



Corporate

# governance

report 2013

Selena Oil & Gas Holding AB  
company registration number 556643-6613

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## Introduction

Selena Oil & Gas Holding AB (the "Company" and together with its subsidiaries the "Group") is a company established under the laws of Sweden. The Group consists of the Company and six fully-owned subsidiaries: Selena Oil & Gas AB, registered in Sweden, OOO "Selena-Perm" and OOO "Georesurs", OOO "Selena-Oil", OOO "Pram" and OOO "Prefo", all registered in the Russian Federation.

The Group is engaged in the production and transportation of oil in Perm, Volga-Ural region of the Russian Federation.

The shares of the Company were listed on NASDAQ OMX Nordic First North in Stockholm in May 2011 and, following the decision of NASDAQ OMX's Disciplinary Committee, were removed from trading on NASDAQ OMX Nordic First North on May 9, 2014. Regardless of the removal of the Company's shares from trading the Company will continue to adhere to the requirements applicable to public companies and will continue to conduct its corporate governance in accordance with the Swedish Corporate Governance Code on the basis of "comply or explain principle".

As a general rule, the Company complies with all principles set out in the Swedish Corporate Governance Code. This report outlines the principles of the Swedish Corporate Governance Code not fully observed by the Company and describes the reasons thereof.

This corporate governance report is unaudited.

## Share Capital, Shares and Shareholders

The share capital of the Company is 70,470,630 SEK. The share capital is divided into 52,098,477 ordinary shares (ISIN code SE0001175803) with the quota value of approximately 1.35 SEK.

In compliance with the Articles of Association, at a General Meeting, each and every person entitled to vote may vote for the full number of shares he/she represents with no limitation in the number of votes.

The largest shareholders of the Company as at 31 December 2013 were the following:

Shareholder	Number of Shares	Proportion
Bryum Estonia AS	15,336,062	29.44%
Altare Energy OÜ	14,249,137	27.35%
Yuri Gusev	9,147,756	17.56%
OÜ SEE	6,000,000	11.52%
Paul Waern	1,684,560	3.23%
Estniska Kommittén	420,000	0.81%
Lars Westergren	300,984	0.58%
Others	4,959,978	9.52%
<b>Total</b>	<b>52,098,477</b>	<b>100.00%</b>

## General Meeting

According to the Articles of Association of the Company, the General Meeting of shareholders is the highest decision-making body of the Company. The Company complies with the principles applicable in respect of General Meetings, except for the requirements applicable in respect of the Nomination Committee, which the Company is currently in the process of forming and the circumstances related thereto have been described below in this Report.

In 2013, the Company held altogether three General Meetings – the annual General Meeting of shareholders was held on 31 July 2013 and in addition to the annual General Meeting, the Company held two extraordinary General Meetings on 14 January 2013 and 31 May 2013. All the General Meetings were duly convened and provided each shareholder with the opportunity to participate at the meetings and exercise their voting rights. The meetings were held in Swedish with simultaneous translation into English. The minutes of the General Meetings along with the resolutions adopted were made available to public on the web-page of the Company.

## Nomination Committee

In line with the Swedish Corporate Governance Code, the Company is in the process of forming a Nomination Committee.

The competence of the Nomination Committee includes proposing candidates for the post of Chairman and other members of the Board of Directors and auditor. The Nomination Committee is also competent to propose the terms and conditions of remunerating the members of the Board of Directors and the auditor.

The principles of electing a Nomination Committee and the Instructions for the Nomination Committee were put in place with the relevant resolution of the extraordinary General Meeting held on 19 September 2011. According to the resolution, the Nomination Committee consists of the representatives of the three largest shareholders based on Euroclear Sweden AB's (owner grouped) list of registered shareholders.

