

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 37/LM/Apr07

In the matter between:

Mondi Packaging South Africa (Pty) Ltd

Acquiring Firm

And

Lenco Holdings (Pty) Ltd

Target Firm

Panel : N Manoim (Presiding Member), U Bhoola (Tribunal Member)
and M Mokuena (Tribunal Member),

Heard on : 4 July 2007

Decided on : 4 July 2007

Reasons Issued: 18 September 2007

Reasons for Decision

Approval

1] On 4 July 2007, the Tribunal unconditionally approved the merger between Mondi Packaging South Africa (Pty) Ltd and Lenco Holdings (Pty) Ltd. The reasons for approving the transaction follow.

The parties

2] The primary acquiring firm is Mondi Packaging South Africa (Pty) Ltd ('Mondi Packaging'), a company incorporated in terms of the company laws of the Republic of South Africa. Mondi Packaging is controlled by Mondi South Africa Limited ('Mondi SA'). At the time of the notification of this transaction, Mondi SA

was a wholly owned subsidiary of Anglo American plc ('Anglo American').¹ However, at the time of the hearing Mondi SA had listed on the JSE Securities Exchange and was no longer a wholly owned subsidiary of Anglo American. No single shareholder controls Mondi SA since it has been unbundled to the existing shareholders of Anglo American.²

- 3] The primary target firm is Lenco Holdings (Pty) Ltd. Lenco is jointly controlled by Commonwealth Development Corporation Group plc ('CDC') (with 56% shareholding), Brimstone Investment Corporation Limited ('Brimstone') (with 25% shareholding) and Lenco's Management ('Management') (with 18% shareholding). Lenco controls Lenco Packaging (Pty) Ltd ('Lenco Packaging'), who in turn controls Lenco Investment Holdings Limited ('Lenco Investment'). Lenco Investment controls various firms.³

Description of the transaction

- 4] Mondi Packaging intends to acquire the entire issued share capital of Lenco from CDC, Brimstone and the Management of Lenco. Pursuant to this transaction, Lenco will be a wholly owned subsidiary of Mondi Packaging.

Rationale for the transaction

- 5] For the primary acquiring firm, the merger will enable it to diversify its product range by growing its business into the plastic packaging sector thereby enabling it to effectively offer complementary packaging products and complete packaging solutions.
- 6] The shareholders of the primary target firm wish to exit the packaging industry hence the proposed transaction.

1 Anglo American is a public company listed on the London Stock Exchange and the JSE Securities Exchange which controls various companies including Anglo Coal South Africa ('Anglo Coal SA'), Anglo Coal Holdings Australia Limited; Anglo Platinum Limited; Kumba Iron Ore Limited ('Kumba'), Namakwa Sands South Africa ('Namakwa') and Highveld Steel and Vanadium Limited ('Highveld'), among others. (Refer to Annexure 2 A2 for a complete list of the subsidiaries of Anglo American.

2 Transcript p2.

3 Lenco Investment controls Lenco Corporate Finance (Pty) Ltd; Sunko Mauritius Limited; Versapak Zimbabwe (Pty) Ltd; Xac-PET; and Elvinco Plastics (Pty) Ltd.

The parties' activities

Primary acquiring firm

- 7] Mondi Group operates through 6 divisions which are as follows:
- 8] Mondi Business Paper: an integrated export-focused business made up of Mondi's hardwood forestry operations, the SilvaCel woodchip exports facility, the Richards Bay mill and the uncoated woodfree paper businesses based at the Merebank mill. The division provides access to world class manufacturing expertise and a worldwide network of distribution in major markets.
- 9] Mondi Shanduka Newsprint: which is involved in the manufacturing of paper used predominantly in the production of newsprint.
- 10] Mondi Packaging: which manufactures both coated and uncoated cartonboard. The products covered a variety of applications including food packaging, personal hygiene packaging and industrial packaging such as packaging papers. Corrugated packaging papers are mainly used for handling agricultural and commercial products. They require high quality flexographic print and superior compression strength to ensure the protection of goods in transit.
- 11] Mondipak: manufactures corrugated packaging including microfluting for both agricultural and industrial market. The package of services of Mondipak includes boxes and graphic design, as well as laboratory testing of performance.
- 12] Mondi Recycling: which is involved in the recycling of paper and board. Mondi recycling sources and supplies recovered paper to boards and paper mills.
- 13] Mondi Plastics: manufactures and markets a range of plastic material handling containers for increased storage efficiency in agriculture and other industries. It provides plastic handling containers comprising of returnable transit packaging containers such as 'Jumbo bin' which is used for storing fruits, folding large containers, attaché lead containers which are mainly used in pharmaceutical supplies and electrical products, and stacking and nesting containers which are

manufactured for mechanical handling.

The primary target firm

- 14] Lenco specialises in the manufacturing of rigid plastics for the packaging industry. The company's business includes the manufacturing and sale of packaging products such as blow-moulded plastic containers, injection moulded closures, formed styrene trays, tubs, polyvinyl chloride ('PVC') and stretch film to the retail, agricultural and fast food products. It operates with the following divisions:
- 15] Versapak: which is involved in the manufacturing of expanded polystyrene packaging and PVC stretch film products such as clear trays, fast food trays, stretch wrap film and bottles. It services the fast moving consumer goods, fast food, beverage and agricultural sectors such as Steers, Wimpy, Woolworths, Denny Mushrooms and Spar.
- 16] Xac-PET: which is involved in the manufacturing of PET products such as soft drink plastic bottles, peanut butter plastic containers and cooking oil plastic containers. It services entities such as Nestle, Coca Cola, Tiger Food and Unilever.
- 17] Xactics/Elvinco: which uses extrusion blow and injection moulding to manufacture bottles, containers and closures for the food, beverage, household and toiletry industries.

Competition analysis

Horizontal assessment

- 18] There is no overlap in the activities of the merging parties. The packaging products manufactured by the primary target firm come into direct contact with the contents inside and protect or enclose products for the purpose of storage and sale. Whereas the primary acquiring firm manufactures paper packaging products and plastic material handling products which provide a means of identification for the product inside and to provide a means of collating a

number of products inside it - thus making it easier for transportation, storage and delivery.⁴

Vertical Integration

19] The proposed transaction results in a vertical integration in the activities of the merging firms in that the acquiring firm supplies corrugated packaging boxes to Elvinco, a division of the primary target firm. The vertical integration is minute and does not raise competition concerns in that Elvinco purchases 0.1% of Mondi Packaging's total corrugated box produce and purchases less than 1% of the entire corrugated box market.

Public Interest

20] There are no public interest issues.

Conclusion

21] The merger is approved unconditionally.

N Manoim

Tribunal Member

18 September 2007

DATE

U Bhoola and M Mokuena concur in the judgment of N Manoim

Tribunal Researcher : R Kariga

For the merging parties: Webber Wentzel Bowens Attorneys

For the Commission : E Ramohlola and HB Senekal (Mergers and Acquisitions)

⁴ At the hearing the Commission confirmed that there is no product overlap in the activities of the parties. The Commission had initially submitted that there might have been an overlap in the activities of the parties with regards to plastic satchets but later found out that Mondi SA does not produce plastic satchets at all. (See Transcript p1-2).