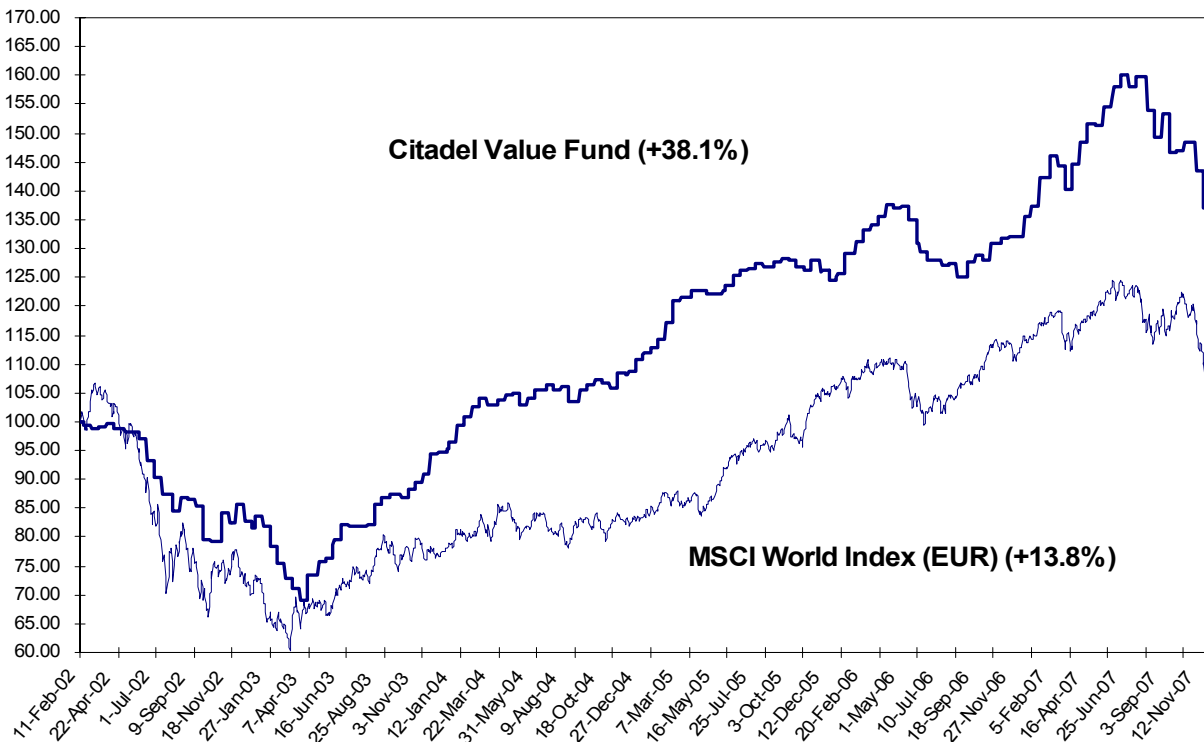




Dear Shareholders,

2007 has thus far been quite a roller-coaster. From January up until July most equity markets had a decent return for the year. This was not to last though as markets were hit by two bouts of turbulence, first in July and August, and most recently in November. At the end of November many markets had retraced their earlier rises, and some were even down for the year, as was the MSCI World Index (EUR, -0.3%). As we reported in the letter for the fiscal year ended May 31st Citadel got off to a good start in 2007. Unfortunately, the Fund was also hit by the global sell-off and largely gave back its first half gains (about which more later). As of November 30th - the end of Citadel's first half - the Fund's Net Asset Value (NAV) per share was EUR 138.13. Year-to-date your Fund's performance is marginally positive (+0.5%). Since inception the performance stands at +38.1% vs. +13.8% for the global index.

Citadel Value Fund
(performance since inception to November 30th, 2007)



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, 2007)

	Cumulative returns			2007 YTD	2006*	Annual returns			
	Since inception	5 year	1 year			2005*	2004*	2003*	2002*
Citadel Value Fund	38.1%	61.2%	4.6%	0.5%	9.7%	12.0%	17.2%	17.0%	-18.4%
MSCI World Index (Euro)	13.8%	46.7%	3.0%	-0.3%	7.9%	26.8%	6.9%	11.3%	-29.9%
Out/under-performance	24.3%	14.5%	1.5%	0.8%	1.8%	-14.8%	10.2%	5.7%	11.5%

* annual returns based on estimated NAVs on Dec. 31st; first NAV February 11th 2002
source: European Fund Administration, MSCI

