DIAMOND AGE RUSSIA FUND

MONTHLY LETTER TO INVESTORS – DECEMBER 2010

"Das Boot" Came In

"To cripple an embryonic civil society, the mighty need only foster an environment where good people: see no evil, hear no evil, speak no evil. Power structures of the State from Prime Minister Putin to Patriarch Kirill are complicit." **Mizaru**, **Kikazaru**, and **Iwazaru –** Three Wise Monkeys

In December, "Das Boot" came in, all our Christmas gingerbread kisses and candy cane wishes came true. **Diamond Age** delivered a +16.66% December sugar plum pudding, just in time for the New Year's goose. Exceptional yearend performance doubled the benchmark MSCI Emerging Markets Europe which advanced +8.44% for the period. Fund NAV beat the all time November 2007 high and stands at $267.80 per share while outperformance vs. all-comers expanded; now +214.97% from market trough 22 months ago.

International Business Partners and Terms

Investment Advisor	*Diamond Age Capital Advisors Ltd.*
Administrator	*CIBC Bank and Trust Co. (Cayman) Ltd.*
Russian Custodian	*CitiGroup – ZAO Citibank (Russia)*
Auditors	*Deloitte & Touche – Cayman Islands*
Tax Consultants	*Ernst & Young – Russia and Cyprus*
Legal Counsel	*Campbells – Cayman Islands*
Base Currency	*US Dollar*
Hurdle Rate	*US Dollar 3-month LIBOR + 50 bps*
Inception Date	*18 February 2005 at US$100 per share*
Dealing Day	*Friday*
Min. Subscription	*US$100,000*
Bloomberg Ticker	*DIAMRUS KY <Equity> <Go>*

Current Asset Allocation

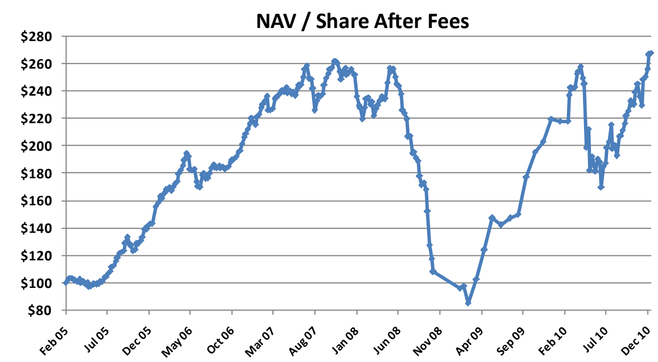
Asset Class	*Long*	*Short*	*Gross*	*Net*
Equities	116.2%	8.4%	124.6%	107.8%
Bond	0.0%	33.3%	33.3%	-33.3%
Commodities	38.5%	0.0%	38.5%	38.5%
FX	0.0%	25.2%	25.2%	-25.2%
Total All	**154.7%**	**66.9%**	**221.6%**	**87.8%**
Leverage	**121.6%**			

Historical Performance

	2005	2006	2007	2008	2009	2010
Jan	-	13.67%	1.29%	-10.44%	-11.34%	-0.79%
Feb	2.24%	2.73%	5.70%	2.75%	-11.37%	0.03%
Mar	-0.27%	4.05%	-0.29%	-3.48%	20.53%	11.16%
Apr	-2.54%	8.80%	1.88%	3.03%	20.86%	1.02%
May	-0.51%	-3.78%	-0.71%	9.17%	18.71%	-21.49%
Jun	1.84%	-1.67%	2.88%	-7.02%	-3.28%	-2.00%
Jul	7.77%	0.37%	1.75%	-13.09%	3.37%	7.72%
Aug	8.76%	2.33%	-4.69%	-8.69%	1.93%	-4.96%
Sep	12.64%	0.01%	5.07%	-10.76%	18.41%	12.14%
Oct	-6.56%	3.70%	4.99%	-35.75%	10.24%	6.31%
Nov	7.49%	5.36%	-2.96%	n/a	3.66%	-0.13%
Dec	7.33%	9.49%	0.80%	n/a	8.34%	**16.66%**
Year	**43.27%**	**53.70%**	**16.26%**	**-57.73%**	**103.00%**	**21.92%**

NAV Data

Fund Price (W/Avg), Main Class	Bid $264.19; Offer $267.80
Designated Investment Share Class	$67.27
Total Assets (AUM)	$32,146,783



DIAMOND AGE
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Crisis, what crisis? Here in 2011, the 2007 credit crunch, the 2008 collapse of global financial markets, and ensuing Russian financial crisis, seem just like yesterday. Memories are fresh in the minds of foreign portfolio investors and asset allocators alike. But performance has never been better. **Diamond Age** is one of only three Russia funds* to have taken back the prior November 2007 high water mark, while the benchmark index MSCI Emerging Markets Europe still needs an additional 59.46% advance, and the Russian Stock market MICEX would require a gain of 50.12% to reach its pre-crisis high. Importantly, the great swath of the Russia fund peer group is still mired in the thick of it.

