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The Eastern European Trust PLC

Report and accounts for the year ended 31st January 2009

www.teetplc.com

GRAPHIC REMOVED

OBJECTIVE

To achieve long term capital growth by investing in companies that do business in Eastern Europe, Russia, other states of the former Soviet Union and Turkey ('the Region') and whose shares are considered to be undervalued in the stock market.

INVESTMENT POLICY

The Manager selects stocks by fundamental analysis of companies looking for long term appreciation from mispriced value or growth.

The portfolio is typically diversified across 40 to 50 principal holdings and no more than 70 per cent of the net assets may be invested in stocks in Russia.

The Company will not invest so as to hold more than 15 per cent of its gross assets in any one stock at the time of investment.

The Company may borrow to enhance its portfolio performance but borrowing for that purpose will not exceed 12.5 per cent of the portfolio's net asset value.

The Manager may undertake transactions in derivatives (futures and options) under a Board policy with a limit on gearing through borrowings and derivatives, defined as gross economic exposure, of 112.5 per cent of the portfolio's net assets.

The Board seeks to contain risk by understanding and monitoring the Manager's performance which it expects to be broadly consistent with the principles of a bottom-up investment approach.

(See the Business Review on pages 5 to 10 for further details.)

PROSPECTS

In the Board's opinion the potential for recovery of superior levels of growth in the region, in comparison with the US and Europe, continues to provide the potential for attractive long term returns.

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Financial highlights

The exchange rate at 31st January 2009 was £1 = USD1.4417 (31st January 2008: £1= USD1.9880). Benchmark returns are gross (net dividend income reinvested).

US DOLLARS AND STERLING

	31st January 2009	31st January 2008	Change %
US Dollars			
Total net assets	USD92,631,000	USD424,852,000	(78.2)
Net asset value per ordinary share	USD1.71	USD7.28	(76.5)
Benchmark	214.64	642.67	(66.6)
Ordinary share price (mid-market)	USD1.65	USD6.72	(75.5)
Discount	3.5%	7.8%	–
Net revenue return per ordinary share	0.04 cents	(8.86 cents)	–
Sterling			
Total net assets	£64,251,000	£213,708,000	(69.9)
Net asset value per ordinary share	£1.18	£3.66	(67.7)
Benchmark*	148.88	323.27	(53.9)
Ordinary share price (mid-market)	£1.14	£3.38	(66.2)
Discount	3.5%	7.8%	–
Net revenue return per ordinary share	0.03 pence	(4.46 pence)	–

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Summary of performance

† No suitable index existed before this date.

* The MSCI 10-40 Emerging Markets Europe index from 1st February 2007; the FTSE Emerging Europe index from 1st July 2004 to 31st January 2007 and the FTSE Emerging Europe ex Turkey index from 29th September 1995 to 30th June 2004.

GRAPHIC REMOVED

Financial highlights and summary of performance

[1] Total expenses include costs of USD635,000 paid to professional advisers relating to corporate finance advice.

[2] Management fee, performance fee and total expenses exclude the VAT refund due on management and performance fees from Pictet.

† Restated to reflect the sub-division of shares 10 for 1 on 20th June 2005.

EXPENSE RATIOS

Years ended 31st January

		2000[1]	2001	2002	2003	2004	2005	2006	2007	2008	2009[2]
Average NAV per ordinary share†	US cents	77	120	103	130	174	267	401	578	777	536
Total expenses	USD'000	2,860	3,170	2,667	3,287	5,162	4,672	6,528	8,030	11,088	4,404
Expenses per ordinary share †	US cents	3.22	3.97	3.38	4.17	6.54	6.57	11.03	13.58	18.90	7.90
Expenses per ordinary share divided by average monthly NAV per share		4.20%	3.32%	3.29%	3.22%	3.76%	2.46%	2.75%	2.35%	2.43%	1.47%
Management fee	USD'000	1,424	2,267	1,380	1,586	1,862	2,185	3,042	4,315	5,938	3,536
Performance fee	USD'000	–	–	472	620	2,008	883	2,017	1,432	2,529	(1,329)
Administration fee	USD'000	173	178	194	222	255	325	209	230	249	237
Total management, performance and administration fees	USD'000	1,597	2,445	2,046	2,428	4,125	3,393	5,268	5,977	8,716	2,444
Total management, performance and administration fees per ordinary share†	US cents	1.80	3.06	2.59	3.08	5.23	4.77	8.90	10.10	14.85	4.38
Total management, performance and administration fees per ordinary share divided by average monthly NAV per share		2.34%	2.56%	2.52%	2.38%	3.01%	1.79%	2.22%	1.75%	1.91%	0.82%

The expense ratio on total expenses including the VAT refund due from Pictet for the year ended 31st January 2009 is 1.01 per cent.

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Chairman's statement

We have now seen the most dramatic collapse in stock markets since 1929. The inability of financial markets to operate even remotely normally, and the collapse of monetary transmission systems, disclosed the fragility of the financial system in Russia and caught leveraged investors off-guard. The crisis in the "West" brought dollars back to the US and demonstrated that emerging markets were exceptionally vulnerable to, rather than disconnected from, those events. Heavy handed politics in Russia exacerbated the situation – but the essence was that Russia (and indeed Eastern Europe as a whole) now relies on global banking and global trade, both of which were in a mess. Substantial Russian reserves could not stop a slowdown in the economy accelerated by a sharp decline in the price of oil and other natural resources. The RTS, the Russian index, collapsed from some 2,400 to 500 and the rouble devalued by 32 per cent. The RTS has recovered since your Company's year end to about 800. As if that backdrop was not bad enough, the Manager's stock selection proved unsuccessful costing your Company nearly 14 per cent against the benchmark.

Your Company has now seriously underperformed its benchmark, and its peer group, and underperformed for the second year running. As a consequence your Board set in train a rigorous review of alternative managers for the Company's assets and we are now announcing a change of manager from Pictet Asset Management to BlackRock Investment Management. The new manager will be in place by the 1st May.

The fall in net asset value per ordinary share for the year to 31st January 2009 was from USD7.28 to USD1.71 (sterling £3.66 to £1.18) and the share price per ordinary share declined from USD6.72 to USD1.65 (sterling £3.38 to £1.14). Compared to a benchmark decline of 66.6 per cent, net asset value per ordinary share fell by 76.5 per cent in dollar terms and, in sterling terms, by 67.7 per cent against a benchmark decline of 53.9 per cent. The effect on management fees was commensurately severe.

Your Board watches the discount per share and if necessary buys-back shares in reasonably stable markets. Although the discount has occasionally widened, it has been kept broadly within the formal board policy of maintaining a discount narrower than 12 per cent during the year.

Manager review

As to the process of change of manager, shareholders will recall that last year the Board held two extra sessions on strategy and risk and commissioned an independent review of portfolio management. The result of that was that shortly after last year's annual report the fund manager changed. Your Board however remained increasingly concerned about performance and towards the end of 2008 we embarked upon a review of potential alternative managers. We combined the assistance of our brokers, Winterflood, with independent consultants, Watson Wyatt. The combined team worked well and we considered a wide range of potential managers. Following presentations we selected BlackRock Investment Management (UK) Limited on the strength of an excellent fund management team. The direct management of

Chairman's statement

your Company's portfolio will be in the hands of Plamen Monovski and Sam Vecht. They have a track record based on top-down and bottom-up thinking giving good performance in both rising and bear markets. The Board was also impressed by the level of resource that BlackRock gives to monitoring and managing risk. We shall shortly be arranging opportunities for the new manager to meet shareholders.

Events during the year

In June 2008 the Abu Dhabi Investment Authority, major shareholders since the Company's formation, sold its entire shareholding of just over 16 per cent. The process was managed efficiently, 9.2 per cent of the shares were placed with existing shareholders and the remainder bought-back and cancelled.

Chairmanship

After nine years in the chair, I shall hand over the chairmanship of the Board after the forthcoming AGM. We have been discussing succession for some time and the appointment of a new manager is an appropriate time to build new relationships. The Board has chosen Neil England to succeed me. Neil joined the Board in 2003 and has been a wise and constructive counsel. A significant part of his successful commercial career has been spent in Russia and Eastern Europe. He has maintained his connections with the region and he will make an excellent chairman. Both Neil and I are standing for re-election. I commend Neil to shareholders and I would hope to continue to contribute for a short while longer. We shall also be seeking to add a further director to the Board.

Future Prospects

If resource rich markets such as Russia, or the competitive advantages of Eastern Europe as a whole, both of which have growing consumer societies, cannot be amongst the first to benefit from eventual global economic recovery, then the picture is gloomy for the rest of us. Whilst negative news may continue, oil prices seem more stable and to Russia's advantage, as does the rouble. Although Russia's stock market remains volatile and high beta, it has already enjoyed a marked recovery. Yet its stocks are still cheap. Even if we are in a continuing global bear market, we are of the view that investment in the region continues to offer the prospect of good long-term performance for our shareholders.

AGM

I do urge shareholders and analysts to come to this year's AGM which will be at midday on 24th June at Fishmongers Hall. Not only will there be a presentation by the new fund managers and an opportunity to meet them, but it is an opportunity for us, the Board to meet more of the shareholders at an important time for stockmarkets, emerging markets and your Company.

Hugh Aldous
Chairman
16th April 2009

Performance attribution

PERFORMANCE ATTRIBUTION (YEAR ENDED 31ST JANUARY 2009)

		Net contribution to gross excess return (basis points)[†]			
	Number of stocks held[*]	Stock selection	Asset allocation	Total effect	Manager's comment
Central & Eastern Europe	**5**	**(140)**	**125**	**(15)**	
Bulgaria	2	–	12	12	
Czech Republic	–	42	(51)	(9)	
Hungary	–	14	81	95	Hungary was at the leading edge of the 'Credit Crunch', receiving an IMF/ECB rescue.
Poland	3	(196)	83	(113)	Poor performance of banks, that comprise all the investments in this country.
Baltics	**1**	**–**	**32**	**32**	
Estonia	–	–	29	29	
Latvia	1	–	3	3	
Russia	**17**	**(867)**	**74**	**(793)**	Banks, Telecom and Steel stocks, where the Company had substantial investments, were particularly badly affected by the Rouble devaluation and the global recession.
Turkey	**9**	**(381)**	**77**	**(304)**	Performance hit by lack of exposure to the more highly valued, but defensive, consumer stocks.
Balkans	**1**	**–**	**77**	**77**	
Romania	1	–	77	77	
Central Asia and Other	**4**	**–**	**150**	**150**	
Georgia	1	–	(34)	(34)	
Kazakhstan	1	–	370	370	Very large investment in KazMunaiGaz was highly successful. The stock benefitting from its large positive net cash position.
Slovakia	–	–	(13)	(13)	
Ukraine	2	–	(121)	(121)	Financial sector investment was severely impacted by the 'Credit Crunch'.
Other	–	–	(52)	(52)	
Cash instruments			**(159)**	**(159)**	Brief gearing in October was unsuccessful.
Total	**37**	**(1,388)**	**376**	**(1,012)**	**Gross NAV return (76.72) per cent; benchmark return (66.60) per cent = net 1,012 bps underperformance.**

[*] At 31st January 2009 excluding investments valued at zero.

[†] 100 basis points = 1 percentage point.

The figures opposite are calculated in-house by Pictet Asset Management using the Factset performance attribution system. They are not audited and are intended to serve only as guide to the sources of excess return relative to the Company's benchmark. Returns from stocks and countries outside the benchmark appear as country allocation, since there is no market sub-index with which to compare stock level returns. For example, for Central Asia and Other, none of whose countries appears in the benchmark, the entire positive contribution of 150 basis points would be attributed to country allocation. In fact the returns from this area are entirely due to the returns from stock selection decisions.

Business review

It is the business of the Directors to direct the affairs of the Company and in so doing to supervise the Manager in the management of the Company's portfolio and to consider the skills of the Manager and the ways in which particular individuals are managed in the team that serves your Company. This Business Review is intended to provide shareholders with the information and measures that the Directors use in this task. The principal measures are termed "key performance indicators" and include investment performance (both relative to a benchmark and to a peer group) over one and three years, the attribution of excess return at the country and stock level, and similarly the attribution of relative and absolute risk (technically, the ex-ante tracking error), total economic exposures, portfolio liquidity and turnover. Below we explain how we understand and apply these indicators, which are either included in this Review or are referred to and appear elsewhere in this Report and Accounts. In setting out these indicators, we recognise that investment management is an art as well as a science.

The Directors monitor the critical risks and uncertainties faced by the Company through the use of a full schedule, or matrix, of risks, key controls and mitigating factors. The Board maintains a visual representation of that by means of a "Risk Map". Finally, at its meetings the Board monitors the Company's compliance with its portfolio guidelines and its regulatory, legal and contractual obligations.

Strategy, style and key decisions during the financial year

The Board's objective is to achieve long term capital growth by investing in companies that do business in the Region and whose shares are considered to be undervalued in the stock market. The fund manager's stock selection approach is based on fundamental analysis of companies and the Board encourages this search for long term value in the stocks that make up the portfolio. The strategy, style and key decisions taken through the year are explained by the Manager in the Manager's Review and Outlook on pages 11 to 15.

