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CENTRAL EUROPE & RUSSIA FUND INC
Form N-2
January 09, 2004

(AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 9, 2004)

SECURITIES ACT FILE NO. 333-

INVESTMENT COMPANY ACT FILE NO. 811-06041

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 [X]
PRE-EFFECTIVE AMENDMENT NO. []
POST-EFFECTIVE AMENDMENT NO. []
AND/OR
REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF []
1940 [X]
AMENDMENT NO. 10

THE CENTRAL EUROPE AND RUSSIA FUND, INC.
(Exact Name of Registrant as Specified in its Charter)

345 PARK AVENUE, NEW YORK, NEW YORK 10154
(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (800) 437-6269

BRUCE A. ROSENBLUM, ESQ.
THE CENTRAL EUROPE AND RUSSIA FUND, INC.
C/O DEUTSCHE ASSET MANAGEMENT
1 SOUTH STREET
BAL01-1806
BALTIMORE, MD 21202
(Name and Address of Agent for Service)

COPIES TO:

JOHN T. BOSTELMAN, ESQ
SULLIVAN & CROMWELL LLP
125 BROAD STREET
NEW YORK, NEW YORK 10004

THOMAS A. HALE, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
333 WEST WACKER DRIVE, SUITE 2100
CHICAGO, ILLINOIS 60606

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING: As soon as practicable after the effective date of this Registration Statement. If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following

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box. [X]

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

 CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)
Common Stock, \$.001 par value.....	39,293	\$25.45	1,000,000

(1) Estimated solely for purposes of calculating the registration fee as required by Rule 457(c) under the Securities Act of 1933 based upon the average of the high and low sales prices reported on the New York Stock Exchange consolidated reporting system of \$25.45 on January 8, 2004.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

CROSS REFERENCE SHEET
 THE CENTRAL EUROPE AND RUSSIA FUND, INC.

PARTS A AND B OF REGISTRATION STATEMENT

ITEM NO.	CAPTION	LOCATION IN PROSPECTUS OR STATEMENT OF ADDITIONAL INFORMATION ("SAI")
1.	Outside Front Cover Page.....	Front Cover Page
2.	Cover Pages; Other Offering Information.....	Front Cover Page
3.	Fee Table and Synopsis.....	Fee Table and Prospectus Summary
4.	Financial Highlights.....	Financial Highlights
5.	Plan of Distribution.....	Front Cover Page; Prospectus Summary; Our Rights Offering
6.	Selling Shareholders.....	Not Applicable
7.	Use of Proceeds.....	Use of Proceeds
8.	General Description of the Registrant.....	Front Cover Page; Prospectus Summary; Mar and Net Asset Value Information; Investme
9.	Management.....	Objective and Policies; Risk Factors Our Management; Custodian, Dividend-Payin

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10.	Capital Stock, Long-Term Debt, and Other Securities.....	Agent, Transfer Agent and Registrar Front Cover Page; Market and Net Asset Value Information; Common Stock; Dividends and Distributions; Voluntary Cash Purchase Plan and Dividend Reinvestment Plan; Taxation
11.	Defaults and Arrears on Senior Securities.....	Not Applicable
12.	Legal Proceedings.....	Not Applicable
13.	Table of Contents of the Statement of Additional Information.....	Table of Contents of Statement of Additional Information
14.	Cover Page of SAI.....	Cover Page of SAI
15.	Table of Contents of SAI.....	Cover Page of SAI
16.	General Information and History.....	General Information in SAI
17.	Investment Objective and Policies.....	Investment Objective and Policies in SAI; Investment Restrictions in SAI
18.	Management.....	Management in SAI; Investment Advisory and Other Services in SAI; Brokerage Allocation and Other Services in SAI
19.	Control Persons and Principal Holders of Securities.....	Control Persons and Principal Holders of Securities in SAI
20.	Investment Advisory and Other Services.....	Investment Advisory and Other Services in SAI
21.	Brokerage Allocation and Other Practices.....	Brokerage Allocation and Other Practices in SAI
22.	Tax Status.....	Taxation in Prospectus
23.	Financial Statements.....	Financial Statement in SAI

PART C OF REGISTRATION STATEMENT

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

I

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

PRELIMINARY PROSPECTUS Subject to completion dated January 9, 2004

THE CENTRAL EUROPE AND RUSSIA FUND, INC.
 [] Shares of Common Stock
 Issuable Upon Exercise of Rights to Subscribe for Those Shares

We are issuing to our stockholders of record as of the close of business on _____, 2004 transferable rights entitling the holders of those rights to subscribe for up to an aggregate of _____ shares of our common stock. Stockholders of record will receive one right for each share of common stock held on the record date. These rights entitle the holders to purchase one new share of common stock for every three rights held, and holders who fully exercise their rights will be entitled to subscribe, subject to certain limitations and subject to allotment, for any shares not acquired by the exercise of rights. Our outstanding common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "CEE," as will be the shares offered for subscription in this rights offering. The rights are transferable and application will be made to list the rights for trading on the NYSE under the symbol " _____ " during the course of this rights offering. See "Our

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Rights Offering" on page 14 in this prospectus for a complete discussion of the terms of this rights offering. The subscription price per share will be % of the lower of (i) the average of the last reported sale prices of a share of our common stock on the NYSE on the expiration date of the rights offering and the four preceding business days and (ii) the net asset value per share on the expiration date. THE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON , 2004, UNLESS EXTENDED AS DESCRIBED IN THIS PROSPECTUS.

We announced our intention to conduct this rights offering on January , 2004. The net asset values per share of our common stock at the close of business on January , 2004 and , 2004 were \$ and \$, respectively, and the last reported sale prices of a share of common stock on the NYSE were \$ and \$, respectively, % and % of net asset value, respectively.

As a result of the terms of this rights offering, stockholders who do not fully exercise their rights, upon completion of this rights offering, will own a smaller proportional interest in us than they owned prior to this rights offering. In addition, because the subscription price per share may be less than the then current net asset value per share, the completion of this rights offering may result in an immediate dilution of the net asset value per share for all existing stockholders. Such dilution is not currently determinable because it is not known how many shares will be subscribed for, what the net asset value or market price of our common stock will be on the pricing date for the shares or what the subscription price will be. Such dilution could be substantial. Stockholders will experience a decrease in the net asset value per share held by them, irrespective of whether they exercise all or any portion of their rights. See "Our Rights Offering--Investment Considerations" on page 24 of this prospectus and "Risk Factors and Special Considerations-- Dilution of Net Asset Value" on page 33 of this prospectus.

If you have questions or need further information about this rights offering, please write or call , our information agent for this rights offering, at or 1-800- .

(Continued on page 3)

 NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	A	B
	PER SHARE	TOTAL(1)

Estimated Subscription Price(2)		

Estimated Sales Load(3)		

Proceeds, before expenses, to the Fund(4)		

(Footnotes continued on page 3)

UBS INVESTMENT BANK

 The date of this prospectus is , 2004

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[INSERT MAP OF ALL THE COUNTRIES]

Available information

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

(Continued from front cover page)

We were incorporated in Maryland on February 6, 1990. We are a non-diversified closed-end management investment company that seeks capital appreciation by investing primarily in equity or equity-linked securities of Central European and Russian companies. No assurance can be given that our investment objective will be achieved. DUE TO OUR INVESTMENT OBJECTIVE AND POLICIES, INVESTMENT IN US INVOLVES CERTAIN RISK CONSIDERATIONS, INCLUDING THE RISK OF EXCHANGE-RATE FLUCTUATIONS, WHICH ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN THE UNITED STATES. SEE "RISK FACTORS AND SPECIAL CONSIDERATIONS" ON PAGE 29 OF THIS PROSPECTUS. Our investment manager is Deutsche Bank Securities Inc. and our investment adviser is Deutsche Asset Management International GmbH.

This prospectus sets forth concisely the information that a prospective investor ought to know before investing. Investors are advised to read this prospectus carefully and retain it for future reference. A Statement of Additional Information dated _____, 2004 (the "SAI") containing additional information about us has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. A copy of the SAI, the table of contents of which appears on page 51 of this prospectus, may be obtained without charge upon written or oral request from our information agent at _____ or 1-800-_____.

(Footnotes continued from front cover page)

- (1) Assumes that all rights offered in this rights offering were exercised at the estimated subscription price.
- (2) Estimated on the basis of _____ % of the lower of (i) the average of the last reported sales price of a share of our common stock on the NYSE on _____, 2004 and the four preceding business days and (ii) the net asset value per share of our common stock on _____, 2004.
- (3) UBS Securities LLC will act as dealer manager for this rights offering. We have agreed to pay the dealer manager a fee for its financial services equal to _____ % of the subscription price per share. We have agreed to reimburse the dealer manager up to \$ _____ for its reasonable expenses incurred in connection with this rights offering. These fees will be borne by us and indirectly by all of our stockholders, including those who do not exercise their rights. We and our investment manager have each agreed to indemnify

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the dealer manager or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Our Rights Offering--Distribution Arrangements" on page 21 of this prospectus.

- (4) Before deducting offering expenses payable by us estimated at \$, including an aggregate of up to \$ as partial reimbursement of the dealer manager for their out-of-pocket expenses. See "Our Rights Offering--Distribution Arrangements" on page 21 of this prospectus.

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

Prospectus summary

This is only a summary. This summary may not contain all of the information that you should consider before investing in us. You should review the more detailed information contained in this prospectus and our SAI.

