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MMK Cancels Flinder Bid, But Battles to Prove Its Legitimacy

By Irina Filatova

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Steelmaker MMK said it will prove that the acquisition of Australian iron ore miner Flinders Mines was rightful and legitimate. Above, an MMK chemical-recovery facility.

Correction appended

Magnitogorsk Iron and Steel Works said Wednesday that it is committed to continuing the court battle over the deal to acquire Australian iron ore miner Flinders Mines, although the steelmaker had to terminate the nearly $570 million bid earlier this week.

The Magnitogorsk-based company, also known as MMK, intends to prove in court that the acquisition of Flinders Mines — disputed by the steel company's minority shareholder, Yelena Yegorova — was made in line with legislation, an MMK spokesman said.

"It is of principal importance for MMK to prove the rightfulness and legitimacy of its action," he said in e-mailed comments.

MMK, controlled by billionaire Viktor Rashnikov, said Monday that it terminated the acquisition agreement with Flinders Mines after the Chelyabinsk regional court postponed a scheduled hearing at Yegorova's demand earlier that day.

The hearing was postponed till Aug. 1, a court spokesman said by telephone Wednesday.

In a statement posted on MMK's website following the court's decision, the steel giant said it expects that "it will ultimately be successful in resisting" Yegorova's claim, but it pointed out that "uncertainty" remains over the transaction due to "the legal action taken by Yegorova."

MMK agreed late last year to acquire all of Flinders Mines for 554 million Australian dollars ($569 million), but the deal was blocked by the court in March after Yegorova, who holds 0.001 percent of the MMK equity, claimed that it involved financial risks and would be detrimental to her interests as a shareholder.

Yegorova has never been seen in court, having sent a lawyer to act on her behalf.

Although the termination of MMK's bid to acquire the Australian company might have a negative impact on the steelmaker's image, it is positive for its valuation, analysts said.

The deal with Flinders Mines is "a long-term project, which would increase MMK's debt burden," Alfa Bank analyst Andrei Lobazov said. "In the current market conditions, abandoning the deal is the right option," he said by telephone.

MMK's debt stood at $4.2 billion as of late March, according to the company's financial statement released last month.

The company was considering raising funding from the sale of a 49 percent stake in its Turkish steel mill to finance projects started by Flinders Mines, MMK chief executive Boris Dubrovsky said in March.

The termination of the agreement with Flinders Mines was "the final decision," which is unlikely to be revised, the MMK spokesman said, adding that the steelmaker had officially informed the Australian miner of that.

The decision followed a statement released by Flinders Mines on Monday that said the deadline for the sides to quit the deal had expired on June 30, and thus the Australian miner is released from any obligations to MMK.

Correction: Due to an editing error, a story titled "MMK's Flinders Bid Off, Fight Continues" by Irina Filatova on p. 7 of Wednesday's paper misstated the BID price for the Australian MINER as 554 Australian dollars ($569), instead of 554 million Australian dollars ($569 million).

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