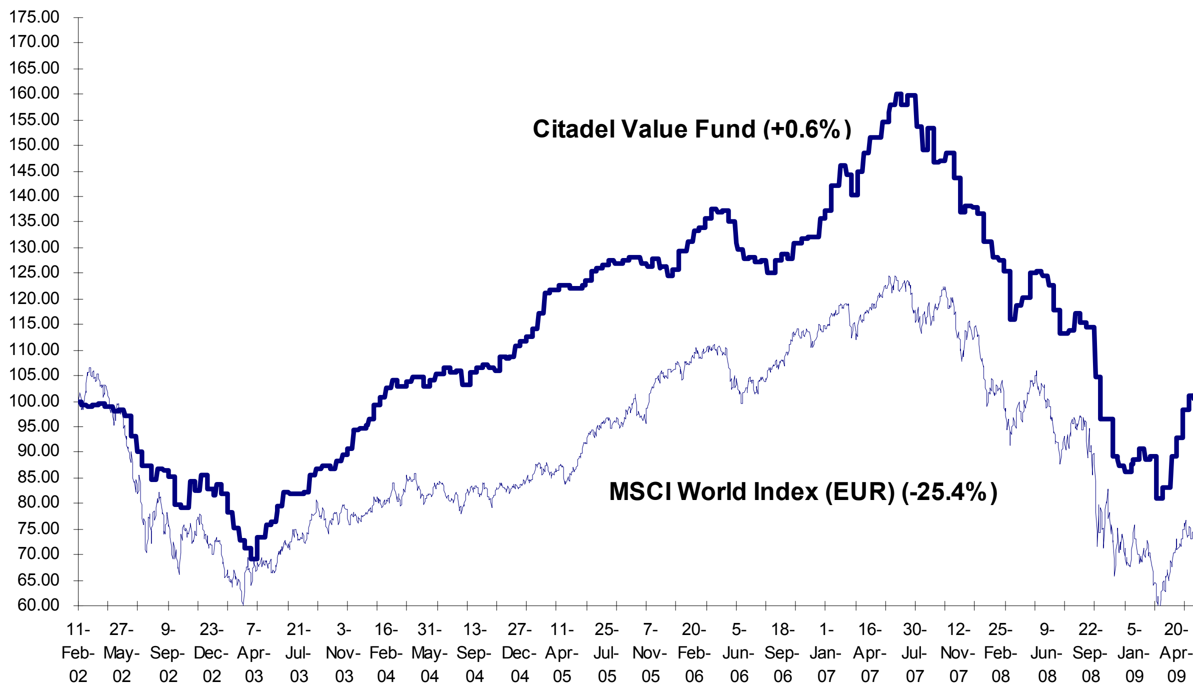
Dear Shareholders,

Citadel's fiscal year ended on May 31st with an NAV per share of EUR 100.56. After a very poor start to the calender year stock markets saw a powerful recovery off the multi-year lows set in mid-March. This takes markets back to the levels of late 2008. Since January the Fund's NAV is ahead by 14.6% while the MSCI World rose by 5.3% (in Euro's, dividends reinvested). Since inception in 2002 we have endured two bear markets of historic proportions. Against this backdrop Citadel has gained 0.6% which, while positive, is hardly the sort of absolute performance we would expect from a portfolio packed with 'deep-value' holdings. Relative to stocks in general (taking the MSCI World as a proxy) Citadel has done reasonably well. The MSCI World is down by 25.4% over this same period implying that the Fund has chalked up an advantage, on average, of several percent per year. We hope and expect to continue broadening that advantage over time and will highlight in this letter some of the reasons why we think this.

Citadel Value Fund

(performance since inception to May 31st, 2009)



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 herein should in no way be construed as personal investment advice, they are intended solely to illustrate the Fund's investment strategy and performance.

