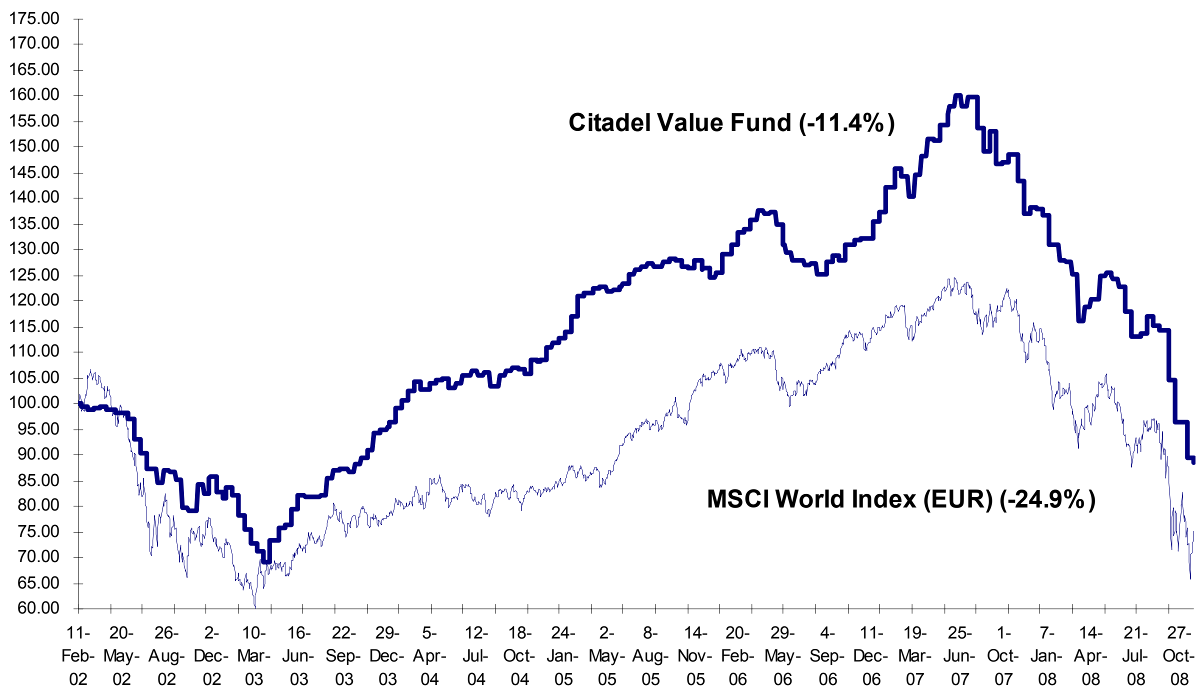
Dear Shareholders,

As the year draws to a close it is hard not to express the thought "good riddance". 2008 will go down in history as one of the all-time rotten years for stocks. As of November 30th, the end of the Fund's first half, the NAV per share was EUR 88.61 which represents a decline since the beginning of the calendar year of 35.2%. This is not a performance we are happy with but it compares decently to stock markets overall. Almost all national indices have fallen by 40 to 55% with a couple such as Russia and China falling by more. Only Mexico, Switzerland and the UK did marginally better. The MSCI index in Euros had done slightly better than Citadel as of the end of the month, although a day later on December 1st Citadel was slightly better than the index. Since inception the Fund's performance on November 30th stood at -11.4% versus -24.9% for the MSCI World.