PURPOSE OF OUR RIGHTS OFFERING

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

There is no assurance that this rights offering will be successful or that by increasing our size, our aggregate expenses and, correspondingly, our expense ratio, will be lowered. See "Our Rights Offering--Purpose of Our Rights Offering" on page 14 of this prospectus.

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

IMPORTANT TERMS OF OUR RIGHTS OFFERING

The following are a few of the important terms of our rights offering. For a detailed discussion of the terms of this rights offering, see "Our Rights Offering" on page 14 of this prospectus.

Table with 2 columns: Term and Description. Rows include: Aggregate number of shares of our common stock offered, Number of transferable rights issued to each stockholder, Subscription ratio, and Subscription price.

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average of the last reported sale prices of a share of our common stock on the NYSE on the expiration date of the rights offering and the four preceding business days and (ii) the net asset value per share on the expiration date.

TRANSFERABILITY OF RIGHTS

We are issuing to stockholders on the record date transferable rights to subscribe for additional shares of our common stock. The rights are transferable until the close of business on the last business day prior to the expiration date. Application will be made to list the rights on the NYSE under the symbol " , " subject to notice of issuance. Trading in the rights on the NYSE is expected to be conducted on a when-issued basis from , 2004 until the record date; thereafter, they will trade regular way until the expiration date (including extensions). We will use our best efforts to ensure that an adequate trading market for the rights will exist, although there is no assurance that a market for the rights will develop. Assuming a market exists for the rights, the rights may be purchased and sold through usual brokerage channels or sold through the subscription agent.

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Stockholders on the record date who do not wish to exercise any of the rights issued to them pursuant to this rights offering may instruct the subscription agent to sell any unexercised rights through or to the dealer manager. Subscription certificates representing the rights to be sold through or to the dealer manager must be received by the subscription agent on or before , 2004, (or, if the subscription period is extended, on or before two business days prior to the extended expiration date). Alternatively, the rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the accompanying instructions.

See "Our Rights Offering--Transferability and Sale of Rights" on page 16 of this prospectus.

IMPORTANT DATES TO REMEMBER

Record Date Subscription Period.....	*
Expiration Date and Pricing Date.....	*
Notices for Guarantees of Delivery Due.....	*
Payment for Guarantees of Delivery Due.....	*
Confirmation Mailed to Participants.....	*
Final Payment of Shares.....	*

* Unless this rights offering is extended.

OVER-SUBSCRIPTION PRIVILEGE

Shares not subscribed for during the subscription period will be offered, by means of the over-subscription privilege, only to stockholders on the record date who have exercised all rights issued to them (other than those rights that cannot be exercised because they represent in the aggregate the right to acquire

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less than one share of our common stock). Investors who are not stockholders on the record date, but who otherwise acquire rights to purchase shares of our common stock pursuant to this rights offering, are not entitled to subscribe for any shares of our common stock pursuant to the over-subscription privilege. If these requests for our common shares exceed the common shares available, the available common shares will be allocated pro rata among stockholders who over-subscribed based on the number of rights originally issued to them pursuant to this rights offering. See "Our Rights Offering--Over-Subscription Privilege" on page 15 of this prospectus.

METHOD FOR EXERCISING RIGHTS

Rights are evidenced by subscription certificates that will be mailed to stockholders of record or, if stockholder's shares are held by Cede & Co. or any other depository or nominee, to Cede & Co. or the other depository or nominee. Rights may be exercised by filling in and signing the subscription certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the subscription agent, together with payment at the estimated subscription price for the shares. Rights may also be exercised by contacting your broker, banker or trust company, which can arrange, on your behalf, to guarantee delivery of payment and of a properly completed and executed subscription certificate. A fee may be charged for this service. Completed subscription certificates and payments must be received by the subscription agent prior to 5:00 p.m., New York City time, on the expiration date at the offices of the subscription agent. See "Our Rights Offering--Exercise of Rights" on page 18 of this prospectus and "Our Rights Offering--Payment for Shares" on page 19 of this prospectus.

DISTRIBUTION ARRANGEMENTS

UBS Securities LLC will act as dealer manager for this rights offering. Under the terms and subject to the conditions contained in the dealer manager agreement, the dealer manager will provide financial advisory services and marketing services in connection with this rights offering and will solicit the

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exercise of rights and participation in the over-subscription privilege. We have agreed to pay the dealer manager a fee for its financial advisory, marketing and soliciting services equal to % of the aggregate subscription price for shares issued pursuant to this rights offering. The dealer manager will reallocate a part of their fees to other broker-dealers which have assisted in soliciting the exercise of rights.

Other offering expenses incurred by us in connection with this rights offering are estimated to be \$, which includes up to \$ that may be paid to the dealer manager as reimbursement for its reasonable expenses incurred in connection with this rights offering. For additional information about the distribution arrangements, see "Our Rights Offering--Distribution Arrangements" on page 21 of this prospectus.

INFORMATION AGENT

The Information agent for this rights offering is:

OUR INVESTMENT OBJECTIVE AND POLICIES

We are a non-diversified closed-end management investment company registered under the Investment Company Act. Our investment objective is to seek long-term capital appreciation through investment primarily in equity and equity-linked securities of issuers domiciled in Central Europe and Russia. Under normal

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circumstances, at least 80% of our net assets will be invested in the securities of issuers domiciled in Central Europe or Russia. We may also invest in additional types of securities, such as warrants, if consistent with our investment objective, and participation certificates of issuers in any European country or Russia. For hedging purposes, we may also invest in put and call options on European or Russian securities and indices. We may invest up to 20% of our total assets in fixed income securities of European or Russian issuers. For temporary defensive purposes, we also may invest in money market instruments and lend our portfolio securities to banks, securities dealers and other institutions. Although we do not currently engage in foreign exchange transactions, we may, when our investment manager and our investment adviser deem it advisable, attempt to hedge our foreign currency exposure by entering into forward currency contracts. See "Investment Objective and Policies" on page 25 of this prospectus and page B-2 of the SAI and "Investment Restrictions" on page B-5 of the SAI.

MANAGEMENT

Under our investment advisory agreement, our investment adviser is Deutsche Asset Management International GmbH ("DeAMI"), and under our management agreement, our investment manager is Deutsche Bank Securities Inc. ("DBSI"). Both DeAMI and DBSI are wholly owned direct or indirect subsidiaries of Deutsche Bank AG, a major German banking institution. See "Our Management" on page 37 of this prospectus and "Investment Advisory and Other Services" on page B-17 of the SAI.

MANAGEMENT FEES

We pay our investment manager a management fee, computed weekly and payable monthly, at the annual rate of 0.65% of our average weekly net assets up to \$100 million, and 0.55% of our assets in excess of \$100 million. We pay our investment adviser an advisory fee, computed weekly and payable monthly, at an annual rate of 0.35% of our average weekly net assets up to \$100 million and 0.25% of our assets in excess of \$100 million. See "Our Management" on page 37 of this prospectus and "Investment Advisory and Other Services" on page B-17 of the SAI.

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CUSTODIANS

Investors Bank & Trust Company acts as our custodian. Our custodian has agreements with a global network of sub-custodians. See "Custodians, Dividend-Paying Agent, Transfer Agent and Registrar" on page 50 of this prospectus.

DIVIDEND-PAYING AGENT, TRANSFER AGENT AND REGISTRAR

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

RISK FACTORS AND SPECIAL CONSIDERATIONS

Risk Factors Relating to Foreign Investment Generally. Foreign investments may involve certain considerations and risks not typically associated with those of domestic origin as a result of, among others, 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.

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

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

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

No established secondary markets may exist for many of the emerging market issuer securities in which we invest. This reduced secondary market liquidity may have an adverse effect on market price and our ability to dispose of particular instruments when necessary and may make it more difficult for us to obtain accurate market quotations for purposes of valuing our portfolio and calculating our net asset value.

For a detailed discussion of risk factors and special considerations, see "Risk Factors and Special Considerations" on page 29 of this prospectus.

Risk Factors Relating to Investment in Central Europe. Central European countries are in varying stages of transition towards market-oriented economies based on private and entrepreneurial initiatives, multi-party democracies, pluralism and market economies. These countries experienced the extremely volatile market performance in the past decade, and investing in securities of Central European issuers entails all of the risks of investing in securities of foreign issuers to a heightened degree. In addition, a substantial portion of the economic growth, if any, of Central European countries is attributable to their exporting industries rather than domestic consumption; therefore, the Central European countries are also highly susceptible to economic downturns in Western European countries and the United States, which are substantial consumers of their exported products.

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

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

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

Russia continues to make the transition from a centrally controlled command system to a market-oriented, democratic model of government, but its continued development, and the pace with which it continues to make the transition, remains uncertain. The Russian economy suffers from the lack of an effective banking system and is plagued by a deteriorating infrastructure. Russia's role and its reintegration into the global political economy are also unsettled, and internal regional conflicts continue to exist.

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

There is still no centralized public market for trading Russian securities, despite the number of stock exchanges in Russia, and trading occurs mostly over-the-counter. Corporate governance standards for Russian companies have also proven to be poor, and minority stockholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer-pricing practices. Stockholders of Russian companies also lack many of the protections available to stockholders of Western issuers. Accounting, financial and auditing reporting by Russian companies is also generally of less quality and less reliable compared with Western companies.