The Company does not fully comply with Section 2.1 of the Swedish Corporate Governance Code as the Nomination Committee has not yet been formed; nevertheless, the General Meeting of the Company has put in place the procedure of forming the Nomination Committee and established instructions for the Nomination Committee. The Company is currently in the process of forming the Nomination Committee. The Company has not yet managed to form the Nomination Committee due to the disputes that were going on between the Company's major shareholders in the course of the 2013 financial year with the Company's management being mainly preoccupied with the achieving of settlement between the shareholders and leading the Company back to its normal course of business. As the settlement reached between the shareholders in mid-2013 resulted also in the changes in the composition of the Company's management bodies (Board of Directors, CEO) the Company postponed the formation of the Nomination Committee until the final settlement of all disputes.

## Board of Directors

According to the Articles of Association of the Company, the Board of Directors consists of not less than three and not more than six members. The members are elected annually on the annual General Meeting for the time up until the next annual General Meeting.

Currently, the Board of Directors consists of six members. The directors represent competences and management experience from the oil and gas business perspective, investment banking and best practice organization development and corporate governance. Three directors are independent in relation to the Company and its major shareholders. The following composition of the Board of directors was elected by the extraordinary General Meeting held on 31 May 2013 and reapproved by the annual General Meeting held on 31 July 2013:

### **Lars Bergström**, *Chairman of the Board of Directors*

Mr. Lars Bergström has more than 20 years of experience working in Russia. After his studies at the Stockholm School of Economics, he joined the Swedish Ministry of Foreign Affairs where he served as a Vice Consul in Leningrad in 1991 and as First Secretary in Stockholm 1992-93. In 1993, he was recruited by Harvard University to act as advisor to the Government of Russia. In 1995 he established the Russian investment banking operations of the Dutch bank ABN Amro, and acted as its CEO until 1999 when he joined Swedish bank SEB Enskilda to establish and manage its Russian operations. In 2006, he joined Carnegie Investment Bank in Stockholm, to manage its Russia/CIS related business. Mr Lars Bergström is also in his capacity as Board Member of the Swedish Chamber of Commerce for Russia and CIS, actively involved in promoting and facilitating trade and investments between Scandinavia and Russia.

### **Jürgen Lamp**, *member of the Board of Directors*

Mr. Lamp (born in 1971) is an Estonian national, and holds M.Sc. in Economics. His early work experience includes KPMG Estonia and McKinsey's Scandinavian office. In 1996 Mr. Lamp was invited to join the Management Team of the Union Bank of Estonia. Mr. Lamp started there as a Marketing Director moving on to become Head of Strategy and Organization in 1998 and Head of Asset Management, Life Insurance and Private Banking in 2000. He had a key role in modernizing the bank and developing it into the 2nd largest bank in the Baltics after Hansabank. In 2002 Union Bank of Estonia was sold to one of the largest Swedish banking groups SEB.

### **Indrek Rahumaa**, *member of the Board of Directors*

Mr. Rahumaa (born in 1972) is an Estonian national. In 1995 Mr. Rahumaa graduated from the Stockholm School of Economics. Mr. Rahumaa was a founding member and a partner of Baltic Cresco Investment Group AS, a founding member of Tallinn Stock Exchange and served as the CFO for the Estonian national air carrier Estonian Air. Mr. Rahumaa is the managing partner and chairman of the board of Alta Capital Partners, a Baltic and CEE investment group. For seven years, Mr. Rahumaa has served as a member of the Listing

Committee of the OMX Tallinn Stock Exchange and has served on the boards of Mieszko and Silvano Fashion Group, companies listed on Tallinn and Warsaw stock exchanges.

### **Per Olof Sjöstedt**, *member of the Board of Directors, member independent from the management and major shareholders*

Per Olof Sjöstedt (born 1953) is an experienced corporate manager. Mr Sjöstedt graduated from the Royal Institute of Technology (Stockholm) with a Master's degree in electrical engineering and Stockholm University with a Bachelor's degree in Politics and Russian language. Mr Sjöstedt joined Ericsson Group in 1978 where he worked for 16 years (last position was the president of Ericsson Russia) before he started to lead Emerson Electric (Moscow) in 2002 as the general director. In 2005 Mr Sjöstedt joined TeliaSonera where he held the position of VP of Russian operations and in 2005 he was also elected as the board member of ZAO Megafon (Moscow). In 2008 Mr Sjöstedt continued to work as the Strategy Director at ZAO MegaFon (Moscow).