** Russia dedicated and Russia related funds priced on Bloomberg through December 31st, 2010.*

Sector Allocation	
Commodities	17.33%
Sovereign Debt	14.99%
Financials	12.57%
FX	11.34%
Metals and Mining	11.32%
Real Estate	4.86%
Coal	4.85%
Agriculture	4.85%
Media	4.59%
E & P	2.98%
Industrials	2.46%
Construction/Infrastructure	2.14%
Shipping	1.56%
Information Technology	1.48%
Conglomerate	1.28%
Automotive	0.71%
Chemicals	0.70%
Total	**100%**

Diamond Age, #2 top performing of all Russia funds six months; #2 best performing of all Russia funds three years and one of only three Russia funds to have taken back the prior high water mark (November 2007)

Compare vs. the benchmark index which would still require an additional 60% retracement to summit old high (December 2007)

As it relates to asset allocation the index is imperfect and sub-optimal, but there is no perfect benchmark. With a unique long/short, multi-asset class, global investment mandate geared to commodities, credit markets, Fx and equity-linked derivatives, it is remote to rank and contrast **Diamond Age** against a long-only, stock-only, Russia-only benchmark (although we like to beat them). The Fund has historically allocated less than 20% to long Russian RTS stock exposure.

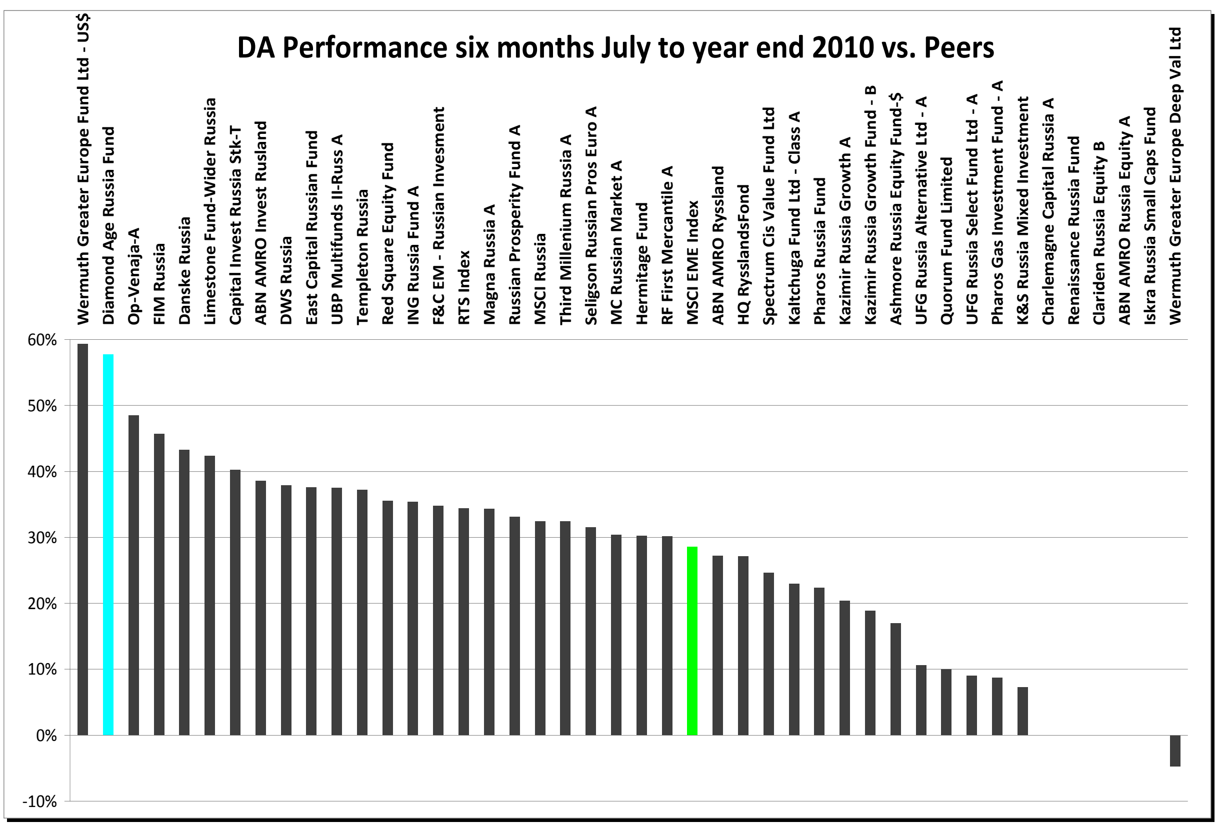
It is perhaps more revealing to compare **Diamond Age** historical performance stacked against the universe of publically priced Russia funds and Russian hedge fund peers. The first time we ran these calculations sourcing all publicly available information, it was discovered that at least 10 funds were either closed or were permanently impaired in the 2008 crisis. 12 months later in repeating the same study, a further five on Bloomberg and at least eight more in total are “road kill”: acquired, closed, or re-organised. Of the only current 40 surviving funds, **Diamond Age** was the second best performing fund of the last six months and second best performing fund (#2 out of 56 original constituents) in this most difficult of historical investment cycles going back three years (CY 2008 2009 2010).

