

Procedural Rules for Mergers and Acquisitions in Communications and Information Technology Sector

Date: 1439 H
Corresponding to 2018 G

Disclaimer: This document is a draft translation of its Arabic version. In case of any unforeseen discrepancies, the Arabic document prevails.

TABLE OF CONTENTS

1	Introduction	3
2	Definitions	4
3	CITC Role	5
4	Review Processes Submitted to CITC for Approval	6
5	Review Process	7
5.1	Pre-submission Discussions	7
5.2	Application	7
5.3	Review Process Phases	8
5.3.2	Key Phases of Process	9
5.3.3	Procedures and Deadlines for Giving Remarks to Application Parties	9
5.3.4	Role of Other Parties	10
5.4	Regulatory Requirements	10
5.5	Decision Making	11
5.6	Handling Confidential Information	11
6	Assessment Framework	12
6.2	Market Selection	13
6.3	Competition Analysis	14
6.4	Troubled Companies Situation	14
6.5	Benefits	14
7	Application Submission Requirements	16
Annex (A)	Application	18
Annex (B)	Market Concentration and Safe Borders	24

1. Introduction

- 1.1 These procedural rules explain and demonstrate the provisions included in the Telecommunications Law, its bylaw and the regulatory frameworks set by CITC. They aim to apply a clear and transparent mechanism for the review procedures for mergers and acquisitions submitted for approval to CITC.
- 1.2 CITC may, as it considers appropriate, amend, update, add to, replace or annul the rules.
- 1.3 CITC is entitled to exempt any person subject to these procedural rules from applying any of their provisions in whole or in part, at his/her application or on its own initiative.
- 1.4 These procedural rules shall come into force after 30 days from the date of their release.

2. Definitions

2.1 Terms or words defined herein shall have the same meanings as contained in the acts of CITC. The following words and expressions shall have their associated meanings unless otherwise provided by the context:

2.1.1 "Reviewable Transaction" is:

- a) A merger between a licensee in the Kingdom and another service provider inside or outside the Kingdom.
- b) An acquisition of five percent (5%) or more of the shares or interests of a service provider licensed to work in the Kingdom;
- c) An acquisition of a percentage of the shares or interests of a service provider licensed to work in the Kingdom, leading to the domination of a specific telecom market by one of the service providers.

2.1.2 "Conglomerate Transaction" is a "Reviewable Process" between two parties which provide commercial activities in different markets or provide activities within the same market but complementary to each other.

2.1.3 "Joint Venture" is a transaction between two parties that produces a third party, whose resources, ownership, revenues, expenses and management are joint between the two parties for the purpose of achieving a shared objective, with each party normally maintaining its own identity.

2.1.4 "Horizontal Transaction" is a "reviewable transaction" between two parties sharing similar work in a market.

2.1.5 "Vertical Transaction" is a "reviewable transaction" between two parties, each of which works in different production phases of the same item.

2.1.6 Competitive Assessment is the analysis of potential competitive effects of any "reviewable transaction".

2.1.7 Entity refers to the entity that would likely arise as a result of any "reviewable transaction".

2.1.8 Coordinated Effects are the effects that increase the capacity of service providers to coordinate the prices of their services or activities in an uncompetitive way, or the likelihood thereof.

2.1.9 Unilateral Effects are the effects that increase the capacity of a service provider to work individually, free from customers or competitors, or the likelihood thereof.

2.1.10 Applicant is any party that has submitted an application to CITC for approval of a "Reviewable Transaction", in accordance with Article (25) of the Telecommunications

Act.

- 2.1.11 Regulatory Requirements are the procedures taken by CITC, in accordance with Article (35) of the Telecommunications Law bylaw, for handling the issues that influence competition in the Telecommunications Sector and that relate to mergers.
- 2.1.12 Safe Harbor means a condition under which the CITC is not likely to view a proposed Reviewable Transaction as substantially reducing competition in a market..