Portfolio news

Portfolio Changes May 31st to November 30th 2007
<p>New holdings bought or added to</p> <ul style="list-style-type: none"> Clinton Cards PLC Daekyo, preferred Hanil Cement LandAmerica Financial Group Nongshim Holdings Toyota Industries Ozeki <p>Holdings sold or pared back</p> <ul style="list-style-type: none"> Apache Corp. Carclo PLC Heineken Holding NV Metall Zug AG

Since our last letter in May we have been uncharacteristically active in making changes to the portfolio. In large measure this is a reflection of the increased number of attractive ideas we are uncovering. The four new names that were acquired were not only very undervalued but are qualitatively good businesses. **Nongshim Holdings** (NSH) is, as the name implies, the holding company for Korean noodles, water and snack producer **Nongshim**. Shareholders will recall that we purchased a shareholding in the latter company in the first half of the year. In addition to its 34% interest in Nongshim, NSH also has interests in a number of other companies which are suppliers to Nongshim including companies active in packaging, sauces & soups and construction, as well as a number of peripheral assets including the requisite golf course¹. Convinced as we are of the potential for Nongshim, NSH presented an opportunity to purchase more of that asset at even better prices. Another Korean company which we bought is the

¹ Both Korean and Japanese companies appear to have a penchant for golf, with many a balance sheet listing golf club memberships as an asset. In NSH's case the golf course does appear to be rather valuable as it is one of the leading courses in Korea and quite profitable.

leader in private education services **Daekyo**. Whilst we describe this in more detail below, the Fund's holding in Daekyo was purchased at less than 1X last year's operating profit after taking account of the company's burgeoning cash and investment account. In Japan we bought shares of **Toyota Industries**, known for its association with Toyota Motors in which it owns a valuable 6% stake. Less well known is the fact that Toyota Industries is the leading forklift producer in the world as well as being a major producer of engines and other auto-parts and a car assembler in its own right. The attraction here was that the shareholding in Toyota alone was worth more than Toyota Industries total market capitalisation. This leaves its remaining large and profitable businesses valued at zero – a sum any value investor would love. Finally we also purchased a small stake in Tokyo-based food retailer **Ozeki**.

Portfolio Holdings (as of November 30th, 2007)		
company	activity	% of portfolio
Batenburg Beheer NV	business services (technical installation)	3.5%
Belgacom NV	telecommunication services (fixed & mobile)	3.0%
Bristol-Myers Squibb Co.	pharmaceuticals	3.4%
Bull SA	information technology (computers, services)	2.1%
Carclo PLC	industrial goods (plastic components)	1.7%
Clinton Cards PLC	speciality retail (card shops)	3.5%
Companhia Paranaense de Energia (COPEL), ADR	utilities (hydro-electric power)	4.0%
Continental (Grupo) SA	consumer goods (soft-drink bottling)	3.0%
Daekyo, preferred	consumer services (education)	4.2%
Dewhurst PLC. -A- Non Voting	industrial goods (lift panels & controls)	2.5%
GS Home Shopping	speciality retail (TV home shopping network)	2.7%
Hanil Cement	materials (cement production)	3.6%
Heineken Holding NV	consumer goods (brewing)	2.9%
Lambert Howarth Group PLC	business services (clothing supply & distr.)	0.0%
LandAmerica Financial Group Inc.	insurance (title insurance)	1.4%
Molins PLC	industrial goods (tobacco machinery & packaging)	2.9%
Natuzzi SpA	consumer durables (furniture)	1.6%
Nongshim	consumer goods (food & beverages)	2.5%
Nongshim Holdings	holding co. (consumer goods, packaging, other)	3.3%
Ozeki Co. Ltd.	retail (supermarkets)	0.0%
Pioneer Natural Resources	energy (oil & gas exploration & production)	2.7%
Royal Reesink NV (CVA)	wholesale and trade	1.6%
Sasa Industrie SA	industrial goods (baking utensils)	1.6%
Signaux Girod SA	industrial goods (traffic signs)	3.4%
SK Telecom, ADR	telecommunication services (mobile)	4.5%
Springer (Axel) Verlag AG	media (newspapers, magazines, TV)	1.1%
Tamedia AG Reg.	media (newspapers, magazines)	1.8%
Telegraaf Media Groep NV	media (newspapers, magazines, radio, TV)	4.1%
Toyota Industries	industrial goods (forklifts, engines, auto's & parts)	2.5%
Village Super Market Inc	retail (supermarkets)	4.7%
Wolters Kluwer NV	media (professional publishing)	3.1%
Zehnder Holding AG	industrial goods (radiators)	1.8%
Zwack Unicum	consumer goods (spirits)	3.7%
Cash and other assets and liabilities		<u>11.7%</u>
		100.0%