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 November 30th, 2008)

	Since inception (11/02/02)	2008 YTD	2007	2006	2005	2004	2003	2002
Citadel Value Fund	-11.4%	-35.2%	-0.5%	9.7%	12.0%	17.2%	17.0%	-18.4%
MSCI World Index	-24.9%	-33.4%	-1.2%	7.9%	26.8%	6.9%	11.3%	-29.9%

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

Although there has been no absence of attractively valued ideas since the last letter to shareholders at the end of May we have moved cautiously in deploying cash into stocks. On balance there have been more sales than purchases as can be seen from the table below. Our molasses-like tempo is deliberate. The market's decline has opened up an abundance of riches for the value investor. There are many promising ideas to examine, and the research and analysis involved in appraising each one is time-consuming. Besides which the sheer volume of cheap stocks allows us to be even pickier than we already were. Endowed with only limited cash (approx. 7% of the NAV), we want to ensure we cherry-pick the best companies at the very best prices. The latter can be tricky due to the exceptional levels of volatility – a stock losing 10 or 20% of its value in a day or two is not unusual. Still as we have often noted in these letters picking a bottom is an impossible task and, in the long-term, not even a very important one if the price is good and the investment case sound. But this is a buyer's market and taking an even stingier view on a company's value (and therefore the price we should pay) can be rewarding. A number of the ideas we were working on only 6 months ago, and which seemed to be very cheap, have since fallen by a third or more. Finally, as most shareholders know, the Fund has always held a sizeable cash position. We think this is prudent although cash levels are ultimately determined by the availability or unavailability of attractive investment ideas.

Portfolio Changes **May 31st 2008 to November 30th 2008**
Holdings bought or added to
Canadian Natural Resources Ltd.
Johnston Press PLC
Holdings sold or acquired in a buy-out
Comphania Paranaense de Energia (COPEL)
Springer (Axel) Verlag AG
Telegraaf Media Groep

The only new holding in the portfolio is **Canadian Natural Resources**, which some shareholders may recall is an old holding of the Fund. We bought it again after the stock dropped precipitously. On a per Barrel of Oil Equivalent (BOE) basis the company's reserves are amongst the very cheapest in North America. And yet we think the quality of the company and its reserves are better than most. For example its exploration and production costs (what it costs to find a barrel and extract it) are below the industry average, and well below even current oil prices. Its asset base, including vast land holdings for future exploration, is comprised of an attractive mix of light and heavy oils, natural gas, and a huge new oil sands operation – almost all of which are located in politically stable Canada and the UK sector of the North Sea. Finally unlike many others with oil sands reserves Canadian Natural's

operation is paid for, and is now up and running. This is an asset of immense value for unlike traditional oil & gas exploration there is almost no geologic risk. The reserves in place will support production of 110,000 barrels a day (more actually if capacity expansions are done) for roughly 40 years! With cash costs per produced barrel of roughly $25 the cash flow is considerable at even $40/barrel oil.

Portfolio Holdings
(as of November 30th, 2008)

company	activity	% of portfolio
Batenburg Beheer NV	business services (technical installation)	4.3%
Belgacom NV	telecommunication services (fixed & mobile)	4.2%
Bristol-Myers Squibb Co.	pharmaceuticals	4.9%
Bull SA	information technology (computers, services)	1.5%
Canadian Natural Resources Ltd.	energy (oil & gas exploration & production)	2.2%
Carclo PLC	industrial goods (plastic components)	1.4%
Clinton Cards PLC	speciality retail (card shops)	0.7%
Companhia Paranaense de Energia (COPEL), ADR	utilities (hydro-electric power)	5.0%
Continental (Grupo) SA	consumer goods (soft-drink bottling)	3.9%
Daekyo, preferred	consumer services (education)	3.3%
Dewhurst PLC. -A- Non Voting	industrial goods (lift panels & controls)	3.1%
GS Home Shopping	speciality retail (TV home shopping network)	3.3%
Hanil Cement	materials (cement production)	2.6%
Heineken Holding NV	consumer goods (brewing)	2.7%
Johnston Press PLC	media (regional newspapers, internet)	0.4%
Molins PLC	industrial goods (tobacco machinery & packaging)	1.6%
Natuzzi SpA, ADR	consumer durables (furniture)	1.2%
Nongshim	consumer goods (food & beverages)	4.1%
Nongshim Holdings	holding co. (consumer goods, packaging, other)	2.9%
Ozeki Corp. Ltd.	retail (supermarkets)	7.0%
Pioneer Natural Resources	energy (oil & gas exploration & production)	1.4%
Royal Reesink NV (CVA)	wholesale and trade	1.7%
Signaux Girod SA	industrial goods (traffic signs)	3.7%
SK Telecom, ADR	telecommunication services (mobile)	6.0%
Springer (Axel) Verlag AG	media (newspapers, magazines, TV)	2.0%
Tamedia AG Reg.	media (newspapers, magazines)	1.3%
Telegraaf Media Groep NV	media (newspapers, magazines, radio, TV)	0.2%
Toyota Industries	industrial goods (forklifts, engines, auto's & parts)	2.4%
Village Super Market Inc	retail (supermarkets)	7.0%
Wolters Kluwer NV	media (professional publishing)	1.7%
Zehnder Group AG	industrial goods (radiators)	1.5%
Zwack Unicum	consumer goods (spirits)	4.1%
Cash and other assets and liabilities		6.7%
		100.0%

