**Introduction**

MiddleSex Holdings is a diversified international company, operating in primary industries (steel, non-ferrous metals and energy), financial service and agriculture. Additionally, the company has trade investment in gold and insurance businesses. It is principally engaged in the emerging economies of the Commonwealth of Independent States (CIS) and Central Asian republics.

**The History and Profile of MiddleSex plc.**

MiddleSex was founded in 1984, and originally was a small Welsh goldmining company called Ferromet that Mainly could be described as defunct company with a loss about 12m by the year 1991. At that stage, the shares of the company were about .25p in the in the wake of the disastrous career. Then in 1992 Phil Edmonds, the former English cricketer, bought this company and renamed it after at his countryside. But the company didn’t involve into its present shape until 1993, when Masoud Alikhani joined the board and reversed his Russian businesses into the company. Since then, MiddleSex has remained committed to Russia and other CIS countries.

Over the last four years, MiddleSex has built up an impressive asset portfolio, developed extensive experience and knowledge of Russian industry and its Business etiquette and expanded its network of proven contacts. MiddleSex has secured itself a fundamental and strategic role in a number of core industries and is now focusing on five business streams:

1. Steel (and direct reduced iron);
2. Non-ferrous metals (nickel);
3. Financial services ;
4. Energy; and
5. Agribusiness.

In addition, it has trade investment in gold and insurance.

(Each of this these streams in particular I’m going to describe later on in my research paper. )

1996 proved to be a significant year for MiddleSex, in which the company experienced strong growth. This is particularly evident in the metals businesses, with steel being the fastest growing activity. Moreover, it has become apparent that nickel and the agribusiness could take on a more significant role in the MiddleSex’s future. Other noteworthy event include the company’s appointment to GAZPROM, the world’s largest natural gas producer, under which MiddleSex will assist GAZPROM with its financial strategy. (In short words : GAZPROM is considering going ahead with an innovative financial deal whose first stage will involve issuing a Eurobond. MiddleSex - together with Interfin Services, a Russian trade finance house that is also involved in capital markets - will advise GAZPROM on dealing the financiers and on strategies for fundraising. But, again, I’m going to explain in more details later on how this alliance was built and what particularly this alliance means for MiddleSex, because I think that this is the very important stage of the company).

**Success of every company lies in its people.**

Since 1993, the main driving force behind the company has been its Chief Executive, Masoud Alikhani. Born in Iran and educated at the Hebrew University of Jerusalem in Israel, Mr. Alikhani’s work experience spans from a kibbutz in Israel to agronomy in Iran and from chemicals(the US chemicals, Du Pont) to securities business (Prudential-Bache). Alikhani was one of the first to recognize the enormous potential of Russia and other CIS countries. He had been trading there through his private businesses and had a wide network of contacts since 1988.

Alikhani’s plan appeared to be ambitious at first. From a small London base he aimed to create a group specializing in trading and finance across a number of industries in the former Russian republics. He saw a big opportunity to provide development finance, western management skills and reliable sources of raw material to newly privatized countries. In October 1993, Alikhani and six Russian contacts put £370,000 into MiddleSex. Other investors came up with another £250,000. As well as the equity, Alikhani undertook to put enough trading through MiddleSex to earn it £1 million gross profit within. Masoud Alikhani and Phil Edmonds earlier had an agreement, once £ 1 million in the bank, Edmonds would let Alikhani turn MiddleSex into his own vehicle. Under the terms of Alikhani’s first deal, MiddleSex supplied raw materials to a Tadjikistan smelter and then exported final goods to the West. This arrangement soon turned to be very profitable and Alikhani began haunting for new ventures.

At that time Alikhani understood that the company had changed its image completely, and had gone to a much higher lever, so it desperately needed a well known person with a great huge worldwide experience. Ant that was the time when Edmonds stood down from the chairmanship and Lord Owen turned up. A former foreign secretary and long-time European Union peace negotiator in the troubled Balkans .Also has a deep understanding of the mentality of the Slavic people and how to conduct business with them.

In 1996 another well known person in business has joint the company. Fahrad Moshiri, formerly with Ernst & Young and Deloitte & Touche turned up as Managing director in MiddleSex. He was mainly responsible for securing the US$300m contract with OEMK (Oskol Elektro-Metallurgical Kombinat ) and was the key in building the relationship with GAZPROM.