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

Likewise we were active selling and trimming a number of the positions whose shares had done well. In these cases the discounts to our intrinsic value estimates had shrunken materially, and we felt the funds could be better used in a number of the new very undervalued ideas we found. For example, after 5 ½ years we parted ways with **Metall Zug**, an excellent Swiss company active in kitchen appliances, disinfection equipment and real estate. It was unfortunately a rather small position in the Fund as we had never added to it. However, it generated a superb return on investment of just shy of 350%. We likewise sold the holding in US oil & gas producer **Apache** after it shot up on a soaring oil price. Although both companies are performing well we essentially halved the position in **Carclo** and **Heineken Holding**, again with the motive that our new ideas had a far more attractive price/value relationship.

Additionally, we added to a number of stakes which were either small (**Hanil Cement**) or where share price declines had led to opportunity (**Clinton Cards, LandAmerica**). The portfolio now consists of holdings in 33 companies. This includes several stakes which are rather small, as well as two positions (Nongshim and Nongshim Holdings) which, as they are inter-related, can conceptually be considered to be a single position.

Looking at the Fund from a business perspective

As a shareholder one of the few indicators you have to how well the Fund is doing is the progression in the Net Asset Value (NAV) per share which is calculated and published twice a month. At the end of the day this is the only measure that really counts. But along the road it is an imperfect guide. Stock markets are notorious for their bursts of optimism and pessimism which make them a terrible day-to-day yardstick. Ultimately the intrinsic value of a company is what determines its stock price. And analysing and assessing the intrinsic values of businesses is the bedrock of our investment process. Although it might provide a certain cachet to the marketing to say otherwise, there is no magic formula or black box in Citadel's investment philosophy. Rather we spend our time researching individual companies and putting a price tag on them supported by fact, analysis and common sense. Every so often we find a stock where the market's view is very different than our own, and which is priced at attractive levels as a result. By providing you with information on what is in the portfolio, and how it got there, we hope to impart an important insight into Citadel beyond simply the stock market performance which is mirrored in the NAV.

Before we delve into the portfolio in more depth we'll first take a step back and explain the background to the performance in 2007 thus far, and highlight how some of these developments actually auger well for the future.

Recent performance, our take on the portfolio and what we think it means for the future

On several occasions in the past we expressed satisfaction with the state of the portfolio and its potential. In the last quarter of 2006 and the first half of 2007 many of the holdings which we were referring to began to see their intrinsic values reflected in their stock prices and this translated into a higher NAV for the Fund. As we write this, in the second week of December, the Fund's NAV is marginally ahead year-to-date. Yet, perhaps confusingly, there are actually a significant number of individual positions that are up substantially. 2007's performance is not merely a result of riding the market up in the first six months of the year, and riding it down in the last five.

As we remarked on earlier there were numerous changes to the portfolio in 2007 as older positions were harvested and newer ones sown. A full seven holdings (or roughly a quarter of those held at the beginning of the year) have been acquired, sold or scaled back. All generated good returns.

Since the beginning of the year 9 new companies were added to the portfolio and they represented 28% of the total portfolio at the end of November. Two companies (**SK Telecom** and **Copel**) have seen their share prices rise significantly, narrowing the gap with our estimate of their intrinsic values. However the other seven are trading close to or below their initial purchase price. If we had had the foresight, or luck, to have waited a few months before buying, Citadel's performance would have been considerably better. Annoying as this is it is not unusual. Getting in at the absolute bottom is what we aim for but seldom achieve. All the companies were selling for half what we think a conservative appraisal shows them to be worth, and several were cheaper still. Nevertheless that hasn't prevented them from getting even cheaper at a time when investors dumped stocks seemingly indiscriminately. That's the bad news. The good news is that the reasons to purchase them are still intact. What we thought were very good ideas to begin with, have become even better. We are likely to add to several. Unfortunately these positions have penalised the Fund's performance in the short-term but we expect them to be major contributors in years to come.