This year was marked by an implosion of value in mid 2008 with a collapse of traded bank securities and international bank finance, accelerated not just by the insolvency of Lehman Brothers but the dire position of bank after bank. As the Chairman has set out in his statement, emerging markets proved to be far from protected from the consequences of this collapse and Russia and Eastern Europe suffered in particular from a massive withdrawal of investment propelled, in part, by over-leveraged investors. During the previous year your Board had been concerned by what it suspected was a change in style of fund management and poor top-down calls. The Board had commissioned independent analysis at that time and had met with the Manager who accepted the essence of that analysis and changed the fund manager in the late spring of 2008. Stock selection however remained unsuccessful and the Manager's top-down or "macro" views exacerbated poor

Business review

performance. In late 2008 a process was started to review potential alternative Managers. Your Board used in that process the Company's brokers assisted by Watson Wyatt as independent consultants. The outcome has been announced in the Chairman's Statement: the appointment of BlackRock Investment Management (UK) Limited as Managers of the Company's portfolio.

Discount management

The balance of supply and demand for the Company's shares is reflected in the discount of the share price to net assets. Supply and demand for the Company's shares is in turn a reflection of factors such as the popularity of the asset class, the performance of the Manager relative to competing managers and the market liquidity of the shares. Over the financial year as a whole, the discount stayed within a comparatively narrow range close to 10 per cent, and indeed tended to narrow in a thin market during the period of extreme market turmoil since November 2008.

In the Directors' view, the discount of an investment trust to some extent 'discounts' expected near term absolute performance. The Board has a formal discount management policy aimed at keeping the discount below 12 per cent and has bought back shares during the year. The Board has, to the extent that it has control over the factors that influence the discount, sought to reduce the discount to shareholders' benefit.

Shareholders are recommended to consider the analysis of the top and bottom five contributors on pages 15 to 17 as one view of the sources of excess returns. It does not do full justice to the complex task of constructing and maintaining a portfolio of shares in a variety of sectors and countries and shareholders are encouraged to read the fund manager's report carefully in this respect.

Board's view of future strategy

For the reasons set out in the Chairman's Statement it is your Board's view that the potential of the Region is such that your Company will in future achieve exceptional long term capital growth.

Board oversight

In assessing performance, the Board looks in its regular meetings for a clear, consistent expression of strategy, and for shorter term tactical investment activity, so that the Manager's decisions can be subsequently judged right or wrong. The Board does not emphasise short term performance (i.e., monthly or over the quarterly Board meeting intervals), unless medium term strategy has been unclear or inconsistent. This is the focus of boardroom discussion with the Manager. We also debate the extent to which your Company should gear, or go into cash in a falling market. Measures of volatility, active weights (the extent to which holdings diverge from the benchmark) and measures of risk are also considered at each Board meeting. Ultimately however the positioning of the portfolio is of course decided by the fund manager within the limits set by the Board.

Business review

The total expense ratio (operating expenses before tax, but excluding interest) as a percentage of average monthly shareholders' funds has fallen significantly from 2.43 per cent to 1.47 per cent reflecting the claw back provisions of the three year rolling performance fee earned by the Manager.

Board's management of principal risks and uncertainties

The Company exists to invest in securities issued by companies doing business in the developing and emerging markets of the Region. Market risk has been integral to that purpose. The Company has sought to employ managers with a record of skill in selecting undervalued stocks and over its 14-year life the Company has achieved high reward for investors with at times high volatility, or risk. The Board seeks to contain that risk by understanding and monitoring the Manager's investment approach and performance, which it expects to be broadly consonant with the principles of a bottom-up approach. The Board notes that a proportion of stocks may not be in the benchmark, and therefore the ex-ante (and ex-post) tracking error may be high.

The Board has shown it is prepared to take independent, outside advice on the Manager's style and performance to ensure that it is properly and independently informed. Political risk and economic or national financial risk, and to some extent currency risk, are considered as aspects of market risk to be taken into account as part of stock selection and by allocation decisions made through risk control analysis. Market and currency risks have been mitigated from time to time by the use of options and futures. The Board monitors and discusses the positions taken by the Manager at least quarterly.

Stock specific risk is covered to some extent by diversification, for which the Board and Manager have set guidelines (for example, positions of more than 10 per cent of the invested assets have required the approval of Pictet Asset Management and the Board). As part of our review of operational risks we satisfy ourselves that the Manager has processes that should ensure that limits are not breached.

Strategic decisions, such as the Manager's top-down or "macro" view, or the level of borrowing, or the extent to which gearing is extended by the use of derivatives, or asset allocation, can have a significant impact on performance against the Company's benchmark or peer group, as they did this year. Currently borrowing on the facility (see note 18) should not exceed 12.5 per cent of the portfolio's net asset value and gearing or gross economic exposure, including the use of derivatives should not exceed 112.5 per cent, but the overall limit is under constant review.

As for operational risks, the Board reviews its risk matrices twice a year. Those matrices are extensive and it has recently taken to reviewing them through a structured session facilitated by a Board member and subsequently with the use of a "Risk Map".

Business review

The Company accounts in US dollars and transacts about half of its activity in US dollars. The value assessment of the stocks in which it decides to invest is made largely on matters that include the effect of currency rates on a company's business. Major movements in currencies can occasionally have a significant impact on capital values and will be assessed by the Manager in taking, or amending, their decisions. Interest rates are relevant to macroeconomic assessment and both currency stresses and interest rates are pertinent to the market view but the Manager does not in general take direct action to mitigate any expected effect. Counterparty credit risk is not considered to be significant because Pictet Asset Management undertakes transactions only with approved brokers and on the basis of delivery against payment.

Liquidity risk proved significant in 1998 when Russia defaulted on its bonds. Today Russia still has large reserve balances despite the global financial crisis. The Board regularly receives reports on liquidity measures in its investing markets, based on the number of days it would take to liquidate the Company's various positions, assuming the use of one-fifth of recent market volumes. At 31st January 2009 on this measure, more than 90 per cent of the portfolio could have been liquidated within 10 trading days. It should be noted that shorter term liquidity effects are less important for a closed-end investment trust than an open-ended mutual fund.

For further elucidation of risks, see note 16 to the accounts.

Fund managers

The Company's investments are currently managed by Pictet Asset Management Limited (the 'Manager''Pictet'), authorised and regulated by the FSA. The Manager is ultimately owned by Pictet & Cie, a private bank established in Geneva in 1805.

With effect from 1st May 2009 the management of the portfolio will be transferred from Pictet to BlackRock Investment Management (UK) Limited ('BlackRock').

BlackRock is a subsidiary of BlackRock, Inc. which is a publicly traded corporation on the New York Stock Exchange operating as an independent firm, with no majority shareholder and an independent-majority board of directors.

Manager's review and outlook

The past twelve months have been one of the most turbulent periods since the 1930s for all of the world's financial markets. Stock markets in Eastern Europe have been extremely negatively affected by these events and the value of the Company's assets has fallen considerably.

In the early part of 2008, commodity prices were all reaching record levels, especially oil that reached within a whisker of USD150 per barrel. This backdrop was very favourable for Russia, in particular, although, with the benefit of hindsight, these excessive prices contributed to the wider global malaise.

Between the end of January and the end of May 2008, the region's equity markets delivered a double-digit gain and our value driven, bottom-up investment process was specifically highlighting the attractiveness of the Turkish market. There were a number of headwinds including political troubles – the ruling AKP were under threat from the constitutional court, and there were economic threats from the very high oil price but these were largely factored into stock prices and, as the ensuing months showed, were largely resolved successfully (the AKP received a mild rebuke and oil prices fell).

As can be seen from the graph below, almost 80 per cent of Turkish companies screened as cheap versus their global sector peers.

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Meanwhile, high oil prices were very positive for Russia and thus we were overweight in the two largest markets of the region, at the expense of Central Europe (Czech, Hungary and Poland), where we had significant currency concerns. As we began to restructure our investments in the spring of 2008, reducing the number of investments from about 80 to half this level, we continued to invest heavily in the Region, most notably Kazakhstan.

Manager's review and outlook

Over the summer period the Russian market began to suffer from politically orientated events. Firstly Prime Minister Putin launched an attack on coal miner and steel manufacturer, Mechel, a market darling, claiming price fixing (the issue was eventually resolved with a modest fine) and then soon afterwards the Georgian War began when Russian forces intervened in the Georgian province of South Ossetia. These events further tarnished Russia's image in the West and investors began to worry again about 'Yukos-style' corporate raids by the Russian authorities; in reference to the destruction of oil giant Yukos in 2003/04.

As the Mechel case was resolved with little real actual damage to the company we viewed these events as opportunities to invest in Russia at attractive prices, as had been the case a number of times since the Yukos debacle five years previously.

Exchange rates to USD at 31st January 2009

Russian Rouble	35.74
Turkish Lira	1.64
Czech Koruna	21.86
Hungarian Forint	232.84
Polish Zloty	3.48
Croatian Kuna	5.75
New Romanian Leu	3.35
Estonian Kroon	12.21
Ukraine Hryvnia	7.69

[1] The difference between the local currency return and the USD return of the MSCI indices shows the aggregate effect on the indices of the return of the USD exchange rate against local currencies.

PERFORMANCE OF MARKETS

	31st January 2009		31st January 2008		Performance % change	
Index	Local	USD	Local	USD	Local	USD
Russia RTS	535.0	535.0	1,907.0	1,907.0	(71.9)	(71.9)
Turkey ISE	25,934.4	15,813.7	42,697.6	36,493.7	(39.3)	(56.7)
Czech PX50	774.2	35.4	1,499.6	85.2	(48.4)	(58.4)
Hungary BUX	11,516.1	49.5	23,475.5	134.6	(50.9)	(63.2)
Poland WIG	24,685.4	7,093.5	47,747.8	19,568.8	(48.3)	(63.8)
Slovenia SBI	3,836.3	20.5	10,240.1	63.3	(62.5)	(67.6)
Croatia CROBEX	1,681.8	292.5	4,497.2	923.4	(62.6)	(68.3)
Romania BET	2,253.0	672.5	7,494.5	2,985.9	(69.9)	(77.5)
Estonia TALSE	298.0	381.9	632.9	936.9	(52.9)	(59.2)
Ukraine PFTS	274.6	35.7	1,093.9	216.2	(74.9)	(83.5)
MSCI EM Eastern Europe[1]	140.3	98.2	387.4	324.0	(63.8)	(69.7)
MSCI Emerging Market Free[1]	26,338.1	529.5	45,066.9	1,088.7	(41.6)	(51.4)
MSCI World[1]	629.2	838.8	1,035.9	1,466.4	(39.3)	(42.8)
		USD		USD		
TEET Net Asset Value per share (NAV)		1.71		7.28		(76.5)
Benchmark*		214.64		642.67		(66.6)

* MSCI 10-40 Emerging Markets Europe index

Source: Datastream, Bloomberg

As we approach the spring of 2009 it is tempting to believe that we have endured the 'credit-crunch' for some time and although there were some early warning signals – the Kazakh banks crisis of 2007 and the Northern Rock nationalisation in late 2007 – the real meltdown in financial markets truly began following the collapse of Lehman Brothers in September 2008. This collapse shook the very foundations of our financial system as investors came to terms with the realisation that not all banks would automatically be rescued – as Bear Stearns had been some months before, albeit at a terrible cost to equity holders.

Manager's review and outlook

As equity markets went into freefall, some countries themselves had to ask for outside assistance and despite Iceland grabbing most of the headlines, particularly in the UK press, both Hungary and the Ukraine were at the head of the queue for emergency funding. However, the biggest hit to the Company was in Russia. The Russian market and economy were viewed as being well placed to weather the storm (although events have shown that nowhere was safe) owing to its huge cushion of international reserves. Unfortunately, the level of gearing, not at the corporate level but at the investor level, turned out to be in excess of all expectations. As the market began to fall sharply, margin calls were made time and again, as Oligarchs had used shares as collateral for personal loans, and thus the market fell further and the downward spiral was out of control. The Russian authorities generally responded in the right way (perhaps surprisingly) by offering financial assistance to the major banks and making FX reserves available to the local population. Unfortunately, the vortex into which the market was sinking was too strong and with the summer's events (Georgia, Mechel) fresh in investors' consciousness the foreigners deserted the Moscow bourse.

After the initial sharp falls in late September we took the step to gear the Company owing to the highly attractive prices available in the whole region, not just in Russia. As the extent of the investor leverage became shockingly apparent we then withdrew the Company's gearing a few weeks later.

Reflecting on those incredible events of October 2008, it is clear that Russia faced a number of hurdles that were perhaps more important than the market believed at the time, including the lack of trust by foreign investors in the wake of the Mechel case. It is easy to be wise after the event and even now it is difficult to see how the incredible amount of investor leverage could have been foreseen. Clearly, in the light of all these factors Russian assets are likely to trade at a discount for a considerable time. Looking back to the previous Russian crisis in August 1998 (exactly 10 years before the Georgian War in August 2008) after a sharp rebound in 1999 it took several years for Russia to regain (some) credibility in the eyes of investors.

