



October 7, 2008

Dear Eton Park Overseas Fund, Ltd. Investor,

We are pleased to update you on Eton Park's investment and business activities during the quarter ended September 30, 2008. In an effort to send this letter to you earlier than usual in light of the turbulent market conditions, we are providing return information on a preliminary basis prior to having a final estimate. On a preliminary basis, our cumulative estimated return net of fees was $-2.7\%^1$ for the quarter and $-3.5\%^1$ for the year, with an estimated IRR since inception of $+15.2\%^2$. This return includes the preliminary estimate of $-1.0\%^1$ for September, which is in the process of being finalized. Please note that these estimates are unaudited and subject to change. We will share final estimates along with more details on the portfolio in our September exposure report.

Developments in financial markets were truly breathtaking this quarter, both in their sheer magnitude and in their speed. Market participants and policy makers alike were forced to respond quickly to previously unthinkable events. As the financial crisis accelerated through the quarter, these actions focused increasingly on solvency issues, in addition to liquidity issues, which led to the extraordinary events below:

- Treasury announcement of GSE backstop plan in July followed by conservatorship of Fannie Mae and Freddie Mac in September
- Bankruptcy of Lehman Brothers
- Loss of confidence in many reputable banks
- Bank of America acquisition of Merrill Lynch under pressured circumstances

¹ Net of management fees, incentive allocation and expenses (including amortized start-up expenses). Assumes an investor who has been an investor in the fund since inception (November 1, 2004), who did not accelerate or defer draws, and who participates in all side pocket investments (or "Special Investments") and in "new issues" allocations. An investor who has been an investor in the fund since inception, but does not participate in new issues, or an investor who has been admitted to the fund after inception and does not participate in all Special Investments or in new issues, would have different performance; an investor who accelerated or deferred draws would also have different performance. Eton Park Fund, L.P. and Eton Park Overseas Fund, Ltd. generally invest on a *pari passu* basis but returns and exposures may vary for reasons including, but not limited to, differences in expense ratios, portfolio composition and tax considerations.

² IRR accounts for our draw schedule during the firm's ramp-up period and assumes the standard draw schedule for investors as of November 1, 2004.

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- AIG bailout by the Federal Reserve
- Goldman Sachs and Morgan Stanley's recapitalizations and conversions to bank holding companies
- Washington Mutual's seizure by the FDIC and sale of its deposit base and retail operations to JPMorgan
- Wachovia's sale of its deposit base and banking operations to Citigroup with government assistance followed by a rival bid by Wells Fargo
- UK government seizure of Bradford & Bingley
- Bailouts of Fortis, Dexia and Hypo Real Estate by their respective governments in the face of a dramatic loss of liquidity and confidence in each
- "Breaking the buck" by a prominent money market mutual fund, a subsequent run on money market funds and an ultimate government guarantee of such funds
- The Treasury's \$700 billion TARP rescue plan for financial institutions is proposed, rejected by Congress in a dramatic vote, and ultimately passed
- Dramatic increase in size and draw-downs of Fed liquidity facilities
- SEC and FSA ban on short selling of financial stocks and other measures designed to impact short selling, followed by similar actions around the globe
- Massive rally of crude oil to \$147/bbl with a subsequent drop below \$100/bbl
- Dramatic drop in commodity prices and unwind of the long commodities / short financials trade
- Russian/Georgian conflict, which, among other factors, led to a 46.4% drop in the Russian equity market during the quarter along with the closure of the Russian markets for two days

The impact of these events over the quarter was dramatic and widespread:

- The S&P 500 falling 8.9% (down 20.6% for the year) and the Euro Stoxx 50 declining 9.4% (down 30.9% for the year)
 - September experienced four of the 25 largest down days over the last 50 years including September 29, 2008, which was the second largest down day (S&P 500 dropping 8.8%) in history behind only the October 1987 market crash
- The Russell 2000 outperforming the S&P 500 by 7.3%
- Tremendous volatility and dispersion among financial stocks, including dramatic drops in financials threatened by real or perceived liquidity issues and dramatic rallies in company stocks perceived to be well capitalized and thus benefiting from a flight to quality and also from the short sale restrictions