Laws and regulations involving foreign investment in Russian enterprises, title to securities and transfer of title are also relatively new and can change quickly and unpredictably. Moreover, Russia's taxation system is frequently subject to change and enforcement is inconsistent at federal, regional and local levels.

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

Net Asset Value Discount. Shares of closed-end investment companies frequently trade at a discount from net asset value. This is a risk separate and distinct from the risk that our net asset value will decrease. We cannot predict whether our common stock will trade at, above or below net asset value.

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Our shares of common stock currently trade at a discount. See "Market and Net Asset Value Information" on page 13 of this prospectus. Stockholders wishing to sell their shares of common stock during this rights offering should be aware that there is greater risk that the discount to net asset value, which may increase during this rights offering, will adversely affect them. This increased risk is because, among other things, the market price per share may reflect anticipated dilution that will result from this rights offering. There can be no assurance that, after the completion of this rights offering, our shares will trade at the same level as our current discount to net asset value.

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

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

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

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

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

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

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

Fee table

SHAREHOLDER TRANSACTION EXPENSES	
Sales Load (as a percentage of offering price) (1).....	%
Dividend Reinvestment and Cash Purchase Plan Fees (2).....	None
ANNUAL EXPENSES (as a percentage of net assets attributable to common shares)	
Advisory and Management Fees (3) (4).....	%
Other Expenses (5).....	%
Total Annual Expenses (4).....	%

- (1) The dealer manager will receive a fee for its financial advisory, marketing and soliciting services equal to % of the aggregate subscription price for shares issued pursuant to this rights offering. We have also agreed to reimburse the dealer manager for out-of-pocket expenses up to an aggregate of \$. These fees will be borne by us and indirectly by all of our stockholders, including those who do not exercise their rights. See "Our Rights Offering--Distribution Arrangements" on page 21 of this prospectus.
- (2) See "Voluntary Cash Purchase Program and Dividend Reinvestment Plan" on page 43 of this prospectus.
- (3) See "Our Management" on page 37 of this prospectus and "Investment Advisory and Other Services" on page B-17 of the SAI for additional information.
- (4) The indicated advisory and management fees and the expense ratio assume that this rights offering is fully subscribed, yielding estimated net proceeds of approximately \$ million. It also assumes that net assets attributable to our common stock will not increase or decrease due to price or currency fluctuation.
- (5) "Other Expenses" have been estimated for the current fiscal year. See "Brokerage Allocation and Other Practices" on page B-18 of the SAI for additional information.

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

EXAMPLE

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

1 YEAR	3 YEARS	5 YEARS	10 YEARS
-----	-----	-----	-----
\$	\$	\$	\$

This example assumes that all dividends and all other distributions are reinvested at net asset value and that the percentage amounts listed under

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Annual Expenses remain the same in the years shown. The example also reflects payment of the % sales load and other expenses incurred in connection with this rights offering. The above tables and the assumption in this example of a 5% annual return are required by SEC regulations applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of our shares. For a more complete description of our costs and expenses, see "Our Management" on page 42 of this prospectus, "Investment Advisory and Other Services" on page B-17 of the SAI and "Brokerage Allocation and Other Practices" on page B-18 of the SAI.

THIS EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES OR RATE OF RETURN AND OUR ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

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Financial highlights

Set forth below and on the next page is selected data for a share of common stock outstanding throughout each of the years indicated. The information below has been audited by PricewaterhouseCoopers LLP ("PwC"), our independent auditors, whose report thereon was unqualified. The information should be read in conjunction with the financial statements and notes contained therein. The unqualified report of PwC for the year ended October 31, 2003 is included in the SAI under "Financial Statements."

	2003	2002	FOR THE YEAR 2001	
<hr/>				
Per share operating performance				
Net asset value:				
Beginning of year.....	\$ 15.93	\$ 13.83	\$ 16.14	\$
Net investment income (loss).....	.21	(.07)	.10	
Net realized and unrealized gain (loss) on investments and foreign currency transactions.....	6.86	2.37	(2.70)	
Increase (decrease) from investment operations.....	7.07	2.30	(2.60)	
Increase resulting from share repurchases.....	.08	.06	.29	
Distributions from net investment income.....	--	(.10)	--	
Distributions from net realized foreign currency gains.....	--	(.13)	--	
Distributions from net realized short-term capital gains...	--	--	--	
Distributions from net realized long-term capital gains....	--	--	--	
Total distributions(1).....	--	(.23)	--	
Dilution in NAV from dividend reinvestment.....	--	(.03)	--	
Net asset value:				
End of year.....	\$ 23.08	\$ 15.93	\$ 13.83	\$
Market value:				
End of year.....	\$ 21.25	\$ 13.25	\$ 10.95	\$ 1
Total investment return for the year:(2)				
Based upon market value.....	60.38%	23.43%	(7.79)%	

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Based upon net asset value.....	44.88%	17.05%	(14.31)%	
Ratio to average net assets:				
Total expenses before custody credits(3).....	1.51%	1.55%	1.66%	
Net investment income (loss).....	1.00%	(.44)%	.63%	
Portfolio turnover.....	43.88%	57.77%	57.83%	
Net assets at end of year (000's omitted).....	\$177,766	\$126,467	\$111,213	\$14
(1) For U.S. tax purposes, total distributions consisted of:				
Ordinary income.....	--	\$ 0.23	--	
Long term capital gains.....	--	--	--	
	-----	-----	-----	-----
	--	\$ 0.23	--	
	-----	-----	-----	-----

- (2) Total investment return based on market value is calculated assuming that shares of our common stock purchased at the closing market price as of the beginning of the year, dividends, capital gains and distributions were reinvested as provided for in our dividend reinvestment plan and then sold at the closing market price per share on the last day of the year. The computation does not reflect any sales or redemptions that investors may incur in purchasing or selling shares of the Fund. The total investment return based on net asset value is similarly computed except that the Fund's net asset value is substituted for the closing market value.
- (3) The custody credits are attributable to interest earned on the U.S. cash balances. The ratios of net investment expenses after custody credits to average net assets are 1.50%, 1.54%, 1.62%, 1.35% and 1.43% for the years ended October 31, 2001, 2000 and 1999 respectively.

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FINANCIAL HIGHLIGHTS

	1998	1997	FOR THE YEAR ENDED OCTOBER 31, 1996	1995	1994
Per share operating performance					
Net asset value:					
Beginning of year.....	\$ 28.00	\$ 24.56	\$ 20.70	\$ 18.65	\$ 16.00
Net investment income (loss).....	.13	.09	.17	.13	.00
Net realized and unrealized gain (loss) on investments and foreign currency transactions.....	(6.18)	5.26	3.93	2.03	1.00
Increase (decrease) from investment operations.....	(6.05)	5.35	4.10	2.16	1.00
Increase resulting from share repurchases.....	.82	.28	.14	.09	.00
Distributions from net investment income.....	(.01)	(.11)	(.13)	(.19)	(.00)
Distributions from net realized foreign currency gains.....	--	--	(.03)	(.01)	--
Distributions from net realized short-term capital gains.....	(1.54)	--	--	--	--
Distributions from net realized long-term capital gains.....	(5.02)	(1.81)	(.22)	--	--
Total distributions.....	(6.57)	(1.92)	(.38)	(.20)	(.00)
Dilution in NAV from dividend reinvestment....	(.46)	(.27)	--	--	--

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Net asset value:					
End of year.....	\$ 15.74	\$ 28.00	\$ 24.56	\$ 20.70	\$ 18.00
Market value:					
End of year.....	\$13.0625	\$ 23.125	\$ 19.625	\$ 16.00	\$ 15.00
Total investment return for the year:(1)					
Based upon market value.....	(22.89)%	28.93%	25.28%	6.37%	(3.00)%
Based upon net asset value.....	(26.09)%	22.41%	20.74%	12.22%	12.00%
Ratio to average net assets:					
Total expenses.....	1.17%	1.10%	1.08%	1.24%	1.10%
Net investment income (loss).....	.56%	.32%	.73%	.68%	1.00%
Portfolio turnover.....	97.48%	68.20%	52.30%	38.89%	32.00%
Net assets at end of year (000's omitted).....	\$173,825	\$325,972	\$289,133	\$247,529	\$226,000

(1) Total investment return based on market value is calculated assuming that shares of our 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 our dividend reinvestment plan and then sold at the closing market price per share on the last day of the year. 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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Market and net asset value information

Our outstanding common stock is, and the shares offered for subscription pursuant to this rights offering will be listed on the NYSE. Our common stock is also listed on the Regulated Market Segment (Geregelter Markt) of the Frankfurt Stock Exchange. Since our commencement of operations in March 1990, our common stock traded in the market at both a premium and a discount to net asset value. Since 1990, our common stock has generally traded at a discount to net asset value. Our officers have not determined the reasons why our common stock has traded at a discount to net asset value, nor can they predict whether our common stock will continue to trade at a discount to net asset value, and if so, the level of such discount. Shares of closed-end investment companies frequently trade at a discount to net asset value.

We announced our intention to conduct this rights offering on January 15, 2004. The net asset values per share of our common stock at the close of business on January 15, 2004 and January 14, 2004, the last business day prior to the date of this prospectus, were \$ 15.74 and \$ 28.00, respectively, and the last reported sale prices of a share of common stock on the NYSE were \$ 15.74 and \$ 28.00, respectively, or 100% and 100% of net asset value, respectively.