Owing to our optimistic outlook for the Russian market in late 2008 we were over-exposed to those sectors that were most excessively affected by the financial crisis and subsequent economic maelstrom. Most notably the banks and steel companies suffered heavily, as did the mobile telecom stocks as the rouble devalued. Clearly the falling oil price (briefly to below USD40) and the flight to quality, globally, did little to help sentiment towards the Moscow bourse.

Manager's review and outlook

In early 2009 we began to see pockets of stability but markets continued to fall. Our currency concerns in Central Europe came to fruition, with big devaluations for the zloty, koruna and forint. The slide in the zloty, particularly against the euro and Swiss franc, was especially important as many Poles have mortgages denominated in those two currencies.

At the time of writing, there has been a significant rebound across the region, especially in Russia (as oil moves above USD50). Importantly, although the downward spiral has been halted, volatility remains high – but is now more symmetrical. Our process currently highlights extreme value in all three of the largest regional markets – Russia, Turkey and Poland. We share the positive view in Russia although this would change if oil fell again towards USD40. In Turkey too we see clear value despite considerable uncertainty for GDP growth outlook this year (the consensus ranges from -1 per cent to -7 per cent). Our view is more towards the bottom of that range. In Poland however we are more cautious. The impact of the devaluation on FX-denominated mortgages is yet to be felt in the real economy. Most observers, including Polish officialdom, see positive GDP growth this year and given the recession in the rest of Europe we see this outcome as unlikely.

In the remainder of 2009 markets will continue to be heavily influenced by a number of outside factors including the success or failure of policy in the OECD to rescue the global economy and reliquify the financial system. The oil price is crucial to Russia, particularly within the current observable range. Oil below USD40/bbl puts further pressure on the Russian rouble whilst oil above USD50/bbl will likely lead to a current account surplus.

After the restructuring begun in the late spring of 2008, we have accomplished our goal of reducing the number of holdings towards 40 (we had 37 at the end of January 2009). We have also maintained the focus on the non-core markets, ending the financial year (31st January) with 11 per cent of the Trust's assets in this area, including nearly 8 per cent in KazMunaiGaz. Unfortunately, investment performance in absolute terms and relative to peers and benchmark was poor and we have taken a number of steps to improve this, including more emphasis on the top-down risk control and yet more emphasis on our database driven value approach. Although most of our holdings have passed this screening test we have increased the level of conviction required to over-ride this.

At present 75 per cent of assets are invested in companies that are in the 'cheap' half of our value screen and given the strong buy signal across the region we have reduced the cash position from 10 per cent at the end of January 2009 to 3 per cent at the end of March.

Manager's review and outlook

TOP 5 CONTRIBUTORS

	Average relative weight (%)	Contribution to relative return (basis points estimated)
KazMunaiGaz	4.52	340
Norilsk Nickel	-0.98	135
OTP Bank	-2.93	69
Uralkali	-0.25	57
Novatek	-0.01	57

BOTTOM 5 CONTRIBUTORS

	Average relative weight (%)	Contribution to relative return (basis points estimated)
IMB Bank	2.59	-348
Sberbank	2.00	-177
Sistema	3.18	-146
Severstal	0.46	-130
Renfin	0.93	-114

GRAPHIC REMOVED

As we wrote in the February 2009 newsletter;

"The risks at present are twofold: firstly that we become too bearish, and secondly, that we get too excited by mini multi-day rallies. After a few 'up' days during the first week of February, the current risk is the latter".

This proved correct as the region's markets fell 15 per cent between the 13th and 18th February. The risks then shifted the other way, with a 29 per cent rise between 9th March and 26th March (see graph above). We anticipate that this volatility will repeat for some time. The indicators point to undervalued markets, even after the more-recent gains, but realising this potential in an uncertain world will not be a smooth ride.

Peter Jarvis
Senior Investment Manager
16th April 2009

5 largest contributors with positive impact

KazMunaiGaz KazMunaiGaz ('KMG') is the largest domestic oil company in Kazakhstan. Your Company successfully held a large investment in this stock, especially during the market turmoil in the second half of the year under review. KMG has a very large cash position on its balance sheet and this provided a cushion for investors as markets collapsed. This cash is earmarked for acquisitions, chiefly from its parent company, also called KazMunaiGaz. These acquisitions arise from a right that the company has to participate in any takeovers that occur within the Kazakh on-shore oil industry. KMG has, over the past two years already successfully completed a number of such transactions. Recent changes to the taxation system having now been implemented should provide the impetus for this deal flow to regain momentum.

Norilsk Nickel The Company's exposure to Norilsk Nickel varied considerably throughout the year, and ended January 2009 with a small investment. Norilsk is the world's largest producer of Nickel, with large by-product production of a number of other metals, especially copper, palladium and platinum. The share price of the company was strongly correlated with the large rise then sharp decline in the prices of these commodities. Norilsk has undertaken a number of foreign acquisitions in recent years although given the current poor outlook for Nickel these new assets are largely un-used at present. Over recent months there has been speculation surrounding a "mega-merger" of a number of mining and steel companies within Russia, including Norilsk Nickel. It is likely that such speculation together with the financial affairs of its current large shareholders will continue for some time and it is unclear how this will affect minority shareholders.

OTP Bank Your Company has not been invested in this bank this year, although it forms a significant part of the benchmark. Hungary's largest bank endured a difficult year. A number of reasons explain this including the plight of global banks, the Hungarian crisis (that lead to an IMF-lead rescue of the country) and the large number of FX mortgages on the bank's books. This latter issue became especially problematic as the Forint began to devalue versus the Euro and Swiss Franc. OTP has a number of foreign operations including in Russia and Ukraine, where banks suffered particularly severely in the credit crisis.

Uralkali Uralkali is Russia's largest producer of potash (fertilizer). Potash is an industry with a few global suppliers that tightly control the market. Potash prices soared in early 2008 towards, and even beyond, USD1,000 per tonne compared to less than USD200 a year or two earlier. Thus Uralkali enjoyed strong performance in early 2008. Unfortunately, a dispute with the government about the destruction of a mine by flooding and the ensuing collapse of a local railroad, lead to a large share price fall. This issue has largely now been resolved although some legal issues remain. We maintain a small investment in this company.

Novatek Novatek is the largest independent gas producer in Russia. The stock enjoyed strong performance in early 2008 as domestic gas prices began to rise. We sold our investment in June to focus our gas exposure in Gazprom. After sharp falls we briefly held the stock again from December 2008 – January 2009. The current outlook for gas is somewhat uncertain and the company's exposure to natural gas liquids production – that is priced off the oil price – makes year on year comparisons look poor in 2009.

5 largest contributors with negative impact

IMB Bank

IMB is a small mortgage and consumer finance provider in the Ukraine. Its loan book is funded through wholesale financing, largely from multinational agencies such as the IFC. In late 2008 the bank began to focus more upon point of sale consumer finance as the mortgage market in the Ukraine was no longer functioning. They also began to accept consumer deposits. Owing to the Ukraine's severe financial crisis, requiring a huge IMF bailout, the absence of wholesale funding and access to international capital, we sold this investment as the banking sector collapsed.

Sberbank

Russia's largest bank felt the full force of the Russian financial crisis in the autumn of 2008. The bank entered this crisis very well capitalised and with its bad loan book provisioned considerably higher than 100 per cent. Unfortunately, capital flight from Russia together with an alarming increase in non-performing loans overwhelmed the bank and the full negative affects of this are only now being quantified. Sberbank is viewed by its customers as a safe haven within Russia, however, this has been insufficient to compensate for the negative factors above. It is still unclear how much new capital (and in what form) Sberbank requires although they do have very strong support from the Russian Central Bank and from political forces within Russia.

Sistema

AFK Sistema owns a controlling stake in Russia's largest mobile telephone company, MTS. It also has interests in companies operating in many sectors of Russia's economy including fixed line telephony, real estate, banking, retailing, tourism and oil refining. The share price was negatively affected by the large debt positions within various parts of the group, including debts in US dollars that became more burdensome as the rouble devalued. Some of these issues have been resolved in recent weeks and the stock has rallied sharply since the end of the reporting period.

Severstal

The Russian steel industry enjoyed an unprecedented boom in early 2008 led by a surge in construction activity leading to record high steel prices. Many companies, including Severstal, made a number of overseas acquisitions, partly to convert semi finished products from their Russian mills into high value products for Western customers. As the crisis deepened in late 2008, capacity utilisation rates fell below 50 per cent and when combined with lower prices and the debt burden arising from prior acquisitions, resulted in a very rapid collapse of the share price. We have exited this investment as the outlook for steel remains poor and the debt burden, whilst not life threatening, remains a mill-stone.

Renfin

Our investment in this fund, that held a collection of stakes in smaller banks within Russia, was initially viewed as a thematic investment to gain exposure to the rapidly growing Russian financial system. This was viewed as an attractive way to benefit from a deepening of the Russian credit markets. This investment was thus a poor performer as credit markets seized up and Russian bank deposits fled to the relative safety of Sberbank. We have exited this investment as the outlook for Russian financials, given deteriorating credit quality, is very risky.

Sector and country breakdown

SECTOR BREAKDOWN

Sector	2009 %	Benchmark %	2008 %
Consumer Discretionary	0.1	1.5	3.9
Consumer Staples	3.1	2.2	4.8
Energy	37.7	33.3	10.9
Financials	22.3	24.0	35.3
Health Care	0.9	2.6	1.7
Industrials	4.3	2.3	8.9
Information Technology	0.1	0.6	0.7
Materials	2.2	8.8	18.4
Telecommunication Services	18.1	17.9	18.8
Utilities	–	6.8	7.0
Total investments	88.8	–	110.4
Net current assets/(liabilities)	11.2	–	(10.4)
Total	100.0	100.0	100.0

COUNTRY BREAKDOWN

Country	2009 %	Benchmark %	2008 %
Russia	52.9	48.8	66.6
Turkey	19.5	18.4	20.4
Kazakhstan	7.8	–	2.7
Poland	4.7	16.6	6.6
Georgia	1.5	–	2.1
Latvia	0.9	–	0.6
Ukraine	0.8	–	8.1
Bulgaria	0.6	–	0.8
Romania	0.1	–	0.9
Czech Republic	–	10.0	0.5
Estonia	–	–	0.5
Hungary	–	6.2	–
Iran	–	–	0.6
Total investments	88.8	–	110.4
Net current assets/(liabilities)	11.2	–	(10.4)
Total	100.0	100.0	100.00

Investment portfolio

The top ten investments are shown in bold

COUNTRY/WEIGHTING	BROAD CLASSIFICATION OF COMPANIES	ACTIVITY	VALUATION USD'000	% OF TOTAL NET ASSETS
Russia 52.9%	**Consumer Staples**			
	Magnit	Russian discount supermarket chain.	2,297	2.5
	Energy			
	Gazprom	**Largest gas company in the world.**	**14,823**	**16.0**
	LUKoil	**Largest Russian oil and gas company.**	**9,240**	**10.0**
	OAO Rosneft	**Major oil and gas company.**	**3,104**	**3.4**
	Transneft	Russian pipeline company.	471	0.5
	Financials			
	AG Cap Interra (UBS) Perles	Real estate company.	257	0.3
	RGI International	Residential real estate company in Moscow.	149	0.2
	Sberbank	**Largest bank in Russia.**	**3,623**	**3.9**
	Information Technology			
	IBS Group	Leading provider of IT services and consultancy.	132	0.1
	Materials			
	MMC Norilsk Nickel	The largest mining company in Russia.	694	0.7
	Uralkali	The largest potash producer in Russia.	263	0.3
	Telecommunication Services			
	Comstar United Telesystems	Telecoms operator.	1,793	1.9
	Mobile Telesystems	**Largest mobile telephone operator in Russia.**	**3,547**	**3.8**
	Moscow City Telephone	Operates as a telephone network in the Moscow region. Has near monopoly status in the region with over 90 per cent market share.	520	0.6
	Sibir Telecom	Provides telecommunications services in the Siberian Federal District.	404	0.4
	AFK Sistema	Holding company with interests in telecoms, banking and real estate.	2,795	3.0
	Vimpel Communications	**Leading GSM mobile provider.**	**4,853**	**5.3**