There many more people in the company whose personal worldwide experience has influenced the growth of the company, but it might take me hundreds of pages to describe the significant work they have for the company. I have mentioned, in my opinion, three most important and most affective people in MiddleSex. Once again, I have to say that the success of any company, specially with a case of MiddleSex, lies in its people and how these people effectively manage to bring their past experience into the company.

**Steel . The flagship operation.**

At the beginning of 1996, MiddleSex entered into a trading agreement with OEMK, one of the most modern and profitable steel mills in Russia, for the export of up to US$300m of steel products per annum. As trading was unfolding successfully, MiddleSex acquired a 7.9% interest in OEMK. Additionally, its 40 % owned investment vehicle, Interfin, holds another 6.6% of OEMK, which gives MiddleSex a further 2.6% indirect interest.

In august 1996, MiddleSex acquired DRI (IOM) Ltd. whose sole asset was the exclusive rights to export 40,000 metric tons per month of thermally passivated direct reduced iron (DRI) pellets produced by OEMK. Direct iron reduction technology is becoming increasingly popular as it significantly improves composition, reduces impurity contents and consequently enhances steel quality. DRI pellets are used as replacement for scrap material n modern electric arc furnace steel mills. Hence, in addition to steel products, MiddleSex also controls the exports of OEMK’s DRI pellets. DRI trading is carried out through MiddleSex’s 100% owned subsidiary, Oskmet (DRI) Limited.

In late 1996, MiddleSex acquired WolffSteel Ltd., an established international steel trading business, with a world-wide distribution network of clients.

As a result, MiddleSex currently records steel profits from three sources : OEMK export contacts, DRI exports contacts and additional WolffSteel trading :

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| --- | --- | --- | --- | --- |
| Company | Gross Profit (£’000) | | | |
|  | 1996 | 1997 | 1998 (est.) | 1999 (EST) |
| OEMK export | 3697 | 6000 | 8250 | 8750 |
| Oskmet (DRI) | 96 | 1027 | 1024 | 11027 |
| Wolff Steel | 242 | 1200 | 1200 | 1200 |
| Total | 4035 | 8227 | 10,477 | 10977 |

The OEMK-MiddleSex relationship extends beyond the trading agreement. MiddleSex monitors the day to day running of the mill, the company’s management spends considerable time at the mill while two OEMK representatives monitor steel trading in London on permanent basis. In addition, OEMK has a 20 % interest in MiddleSex’s financial services arm, Interfin. Overall, according to what I have observed, I believe that this relationship is very strong.

Due to increasing environmental concerns and the subsequent growth of the electric arc furnace (EAF) steel-making facilities, direct iron reduction technology is becoming more attractive. Originally, all DRI exports from OEMK were handled by DRI (IOM) Ltd. In August 1996 MiddleSex bought 100% of DRI Ltd. For a maximum consideration of 2.8m and inherited a ten year exclusive world wide distribution.

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| --- | --- | --- | --- | --- | --- | --- |
| **DRI EXPORTS BY REGION** (‘000 metric tones) | | | | | | |
| Region | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 (EST.) |
| European Union | 218.0 | 296.7 | 221.1 | 161.4 | 225.0 | 215.0 |
| CIS | - | 52.1 | 96.3 | 68.8 | 72.5 | 95.0 |
| USA | 5.0 | - | - | 37.1 | 42.5 | 57.5 |
| Australia | 33.0 | 26.0 | 0.4 | 44.3 | 28.5 | 35.0 |
| Total | 331.0 | 402.1 | 429.2 | 367.1 | 453.5 | 477.5 |

Since it gained the control over DRI exports, MiddleSex has managed to significantly expand the company’s customer base. Currently, OEMK’s DRI pellets feed steel mills in USA, Spain, Germany, Italy and Mexico.