The following table sets forth for our common stock for the periods indicated: (i) the per share net asset value corresponding to the high/low market price for each quarter, (ii) the per share high and low market price on the NYSE, (iii) the discount to net asset value of each high/low market price and (iv) the total volume of trading on the NYSE during the period.

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COMMON STOCK	NET ASSET VALUE (1)		MARKET PRICE (2)		DISCOUNT TO NET ASSET VALUE (%)	
	HIGH	LOW	HIGH	LOW	HIGH	LOW

Fiscal Year 2002						
January 31, 2002.....	\$16.03	\$13.83	\$13.25	\$11.00	15.71%	21.11%
April 30, 2002.....	\$17.25	\$14.97	\$14.89	\$12.55	13.68%	19.23%
July 31, 2002.....	\$17.79	\$14.33	\$15.34	\$11.60	12.89%	19.05%
October 31, 2002.....	\$15.93	\$14.21	\$13.25	\$11.67	14.05%	18.94%
Fiscal Year 2003						
January 31, 2003.....	\$17.61	\$16.03	\$15.05	\$13.25	12.54%	17.81%
April 30, 2003.....	\$17.99	\$15.69	\$14.99	\$13.25	13.11%	17.73%
July 31, 2003.....	\$20.32	\$18.13	\$17.61	\$14.99	11.61%	17.87%
October 31, 2003.....	\$25.34	\$20.10	\$23.65	\$17.40	4.37%	14.65%

(1) Based on our computations.

(2) As reported by the NYSE.

(3) As reported by the NYSE.

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Our rights offering

PURPOSE OF OUR RIGHTS OFFERING

Our board of directors has determined that it would be in our best interest and in our stockholders best interest to increase our assets available for investment, thereby permitting us more fully to take advantage of investment opportunities in Central Europe and Russia. In connection with our directors' consideration of this rights offering, our investment manager and investment adviser believe that the outlook for a number of industries and companies in Central Europe and Russia is promising.

This rights offering provides existing stockholders the opportunity to purchase additional shares of our common stock at a price below market price and net asset value (subject to the sales load described in this prospectus). The distribution to stockholders of transferable rights, which may themselves have intrinsic value, also will afford non-participating stockholders the potential of receiving cash payment upon the sale of the rights, receipt of which may be viewed as partial compensation for the dilution of their interests. In addition, our board of directors believes that increasing our assets available for investment should result in a modest lowering of our expenses as a percentage of average net assets because our fixed cost can be spread over a larger asset base. Moreover, our board of directors considered the impact of this rights offering on our net asset value per share. For a discussion of the potential impact of this rights offering on current stockholders, such as dilution, see "Risk Factors and Special Considerations" on page 29 of this prospectus and "--Investment Considerations" below on page 24.

In determining that this rights offering was in our best interest and in the best interest of our stockholders, our board of directors retained UBS

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Securities LLC, the dealer manager in this rights offering, to provide us with financial advisory, marketing and soliciting services relating to this rights offering, including the structure, timing and terms of the rights offering. In addition, our board of directors considered, among other things, using a variable pricing versus fixed pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable rights offering, the effect on us if this rights offering is not fully subscribed and the experience of the dealer manager in conducting rights offerings.

There is no assurance that this rights offering will be successful or that, by increasing our size, our aggregate expenses and, correspondingly, our expense ratio will be lowered.

We may, in the future and at our discretion, choose to make additional rights offerings from time to time for a number of shares and on terms which may or may not be similar to this rights offering. Any such future rights offering will be made in accordance with the Investment Company Act.

For a discussion of certain benefits of this rights offering to our affiliates, see "--Certain Effects of This Rights Offering" below on page 23.

TERMS OF THE OFFER

We are issuing to stockholders on the record date transferable rights to subscribe for an aggregate of _____ shares of our common stock. Stockholders of record will receive one right for each share of our common stock held on the record date. Each stockholder on the record date, or each rights holder, will be entitled to acquire at the subscription price one share of our common stock for every three rights held. Fractional shares of our common stock will not be issued upon the exercise of rights; accordingly, rights may be exercised only in integral multiples of three, except that any stockholder on the record date who is issued fewer than three rights may subscribe, at the subscription price, for one full share of our common stock. Rights may be exercised at any time during the subscription period,

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OUR RIGHTS OFFERING

which commences on _____, 2004 and ends on the expiration date, which is 5:00 p.m., New York City time, on _____, 2004. We may extend the expiration date until 5:00 p.m., New York City time, to a date not later than _____, 2004. See "--Expiration of This Rights Offering" below on page 18. Shares of our common stock not subscribed for during the subscription period will be offered, by means of the over-subscription privilege, to our stockholders on the record date who fully exercise the rights issued to them pursuant to this rights offering (other than those rights that cannot be exercised because they represent in the aggregate the right to acquire less than one share of our common stock) and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the exercise of their rights, subject to certain limitations and subject to allotment. Investors who are not stockholders on the record date, but who otherwise acquire rights to purchase shares of our common stock pursuant to this rights offering, are not entitled to subscribe for any shares of our common stock pursuant to the over-subscription privilege. See "--Over-Subscription Privilege" below on page 15.

For purposes of determining the maximum number of shares of our common stock a stockholder may acquire pursuant to this rights offering, broker-dealers whose shares are held of record by Cede & Co., the nominee for the Depository Trust Company ("DTC"), or by any other depository or nominee will be deemed to be the

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holders of the rights that are held by Cede & Co. or such other depository or nominee on their behalf.

The rights are transferable and application will be made to list them for trading on the NYSE under the symbol " . " See "--Transferability and Sale of Rights" below on page 16.

Rights may be exercised by completing a subscription certificate and delivering it, together with payment at the estimated subscription price, to the subscription agent. A rights holder will have no right to rescind a purchase after the subscription agent has received a completed subscription certificate together with payment for the shares offered pursuant to this rights offering. Rights holders who exercise the rights will not know at the time of exercise the subscription price of the shares being acquired and will be required initially to pay for both the shares subscribed for during the subscription period and, if eligible, any additional shares subscribed for pursuant to the over-subscription privilege at the estimated subscription price of \$ per share. For a discussion of the method by which rights may be exercised and shares paid for, see "--Exercise of Rights" below on page 18 and "--Payment for Shares" below on page 19.

There is no minimum number of rights which must be exercised in order for this rights offering to close.

OVER-SUBSCRIPTION PRIVILEGE

Shares not subscribed for during the subscription period will be offered, by means of the over-subscription privilege, only to stockholders on the record date who have exercised all rights issued to them (other than those rights that cannot be exercised because they represent in the aggregate the right to acquire less than one share of our common stock) and who wish to acquire more than the number of our shares of our common stock for which the rights issued to them are exercisable. Investors who are not stockholders on the record date, but who otherwise acquire rights to purchase shares of our common stock pursuant to this rights offering, are not entitled to subscribe for any shares of our common stock pursuant to the over-subscription privilege.

Stockholders on the record date who are fully exercising their rights during the subscription period should indicate, on the subscription certificate which they submit with respect to the exercise of the rights issued to them, how many shares they are willing to acquire pursuant to the over-subscription privilege.

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OUR RIGHTS OFFERING

All over-subscriptions will be honored in full to the extent that our shares of common stock not subscribed for during the subscription period are available. If there are insufficient shares of our common stock to honor all over-subscriptions, the available shares of our common stock will be allocated pro rata among those who over-subscribe based solely on the number of rights initially issued to them pursuant to this rights offering, so that the number of shares of our common stock issued to stockholders who subscribe pursuant to the over-subscription privilege will generally be in proportion to the number of shares of our common stock owned by them on the record date. The allocation process may involve a series of allocations in order to assure that the total number of shares of common stock available for over-subscriptions is distributed on a pro rata basis.

We will not offer or sell any shares of our common stock which are not

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subscribed for during the subscription period or pursuant to the over-subscription privilege.

TRANSFERABILITY AND SALE OF RIGHTS

The rights are transferable until the close of business on the last business day prior to the expiration date, which is _____, 2004, unless we extend the expiration date, until 5:00 p.m., New York City time, to a date not later than _____, 2004. Application will be made to list the rights on the NYSE under the symbol " _____," subject to notice of issuance. Trading in the rights on the NYSE is expected to be conducted on a when-issued basis from _____, 2004 until the record date; thereafter, they will trade regular way until the expiration date (including extensions). Stockholders are encouraged to contact their broker, bank or financial adviser for more information about trading the rights. We will use our best efforts to ensure that an adequate trading market for the rights will exist, although there is no assurance that a market for the rights will develop. Assuming a market exist for the rights, the rights may be purchased and sold through usual brokerage channels or sold through the subscription agent.