Investment portfolio

COUNTRY/WEIGHTING	BROAD CLASSIFICATION OF COMPANIES	ACTIVITY	VALUATION USD'000	% OF TOTAL NET ASSETS
Turkey 19.5%	**Consumer Staples**			
	TAT Konserve Sanayii	Producer of tomatoes and tomato products.	553	0.6
	Financials			
	Turkiye Garanti Bankasi	**Fourth largest bank.**	**3,833**	**4.1**
	Turkiye Is Bankasi	**Leading retail bank.**	**3,816**	**4.1**
	Turkiye Vakiflar Bankasi	Leading bank.	1,955	2.1
	Industrials			
	Enka	Diversified construction company with stakes in retail, real estate and power plants.	695	0.7
	Bagfas Bandirma Gubre Fabrikalari	One of Turkey's leading producers of fertilizers.	1,243	1.3
	Tekfen	Holding with interests in fertilisers and construction.	2,115	2.3
	Materials			
	Kardemir Karabuk Demir	Steel producer.	1,152	1.2
	Telecommunication Services			
	Tuckcell Iletisim Hizmet	**Turkey's largest provider of mobile telecommunication services.**	**2,846**	**3.1**
Kazakhstan 7.8%	**Energy**			
	Razvedka Dobycha KazMunaiGaz	**The largest upstream oil producer in Kazakhstan.**	**7,195**	**7.8**
Poland 4.7%	**Financials**			
	Bank Handlowy w Warszawie	Commercial bank expanding into retail.	1,227	1.3
	Getin	Retail bank.	1,358	1.5
	ING Bank Slaski	Fourth largest bank in Poland.	1,747	1.9
Georgia 1.5%	**Financials**			
	Bank of Georgia	The largest bank in Georgia.	1,364	1.5

Investment portfolio

COUNTRY/WEIGHTING	BROAD CLASSIFICATION OF COMPANIES	ACTIVITY	VALUATION USD'000	% OF TOTAL NET ASSETS
Latvia 0.9%	**Health Care**			
	Grindeks	Pharmaceutical company with joint ventures with western majors.	812	0.9
Ukraine 0.8%	**Financials**			
	Dragon-Ukranian Properties & Development	Real estate developer.	483	0.5
	JSCB Ukrsotsbank	One of the largest banks in Ukraine.	229	0.3
Bulgaria 0.6%	**Financials**			
	Bulgarian Land Development	Real estate company.	335	0.4
	Lewis Charles Sofia Property Fund	Closed-end fund investing in the Bulgarian residential property market.	234	0.2
Romania 0.1%	**Consumer Discretionary**			
	Flamingo International	White goods distributor in Romania.	62	0.1
	Total investments		**82,219**	**88.8**
	Other net assets		**10,412**	**11.2**
	Total net assets		**92,631**	**100.0**

Investments valued at zero

There are a further nine investments valued at zero that were acquired before the 1998 Russian crisis.

Substantial equity interests

At 31st January 2009, the Company did not hold equity interests comprising more that 3 per cent of any company's share capital.

Derivatives held at fair value

At 31st January 2009, the Company did not hold any derivatives.

Directors

All Directors are members of the Audit Committee, the Management Engagement Committee and the Nomination Committee.

The Remuneration Committee comprises the whole Board.

* All Directors are independent of the management company.

Hugh Aldous* Chairman

Aged 64. Appointed 22nd June 1995. Hugh Aldous is a former partner in Grant Thornton UK LLP. He was a managing partner of a predecessor firm and chairman of RSM International. He is a Director of Henderson TR Pacific Investment Trust plc, Polar Capital Holdings plc, Innospec Inc and Elderstreet VCT and Chairman of Melorio plc. He chairs a division of Capita plc dealing with the investment company industry. He was a member of the Competition Commission and a DTI Inspector with various appointments from 1987 to 2003.

Neil England*

Aged 54. Appointed 21st March 2003. Neil England is a Director of ITE Group plc, an international exhibitions group specialising in emerging and developing markets, Wincanton plc and Chairman of Silverstone Holdings Limited. He was previously vice president of Mars Inc., responsible for Mars' commercial operations across the CIS, including the Russian Federation. He was subsequently group director of Gallaher Group plc and chairman of Gallaher's Ukrainian business and was involved in mergers and acquisitions work in Central and Eastern Europe including Turkey.

Edmond Warner*

Aged 45. Appointed 13th June 2003. Edmond Warner is Chairman of UK Athletics, the sport's national governing body and Chairman of Cantos, the online financial broadcaster. In 2006 he sold IFX Group plc, the financial trading and spread betting company, having been its chief executive for three years. Previously he was CEO of Old Mutual Financial Services UK, Head of Pan European Equities at BT Alex Brown, and Head of Global Research at Dresdner Kleinwort Benson. He is also a Director of Clarkson plc and Standard Life European Private Equity Trust plc.

Rory Landman*

Aged 48. Appointed 1st July 2007. Rory Landman is the Senior Bursar of Trinity College, Cambridge. He was formerly a Senior Director and Head of Global Emerging Market Equities at Baring Asset Management where he was also the fund manager of the Baring Emerging Europe Trust and the First NIS Regional Fund. He was subsequently a founding partner of the emerging market equities team at Thames River Capital.

Report of the Directors

The Directors are pleased to present their report for the year to 31st January 2009.

Principal activities, business review and management of risk

A description of the Company's activities during the year is given in the Chairman's Statement on pages 3 and 4 and in the Manager's Report on pages 11 to 15. Investment trusts by their nature are exposed to risk from fluctuations in market prices, interest rates, exchange rates and liquidity. The Company's policies for managing these risks are set out in the Business Review on pages 8 and 9 and in note 16 to the accounts on pages 53 and 54.

Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006, and carries on the business of an investment trust. It has received approval as an investment trust under Section 842, Income and Corporation Taxes Act 1988, for the year ended 31st January 2008 but that approval would be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the Directors the Company conducts its affairs in such a way as to enable it to continue to obtain Section 842 approval.

Revenue and dividends

The gross revenue for the year was USD6,198,000 (2008: USD6,262,000). Net revenue on ordinary activities for the year after taxation was USD22,000 (2008: loss USD5,197,000).

The total loss on ordinary activities after taxation was USD303,204,000 (2008: profit USD28,227,000).

The Directors do not recommend the payment of a dividend.

Share capital

At 31st January 2009, there were 55,240,890 ordinary shares of USD0.10 each in issue (2008: 59,183,270 ordinary shares of USD0.10 each). During the year to 31st January 2009 the Company bought back 4,092,380 ordinary shares at an average price of £3.59 (USD7.08) per ordinary share. The shares bought back included 3,942,380 shares purchased on 19th June 2008 which were immediately cancelled. The remaining 150,000 shares were placed into treasury. At 31st January 2009, 1,015,000 ordinary shares were being held in treasury. Accordingly, at 31st January 2009 the total voting rights in respect of the ordinary shares in issue was 54,225,890 votes.

Subsequent to the year end, the Company has purchased a further 1,117,650 ordinary shares at an average price of £1.14 (USD1.66) per ordinary share which have been placed in treasury. Additionally since the year end 794,800 ordinary shares have been cancelled. At the date of this report the total voting rights in respect of ordinary shares in issue was 53,108,240

Report of the Directors

Share valuations

At 31st January 2009, total net assets were USD92,631,000. The net asset value per ordinary USD0.10 share was USD1.71, a decrease of 76.5 per cent from the net asset value per ordinary share at the previous year end.

At 31st January 2009, the ordinary share price was USD1.65 (converted from the mid-market sterling price at the prevailing rate of exchange).

At 16th April 2009, the ordinary share price was USD2.16 (converted from the mid-market sterling price at the prevailing rate of exchange).

Directors

The present Directors of the Company are listed on page 22, all of whom were in office throughout the year under review. Mr. Hareb Al-Darmaki retired as a Director on 25th March 2008. Mr. Stephen Barber was a Director of the Company during the first part of the year under review until he retired at the Annual General Meeting of the Company on 19th June 2008. All of the present Directors are independent of the Manager.

With effect from the close of the Annual General Meeting on 24th June 2009, Mr. Hugh Aldous will step down as Chairman and Mr. Neil England will take over as Chairman of the Board.

Directors' retirement by rotation

At the Annual General Meeting of the Company to be held on Wednesday, 24th June 2009 Mr. Hugh Aldous will retire in accordance with the requirements of the Combined Code, and will offer himself for re-election. Mr. Neil England will retire by rotation under the Articles of Association and also offers himself for re-election.

The performance and contribution of the Directors standing for re-election was reviewed by the Board during the year which concluded that the Company continues to benefit from their advice and services. The Board accordingly recommends that shareholders vote in favour of their re-election.

Related party disclosures

There were no contracts or arrangements in existence either during or at the year end in which any of the Directors is or was materially interested and which was significant in relation to the Company's business.

The Company's benchmark is the MSCI 10-40 Emerging Markets Europe index. The Directors consider that the benchmark is an appropriate measure for the Manager's performance and is consistent with the objective of allowing the Manager to determine stock weightings by their capital growth potential rather than their benchmark weightings.

Post balance sheet event

Subsequent to the year end HMRC have agreed to pay £950,000 for VAT refunded plus interest of £77,000 in respect of management fees paid to Pictet Asset Management Limited. This amount has been reflected in these financial statements, as an adjusting post balance sheet event (see note 17).

Report of the Directors

Directors' interests

The interests of the Directors in the ordinary shares of the Company, on the dates set out below, were as follows:

DIRECTORS' INTERESTS

Director	31st January 2009 Ordinary shares of USD0.10	31st January 2008 Ordinary shares of USD0.10
H.G.C. Aldous	60,000	50,000
N.M. England	135,000	95,400
R.B. Landman	10,000	–
E.W. Warner	10,000	10,000

All interests are held beneficially. No changes to these holdings have been notified as at the date of this report.

Manager and Custodian

The current Investment Manager, Pictet Asset Management Limited, was appointed Manager of the Company's investments on 14th November 1994 under an Agreement terminable immediately on notice by either party. The new Investment Manager, BlackRock Investment Management (UK) Limited is appointed with effect from 1 May 2009 under an Agreement (the "BlackRock Agreement") for a minimum period of 12 months and thereafter terminable by either party on giving not less than six months' written notice. BlackRock will contribute to the reasonable costs of transition by a waiver of management fees.

The current Manager is paid a monthly management fee based on performance over trailing 36 month periods. The basic annual fee ('Median Fee') is calculated monthly based on an annual rate of 1.1 per cent of the net assets at each calculation date. If the Manager outperforms or underperforms the Benchmark the Median Fee is adjusted as follows:

See notes 3 and 17.

PERFORMANCE RANGE (three years)	MANAGEMENT FEE (for relevant range)
Outperformance	
0 - 25 percentage points	straight line from 1.1% to 2.1%
25 - 50 percentage points	straight line from 2.1% to 2.6%
Over 50 percentage points	2.6%
Underperformance	
0 - 25 percentage points	straight line from 1.1% to 0.5%
Below 25 percentage points	0.5%

The Board has agreed fees with BlackRock summarised as follows: a management fee of 80bps, inclusive of administration and marketing services, on the Company's market capitalisation, a performance fee of 10 per cent of the geometric outperformance of net assets over the benchmark index up to 95 bps per annum with a cap on all fees of 1.75 per cent and subject to a high watermark relative to the benchmark.

Report of the Directors

A management and performance fee totalling USD2,207,000 (excluding VAT refund due from Pictet) (2008: USD7,705,000 excluding unrecovered VAT) was payable for the year under review (see note 3 to the accounts).

The Company's investments in funds managed by the Pictet Group are not deducted for the purposes of calculating the management fee, any additional fees earned by the Manager for managing these investments being refunded to the Company.

A fee of USD344,000 (2008: USD486,000) for custody services was payable to Pictet & Cie, the Company's custodian and ultimate owner of the Manager for the year under review (see note 4 to the accounts).

Voting policy

The Manager has extensive knowledge of the political, social and industrial environment of the Region and researches all prospective investee companies. As varying levels of corporate governance and shareholder rights exist in the Region the Board considers the Manager to be better placed to vote investee company shares in such manner as will best protect the interests of the Company. On sensitive issues the Manager will seek guidance from the Chairman before voting.

Social, economic and environmental matters

Investment trusts do not employ staff and accordingly have no direct impact on social matters but can be significant investors in the economies of the regions in which they invest. The Company invests in a range of countries having varying degrees of political and corporate governance standards. Accordingly, it is impractical to follow a unitary policy on environmental, governmental and social matters but the Directors believe that the best performing investee companies are likely to be those which have a regard for the social and environmental impact of their businesses.

Administration and secretarial agreement

Accounting, secretarial and administrative services are currently provided by Phoenix Administration Services Limited (the 'Administrator'), pursuant to an agreement dated 1st March 2005. These services are provided at a current annual fee of £125,000 plus VAT (2008: £125,000 plus VAT). The agreement is terminable by either party on not less than three months' notice. With effect from 1 May 2009 these services will be provided by BlackRock Investment Management (UK) Limited within the terms of the BlackRock Agreement detailed on page 25.

Share capital

At 31st January 2009 the authorised share capital of the Company was the aggregate of USD46,500,000 and £50,000 divided into 465,000,000 ordinary shares of USD0.10 each and 50,000 preference shares of £1 each (one quarter paid). Details of the issued share capital of the Company are set out in note 11 to the accounts.

