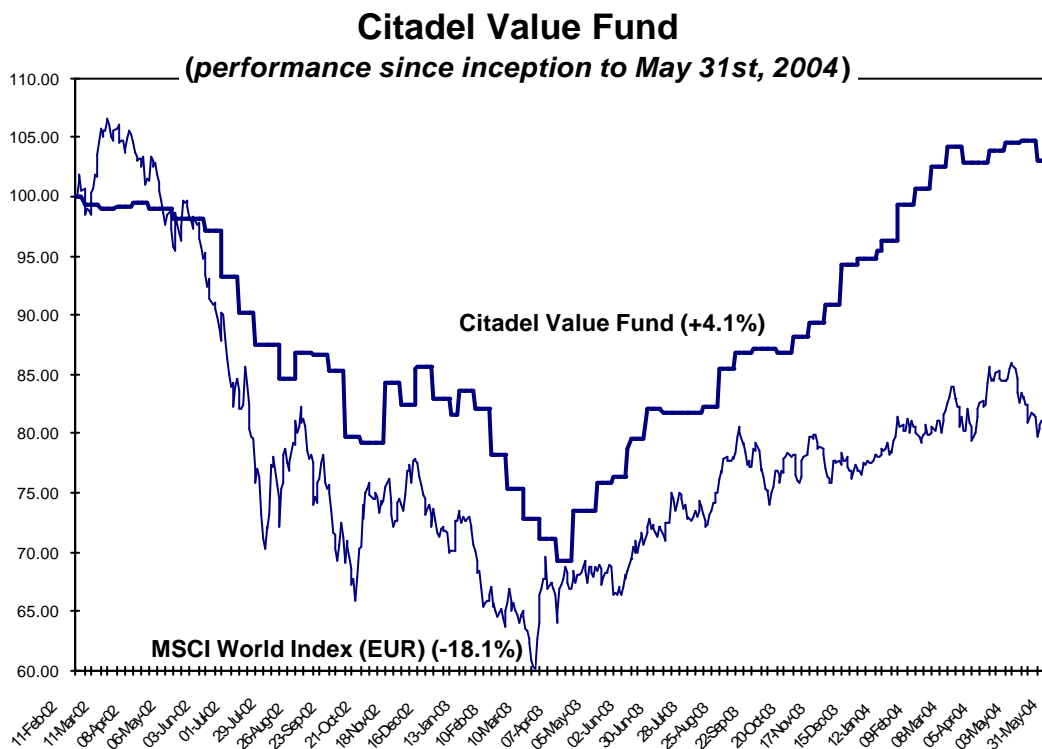


June 4<sup>th</sup>, 2004

Dear Shareholders,

After the traumatic performance of stock markets in the Fund's first financial year (from inception in the beginning of 2002 to May 31<sup>st</sup>, 2003), we are particularly pleased to present you with this report for the year ended May 31<sup>st</sup>, 2004. Your Fund saw its NAV per share rise from EUR 78.66 to EUR 104.14.<sup>1</sup> Not only has this led to positive absolute returns, but the Fund's outperformance relative to the MSCI World Index in Euro's has increased. Since inception (the most relevant period for measuring returns we believe as it is the longest) the Citadel Value Fund had a performance of +4.1% while an investment in the MSCI Index would have returned -18.1%. Year-to-date your Fund rose in absolute terms and also beat the index by a significant margin.



<sup>1</sup> **IMPORTANT:** An investment in the Fund carries with it a degree of risk. The value of your investment may go down as well as up, and you could lose money on your investment. Past performance provides no guarantee for the future. Investors should read the fund's prospectus before deciding whether to invest. The opinions and commentary expressed in this letter should in no way be construed as personal investment advice, they are intended solely to illustrate the Fund's investment strategy and performance.

