CENTRAL EUROPE & RUSSIA FUND, INC.
Form N-CSR
January 06, 2009
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.

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

20675

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.[1]

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), Komercni Banka, and Telefonica O2, though we sold the Fund's positions in Central European Media and coal mining company New World Resources.[2]

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.

[1] 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.

[2] "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 Oberbannscheidt 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

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 poi nts 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.[1] Export growth is already well off its peak, and the strong correlation with the German IFO Business Climate Index predicts export contraction.[2] 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 Hu ngarian 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 ban ks 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 for the Fund's most recent performance.

TOTAL RETURNS:

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

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

[b] Return excludes the effect of the $3.25 per share dilution associated with the Fund's rights offering.

[c] Return excludes the effect of the $2.15 per share dilution associated with the Fund's rights offering.

[1] Represents an arithmetic composite consisting of 45% CECE*/45% RTX**/10% ISE National 30***.

[2] 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, 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 slowi ng 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 Ba nk, 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

Name, Address, Age*	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Detlef Bierbaum, 66(1)(2)	Class I Since 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 Kapitalanlagegesellsehaft mbH (investment company). Chairman of the Supervisory Board, Oppenheim Real Estate Investment GmbH. Member of the Board of Dundee REIT, Toronto.
Dr. Kurt W Bock, 50(1)	Class II Since 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, 72(1)(2)	Class II Since 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)

Name, Address, Age*	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Ambassador Richard R. Burt, 61(1)	Class I 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 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 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)

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

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Dr. Frank Trömel, 72(1)	Class III Since 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. Wadsworth, 68(1)(3)	Class II Since 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 Walbröl, 71(1)	Class II Since 1990	Delegate for North American Humboltt Universitat (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)

Name, Address, Age*	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Peter Zühlsdorff, 67(1)	Class II 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 fur Werpapiersparen 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 President and Chief 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 Chief Financial Officer 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 Secretary	Director(3), Deutsche Asset Management
John Millette(5,6), 46 Assistant Secretary	Director(3), Deutsche Asset Management
Rita Rubin(2,7), 38 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 Chief Legal Officer	Director(3), Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999-2005)
Brett Rogers(2,9), 32 Chief Compliance 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 or on the SEC's Web site www.sec.gov. To obtain a written copy of the Fund's policies and procedures without charge, upon request, call us toll free at (800) 437-6269.

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

Shares	Description	Value[(a)]
INVESTMENTS IN RUSSIAN SECURITIES 55.8%		
	COMMON STOCKS 55.1%	
	BUILDING PRODUCTS 0.3%	
5,900	Gornozavodsktsement	$ 1,253,750
	COMMERCIAL BANKS 8.6%	
26,000,000	Sberbank RF	25,805,000
2,000,000	VTB Bank OJSC GDR Reg S	6,300,000
		32,105,000
	CONSTRUCTION MATERIALS 0.3%	
504,000		