Citadel Value Fund Performance

(as of May 31st, 2009)

	Since inception (11/02/02)	2009 YTD	2008	2007	2006	2005	2004	2003	2002
Citadel Value Fund	0.6%	14.6%	-35.8%	-0.5%	9.7%	12.0%	17.2%	17.0%	-18.4%
MSCI World Index	-25.4%	5.3%	-37.2%	-1.2%	7.9%	26.8%	6.9%	11.3%	-29.9%
+/- vs. index	26.0%	9.3%	1.4%	0.7%	1.8%	-14.8%	10.2%	5.7%	11.5%

note: MSCI World Index based on total returns (gross dividends) in Euro's
* annual returns are based on Citadel's estimated NAV as of Dec. 31st
source: European Fund Administration, MSCI

Portfolio news

As of May 31st the Fund possessed 33 different holdings, a small increase from the number at the time of the semi-annual report in November. We wrote in November that we hoped to add a couple of new ideas and are pleased to report that we were able to do so, and at very compelling prices. The most significant new purchase was **Telecino** which was bought in mid-March close to the stock's all-time low and at approximately 2.5X 2008 EBIT. Telecinco is the leading Spanish commercial television network. It has some of the highest (if not the highest) margins and returns of any European media business built on the back of its ratings share leadership, and in particular its leading position in the key commercial prime-time slots. The company has historically paid out almost all its earnings thereby providing a very attractive dividend while also possessing a debt-free balance sheet. When we first analysed the company back in 2007 the stock had fallen by almost half as recession loomed in Spain. Since then advertising revenues have fallen off a cliff as the Spanish economy nose-dived and the stock fell by another 50% or more. Yet through it all Telecinco has remained very profitable (albeit much less than it was) while more indebted and less profitable competitors are running into problems. We expect the company, after a couple of difficult years, to emerge in an even stronger position.

Portfolio Changes **November 30th 2008 to May 31st 2009**
Holdings bought or added to
Bijou Brigitte Modische Accessoires AG
Clinton Cards PLC
Telecinco, Gestevision SA
Holdings sold or acquired in a buy-out
Batenburg Beheer NV
Village Super Market Inc.

Bijou Brigitte is another new name in the portfolio although we have closely followed it for almost two years. Unfortunately the weighting is extremely small. We tried on a couple of occasions in late 2008 and early 2009 to build a position. However each time our limits were narrowly missed and the stock moved up sharply. In hindsight we should have persevered, raised the price limit and built a holding of at least a reasonable size. Psychologically we always find it more difficult to chase a rapidly *rising* share price, than to add to a holding of whose merits we are convinced but whose price is *falling*. This cautious attitude has rewarded us in the past as prices often retreated just as quickly as they rose. Sadly, in the case of Bijou Brigitte, this is not the case or at least not yet. Obviously, we are

ready to pounce should the opportunity present itself. Finally we added a fair amount to the holding in **Clinton Cards** in early 2009**.** Clinton's stock had fallen to a truly ridiculous level and shortly thereafter the company announced a successful extension of its debt facilities.

While the first quarter of the calender year was for the most part a much better time to buy then to sell we did trim the large stake in **Village Super Market** by more than half. Village is on a roll operationally with impressive sales and earnings increases. It is one of the few stocks that actually rose in the past twelve months. While we remain enamoured of the company and expect good things from it, it is not nearly as undervalued as it was (hardly surprising given that the stock is up by well more than 100% in the time the Fund has owned it). Another notable sale was that of Dutch installation company **Batenburg** (slightly less than 4% of net assets prior to sale) which was disposed of just prior to the fiscal year-end for a return of approximately 30%. Relative to other ideas we have, and indeed versus many companies in the portfolio, Batenburg's valuation was unremarkable. As we expect its operations to be hard hit later this year we chose to free up funds to invest in other companies possessing equally or even more attractive valuations and hardier business models.