### **Staffan Torstensson**, *member of the Board of Directors, member independent from the management and major shareholders*

Mr. Torstensson was born in 1972 and he is a Swedish national. Mr. Torstensson graduated from the Jönköping Business School with a Master's degree in economy. Mr. Torstensson currently is the Partner of ECM Evli Bank plc. He has more than 13 years of experience in investment banking. Mr. Torstensson is a member of the Boards of Formpipe Software AB (publ).

### **Paul Waern**, *member of the Board of Directors, member independent from the management and major shareholders*

Mr. Paul Waern (born 1950, MSC in Mining) is an experienced oil and gas engineer. Mr. Waern has served more than 30 years in the international oil and gas industry. Engagement of Mr. Waern as an investor in Selena adds significant industry expertise to the Company. Mr. Waern works as a technical advisor to the Company, focusing on increasing the production and evaluating new acquisition prospects.

## Management

### **Magnus Stuart**, *CEO*

Mr. Magnus Stuart (born 1954, MSC in Metallurgy and – MBA of Stockholm School of Economics) is an experienced corporate governor. His early work experience includes international management positions in Scania Group, Swedish Match and as manager and management consultant in Indevo. In 1997 Mr. Stuart was invited to join Investment AB Öresund as CEO of Ven Capital AB with focus on VC investments. Between 2000-2002 he led a subsidiary of AB Custos with focus on VC investments. From 2004 and onwards Mr Stuart operates as an independent financial advisor, turn-around CEO and investor. He has served as advisor to Baltic Sea Foundation since 2004. Between 2008 and 2012, Mr Stuart served as CEO of Ginger Oil AB, a junior upstream oil & gas company with operations in USA. Mr Stuart serves as executive board member to

LightLab Sweden AB, listed on OMX/First North, and as board member of Ginger Oil AB listed on NGM-Equity.

### **Baiba Gegere-Paegle, CFO**

Ms. Baiba Gegere-Paegle (born 1981) joined the Group's management team as the Chief Financial Officer in April 2011. Ms. Gegere-Paegle is a Latvian resident and holds a degree from Vidzeme University, and is ACCA certified. She started her career and spent 4 years with KPMG Baltics, then gained experience from Lattelecom and Alta Capital Partners to become the Chief Financial Officer of Silvano Fashion Group, a company with operations in Belarus and Russia, listed on OMX NASDAQ Tallinn and the Warsaw Stock Exchange.

### **Petr Arbatov, Head of Business Development / Technical**

Mr. Arbatov (born 1977) is a Russian national. He has a degree in Geology and PhD in Economics from the Russian State University of Oil and Gas and more than 8 year of work experience. His job experience includes a position of leading engineer in scientific production center JSV RITEK and a Senior Manager – M&A, Strategy and business development at JSC TNK-BP. Furthermore, Mr. Arbatov worked as a General Director of one of the TNK-BP subsidiaries and held a Head of Research position at Gazprom VNIIGAZ. Therefore, Mr. Arbatov has a unique combination of technical, analytical, strategic and operational skills gained from leading Russian oil and gas companies.

### **Auditor**

PricewaterhouseCoopers AB (Sweden) is the Company's auditor. The auditor in charge is the authorized public accountant **Martin Johansson**.