<b>Citadel Value Fund SICAV</b>				
<b>Performance Comparison as of May 31st, 2004</b>				
	<b>Since Inception (11/02/02)</b>	<b>1 Year</b>	<b>2003*</b>	<b>2004* YTD</b>
<b>Citadel Value Fund</b>	4.1%	32.4%	17.0%	9.1%
<b>MSCI World</b>	-18.1%	19.6%	11.3%	5.0%
<b>N.B.: MSCI World Index is based on total returns, in Euro's</b>				
<b>* annual returns are based on estimated NAV as of Dec. 31, 2002 &amp; 2003</b>				
<b>Source: European Fund Administration, Datastream</b>				

### *New in the portfolio*

While the Citadel Value Fund's portfolio can never be characterised as a beehive of activity, your Fund saw some noteworthy changes in its holdings in the past several months. We added to positions in several companies during the course of the second half (**Aventis, Wolters Kluwer, API, Wegener, Carclo, Telegraaf**) as share price dips led to a couple of excellent opportunities to boost holdings at large discounts to our estimate of their intrinsic values.

**Weetabix** shares were exchanged for cash as a result of an agreed offer in early 2004. Aventis was subsequently the target of a take-over bid from its French rival Sanofi-Synthelabo. After Swiss drugs giant Novartis became involved Sanofi was forced to raise its initial rock-bottom offer. This revised offer has still to be approved by shareholders although the chances of this happening look high, and management - after being put under the thumbscrews by the French government - has already given its blessing.

With the addition of four new holdings (**Unilabs, Nedschroef Holding, Canadian Natural Resources, Orthodontic Centers of America (OCA)**) the portfolio is currently composed of holdings in 29 different companies. Unilabs is a Swiss-based company which operates clinical testing laboratories. Reforms to the Swiss health system have hurt recent sales and the company is still bedding down a string of acquisitions which has led to low valuation levels. These issues are temporary we think while the business possesses several attractive structural characteristics including a strong market niche, good growth potential, and high margins and returns on capital. Nedschroef is a Dutch producer of fasteners (bolts, screws, etc.) for the auto industry among others. Despite operating in a decidedly un-sexy business the company has performed well, is generating good cash flows, and is working hard to add further value to its products, improve its cost base and reduce capital requirements. OCA provides business services to practising orthodontists, a market in which it is the market leader in the US. The underlying business is very sound and is growing, requires modest capital, and generates good margins and returns. Atrociously complex accounting (which led to overstatement of profits in our opinion) and difficulties with a large recent acquisition led the shares to fall to a level where it became of interest to your Fund. At a time when finding value is a challenge to even the most industrious analyst, we are very enthusiastic at having found four new companies in which to invest (Canadian Natural is described in more detail later) at excellent price/value relationships.

## Citadel Value Fund Portfolio (as of May 31st, 2004)

company	activity	% of portfolio
Aldeasa SA	retail (airport shops)	3.4%
Altria Group Inc.	food & tobacco	2.2%
API Group PLC	packaging	2.3%
Aventis SA	pharmaceuticals	4.2%
Bristol-Myers Squibb Co.	pharmaceuticals	5.0%
Brunel International NV	temporary employment	1.6%
Canadian Natural Resources Ltd	oil & gas (upstream)	4.7%
Carclo PLC	plastics production	3.9%
Colruyt (Etabl. Fr.) SA (Halle)	retail (food)	3.6%
Continental (Grupo) SA	beverages (soft-drink bottling)	1.7%
Grolsch (Koninklijke) NV CVA	beverages (beer)	2.8%
Havas SA	advertising	1.6%
Merck & Co.	pharmaceuticals	1.4%
Merck KGaA	pharmaceuticals & chemicals	8.8%
Metall Zug AG (part. Scheine)	consumer durables (appliance production)	3.0%
Nedschroef Holding NV (Koninklijke)	industrial goods (fastener production)	3.7%
Nexans SA	cable production	1.0%
Orthodontic Centers of America	health services (business services)	5.9%
Reesink NV CVA	wholesale and trade	2.6%
Richemont (Compagnie Financiere) AG	luxury goods	2.9%
Southern Energy Homes Inc.	manufactured housing	0.5%
Springer (Axel) Verlag AG	newspapers	7.7%
Syms Corp	retail (clothing)	2.5%
Tamedia AG Reg.	newspapers	6.5%
Telegraaf (Holdingmaatschappij de) NV	newspapers	4.1%
Unilabs SA	health services (laboratories)	3.6%
VLT AB B	newspapers	2.5%
Wegener NV	newspapers	4.1%
Wolters Kluwer NV	professional publishing	4.3%
Cash and other assets and liabilities		-1.9%
		100.0%