3. CITC Role

3.1 CITC's vision focuses on bringing the Telecommunications Sector into systematization that achieves high competitiveness, exceptional service for subscribers and an investor-motivating environment. Among CITC's tasks is providing a fair regulatory environment based on clarity and transparency, for stimulating competition, protecting the common good and protecting all the related parties.

3.2 According to Article (3) of the Telecommunications Act and Article (29) of the Telecom Act Bylaw, CITC should perform the following competition-related tasks and duties:

- Promoting effective and continuous competition for the benefit of the users.
- Auditing and preventing the practices that would limit competition.
- Reviewing and making decisions on mergers submitted among service providers.

3.3 The Telecommunications Act and bylaw include a mechanism of the Commission's approval to mergers between service providers and on some acquisitions through purchasing shares or interests from service providers, and for clarity and transparency. This mechanism has been addressed in detail in these procedures.

4. Transactions under the Review Process

4.1 Transactions submitted to CITC are reviewable according to the following:

- a. Merger between a licensee inside the Kingdom and another licensee or service provider outside the Kingdom.
- b. Acquisition of five percent (5%) or more of the shares or interests of a service provider licensed to work inside the Kingdom.
- c. Acquisition of a percentage of shares or interests of a service provider licensed to work inside the Kingdom, leading to dominating a specific telecom market by a service provider.

4.2 Upon the examination of any application for a Reviewable Transaction, CITC shall generally assume that the "Acquiring Party" shall dominate the "Acquired Party" or a large share owned by the Acquired Party in the following cases:

- a) 30% or more of the acquired company's shares are dominated by the Acquiring Party.
 - b) The Acquiring Party is able to guide or hamper decisions through an agreement or other arrangements, including key strategic decisions, such as approving the balance or work plan, appointment of the senior management, etc.
- 4.3 CITC has the right not to presume the Acquiring Party to be in control if CITC believes that there are reasons for such non-presumption. This primarily depends on the evidence provided by the parties to the application, which may include some of the indications provided in paragraph (4.4).
- 4.4 Based on the facts of each particular case, CITC may conclude that the Acquiring Party dominates another company or a large share therein, in case the Acquiring Party owns less than (30%) of shares in the acquired company. In order to verify that, CITC shall study a number of indicators, including:
- a) Percentage of shares owned by the Acquiring Party in the acquired company.
 - b) Any special voting or veto rights related to the acquisition of shares.
 - c) Shares of shareholders in the acquired company to identify whether the Acquiring Party is the largest owner in such company.
 - d) Whether the Acquiring Party is entitled to appoint its representatives to the board of the acquired company.
 - e) Any other financial or legal deals or arrangements that render the acquired company dependent on the acquiring company.

5. Review Process

5.1 Pre-submission Discussions

- 5.1.1 CITC may discuss the issues related to the submitted process with its parties before submitting the application. Any discussions held and views provided by CITC in this regard shall be non-binding, provided on a confidential basis and may be oral or written.
- 5.1.2 Any advice given by CITC shall be based on the accuracy and type of information provided by the parties to the transaction.

5.2 Application

- 5.2.1 Taking into account requirements of other acts, CITC's approval must be obtained before carrying out any Reviewable Transaction. CITC is entitled to exclude the submitted application from any of the requirements included herein.
- 5.2.2 The applicant party should inform CITC about any preliminary agreement reached in this regard within (5) working days.
- 5.2.3 Despite the obligation contained in paragraph 5.2.2, CITC shall accept a Review process

application submitted for obtaining its approval before entering into any agreement that is legally binding to its parties, provided that the applicant parties demonstrate to CITC their will to enter into a legally binding agreement of a Review process between them, for example, by submitting a memorandum of understanding signed by both parties or a preliminary agreement.