- Global emerging markets selling off sharply, with Brazil down 36.8%, Russia down 46.4% and MSCI Emerging Markets down 27.0% (all in dollar terms)
- The dollar reversing course and rallying sharply
- Oil and commodities falling sharply, leading to steep reversals of energy and materials stock performance
- Financial sector credit spreads widening dramatically and investment grade credit spreads widening out to historically wide levels
- The 3 month LIBOR-OIS spread rising to 232 bps (+161 bps), highlighting significant concerns in the inter-bank funding market
- The commercial paper market facing extreme funding constraints and nearly shutting down

During these challenging market conditions, the portfolio returned -2.7%¹ for the quarter on a preliminary basis. Our results were fairly dispersed by geography, with modest gains in the US offset by losses in other regions. Our gains in the US related primarily to our larger relative concentration in active fundamental micro shorts in the US and the fact that many of our macro hedges were in US-based instruments given the lower cost of options on US indices. While our market hedges provided significant cushion to the dramatic downdraft in asset prices, they were insufficient to offset the declines in our individual long securities. Our overall defensive positioning was an important contributor to our results, especially in September. The portfolio was moderately short throughout most of the quarter with a significant amount of optionality. This allowed us to stay on our front foot and to be a buyer into this period of stock price weakness. However, the fact that many of our hedges were in small and mid cap indices as opposed to large cap indices moderated the gains on our hedges this quarter. Despite the decline in the large cap indices and the history of small and mid cap stocks underperforming during periods of market weakness, the Russell 2000 outperformed the S&P 500 by 7.3%. We structured our hedges consistent with our views on the relative valuation of large companies vs. small companies, and our belief that the accelerating credit crunch and other important economic factors would impact smaller companies more severely. Though small and mid cap stocks outperformed in the third quarter, we remain of the view that they should underperform in the upcoming economic environment.

Within the financial sector, we had numerous significant winners and significant losers as the market dramatically differentiated among those it deemed to be in danger of facing liquidity or solvency issues and those that were viewed as “safe havens” and winners from the dislocation. We found ourselves on the right side of some of these moves and on the wrong side of others, for both our long and short positions. This divergence was exacerbated by the various restrictions on short selling that started in mid-July and further tightened in September. Our handful of financial shorts in perceived “higher quality” names was significantly impacted by this action. At the same time, the Subprime and Alt-A residential mortgage-backed securities (RMBS), investments we mentioned in our Q2 letter, performed poorly. This sell-off came despite the huge rally in bank stocks whose underlying assets include many of these same

RMBS assets and also despite the TARP proposal, which should produce a bid for these assets or at least reduce their supply. The gap between the price of RMBS and the benchmark US banks who own them has never been wider. In addition, we did own considerable protection against a decline in the financial sector in the form of CDS, which provided a meaningful benefit this quarter. As we discussed on our Q2 call, we have an important position in Merrill Lynch. This was purchased through a privately negotiated transaction and included a provision to reset our purchase price if the company were to issue new equity within one year of our purchase. Merrill's equity offering in July 2008 therefore led to a considerable benefit for us this quarter. Despite this capital infusion, Merrill came under intense pressure during the week leading up to the bankruptcy of Lehman Brothers and agreed to be sold to Bank of America.

Similarly, our results in emerging markets reflected a number of cross currents against a backdrop of the MSCI Emerging Markets index falling 27.0% for the quarter. As we mentioned in our prior letter, the dramatic rally in energy and materials stocks in the second quarter and the countries that benefited from this rally led to significant underperformance of our emerging market portfolio due to the relative weights of various countries in our portfolio. As energy and materials stocks declined this quarter, we benefited from both the reversal of this dynamic and our explicit shorts in commodity producing countries such as Brazil. Offsetting that, in part, were our Russian investments, which suffered from a combination of declining materials prices, an unstable geopolitical landscape after the conflict with Georgia, and certain anti-corporate actions by the government. These factors led to a liquidity crisis in the domestic financial market and a series of margin calls among large domestic Russian market participants, which together with some foreign capital leaving the market, led to the market dropping 46.4% for the quarter. This included the steepest one-day decline in the Micex in more than a decade (down 17.5%) and the closure of the equity markets for two days in September. Our exposure in Russia has been particularly focused in the electricity and infrastructure sectors and this sell-off has caused many of these companies to trade at very large discounts to replacement value, despite having little exposure to economic cycles and the current funding environment. India, a country where we have many long positions, was a relatively strong performer for us, outperforming the MSCI Emerging Markets by 16.1% this quarter, in part because of the drop in energy prices and the feedback loop to lower domestic inflation in light of India's heavy energy imports. We also saw many of our companies in countries such as South Africa, Brazil and Turkey trade poorly this quarter due to the overall macro and liquidity environment despite little fundamental news.