Recent out performance vs. peer group has been pronounced (chart below).

Diamond Age, was the second best performing Russia fund vs. all peers for the period of Russia dedicated and Russia related funds priced on Bloomberg for the six month period ending December 31st, 2010. Performance differential vs. all indices expanded in Q3 and Q4, generating an inspired +57.77% in the last six months ending December 31st, 2010; significantly outperforming the benchmark +28.59%

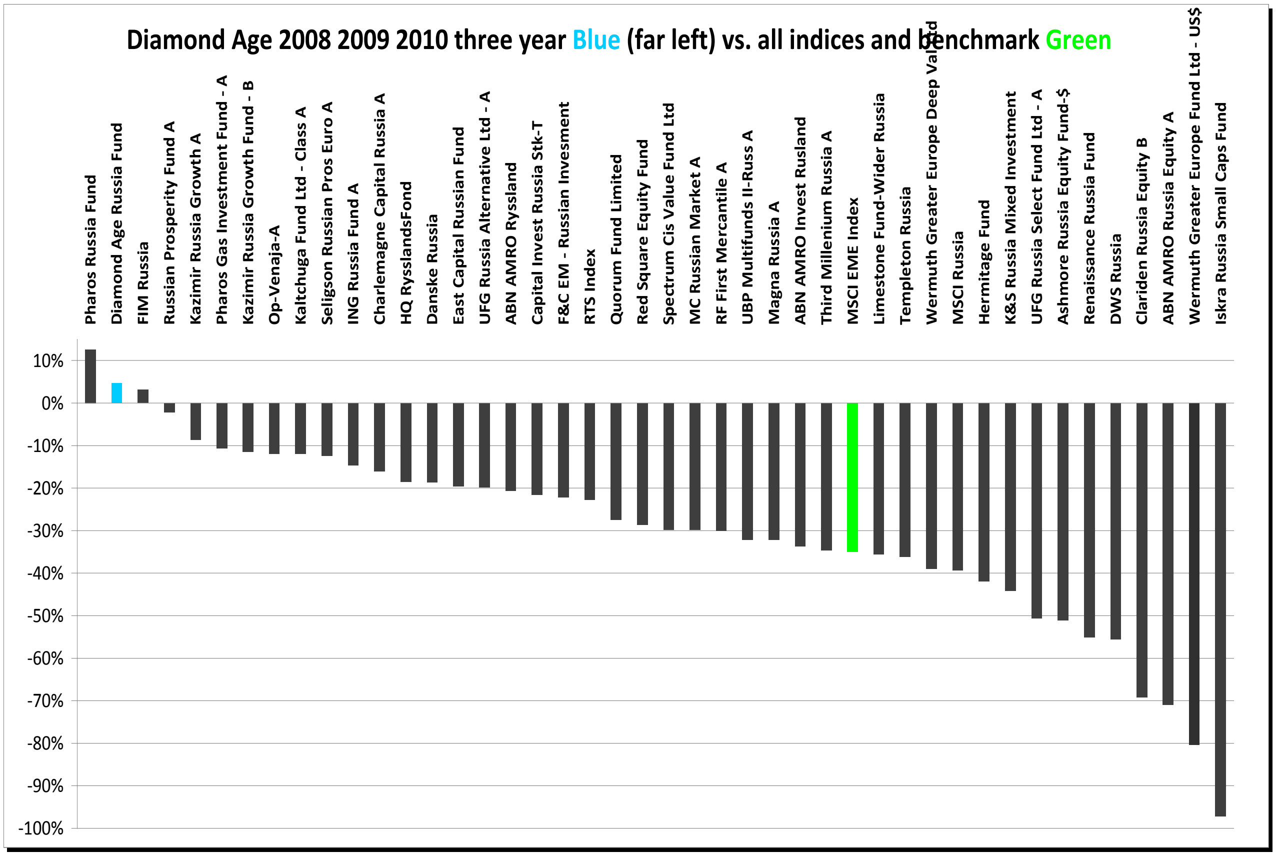
Not only the top performer in the up market and during the recovery; **Diamond Age** is the second best performing of all Russia dedicated and Russia-related funds priced on Bloomberg for the three year period starting with 2008 (i.e. including crisis) to present December 31, 2010.