Sales through Subscription Agent and Dealer Manager. Stockholders on the record date who do not wish to exercise any of the rights issued to them pursuant to this rights offering may instruct the subscription agent to sell any unexercised rights through or to the dealer manager. Subscription certificates representing the rights to be sold through or to the dealer manager must be received by the subscription agent on or before _____, 2004, (or, if the subscription period is extended, on or before two business days prior to the extended expiration date). Upon the timely receipt by the subscription agent of appropriate instructions to sell rights, the subscription agent will ask the dealer manager either to purchase or to use its best efforts to complete the sale, and the subscription agent will remit the proceeds of the sale to the selling stockholder. If the rights are sold, sales of those rights will be deemed to have been effected at the weighted average price received by the dealer manager on the day those rights are sold. The sale price of any rights sold to the dealer manager will be based upon the then current market price for the rights. The dealer manager will also attempt to sell all rights which remain unclaimed as a result of subscription certificates being returned by the postal authorities to the subscription agent as undeliverable as of the fourth business day prior to the expiration date (or, if the subscription period is extended, as of the fourth business day prior to the extended expiration date). The subscription agent will hold the proceeds from those sales for the benefit of those nonclaiming stockholders until the proceeds are either claimed or escheat. There can be no assurance that the dealer manager will purchase or be able to complete the sale of any of those rights and neither we nor the dealer manager have guaranteed any minimum sales price for the rights. If a stockholder does not utilize the services of the subscription agent and chooses to use another broker-dealer or other financial institution to sell rights issued to them pursuant to this rights offering, then the other broker-dealer or financial institution may charge a fee to sell the rights.

Other Transfers. The rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the accompanying instructions. A

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OUR RIGHTS OFFERING

portion of the rights evidenced by a single subscription certificate (but not fractional rights) may be transferred by delivering to the subscription agent a

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subscription certificate properly endorsed for transfer, with instructions to register such portion of the rights evidenced thereby in the name of the transferee and to issue a new subscription certificate to the transferee evidencing the transferred rights. If this occurs, a new subscription certificate evidencing the balance of the rights, if any, will be issued to the stockholder or, if the stockholder so instructs, to an additional transferee. The signature on the subscription certificate must correspond with the name as written upon the face of the subscription certificate in every particular, without alteration or enlargement, or any change. A signature guarantee must be provided by an eligible financial institution as defined in Rule 17Ad-15 of the Exchange Act, subject to the standards and procedures we adopt.

Stockholders wishing to transfer all or a portion of their rights should allow at least five business days prior to the expiration date for: (i) the transfer instructions to be received and processed by the subscription agent; (ii) a new subscription certificate to be issued and transmitted to the transferee or transferees with respect to transferred rights, and to the transferor with respect to retained rights, if any; and (iii) the rights evidenced by the new subscription certificate to be exercised or sold by the recipients of the subscription certificate. Neither we nor the subscription agent nor the dealer manager shall have any liability to a transferee or transferor of rights if subscription certificates are not received in time for exercise or sale prior to the expiration date.

Except for the fees charged by the subscription agent and dealer manager (which we will pay), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred or charged in connection with the purchase, sale or exercise of rights will be for the account of the transferor of the rights, and none of these commissions, fees or expenses will be paid by us, the subscription agent or the dealer manager.

We anticipate that the rights will be eligible for transfer through, and that the exercise of the primary subscription (but not the over-subscription privilege) may be effected through, the facilities of DTC. Rights exercised through DTC are referred to as "DTC exercised rights." Holders of DTC exercised rights may exercise the over-subscription privilege by properly executing and delivering to the subscription agent, at or prior to 5:00 p.m., New York City time, on the expiration date, a Nominee Holder Over-Subscription Exercise Form or a substantially similar form satisfactory to the subscription agent, together with payment of the subscription price for the number of shares for which the over-subscription privilege is to be exercised.

THE SUBSCRIPTION PRICE

The subscription price per share of our common stock will be % of the lower of (i) the average of the last reported sale prices of a share of our common stock on the NYSE on the pricing date and the preceding four business days and (ii) the net asset value per share as of the close of business on the pricing date. For example, if the average of the last reported sale prices on the NYSE on the pricing date and the preceding four business days of a share of our common stock is \$ and the net asset value per share of our common stock on the pricing date is \$, the subscription price would be \$ (% of \$). If, however, the five-day average of the last reported sale prices on the NYSE on the pricing date is \$, and the net asset value per share of our common stock on such date is \$, the subscription price would be \$ (% of \$). Since both the expiration date of the subscription period and the pricing date will be , 2004 (unless we extend the subscription period), rights holders will not know the subscription price at the time of exercise and will be required initially to pay for both the shares subscribed for on primary subscription and, if eligible, any additional shares subscribed for pursuant to the over-subscription privilege at the estimated subscription price of \$ per

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share. See "Payment for Shares" below. Rights holders who exercise their rights will have no right to rescind a purchase after receipt of their

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OUR RIGHTS OFFERING

completed subscription certificates together with payment for shares by the subscription agent. We do not have the right to withdraw the rights or cancel this rights offering after the rights have been distributed.

We announced our intention to conduct this rights offering on January , 2004. The net asset values per share of our common stock at the close of business on January , 2004 and on , 2004, the last business day prior to the date of this prospectus, were \$ and \$, respectively, and the last reported sale prices of a share of our common stock on the NYSE on such dates were \$ and \$, respectively, equivalent to % and % of net asset value, respectively. See "Market and Net Asset Value Information" on page 13 of this prospectus.

EXPIRATION OF THIS RIGHTS OFFERING

The offer will expire at 5:00 p.m., New York City time, on , 2004 unless we extend the expiration date until 5:00 p.m., New York City time, to a date not later than , 2004. Rights will expire on the expiration date and may not be exercised after this date.

SUBSCRIPTION AGENT

The subscription agent for this rights offering is , which will receive for its administrative, processing, invoicing and other services as subscription agent a fee estimated to be approximately \$, including reimbursement for all out-of-pocket expenses related to his rights offering. Questions regarding the subscription certificates should be directed to , our information agent at 1-800- ; stockholders may also consult their brokers or nominees. SIGNED SUBSCRIPTION CERTIFICATES SHOULD BE SENT, TOGETHER WITH PAYMENT OF THE ESTIMATED SUBSCRIPTION PRICE, TO , ATTENTION: , by one of the methods described below:

(1) BY MAIL:

(2) BY HAND, EXPRESS MAIL OR
OVERNIGHT COURIER:

WE WILL HONOR ONLY SUBSCRIPTION CERTIFICATES RECEIVED BY THE SUBSCRIPTION AGENT ON OR PRIOR TO THE EXPIRATION DATE AT ONE OF THE ADDRESSES LISTED ABOVE. DELIVERY TO AN ADDRESS OTHER THAN THOSE LISTED ABOVE WILL NOT CONSTITUTE GOOD DELIVERY.

EXERCISE OF RIGHTS

Rights are evidenced by subscription certificates that will be mailed to stockholders of record or, if stockholder's shares are held by Cede & Co. or any other depository or nominee, to Cede & Co. or the other depository or nominee. Rights may be exercised by filling in and signing the subscription certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the subscription agent, together with payment at the estimated subscription price for the shares as described below under "--Payment for Shares" on page 19 of this prospectus. Rights may also be

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exercised by contacting your broker, banker or trust company, which can arrange, on your behalf, to guarantee delivery of payment and of a properly completed and executed subscription certificate. A fee may be charged for this service. Completed subscription certificates and payments must be received by the subscription agent prior to 5:00 p.m., New York City time, on the expiration date at the offices of the subscription agent at the addresses set forth above under "Subscription Agent."

Stockholders Who Are Record Owners. Stockholders who are record owners can choose between either option set forth below on page 19 under "--Payment for Shares." If time is of the essence, option (2) will permit delivery of the subscription certificate and payment after the expiration date.

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OUR RIGHTS OFFERING

Investors Whose Shares Are Held By A Nominee. Stockholders whose shares are held by a nominee, such as a broker or trustee, must contact that nominee to exercise their rights. In that case, the nominee will complete the subscription certificate on behalf of the investor and arrange for proper payment by one of the methods set forth below under "--Payment for Shares."

Nominees. Nominees, such as brokers, trustees or depositories for securities, who hold shares of our common stock for the account of others should notify the respective beneficial owners of such shares as soon as possible to ascertain those beneficial owners' intentions and to obtain instructions with respect to the rights. If the beneficial owner so instructs, the nominee should complete the subscription certificate and submit it to the subscription agent with the proper payment as described below on page 19 of this prospectus under "--Payment for Shares."

Banks, brokers, trustees and other nominee holders of rights will be required to certify to the subscription agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner on the record date, as to the aggregate number of rights exercised during the subscription period and the number of shares subscribed for pursuant to the over-subscription privilege by the beneficial owner and that the beneficial owner exercised all the rights issued to them pursuant to this rights offering. Nominee-Holder Over-Subscription Exercise Forms and Beneficial Owner Certification Forms will be distributed to banks, brokers, trustees and other nominees with the subscription certificates.

INFORMATION AGENT

Any questions or requests for assistance may be directed to the information agent at its telephone number and address listed below:

The information agent for this rights offering is:

Stockholders may also contact their brokers or nominees for information with respect to this rights offering.

The information agent will receive a fee estimated to be approximately \$ _____, plus reimbursement for all out-of-pocket expenses related to this rights offering.

PAYMENT FOR SHARES

Rights holders who wish to acquire shares of our common stock pursuant to this

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rights offering or, if eligible, pursuant to the over-subscription privilege may choose between the following methods of payment:

- (1) A rights holder can send the subscription certificate together with payment for the shares of our common stock subscribed for during the subscription period and, if eligible, for any additional shares subscribed for pursuant to the over-subscription privilege to the subscription agent based upon an estimated subscription price of \$ _____ per share. Subscription will be accepted when payment, together with the executed subscription certificate, is received by the subscription agent at one of the addresses set forth above; the payment and subscription certificate must be received by the subscription agent no later than 5:00 p.m., New York City time, on the expiration date. The subscription agent will deposit all checks received by it for the purchase of shares into a segregated interest-bearing account of ours (the interest from which will belong to us) pending proration and distribution of shares of our common stock. A payment pursuant to this method must be in U.S. dollars by money order or check drawn on a bank located in the United States, must be payable to THE CENTRAL EUROPE AND RUSSIA FUND, INC. and must accompany an executed exercise form for such exercise form to be accepted.