The discount to estimated intrinsic value in the portfolio grew considerably so far in 2007. This is due to changes in the portfolio (fairer priced holdings being swapped for very undervalued ones) and an overall good business performance at the individual companies which led us to raise our intrinsic value estimates in a number of cases. If we take each holding, apply its estimated intrinsic value, weight it for its proportion in the portfolio and add them together, our estimated intrinsic value for Citadel is in excess of EUR 250 per share. The market price of Citadel's

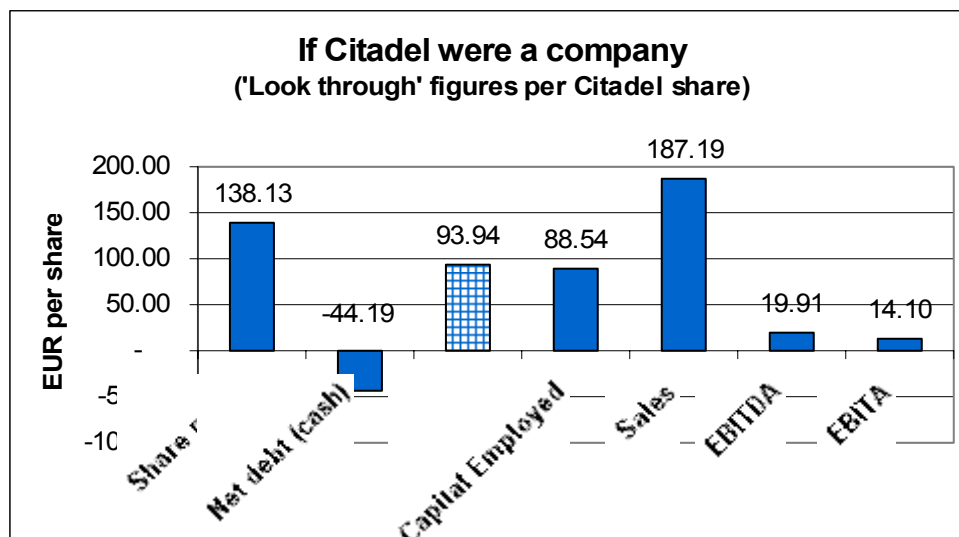
holdings is equivalent to roughly a 45% discount to estimated intrinsic value. That is one of the highest discounts we have ever measured in the portfolio and, as such, for us a reason for optimism.

An analysis which we just completed might help to illustrate in some more detail why we are enthusiastic about the portfolio and its valuation.

If Citadel were a company...

We often write about the value characteristics of individual companies in Citadel’s portfolio. However many of the same valuation metrics can also be applied to the entire Fund to assess what the overall valuation is. To demonstrate we’ve assumed that instead of being a Fund, Citadel was a company. And as such it could record on its financial statements its exact proportional share of the profits/losses and assets/liabilities of the 33 companies in the portfolio. This ‘see-through’ approach is not used in accounting (let alone fund accounting) due to rules such as those governing how much of a company you need to own before being able to proportionately consolidate it. Nevertheless, in economic terms, this exercise provides an excellent insight into what actually makes up the Fund.

As can be seen in the accompanying chart a first conclusion we can draw is that the balance sheet of our company would be very solid. All told it would have a net cash position (a remarkable 23 out of 33 companies have a net cash position, and we have added to this amount the Fund’s own net cash).² Our company would also be decently profitable earning operating margins of 7.5% and an after-tax return on capital of 11.5% (ROCE). It is worth mentioning that these figures include a substantial number of companies in the portfolio which were bought, not on the basis of their current profitability but, rather, in the conviction - for cyclical or other reasons - that future earnings would be materially better. The ‘normalised’ earnings power of the companies in the portfolio is therefore greater than what is indicated here. In this light we consider an 11.5% ROCE to be very good. Furthermore it compares very favourably to the 4-5% pre-tax yields one might earn in risk-free bonds.



But the valuation of Citadel’s portfolio is what is particularly interesting. If one adds the Fund’s own cash to its proportionate share of the net cash from its invested companies this equals EUR 44 per Citadel share. We deduct

² Net cash on the balance sheet is still rather unusual amongst listed companies and the sheer number of portfolio companies with a net cash position reflects our bias towards strong balance sheets. In normal economic times a balance sheet packed with cash and investments is a definite drag on shareholder returns although at times of economic stress such as we are now experiencing it can prove to be a major advantage. In general; however, we hope that many of the portfolio companies will return all or a portion of their net cash to shareholders via share buybacks and/or dividends.

this from Citadel's NAV. This gives an amount of approximately EUR 94 which is the net sum invested per Citadel share (for those less versed in financial terminology this is known as the Enterprise Value or EV). We have related various operating statistics to this figure to assess the Fund's valuation.