Geographic Dispersion	
Russia	20.37%
United States	20.31%
Australia	7.60%
Thailand	6.69%
Canada	4.94%
Kazakhstan	4.84%
Switzerland	4.63%
Georgia	4.06%
Singapore	3.96%
China	3.38%
United Kingdom	2.82%
Mozambique	2.24%
Ireland	2.07%
Ukraine	2.01%
South Korea	1.74%
Sweden	1.37%
Guinea	1.30%
Turkey	1.15%
Hungary	1.14%
Finland	1.00%
Turkmenistan	0.91%
Philippines	0.80%
Cyprus	0.69%
Total	100%



Diamond Age #2 of all “Russia” funds 56 original constituents, crisis to yearend (full CY 2008, 2009, and 2010)

And for investors, the Fund's best ever returns have come in the last 22 months. +215% since calling the bottom March 2009; the Fund is 32.89% better than the index (MSCI EME); 40.11% vs. the Russian stock index (MICEX), 64.60% vs. MSCI Emerging Markets, and 205.01%% higher than MSCI World for the period (chart below).



Diamond Age 2008 2009 2010 three year Blue (far left) vs. all indices and benchmark Green

Name		22 Months
Diamond Age	(DIAMRUS KY)	214.97%
MSCI EME Benchmark	(MXMU)	161.76%
Russian Stock Index	(MICEX)	153.43%
MSCI Emerging Markets	(MXEF)	130.60%
MSCI World	(MXWO)	70.48%

Powerful finish, what happened in Q4 2010?

Q4 'Das Boot scenario delivered per heightened expectations

October 2010 Letter to Investors: Year end "Boat" scenario plays out like this: Bearish pessimism at highest level since trough crisis throughout the summer, as both institutions and private investors saw stocks climb the "Wall of Worry," and watched from the safety of the bond market. One after another, the will 'o the wisps of 2010 misplaced market panic are banished to the bog: Greek contagion, global deflation, demise of the Euro, end of Chinese commodity demand, double dip in the United States derails world-wide recovery, and "currency wars" recede into memory. While walking a lonely road for much of the year and standing friendless on the high side of the boat since April 15th, the sense is that we are now no longer alone.

Das Boot: the markets remain supportive in November and year end, money managers and retail investors alike try to play catch up. Portfolio managers cannot show year-end cash in a rising market or lose their mandates. Having been underweight the market for most of the year, these managers may be forced to chase return, throwing money at the market by Christmas day, so as not to be seen sitting on their hands while the world trades higher. Greed will trump fear driving retail flows and history tells us that memories are short. One by one the tepid have been jumping to the other side of the boat, and we anticipate the market consensus will join us on the starboard side just in time for the Santa Claus Rally; ... a rally which the Fund will likely be selling.

And that is exactly what the Fund did. On the last three trading days of the year the Fund executed the below listed portfolio rotation representing a full 33% of AUM. **Diamond Age** sold the yearend rally.

Net long exposure reduced from	**140.4%**	**to**	**87.8%**
Equity exposure reduced from	**153.5%**	**to**	**107.8%**
Short exposure increased from	**(46.0%)**	**to**	**(66.9%)**
Credit market shorts increased	**(18.1%)**	**to**	**(33.3%)**
Fx shorts maintained	**(27.9%)**	**to**	**(25.2%)**
Commodities increased	**32.9%**	**to**	**38.5%**

	MTD	**... Das Boot!**
Diamond Age	**16.66%**	
Benchmark Index	**8.44%**	

Outlook and Strategy for Q1 2011

- 100% avoidance of all defensive sectors; maintain zero weight since March 2009 in: telecoms, electrical utilities, consumer, food retail and healthcare

- The Fund broadly sold down 31.7% of long equity exposure while doubling short equity exposure

- Short positions on the long end of the bond market increased from 18.1% to 33.3% of gross AUM. Anticipate up to 40% of gross exposure in this trade by Q3 2011

- Commodity exposure to benefit from anticipated inflationary concerns in 2011. Net long 38.5% maintained in (HGH1) Copper, (PLJ1) Platinum, (PAH1) Palladium, and (TYH1) ICE Brent crude futures, and expected to rise to 40% of gross by Q2