Portfolio Holdings
(as of May 31st, 2009)

company	activity	% of portfolio
Belgacom NV	telecommunication services (fixed & mobile)	3.0%
Bijou Brigitte Modische Accessoires AG	speciality retail (costume jewellery)	0.2%
Bristol-Myers Squibb Co.	pharmaceuticals	3.8%
Bull SA	information technology (computers, services)	1.7%
Canadian Natural Resources Ltd.	energy (oil & gas exploration & production)	2.6%
Carclo PLC	industrial goods (plastic components)	2.1%
Clinton Cards PLC	speciality retail (card shops)	2.6%
Companhia Paranaense de Energia (COPEL), ADR	utilities (hydro-electric power)	4.8%
Continental (Grupo) SA	consumer goods (soft-drink bottling)	4.7%
Daekyo, preferred	consumer services (education)	2.7%
Dewhurst PLC. -A- Non Voting	industrial goods (lift panels & controls)	2.8%
GS Home Shopping	speciality retail (TV home shopping network)	4.7%
Hanil Cement	materials (cement production)	3.5%
Heineken Holding NV	consumer goods (brewing)	2.6%
Johnston Press PLC	media (regional newspapers, internet)	1.1%
Molins PLC	industrial goods (tobacco machinery & packaging)	1.3%
Natuzzi SpA, ADR	consumer durables (furniture)	1.1%
Nongshim	consumer goods (food & beverages)	3.6%
Nongshim Holdings	holding co. (consumer goods, packaging, other)	3.3%
Ozeki Corp. Ltd.	retail (supermarkets)	5.4%
Pioneer Natural Resources	energy (oil & gas exploration & production)	1.6%
Royal Reesink NV (CVA)	wholesale and trade	1.6%
Signaux Girod SA	industrial goods (traffic signs)	3.9%
SK Telecom, ADR	telecommunication services (mobile)	4.7%
Springer (Axel) Verlag AG	media (newspapers, magazines, TV)	2.7%
Tamedia AG Reg.	media (newspapers, magazines)	1.2%
Telecinco, Gestevision SA	media (TV)	2.1%
Telegraaf Media Groep NV	media (newspapers, magazines, radio, TV)	0.2%
Toyota Industries	industrial goods (forklifts, engines, auto's & parts)	2.5%
Village Super Market Inc. 'A'	retail (supermarkets)	4.1%
Wolters Kluwer NV	media (professional publishing)	1.5%
Zehnder Group AG	industrial goods (radiators)	1.6%
Zwack Unicum	consumer goods (spirits)	4.5%
Cash and other assets and liabilities		10.4%
		100.0%

note: as percentages are rounded to 1 decimal point the sum of the percentages shown may differ from 100

Why our focus is on describing the investment process rather than the results

Regularly in these semi-annual letters we take a step back to discuss, in a little more detail, value investing in general and Citadel's strategy in particular. We think it's important that investors not only understand, but can also identify with, how we are investing your money and why. In communicating to you we consciously we devote a lot more attention to describing how we make investment choices, than how returns were realised. One of the things we don't do, for example, is provide a detailed 'return attribution'. In return attribution the individual returns in a given period are grouped together in various common elements which then supposedly 'explain' the overall return. For instance, (purely hypothetically), 30% of the Fund's return in the past 6 months could be 'attributed' to its holdings in the Netherlands and a further 20% to its holdings in Natural Resources. It is common practice in the fund industry to 'explain' the investment process and returns almost exclusively in this fashion. Yet this sort of information doesn't provide many insights into exactly how money is managed. It is attractive from the point of view that it is perfectly quantifiable. It suggests though a cause and effect relationship which, in our case, simply doesn't exist. A Dutch stock Citadel holds may very well rise as others in the Dutch market do. But we don't pick an individual company because it is listed in the Netherlands. By the implicit logic of return attribution all returns would seemingly stem from the right (through luck or skill) choice of market or sector. However, a stock price is ultimately linked to an individual business, and not the share price movements of a particular stock market or industry. If the business does well, and the stock price is low, the stock will eventually do well. If the business is doing poorly, and the price is high, the prospects for good returns from the stock are weak at best.

We think it is most relevant to investors to understand *why* certain stocks are chosen. To understand why is to understand the methodology behind returns. And it is this methodology which makes rational investing a repeatable process rather than simply a series of market or sector bets which may prove lucky or unlucky.

