

# Letter to our shareholders

## Ladies, Gentlemen, Dear shareholders,

Paris, December 10, 2008



As we near the end of a year marked by a crisis of an intensity and scale unequalled for almost 80 years, **I would like to confirm each of you the solidity of your company and to explain why you should remain confident for the future.**

As you know, the crisis originated in the United States as a result of the lax monetary policy that followed the September 11 attacks, which was in turn aggravated by insufficiencies in banking sector regulation, inadequate household protection and failings on the part of the rating agencies. Together this series of factors created an unprecedented credit bubble. When this bubble burst, bank capital suffered, immediately triggering widespread mistrust between banks. Naturally, the most exposed banks were those without access to saving deposits. You know the rest: a widespread reduction in the availability of credit leading to a severe credit crunch, the intensity of which was amplified by the recent introduction of new accounting rules and prudential standards. In this climate, stock markets suffered

exceptional drops, combining a historic fall in financial stocks as well as stocks in other sectors, all hit by fears of recession and the repercussions for the economy. Eurazeo has also suffered, **although its share price outperformed its benchmark**, the LPX Europe index, over both the short and long term. **Since 2002, our share price has also continuously outperformed both the CAC40 and SBF120.**

Looking beyond the fall of the share price, how is our company faring? I will try to explain this to you in a few points.

1. We remain true to our strategy, namely, **a structural absence of debt at the corporate level. With no debt to repay, Eurazeo can fully concentrate on its portfolio companies.** We are also prepared for the unexpected: we have cash reserves and a credit facility of EUR 1 billion. **Our cash levels and accrued distributable reserves will allow us to maintain our dividend policy, subject to the approval of the Shareholders' Meeting.** **All our subsidiaries benefit from long term financing:** maturities range from 2011 to 2017 and, for more than 80% of them, interest rates are swapped to fixed rate.
2. **Having always adhered to strict asset allocation rules, Eurazeo has a diversified portfolio.** The top three investments only represent 40% of our portfolio (before tax), while the top five represent 56 %. Portfolio assets are also diversified in terms of sectors: food, business services, transport, leisure and real estate.
3. **The companies in our portfolio have shown good resistance to the economic crisis.** Our revenues in the first nine months remained slightly up, despite the sharp fall in the British Pound, which mainly affects Europcar and APCOA. As you know, we have strict investment criteria which are based on four pillars: quality of management; barriers to entry; profitability and recurring cash flows. Having recurring cash flows means to have invested in businesses where growth is of course linked to the economic cycle and the development of the society, but which also show resistance at the bottom of a cycle, what we call "resilience". Among our subsidiaries, those whose growth is without doubt the most vulnerable to changes in GDP are Europcar and Rexel. However, Europcar has the advantage of flexible financing, while Rexel benefits from stronger than ever diversification (by type and geography) of its clients and products.

A professional and responsible shareholder

An absence of debt at Eurazeo's level

Diversified and resilient assets



<sup>1</sup> LPX Europe consists of 25 European investment companies.



4. In this context, **Eurazeo is a long-term active, professional and responsible shareholder.** Active means being present on a day-to-day basis alongside the management of each of the group's companies. Professional means being involved as a shareholder in strategic decision-making, supervision and implementation. Responsible means taking the best possible decisions to ensure continued value creation, even in an unfavorable climate. Bear in mind that our investment horizon is four to six years, and that our portfolio is fairly young. Through its intervention, Eurazeo actively contributes to creating value in the companies in which it invests.

Does that mean that everything is perfect? Of course not. Some investments are more affected by the crisis than others.

Before the collapse of Lehman Brothers, **Accor's** share price was around 45 euros, close to our entry price; it has since lost a third of its value. Although this fall prompted us to protect our investment by temporarily injecting 200 million euros as collateral, **the fact remains that the company has shown enormous resilience:** the Services business, which now represents more than 50 % of cash flow, continues to show steady growth, and management was quick to react to the new economic climate by stepping up cost-cutting measures. I would like to remind you our investment benefits from a five year financing deal. It is over this timeframe that we will need to evaluate results.

One of our smaller unlisted investments, in which we share a minority stake alongside our associate Colony, has been affected by the current climate. This is **Station Casinos**, a casino operator based in Las Vegas. Although this investment will no doubt have to be partially written down, **it remains, in the long term, protected by the value of its exceptional real estate assets.**

As for the rest, **our companies are solid and have taken or are continuing to take the necessary measures to adapt to the current climate.** Even if on the short term some of them might be impacted by the crisis, their situation will allow them, more than others, to take advantage of the economic recovery when the time comes. Ultimately, their operational performance, combined with a return to more normal valuation multiples and a reduced discount at the level of Eurazeo, should help the share price of your company to rebound.

Do we believe, as some would like us to, that private equity investment is dead? That our company's model should be shelved? Neither your Executive Board nor your Supervisory Board shares this view.

I will no doubt have a chance to come back to this at our Shareholders' Meeting, although I believe in one very simple thing: private equity investment, in other words the role of the professional long-term shareholder, is one of the oldest professions in the world, even older than banking: the provision of capital and expertise to management so that it has the means of growing a business. We will continue to do this, although we are likely to do things differently in the future. Finance serves businesses, not the other way around. So, will there be less debt after the crisis? Undoubtedly. Less securitization? Not necessarily. Just because a few financial innovations were ill-conceived (sub primes), that does not mean that they should all be dismissed. **Must we wait a bit longer to realize our investments and see our efforts to create value materialize in increased share prices? Certainly.**

In more than 120 years of existence, Eurazeo has lived through crises and wars and has managed to adapt its model effectively through careful use of the instruments available. **Eurazeo's work is upheld by an excellent Supervisory Board, strict governance and longstanding shareholders who have demonstrated their confidence in Eurazeo by increasing their holdings during the year.**

Our company has one of the most able investment teams in Paris. Despite being young, it has still experienced other crises, such as the bursting of the dot.com bubble. **With your support, I have no doubt it will succeed in adapting to our new environment.**

Together, we will weather this period as confidently as possible, taking steps now to prepare for the aftermath of the crisis.

I would also like to take this opportunity to wish you a happy holiday season and my very best wishes for 2009.

**Patrick Sayer**  
Chairman of the Executive Board

## Shareholders' contacts

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## 2009 Agenda

February 13: Full year 2008 revenues  
March 26: Full year 2008 results  
May 13: 1<sup>st</sup> Quarter 2009 revenues  
May 29: Shareholders' Meeting