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- (2) Alternatively, a subscription will be accepted by the subscription agent if, prior to 5:00 p.m., New York City time, on the expiration date, the subscription agent has received a notice of guaranteed delivery by facsimile (teletype) or otherwise from a bank, a trust company or NYSE member guaranteeing delivery of (i) payment of the full subscription price for the shares of our common stock subscribed for during the subscription period and, if eligible, any additional shares subscribed for pursuant to the over-subscription privilege, and (ii) a properly completed and executed subscription certificate. The subscription agent will not honor a notice of guaranteed delivery unless a properly completed and executed subscription certificate and full payment for the shares of our common stock are received by the subscription agent by the close of business on the fifth business day after the expiration date.

On the confirmation date, which will be seven business days following the pricing date, a confirmation will be sent by the subscription agent to each rights holder exercising their rights (or, if shares of our common stock are held by Cede & Co. or any other depository or nominee, to Cede & Co. and that other depository or nominee), showing (i) the number of shares of our common stock acquired during the subscription period, (ii) the number of shares, if any, acquired pursuant to the over-subscription privilege, (iii) the per share and total purchase price for the shares and (iv) any additional amount payable to us by the rights holder or any excess to be refunded by us to the rights holder, in each case based on the subscription price as determined on the pricing date. If any rights holder, if eligible, exercises his right to acquire shares of our common stock pursuant to the over-subscription privilege, any excess payment which would otherwise be refunded to him will be applied by us toward payment for shares acquired pursuant to exercise of the over-subscription privilege. Any additional payment required from a rights holder must be received by the subscription agent within ten business days after the confirmation date. Any excess payment to be refunded by us to a rights holder will be mailed by the subscription agent to him as promptly as practicable. All payments by a rights holder must be in U.S. dollars by money order or check drawn on a bank located in the United States and payable to THE CENTRAL EUROPE AND RUSSIA FUND, INC.

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Whichever of the two methods described above is used, issuance and delivery of certificates for the shares of our common stock purchased are subject to collection of checks and actual payment.

A RIGHTS HOLDER WHO HAS EXERCISED THEIR RIGHTS WILL HAVE NO RIGHT TO RESCIND THEIR SUBSCRIPTION AFTER RECEIPT OF THE COMPLETED SUBSCRIPTION CERTIFICATE TOGETHER WITH PAYMENT FOR SHARES BY THE SUBSCRIPTION AGENT.

If a rights holder who acquires shares of our common stock during the subscription period or pursuant to the over-subscription privilege does not make payment of any additional amounts due, we reserve the right to take any or all of the following actions: (i) find other stockholders for the subscribed and unpaid for shares; (ii) apply any payment actually received by us toward the purchase of the greatest whole number of shares which could be acquired by the rights holder upon exercise of his rights acquired during the subscription period or pursuant to the over-subscription privilege; or (iii) exercise any and all other rights or remedies to which we may be entitled, including, without limitation, the right to set-off against payments actually received by us with respect to the subscribed shares.

The method of delivery of subscription certificates and payment of the subscription price to the subscription agent will be at the election and risk of the stockholders, but if sent by mail it is recommended that such forms and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent and clearance of payment prior to 5:00 p.m., New York City time, on the expiration date. Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of certified or cashier's check or money order.

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All questions concerning the timeliness, validity, form and eligibility of any exercise of rights will be determined by us, which determinations will be final and binding. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right. Subscriptions will not be deemed to have been received or accepted until substantially all irregularities have been waived or cured within such time as we determine in our sole discretion. We will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

NOTICE OF NET ASSET VALUE DECLINE

We have, pursuant to the SEC's regulatory requirements, undertaken to suspend this rights offering until we amend this prospectus if subsequent to , 2004, the effective date of our registration statement, our net asset value declines more than 10% from our net asset value as of that date. In that event, we will notify stockholders on the record date of any such decline and permit them to cancel their exercise of rights.

DELIVERY OF STOCK CERTIFICATES

Participants in our dividend reinvestment plan will have any shares of our common stock acquired pursuant to this rights offering credited to their stockholder dividend reinvestment accounts in the plan. Stockholders whose shares are held of record by Cede & Co. or by any other depository or nominee on

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their behalf or their broker-dealers' behalf will have any shares acquired during the subscription period credited to the account of Cede & Co. or other depository or nominee. Shares acquired pursuant to the over-subscription privilege will be certificated and stock certificates representing these shares will be sent directly to Cede & Co. or other depository or nominee. Stock certificates will not be issued for shares credited to plan accounts for participants in our dividend reinvestment plan. With respect to all other stockholders, stock certificates for all shares acquired pursuant to this rights offering will be mailed promptly after payment for the shares subscribed for has cleared.

DISTRIBUTION ARRANGEMENTS

UBS Securities LLC, 299 Park Avenue, New York, New York 10171, who is a broker-dealer and member of the National Association of Securities Dealers, Inc. will act as dealer manager for this rights offering. Under the terms and subject to the conditions contained in the dealer manager agreement dated the same date as this prospectus, the dealer manager will provide financial advisory services and marketing services in connection with this rights offering and will solicit the exercise of rights and participation in the over-subscription privilege. This rights offering is not contingent upon any number of rights being exercised. We have agreed to pay the dealer manager a fee for its financial advisory, marketing and soliciting services equal to % of the aggregate subscription price for shares issued pursuant to this rights offering.

The dealer manager will reallow to broker-dealers included in the selling group to be formed and managed by the dealer manager selling fees equal to % of the subscription price per share for each share issued pursuant to this rights offering as a result of their selling efforts. In addition, the dealer manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of rights, solicitation fees equal to % of the subscription price per share for each share issued pursuant to the exercise of rights as a result of their soliciting efforts, subject to a maximum fee based on the number of shares held by each broker-dealer through DTC on the record date. Fees will be paid to the broker-dealer designated on the applicable portion of the subscription certificates or, in the absence of such designation, to the dealer manager.

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OUR RIGHTS OFFERING

In addition, we have agreed to reimburse the dealer manager up to \$ for its reasonable expenses incurred in connection with this rights offering. We and our investment manager have each agreed to indemnify UBS Securities LLC or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act. The dealer manager agreement also provides that the dealer manager will not be subject to any liability to us in rendering the services contemplated by the dealer manager agreement except for any act of bad faith, willful misconduct, or gross negligence of the dealer manager or reckless disregard by the dealer manager of its obligations and duties under the dealer manager agreement.

Prior to the expiration of this rights offering, the dealer manager may independently offer for sale shares of our common stock, including shares acquired through purchasing and exercising the rights, at prices it sets. The dealer manager may realize profits or losses independent of any fees described in this prospectus.

We have agreed not to offer or sell, or enter into any agreement to sell, any

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equity or equity related securities of ours or securities convertible into equity or equity related securities for a period of 180 days after the date of the dealer manager agreement without the prior consent of the dealer manager, except for the shares of our common stock issued in reinvestment of dividends or distributions.

FOREIGN RESTRICTIONS

Subscription certificates will not be mailed to stockholders whose record addresses are outside the United States, which includes the District of Columbia, and the territories and possessions of the United States. These stockholders will receive written notice of this rights offering. The rights to which these subscription certificates relate will be held by the subscription agent for these stockholders' accounts until instructions are received to exercise the rights. If no instructions have been received by 5:00 p.m., New York City time on _____, 2004, three business days prior to the expiration date (or, if the subscription period is extended, on or before three business days prior to the extended expiration date), the rights of these stockholders will be transferred by the subscription agent to the dealer manager who will either purchase the rights or use its best efforts to sell the rights. The net proceeds, if any, from sale of those rights by or to the dealer manager will be remitted to these stockholders.

FEDERAL INCOME TAX CONSEQUENCES

The following summary of the material United States federal income tax consequences of the issuance and exercise transfer or lapse of the rights does not discuss all aspects of federal income taxation that may be relevant to a particular stockholder, and stockholders should consult their own tax advisors regarding the tax consequences, including state, local and foreign tax consequences, relevant to their particular circumstances.

- (1) The value of a right will not be includible in the income of a stockholder at the time the right is issued.
- (2) The basis of a right issued to a stockholder will be zero, and the basis of the share with respect to which the right was issued (the old share) will remain unchanged, unless either (a) the fair market value of the right on the date of distribution is at least 15% of the fair market value of the old share, or (b) the stockholder affirmatively elects (in the manner set out in Treasury Regulations under the Internal Revenue Code of 1986, as amended (the "Code")) to allocate to the right a portion of the basis of the old share. If either (a) or (b) applies, the stockholder must allocate basis between the old share and the right in proportion to their fair market values on the date of distribution.

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OUR RIGHTS OFFERING

- (3) The basis of a right purchased in the market will generally be its purchase price.
- (4) The holding period of a right issued to a stockholder will include the holding period of the old share.
- (5) No loss will be recognized by a stockholder if a right distributed to the stockholder expires unexercised because the basis of the old share may be allocated to a right only if the right is exercised. If a right that has been purchased in the market expires unexercised, there will be a recognized

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loss equal to the basis of the right.