5.3 Phases of Review Process

5.3.1 Review phases and duration

5.3.1.1 According to Article (35) of the Telecom Act bylaw, upon CITC's receipt of a Review process Application that meets the requirements provided in Annex (A) hereof, the procedures for the preliminary review (Phase one of the review) should be completed within 90 days from the receipt of a finalized application, and the following should be done:

- a. Unconditional approval to the process.
- b. Approval to the process under conditions laid down for promoting and developing the competitiveness in the telecom markets, which would increase the benefits for telecommunications users in the Kingdom.
- c. Rejecting the process
- d. Issuance of a notice that involves the initiation of investigation into the submitted process, according to the bylaw.

5.3.1.2 After finishing the investigation phase, CITC should issue its resolution according to paragraphs A, B or C of the previous paragraph.

5.3.1.3 Abiding by the period mentioned above shall depend on providing all the required information in the specified time by the applicant parties.

5.3.1.4 If the applicant parties fail, partly or completely, to provide the required information within the specified time, CITC may issue a notice to those parties, stipulating that the review shall be suspended for a period of time starting from the date of notice issuance by CITC. The procedure for review shall be suspended for a period equal to the duration between CITC's issuance of notice and the date in which CITC receives the required information completely and correctly.

5.3.1.5 CITC shall issue an extra notice for the parties submitting the notice after receiving the required information to inform them of the time during which the review procedures were suspended.

5.3.2 Key Phases of the Process

~~5.3.1~~ The first review phase of a review process application submitted to CITC involves the following key pillars:

- a) Review of the application

- b) Providing the applicant parties with notes on any issues identified during any unofficial meeting with CITC in this regard.
- c) Considerations related to probable regulatory requirements, such as the accounting separation of the dominating service provider.
- d) Issuance of the resolution.

~~5.3.2~~ In the event of initiating the investigation phase, CITC shall follow the same key pillars referred to above in such phase, as well as hold consultations with other parties.

~~5.3.3~~ If CITC follows other steps than those mentioned above, it will seek to inform the applicant parties of its intention to follow such steps and the related reasons in advance.

5.3.3 Procedures and Deadlines for Providing Application Parties with Notes

5.3.3.1 During the first phase, CITC shall invite the applicant parties to a non-binding meeting to provide its notes.

5.3.3.2 The meeting shall aim to ensure providing all information necessary for conducting the Commission's report on a Reviewable Transaction. This meeting can also be used for obtaining answers from the applicant parties to the questions raised by any third party, and it is unlikely for CITC to hold a special non-binding meeting unless it believes that a Review process raises any competition-related questions.

5.3.3.3 If CITC decides to commence the investigation phase, it may invite the applicant parties to another non-binding meeting.

5.3.3.4 Taking into consideration any commitments related to confidentiality, CITC may also invite another party and/or a representative of any other governmental body involved with CITC in the review for a non-binding meeting.

5.3.3.5 Applicant parties have the right to provide oral information during the non-binding meetings and/or written reports after such meetings, within a time framework set by CITC. Such information shall be taken into account when preparing the final report for a Reviewable Transaction.

5.3.3.6 Applicants should refer to the Commission's acts to know what documents are required to submit to CITC for any review and access the other provisions related to document submission.

5.3.4 Role of Other Parties

5.3.2.1 In the investigation phase, CITC shall invite the other related parties to provide their notes on any Review process by issuing a notification of initiating the investigation, according to the Commission's acts.

5.4 Regulatory Requirements

5.4.1 CITC may approve a Reviewable Transaction, imposing certain regulatory requirements in

accordance with the Telecom Act Bylaw for promoting and developing open and competitive telecom markets in the Kingdom, which increase the benefits to the Kingdom telecom users.

5.4.2 Regulatory requirements provided by CITC may include the following:

- a) Structural regulatory requirements (e.g. surrender of certain assets, such as telecommunication towers or databases) that are one-time treatments keeping the market competitiveness under control.
- b) Behavioral regulatory requirements that generally involve continuous obligations to modify or discipline the behavior of the merged Entity.
- c) Any requirements proposed by the notifying parties.