Report of the Directors

The following sets out the respective rights and obligations attaching to each class of shares in the Company:

Preference shares

(a) Voting: the preference shares do not confer any right to receive notice of or to attend or vote at any general meeting of the Company except in the circumstances specified in Article 46 (Variation of class rights) of the Company's Articles of Association (the Articles);

(b) Dividend: a holder of preference shares shall be entitled to receive a fixed dividend at the rate of USD0.01 per preference share per annum (exclusive of any imputed tax credit available to shareholders) on the nominal amount of the preference shares held, such dividend to accrue annually and to be payable on demand of the holder (in respect of each accounting reference period of the Company) within 21 days of the end of such period; and

(c) Winding up or return of capital: the preference shares shall confer the right to be paid out of the assets of the Company available for distribution amongst the members the capital paid up on such shares (together with the right to receive all arrears and accruals of the preferential dividend) *pari passu* with and in proportion to any amounts of capital paid to the holders of the ordinary shares, but shall not confer any right to participate in any surplus remaining following payment of such amounts;

Ordinary shares

(a) Voting: the ordinary shares confer the right to receive notice and to attend and vote at any general meeting of the Company except in the circumstances specified in Article 69 of the Articles (Restriction on voting for unpaid calls).

(b) Dividend: the ordinary shares carry the right to dividends declared in accordance with the Articles.

(c) Winding up or return of capital: the capital and assets of the Company shall on a winding up or on a return of capital (otherwise than on a purchase by the Company of any of its shares) be applied by dividing amongst the ordinary shareholders pro rata according to the nominal capital paid upon their holdings of ordinary shares.

Restrictions on the transfer of shares

Whilst there are currently no restrictions on the transfer of shares, other than a transfer to more than four holders, the Board may impose such restrictions on the acquisition and holding of shares as it thinks necessary to ensure that shares are neither acquired nor held by or on behalf of any person in circumstances which:

(a) might be in breach of the law or requirements of any country or governmental or regulatory authority; or

Report of the Directors

(b) might have adverse taxation or other pecuniary consequences for the Company, including a requirement to register under any securities or investment or similar laws or requirements of any country or authority.

In particular, the Board may impose restrictions on the aggregate number of US Persons who may become beneficial owners (which shall include beneficial ownership by attribution pursuant to section 3(c)(1)(A) of the United States Investment Company Act of 1940, as amended) so as to avoid any registration requirements under such 1940 Act or any other securities or investment laws of the United States and on the holding or beneficial ownership of shares which would (whether on its own or taken with the holding or beneficial ownership of other shares), in the opinion of the Board, cause the assets of the Company to be considered "plan assets" within the meaning of the Regulations adopted by the United States Department of Labour under the Employee Retirement Income Security Act of 1974, as amended, of the United States.

Significant direct or indirect holdings of securities in the Company

At 31st January 2009 and at 31st March 2009, the Company had been notified of the following significant (3 per cent +) holdings in the ordinary shares and voting rights of the Company.

BENEFICIAL OWNER

	At 31st January 2009		At 31st March 2009	
	% of Issued Shares	% of Voting Rights	% of Issued Shares	% of Voting Rights
Clients of City of London Investment Management Company Limited	29.13*	29.67*	28.17	28.99
* includes Investable Markets Country Fund	*7.78*	*7.92*	*7.59*	*7.78*
* includes The Emerging Markets Country Fund	*5.25*	*5.35*	*5.96*	*6.11*
* includes Emerging (Free) Markets Country Fund	*3.76*	*3.82*	*3.33*	*3.42*
* includes World Emerging Markets Umbrella Fund	*3.06*	*3.12*	*3.24*	*3.32*
Clients of Pictet & Cie	9.01	9.18	9.00	9.22
Clients of Sarasin Chiswell	5.39	5.49	7.37	7.55
Clients of Legal & General Investment Management	4.47	4.55	4.53	4.64
Clients of Progressive Asset Management	3.15	3.21	3.16	3.24

ISA eligibility

The Company's ordinary shares qualify for inclusion in an ISA.

Powers of the Board

Subject to the provisions of the Companies Act, and the Memorandum and Articles of Association of the Company and to any directions given by special resolution of the Company, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company, whether relating to the management of the business or not. No alteration of the Memorandum of Association or of the Articles and no such direction given by the Company shall invalidate any prior act of the Board which would have been valid if such alteration had not been made or such direction had not been given.

Report of the Directors

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time on such terms and subject to such conditions as it thinks fit to any committee consisting of one or more Directors and (if thought fit) one or more other persons, provided that:

(a) a majority of the members of a committee shall be Directors; and

(b) no resolution of a committee shall be effective unless a majority of those present when it is passed are Directors or alternate Directors.

At the Annual General Meeting of the Company on 19th June 2008, the Company's shareholders authorised the Directors in relation to the buying back by the Company of its shares.

Charitable donations

During the year a donation of USD10,000 in respect of the year ended 31st January 2009, was made to the St Petersburg Hospice for Children with Cerebral Palsy. The Company receives regular reports on the application of its donations, including the names and conditions of children whose rehabilitation has been supported. In addition, a donation of USD3,039 was made to the Oxford Kidney Unit - Belarus Trust Fund.

Creditors payment policy

It is the Company's policy to obtain the best terms in all its business dealings. The Company agrees with individual suppliers the terms on which business will take place and abides by those terms. There were no trade creditors at the end of the financial year (2008: nil).

Auditors

PricewaterhouseCoopers LLP, the Auditors to the Company, have indicated their willingness to continue in office. The Audit Committee, having reviewed the effectiveness of the external auditor, recommends that PricewaterhouseCoopers LLP be proposed as the Company's Auditors. Accordingly, resolutions are to be proposed at the forthcoming Annual General Meeting for their re-appointment, and to authorise the Directors to agree their remuneration for the ensuing year.

The Audit Committee and Board are satisfied that non-audit work undertaken for the Company by PricewaterhouseCoopers LLP has not compromised the Auditor's independence.

Annual General Meeting

The fifteenth Annual General Meeting of the Company will be held on Wednesday, 24th June 2009 at 12 noon at Fishmongers Hall, London Bridge, London EC4R 9EL. The business of the meeting is set out in the Notice of the Annual General Meeting on page 56 and further details on the Special Business of the meeting are set out below and overleaf.

Report of the Directors

Authority for the Company to purchase and cancel its own ordinary shares and to hold treasury shares

Resolution 7 authorises the Company to purchase its own shares in the market up to a maximum of 7,950,000 ordinary shares; representing approximately 14.99 per cent of the issued share capital (excluding treasury shares) at the date of this Report; for cancellation or, up to an equivalent of 10 per cent of the issued share capital, to hold as treasury shares. The authority would be for an 18 month period from the date of passing of the resolution, or until the conclusion of the 2010 Annual General Meeting if earlier. Shares would be bought for a minimum of USD0.10 per share and a maximum of 5 per cent above the average of the Daily Official List middle market quotation for the five business days immediately preceding the date of purchase.

The Directors would use this discretionary authority with the objective of enhancing shareholder value. Purchases would only be made through the market for cash at a price below their prevailing net asset value to increase net asset value for the remaining shareholders.

It is proposed that any purchase of ordinary shares would be financed out of the reserve which arose on 15th November 1999 on the cancellation of the share premium account.

By order of the Board
Phoenix Administration Services Limited
Secretary
16th April 2009

Directors' remuneration report

Introduction

The Directors are pleased to present their report on remuneration in respect of the year ended 31st January 2009.

This report is prepared in accordance with Schedule 7A of the Companies Act 1985 and where information has been audited, it is indicated as such. The Auditors' opinion is included in the Auditors' Report on pages 39 and 40.

Matters relating to Directors' remuneration

Since all Directors are non-executive, the Board as a whole performs the function of the remuneration committee. The terms of reference of the remuneration committee are available at the Registered Office of the Company.

At 31st January 2009, the Board comprised four non-executive Directors, all of whom are independent of the Manager. The Board's policy on appointment, tenure and succession of Directors is set out on page 35. None of the Directors has a contract of service with the Company. There are no fixed notice periods, nor any entitlement to compensation for loss of office and a Director may resign at any time by writing to the Company.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally or to a third party specified by the Director. The Company by ordinary resolution in general meeting has set the current limit for the aggregate fees payable to Directors to USD250,000 per annum.

In January 2009, the Board reviewed the fees paid by the Company against those being paid to directors of other investment trust companies having a similar size and similar investment objectives. As a result of the review it was determined that the annual fees be unchanged for the current financial year.

Remuneration policy

The Company's policy is that fees payable to Directors should reflect the time spent by them on the Company's affairs, the responsibilities borne by the Directors and be sufficient to retain candidates of high calibre. Those chairing the Board and key committees should be paid higher fees than other Directors in recognition of their more demanding roles.

It is the Company's policy that no Director shall be entitled to any performance related remuneration, benefits in kind, long term incentive schemes, share options, pensions or other retirement benefits or, compensation for loss of office. Directors are entitled to claim expenses in respect of duties undertaken on behalf of the Company.

It is the intention of the Board that the above policy on remuneration shall continue to apply for the current financial year.

Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors and is renewed annually.

Directors' remuneration report

Performance The performance graph below shows the return over the past five years of the Company's ordinary shares, and that of the benchmark.

Cumulative return: 31st January 2004 = 100

GRAPHIC REMOVED

Amount of each Director's emoluments The fees paid in respect of each of the Directors who served during the year ended 31st January 2009 (excluding VAT) and the year ended 31st January 2008 (excluding VAT) were as follows:

DIRECTORS' EMOLUMENTS

Director	31st January 2009 USD	31st January 2008 USD
H.G.C. Aldous	50,000	50,000
H.M. Al-Darmaki (to 25th March 2008)	5,833	35,000
S.D. Barber (to 19th June 2008)	–	–
N. England	35,000	35,000
E.W. Warner	40,000	40,000
R.B. Landman (from 1st July 2007)	35,000	20,417
S.S. Widomski (to 15th June 2007)	–	14,583
Total	165,833	195,000

This information has been audited (see the Independent Auditors' Report on pages 39 and 40).

None of the Directors has a service contract with the Company.

Directors' remuneration report

No other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors.

The Directors' fees cited in note 4 to the accounts are the aggregate fees paid by the Company. Mr. Stephen Barber waived his rights to fees as he was employed by Pictet Asset Management Limited ('PAM') or a related company and provided services to the Company as part of that employment. The Company has been advised that the remuneration paid by PAM in relation to the services provided by that Director was USD13,328 (2008: USD35,000).

Sums paid to third parties

Of the fees payable to Directors as set out above, the following sums were paid to or receivable by third parties for making available the services of the person as a Director between 1st February 2008 and 25th March 2008.

SUMS PAID TO THIRD PARTIES

Paid to	In respect of	Fees for services	Irrecoverable VAT	Total
Abu Dhabi Investment Authority	H.M. Al-Darmaki	USD5,833	–	USD5,833

This information has been audited (see the Independent Auditors' Report on pages 39 and 40).

By order of the Board

Phoenix Administration Services Limited

Secretary

16th April 2009

Corporate governance statement

Compliance

The Board takes its corporate governance responsibilities seriously and has tried to instill in this statement something of what the Board and the Company actually does.

The Board confirms that, apart from as stated below, it complied with the provisions set out in Section 1 of the Combined Code 2006 on Corporate Governance of the Financial Reporting Council ('the Code') and the AIC Code of Corporate Governance throughout the period under review and continues to comply. However, since all Directors are non-executive and independent, it has not appointed a senior independent Director. The Company and Board comply with the Companies Acts 2006 and 1985 (as amended) and the UKLA Listing Rules.

Board independence

The Board's prime purpose is to direct business to maximise shareholder value within a framework of proper controls. Only one Director, Stephen Barber, who retired from the Board at the last Annual General Meeting ('AGM'), was connected with the Manager and in the opinion of the other Directors he refrained from voting on any matters that concerned the interests of the Manager and acted strongly in the interest of the Company.

Board structure and management

There is clear division of responsibility between the Chairman, the Board, the Manager and other third party service providers. No individual has unconstrained powers of decision. The Chairman leads the Board and ensures that the Directors receive accurate, timely and clear information. The Board leads on matters concerning the Company's investment objective, limits on gearing (both bank borrowing and the effect of derivatives), capital structure, governance, and the appointment of service providers. It is the sole responsibility of the Manager to take decisions on the purchase and sale of individual investments within the guidelines set by the Board. Representatives of the Manager and the Company Secretary attend each Board meeting. The Board, the Manager and Secretary operate in a supportive and cooperative manner.

Meetings and performance appraisal

The number of meetings of the Board and its committees held during the financial year and attendance of individual Directors is shown below.

MEETINGS AND ATTENDANCE

Nature of meeting	Board	Audit Committee	Management Engagement Committee
Number of meetings	4	3	2
H.G.C. Aldous	4	3	2
H.M. Al-Darmak: (retired 25th March 2008)	–	–	–
S.D. Barber: (retired 19th June 2008)	2	n/a	n/a
N.M. England	4	3	2
E. Warner	4	3	2
R.B. Landman	4	3	2

Corporate governance statement

The Board also met several times by conference call during the process of manager review. The day to day matters of that process were conducted by a sub-committee of Hugh Aldous and Rory Landman.