- (6) Any gain or loss on the sale of a right will be a capital gain or loss if the right is held as a capital asset (which in the case of rights issued to stockholders will depend on whether the old share is held as a capital asset), and will be a long-term capital gain or loss if the holding period exceeds one year.
- (7) No gain or loss will be recognized by a stockholder upon the exercise of a right, and the basis of any share acquired upon exercise (the new share) will equal the sum of the basis, if any, of the right and the subscription price for the new share. The holding period for the new share will begin with the date on which the right is exercised.

EMPLOYEE PLAN CONSIDERATIONS

Stockholders who are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (including corporate savings and 401(k) plans), Keogh or H.R. 10 plans of self-employed individuals and individual retirement accounts should be aware that additional contributions of cash to the employee retirement plan (other than rollover contributions or trustee-to-trustee transfers from other employee retirement plans) in order to exercise rights would be treated as contributions to the employee retirement plan and, when taken together with contributions previously made, may result in, among other things, excise taxes for excess or nondeductible contributions. In the case of employee retirement plan qualified under Section 401(a) of the Code and certain other employee retirement plans, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. In addition, there may be other adverse tax and ERISA consequences if rights are sold or transferred by an employee retirement plan.

Employee retirement plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of rights, they may become subject to the tax on unrelated business taxable income ("UBTI") under Section 511 of the Code. If any portion of an individual retirement account ("IRA") is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules that may affect the exercise of rights. Due to the complexity of these rules and the penalties for noncompliance, employee retirement plans should consult with their counsel and other advisers regarding the consequences of their exercise of rights under ERISA and the Code.

CERTAIN EFFECTS OF THIS RIGHTS OFFERING

Our investment manager and investment adviser will benefit from this rights offering because the investment management fee and the investment advisory fee are based on our average weekly net assets. See "Our Management" on page 37 of this prospectus and "Investment Advisory and Other Services" on page B-17 of the SAI. It is not possible to state precisely the amount of additional compensation our investment manager and investment adviser will receive as a result of this rights offering because it is not known how many shares of our common stock will be subscribed for and

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OUR RIGHTS OFFERING

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because the proceeds of this rights offering will be invested in additional portfolio securities, which will fluctuate in value. However, assuming (i) all rights are exercised, (ii) our average weekly net asset value during 2004 is \$ per share (the net asset value per share on , 2004) and (iii) the subscription price is \$ per share (% of the average of the last reported sale prices of a share of our common stock on , 2004 and the four preceding business days) and after giving effect to dealer manager and soliciting fees, our investment manager and investment adviser would receive additional annual advisory and administrative fees of approximately \$ and \$, respectively. Some of our directors who voted to authorize this rights offering may benefit indirectly from their affiliations. One of our directors who voted to authorize this rights offering is an interested person of our investment manager and our investment adviser. Another one of our directors is affiliated with UBS Securities LLC, the dealer manager in this rights offering. The other directors who voted to authorize this rights offering are not affiliated with our investment manager, investment adviser or with the dealer manager. See "Our Management" on page 37 of this prospectus and "Management" on page B-8 of the SAI.

INVESTMENT CONSIDERATIONS

Upon completion of this rights offering, stockholders who do not exercise their rights fully will own a smaller proportional interest in us than would be the case if this rights offering had not been made. In addition, because the subscription price per share will be less than the then net asset value per share of our common stock, this rights offering will result in a dilution of net asset value per share of our common stock for all stockholders. This dilution will disproportionately affect stockholders who do not exercise their rights. Although it is not possible to state precisely the amount of such a decrease in value, because it is not known at this time what the subscription price will be, what the net asset value per share will be at the expiration date or what proportion of our shares will be subscribed for, the dilution could be substantial. For example, assuming that all rights are exercised, that our net asset value on the expiration date is \$ per share (the net asset value per share on , 2004), and that the subscription price is % of an average market price of \$ per share (the average of the last reported sale prices of a share of our common stock on , 2004 and the four preceding business days), our net asset value per share on this date would be reduced by approximately \$ per share, after giving affect to the dealer manager and broker solicitation fees payable by us, estimated at \$, and other expenses of this rights offering, estimated at \$, payable by us. Stockholders on the record date may experience a decrease in the net asset value per share held by them, irrespective of whether they exercise all or any portion of their rights.

IMPORTANT DATES TO REMEMBER

Record Date.....	
Subscription Period.....	*
Expiration Date and Pricing Date.....	*
Notices for Guarantees of Delivery Due.....	*
Payment for Guarantees of Delivery Due.....	*
Confirmation Mailed to Participants.....	*
Final Payment of Shares.....	*

* Unless this rights offering is extended.

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Use of proceeds

Assuming all shares in this rights offering are sold at an estimated subscription price of \$ per share, the net proceeds of this rights offering are estimated to be approximately US \$ after payment of the dealer manager and soliciting fees and estimated offering expenses. However, we do not know whether all rights will be exercised in full, and the subscription price will not be determined until the close of business on the expiration date of this rights offering. We expect that the net proceeds will be invested in accordance with the policies set forth below under "Investment Objective and Policies" and on page B-2 of the SAI under "Investment Objective and Policies" within three months from the expiration date, and in no event will the time period for investment exceed six months.

Investment objective and policies

Our investment objective is to seek long-term capital appreciation through investment primarily in equity and equity-linked securities of issuers domiciled in Central Europe and Russia. The term "Central Europe" includes, for this purpose:

Republic of Albania	Federal Republic of Germany	Romania
Republic of Austria	Republic of Hungary	Slovak Re
Republic of Bosnia and Herzegovina	Republic of Latvia	Republic
Republic of Belarus	Grand Duchy of Liechtenstein	Swiss Con
		("Switzer
Republic of Bulgaria	Republic of Lithuania	Ukraine
Republic of Croatia	Former Yugoslav Republic of Macedonia	Federal R
Czech Republic	Republic of Moldova	
Republic of Estonia	Republic of Poland	

A map showing these countries is set forth on the inside cover page of this prospectus.

Under normal circumstances, at least 80% of our net assets will be invested in the securities of issuers domiciled in Central Europe or Russia. If we borrow money (referred to as "leverage"), which we are permitted to do only for emergency or exceptional circumstances, the 80% minimum will apply to the total of our net assets plus the amount of those borrowings. We may also invest in equity or equity-linked securities of issuers domiciled elsewhere in Europe. An issuer is deemed to be "domiciled" in a country or region if:

- + it is organized under the laws of that country, or a country within that region, or maintains its principal place of business in that country or region,
- + it derives 50% or more of its annual revenues or profits from goods produced or sold, investments made or services performed in that country or region, or has 50% or more of its assets in that country or region, in each case as determined in good faith by our investment manager, or

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+ its equity securities are traded principally in that country or region.

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INVESTMENT OBJECTIVE AND POLICIES

The term "Europe" includes the countries of Central Europe, as well as:

Kingdom of Belgium	Republic of Ireland	Kingdom of Spain
Kingdom of Denmark	Italian Republic	Kingdom of Sweden
Republic of Finland	Grand Duchy of Luxembourg	Republic of Turkey
Republic of France	Kingdom of the Netherlands	United Kingdom of Great Bri
Hellenic Republic ("Greece")	Kingdom of Norway	
Republic of Iceland	Republic of Portugal	

Any future country or countries (or other political entity) formed by combination or division of the countries comprising Central Europe, Europe or Russia shall also be deemed to be included within the term "Central Europe", "Europe" or "Russia", respectively.

Our investment objective and the investment policies described above are fundamental and may be changed only by the approval of a majority of our outstanding voting securities. Under the Investment Company Act, a "majority" means 67% of our shares present at a meeting of our stockholders if the owners of more than 50% of our shares then outstanding are present in person or by proxy or, if lower, more than 50% of our outstanding shares. We refer to this approval voting level as a "majority vote." We will not trade in securities for short-term gain. Current interest and dividend income are not an objective of ours. No assurance can be given that we will be able to achieve our objective.

For purposes of the above policies and for the policies and practices described below in "--Portfolio Structure" and "--Other Investment Practices," all percentage limitations apply only immediately after a transaction, and any subsequent change in any applicable percentage resulting from changing values will not require elimination of any security from our portfolio.

PORTFOLIO STRUCTURE

We will seek to achieve our investment objective of long-term capital appreciation primarily by investing in equity and equity-linked securities of companies in a spectrum of industries. Equity and equity-linked securities include common stock, convertible and non-convertible preferred stock, whether voting or non-voting, convertible bonds, bonds with warrants and unattached warrants. Equity-linked securities refer to debt securities convertible into equity and securities such as warrants, options and futures, the prices of which reflect the value of the underlying equity securities receivable upon exercise or settlement of the linked security. For a discussion of the types of futures and options that we may or may not invest in, see "--Other Investment Practices" described below and "Investment Objective and Policies--Futures and Options" on page B-3 of the SAI.

We will not concentrate investments in any one industry. Non-concentration means that we will not invest more than 25% of our total assets in the securities of issuers in any one industry. For purposes of this non-concentration policy, our investment manager generally classifies the issuers of our portfolio securities according to the broad industry classification used by Standard & Poor's

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Corporation.