5.4.3 In the event that the applicant parties desire to propose certain regulatory requirements, such requirements should be given to CITC not later than 10 days from the date of non-binding meeting(s), referred to in paragraph 5.3.3 hereof. Such parties may, nevertheless, submit their proposal at earlier stages of the review, if they so wish, or attach the proposals to their first application submitted to CITC for approval.

5.4.4 The impact of any proposed regulatory requirement on the related markets shall be examined by CITC, whether the proposal is made during a public invitation for submitting notes or by sending proposals to competitors and users to obtain their opinions.

5.4.5 Prior to any approval, according to paragraph 5.1.1 of this document, CITC shall discuss the submitted regulatory requirements with the applicant parties in the unofficial meetings.

5.5 Decision Making

5.5.1 Applicant parties shall be directly notified of the Commission's decision, which shall be released in full or in brief, within the statutory limits, and in the event that CITC decides to commence phase two of investigation, it shall issue a summary statement that does not prejudice the ongoing investigation.

5.6 Handling Confidential Information

The following methodology shall be applied to any release of documents or confidentiality claim made by the party submitting the notice or by any other third party, for the Review process documents submitted to CITC:

- a) When any party submits a document to CITC in connection to a Reviewable Transaction, CITC is entitled to post the document or part of it on its website, unless the applicant party or the other party emphasizes the confidentiality of parts or all of the document at the time of submission to CITC. Confidentiality of the documents is governed by the laws applicable in this regard.
- b) Any applicant party or third party that insists on confidentiality should, at the same time, submit an additional abridged version of the core document after removing the confidential information in order to enable CITC to post it on its website along with the remaining documents. If the entire document is confidential, such party should provide reasons for not submitting an abridged

releasable version.

6. Assessment Framework

6.1 Principles of Assessment

- 6.1.1 The Commission's methodology for assessing any submitted Review process is based substantially on examining the impact of the transaction on competition and verifying that the process is in line with the requirements of other related acts.
- 6.1.2 Assessment of potential impacts of a submitted Review process is a crucial assessment factor, which shall require CITC to examine the evidence and proof obtained from the applicant parties and other market sources in detail and with accuracy to determine whether a Review process would likely stifle the Competition largely in any market affected by the Transaction were it implemented.
- 6.1.3 The impact would be substantial were the merged parties able to practice more control over a basic part of a certain telecom market for two years or more, compared with the situation in the absence of a partial or full reviewable transaction. Should the introduction of new competitors or any other factors lead to reducing the market capacity within two years, CITC will presume that reducing competition in such conditions is most probably unsubstantial.
- 6.1.4 CITC shall base such competitive assessment upon a survey analysis by comparing market development to a submitted Review process (real situation) and comparing the market development to the non-submission of a Review process (hypothetical situation). In theory, there may be more than one hypothetical situation during the examination of a review process application. CITC shall balance between available evidence at the time of submission to select the most acceptable hypothetical situation, and on such situation, CITC shall base its analytic report.
- 6.1.5 In case there are any fears of competition, CITC may balance such fears against any other considerations, which include, but are not limited to, raising the capacity of a certain telecom market as a result of a Review process or other benefits gained by the public. Making such a trade-off, CITC may study the risks and costs of any potential harm to the competition in return for the potential benefits of the review process application.

6.2 Market Selection

- 6.2.1 Defining "the selected market" properly is the first step towards the competitive assessment, and defining a market is used as a tool for assessing the market capacity of merged parties and is a basis for assessing whether or not a submitted review process may weaken competition.
- 6.2.2 CITC has a methodology for defining markets, which gives indications of how to do such a process in order to assess a submitted reviewable transaction.
- 6.2.3 Defining markets, CITC shall focus on fields of activities that may be subject to competitive harm

by examining each individual case. CITC shall also generally focus on how closely products or geographical areas of merged parties intertwine and how complementary in nature to each other the products provided by merged parties are.