The Board is currently chaired by Hugh Aldous. There is a defined list of matters specifically reserved for discussion by the Board. The Board examines its own performance annually with all Directors providing commentary on the Board's collective performance, on each other and the Chairman's performance. During the course of the year Board members met or maintained contact with the Company's larger shareholders.

The Board reviews the performance of the Manager at each Board meeting and takes a close interest in the results of attribution analysis. Board members also meet the fund manager at times outside of Board meetings to discuss their views and review the other service providers.

Tenure, appointment and succession

Hugh Aldous stands for re-election at the forthcoming AGM because he has served on the Board for more than nine years. Neil England stands for re-election by shareholders pursuant to the provisions of the Company's Articles of Association. The biographies of the Directors are set out on page 22 of this report. None of the Directors considers longevity of service as an impediment to independence or good judgement but, if they felt this had become the case, the relevant Director(s) would stand down.

Directors are appointed under Letters of Appointment. They are provided with a Director's Manual and training is available. Directors are subject to re-election at intervals of not more than three years unless they have served for nine years or more, or are deemed not to be independent, in which case they are required to stand for re-election each year.

The Chairman of the Company acts as Chairman of the Management Engagement, Remuneration and Nomination Committees, except when the Nomination Committee is considering his successor. The Terms of Reference of all committees are available from the Company Secretary's office.

Nomination Committee

The Nomination Committee comprises the whole Board and is responsible for Board succession planning, taking into account the balance of relevant skills, experience and age when selecting candidates for appointment to the Board.

Remuneration Committee

Under the UK Listing Rules, where an investment trust company has no executive directors, the Code provisions relating to directors' remuneration do not apply. Details of the Directors' fees are given in the Directors' Remuneration Report on pages 31 to 33.

Corporate governance statement

Audit Committee

The Audit Committee comprises all independent Directors and is chaired by Ed Warner who has recent, relevant and extensive financial and analytical experience. Amongst other duties, the Audit Committee meets periodically with the head of compliance of the Manager, receives reports on internal controls and, reviews the quality and effectiveness of accounting records and published financial information. It considers the independence and objectivity of the external auditors, their effectiveness, their suitability to undertake work other than the statutory audit, and their remuneration. It also considers and recommends proposals for the appointment of external auditors.

As the Company has no employees, the Audit Committee does not consider there is a need for 'whistleblowing' procedures, but does review those of the Manager and Administrator.

Internal controls

The Company does not have an internal audit function, since all services are delegated to third parties. It satisfies itself of the effectiveness of internal controls by requiring service providers to give the Board and Audit Committee assurance on their internal controls. The Directors can thereby provide reasonable assurance in this respect. In the most recent annual review on 15th April 2009 the Directors noted that the Manager and Custodian had each confirmed that each had an internal control framework to provide reasonable assurance against material misstatement or loss and that their respective compliance/internal audit departments regularly assessed the effectiveness of those controls. The Administrator also provided assurances on its internal controls at the review meeting on 15th April 2009.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday, 24th June 2009 and all shareholders are encouraged to attend. In accordance with the Code, the Notice of Meeting will be circulated a minimum of 20 working days before the meeting. Details of Proxy votes received in respect of each resolution will be available to shareholders at the meeting.

Going concern

The Company has adequate resources to continue in existence for the foreseeable future and the Board therefore believes that it is appropriate for the accounts to be prepared on a going concern basis.

Statement of Directors' responsibilities in respect of the accounts

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Company's financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), and the Directors' Remuneration Report in accordance with applicable law. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Company financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

Auditor information

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a Director in order to make him aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Directors' responsibilities in respect of the accounts

Declaration Each of the non-executive Directors listed on page 22, as the persons responsible hereby confirm to the best of their knowledge:

- that the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Management Report (which comprises the Chairman's Statement and the Business Review) includes a fair review of the development and performance of the business and the position of the Company, together with the principal risks and uncertainties that the Company faces.

Independent auditors' report

to the members of The Eastern European Trust PLC

We have audited the financial statements of The Eastern European Trust plc for the year ended 31st January 2009 which comprise the Accounting Policies, the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and Manager's Report that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Independent auditors' report

to the members of The Eastern European Trust PLC

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Financial Highlights and Summary of Performance, Chairman's Statement, the Business Review, the Manager's Report, the Report of the Directors, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st January 2009 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

16th April 2009

Accounting policies

Basis of accounting

The accounts are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of investments and derivatives at fair value through profit and loss. The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' dated January 2009, issued by the Association of Investment Companies. All of the Company's operations are of a continuing nature.

Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

Valuation of fixed asset investments

When a purchase or sale is made under a contract, the terms of which require delivery within the time frame of the relevant market, the investments concerned are recognised or derecognised on the trade date.

The Company's fixed asset investments are classified as 'investments designated at fair value through profit or loss' as they are part of the portfolio, are evaluated and managed on a fair value basis and are described in these financial statements as investments held at fair value.

All investments are designated as held at fair value upon initial recognition and are measured at subsequent reporting dates at fair value, which is either the bid price or last traded price, depending on the convention of the exchange on which the investment is quoted.

Fair values for unquoted investments, or investments for which the market is inactive, are established by using various valuation techniques. These may include recent arm's length market transactions or the current fair value of another instrument which is substantially the same. Where no reliable fair value can be estimated for such instruments, they are carried at cost subject to any provision for impairment.

Valuation of derivative financial instruments

Derivatives are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the Income Statement.

Preference shares

The Company's preference shares are classified as a liability under Financial Reporting Standard 25: "Financial Instruments: Disclosure and Presentation".

Reporting currency

The accounts are presented in US dollars which is the functional and presentational currency of the Company. The US dollar is the functional currency because it is the currency most closely related to the primary economic environment in which the Company invests.

Accounting policies

Income Dividends are credited to the revenue return on an ex-dividend basis or as soon as entitlement has been established, if later. The return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security. Bank and deposit interest is accounted for on an accruals basis.

Expenses All expenses are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are included in the cost or deducted from the proceeds of the sale of investment. Fees payable to the Manager are charged to revenue except for capital outperformance which is charged to capital (see page 25 for details of the management/performance fee structure).

Transaction charges in relation to the purchase and sale of investments are charged to capital.

Taxation The tax effect of different items of income/gain and expenditure/loss is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective rate of tax for the accounting period.

Deferred taxation is provided on all differences which have originated but not reversed by the balance sheet date, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Foreign currency Transactions denominated in foreign currencies are recorded in US dollars at actual exchange rates at the date of the transaction. Monetary assets and equity investments held at fair value through profit or loss and liabilities denominated in foreign currencies at the year end are recorded in US dollars at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital.

Bank borrowings Interest bearing overdrafts are recorded as the proceeds received. Interest payable is accounted for on an accruals basis in the Income Statement using the effective interest rate method.

Accounting policies

Treasury shares

Treasury shares are deducted from equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Company's own equity shares. Treasury shares may be acquired and held by the Company and any consideration paid or received is recognised directly in equity.

Capital reserves

The following are accounted for in capital reserve – realised:

- Gains and losses on the realisation of fixed asset investments and derivatives;
- Realised foreign exchange differences of a capital nature;
- Costs of professional advice, including irrecoverable VAT, relating to the capital structure of the Company;
- Costs relating to the purchase, sale, issue or cancellation of the Company's own equity shares; and
- Other capital related expenses.

The following are accounted for in capital reserve – unrealised:

- Movements in the valuation of fixed asset investments and derivatives held at the year end; and
- Unrealised exchange differences of a capital nature.

Income statement

		Year ended 31st January 2009			Year ended 31st January 2008		
	Notes	Revenue USD'000	Capital USD'000	Total USD'000	Revenue USD'000	Capital USD'000	Total USD'000
(Losses)/gains from investments held at fair value	1	–	(321,097)	(321,097)	–	47,557	47,557
Gains/(losses) from derivatives held at fair value		–	17,306	17,306	–	(4,927)	(4,927)
Realised foreign exchange losses		–	(773)	(773)	–	(6,239)	(6,239)
Income from investments held at fair value	2	5,998	–	5,998	5,852	–	5,852
Other interest receivable and similar income		200	–	200	410	–	410
Gross revenue and capital (losses)/gains		6,198	(304,564)	(298,366)	6,262	36,391	42,653
Management fee and performance fee	3	(2,648)	1,810	(838)	(5,938)	(2,529)	(8,467)
Other administrative expenses	4	(1,725)	(472)	(2,197)	(2,183)	(438)	(2,621)
Net return on ordinary activities before interest payable and taxation		1,825	(303,226)	(301,401)	(1,859)	33,424	31,565
Interest payable	5	(911)	–	(911)	(2,628)	–	(2,628)
Net return on ordinary activities before taxation		914	(303,226)	(302,312)	(4,487)	33,424	28,937
Taxation	6	(892)	–	(892)	(710)	–	(710)
Net return on ordinary activities after taxation		22	(303,226)	(303,204)	(5,197)	33,424	28,227
		cents	cents	cents	cents	cents	cents
Return per ordinary share	7	0.04	(543.97)	(543.93)	(8.86)	56.96	48.10

The total columns of this statement represent the profit and loss accounts of the Company. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accounting policies on pages 41 to 43 and the notes on pages 48 to 55 form part of these accounts.

Reconciliation of movements in shareholders' funds

for the years ended 31st January 2009 and 31st January 2008

	Called up share capital USD'000	Capital redemption reserve USD'000	Other reserve USD'000	Capital reserve USD'000	Revenue reserve USD'000	Total USD'000
For the year ended 31st January 2009						
Net assets at 31st January 2008	5,918	3,023	33,196	408,502	(25,787)	424,852
Repurchase of shares into treasury	–	–	(965)	–	–	(965)
Shares repurchased and cancelled	(394)	394	(28,052)	–	–	(28,052)
Net (loss)/profit from operating activities	–	–	–	(303,226)	22	(303,204)
Net assets at 31st January 2009	5,524	3,417	4,179	105,276	(25,765)	92,631

	Called up share capital USD'000	Capital redemption reserve USD'000	Other reserve USD'000	Capital reserve USD'000	Revenue reserve USD'000	Total USD'000
For the year ended 31st January 2008						
Net assets at 31st January 2007	5,918	3,023	37,903	375,078	(20,590)	401,332
Repurchase of shares into treasury	–	–	(4,707)	–	–	(4,707)
Net profit/(loss) from operating activities	–	–	–	33,424	(5,197)	28,227
Net assets at 31st January 2008	5,918	3,023	33,196	408,502	(25,787)	424,852

The accounting policies on pages 41 to 43 and the notes on pages 48 to 55 form part of these accounts.

Balance sheet

at 31st January

	Notes	2009 USD'000	2008 USD'000
Investments held at fair value	8	82,219	469,130
Current assets			
Derivatives held at fair value	8	–	9,324
Debtors	9	1,655	13,668
Cash at bank		11,339	83
		12,994	23,075
Creditors: amounts falling due within one year	10	(2,563)	(67,334)
Net current assets/(liabilities)		10,431	(44,259)
Total assets less current liabilities		92,650	424,871
Creditors: amounts falling due after more than one year			
Preference shares of £1.00 each (one quarter paid)		(19)	(19)
Total net assets		92,631	424,852
Capital and reserves			
Called up share capital	11	5,524	5,918
Reserves:	12		
Capital redemption reserve		3,417	3,023
Other reserve		4,179	33,196
Capital reserve		105,276	408,502
Revenue reserve	12	(25,765)	(25,787)
Equity shareholders' funds	13	92,631	424,852
Net asset value per ordinary share		cents	cents
	13	170.83	728.51

These accounts were approved by the Board of Directors on 16th April 2009.

H.G.C. Aldous
Director

The accounting policies on pages 41 to 43 and the notes on pages 48 to 55 form part of these accounts.

Cash flow statement

for the years ended 31st January

	Notes	2009 USD'000	2009 USD'000	2008 USD'000	2008 USD'000
Net cash inflow/(outflow) from operating activities	14		27,579		(19,503)
Servicing of finance					
Interest paid			(1,226)		(2,454)
Financial investment					
Purchases of investments		(253,513)		(563,605)	
Sales of investments		332,321		580,080	
Exchange movement on purchases and sales		830		(305)	
Net cash inflow from financial investment			79,638		16,170
Net cash inflow/(outflow) before financing			105,991		(5,787)
Financing					
Repurchases of shares into treasury			(965)		(4,707)
Shares repurchased and cancelled			(28,052)		-
Increase/(decrease) in cash			76,974		(10,494)

Reconciliation of net cash flow to movement in net cash/debt			
Increase/(decrease) in cash as above		76,974	(10,494)
Exchange difference		(1,603)	(5,934)
Movement in net debt		75,371	(16,428)
Net debt at start of year		(64,075)	(47,647)
Net cash/(debt) at 31st January	15	11,296	(64,075)

The accounting policies on pages 41 to 43 and the notes on pages 48 to 55 form part of these accounts.