In selecting industries and companies for our investments, our investment adviser and the investment manager generally consider factors such as overall growth prospects, competitive position in their product markets, management, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, return on investment, capital resources and government regulation.

We have no current intention of focusing our investments in any particular countries other than Poland, Russia, Hungary and the Czech Republic, where our investments are and may in the future be significant. On November 30, 2003, the percentages of our total assets invested in these countries were: Poland--34.3%, Russia--32.0%, Hungary--20.3% and the Czech Republic--9.7%.

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INVESTMENT OBJECTIVE AND POLICIES

Nonetheless, except as described below, there are no prescribed limits on geographic asset distribution within Central Europe and Russia and, from time to time, a significant portion of our assets may be invested in companies domiciled in as few as three countries. Our board of directors has also adopted a non-fundamental policy, which may be changed without stockholder approval, that for the time being permits us to invest up to the following percentages of the value of our total assets in equity and equity-linked securities of issuers domiciled in the following countries. Our board reserves the right to change this policy.

COUNTRY	PERCENTAGE OF TOTAL ASSET LIMIT
-----	-----
Poland.....	65%
Hungary.....	50%
Russia.....	35%
Czech Republic.....	30%
Any single other country.....	15%

We may not purchase more than 10% of the outstanding voting securities of any single issuer.

Although we intend to focus our investments in equities or equity-linked securities that are listed on a recognized securities exchange or otherwise publicly traded, we may also invest in securities that are not readily marketable.

We may also invest in other investment companies, subject to applicable limitations under the Investment Company Act. These limitations include a prohibition on our acquiring more than 3% of the voting securities of any other investment company, more than 5% of our total assets in securities of any one investment company, or more than 10% of our total assets in securities of all investment companies combined. Any investment companies in which we may invest will have a policy of investing all or substantially all of their assets in one or more European countries or Russia. Investments in other investment companies may involve an additional layer of expenses because of the fees and expenses payable by such other investment companies. In determining whether to invest our assets in other investment companies, our investment manager and investment

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adviser will take into consideration, among other factors, the advisory fee and other expenses payable by those other investment companies.

OTHER INVESTMENT PRACTICES

In addition to the investment practices discussed above in "Investment Objective and Policies--Portfolio Structure," we may also invest in additional types of securities, such as warrants, if consistent with our investment objective, and participation certificates of issuers in any European country or Russia. Participation certificates generally entitle the holder to participate in dividend distributions, but not to vote or claim assets in liquidation.

For hedging purposes, we may also purchase put and call options on stock of European or Russian issuers and, if and when permitted by applicable U.S. law, invest in the index and bond futures of any other derivative securities listed on any organized exchange. We may also purchase put and call options on bonds and other securities, as well as securities indices and, to the extent permitted by applicable U.S. law, may invest in other options, futures and options on futures with respect to any securities or securities indices compatible with our investment objective that may from time to time become available on any organized exchange.

We may also write (also referred to as "selling") covered call options on our portfolio securities and appropriate securities indices for purposes of generating income. We may write covered call options on portfolio securities and appropriate securities indices up to the amount of its entire portfolio.

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INVESTMENT OBJECTIVE AND POLICIES

We may invest up to 20% of our total assets in fixed income securities of European or Russian issuers. For temporary defensive purposes, we also may invest in money market instruments denominated in U.S. dollars or in a European or Russian currency or composite currency, including bank time deposits and certificates of deposit.

We may also lend our portfolio securities to banks, securities dealers and other institutions meeting the creditworthiness standards established by our board of directors. We may lend our portfolio securities so long as the terms and the structure of the loans are consistent with the Investment Company Act.

Although we do not currently engage in foreign exchange transactions as an investment strategy, we may, when our investment adviser and our investment manager deem it advisable, attempt to hedge our foreign currency exposure by entering into forward currency contracts.

For a more detailed discussion of our investment practices with respect to warrants, participation certificates, futures and options, fixed income securities, securities lending and currency transactions and the special considerations relevant to those practices, see "Investment Objective and Policies" on page B-2 of the SAI. For information regarding other investment restrictions, see "Investment Restrictions" on page B-5 of the SAI.

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Risk factors and special considerations

RISK FACTORS RELATING TO FOREIGN INVESTMENT GENERALLY

Foreign investments may involve certain considerations and risks not typically associated with those of domestic origin as a result of, among others:

- + generally less liquid and less efficient securities markets;
- + generally greater price volatility;
- + exchange rate fluctuations and exchange controls and the costs associated therewith;
- + currency fluctuation;
- + imposition of restrictions on the expatriation of funds or other assets;
- + less publicly available information about issuers;
- + the imposition of taxes;
- + higher transaction and custody costs;
- + settlement delays and risk of loss;
- + difficulties in enforcing contracts;
- + difficulties in obtaining or enforcing a court judgment;
- + less liquidity and smaller market capitalizations;
- + lesser governmental regulation of the securities markets;
- + different accounting, auditing, financial and disclosure standards;
- + governmental interference;
- + higher inflation;
- + social, economic and political uncertainties;
- + the risk of expropriation of assets; and
- + the risk of war.

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

The economies of individual emerging market countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position. Further, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue

to be adversely affected by economic conditions in the countries with which they trade.

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RISK FACTORS AND SPECIAL CONSIDERATIONS

Foreign investment in certain emerging market issuers is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain emerging market issuers and increase our costs and expenses. Certain emerging market countries require governmental approval prior to investments by foreign persons in a particular issuer, limit the amount of investment by foreign persons in a particular issuer, limit the investment by foreign persons only to a specific class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of the countries and/or impose additional taxes on foreign investors. Certain emerging market countries may also restrict investment opportunities in issuers in industries deemed important to national interests.

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

No established secondary markets may exist for many of the emerging market issuer securities in which we invest. Reduced secondary market liquidity may have an adverse effect on market price and our ability to dispose of particular instruments when necessary. Reduced secondary market liquidity for certain emerging market issuer securities may also make it more difficult for us to obtain accurate market quotations for purposes of valuing our portfolio and calculating our net asset value. Market quotations are generally available on many emerging market issuer securities only from a limited number of dealers and may not necessarily represent firm bids of those dealers or prices for actual sales.

RISK FACTORS RELATING TO INVESTMENT IN CENTRAL EUROPE

Central European countries are in varying stages of transition towards market-oriented economies based on private and entrepreneurial initiatives, multi-party democracies, pluralism and market economies. These countries experienced extremely volatile market performance in the past decade, and investing in securities of Central European issuers entails all of the risks of investing in securities of foreign issuers to a heightened degree. In addition, a substantial portion of the economic growth, if any, of Central European countries is attributable to their exporting industries rather than domestic consumption; therefore, the Central European countries are also highly susceptible to economic downturns in Western European countries and the United States, which are substantial consumers of their exported products.

Central European markets continue to be relatively volatile, and our investments will remain subject to currency fluctuation and local political, economic and social uncertainties. Investments in a single region, even though representing a number of different countries, may be affected by common economic forces and other factors. We are subject to greater risks of adverse events which occur in

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the region and may experience greater volatility than a fund that is more broadly diversified geographically. There are also individual exceptions within Central Europe from a risk perspective. For example, while the Republic of Belarus and the Republic of Moldova are geographically in the same region, their economies are significantly less developed than those of other Central European countries. Less developed markets involve higher levels of risk. In addition, many companies in Central Europe generally do not have operating histories of significant duration. Consequently, these markets may be subject to more substantial volatility and price fluctuations than securities that are traded in more developed markets.

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RISK FACTORS AND SPECIAL CONSIDERATIONS

Investing in any developing market means tolerating a certain amount of volatility and, in some cases, severe market corrections. Such highly speculative investing involves special risk considerations not typically associated with investing in U.S. securities markets. The specific nature of such risks may vary according to the Central European country in which investments are made. These risks include, among others:

- + the risk of nationalization or expropriation of assets or confiscatory taxation, which may involve the risk of total loss;
- + controls on foreign investment and local practices disfavoring foreign investors and limitations on repatriation of invested capital, profits and dividends, and on our ability to exchange local currencies for U.S. dollars;
- + greater social, economic and political uncertainty (including regional conflict and the risk of war);
- + transitional forms of government;
- + delays in settling portfolio transactions and risk of loss arising out of the system of share registration and custody used in certain Central European countries;
- + risks in connection with the maintenance of our portfolio securities and cash with foreign sub-custodians and securities depositories, including the risk that appropriate sub-custody arrangements will not be available to us;
- + the risk that it may be impossible or more difficult than in other countries to obtain and/or enforce a judgment;
- + pervasiveness of public corruption and crime in the economic systems of certain Central European countries;
- + greater price volatility, substantially less liquidity and significantly smaller market capitalization of securities markets in which we may invest;
- + currency exchange rate volatility and the lack of available currency hedging instruments;
- + the use of derivative instruments, which may include: forward foreign currency exchange contracts, currency futures contracts and options thereon, put and call options on securities, indices and foreign currencies, stock index futures contracts and options thereon and interest rate futures contracts and options thereon;

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- + higher rates of inflation (including the risk of social unrest associated with periods of hyperinflation);
- + the risk that, by possibly investing significantly in certain multi-industry sectors, we may be affected more by any single economic, political or regulatory development relating to a specific sector;
- + the financial condition of Central European issuers, including any debt amounts and the fact that such issuers may be smaller, less seasoned and newly