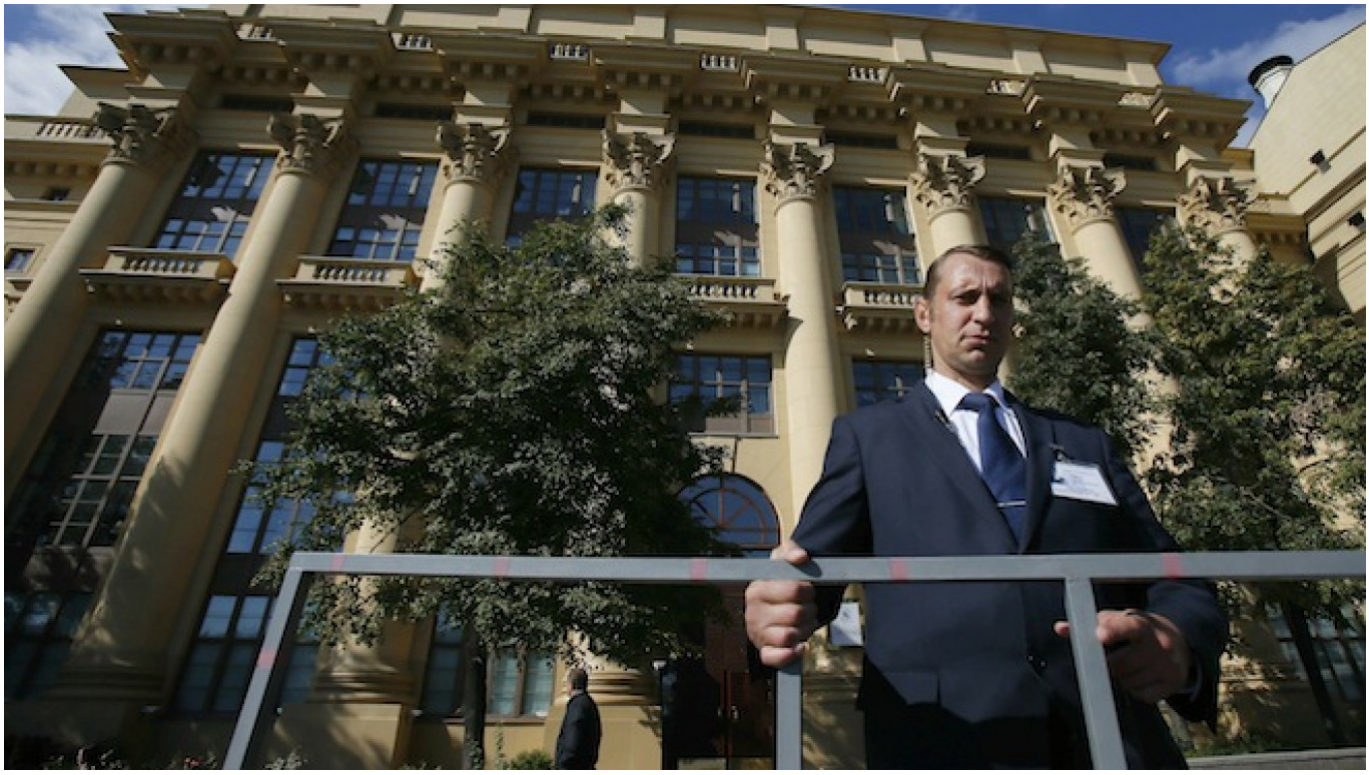
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Russia's Sistema Shares Plunge Following Arrest of Billionaire Chairman

By The Moscow Times

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A security guard moves a barrier outside the headquarters of Sistema JSFC in Moscow.

Shares in sprawling Russian holding company Sistema plummeted over 30 percent on Wednesday after its billionaire chairman was placed under house arrest, wiping more than $2 billion in value off the company.

Russian investigators accused Sistema's Vladimir Yevtushenkov of money laundering late on Tuesday in connection with his company's acquisition of up-and-coming oil producer Bashneft.

The charges against Yevtushenkov, one of Russia's richest men, raised fears of a return to the bad old days of asset grabs by the Russian state and drew comparisons to the fate of former oil tycoon Mikhail Khodorkovsky who was jailed for a decade.

It comes at a time when investor confidence in Russia has been damaged by Western financial

sanctions imposed over the conflict in Ukraine.

Sistema, which also controls Russia's biggest mobile phone operator MTS , says it considers the accusations against its chairman baseless.

By 1040 GMT, Sistema's Moscow-listed shares were down 32 percent, slashing the company's market capitalization by some 100 billion rubles ($2.6 billion). In London Sistema's global depositary receipts fell 34 percent.

The incident dampened the wider mood for Russian shares somewhat. The rouble-denominated MICEX index was about 2 percent lower than Tuesday's close, with big companies Gazprom and Rosneft off about 1 percent and Sberbank flat.

Risk Escalates

"Such a dramatic turn of events comes as a surprise regardless of the market knowing there was an open investigation into the privatization of Bashkir Oil and Energy Group," Sberbank CIB investment bank wrote in a note, referring to the oil company that later became Bashneft.

"The risk of a change in the shareholder structure of Bashneft escalates, a risk that now spreads to Sistema's other assets," the bank wrote.

Among Sistema's main assets, Bashneft shares slid 22 percent, while MTS was down 7 percent. Dollar bonds issued by Sistema and MTS also plunged.

The Moscow Exchange responded to the panic selling of Sistema assets by temporarily restricting trading in shares of the holding company and Bashneft.

"Clearly all this comes at a particularly inopportune time for Russian markets, given concern over developments in Ukraine, the imposition of Western sanctions, and also the weak underlying growth story in Russia," said Timothy Ash, chief emerging markets analyst for Standard Bank in London.

Russia's ruble currency stabilized after sharp falls over the previous week thanks to a new overnight dollar-ruble swap facility launched by the Russian Central Bank.

The ruble had been hitting record lows against the dollar, reflecting Russian banks' growing thirst for the U.S. currency at a time when Western sanctions have restricted dollar financing from abroad.

"The decision was very timely as dollar shortage on the domestic FX market deepened in recent days," said Oleg Kouzmin, economist for Russia and CIS at Renaissance Capital bank.

On Wednesday, the ruble was only slightly weaker against both the dollar and the euro after moving sharply higher in late trading on Tuesday when the new facility was announced. At 1045 GMT, the ruble was 0.06 percent weaker against the dollar at 38.35 and lost 0.12 percent to trade at 49.69 versus the euro.

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