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ANTICIPATED ACQUISITION BY BRETAGNE-ANGLETERRE-IRLANDE S.A. OF CERTAIN ASSETS USED BY P&O FERRIES ON ITS PORTSMOUTH TO LE HAVRE SERVICE

HISTORY OF BRITTANY FERRIES AND ITS RATIONALE FOR THE ANTICIPATED ACQUISITION

Introduction

This paper provides a history of BAI and summarises its rationale for the proposed transaction. In so doing BAI is responding to points one and four of the main submission.

It should be noted that the commercial pressures on BAI including those from other transport providers, as well from consumers switching to other forms of holidays, are such that BAI has been forced continually to adapt its operations to compete more effectively. BAI believes that it can run the Portsmouth/Le Havre route profitably where P&O has not been able to do so by adopting a different strategy to P&O's. Before explaining BAI's rationale behind this transaction it is worth noting the reasons why BAI wants to expand its network by adding a route to Le Havre. [✂]

History of BAI

BAI was established in 1972 as part of a plan to improve Brittany's transport links so that its agricultural produce could reach the UK and Irish markets. It was initially funded by the SICA (an agricultural cooperative) of Saint-Pol-de-Léon and the CCI de Morlaix (regional chamber of commerce). BAI continues to be majority-owned (64.19 per cent) by a grouping of Breton agricultural interests. Its headquarters are at Port du Bloscon, 29688, Roscoff, France.

BAI commenced freight services from Plymouth to Roscoff in 1973 and added tourist services on the same route in 1974. In 1976, it added services from Portsmouth to St Malo and, in 1978, from Roscoff to Cork and from Plymouth to Santander. BAI started its package holiday business with the Portsmouth/Caen and the Poole/Cherbourg route in 1986 and with

the Portsmouth/Cherbourg route in 2004. BAI currently operates a fleet of seven¹ ferries and has announced plans to introduce a fast ferry service between Portsmouth/Cherbourg and Portsmouth/Caen from the end of March 2005.

Rationale for the anticipated Acquisition

(a) Rationale for BAI extending its operations to the Le Havre Route

[✂]

(b) Rationale for the Choice of this Transaction

BAI can always opt for an independent entry into the Portsmouth/Le Havre route. BAI could open a service on Portsmouth/Le Havre without this transaction as, inter alia, ships can be obtained in the charter market (or existing vessels in the BAI fleet that could be deployed on the route). There is plenty of capacity at both ports. BAI could also time its entry onto the route to commence when P&O leaves.

However, the proposed transaction provides a number of advantages.

[✂]

¹ This will increase to eight by March 2005 with the introduction of a new fast craft.

(c) Expected Consequences of the Acquisition on Customers

Transaction would be good for customers. The proposed acquisition would provide a number of important customer benefits:

- It would provide both freight and tourist customers with certainty that a high quality focused ferry operator will remain committed to providing an all year round service on the route when the likely alternatives would either be the closure of the Portsmouth/Le Havre route or its replacement by an inferior service.
- It would ensure that freight and tourist customers would be able to continue using the route during a time of change in the market.
- It would allow BAI to extend its network to a new port in France and develop more efficient sailing schedules thereby providing customers with more choice.

Benefits from the transaction would be passed on to customers. As BAI would be constrained by declining demand for ferry services by tourists, the presence of low cost airlines, increasing use of high speed trains, the intensifying competition from the Short French Sea crossings and the threat of targeted entry, it would be obliged to pass any benefits it obtained from the transaction to its customers who would otherwise switch to alternative routes and modes of transport, or in the case of tourists, to other holidays.

Conclusion

Expanding its operations to Le Havre is a logical step for BAI. [✂]