CITADEL

December 22, 2010

Dear Investor:

From the beginning, Citadel sought to be different. I wanted to create an institution unlike any other – a firm that harnessed technology and quantitative methods to uncover unique opportunities in the market. At the time, it was an innovative – even unorthodox – approach to finance.

Whatever confidence I had to pursue this idea, at the age of 22, was inspired by the example of one of Citadel's first investors – my grandmother, Genevieve Gratz. In many respects, my grandparents lived the American Dream. While still in their early 20s, my grandfather, Wayne Gratz, used the family's entire savings to start a small business.

My grandfather died suddenly in 1963. Within days, five well-dressed men from the local bank arrived at my grandmother's door and offered her a modest sum for the "core" family business – a fuel oil distribution concern. Surely, they assumed, a widow with two daughters to raise and a farm to run would be eager to sell. They were wrong. Instead, my grandmother dedicated herself to learning how to successfully operate and expand the business. Years later, she sold it for several times what was offered that day.

On the 20th anniversary of Citadel's founding, and six months after her death at age 98, I am confident our performance has justified her belief in Citadel. It also demonstrates the timelessness of the values and principles that she passed on to me. These ideals can be distilled into four simple lessons.

<u>I. Hire the Best People and Create a Culture of Opportunity</u>

From the beginning, I understood that my vision for Citadel could not be fulfilled unless I hired incredibly talented, motivated and committed professionals. I wanted to build a culture of opportunity – a meritocracy, where advancement was decided based on the merits of an idea and on the strength of its execution. Let me provide just one brief illustration of the type of individual our corporate culture attracts.

Years ago, when we bought Amaranth's energy portfolio, a senior member of the operations team spent several weeks working around-the-clock on platform integration. A month into this heroic effort, I made a point of suggesting she finally take a day off, noting that her tireless efforts were immensely appreciated. No, she replied with a smile, she had no interest in time off and there was no need for thanks. These were some of the best days of her career, she said, and what she was a part of would be a *story she could tell her grandchildren.*

Keeping committed leaders like this engaged requires us continually to create challenging and fulfilling career opportunities. Across all strategies, Citadel has built the culture of opportunity that I envisioned so long ago. For example, within our Global Equities team, 14 of our 20 portfolio managers started at Citadel as an analyst or an associate. More than half of our current analysts began their careers at Citadel as associates.

131 South Dearborn
Chicago, IL 60603

We begin our third decade with the strongest team that I have ever assembled. Our professionals have seen the firm through the unprecedented challenges of 2008, when many could have left for other ventures. They stayed committed to Citadel because of who we are and what we represent: an entrepreneurial, results-driven meritocracy that is changing the face of modern finance.

II. Take Calculated Risks

To generate market-leading returns, Citadel continually takes calculated risks, especially when others are fearful. Within days of Enron's collapse, for instance, we began trading energy products, launching what has become our tremendously successful energy venture as others exited the market. Likewise, when Long-Term Capital Management faced near collapse in the fall of 1998, we launched our fixed income arbitrage strategies. Time and again, we have entered into businesses just as others were retreating.

Our ability to move quickly into new areas is a testament to the dedication and expertise of our team. In 2006 and 2007, we acquired material portions of the Amaranth and Sowood portfolios after expeditiously analyzing the risk. Our investing teams priced the books; our clearing and settlement group transferred the portfolios; our finance team conducted balance sheet due diligence and secured funding; and our technologists ensured the required flows of information passed through our powerful infrastructure. We bring this power to bear every day in our pursuit of market opportunities across all our strategies.

Risk taking comes in many forms. One of the most difficult decisions that I ever made was suspending redemptions in 2008. I knew it had to be done to protect our balance sheet, preserve our investors' capital and to maximize short-term performance. My focus was on the long-term and by the end of 2009, we had not only revoked the suspension but also rewarded our patient investors with a 62% net rate of return.

III. Embrace Opportunities

Over the past 20 years, the willingness to embrace unique opportunities, even in the face of widespread doubt among conventional financial players, has been one of the hallmarks of Citadel's success.

I vividly recall a magazine cover story in 2001 questioning whether Citadel was "overreaching" by expanding with the launch of the Global Equities platform. In its long/short portfolio, Global Equities has never had a down year, and has generated more than $6 billion in revenue for our investors.

Similarly, almost a decade ago, when *no one* thought Citadel could be a meaningful player in the options space, we launched an electronic options market-making business. Back then, our competitors predicted that "no one will want to trade with a hedge fund." Today, we transact approximately 30 percent of the market volume and are the leading options market maker in the United States.

While traditional hedge funds support their operations with overnight and short-term credit facilities, Citadel focused on building an institutional balance sheet and obtained an investment-grade credit rating from Standard & Poor's and FITCH Ratings. This has allowed Citadel to meaningfully diversify its funding sources. For example, in 2006, we raised $500 million at modest spreads to LIBOR by issuing five-year unsecured debt. Critics had long thought such a capital raise would be impossible for a hedge fund.

While our boldness has served us well, we are not blind to the lessons of 2008. We were overly confident that we could weather any financial storm. Now, we are firmly grounded in the understanding that even the best-run firms – with the strongest balance sheets and industry leading risk-management tools – can face almost unimaginable market forces.

Looking forward, we will be more judicious in our use of leverage and restrained in our trading of less liquid or highly complex instruments. Nonetheless, we will continue to use market dislocations as an opportunity to add talent to our organization, and to prudently acquire distressed assets.

IV. Never Lose Sight of What is Important

I still remember the early days – in our small office, with one computer, a phone and two employees. A handful of investors had faith in my abilities and ambitions. To these bold individuals, I am forever grateful. Since our modest launch on November 1, 1990, managing $4.6 million dollars in capital, Citadel has delivered more than $10 billion in profits to our investors.

I am proud that many of the world's most sophisticated institutions and individuals – people and organizations that can invest anywhere – choose to invest with Citadel.

In managing your capital, alongside the funds invested by my partners and employees, I will never lose sight of the extraordinary responsibility that you have entrusted in me.

While Citadel is remarkably different from what it was 20 years ago, my core vision remains the same, defined by the attributes that my grandmother exemplified – strong character, courageous action, and honor in all her business dealings. These enduring values have underpinned our success and will carry us into the decades to come.

Sincerely,

Kenneth C. Griffin