Our positions in gold and gold stocks underperformed this quarter for several related reasons. The strong rally in the dollar, a dramatic decline in other commodity prices and declining inflation expectations led to significant weakness. This weakness occurred despite gold's tendency to outperform during periods of financial turmoil and geopolitical uncertainty. While there was considerable evidence of increased physical demand for gold, it was insufficient to offset the aforementioned factors.

Our fundamental micro short positions performed well for us this quarter despite the new SEC restrictions on short selling. For example, our non-residential construction sector shorts saw particularly strong returns. These shorts were based on our expectation of a slowdown in the highly cyclical commercial construction sector, which began to materialize this quarter. However, some of our higher conviction core long positions significantly underperformed this quarter. These included Eurotunnel, Goodyear, Praktiker, and Verisign.

As you know, we significantly deleveraged our portfolio in the spring and summer of 2007 when we first became fearful of the impact that the unwind of easy credit and lax lending might have on the market. At that time we took leverage down from 2.3x to 1.3-1.5x. Despite our anxiety about the environment at that time, this felt like a comfortable level for us in light of our strong capital base and the financing terms available to us from our counterparties. Despite that continued strong position, as the market turmoil intensified and uncertainty around the health of many institutions came to the forefront, we felt it was sensible to reduce our leverage further to the range of 1.1-1.2x. Although we have considerable dry powder for future investments, some portion of this dry powder remains a function of financing availability, an area of uncertainty in the market today.

Throughout the quarter, we maintained our modestly net short position, with significant optionality in the portfolio given our bearish views. As the market declined during the latter part of this quarter, we shifted our positioning closer to neutral than short as a meaningful portion of our bearish views became reflected in the prices of securities. In addition, the significant rise in volatility has made it much more expensive to own options, which will present challenges once our current crop of options expire.

Today we find ourselves in a market of great challenge, but also of great opportunity. We believe that the opportunities presented by this dislocation will be long-lasting, meaning that the opportunity set is likely to be robust for years to come. These opportunities are driven not just by the financial crisis and deleveraging, but also by the deterioration of the real economy, the shift in wealth and resources by region, and most importantly, the change in the competitive landscape of both hedge funds and sell side firms. Therefore, our primary objective is to “get to the other side” of the financial crisis in good health and be able to capitalize on those robust opportunities. In the meantime, we are playing cautious offense, capitalizing on the significant opportunities that today’s market presents, while trying to avoid being too early or too exposed to a period of great uncertainty. While we do not believe that this downturn and recovery will be V shaped (and therefore don’t see the need to time the precise bottom), we do find many of today’s opportunities compelling enough to be well represented despite current uncertainty. We believe that it would be a mistake to hibernate during this exciting time. There are many securities that are trading at exceptional values today, presenting a high likelihood of exceptional returns with a reasonable margin of safety. Firms that can navigate through this environment and preserve their access to funding and maintain their organizational competitive edge should be able to capitalize on the best opportunities of a generation to produce outstanding returns for investors.