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

We also added to the small **Johnston Press** holding by subscribing to a rights issue. On the selling side we slightly trimmed the large position in Brazilian hydro-electric utility **COPEL** in July as its weight in the portfolio had grown after a superlative performance in the first 6 months of 2008. This move saved some money as the shares gave back their H1 gains in September and October, although the company's solid results certainly didn't justify the fall. In the May letter we mentioned that the stake in **Axel Springer** had been expanded. A couple of months after we wrote that the company issued a buyback offer for a portion of the shares outstanding at a 20% premium to what we paid in January (excluding a dividend paid). Given the number of bargains we were encountering we felt it made sense to lock in this profit, reduce the position somewhat, and free up funds to use elsewhere. Finally, we disposed of virtually the entire remaining position in **Telegraaf** realising just shy of a 30% return (as of November 30th Telegraaf was a 0.2% holding). Relative to other ideas we had, and were adding to, the undervaluation in the company's shares was markedly less compelling. Furthermore, the shares had done quite well in a difficult market despite what we felt was a very bleak short-term outlook.

The future for stocks

Looking in the rear-view mirror there is every reason to be frustrated with stocks. In the past decade even the long-term investor in stocks has earned little or nothing as measured to the lows of this November. Fortunately the investment clock doesn't stop in November. But an obvious question is what will the next ten years bring?

That investors are extremely nervous is clear. The length and depth of the global recession is highly uncertain – although as we've pointed out in the past there is always uncertainty in both good times and bad. Investors tend to worry much more though about the uncertain future when times are bad than when they are good. In an historical perspective the current crisis is definitely one of the most severe. In the past 50 years there were only two other occasions when stocks fell by 40% or more: in 2000-2003 although the economic downturn was muted; and in 1973-1974 when economies and markets buckled under the impact of an OPEC oil embargo, and ensuing inflation. Looking back even further there have been a handful of other major market dislocations including the depressions of 1873-1877 and 1896, the 'bankers' panic' of 1907, the recession of 1938, the war years of 1939-1942 and of course the Great Depression of 1929-1932. In each case stocks fell by 40% or more. In that sense the dismal performance of the stock market in 2008 is not unique. It is though one of the sharpest falls ever recorded. Inevitably this leads to great nervousness with some even warily eyeing the depression years of 1929-1932 for parallels. It doesn't help that in late November the US S&P 500 Index had fallen by 48.8% YTD, even more than the -43.3% recorded in the hitherto single worst year in US stock market history 1931. Nevertheless, while the stock market declines are similar the economic backdrop is hardly comparable.