As background to Citadel's returns we focus for the most part on discussing how individual companies are faring and the thinking behind their inclusion in the portfolio. As time passes we strive to update you on the most important developments at each company with an emphasis on those firms where developments deviate from our original assumptions – and naturally the success of each investment after it is wound up. While we regularly mention that returns in a period were influenced by movements in a particular market or sector or currency these are really only side-notes to the 'meat & potatoes' issues which will determine future returns.

Better to be approximately right than precisely wrong

One of the 'meat & potatoes' issues we always face are the valuations in the market and in the portfolio.

The surge in stock prices since mid-March has inevitably altered the investment landscape. A number of the most obvious bargains have vanished. This is not to say that we are bereft of new ideas. However, the bargains we encounter are fewer in number, where earlier in the year we were literally stumbling over incredible values. They are also frequently less clear-cut. Not so long ago even the proverbial blindfolded ape had easy pickings. That is not the case today with stocks in some sectors having doubled or more, and many others are up substantially. As a result the importance of sound stock-picking has re-emerged. This is an environment we feel comfortable with and which has always been the backbone of our investment process.

Determining what a company is worth, and then buying it at a substantial discount (typically 50%) is, in a nutshell, how the Fund invests. The tricky part of this effort is in estimating a company's intrinsic value. This is part science and part art. We devote considerable energy to dissecting balance sheets and analysing all aspects of a company's operations and capital allocation. We interview management and assess their track record. We scrutinise its markets and its competitors. We continually look for risks which have the potential to sink or seriously disable a company. We construct various valuation models and relate the outcomes to each other and to outside data such as industry transactions. To a large extent this is a 'scientific' process or at least a quantative one aided by the experience of many years of analysing and valuing companies. But the 'soft' side is also very important; Has the competitive position of a company changed for the worse? Are there external factors such as changes in regulation, consumer behaviour, labour markets, etc. which could dramatically undermine the success of its business? Is the past a reasonable guide to the future? These sorts of questions are typically difficult to answer. In some cases, even with

the most extensive research and the most comprehensive analyses, they are simply unknowable. Where we aren't convinced that we truly understand a business we pass. Furthermore, however detailed our analysis and however precise our estimates, we always remind ourselves that it is 'better to be approximately right than precisely wrong'.

Looking for low prices and high conviction about intrinsic value

Getting it right is always easier when prices are at rock bottom levels. Price can compensate for a lot. When a price is extremely low even a broad range of business outcomes will still deliver a commanding margin of safety and attractive potential. This is why value investing makes such intuitive sense. That having been said, not all undervalued stocks are created equal. To illustrate take two examples from the current portfolio, both of which we think are undervalued: **Bull SA** and **Grupo Continental SA (Contal)**. Bull, the French computer hardware and services group, has only modest profitability, meagre returns and little sales growth potential (or least that is our working assumption). The 'value' in this case lies primarily in the fact that the company's net cash per share is slightly more than the current stock price. At a minimum you would expect that a company with more than EUR 1bn in sales would be worth at least what it has in its bank account. As long as the company is able to earn even a marginal profit and cash flow Bull's business should be valued at quite a bit more than it is currently. Grupo Continental, the Mexican *Coca-Cola* bottler, has net cash as well but trades at 6.5X EBIT. This is also cheap. However, its value hinges on how successful it is in maintaining or expanding its high margins and returns on capital and increasing its sales. Having followed the business for many years we have seen with our own eyes how the company has grown its soft-drink volumes, its sales and its cash flows. Much of Contal's cash flow has been paid out as dividends to shareholders (including to Citadel which has owned it since 2002). It has numerous attractive characteristics among which are: huge market shares (and the exclusive rights to *Coke* in several states); a product which is ubiquitous, low cost and which benefits from favourable demographics and growing incomes; cost conscious and able management; and little need for large recurring capital investment, etc. With even a cautious take on the future the current price looks modest. Nevertheless, it does require certain assumptions about the future in a way that simply adding up the net cash, dividing it by the number of shares outstanding, and comparing it to the stock price does not.