We see many attractive opportunities today and expect to see many more in the coming period. There are many compelling fundamental long single names that fit the characteristics we look for - strong franchises that are able to manage through the current environment while trading at appealing valuations with significant return potential and a real margin of safety. These opportunities exist in both developed and emerging markets. Earlier in the quarter, we became more hopeful about the prospects for event-oriented opportunities. There were several hostile transactions, cross border in nature with foreign buyers taking advantage of the weakness in the dollar and falling stock prices. Examples of situations like these where we participated successfully include Budweiser, UnionBanCal, and Origin Energy. Many of these transactions were cash bids and therefore required financing, and as the quarter progressed and financing dried up, we became more concerned about the prospects of success for these deals. Despite this concern, we are optimistic that the financing markets will reopen eventually for corporate acquirors and these transactions will re-emerge. As the market becomes more conducive to these types of transactions, we will pursue them aggressively. The world of credit is currently undergoing significant deleveraging. As we discussed in our prior letter, we believe the opportunity in asset-based securities such as RMBS may be compelling. The implementation of TARP, however, may change the competitive landscape for these assets. Competing against the government for assets is not optimal, but we are hopeful that there will be other ways to capitalize on this market opportunity. We expect interesting situations to present themselves in commercial real estate loans and assets and have increasingly more conviction in this view, though we believe these assets have not yet traded to attractive enough prices. Though we did purchase a moderate amount of corporate loans earlier this year, we plan to be patient in purchasing more given our belief that the inability to finance these loans will lead to deleveraging and better prices. Middle market loans are yet another potential area of opportunity as these credits have deteriorated meaningfully due to the constriction of credit and the turmoil that some of the traditional middle market lenders such as General Electric and CIT are facing. The flow in our privates business has never been better. We are seeing more high quality situations as the demand for capital has increased due to the credit crunch and the closure of several key financing markets. Moreover, competitive sources of capital such as sell side firms and hedge funds have been less active given the overall market turmoil. This should lead to higher risk-adjusted returns for private investments. To date, seller price expectations have not fallen to levels at which we are willing to buy, but we are optimistic that in the coming months this will change. The high level of volatility in the market presents very interesting opportunities for us in our derivatives business. We have long said that we believe in the long term emerging markets story, but that in the short term, they could not decouple as the world is quite interconnected. We maintain our bullish views on these markets and are excited that many names that we like and know well are becoming available at attractive prices. We are very excited about the current and likely future opportunity set and are very focused on capitalizing upon this unusual time.

The past quarter also brought with it increasing concern about the creditworthiness and, in some instances, continued viability of prime brokers and derivatives counterparties. Concern to the point of panic gripped trading partners and hedge funds that faced increased uncertainty as to how to best protect their assets. As we have mentioned to you many times, we have been very focused on liquidity and counterparty credit exposure from day one.

Foreseeing increased risk to the system as a result of the credit bubble and fallout, we took additional measures to address these key issues, going back to early 2007. These measures were critical to our ability to maneuver through the treacherous environment of the last few weeks. This is not to say that we didn't take further steps to adjust to market events over the past weeks; we did. However, the extensive preparation and focus over the last months and years were significant factors in our ability to move quickly with limited operational risk during this challenging period. As a result of the actions we have taken, our prime brokerage and counterparty exposure is more diversified than it was previously, but the failure of any one of them would undoubtedly have a significant impact on the Funds. While we have reduced our exposure to our largest counterparties and made our positions more secure, we are exposed to more counterparties than before. Accordingly, there is a greater probability that we could be adversely impacted if another major institution fails, although the impact would be of a lesser scale than would have been the case previously.

Our approach to managing liquidity and counterparty credit risk over the past years and months through today includes:

- Extensive stress testing of liquidity on a daily basis consistent with our conservative funding model
- Substantial resources devoted to managing confirmation and novation processes for over-the-counter derivatives leading to minimal risk around unsigned confirms
- Strong term agreements guaranteeing financing terms and rates
- Strong focus on operational controls, including conducting reconciliations of positions and cash (not relying on prime brokers or administrators)
- Two way mark-to-market agreements that allow us to call for collateral from counterparties to secure increase in value of positions (as opposed to one way agreements where only the dealer/counterparty may call for collateral)
- Comprehensive understanding of the legal agreements and inter-relationships between derivatives counterparties, prime brokers and their US and non-US affiliates
- Focus on counterparty exposure to each legal entity with which we transact as opposed to assuming a net exposure to a counterparty and all of its affiliates

In addition, over the past several months we have taken the following steps:

- Increased access to cash and moved it to accounts outside prime brokers to ensure access in the event of a crisis at a prime broker
- Increased frequency of stress testing counterparty exposure under extreme market conditions to assess potential future exposure resulting from the failure of a counterparty to meet obligations under derivatives contracts
- Substantially reduced leverage in the portfolio from the spring of 2007

- Identified risk in money market accounts that were invested in higher yielding assets, leading to our move in August 2007 into a money market account that invested only in U.S. Treasury securities
- Opened additional custody and clearing accounts to have alternatives for as many of our assets as possible
- Reviewed laws surrounding protection of customer assets in various countries with increased focus on how financial firms use sub-custodians
- Reviewed protections in place at futures and options clearinghouses in the U.S.
- Further diversified our prime broker relationships and exposures
- Carefully reviewed the relationships between prime brokers and their affiliates, focusing on associated bankruptcy and customer protection regimes, and made adjustments to improve our position
- Managed our exposures to each legal entity of the counterparties we do business with in an effort to make that exposure as balanced and neutral as possible under various market stress scenarios

