

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 76/LM/Jul08

In the matter between:

BAE Systems Land Systems South Africa (Pty) Ltd

Acquiring Firm

And

IST Dynamics (Pty) Ltd

Target Firm

Panel : N Manoim (Presiding Member), Y Carrim (Tribunal Member),
and U Bhoola (Tribunal Member)

Heard on : 14 August 2008

Order Issued : 14 August 2008

Reasons Issued: 10 September 2008

Reasons for Decision

Approval

- [1] On 14 August 2008, the Tribunal unconditionally approved the merger between BAE Systems Land Systems South Africa (Pty) Ltd and IST Dynamics Pty) Ltd. The reasons for approving the transaction follow.

The parties

- [2] The primary acquiring firm is BAE Systems Land Systems South Africa (Pty) Ltd ("LSSA"). LSSA is controlled by BAE Systems Land Systems (Investment South Africa) Limited which holds 75% interest in LSSA. The remaining 25% in LSSA is held by DGD Technologies 2001 (Pty) Ltd. LSSA does not directly or indirectly control any firm. The ultimate holding company of LSSA is BAE System Plc ("BAE Systems").
- [3] BAE Systems has three subsidiaries in South Africa namely LSSA, BAE Systems Holdings (South Africa) (Pty) Ltd and The South African branch of BAE Systems (Gripen Overseas) Limited

- [4] The primary target firm is IST Dynamics (Pty) Ltd (“IST Dynamics”). IST Dynamics is controlled by Ethos Private Equity Group¹ (with a 59.4% shareholding), IST Management Share Trust (with a 38.4% shareholding), and minorities holding 2.2% of the issued share capital in IST Dynamics.

Description of the transaction

- [5] In terms of this transaction, LSSA will purchase the business and certain assets of IST Dynamics. The net result of this transaction is that IST Dynamics will be controlled by LSSA and it will become a third stand alone division of LSSA.

Rationale for the transaction

- [6] LSSA submitted that through this transaction it intends to be able to provide fire directing systems and fire control systems capabilities and thus become a systems supplier on the upcoming SA programs. At the hearing, the merging parties confirmed that the proposed transaction will enable LSSA to better compete with Denel, its major competitor in South Africa, which is a systems supplier.
- [7] IST Dynamics submitted that this transaction is an opportunity for its shareholder to realise their return on investment.

The parties’ activities

LSSA

- [8] LSSA operates two divisions namely Land Systems OMC and Land System Gear Ratio.

Land System OMC

- [9] This division carries on its business activities as a designer and manufacturer of certain armoured vehicles. Thus Land System OMC does the conceptualisation, design, development, manufacture, production, re-manufacture and support services. This division also provides technical support, spares, training and other services to its local and international

¹ Ethos Private Equity Group owns a wide range of interest in listed and unlisted South African companies, none of which are relevant for purposes of this transaction.

customers, directly or indirectly through partnership teaming arrangements with approved dealers and suppliers.

[10] LSSA's product range includes the G6 Armoured Weapons Platform, the RG12 Armoured Personnel Carrier, the RG31 Mine Protected Vehicle, the RG32 M Mine Hardened Patrol Vehicle, the WASP Rapid Deployment Vehicle, The Casspir Mine Protected Armoured Personnel Vehicle, the Okapi Mine Protected Command Vehicle, the Mamba Mine Protected Vehicle, the Ratel Infantry Combat Vehicle, the Rooikat Armoured Fighting Vehicle and the Samil Logistical Trucks.

[11] The major part of LSSA's work is in the refurbishment of the Olifant Main Battle Tank, the original equipment having been manufactured by other manufacturers.

Land System Gear Ratio

[12] This division develops and manufactures mechanical transmission products for special vehicles, military vehicles, mining and earth moving equipment, industrial machinery and locomotives.

BAE Systems

[13] BAE Systems is the ultimate holding company of LSSA and is a global defence company delivering a full range of products and services for air, land and naval forces as well as advanced electronics information technology solutions and customer support services.

[14] In South Africa, BAE Systems also sells Hawk and Gripen aircraft to the South African Air Force.

IST Dynamics

[15] IST Dynamics' business comprises defence related and non-defence related activities including, but not limited to, the supply of ballistic fire directing systems, remotely controlled turrets, weapons stations, stabilised video sights, related fire sub-control systems as well as training systems for such sub-

systems, rifle shooting training systems, the development and production of radio-astronomy antennae and associated technology.

Competition analysis

- [16] This transaction does not result in a substantial prevention or lessening of competition as the activities of the parties do not overlap. At the hearing the merging parties submitted that their product offerings are complementary and do not compete. On the one hand, LSSA is involved in the manufacture of armoured vehicles and also develops and manufactures mechanical transmission products for special vehicles, military vehicles, mining and earth moving equipment, industrial machinery and locomotives; while on the other hand, IST Dynamics has expertise in the development of a range of components for systems and systems used in defence applications and certain non-defence applications.
- [17] The vertical relationship of the parties does not raise competition concerns as foreclosure is unlikely. LSSA manufactures armoured vehicles and IST Dynamics supplies LSSA with components to fit on the armoured vehicles e.g. target detection and engagement system. IST Dynamics is a small player with less than 1% market share internationally in the market for the supply of land base fire directing systems, and in the market for the supply of live firing monitoring system. In addition, IST Dynamics competes with market players such as Denel Land Systems, RDL Technologies and Reheinmettall, a German based company. As a result, foreclosure is unlikely.

Public Interest

- [18] There are no public interest issues.

Conclusion

- [19] The merger is approved unconditionally.

Y Carrim

Tribunal Member

DATE

10 September 2008

N Manoim and U Bhoola concur in the judgment of Y Carrim

Tribunal Researcher : R Kariga

For the merging parties: Bowman Gilfillan Attorneys.

For the Commission : K Mahlakoana and T Mahlangu (Mergers and
Acquisitions)