- Fx derivative shorts (25.2% gross AUM) will remain slow growth, low rate, DM, safe haven: USD, GBp, EUR, and CHF vs. long X-rate trades in fast growth, high rate, inflationary, EM and commodity centric Fx: KRW, THB, SGD, AUD

- Continue to raise the Russia country weight vs. R.O.W. (like the macro ex government, but not the micro) from an all-time low of 16.97% net exposure in October 2010 to 20.37% net exposure yearend. Anticipate up to 40% net long Russia exposure by Q3

- Single largest stock position is a short on Mail.ru (MAIL LI) representing a full 3.8% of gross AUM (see Mail.ru investment rationale below)

- Fourth largest position 2.24% gross AUM of Riversdale (RIV AU) Mozambique +24.54% MTD is in process of take out Rio Tinto (Rio AU) Australia, world's third largest miner (although they may draw another buck or two (thanks to Tata Steel TATA IN) out of the dance before it is over), so this position will disappear

- The Fund still heavily metallurgical coal, thermal coal, and anthracite (total coal exposure is 10.70% gross AUM) and is currently working to find suitable replacement to complement Mechel (MTL US)

- Concurrently the Fund continues to build out its African "race for raw materials" themes. The Fund currently has meaningful African positions in Riversdale (RIV AU) Mozambique, Bellzone (BZM LN)

Guinea, and Sundance Resources (SDL AU) Cameroon constituting 5.25% of gross AUM (3.01% after Riversdale exit)

- Consistent with longstanding investment theme that EM discretionary income rise leads to higher co-efficient of caloric intake from protein consumption, the Fund bought back 3.1% gross AUM position in Charoen Pokphand (CPF TB) Thailand after taking a profit of more than 100% in the name Q3 2010

- The Fund exited the underperforming Dry Bulk theme before month end and finished selling all of Jin Hui (JIN NO) Norway, DS Norden (DNORD DC) Denmark and Golden Ocean (GOGL NO) Norway to zero. Tanker exposure via China Shipping (1138 HK) Hang Seng was cut by 50%

- The Fund has lost some conviction in EE bank theme as EU shenanigans are boring, unending, consume too many precious human hours required to monitor all the convoluted micro-plots and politicians. The Fund never buys on valuation anyway and there are better uses for investor capital elsewhere. As such the investment advisor cut by 45%, weights in OTP Bank (OTP HB) Hungary, Bank of Cyprus (BOC GA) Cyprus, and Swedbank (SWEDA SS) Sweden while holding big rollers in Bank of Georgia (BGEO LI) Georgia 4.06% (second largest stock position) and Sberbank Pref (SBER03 RX) Russia 3.99% (third largest stock position)

Biggest risks to Q1 2011 strategy

- A sudden, unanticipated USD dollar appreciation would be a KOD (kiss of death) to current asset allocation

- A powerful rally in the Russian stock market would be detrimental to “relative” performance as the Fund is underweight at only 20.15% Russian equities vs. 61.23% for benchmark index (MSCI Emerging Markets Europe)

- A significant and unexpected rate of job creation in the United States would hammer EM equities, commodities, and the risk-trade. Short book specifically designed to mitigate some of the downside, in this particular element of risk in present portfolio co**n**struction

- Facebook IPO announcement, broad monetising event, or other “value defining mechanism” would likely lead to aggressive share price appreciation on MAIL LI and could trigger a short squeeze

- Greater than expected Asian central bank (primarily), but also DM and other ROW central bank tightening to thwart above market inflation fears

- *Note: the Fund’s 47.53% gross short exposure is engineered to harness profits and moderate some of the performance risk, associated precisely with inflation risk and coordinated central bank tightening*

RUSAL and Mail.ru

About this time last year, the Investment Advisor broke down the sell rationale case against RUSAL (486 HK), in advance of the Hong Kong IPO for its readers. Investors then watched it trade lower by about 38% over the course of the next 6 months. *January 2010: what else did DA focus on: RUSAL 2010? …**get smeltered!***

After detailing company financials and pouring through the offering memorandum, it was immediately apparent that Diamond Age investor capital will not be committed to RUSAL's debt imbroglio

This year the Fund takes a reasoned and deliberate shot at Mail.ru (MAIL LI); a recent hot hot hot IPO in the Russian media space. Having built a large position in six tranches over the course of the four weeks in December, the short now represents a full 3.8% of gross AUM, and is the single largest equity position in the portfolio. To capsulate, it is the perception of the Investment Advisor that Mail.ru is a collection of second place "me too" and third place "also ran" internet media properties billed as the "Facebook of Russia" and valued on assumptions akin to the sugar-glazed 1999 .com bubble. At short initiation, the shares were trading at >$8B USD m-Cap on revenues of $199MM. Mail.ru is now one of the largest publicly traded companies in Russia and perhaps of the most poorly understood (if not by the market then perhaps by the Investment Advisor).