Notes to the accounts

Note 1 (Losses)/gains from investments held at fair value

	2009 USD'000	2008 USD'000
Realised (losses)/gains based on historical cost	(58,701)	110,213
Amounts recognised as unrealised in previous periods	(55,811)	(79,052)
Realised (losses)/gains based on carrying value at previous balance sheet date	(114,512)	31,161
Net movement in unrealised appreciation	(206,585)	16,396
	(321,097)	47,557

Note 2 Income from investments held at fair value

	2009 USD'000	2008 USD'000
Unfranked	5,998	5,852
Franked	–	–
	5,998	5,852

Note 3 Management fee and performance fee

	2009 USD'000	2008 USD'000
Management fee (all charged to revenue)	3,536	5,488
Unrecovered VAT thereon	–	450
VAT refund due from Pictet (see note 17)	(888)	–
	2,648	5,938

	2009 USD'000	2008 USD'000
Performance fee (all charged to capital)	(1,329)	2,217
Unrecovered VAT thereon	–	312
VAT refund due from Pictet (see note 17)	(481)	–
	(1,810)	2,529

A summary of the terms of the investment management agreement is given in the Report of the Directors on page 25, and in note 18 on page 55.

Note 4 Other administrative expenses

	2009 USD'000	2008 USD'000
Directors' fees*	166	195
Auditors' remuneration: for statutory audit	40	53
for tax services	9	16
Custody fees payable to Pictet	344	486
Accounting and secretarial fees	237	249
Fees paid to overseas custodians	501	671
Advisory and consultancy fees	53	43
Other expenses	375	470
	1,725	2,183
Transaction charges – capital	472	438
	2,197	2,621

* Details of the amounts paid to Directors are included in the Directors' Remuneration Report on pages 31 to 33.

Mr. Stephen Barber received USD13,328 from Pictet Asset Management Limited in relation to services provided to the Company (2008: USD35,000).

Notes to the accounts

Interest payable (all charged to revenue) **Note 5**

	2009 USD'000	2008 USD'000
Interest on overdrafts repayable within one year	911	2,628

Taxation **Note 6**

(a) Analysis of charge in the year

	2009 Revenue USD'000	2009 Capital USD'000	2009 Total USD'000	2008 Revenue USD'000	2008 Capital USD'000	2008 Total USD'000
Corporation tax at 28.36 per cent* (2008: 30 per cent)	377	–	377	–	–	–
Double taxation relief	(377)	–	(377)	–	–	–
	–	–	–	–	–	–
Overseas withholding tax	892	–	892	711	–	711
Overseas withholding tax reclaims	–	–	–	(1)	–	(1)
Total current taxation for the year	892	–	892	710	–	710

(b) Factors affecting taxation charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 28.36 per cent* (2008: 30 per cent). The difference is explained below:

	2009 USD'000	2008 USD'000
Net return on ordinary activities before taxation	(302,312)	28,937

	2009 USD'000	2008 USD'000
Net return on ordinary activities before taxation, multiplied by the standard rate of corporation tax of 28.36 per cent* (2008: 30 per cent)	(85,736)	8,681
Capital losses/(gains) not subject to corporation tax	85,995	(10,027)
Excess expenses	–	2,024
Expenses charged to capital	–	(759)
Income taxable in different periods	106	62
Expenses not deductible for tax purposes	12	19
Overseas withholding tax	892	710
Double taxation relief	(377)	–
Taxation on net return on ordinary activities	892	710

* Under the Finance Act 2008, the rate of Corporation Tax was lowered to 28 per cent from 30 per cent on 1 April 2008. An average rate of 28.36 per cent is applicable for the year ended 31 January 2009.

The Company has not recognised a deferred tax asset of USD9,945,000 (2008: USD9,880,000) arising as a result of excess management expenses and eligible unrelieved foreign tax. These expenses could only be utilised if the Company were to generate taxable profits in the future. It is considered unlikely that the Company will generate such profits and therefore no deferred tax asset has been recognised.

Notes to the accounts

Note 7 Return per ordinary share

	2009	2008
Total (loss)/earnings per ordinary share		
Total (loss)/earnings (USD'000)	(303,204)	28,227
Weighted average number of ordinary shares in issue during the year	55,743,077	58,679,996
Total (loss)/earnings per ordinary share (cents)	(543.93)	48.10

The total (loss)/earnings per ordinary share detailed above can be further analysed between revenue and capital, as below:

Revenue earnings/(loss) per ordinary share		
Revenue earnings/(loss) (USD'000)	22	(5,197)
Weighted average number of ordinary shares in issue during the year	55,743,077	58,679,996
Revenue earnings/(loss) per ordinary share (cents)	0.04	(8.86)

Capital (loss)/earnings per ordinary share		
Capital (loss)/earnings (USD'000)	(303,226)	33,424
Weighted average number of ordinary shares in issue during the year	55,743,077	58,679,996
Capital (loss)/earnings per ordinary share (cents)	(543.97)	56.96

Note 8 Investments held at fair value

	USD'000
Valuation at 1st February 2008	469,130
Unrealised appreciation at 1st February 2008	(65,788)
Cost at 1st February 2008	403,342
Purchases at cost	253,503
Sales at cost	(378,018)
Cost at 31st January 2009	278,827
Unrealised depreciation at 31st January 2009	(196,608)
Valuation at 31st January 2009	82,219

Investments held at fair value	2009 USD'000	2008 USD'000
Listed	82,219	469,130
Unlisted, but quoted on markets with limited stock availability	–	–
	82,219	469,130

Investment transaction costs on purchases and sales of investments during the year to 31st January 2009 amounted to USD494,000 and USD599,000 respectively (2008: USD1,460,000 and USD1,515,000 respectively).

Derivatives held at fair value
At 31st January 2009, there were no derivatives held at fair value.

At 31st January 2008, the following derivatives, all of which are Long Call Options and are OTC traded, were held at fair value. The 'delta exposure' indicates the underlying exposure, based on the underlying securities represented by the derivative.

Notes to the accounts

Note 8 continued

Contract	Quantity of underlying security	Delta exposure USD'000	% of Company economic exposure	Fair value USD'000
Gazprom ADR 16th May 2008	1,175,000	56,888	13.38%	6,812
LUKoil ADR 20th June 2008	330,000	22,915	5.39%	605
Surgutneftegaz ADR 9th May 2008	260,000	12,126	2.85%	152
Warsaw Stock Exchange Wig 20 6th June 2008 & 18th July 2008	31,453	38,117	8.96%	1,714
Russian Depositary Index 20th March 2008	8,000	18,560	4.37%	41
				9,324

Note 9

Debtors

	2009 USD'000	2008 USD'000
Sales for future settlement	128	13,132
Prepayments and accrued income	158	536
VAT refund due from Pictet (see note 17)	1,369	-
	1,655	13,668

Note 10

Creditors

Creditors: amounts falling due within one year	2009 USD'000	2008 USD'000
Bank overdraft	43	64,158
Purchases for future settlement	2,328	2,338
Accruals	192	838
	2,563	67,334

Note 11

Share capital

Equity share capital	2009 USD'000	2008 USD'000
Authorised: 465 million ordinary shares of USD0.10 each	46,500	46,500
Issued, fully paid: 55,240,890 ordinary shares of USD0.10 each	5,524	5,918

At 31st January 2009 the Company held 1,015,000 (2008: 865,000) ordinary shares of USD0.10 in treasury. Treasury shares do not reduce the authorised or issued capital but do not have voting rights or entitlement to dividends. Accordingly the total voting rights attaching to shares in issue at 31st January 2009 was 54,225,890 (2008: 58,318,270).

Non-equity share capital	2009 USD'000	2008 USD'000
Authorised: 50,000 preference shares of £1.00 each	76	76
Issued, one quarter paid: 50,000 preference shares of £1.00 each	19	19

The Company's preference shares are classified as a liability.

The preference shares confer no right to receive notice of or attend or vote at any general meeting of the Company except upon any resolution to vary the rights attached to the preference shares. They carry the right to receive a fixed dividend of USD0.01 per preference share per annum, payable on demand. On a winding up or return of capital, the preference shares confer the right to be paid, out of the assets of the Company available for distribution, the capital paid up on such shares pari passu with and in proportion to any amounts of capital paid to ordinary shareholders, but do not confer any right to participate in the surplus assets of the Company. The preference shares may be redeemed at any time by the Company. In the year to 31st January 2009 and the previous year, the preference shareholders waived their rights to any preference dividend.

Notes to the accounts

Note 12 Reserves

	Capital redemption reserve USD'000	Other reserve USD'000	Capital reserve realised USD'000	Capital reserve unrealised USD'000	Total capital reserve USD'000	Revenue USD'000
At 1st February 2008	3,023	33,196	348,408	60,094	408,502	(25,787)
Repurchase of shares into treasury	–	(965)	–	–	–	–
Shares repurchased and cancelled	394	(28,052)	–	–	–	–
Performance fee shortfall allocated to capital	–	–	1,329	–	1,329	–
VAT refund due from Pictet	–	–	481	–	481	–
Transfer on disposal of investments	–	–	55,811	(55,811)	–	–
Losses on investments	–	–	(114,512)	(206,585)	(321,097)	–
Transfer on disposal of derivatives	–	–	(5,694)	5,694	–	–
Gains on derivatives	–	–	17,306	–	17,306	–
Net loss on foreign exchange	–	–	(773)	–	(773)	–
Transaction charges – capital	–	–	(472)	–	(472)	–
Revenue profit for the year	–	–	–	–	–	22
At 31st January 2009	3,417	4,179	301,884	(196,608)	105,276	(25,765)

Under the terms of the Company's Articles of Association, sums standing to the credit of Other Capital Reserves are available for distribution only by way of redemption or purchase of any of the Company's own shares. The Company may only distribute accumulated "realised" profits.

The Institute of Accountants in England and Wales, has issued guidance (TECH 01/08), stating that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits less losses included within the Other Capital Reserves – Unrealised, may be regarded as distributable under Company Law. At 31st January 2009, the Company had a capital reserve unrealised loss of USD196,608,000.

Note 13 Net asset value per ordinary share

	2009	2008
Net assets attributable (USD'000)	92,631	424,852
Ordinary shares in issue at the year end*	54,225,890	58,318,270
Net asset value per ordinary share (cents)	170.83	728.51

* The ordinary shares in issue at the year end excludes 1,015,000 shares held in treasury (2008: 865,000 shares held in treasury).

Note 14 Reconciliation of net (loss)/return on ordinary activities before taxation to net cash inflow/(outflow)

	2009 USD'000	2008 USD'000
Net (loss)/return before finance costs and taxation	(301,401)	31,565
Losses/(gains) on investments held at fair value	321,097	(47,557)
Realised foreign exchange differences	773	6,239
Decrease in accrued income	265	215
Decrease/(increase) in other debtors	8,123	(8,322)
Decrease in other creditors	(329)	(880)
Tax on unfranked investment income	(949)	(763)
Net cash inflow/(outflow) from operating activities	27,579	(19,503)

Notes to the accounts

Note 15

Analysis of changes in net (debt)/cash

	At 1st February 2008 USD'000	Cash flow USD'000	Exchange movement USD'000	At 31st January 2009 USD'000
Cash at bank	83	12,859	(1,603)	11,339
Bank overdraft	(64,158)	64,115	–	(43)
	(64,075)	76,974	(1,603)	11,296

Note 16

Financial instruments and capital disclosures

Risk management policies and procedures

The Company's business is to invest in securities, principally equity shares, of companies that trade in the region defined in the investment objective at the front of this Report. When judged appropriate by the Investment Manager, the Company may use the overdraft facility with Pictet & Cie described in note 18 principally in order to gear the portfolio, but also for more efficient portfolio management. The Board has policies on diversification of investment, gearing (both bank borrowing and the effect of derivatives) and risk management, which it reviews in accordance with prevailing market conditions. Current policies are set out at the front of this Report and as part of the Business Review on pages 8 and 9. The Company's assets are managed so as to diversify both the market risk (including price risk) and liquidity risk that occurs in any equity portfolio and the Board monitors this process (see Business Review). Neither interest rate risk nor currency risk are considered as separate risks for the reasons explained in that Review.

In responding to FRS 29, the Directors note that the portfolio, as currently constructed, has an ex-ante beta of 0.84 (2008: 0.86), based on the APT risk methodology. All other things being equal, this would suggest that the portfolio is less volatile than its benchmark. The chart on page 1 shows the performance of the Company's net asset value per share compared to its benchmarks over the past 10 years.

Foreign currency exposure

The Company accounts in US dollars. Over the year 67.77 per cent (2008: 49.77 per cent) of transactions were in US dollars, while 32.23 per cent (2008: 50.23 per cent) were carried out in local currencies.