Citadel's valuation on a 'see-through' basis			
EV/CE	EV/Sales	EV/EBITDA	EV/EBITA
1.1	0.50	4.7	6.7
<i>Note: based on est. 2007 figures for portfolio companies & Citadel's share price and net cash as of November 30th.</i>			

For example, the capital employed per Citadel share is EUR 90 (comprising Citadel's proportionate share of assets like plant, equipment, net working capital like inventories, receivables, etc. from its portfolio companies). Dividing the EV per share by the capital employed per share gives a ratio of just less than 1.1X (94/90). This indicates that the market is assigning little value to that capital (only EUR 1.10 for each Euro invested) despite what are quite decent returns on capital (11.5% referred to earlier). Relative to sales and earnings the picture is similar. The sales per share are EUR 187 while the EBITA, (basically the operating earnings before tax and non-cash amortisation expenses), per share is EUR 14. This translates into an EV/Sales multiple of roughly 0.5X and an EV/EBITA multiple of 6.7X. Both multiples are low. Even assuming no growth an EV/EBITA multiple of 9-10X would be more appropriate. Given that we do expect growth, that many of these companies are prolific cash generators, and that furthermore their profitability will improve, it is clear that Citadel's portfolio is significantly undervalued.

One of the companies in the Fund's portfolio is Daekyo which is an interesting company and an incredibly undervalued security.

Daekyo – money for nothing?

Daekyo is a relatively recent addition. The company is one of the top companies in Korean private education with a leading position in home tutoring which is a KRW 2.2 trillion market (EUR 1.6bn). Private education is a large and growing market in Korea stimulated by a keen appreciation for education and growing per capita income.

Daekyo's business is a very lucrative one. Last year the company realised a 10.7% operating margin on its sales, but due to the fact that the business requires very little capital, the after-tax ROCE was a stunning 30%+. Needless to say these characteristics make the company very cash generative. As a result the company has piled up the cash over the years and last year it totalled KRW 101.9bn (market cap 507.5bn). Furthermore the company has built up an investment portfolio currently worth KRW 315.4bn (after-tax) consisting of various debt and equity securities and, in particular, a major stake in one of the top banking groups.

Lest you wonder how such a company could possibly be interesting for a value fund, we hasten to add that not all has gone well for Daekyo in recent years. Where in 2001 the company had a 47.4% market share a combination of aggressive promotion by competitors and a slow, inadequate, response by Daekyo eroded this to 38.3% by 2006. The company added fuel to the fire by diluting its highly profitable core business through investments in new (and as of yet largely unprofitable) investments in other segments of the education market in Korea and abroad. These are the most significant reasons why we suspect the share price stagnated and, as a result, valuations fell to a level which attracted us.

Despite these negatives we are very enamoured of the investment case. To begin with the valuation is extraordinary. The Fund owns preferred shares which trade at just less than a 50% discount to the ordinary shares; with the only difference being a lack of voting power. While we much prefer the ability to vote, the company is essentially controlled by a family and a vote in such circumstances just doesn't seem to be worth a 100% premium. At the

average purchase price (for the preferred) the company is trading at an EV/EBITA multiple of 0.5X and at only 20% of its modest capital employed. Including the cash flow from 2007 the net cash and investments position will likely exceed the market cap by year-end. This means that a high quality and very profitable business will be valued at nothing! Furthermore, the business is on track for improvement. The founder, who recently returned to his position as CEO, has undertaken a series of steps aimed at reducing its costs, exiting loss-making businesses and stemming the market share losses. Results from recent quarters positively reflect these efforts. Finally, it is very encouraging (especially in a country not known for brilliant capital allocation) that the firm is now undertaking a share-buyback.

The macro-economic environment is not particularly rosy to put it mildly, and it is anybody's guess what stock markets will do in the coming months. Yet with companies such as Daekyo in Citadel's portfolio we think the odds of a decent performance in the coming years are quite good. There may very well be uneasy times ahead but experience shows that these moments favour those who are buying rather than those who are selling. In much the same way we think a counter-cyclical approach to investing makes considerable sense for investors in the Fund. We consider ourselves fortunate that the Fund's shareholders are a special breed who understand this. Unlike many funds Citadel has seen few redemptions during moments of financial panic.

As always we will keep you informed of important developments through the monthly newsletter (email info@citadelfund.com should you wish to be put on the list) and look forward to writing again after the end of the Fund's financial year next May. We wish you and your families the very best during the holiday season and happiness, health and prosperity in 2008!! Thank-you for your investment in the Fund.

Kind regards,

The Board of Directors
Citadel Value Fund SICAV

December 12th, 2007