The "Street" values the name on a specious international comp blueprint, taking assumptions from Baidu (BAIDUZ CH) China, and Facebook (private) America which are more than a stretch but simply not applicable. Facebook is preeminent social networking brand, the highest growth global destination of greater 500MM unique users around the world, and 180MM new visitors in just October 2010 alone. From March 2010 Facebook was the most visited website (surpassing Google) and had the highest advertising spend of any site on the planet. Facebook is the third largest web company by implied private market m-cap after Google and Amazon. There are only a total of 142MM Russians total and Mail.ru is not even "the Facebook of Russia." Odnoklassniki, Mail.ru's social networking site, has just 17MM users, a 30% share of Russian market that is dropping. Any likeness to Baidu, Inc., with its $38B m-cap model is also erroneous. Baidu is the dominant player in >1.3B Chinese market. More of a Google than Facebook with search engine and broad range of web based services. By April 2010, Baidu ranked 7th overall world-wide in Alexa's internet rankings. Mail.ru is not even "the Baidu of Russia."

Fund methodology was designed to split up the tangible business units by revenue contribution to group performance. Financial analysis then determined NPV (net present value) of group operations with focus on sales + growth with the assumption that earnings are N/M (not meaningful). Starting with real 2009 revenues and then out 10 years to estimated 2019 revenues, the Investment Advisor derived a 10Y CAGR revenue valuation model instead of inflated SOTP valuations using Facebook as the template.

Keep it simple:

	2009	**2019 E**	**10Y CAGR**	**Note**
Odnoklassniki SN	**$49**	**$268**	**18.5%**	

18.5% is a glass pipe dream. Odnoklassniki social networking also ran / share loser may likely not exist in 10 years

<u>Online games MMO</u>	**$65**	**$360**	**18.8%**

18.8% is dirty bong water. $47/m ARPU for online gaming addicts is maximum and they are already all online. There are no more. DM ARPU at $8/m, drops to $10

<u>Headhunter.ru</u>	**$17**	**$36**	**7.8%**

Real business but will be facing increased competition from multiple domestic comps and international such as Monster.com, but 7-8% is believable

<u>Mail.ru banner ads</u>	**$61**	**$514**	**23.7%**

Just don't see it. Already have 60% of market in the area. Free e-mail address ad model is specious and vs. Google's Gmail? Where +++ growth?

Other	**$13**	**$163**	**28.7%**

May or may not fly eggs in the hatchery - okay credit full value, does not matter

Revenues	**$199M**	**$1.34B**	**21.1%**

Even if we credit the full 20% 10Y rev CAGR all the way to $1.34B (we don't), what NPV to justify $8B M-cap in 2010?

After initiating initial tranche of short at $42.09 (top-tick yes) lucky this time, the Fund waited until end of quiet period and then set out to speak with the underwriters. Following a quiet period, it is unusual to see the sell side come in with six different numbers: CS a sell, BAML a sell, GS neutral i.e. hold (underwriter), MS market weight i.e. hold (underwriter), VTB and JPM big buys with $50+ price targets.

In our meeting, the Moscow-based joint book runner offered an animated defence for about 45 minutes and then finally capitulated. Point blank 1: how do you justify $8B? *"We don't really know, no one knows … foreign buyers just gave us money (AmeriKa) without asking."* Only "smart" Russians who bought were flippers and kicked it back to the desk. Point blank 2: Are there more of these buyers: *"Yes, but they are really confused as to how to value the stock."* Point blank 3: At $50 per share price target, you value the company at >$11B in market cap. Based on all we discussed today, where do you come up with that? *"I am Russian, we are a Russian firm, and I have to like the story."*

At short position inception, M-Cap of $8B on about $250MM in sales and real L.T. growth rate of maybe 15%? Priced at $27.70, Diamond Age thinks the stock might be worth about $10/share or $2B M-Cap based on $1B revenues in 10 years plus 2.38% of Facebook, 1.47% of Zynga and 5.13% Groupon

Insider lock up ends early February ... if insiders were happy to sell shares on an all-you-can-eat basis at $27.50, the Investment Advisor suspects there will be more happy sellers next month at $36.00 so the Fund will keep shorting more until proven wrong.