### **Activities of the Board of Directors in 2013**

The Board of Directors in its current composition was elected by the extraordinary General Meeting held on 31 May 2013 and reapproved by the annual General Meeting held on 31 July 2013

The Rules of Procedure of the Board of Directors were approved by the meeting of the Board of Directors held on 24 August 2011. In addition to the Rules of Procedure of the Board of Directors, the Board of Directors approved also the Work Instructions for the Managing Director (CEO), the Group Approval Policy, the Instructions for the Nomination Committee, the Instructions for the Remuneration Committee and the Instructions for the Audit Committee. The referred instructions were put in place in order to apply the corporate governance rules and best practices in the maximum possible extent and the Board of Directors is of the opinion that the Company has put in place an adequate framework for the internal control procedure (including risk management and financial reporting).

According to the Rules of Procedure of the Board of Directors, the Board of Directors must hold at least four meetings during each financial year. The meetings must be attended by all the members of the Board of Directors either personally or via telephone. In 2013, the

Board of Directors held altogether 14 meetings.

### **Board Committees**

As referred to above, the Board of Directors has put in place the Instructions for the Remuneration Committee and the Instructions for the Audit Committee. At the same meeting of the Board of Directors held on 24 August 2011, members of the Remuneration Committee and Audit Committee were elected.

According to the Instructions for the Remuneration Committee, the Remuneration Committee comprises of not fewer than two members of the Board of Directors as appointed by the Board of Directors. The main task of the Remuneration Committee is to prepare matters of remuneration and other employment terms for the top management of the Company and monitor and evaluate the activities of the top management of the Company.

According to the Instructions for the Audit Committee, the Audit Committee comprises of not fewer than three members of the Board of Directors as appointed by the Board of Directors. The main task of the Audit Committee is to monitor the financial reporting process, the efficiency of the Company's internal controls, internal audits and risk management and to supervise the auditing procedure.

The members of the Remuneration Committee and of the Audit Committee were not re-elected and the committees were not active in 2013 due to the controversies between the major shareholders of the Company mentioned above. As of now all disputes have been settled and the Company plans to resume the work of the Remuneration Committee and of the Audit Committee in 2014.

### **Internal Control over Financial Reporting**

The Company complies with all the requirements arising from law and the Swedish Corporate Governance Code in respect of establishing internal control over financial reporting. On the Group level, the Company applies the International Financial Reporting Standards as adopted by the European Union.

In order to ensure effective internal control over the financial reporting procedures of the Company (and the Group), the Board of Directors has appointed the Audit Committee to supervise the process.

Public reporting is conducted in accordance with the NASDAQ OMX Rulebook.

### **Breach of Stock Exchange Rules**

On 7 March 2014 the NASDAQ OMX Stockholm's Disciplinary Committee decided that the Company is to be delisted from First North Premier due to the failure of the Company to meet certain disclosure requirements under the stock exchange rules. The decision of the Disciplinary Committee was made following the investigation of events that had taken place in the Company during 2012 and 2013.

In accordance with the decision of the NASDAQ OMX Stockholm's Disciplinary Committee the Company was delisted and the

Company's shares were removed from trading on NASDAQ OMX Nordic First North on 9 May 2014.

The reason for the shortcomings that have served as the basis for the decision of the Disciplinary Committee and the delisting have been caused by the long period of inaction and lack of clear and common corporate strategy that the Company had gone through in 2012 and 2013. Disputes between the previous larger shareholders and creditors have been the main reasons for the Company's inability to develop its core business and have distracted the previous management from fully complying with the stock exchange disclosure requirements.

Today, however, when the settlement between the former major shareholders has been reached, the Company finds itself in a position to return to the running of its core business at the highest corporate governance standards.

It is Company's objective to seek approval for the Company's shares to be traded publicly as soon as possible. Therefore, the Board of Directors has already initiated activities for identifying opportunities for continuing the trading of the Company's shares at an attractive public exchange.

During the period when the Company's shares will not be publicly traded, Selena Oil & Gas Holding AB will be governed in compliance with the regulations established for listed companies and will continue adhering to the strict requirements for insider trading and provision of public information. The Company will continue to publish all its press releases through NG News. Selena Oil & Gas Holding AB is also considering arranging for an unofficial listing until the company's shares are officially listed again.