According to my observation I believe that a vertical integration of MiddleSex’s steel activities is possible and would be highly beneficial for both partners. Assuming that MiddleSex takes an equity interest in Lebedinsky GOK, the raw material supplier (such as iron ore), and increases its equity interest in OEMK, MiddleSex would have an economic exposure to entire steel operation, from the raw material (Lebedisky), through the steel mill(OEMK) to trading (MiddleSex/WolffSteel)

**Non-ferrous Metals**

Aluminum was one of the original businesses which Masoud Alikhani injected into MiddleSex when he joined in 1993. The aluminum business was built upon Mr. Alikhani’s trading relationship with Tadaz, the third largest aluminum smelter in the world, located in Tajikistan. Historically, the relationship with Tadaz was that MiddleSex would supply the aluminum; it would pre-finance the processing and in return it would receive the aluminum which it would then sell in the international markets. The relationship worked profitably. However, throughout 1996, the political situation in Tajikistan deteriorated, trading cycles became longer and no deliveries were made in the last six months of 1996, leaving MiddleSex owned some US7.9m(£ 4.6m). MiddleSex believes it will recover this debt: it has already received US$2.4m(£ 1.5m) in late June 1997. Negotiations are well advanced to collect the balance.

During 1996 MiddleSex diversified its non-ferrous business into nickel. In October 1996 it entered into a short-term pilot contract with Napo Invest and Trade Corp., a company incorporated in the British Virgin Islands and run by Mr. Yuri Murkin, a business associate of Mr. Alikhani, and two Russian companies: Koks, which owns the Kemerovo coke plants and Kombinat Yuzhuralnikel, one of the biggest Russian nickel producers.

The government recently sold its 38% in troubled Norilsk Nickel, the biggest but also heavily debt-ridden Russian nickel producer. Following the Norilsk example, Yuzhuralnikel could be the next to be auctioned. Interfin, MiddleSex’s 40% owned investment, has already secured a 14.7% interest in the Yuzhuralnikel nickel plant, which gives MiddleSex a 5.9% indirect interest.

Overall I believe that MiddleSex is in strong position if it decodes to increase its interest in

Yuzhuralnikel and therefore its Yuzhuralnikel exposure to nickel. However, I have assumed that MiddleSex will only extend the trading with Yuzhuralnikel.

**Financial Services**

The backbone of MiddleSex’s financial services operations is the 40% owned Interfin (Interbank Investment and Finance Company). The remaining 60% is held by GAZPROM (20%), OEMK(20%) and Mapo Bank(20%). MiddleSex’s financial services include:

1. trading in Russian capital markets;
2. financial advise to western companies or potential business in Russia, and
3. advice to Russian companies entering western capital markets.

Established in late 1994, Interfin commenced by trading in Russian treasury. Initial returns were good and Interfin quickly made substantial profits, which enabled the company to start buying stakes in various Russian companies. As a result, Interfin has built an impressive asset base of which the company estimated to be in excess of US$300m.

**MiddleSex - GAZPROM relationship**

MiddleSex holdings - a small, London based trading group - is advertising the world biggest producer and Russia’s biggest company GAZPROM on cheaper ways to raise finance. The appointment came as a result of the close contact between MiddleSex’s and Interfin’s top management and GAZPROM. Principally the role consist of :

1. Providing independent advice in relation to the selection and implementation of different fund raising strategies and regulatory requirements of international capital markets;
2. Liaison with advisors, once appointed, on behalf of GAZPROM as well as coordination of GAZPROM’s fund raising and corporate activities;
3. Assisting in the design and implementation of special project finance schemes and structured long-term program of public and investor relations aimed at strengthening GAZPROM’s position in the international capital markets.

In returns for its services MiddleSex receives fees, depending on the type of service provided, and determined by GAZPROM’s board, plus the reimbursement of its expenses in connection with travel, presentation and other expenses.

If relation with GAZPROM maintained, and GAZPROM’s current financial restructuring and capital raising plans are carried out, I think this is the one of the most important step for MiddleSex holding, and they are well positioned to benefit and generate significant returns.

**Conclusion.**

To sum up then, taking a closer look at the Annual reports of the companies just confirming what I have researched through different types of magazines and newspapers, as well some official reports of the company. Through out the official statements it is crystal clear that company had a very big boost when Massoud Alikani has arrived and restructured the company almost completely, as well as brought some past experiences idea from the time he worked in Russia.

Then the company had another big growth in 1996 when the steel trading became the flagship operation and they started to work with OEMK.

References:

1. Guardian newspapers;

2. Financial Times newspapers;

3. Newsweek magazine;

4. Economic Research (Russian);

5. MiddleSex Official Financial Statements .