

## **MEDIA RELEASE**

**30 JUNE 2015**

### **Commission recommends approval of Vodacom/Neotel merger with conditions**

The Commission has recommended to the Competition Tribunal that the large merger whereby Vodacom intends to acquire Neotel be approved, with conditions. Post-merger, Vodacom will have sole control over Neotel, and it (Neotel) will operate as a wholly-owned subsidiary of Vodacom.

Vodacom is a licensed mobile network operator (MNO) and provides voice, messaging and data services. Vodacom also offers certain fixed line services. In this respect, Vodacom offers retail fixed line services to business customers, while also offering fixed leased lines on a wholesale basis to third parties.

Neotel also offers retail fixed line services to business customers and fixed leased lines on a wholesale basis to third parties, including MNOs and other firms that compete with both Vodacom and Neotel for the provision of retail fixed line services to business customers. Neotel also provides a fixed-wireless service offering to residential and business customers.

The Commission found that the proposed transaction is likely to substantially lessen or prevent competition in the mobile services market. Vodacom is the market leader in mobile services markets and the additional spectrum from Neotel will result in spectrum concentration effects that will likely consolidate Vodacom's dominant position. The acquisition will confer first mover advantages to Vodacom relating to network speed, capacity and mobile offerings. Vodacom will not be constrained by other competitors as they are unlikely to match its offering. These factors taken together will likely lead to reduced choice and higher prices to end customers in the absence of effective constraints on Vodacom.

The merger is also likely to have a significant impact on the structure of the South African mobile markets and future competitive dynamics. This is also a negative effect of the merger on the structure of the mobile market in South Africa.

To address the concerns arising from the proposed merger, the Commission recommended that some structural and Public Interest conditions be imposed, to which the merging parties have agreed to.

#### **On Structural Conditions:**

Vodacom shall not directly or indirectly use Neotel's Spectrum for the purpose of offering wholesale or retail mobile services to any of its customers for a period of 2 (two) years from the Approval Date or 31 December 2017, whichever is earlier.

The two year deferment period is intended to give an opportunity to policy makers to address the spectrum challenges in the industry. It is the Commission's view that such a process may be concluded within 2 years as there are indications from the

relevant government departments that plans are underway to introduce and implement relevant policy.

**On Future Investment:**

Within Vodacom's 5 financial years following the approval date of the merger by the Competition Tribunal, Vodacom shall commit to R10 billion investment in fixed network, data and connectivity infrastructure, which will include all capital investments and long-term commitments, additions and upgrades in transmission, national long distance fibre, backhaul, connectivity and in the development of value adding services.

50% of the committed investment amount will specifically comprise investments in all fixed network elements required to enhance services to homes and enterprises in South Africa, including home and enterprise connectivity and the development of value adding services; and

**On Public Interest:**

Vodacom will, within a period of 24 months following the approval date, ensure that the value of shares in its share capital held by Black Economic Empowerment (BEE) shareholders shall increase by an amount of R1,4 billion, being the value attributable to Neotel in terms of the merger multiplied by 19% (being the current BEE shareholders' direct shareholding in Neotel). Should the value of the BEE obligations imposed by ICASA in terms of the ECA exceed the value set out above, then the obligations imposed by ICASA will apply.

Further, Vodacom will not retrench any of Neotel's employees as a result of the Merger.

*"This merger will change the South African mobile network and fixed line industry significantly. We've taken due care in our analysis and recommendation to protect competition now and in the future, but the success of these conditions is predicated on the relevant government departments and ICASA promulgating necessary policies and allocating spectrum for the benefit of the whole country. The conditions also contain unprecedented investment commitments that will go a long way in improving telecommunications services in South Africa", Says Commissioner Tembinkosi Bonakele.*

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**For more information:**

Mava Scott, Spokesperson

012 394 3527/ 076 095 2350/ [MavaS@compcom.co.za](mailto:MavaS@compcom.co.za)

Themba Mathebula, External Communication Coordinator

012 394 3325/ 076 821 2508/ [thembama@compcom.co.za](mailto:thembama@compcom.co.za)