



competition commission
south africa

MEDIA RELEASE

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COMPETITION COMMISSION APPROVES MILITARY DEFENCE PRODUCTS MERGER WITH CONDITIONS

The Commission has approved, with conditions, an intermediate merger whereby Reutech (Pty) Ltd (Reutech) intends to acquire Nanoteq (Pty) Ltd (Nanoteq). Upon implementation of the proposed transaction, Reutech will have sole control over Nanoteq.

Both Reutech and Nanoteq supply defence products to the South African National Defence Force (SANDF) through the Armaments Corporation of South Africa SOC Limited (Armcor). Reutech specialises in tactical VHF/UHF/HF communication systems for the defence environment. It also designs and manufactures fuzes and related defence products for artillery, mortar, naval and aircraft weapon systems. Nanoteq manufactures hardware products used to encrypt and protect communication devices such as tactical radios and cell phones. Nanoteq's products are installed in the communication devices to ensure that no unauthorised third parties can have access to the strategic and sensitive information.

The merger results in a vertical overlap in that Nanoteq supplies Reutech with customised cryptographic products that are for use in Reutech tactical radios. Nanoteq operates in the upstream market for the supply of cryptographic products and Reutech operates in the downstream market for the supply of tactical communications systems.

The Commission found that customised cryptographic products and tactical communication systems products are developed specifically for the SANDF and are critical inputs in the manufacture of communication equipment used for national security. Given that the merging parties are single source suppliers, it is likely that the merger will enhance the bargaining power of the merged entity and this may result in higher prices as Armcor cannot switch to the merging parties' international competitors for national security reasons.

In order to address concerns emanating from the proposed merger, the Commission has imposed a condition that the pre-merger Nanoteq pricing methodology in relation to the Armcor contracts shall remain unchanged post-merger. The merging parties have also undertaken to conclude an agreement with Armcor which will address matters pertaining to protection and control of Sovereign and Strategic Intellectual Property and also ensure that there is inclusive participation of defence companies in general moving forward.

"The conditions imposed on the merged entity will ensure that Armcor, being the sole customer in South Africa, is not exploited post-merger through anti-competitive means. These conditions are significant as they guarantee that the pricing methodology for the products supplied to

Armcor remains unchanged and that the relevant intellectual property rights in relation to the products supplied to the SANDF vest with Armcor”, says acting Deputy Commissioner, Hardin Ratshisusu.

Ends

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