6.3 Competition Analysis

6.3.1 Market concentration and Safe Frontiers.

6.3.1.1 After defining the relevant market(s), CITC shall generally examine the concentration level in such market, considering it an indicator of potential impact on competition therein as a result of a reviewable transaction.

6.3.1.2 Annex (B) hereof gives a detailed explanation of concentration as well as its benchmarks and related indications.

6.4 Troubled Companies Situation

6.4.1 Competitive assessment shall be generally made by CITC in accordance with paragraph 6.1.4, containing assessment of both real and hypothetical situations. However, there may be extraordinary circumstances that hampers the Commission's implementation of such assessment; for example, one of the merged parties is in insolvency (bankruptcy) and has been expected to leave the market in any case.

6.4.2 The case mentioned in the previous paragraph is referred to as a "Troubled Company". Parties to the merger should provide proof that the company is indeed troubled, that its assets may be dropped out of the market unless a review process is implemented, that no alternative solutions for preserving the assets of the Troubled Company but carrying out the submitted transaction and that such option is the least harmful to the competition. CITC should verify that selling the Troubled Company to another party (be it a competitor or a new company in the market) shall produce a relatively better result.

6.5 Benefits

6.5.1 When there are any fears of competition, CITC may weigh such fears against any other considerations, which include, for example, producing effective benefits of a reviewable transaction.

6.5.2 One of the motives for implementing a review process is the improvement of market economies that may arise from collecting productive assets. The benefits may reduce costs and increase demand for services (for example, by improving the quality and service) as well as scale up innovation and development.

6.5.3 Benefits of a review process can reinforce the interest of service end users and enhance competition. Parties to an application should give evidence for that and prove that such benefits cannot be gained otherwise.

6.5.4 CITC may assess the claimed benefits by the following factors:

- a) Verification of evidence that indicates the realization of such benefits and that they are not merely based on assumptions.
- b) Verifying that the benefits in connection with a review process are hard to realize through alternative means that is less harmful to the competition.
- c) Assessment of the time required to realize such benefits.
- d) Verifying that benefits to the merged service provider shall be passed on to end users, for example, in the form of low prices or better services, rather than an increase in profit margin that only the merged service provider benefits from.

6.5.5 There is often an inverse relationship between the increase in market capacity through any review process and the expected duration within which the claimed benefits of a review process application are expected to reach the end users. Accordingly, unless a review process application produces a significant increase in the market capacity, CITC will be in need for solid evidence that the benefits of a review process shall produce an effect equivalent to the potential harm to competition.

7. Application Submission Requirements

7.1 Application form and information that must be provided at the beginning of the review process (phase one):

7.1.1 Annex (A) herein contains the application form that should be submitted to CITC for initiating the first phase of application review and obtaining approval to a review process submitted in accordance with Article 25 of the Act. CITC shall commence the first phase upon receiving the complete application, provided that it includes the formal signatures.

7.1.2 The application should be accompanied with an acknowledgement demonstrating that the information provided in the application is correct, accurate and non-misleading, in accordance with paragraph 7 of the application.

7.2 Additional requirements in case of concerns regarding the competition

7.2.1 When CITC decides, as part of its review, that any review may result in competitive fears, the applicant party should provide all the information required by CITC, including, but not limited to, the following additional information:

- a) A summary description of the impact of the submitted transaction on competition.
- b) Confirming that the submitted transaction shall have no impact on providing the telecommunications and information technology services.
- c) Assessment of the submitted transaction as well as its benefits to the end users of the transaction parties.
- d) Identifying and, hence, estimating any costs or benefits that may arise from the submitted transaction.
- e) Describing the steps to be taken in order to ensure the network safety after finalizing the

submitted transaction.

- f) Details about how to preserve the service quality and reliability after finalizing the submitted transaction implementation.

Annex (1): Application:

Application of the merger and acquisition submitted to obtain the approval of CITC in accordance with the Article No. 25 of the Communication Regulation.