Throughout this period, we moved as thoughtfully as possible, taking into consideration a myriad of factors. We emphasized not only the credit quality of counterparties and prime brokers and the protection of our assets, but also the impact on the portfolio of various legal structures for financing that differ among counterparties and the management of our collateral. We believe that by being proactive in anticipating the changes to our business and the implications to our industry more broadly, we have been able to stay in front of recent events. For example, we focused on our exposure to Lehman Brothers several months ago and sought to minimize it while maintaining our trading relationship. To remind you, Lehman was not one of our prime brokers, but we did have a relationship with Lehman, which included trading and over-the-counter derivatives transactions. We carefully considered the amount of the exposure arising from these transactions, including the potential exposure that might result in the event of extreme market moves (likely to occur in the event of a default). We also focused on the “independent amount”, which is collateral required to be posted to derivatives counterparties at the initiation of the transaction. We reviewed the specific Lehman legal entities to which we were exposed and the nature of our exposure. We also considered the amount of credit protection that we owned on Lehman. When Lehman filed for bankruptcy, our exposure to Lehman was not material (less than 50 basis points) and was more than offset by the amount of our credit protection. We will be making a claim against the Lehman entities in the course of the bankruptcy proceedings and will side pocket this claim to ensure that any payment that ensues goes to the investors in the Funds at the time of the Lehman bankruptcy.

Prime brokerage is not a commodity offering and cannot be switched easily or without cost. The unwinding of swaps and other derivatives is difficult and expensive, especially if no counterparties are available to take on the exposure. Moving balances among prime brokers

can reduce access to term financing, something that we have worked very hard to lock up, and can also lead to loss of access to hard-to-borrow securities for important short positions. We have been very mindful of all of these costs as we re-aligned relationships and exposures and, indeed, we did incur some risk and expense as the price for greater diversification among financing counterparties.

We are continuing to monitor all developments in these areas. We are very focused on the impact that the continuing credit crisis will have on the financing markets generally and on hedge funds in particular. Although we have not yet seen a significant impact on our margin requirements, we have been monitoring our portfolio and leverage, while taking current financing conditions into account. We are aware that the increased costs of financing and the strains on balance sheets faced by prime brokers are very likely to lead to a major change in the prime brokerage business. Preparing for this possibility and being well positioned to face these challenges is a top priority for us.

In addition to the focus on our liquidity and counterparty exposure described above, which was led by our Treasury and Finance teams, the events of the past few weeks have kept the entire Eton Park business team challenged and busy. Their contributions have been invaluable. Our Risk team was intensely focused on the rapidly changing market conditions and increased the frequency of their analyses, monitoring exposures on an intraday basis and modeling and re-modeling a variety of new market stress scenarios as conditions required. They worked closely with Eric and the investment team, providing them with updated analyses and insight into fast changing events. The Technology team sat side-by-side with Risk and Treasury as they developed additional reports and tools for these analyses. Our Legal and Compliance team quickly assessed the changes to short selling rules that were implemented in many different jurisdictions around the world in which we do business. At last count, over 20 countries imposed restrictions, bans and/or disclosure requirements, representing approximately one third of the countries in which we do business, each of which required careful review and analysis. Our Operations team, which closely monitors all of our transactions to make sure they settle promptly and accurately, was even more vigilant as we moved positions among counterparties and also closely monitored our collateral movements. The team closely watched every single position, no matter how small, and the team was able to manage through new reporting and settlement processes with new counterparties in an almost seamless manner. This was a global effort and truly exemplified the team approach that we have built at Eton Park and we are proud, although not at all surprised, by the way in which they all stepped up to make sure that whatever needed to get accomplished was done.

Our next quarterly conference call will be held on Thursday, November 13th at 4:30 pm Eastern Standard Time. The conference call will be “listen only.” Investors who wish to submit questions for the call should email them by Thursday, November 6th to ir@etonpark.com with the subject line “Q3 2008 Quarterly Conference Call.” We will send the details for this call in a subsequent email.

We appreciate your continued support of Eton Park and welcome any questions or comments.

Sincerely,

Eton Park Capital Management

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