As 1931 drew to a close, the US economy was shuddering. Unemployment had reached 16% and would peak at an unthinkable 25% in late 1933. Wages were tumbling and were down some 42% at their nadir. The Gross Domestic Product plunged by 8.6% in 1930 and fell by a further 6.4% in 1931. For all the world's troubles today they don't appear to approach those of 1931. Economists in a recent survey published in the Wall Street Journal forecast that US GDP will decline "slightly" more than 1% from peak to trough and that the unemployment rate will bottom at 8.4%. We generally put little faith in economic forecasts but the magnitude of the differences between 2008 and the 1930s are obvious. So too is the response of governments. Where money supply shrank by a third in the thirties, and federal government spending was reined in sharply, central banks and governments across the world are falling over themselves today to provide liquidity and large stimulus packages. Even in the much plagued financial sector governments have allowed only a couple of institutions to fail; in the '30s almost 10,800 American banks out of 25,000 closed their doors. We will leave it to the reader to make his or her own assessment but it seems to us that things would have to get a great deal worse before a scenario such as the Great Depression unfolds.

To return to our earlier examples of stock market crashes, it is worth noting that only in the protracted crash of 1929-1932 did stocks fall by much more than they have in 2007-2008. Furthermore, in the past when markets rebounded they did so quite powerfully. Stocks rose between 65% (1907 onwards) and 140% (1942 onwards)(the exception is post-1938 when the outbreak of World War II aborted the short-lived recovery). This was likewise true in the aftermath of 1931. Despite a further erosion in stock prices during the first half of 1932, stocks rose by some 280% from December 1931 to early 1937. While there are few conclusions one can draw from history we would suggest that there are two facts which have some significance for the investor today. First, the sheer scale of this bear market already ranks it amongst the worst ever – whether today's dire economic outlook is worse than those in times past and that stocks must therefore fall much further is debatable. Secondly, stocks have historically done very well in the aftermath of 40% + declines. This brings us back to the question where we began: how will stocks fare in the next ten years? History provides some context but a better answer to this question lies in the fundamental factors underlying stock prices.

One of the most widely available measures of overall market valuations is the venerable price-to-earnings (P/E) ratio.[1] When inverted (earnings divided by price) the result is an earnings yield which indicates the return an equity

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[1] For the more technically inclined reader a few additional thoughts are in order. The P/E ratio, while widely used and available (this explains why we have used it), is a measure with flaws. The most important is that neither Price nor Earnings takes much account of a company's cash or debt, except for the modest (due to low interest rates) impact of interest paid or received which is included in Earnings. The value of two different companies with

investor is receiving on his investment. As a shareholder in a business he or she owns the earnings that that business generates. This is true whether those earnings are paid out in the form of a dividend (immediate cash return), are used to buy back stock (increasing his proportional interest and thereby making it more valuable), or are reinvested in the company (making the company and therefore its shares more valuable). The earnings yield can be compared with returns on all sorts of other investments, and in particular with government bond yields, in order to make choices between them.

Today we think stocks look attractive. In the United States stocks overall have an earnings yield of 8.9% and companies paid out roughly a third of that in cash dividends. This represents a dividend yield alone of 3%. By contrast the closest to a risk-free investment one can find, 10 year government bonds, return 2.6%. Recently short-term US treasuries were even selling for a yield of 0% - an astonishing statistic given that inflation is at least a couple of percent. Thus, the difference in return between equities and bonds is 6.3%. In the past 50 odd years the yield on stocks has exceeded the yield on government bonds by 4% or more on only five different occasions (in 1974, 1978, 1979, 1980 and 2008). In the first four cases (although 1978, 1979, 1980 are interrelated) stocks subsequently rose sharply.

In Europe the valuation of stocks is on average much lower than in the US with an earnings yield of 13.2% and a dividend yield of 5.9%. In Japan – although we don't have the statistics – valuations look cheaper still based on the work we have done analysing individual companies.

"Buy low, sell high" is an expression all know but paradoxically few seem to follow. Money flows out of equity funds have been substantial. Government bonds generate only the most modest of returns – and actually a negative return after taking into account inflation. At the same time the yield on equities (and this is without any selection whatsoever, but merely taking the entire market) is higher than it has been in 20 years. Relative to government bonds the last time that equities yielded so much was in 1954. To us it seems obvious that stocks are low. Equally obvious is that investors are currently so fearful that equities will go even lower that they are oblivious to return. Predicting when investors' appetite for assets such as equities will improve is a perilous undertaking. Nevertheless with each fall in stock prices the likelihood of that occurring improves as does the potential for future returns. There is a strong case to be made that stocks in the coming ten years will enjoy a very different, and better, outcome than in the past decade.