Introduction:

Objective of this Application:

This application shall define the information must be provided by the parties that provide an application to CITC in order to approve to a transaction submitted in accordance with Article No. 25 of Telecommunications' Act ("the law").

Who shall submit the application?

In case of a transaction for obtaining approval on merger according to the first clause (25-1) of Article 25 of the law ("Merger Transaction"), the parties participating in the merger transaction shall jointly complete the application. In the event of a transaction for approval within the meaning of the second clause (25-2) of the Article No.25 of the law ("Purchase of Stocks or Shares"), the acquiring party shall complete the application.

Requirements of Providing an Accurate and Complete Application:

All information mentioned in this application shall be accurate and complete. The required information shall be also placed in the proper section of this application. The applicant party shall note that the time period specified in the paragraph(1-3-5) herein will begin only after the complete application received by CITC. The application shall include the following:

1) Information on the Parties

- 1-1 (Registered) name and address of the applicant parties. The acquiring party shall not be appropriate for being an applicant.
- 1-2 Full name, address, phone number, fax number and e-mail address of the communication officer of each applicant party. The acquiring party shall not be appropriate for being an applicant.

2- Details of the Merger Entity:

- 2-1 description of the nature of the parties of the transaction.
- 2-2 description of the nature of the submitted reviewable transaction whether it is a merger for two of service providers or an acquisition to the stocks of the service provider.
- 2-3 Providing brief details about the economic objectives including execution of the reviewable transaction and a summary of its commercial requirements.
- 2-4 a brief description of each product or service of the parties of the submitted reviewable transaction in order to obtain the approval and define the points of overlapping between them.
- 2-5 clarifying the expected time frame of the: 1) signing a binding agreement, and 2) completing the

application of a reviewable transaction submitted for getting the approval.

2-6 indicating whether any other organizational authority is notified of the reviewable transaction submitted to be approved (whether in the Kingdom of Saudi Arabia or in any other country).

3) Ownership and Control:

3-1 CITC shall be provided with the details of structure of each party of the transaction including these details: 1) any natural or legal person has five percent (5%) or more in the property rights (directly or indirectly), and 2) all other companies in communications and information technology sector that the parties of the reviewable transaction have with five percent (5%) or more of the property rights (directly or indirectly), in both cases the quality of the ownership and the percentage owned by the concerning party shall be clarified and if this ownership involves in particular or detailed rights. The required information can be presented in this section by using organizational charts or diagrams as it may be appropriate for information.

3-2 naming all the members of the board of directors of any party participated in the transaction and their positions occupied as board of director's members or otherwise in other companies in the communications sector.

3-3 naming all the licenses of the communications and information technology possessed by the parties participated in the transaction or any other company referred to in the paragraph (3-1) above mentioned.

3-4 presenting the details of any partnership agreement or joint ventures among the parties participating in the transaction and any other service provider in the communication and information technology sector.

4) Documents Supporting the Application:

4-1 The applicants shall submit the following documents with their application referring to the date on which they were prepared in each document.

4-2 The final copy, or the latest edition of the agreement (agreements) related to the reviewable transaction presented to CITC in order to get their approval, or a copy of the proposal in the case of the public tender.

4-3 Copies of the audited annual financial reports and lists for each party of the transaction for the last two years.

4-4 the annual revenues derived and gained from communications markets in addition to the assets values specified for the works related to communications for each party of the transaction.

4-5 Providing the documents that prove that the related commissions don't oppose to the submitted reviewable transaction.

5) Market Definition:

5-1 CITC shall be provided with a definition of the related service or the product as well as the geographic scope for the related markets in which the transaction parties work (in accordance with the provisions contained in the paragraph (6-2) herein.

5-2 CITC shall be provided with the following information concerning the products or services specified in the paragraph (4-2) of the annex (A).