Original investment rationale November: ***"the key risk to the position would be any announcement regarding Facebook IPO or other $60B whisper valuation."***

This risk just realised. Goldman Sach's $450MM investment gave an implied $50B M-Cap (less than $60B) and the company discussed 2012 possible IPO. Mail.ru rallied for three days and then … not much follow through and as of yet, little conviction. In fact Goldman Sachs is not making "an investment" in Facebook but rather creating an equity-linked derivative structured product which they will sell to high net worth investors. It was disclosed that Goldman Sachs "might hedge or sell its own investment without warning clients," meaning that the firm may bet against the long side of the $1.7B in shadow Facebook shares it puts on client books. In any case Mail.ru is not Facebook and ironically, it may be Facebook's ultimate success (in penetrating the Russian market where it was +376% 1H 2010 YoY), which may definitively illustrate the Mail.ru short investment rationale.

Why don't you like any "Russian" stocks?

Well, the Investment Advisor likes at least one Rouble-denominated Russian large cap stock in Sberbank Preferred (SBERP03 RX). Sberbank Preferred is in fact the only one of 63 line items that trades locally in Russia as all other securities are either commodities, foreign listed ADR's, Fx X-rate NDFs, credit market futures or equity-linked derivatives. For this reason the Investment Advisor does not get to partake in the annual Russian New Year and Old Christmas holidays which run from January 1st to January 12th and probably shave about 1% off annual GDP, but investor capital and performance are paramount. While the Russian macro is both compelling and attractive, the Fund is oft-challenged to find enterprise-specific "Russian" line items which do not raise one or more deal-breaking red flags; thus it has been difficult to raise the Russian country weight for equities to the desired level. Sberbank is the single best proxy for the Russian market (ex Oil and Gas sectors which constitute +/- 50% of the indices). The shares have historically been able to outperform (or sometimes underperform) when index heavy-weights such as Rosneft (ROSN LI), Gazprom (OGZD LI), Lukoil (LKOD LI), Surgutneftegaz (SGGD LI), Novatek (NVTK LI), TNK-BP (TNBP RU) and others have moved in a different direction. As the Fund has no position in these names, the portfolio is thus significantly underweight "the market."

Sberbank Preferred has historically traded at a 9% to 38% discount to the common stock and at 30-32% represents an attractive entry-level

The last of the "blue chips" without one; when Sberbank eventually succeeds in listing a USD denominated foreign ADR – anticipate Q3 2011, it is possible that the Preferreds will be eliminated entirely as with the other large caps. While the swap ratio is unknown, the Prefs will likely be converted at a +/- 5 to 10% discount to ordinaries and not 30%. Therefore investors "sell" worthless (to the Fund) voting rights for a 30% discount plus increased distribution of free-cash-flow potential as according to Russian *law* (although not always enforced) preferreds must pay out 10% of RAS profits in dividends or be converted 1-to-1 with voting common stock.

While the Fund cut EM equity weight by 38%, long commodity weight was untouched. In the face of real and present EM inflationary risks, hard assets will likely benefit. **Diamond Age** maintains that the confluence of industrialisation, urbanisation, EM population growth, resurgent demand, rising extraction costs and scarcity of resources indicate that commodities have entered into a period of a "super-cycle": a decades-long period of higher prices driven by the emerging middle classes, rising living standards, and eventually American-style individual consumption levels in a one directional shift in power, prestige, and demand moves from West to East.

Unwavering in its perception since March 2009, the Fund maintains that we are in the midst of a post-crisis global recovery which is largely consistent with historical post-crisis recoveries. Investment climate for "Russia" maybe fairly characterised by world-wide growth, inventory restocking, urbanisation, industrialisation, and associated demand for raw materials.

Top performing stocks for the December reporting period:

1.	**Sundance Resources**	**SDL AU**	**Cameroon**	**Mining**	**+69.21%**
2.	**Riversdale**	**RIV AU**	**Mozambique**	**Coal**	**+32.62%**
3.	**Hyundai Mipo Dock**	**016620 KS**	**Korea**	**Industrials**	**+32.51%**
4.	**Mirland Development**	**MLD LN**	**Russia**	**Real-estate**	**+27.13%**
5.	**Mechel**	**MTL US**	**Russia**	**Steel, Coal**	**+24.62%**
6.	**Bellzone**	**BZN LN**	**Guinea**	**Mining**	**+24.43%**
7.	**Temenos**	**TEMN SW**	**Suisse**	**IT**	**+23.99%**
8.	**Dragon Oil**	**DGN LN**	**Turkmenistan**	**E&P**	**+23.11%**

Diamond Age remains long and leveraged to Russia-related assets, the risk trade, basic materials, and emerging market equities. The Fund is short long dated bond futures; G7 and safe haven Fx. Largest long holdings include March Brent ICE futures, April Comex Platinum, March Palladium and March Copper futures. Favoured stock sectors remain metals, financials, industrials, coal, construction, real-estate, and agriculture. As such the Fund has zero exposure to defensive sectors of healthcare, consumer staples, telecommunications, food retail or electrical utilities.