Many shareholders will recall that we almost never venture an opinion on the stock market; that we do so now reflects the widespread value that we see. However our convictions are strongest when discussing the individual stocks which comprise Citadel's portfolio.

How Citadel stacks up versus the market

Currently there are 32 companies in the portfolio. The composition is not very different than it was when we wrote in June, although the weightings have changed somewhat. And they are rock-bottom cheap!

Just how cheap can be seen from the fact that in aggregate the earnings yield for the portfolio is just shy of 19%.[2] To recall US stocks have an earnings yield of close to 9% and European ones 13.2%. The Fund's dividend yield alone, at 5.2%, is roughly twice current government bond yields. Dividends in general are under pressure as the economic downturn hits – although thus far more companies in Citadel's portfolio have raised the dividend recently than cut it

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identical earnings and an identical stock price is clearly not the same if one has debt and the other cash. Another problem is the tendency of Earnings to be contaminated by all sorts of items which may or may not be true earnings, as well as by sometimes large but infrequent items which skew the results in a particular period. In our valuations we use other yardsticks for these reasons. However as a broad measure across many companies (hopefully ironing out some of these issues) it is insightful.

[2] A few other statistics which highlight just how cheap the portfolio is are the EV/EBITDA and EV/EBIT ratios which stand at 2.8X and 3.8X respectively. Relative to the capital employed in the various businesses the Enterprise Value is 0.6X (i.e. the portfolio is selling at 60% of the net tangible assets and goodwill invested).

– in several years time these dividends are more prone to be higher than lower. That can't be said for the bondholder signing up for 10 years at 2.6%.

While we have spent considerable time in the past year revisiting the investment case of the various holdings, rechecking assumptions, updating facts and recalculating our estimates for their intrinsic value, we cannot predict with exactitude what the impact of this downturn will be. We can, however, say that the foundations for the companies in the portfolio are very solid. In addition to strong balance sheets (approximately two-thirds having net cash), many holdings have rather good earnings prospects. This is in great measure due to the fact that more than half the companies the Fund holds are active in sectors which are less susceptible to economic malaise; food & drink, utilities, food retailing, pharmaceuticals, telecoms, etc. However, even a number of firms in more traditionally cyclical industries are apt to perform well thanks to strong management and good market positions.

As an example **Dewhurst PLC** recently reported outstanding earnings. Dewhurst is a UK producer of elevator components, push buttons for ATMs and other applications, rail equipment, and other industrial goods. Despite tough competition, and weak overall markets, the company's down-to-earth, focused and cost-conscious management continues to deliver results exceeding our expectations. **Carclo PLC**, once heavily active in plastic components for the telecom and automotive industries has reshaped its business, to focus on new lighting, medical and other specialist products. Its results continue to improve even in the face of economic downturn.

For the companies where earnings will fall sharply, and there are a few in the portfolio, this downturn could ultimately prove beneficial as weaker competitors wilt under the pressure. **Toyota Industries** is an example. Through its 6% stake in Toyota Motor Company (a stake whose current market value by the way is more than 100% of Toyota Industries) the company is exposed to the gale force winds blowing in the automotive sector. Yet compared to the entire US auto industry which is balancing on the edge of bankruptcy, and European producers which are buckling, we believe it likely that Toyota's healthy finances, industry leading margins, and strong product development will lead it to emerge even stronger several years down the road.

The ravages of the market have spared little in the past year or more, and the Fund's performance is testament to that. Our starting point, and ending point for that matter, is always the individual stock and what we think a conservative appraisal shows it to be worth, not the market price. Market prices would have you believe that the Fund's companies should sell at low single digit multiples of their earnings and cash flow. We simply don't agree. Nor probably do many investors. The appetite to invest is simply very low. As the merits of companies such as **Ozeki**, which we discuss below, are eventually recognised it is fair to expect that share prices will rise significantly.