A) a brief description for any product(products) or service (services) that may be closely substitutes concerning the proposal or the application and the share of the market for each party of the transaction and all their subsidiaries in communications and information technology sector as soon as they are available.

5-3 CITC shall be provided with the following information relating to the products and\or the geographic scope of the markets specified in the paragraph (1-5) of the annex (A).

- (a) Evaluating the level of the competition and describing how they work in the market.
- (b) Estimating the capital charges required to access the market with the scale needed for getting the share of five percent (5%) of the market, whether as a new company or an existing firm possesses and has the necessary technology and experience. In addition to estimating the extent that this cost can be restored upon it's decided to exist from the markets by the service provider.
- (c) details of any other factors have an impact on market access as requirements for licensing, technology requirements or research and development and so on, including estimating the necessary time and resources in order to overcome these factors, where possible, stating any related examples.

6) Benefits and Advantages of the Public:

When the applicant parties see that the submitted reviewable transaction may result in in some competitive concerns, then the evidences shall be presented for any related benefits and advantages that positively return to the public and that may be resulted from the submitted reviewable transaction.

7) Regulatory Requirements:

Upon the wish of the applicant parties in suggesting any organizational requirements in order to address the possible concerns concerning the competition that may be emerged from a reviewable transaction presented to CITC, then these submitted organizational requirements and the behavior followed by the applicant parties in manipulating these competitive concerns shall be described in addition to describing the most prominent international practices in such regards.

8) Declaration:

The application shall be concluded with an acknowledgment signed by the concerned persons (with

authorizations- and attached power of attorney and authorizations that clearly indicate to the powers granted for the signer (signers) on this application) for all the applicant parties. The text of the declaration shall be as follows:

“The applicant party/parties hereby declares that the information provided in this application is accurate and right and bear the legal impacts resulting according to CITC regulations unless proved otherwise”.

Signature (signatures).

- Name (Names)
- On behalf of:
- Place and Date:

Annex (B):

1- Market Concentration and Safe Borders:

1-1 The markets shares shall be considered one of the simple measures to measure the extent of the concentration. The Herfindahl Hirschman is one of the other common measures in addition to the measure of shares of the largest four companies in certain market.

1-2 CITC has drawn some safe borders in accordance with these measures mentioned in the paragraph(1-1) of the annex(B), that may allow to approve a reviewable transaction having a limited impact on the market without making any detailed analysis to the competition. These safe borders allow for CITC to filter a reviewable transaction submitted in order to focus on the processes that may significantly affect the competition.

1-3 It must be taken into consideration that the safe borders shall not be automatically applied since the concentration measures may not cover all the aspects of the competition because the competition is affected by some other factors.

1-4 Herfindahl Hirschman Measure (HHI):

(A) Herfindahl Hirschman Measure (HHI) represents “the cumulative total of the square market shares” for all the services providers in the concerned market.

(B) The absolute value of Herfindahl Hirschman Measure (HHI) may indicate to the possibility of concerns in respect with the competition before and after the submitted transaction.

(C) In most cases, CITC will not determine the concerns related to the competition as a result of any horizontal transaction in the following cases:

1- When Herfindahl Hirschman Measure (HHI) is less than (1000) after executing the transaction.

2- When Herfindahl Hirschman Measure (HHI) is rated between (1000-2000) after executing the transaction and the difference therein reaches less than(250) before and after executing the transaction.

3- When Herfindahl Hirschman Measure (HHI) exceeds (2000) and the difference therein is less than (100) before and after the transaction.

4- There could be often some concerns related to the competition in non-horizontal transaction if the share of the service provider emerged in the specified communications markets less than 30% and Herfindahl Hirschman Measure (HHI) is less than (2000) after executing the transaction.

1-5 the rates of concentration for the largest CR4 in a certain communication market: This indicator represents the shares of the largest four services providers in a certain communications market. There will not be often any objection for the mergers if the concentration rate for the largest four services providers after merger is less than this

market with (65%).