### *The value of a 'margin of safety'*

'Margin of safety' is a term that crops up regularly both in the Fund's literature and in its investment strategy. Other value investors also make liberal use of the concept which was first coined by Benjamin Graham in his book The intelligent investor. Warren Buffett called them the three most important words in investing. For once this sort of hyperbole is probably not far from the mark.

We thought it was a particularly opportune moment to re-visit this concept after stock markets had climbed so rapidly from their recent lows in March 2003. Margin of safety seems far from many investors minds. In Benjamin Graham's words margin of safety is "a favorable difference between price on the one hand and indicated or appraised value on the other...It is available for absorbing the effect of miscalculations or worse than average luck". Put differently, it is a buffer to absorb the unexpected. In practice margin of safety is a crucial part of the Citadel Value Fund's investment strategy. Companies with dangerously high debt levels, large and untransparent derivative positions, or simply too high a price are eliminated from consideration as investments. By seeking a 50% discount from a company's estimated intrinsic value, as your Fund does, means that a lot can go wrong before the long-term return on an investment is low or negative. The contrast with many growth stocks is evident. Prices of these stocks can appear fair or even undervalued if current growth continues long into the future. However, the moment growth stutters or

stops, estimated intrinsic values melt like butter pierced by the proverbial hot knife. And growth, even for the best of companies, can be fickle and notoriously difficult to accurately predict.

We had a fresh reminder recently of the importance of a margin of safety. When the fund first invested in Aventis it was at prices that we were convinced were less than 50% of the value (not to be confused with the share price) that our calculations indicated the firm would be worth several years into the future. Subsequent news on a couple of the company's blockbuster products and its new product pipeline reinforced our thinking. After a few dry years in terms of drug approvals and the spectre of two important patent expiries, the stage was set for sales growth to rise rapidly a couple of years hence. Existing products looked ready to be approved for new multi-billion dollar indications, new products were being filed for approval, costs were being cut, and the non-core and cash slurping activities were largely sold off. And the best news of all was that our analysis showed that we were only paying a token price for this future value creation. In our view Citadel's investment in Aventis required little more than patience.

However events turned out less rosy than we had hoped, but not for the usual reasons. Smaller rival Sanofi, anxious to protect itself against the possibility it would be acquired if an important patent case were lost in late 2004, launched a pre-emptive bid for Aventis. Aventis management leapt to the defense arguing, rightfully so, that Sanofi's bid was absurdly cheap. It soon emerged that notwithstanding what Aventis's management or owners thought, the French government was a strong proponent of the all-French deal. Sensing a wonderful fit with its own activities and a fair price though, Novartis prepared to launch its own bid despite frantic behind-the-scenes arm-twisting by French officials to warn the company off. After increasingly public threats of interference and a dramatic tête-à-tête meeting between Sanofi and Aventis in which Sanofi raised its offer by 15%, Novartis bowed out accepting the seemingly inevitable. This leaves Aventis shareholders with an improved, but ultimately poor, offer from Sanofi to be paid for largely in new stock.