In February and March it was remarkable to us how many stocks fell into the category we call the 'no-brainers' – undervalued under almost every imaginable scenario. Many of the companies which were priced at liquidation values or less – and where liquidation was simply not in the cards – have now rebounded. Likewise numerous stocks of more cyclically oriented companies in sectors such as materials, natural resources, retail, consumer discretionary and so forth are up dramatically. Some of these may still prove to be bargains but that is much less evident than in mid-March. In a lot of cases they will prove to be undervalued only if substantial earnings growth materialises in coming years. And it is precisely those sorts of assumptions that we are wary of making. This is especially true at the moment where the speed and extent of an economic recovery is very much a question mark. Outcomes could vary dramatically. To return to our example of Contal the nature of its products, its business model, and its management provide us with a fairly high degree of certainty that our modest assumptions will be realised. Its intrinsic value will not swing from 50 in the event of a lingering recession to 150 in a powerful recovery. And that provides us with the necessary conviction that our intrinsic value estimate is roughly right and the stock is indeed undervalued.

Profitable, cash-rich companies in defensive businesses provide the highest certainty

Mapping out the future is always a perilous exercise. For that reason we and most other value investors prefer to invest where business uncertainty is least. This is why we avoid industries where rapid change in markets or products can undermine an investment case, or turnarounds where 'heads' means huge returns and 'tails' bankruptcy. We steer well clear of 'the next big thing', unproven concepts or business models which generally share this 'all or nothing' characteristic. AND we require low prices.

At the moment the best value cases seem to be those of the unleveraged companies with high profitability, relatively stable demand and where the shares have, in the main, not participated in the recent rally. These are just the sort of companies which propagate the Fund's portfolio: Contal, **Ozeki, Village Super Market, Zwack, Belgacom, Nongshim** and others. Not only is their survival not in question (something that for almost all companies was once

taken for granted but which events in the past year demonstrate is not always warranted!), they will remain highly profitable and cash generative even if economic recovery is slow and anemic. For reasons which we can only guess at they are also extremely lucratively priced.

A fews thoughts on inflation, stocks and what it means for stock picking

While we shun macro-economic prognostications as a tool in stock selection, we cannot help but be concerned by the spectre of inflation. There are breath-taking amounts being spent by governments the world over – the ramifications of which is a matter for speculation – accompanied by a massive and historically unprecedented expansion in money supply. That inflation will result is by no means certain, but the possibility is all too real. As investors it is only prudent to devote some thought to this. The shares of companies are one of the most promising areas in terms of protecting purchasing power against inflation. And within the universe of stocks there are certain industries and companies which can better withstand the ravages of inflation. A company's ability to withstand inflation could prove to be a key variable within not too many years. Like any other risk we prefer to have an idea of the potential impact before the fact rather than after. For some time now "what impact would high inflation have?" has been another of the questions we ask when analysing potential investments and reviewing the portfolio. Certainly criteria such as strong pricing power, modest sustaining capital required, high gross margins, etc. take on an even greater importance were inflation to rear its head.

It is reassuring that these sorts of economic characteristics feature prominently in a majority of the companies the Fund owns as well as in the companies we are reviewing.

SK Telecom

SK Telecom is a fine example of a company in the portfolio which because of its product, its market share, and its financial strength is well placed to ride through the recession and emerge as strong or stronger than it was before. SK Telecom (SKT) is the largest of three mobile telephone providers in South Korea with a market share exceeding 50%. It also has promising operations in both China and Vietnam as well as a recently acquired stake in a broad-band company which allows it to offer bundled services such as high speed Internet access, Internet Protocol TV, etc.