6-1 Market Share:

It's unlikely that there is no resistance from mergers based on concerns related to individual practice for the market ability, if the market share is less than 30% of a certain communication market after merger.

2- Other Potential Aspects that May Affect the Competition:

2-1 The measures of the market concentration reveal the changes extent in the market ability, but they don't entirely reveal disclose the extent in which the competition is impacted because of an reviewable transaction.

2-2 In order to define if it's potential for any reviewable transaction to fundamentally result in limiting from the competition in any related market, then CITC will verify the reasons for affecting or limiting the competition, including studying if it is the reviewable transaction will grant the merged service provider the capacity of practicing control over the market. Upon analyzing the potential effects of non-competitive practices for merger transaction, then the market structure, in which the work will be performed, shall be verified in addition to verifying if it makes the merged service provider able to affect the competition.

2-3 A reviewable transaction may include more than one theory to affect the competition (single impacts, coordinated impacts and non-horizontal impacts).

3- Unilateral Impacts Expected out of the Horizontal Transactions:

A) The horizontal transactions have single impacts when they render or undermine the competitive restrictions in order to enable the merged service provider to individually act, such as increasing the prices in certain market of one side without taking the replies of the other service providers, who take part in this market, into consideration. These replies may lead in turn to increase their prices replying to this procedure.

B) Although the horizontal transaction may motivate the merged service provider to practice the market strength, but there are other factors in the market that may impact on their practice of market strength. Consequently, the process of evaluating the potential single impacts shall be verified as follows:

- Concentrating the market and the shares of the parties participating in the transaction.
- Convergence of the competition between the parties participating in the transaction.
- Existing strong and active competitors in the market.
- Obstacles that limit accessing or expanding the communication market and the extent of availability of accepted substitutes for the services provided by the transaction parties.

4- Coordinated Impacts expected from the horizontal transactions:

A) CITC will verify the possibility that the horizontal transaction will cause collusion between the two competitors to adversely affect the market.

B) (Coordinated effects and unilateral effects) can occur simultaneously when an integrated entity finds it profitable to increase prices unilaterally and competing service providers also find it

profitable for them at this stage to adjust their prices to the entity rather than compete with it.

5- Competition Obstacles Expected from Vertical Transactions:

A) A vertically integrated entity may have a large market capacity at one level of the chain, which may create fear of using that supply (supply chain) in preventing or impairing competitors at other levels of the chain. Such behavior is referred to as anti-competitive obstacles. A vertically integrated entity can practice this behavior by increasing costs or reducing revenue for competitors at these levels.

B) If a vertical transaction results in the probability that the merged entity has the ability and incentive to impede competitors, or to have a very adverse effect on competition, then concerns about this transaction can be raised, and they may reduce competitiveness considerably.

6- Coordinated Impacts expected from the Vertical Transactions:

A) The vertical transactions may raise concerns due to the coordinated impacts and create market dynamics that facilitate collusion among the service providers (for example; the vertical transactions may reduce number of service providers in the retail market and this would create a more-clustered retail market, and the service providers may coordinate with each other and impose prices as agreed between them).

B) Conglomerate Transactions:

There is a poor probability, compared to the horizontal or vertical transactions, that the conglomerate transactions would increase the competition-related concerns. However, the conglomerate transactions may result in establishing a market capacity in favor of the merged entity, particularly when the parties to such merged entity offer integrative products with significant market capacity in a market affected by the merger transaction. In addition, the merged entity may try to follow non-competitive strategies, such as:

- 1) Increasing the market capacity in the market of a particular product by making the sale of a product or service related to sale of another product or service (this operation is referred to as "mutual support" or bundling services), which forces the users, who have to buy bundling products or services, not to purchase the product or service from other competitors.
- 2) When the conglomerate merger transaction allows the merged entity to make use of its financial capacity, in a market, to affect another market through mutual support and over-pricing.



هيئة الاتصالات وتقنية المعلومات
Communications & Information
Technology Commission