
| March 1 through March 31         | 0       | \$0.0   | n/a | n/a |
| April 1 through April 30         | 0       | \$0.0   | n/a | n/a |
| May 1 through May 31             | 0       | \$0.0   | n/a | n/a |
| June 1 through June 30           | 0       | \$0.0   | n/a | n/a |
| July 1 through July 31           | 0       | \$0.0   | n/a | n/a |
| August 1 through August 31       | 0       | \$0.0   | n/a | n/a |
| September 1 through September 30 | 43,700  | \$33.62 | n/a | n/a |
| October 1 through October 31     | 44,200  | \$21.41 | n/a | n/a |
| Total                            | 111,900 | \$34.54 | 0   | 0   |

**ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Nominating Committee will consider nominee candidates properly submitted by stockholders in accordance with applicable law, the Fund's Articles of Incorporation or By-laws, resolutions of the Board and the qualifications and procedures set forth in the Nominating Committee Charter and this proxy statement. A stockholder or group of stockholders seeking to submit a nominee candidate (i) must have beneficially owned at least 5% of the Fund's common stock for at least two years, (ii) may submit only one nominee candidate for any particular meeting of stockholders, and (iii) may submit a nominee candidate for only an annual meeting or other meeting of stockholders at which directors will be elected. The stockholder or group of stockholders must provide notice of the proposed nominee pursuant to the requirements found in the Fund's By-laws. Generally, this notice must be received not less than 90 days nor more than 120 days prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting. Such notice shall include the specific information required by the Fund's By-laws. The Nominating Committee will evaluate nominee candidates properly submitted by stockholders on the same basis as it considers and evaluates candidates recommended by other sources.

**ITEM 11. CONTROLS AND PROCEDURES**

(a) The Chief Executive and Financial Officers concluded that the Registrant's Disclosure Controls and Procedures are effective based on the evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) There have been no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting.

**ITEM 12. EXHIBITS**

(a)(1) Code of Ethics pursuant to Item 2 of Form N-CSR is filed and attached hereto as EX-99.CODE ETH.

(a)(2) Certification pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) is filed and attached hereto as Exhibit 99.CERT.

(b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) is furnished and attached hereto as Exhibit 99.906CERT.

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Form N-CSR Item F

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Central Europe & Russia Fund, Inc.

DWS Core Fixed Income Fund, a series of DWS Advisor Funds

DWS High Income Plus Fund, a series of DWS Advisor Funds

DWS International Select Equity Fund, a series of DWS Advisor Funds

DWS Short Duration Fund, a series of DWS Advisor Funds

DWS Short-Term Municipal Bond Fund, a series of DWS Advisor Funds

DWS Balanced Fund

DWS Blue Chip Fund

DWS Global High Income Fund, Inc.

DWS Emerging Markets Fixed Income Fund, a series of DWS Global/International Fund, Inc.

DWS Global Bond Fund, a series of DWS Global/International Fund, Inc.

DWS Global Opportunities Fund, a series of DWS Global/International Fund, Inc.

DWS Emerging Markets Equity Fund, a series of DWS International Fund, Inc.

DWS Europe Equity Fund, a series of DWS International Fund, Inc.

DWS Latin America Equity Fund, a series of DWS International Fund, Inc.

DWS Gold & Precious Metals Fund, a series of DWS Mutual Funds, Inc.

DWS Strategic Government Securities Fund

DWS Strategic Income Fund

DWS Technology Fund

By: /s/Michael G. Clark

Michael G. Clark

President

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Date: December 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/Michael G. Clark  
Michael G. Clark  
President

Date: December 29, 2008

By: /s/Paul Schubert  
Paul Schubert  
Chief Financial Officer and Treasurer

Date: December 29, 2008