MEDIA RELEASE

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Commission recommends that Telkom and BCX merger be approved with conditions

The Commission has recommended to the Competition Tribunal (Tribunal) that the large merger whereby Telkom SA SOC Limited (Telkom) intends to acquire Business Connexion Group Limited (BCX) be approved, with conditions. Post-merger, BCX will become a wholly owned subsidiary of Telkom, and will delist from the Johannesburg Stock Exchange (JSE). Telkom is primarily a telecommunications services provider. BCX is primarily active as an ICT service provider.

The Commission found that Telkom, being the largest provider of wholesale leased lines to downstream customers, has the ability to foreclose its downstream rivals from access to these wholesale leased lines which are essential inputs for the provision of downstream services including MNS, VANS, Hosting and ITS. The Commission also found that the merger will result in the Merged Entity having the ability and incentives to engage in bundling strategies that may result in anticompetitive effects.

On public interest issues, the Commission found that the merger will result in employment losses of up to 60 employees over a 3 (three) year period. To address the concerns, the Commission recommended certain behavioural and employment conditions.

Among the behavioural conditions, is that Telkom's application and implementation of the Transfer Pricing Programme, which explicitly includes Fibre Access, will remain in force for the duration of the condition period. Consequently, the tenure of the Transfer Pricing Programme will be extended from 18 July 2018 to 31 December 2020, and the tenure of the Transfer Pricing Programme, will endure from the Implementation Date until 31 December 2020.

In relation to competition concerns arising from foreclosure of downstream rivals though bundling strategies, Telkom will among other things:

- *Ensure that the prices for wholesale leased lines are based on actual lines utilised and priced at the non-discriminatory transfer price for common components.*

- *Ensure that the prices for the other services and/or components included in the bundle are based on actual costs incurred.*

- *Ensure that it does not set prices for its bundled offerings using wholesale leased lines at levels which are less than the sum of the costs of components in the bundle. In other words, the principle is that the prices for wholesale leased lines included in the bundle must exceed the cost applied in internal pricing and the revenues generated from the bundled offering must exceed the costs associated with providing the bundle plus a positive margin*

- *Ensure that when providing any bundled offering which includes wholesale leased line, the price complements for each individual service included in the bundle is clearly reflected in the overall price for the bundle.*

To address the employment concerns, the Commission recommended that a conditions be imposed limiting the number of employment losses arising as a result of the merger to a maximum of 60 employees. Such employment losses shall be limited to a maximum of 20 employees per year in each of the 3 (three) years.

"**Quote from Commissioner"**

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