Currency exposure at 31st January 2009

	US Dollar USD'000	Turkish Lira USD'000	Polish Zloty USD'000	Other USD'000	Total USD'000
Derivatives held at fair value through profit or loss	–	–	–	–	–
Short-term debtors	157	–	–	1,498	1,655
Cash at bank	11,310	–	–	29	11,339
Short-term creditors	(2,352)	–	–	(168)	(2,520)
Overdraft at Pictet & Cie (see note 18)	(43)	–	–	–	(43)
Preference shares of £1.00 each (one quarter paid)	–	–	–	(19)	(19)
Foreign currency exposure on net monetary items	9,072	–	–	1,340	10,412
Investments held at fair value through profit or loss that are equities	57,524	18,208	4,332	2,155	82,219
Total net foreign currency exposure	66,596	18,208	4,332	3,495	92,631

Notes to the accounts

Note 16 continued

Currency exposure as at 31st January 2008

	US Dollar USD'000	Turkish Lira USD'000	Polish Zloty USD'000	Other USD'000	Total USD'000
Derivatives held at fair value through profit or loss	7,611	–	1,713	–	9,324
Short-term debtors	11,110	1,116	1,123	319	13,668
Cash at bank	–	–	–	83	83
Short-term creditors	(2,721)	–	–	(455)	(3,176)
Overdraft at Pictet & Cie	(64,158)	–	–	–	(64,158)
Preference shares of £1.00 each (one quarter paid)	–	–	–	(19)	(19)
Foreign currency exposure on net monetary items	(48,158)	1,116	2,836	(72)	(44,278)
Investments held at fair value that are equities	291,416	86,928	25,931	64,855	469,130
Total net foreign currency exposure	243,258	88,044	28,767	64,783	424,852

Over the year the US dollar rose against the Company's principal investing currencies as follows:

Turkish Lira 40.10 per cent (2008: weakened 16.84 per cent), Polish Zloty 42.78 per cent (2008: weakened 19.10 per cent) and Russian Rouble 45.98 per cent (2008: weakened 7.63 per cent).

A 5 per cent rise or decline, of the US dollar against foreign currency denominated (i.e. non-US) assets held at the year end would have decreased or increased the net asset value by USD1,302,000 or 1.40 per cent of net asset value (2008: USD9,080,000 or 2.14 per cent of net asset value). The impact on the profit and loss account would be USD1,302,000 (2008: 9,080,000).

Interest rate risk
The Company is only exposed to significant interest rate risk through its renewable overdraft facility and cash deposits with Pictet & Cie. Borrowing varied throughout the year as part of a Board endorsed policy. Borrowing at the year end was USD43,000 (see note 18) and if that level of borrowing were maintained for a year a 1 percentage point change in LIBOR (up or down) would decrease or increase net revenue by less than USD1,000 or 0.00 cents per ordinary share (2008: USD642,000 or 1.10 cents per ordinary share).

Cash deposits at the year end were USD11,339,000 and if that level of deposits were maintained for a year a 1 percentage point change in LIBOR (up or down) would increase or decrease net revenue by less than USD113,000 or 0.21 cents per ordinary share (2008: less than USD1,000 or 0.00 cents per ordinary share).

Liquidity risk
Liquidity risk is generally not significant in normal market conditions as the majority of the Company's investments are listed on recognised stock exchanges. It is the Board's policy to invest in securities for which there is some sort of market, in order to maintain investment flexibility in whatever market conditions and to meet its commitments. However, from time to time, markets in the Region have been known to experience a sudden loss of liquidity, and the Board therefore ensures that the Manager monitors the evolving liquidity profile of the portfolio regularly.

Credit risk
Credit risk is mitigated by diversifying the counterparties through whom the Manager conducts investment transactions. The credit-standing of all counterparties is reviewed periodically with limits set on amounts due from any one broker. Derivative transactions are only carried out with investment banks with strong credit ratings.

The total credit exposure of the Company at the year end as shown on the Balance Sheet was USD12,994,000 (2008: USD23,075,000). As at the year end there were no financial assets past due or impaired.

Capital management policies and procedures
The Company's objectives, policies and procedures for managing capital are also set out in the Business Review.

Notes to the accounts

Contingencies and post balance sheet events **Note 17**

In June 2007 the European Court of Justice ruled that investment management fees should be exempt from VAT, and subsequently HM Revenue & Customs ('HMRC') decided not to contest the ruling. The Board ensured that steps were taken to reclaim VAT and following the decision by HMRC claims totalling £3,634,000 were quantified of which £1,611,000 was recovered. Subsequent to the year end, HMRC has agreed to pay £950,000 plus interest of £77,000, totalling £1,027,000, of the remaining £2,022,000. This £1,027,000 has been reflected in these financial statements as an adjusting post balance sheet event. The Company continues to take steps to recover additional amounts although there remains uncertainty over ultimate realisation. At this stage the Directors consider it is appropriate only to recognise the £1,027,000 in these financial statements.

Related party disclosure **Note 18**

Under the terms of an agreement dated 14th November 1994 and supplemental agreements dated 19th December 2002 and 17th September 2007, the Company appointed Pictet Asset Management Limited (the 'Manager') to provide investment management services. Details of the fee arrangement for these services are given in the Report of the Directors on pages 25 and 26. The total fee payable to the Manager under this agreement in respect of the year ended 31st January 2009 was USD2,207,000 (2008: USD7,705,000 excluding VAT). Fees amounting to USD62,000 were outstanding at 31st January 2009 and the whole amount was immediately payable under the terms of the Agreement dated 19th December 2002.

Under the terms of an agreement dated 14th November 1994, the Company appointed Pictet & Cie, the ultimate owner of the Manager, to provide custody services. The total fee payable to Pictet & Cie under this agreement in respect of the year ended 31st January 2009 was USD344,000 (2008: USD486,000) of which USD11,000 (relating to the period 1st to 31st January 2009) was outstanding at 31st January 2009 (2008: USD45,000).

Under the terms of an agreement effective from 24th October 2008 (the 'new facility'), the Company had a USD15m one year renewable overdraft facility with Pictet & Cie, the ultimate owner of the Manager, secured on the assets of the Company. The new facility replaced a previous overdraft facility of USD60m with Pictet & Cie. The interest rate under the new facility is at the rate of LIBOR 3 month average plus 150 basis points and from 1st January 2009 was 3.5 per cent. This rate may be amended at any time without notice being served in the light of variations in the capital markets. At 31st January 2009, the Company had drawn down USD43,000 on this facility (2008: USD64,158,000). The total interest payable on this overdraft in respect of the year ended 31st January 2009 was USD911,000 (2008: USD2,628,000) USD213 of which was outstanding at 31st January 2009 (2008: USD316,000).

Disclosures of Directors' interests in contracts or arrangements with related parties are made in the Report of the Directors on pages 24 and 25.

Going concern **Note 19**

The Company has adequate resources to continue in existence for the foreseeable future and the Board believes that it is appropriate for the accounts to be prepared on a going concern basis.

Notice of meeting

Notice is hereby given that the fifteenth Annual General Meeting of The Eastern European Trust PLC will be held at Fishmongers Hall, London Bridge, London EC4R 9EL on Wednesday, 24th June 2009 at 12 noon for the purpose of transacting the following business:

Ordinary business

1. To receive the Report of the Directors and audited accounts for the year ended 31st January 2009.
2. To approve the Directors' Remuneration Report for the year ended 31st January 2009.
3. To re-elect Mr. Aldous*, retiring in accordance with the Combined Code, as a Director.
4. To re-elect Mr. England*, retiring under the Articles of Association, as a Director.
5. To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company, from the conclusion of this meeting until the next meeting at which the accounts are laid before members.
6. To authorise the Directors to determine the remuneration of the Auditors.

Special business

To consider and, if thought fit, pass resolution 7 as an ordinary resolution:

7. THAT, the Company be and is hereby authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its ordinary shares either for cancellation or to hold as treasury shares (within the meaning of Section162A(3) of the Act) provided that:
   (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 7,950,000;
   (b) the Directors be authorised to determine at their discretion that any shares bought back be held by the Company as treasury shares save that the maximum number of shares held in treasury shall not exceed 10 per cent of the issued ordinary share capital of the Company at any time;
   (c) the minimum price which may be paid for an ordinary share shall be USD0.10;
   (d) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be not more than 5 per cent above the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the 5 business days immediately before the purchase is made; and
   (e) unless varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2010 or, if earlier, on the expiry of 18 months from the date of the passing of this resolution, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board
Phoenix Administration Services Limited
Secretary

16th April 2009

Registered office:
Springfield Lodge
Colchester Road,
Chelmsford,
Essex CM2 5PW

Registered in England and Wales Number: 2984526

* The biographies of the Directors are set out on page 22.

Notice of meeting

Note 1
A member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and to exercise all or any of the member's rights to speak and vote at the meeting, instead of that member. Proxies need not be members of the Company. A form of proxy for use at the above meeting is provided separately. To be valid the form of proxy must be completed and deposited at the office of the Company's Registrars not less than 48 hours before the time fixed for holding the meeting or adjourned meeting. The return of the form of proxy duly completed will not preclude a member from attending and voting at the meeting.

Note 2
Members (and any proxies or corporate representatives appointed) agree, by attending the Annual General Meeting, that they are expressly requesting and willing to receive any communications relating to the Company's securities at the Annual General Meeting.

Note 3
The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at 6pm on 22nd June 2009 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6pm on 22nd June 2009 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Note 4
A corporate member of the Company intending to appoint more than one person to attend and vote at the Annual General Meeting as its Corporate Representative pursuant to the provisions of section 323 "Representation of corporations at meetings" of the Companies Act 2006 (the 'Act'), should note that pursuant to section 323(4) of the Act "Where the corporation authorises more than one person and more than one of them purport to exercise a power under subsection (3):

(a) if they purport to exercise the power in the same way, the power is treated as exercised in that way;

(b) if they do not purport to exercise the power in the same way, the power is treated as not exercised."

To mitigate the effect of section 323(4)(b) of the Act, a corporate member may wish to consider appointing multiple proxies to attend and vote at the meeting since, pursuant to the provisions of section 324 of the Act, proxies have the same rights to attend, speak and vote at a general meeting, as members of the Company.

Note 5
If a corporate member of the Company appoints more than one corporate representative at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Note 6
The following documents will be available for inspection at the Registered Office of the Company during usual business hours on any weekday (except Public Holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:

(a) A statement of all transactions of each Director and of their family interests in the share capital of the Company; and

(b) The Memorandum and Articles of Association.

None of the Directors has a contract of service with the Company.

Company information

Registered in England and Wales Number: 2984526

An Investment Trust as defined under Section 833 of the Companies Act 2006

Directors
Hugh Aldous (Chairman)
Neil England
Rory Landman
Edmond Warner

Manager to 30th April 2009
Pictet Asset Management Limited
Moor House
120 London Wall
London EC2Y 5ET

www.pictet.com

Manager, Secretary and registered office from 1st May 2009
BlackRock Investment Management (UK) Limited*
33 King William Street
London EC4R 9AS

Tel: 0800 44 55 22
www.blackrock.co.uk

* Authorised and regulated by the Financial Services Authority

Solicitors
Norton Rose LLP
3 More London Riverside
London SE1 2AQ

Brokers
Winterflood Securities Limited
The Atrium Building
25 Dowgate Hill
London EC4R 2GA

Global custodian
Pictet & Cie
Route des Acacias 60
CH-1211 Geneva 73
Switzerland

Provider of savings plan
Alliance Trust Savings Limited
P.O. Box 164,
Meadow House
64 Reform Street
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Secretary and registered office to 30th April 2009
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Corporate Banking Office
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Registrar
Computershare Investor Services PLC
P.O. Box 32,
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Tel: 0870 703 6379 – calls cost 7.5p per minute plus network extras.

Shareholder information

The Company's Manager up to 30th April 2009 was Pictet Asset Management Limited, which is ultimately owned by Pictet & Cie, a private bank established in Geneva in 1805.

The Company's Manager from 1st May 2009 is BlackRock Investment Mangement (UK) Limited.

Issued share capital

Ordinary shares of USD0.10 each 55,240,890, of which 1,015,000 shares were held in treasury as at 31st January 2009.

Share prices and net asset value information

The Company's ordinary shares are traded on the London Stock Exchange.

SHARE REFERENCE CODES

	SEDOL	ISIN	EPIC
Ordinary shares	B0BN1P9	GB00B0BN1P96	EST

The Company's share price is listed in the *Financial Times* under the London Share Service 'Investment Companies' sector.

The Company calculates and releases its net asset value per share to the London Stock Exchange each business day.

The Company does not offer a share dealing service. The Company's shares may be purchased through a stockbroker, share dealing service or high street bank share service. A savings plan is also available through Alliance Trust Savings Limited.

Financial calendar

Year end	31st January
Results announced:	
Annual	April
Interim	September
Annual General Meeting	24th June 2009

Annual report

Copies of the annual report will be available via The Company Secretary, The Eastern European Trust PLC, 33 King William Street, London EC4R 9AS, and will be available on BlackRock Investment Management (UK) Limited's website at www.blackrock.co.uk/its .

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The Association of
Investment Companies