Profits in recent years came under pressure as competition heated up in attracting new subscribers to the latest generation network (3.5G for the technically inclined) - not that you would know it from the 34% EBITDA margin and mid-teens after-tax return on capital. This competitive brawl left its marks on the competitors whose margins, which were already far lower than SKT's, fell further. Competition now appears to be cooling. This is hardly surprising given that these competitors are weighed under by much weaker balance sheets and, at the end of the day, were thoroughly unsuccessful at gaining any market share at SKT's expense. In 2009 SK Telecom's profits should grow nicely as marketing costs fall.

Mobile telephone revenues are by and large quite resilient to economic downturn. Consumers don't seeem to view their mobile phone costs as one of the first places to save money. As a result revenues and cash flows of SKT have a welcome stability. The business does require capital although this is rather lumpy, coinciding with the build-up of new networks. With an investment cycle recently behind it the short-term capital requirements are limited and cash flows will grow accordingly. As it is SK Telecom is very cash generative which has led to a rock solid strong balance sheet with net cash and investments equalling some 15% of the stock price. Befitting the cash rich nature of its business the company pays out a healthy dividend with a current yield just shy of 7% and has actively bought back its stock in the past. If there is one fly in the ointment it is the risk (all too common in Asia) that capital is (mis-) allocated to marginal projects or acquisitions. Nevertheless with the stock trading at around 2.5X EBITDA – making it one of the cheapest telecoms in the world - the margin of safety is considerable.

It is this combination of an exceptionally low price and a highly profitable business with defensive merits which makes SK Telecom an attractive holding in the portfolio.

In conclusion

Even after the rally of the past few months Citadel's portfolio is more undervalued than we would have thought possible. On a 'see-through' basis the Fund is trading at 4.4 X EBIT and 70% of Capital Employed.[1] To those not familiar with the intricacies of valuation it is probably not obvious how remarkable these figures are. The first shows that were you to buy a company at 4.4 X EBIT it would take a little more than 4 years (on a pre-tax basis) to repay to the investment in full.[2] This is an extremely quick payback and is equivalent to a pre-tax return of 22.7%. The second ratio is perhaps even more astonishing. If a company is valued at only 70% of its Capital Employed it is selling at a huge discount to the book value of its assets such as plant, equipment, working capital and goodwill. And remember that the book values of most companies dramatically understate what it would cost to build them from scratch. No one in their right minds would invest one Euro in a business if the resale value was 70 cents or less. In fact this sort of valuation only makes sense if the profitability of a company is so low that investing that same Euro elsewhere (say government bonds) would generate more and with less risk. Happily this is not true for the companies in Citadel's portfolio. Taken as a group the after-tax return on each Euro that these companies have invested is almost 11.5% (before-tax yields on 10 year government bonds are close to 4%). This profitability is not etched in stone but as we have touched on in this letter nor is it likely to fall dramatically. In the medium term we believe it is far more probable to improve than worsen. The valuation of Citadel's portfolio at a huge discount to Capital Employed can, in this light, only be described as absurd. Including cash (roughly 10% of Fund assets) the dividend yield alone of the portfolio is 4.2%.

After almost a two year stretch of falling stock prices it appears as if the first rays of light are poking through. Stock markets invariably lead the economic cycle and let us hope that this is once again the case. The Fund has a particularly solid portfolio of companies which we believe will continue to fare well even if today's optimism proves premature. Predicting returns is impossible but there is a certain serenity that comes from knowing that the portfolio companies are generally in fine shape, will weather the storm, and are trading at historically low valuations. It pleases us that after an extended drought we are once again able to report a positive absolute return in the first five months of 2009. Rest assured that we will do our upmost to build upon these gains in the years to come. Thank-you for the trust you have endowed on us through your investment in the Fund.

Kind regards,

The Board of Directors June 23rd, 2008
Citadel Value Fund SICAV

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[1] This is an update of the exercise we first introduced and explained in the November 2007 letter to shareholders; please let us know at info@citadelfund.com if you would like to receive a copy.
[2] This assumes an unlevered capital structure and excludes non-operating income and expenses. After-tax, taking an arbitrary tax rate of 35%, the payback period would be roughly 7 years, still an incredibly rapid payback period.