Ozeki

Ozeki is the largest position in the portfolio having benefited from a reasonable stock performance in 2008 and a rise in the yen.

The company is a Japanese food retailer whose 29 stores are located in several upscale neighbourhoods in Tokyo. We thought the investment case was pretty straight-forward when Citadel first started acquiring shares in late 2007. To begin with the shares were trading at around 4X EBITDA, or roughly half the level that we use as a rule of thumb for an average food retailer. Nor as we soon discovered was Ozeki an average retailer. On most measures such as sales per employee, sales/m2, or return on capital the company was amongst the most efficient and profitable of Japan's numerous listed food retailers. Compared to a lot of retailers we have analysed in Europe and North America Ozeki stood out. The company has built itself a very strong market position based on good locations, low prices, an extensive fresh produce and fish assortment, and superior levels of services from a dedicated full-time work force (in contrast to the part-timers employed by competitors). The company's new store openings had petered out and this perceived lack of growth, combined with small declines in same-store sales, appeared to be the reason why the company's shares were so modestly valued.

With only very modest capital requirements and high and stable margins the company was very cash generative. Net cash had grown to roughly a third of the company's market capitalisation. With only stable to modestly higher sales, and not assuming any growth from new store openings, the company's steady cash generation would

progressively grow the value of the company. Looking ahead a couple of years it seemed reasonable to expect that Ozeki's intrinsic value would be close to two times the share price.

Since building up the stake the news flow has been decidedly positive. In 2007 sales grew again, margins expanded somewhat to a very healthy level of 7.6% and the post-tax Return on average Capital Employed reached 24%. Importantly, same-store sales growth turned upwards. Same-store sales have grown further well into 2008 – despite, or perhaps because of the weak Japanese economy – and results this year are almost certain to beat our original forecasts by a sizeable margin. Furthermore, new management (or rather old, as the former director who presided over a period of very profitable growth) has taken the reins. As a result store openings are once more on the agenda. Ozeki's track record in that respect is an impressive one with high marginal returns and quick profitability on each of its past openings. This could bolster the company's prospects further. Finally, there are encouraging signs (particularly for a Japanese company) that more cash will be returned to shareholders and a dividend increase is likely in the offing.

Despite this flurry of consistently good news the shares actually declined this year, although by much less than markets generally. With more cash in the register and the real prospect of growing profits (at a time when few companies can boast of that), the stock's valuation at 3.3X EBITDA is downright laughable. As with the rest of the portfolio we don't know when stock markets will seize the opportunity a stock like Ozeki presents. But with its value growing every year, and the price where it is, time is on our side.

Some closing thoughts

In a few years time when the memories of this current crisis begin to fade, many investors will look back at today's prices in astonishment and probably with some measure of regret. Most investors in their lifetimes will have few opportunities to purchase shares at prices as attractive as they are today – with the obvious caveat that they may be even more attractive tomorrow. Nevertheless, whatever the short-term may bring the odds of earning good returns in future from stocks bought around today's levels look very good. For our part we have attempted in the past year to take some advantage of the opportunities the current crisis has provided by adding to existing positions, disposing of less attractive holdings, and by selectively adding new ones. The current cash position is sufficient for a couple of new positions. We have an excellent list of candidates to invest in but are being even more selective and critical than normal given the modest firing power available. We are also working to add to this list in order not to miss opportunities as new inflows come in.

We want to particularly thank you for your support and trust during what has been a very tough year. Needless to say we hope that at this time next year we'll be able to provide you with some positive news ahead of the holidays. As we've expanded upon in this letter the average stock is cheap, and Citadel is a good bit cheaper than average. This means that there is more to go on than hope alone!

We wish you and your families a very Merry Christmas and a Happy New Year.

Kind regards,

The Board of Directors December 15th, 2008
Citadel Value Fund SICAV