Diamond Age Capital Advisors Ltd. receives sub-advisory counsel from Eighth Continent Capital Pte. Ltd.; a partnership which represents a continuity of investment advice dating back to initial Diamond Age Russia Fund inception February 2005. Content of this Letter to Investors provided by Eighth Continent Capital Pte. Ltd. in cooperation with Diamond Age Investment Advisors Ltd.

Addendum 1

The World's Largest Dying Power

28 December 2010

By Vladimir Ryzhkov, a State Duma deputy from 1993 to 2007

As 2010 and the first decade of the 21st century wind to a close, the dominant social, political and economic trends of the year raise serious doubts about Russia's future survival as a sovereign country. Chinese analysts, who have been closely observing Russia for the past 20 years, perhaps put it best: Russia is the world's largest dying power.

If Russia continues down its current path of autocracy, monopolization, corruption and overall economic, political, cultural and technological degradation, it may prove the Chinese correct in their terminal diagnosis.

To be sure, the country's degradation began before Vladimir Putin's rise to power, but the nature and causes of this degradation are much different than under Putin's degradation. During the 1990s, Russia found itself in complete political and economic ruins after the collapse of the Soviet Union and was hampered even further by low world oil prices throughout the decade. But during the 2000s, Russia enjoyed record-high oil prices. Nonetheless, the oil windfall was not used to modernize, diversify or reform political and economic institutions. Instead, the lion's share of oil revenue was stolen or wasted on huge pork-barrel projects.

There are four main areas that made 2010 a record year for Russia's degradation:

The country declined on the 2010 United Nations Human Development Index from 57th place five years ago to 65th place this year. This was because of the gap between the rich and poor widened and because the middle class has remained at only 10 percent to 12 percent of the population for the past decade. In addition, education dropped nine positions in the index to 41st place among 60 countries at a time when Russia plans to reduce its investment in education and human capital. The share of gross domestic product spending on science, education and health care will continue to decline, while spending for the military, police, intelligence services and other siloviki structures will increase.

The state has become more corrupt and criminalized. The most striking example was the Kushchyovskaya massacre in early November that unmasked the complete fusion of organized crime and the local government, including the regional legislature, the court system and law enforcement agencies. It is no surprise that Russia fell 12 places in the most current World Economic Forum's Global Competitiveness Report from 51st to 63rd place among 134 countries. Russia's state institutions were ranked among the very worst in the world at 118th place. While the Kremlin pronounces empty words and slogans about "modernization" and "nanotechnology," Russia has fallen to 80th place in the ranking for innovation, 126th place in terms of protection of property rights, 125th place for development of the financial market and 128th place for the high burden of state regulation on business. As a result, Russia again had the worst economic performance among the BRIC countries in 2010, including indexes for direct investment and economic growth, with capital flight from the country reaching $29 billion over 11 months.

The economy has become more state-controlled and ineffective. The share of the raw materials sector in the economy continued to grow in addition to its already oversized share in the country's export budget revenues. With the state's share in the economy now at 50 percent according to government sources — and even higher if you count businesses owned or controlled by state officials — and with state workers now accounting for every second employee, the level of economic competition is woefully low, which means a rise in prices and overall inflation and a drop in productivity and quality of goods.

Most Russians are overcome by cynicism and anger over their declining standard of living and the fact that the ruling elite abuse their power and continue to embezzle money and assets from the people and businesses with impunity. In short, Russians have lost all hope for the future under the current leadership. This is reflected in rising crime, xenophobia and violence. The most striking evidence of the people's growing anger and intolerance and the disintegration of Russian society was the riot by ultranationalists on Manezh Square in early December.

To make matters worse, Moscow's practice of appointing Kremlin-friendly yet highly unpopular governors from outside the regions only intensifies the provinces' sense of alienation from the federal center. The Kremlin has taken an imperial approach to governing the regions, laying the foundation for an increase in separatist sentiments, particularly in the North Caucasus, Kaliningrad and in the Far East.

Putin's desire to remain in power for another 12 years after the 2012 presidential election spells disaster for Russia. In the best case scenario, we can expect long-term economic stagnation and social decline. This will be coupled with a continued rise in corruption, drop in foreign investment and the flight from Russia of both capital and millions of its best and most talented citizens. In the worst case scenario, the continued degradation caused by corruption, monopolization and lawlessness could result in a total collapse and disintegration of the country, and if the country's leadership doesn't change this might happen in the next decade.

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Please note, that Mr. Ryzhkov's views may or may not be shared by Diamond Age and represent entirely his own opinion.