The moral of the story for us is clear. Without the gigantic margin-of-safety between the purchase price and the estimated intrinsic value, the Citadel Value Fund could very well have lost money in this saga. And for reasons that were unforeseeable. Many other investors *will* lose considering that the stock traded for more than 2 years at levels above this offer. As it stands your Fund will see a positive return of approximately 29% (depending on exactly how and when the position is exited) - an excellent if markedly smaller gain than originally expected.

### ***Canadian Natural Resources - value in oil***

One of four new additions to Citadel's portfolio is upstream (i.e. exploration and production only) oil & natural gas producer **Canadian Natural Resources**. At a time of rapidly rising oil prices it is naturally pleasant to have an oil producer in the portfolio to balance against the negative impact on other portfolio companies whom are oil consumers. However, the investment in Canadian Natural stands strictly on its own merits, it is neither a hedge, nor a bet on oil prices. In putting a value on the company we worked with oil prices which were some US\$10-15 a barrel less than the current price.

The selection of Canadian Natural arose after examining many different oil producers around the world, including a number in considerable detail. In a nutshell our analysis suggested that Canadian Natural is one of the cheapest oil & gas producers in the world. The firm is one of the largest independent producers in North America with daily production which will reach 500,000 barrels of oil equivalent (BOE) a day, a land base larger than the Benelux, admirable operating margins and a cash flow from operations of C\$3.2bn last year. By contrast the company's Enterprise Value (market value of equity plus debt) at the time of purchase was c. \$13bn which is remarkably low, particularly at a time of rising oil prices. Three factors appear to negatively impact Canadian Natural's share price; 1) a rising C\$ vs. the US\$ in which oil is denominated 2) a strong position in heavy oil which requires more refining and is transportation-constrained which lead to sharply lower per barrel prices 3) rising exploration, development and production costs for the industry and the company.

There is truth to each of these three points, however, their impact on Canadian Natural's share price far exceeds their impact on its intrinsic value. Ultimately the mathematics of oil and gas production are fairly simple. If you can find

and produce oil for \$25/bbl<sup>2</sup> and sell it for \$34/bbl<sup>3</sup> (US\$24/bbl), as Canadian Natural did last year, then you've got a pretty good business going. Unlike several other companies in the industry, the company has successfully added to its reserves despite steady production increases. The company could produce at current rates for roughly 9 1/2 years based on proven reserves and another 3 1/2 years if probable reserves are taken into account. Almost half the company's production consists of natural gas from low risk fields in the Canadian provinces of Alberta and British Columbia. Gas prices are exploding amidst higher oil prices, increased usage and shrinkage in industry reserves. The company's large heavy oil position admittedly generates lower netbacks (the sum of sales less direct costs) than conventional crude oil or gas, however shrinking per barrel production costs and new marketing initiatives mean this will nevertheless generate increasing cash flows. A final straw in the company's hat is its Horizon oil sands project which is not included in its reserves, but will eventually produce a stunning 230,000 barrels/day for 40 years after it goes on-stream in 2008.

As always we admit to having little clue as to what stock markets will do in Citadel's coming book year. Nevertheless we feel confident in the portfolio companies, the margin of safety is high, and we are having some success in acquiring new 'deep value' holdings. Come what may, your Fund is prepared and we will report back to you on its progress.

Best wishes,

The Board of Directors  
**Citadel Value Fund SICAV**

---

<sup>2</sup> Average exploration (calculated on proven reserves), development, production, marketing, administration and royalty costs per barrel for Canadian Natural of C\$24.49 in 2003. Note this also includes the cost of adding to reserves through acquisitions. The cost to extract a barrel were considerably less than this at C\$12.35 including royalties.

<sup>3</sup> Based on 2003 average price of C\$33.75 received by Canadian Natural Resources. The average price for West Texas Intermediate (WTI) in US\$ was \$31.02. The difference between US\$ and C\$ prices is accounted for by the exchange rate, lower prices for heavy oil, transport costs for natural gas which are netted out, and hedging which lowered the average sales price.