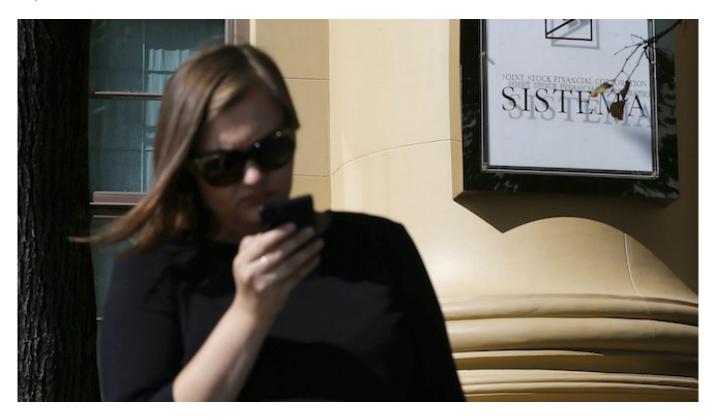


Russia Moves to Take Control of Arrested Tycoon's Oil Firm Bashneft

By The Moscow Times

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A woman passes by the headquarters of Sistema Joint Stock Financial Corporation (JSFC) in Moscow.

Russia moved to wrest control of an oil company from oligarch Vladimir Yevtushenkov on Friday, seizing his conglomerate Sistema's shares in the firm and deepening investors' fears the Kremlin wants to reclaim prized state assets.

A Moscow court ordered the seizure of Sistema's stake in Bashneft a day after a judge refused to release Yevtushenkov, who is under house arrest on suspicion of money laundering during the oil firm's acquisition in 2009.

The case has raised fears among investors that President Vladimir Putin, who favors what is known as "state capitalism", wants to increase intervention in the economy as Russia tries to cope with Western sanctions imposed over the Ukraine crisis.

Although Yevtushenkov has kept out of politics, the case has drawn comparisons with the fate

of Mikhail Khodorkovsky, the former chief executive of the Yukos oil firm who was jailed on fraud and tax evasion charges a decade ago after falling out with Putin.

"They (officials) are telling themselves, to ease their conscience, that they are doing a high-minded thing by returning it to state ownership," Sergei Petrov, an opposition deputy, said this week. "The channel is already known, the method has been tested ... as it was last time with Yukos."

Khodorkovsky was freed last year but Yukos, which was once worth \$40 billion, was broken up and nationalized with most of its assets eventually handed to Rosneft, an energy giant run by a Putin ally.

Sistema acquired an almost 80 percent stake in Bashneft from local authorities in the Ural mountains region of Bashkortostan for \$2.5 billion and the oil producer has since been showing one of the sector's fastest rates of output growth. It is Russia's sixth-largest oil company by production.

The deal is being challenged by the Russian prosecutor general's office, which said it had uncovered "significant violations" of the law and was acting to end the "illegal possession" of Bashneft and restore it to federal ownership.

It said the Moscow arbitration court had granted its request to seize the shares as an interim measure and the court said it would hold a hearing on the lawsuit on Oct. 9.

Shares in both Sistema and Bashneft fell further in early trade on Friday. Moscow-traded shares in Sistema lost almost 18 percent by 0915 GMT, leaving them down more than 50 percent since Yevtushenkov was placed under house arrest. Bashneft's stock price was down around 8 percent.

Russia's problems were also compounded by concerns about frayed relations with Ukraine, with the ruble hitting an all-time low against the dollar at 38.97.

Fears that Russia could demand immediate repayment of a \$3 billion debt owed by Ukraine also hit Kiev, pushing up the cost of insuring some Ukrainian debt to seven-month highs.

Business Concerns

Yevtushenkov, who was 66 on Thursday, never seemed the sort of person likely to become a target of such intrigue. He had no apparent political ambitions of his own, and built up his telecoms-to-oil empire quietly from the 1990s.

Sistema groups 15 business sectors ranging from oil to Detsky Mir, a retailer of toys and children's clothes, and Yevtushenkov became known in the business community for running an efficient, if unwieldy, conglomerate. He was put under house arrest on Sept. 16 and a court ruled on Thursday that this should continue until Nov. 16.

Sistema has been unable to deal in its Bashneft shares since at least July because of a related investigation. It has denied the accusations against Yevtushenkov, though it and Bashneft declined comment on Friday.

Putin has propagated "state capitalism" in his third term as president, which began in 2012, pushing for wider government control over important sectors of the economy such as energy, which contributes about half of federal budget revenues.

Putin's ally Igor Sechin, head of state-controlled Rosneft, increased the state's share in the oil industry to more than 50 percent when the company bought Anglo-Russian firm TNK-BP for \$55 billion last year.

Rosneft has denied it plans to buy Bashneft, despite widespread media reports that it wants to do so.

Yevtushenkov's house arrest shocked the Russian business community and foreign investors, prompting Economy Minister Alexei Ulyukayev to suggest last week it had damaged the business climate and could spur capital flight.

Russian business leaders back Putin over the Ukraine crisis, in which Moscow has annexed the Crimean peninsula and is accused by the West of directly supporting armed pro-Russian separatists in east Ukraine — charges the Kremlin denies.

But many businessmen fret over the direction the economy is taking and regret the country's growing isolation.

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