



Corporate

# governance

report 2012

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

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## Introduction

Selena Oil & Gas Holding AB (publ) (the “**Company**” and together with its subsidiaries the “**Group**”) is a public company established under the laws of Sweden. The Group consists of the Company and seven subsidiaries: Selena Oil & Gas AB, registered in Sweden, OOO “Selena-Perm” and OOO “Georesurs”, OOO “KRT-OilGas Trans”, OOO “Borei”, OOO “Praim” and OOO “Prefo”, all registered in the Russian Federation. The ownership of OOO “Selena-Perm” is subject to disputes as disclosed by the Company.

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

The shares of the Company were listed on NASDAQ OMX Nordic First North in Stockholm in May 2011 and therefore the conduct of corporate governance of the Company is subject to the Swedish Corporate Governance Code, which is binding in respect of publicly traded companies 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

As of 31 December 2012 the share capital of the Company was 70,470,630 SEK. The share capital is divided into 52,098,477 ordinary shares with the quota value of 1,352,649 SEK. The short name of the shares traded on NASDAQ OMX First North is SOGH and the ISIN code is SE0001175803.

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 shareholders holding over 5% of the shares of the Company as at 31 December 2012 were the following:

Shareholder	Number of Shares	Proportion
Popova	11,990,775	23.02%
Oleg Popov	11,990,526	23.02%
Elena Popova	10,072,251	19.33%
KRT Invest	7,851,808	15.07%
Bryum Estonia	2,875,859	5.52%
Altare Energy	2,509,137	4.82%
Yuri Gusev	1,295,948	2.49%
Others	3,512,173	6.73%
<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 has not formed.

In 2012, the Company held one General Meeting - the annual General Meeting of shareholders was held on 28 June 2012. The General Meeting was duly convened and provided each shareholder with the opportunity to participate at the meeting and exercise their voting rights. The meeting was held in Swedish with simultaneous translation into English. The minutes of the General Meeting along with the resolutions adopted was made available to public on the web-page of the Company.

### *Deviation from the Code*

The Company does not fully comply with Section 2.1 of the Swedish Corporate Governance Code as the Nomination Committee has not been formed; the General Meeting of the Company held on 19 September 2011 has put in place the procedure of forming the Nomination Committee and established instructions for the Nomination Committee. 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 has not yet formed the Nomination Committee due to changes in the shareholder structure of the Company and the disputes among the major shareholders. The Company intends to form the Nomination Committee in the near future.

## 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 the management. The extraordinary General Meeting held on 31 May 2013 approved the following composition of the Board of directors:

### **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 2009 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.

**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 the 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.

**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 studied economics and 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. The addition of Mr. Waern as an investor in Selena will add significant industry expertise to the Company. Mr. Waern will be working as a technical advisor to the Company, focusing on increasing the production and evaluating new acquisition prospects.

**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.

**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).

### 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 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 OMXNASDAQ 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 had a management position in 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

**Martin Johansson** (PricewaterhouseCooper Sweden) is elected auditor of the Company.

### Activities of the Board of Directors in 2012

The Board of Directors in its current composition was elected by the relevant resolution of the Extraordinary General Meeting held on 31 May 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 2012, the Board of Directors held more than the required number of meeting (including numerous meetings by means of telecommunication).

In 2012, the Board of Directors has complied with the tasks set forth by the Swedish Corporate Governance Code and while performing its duties followed the principles set forth in the Swedish Corporate Governance Code.

### 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, Indrek Rahumaa and Staffan Torstensson were elected to be the members of the Remuneration Committee and Indrek Rahumaa, Staffan Torstensson and Karl Bleschert were elected to be the members of Audit Committee. In connection with the changes of the composition of the Board of Directors over the course of 2012 and the most recent changes in May 2013, the committee membership will change in 2013.

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.

### 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 (IFRS).

The requirements of the laws and accounting and reporting regulations in Russia where the Group's subsidiaries are incorporated, have strict processes and control activities. Statutory reporting is performed on a quarterly basis and is the basis for the Group's management and IFRS reporting. The Group's financing reporting department receives the financial information from the subsidiaries and manages the reporting process to ensure the completeness and correctness of the financial reporting and its compliance with the requirements of IFRS.

The risk of material misstatement in financial reporting relates to the recognition and measurement of assets, liabilities, revenue and cost, or insufficient disclosure. Other risks include fraud or loss or embezzlement of assets. The fraud risk is assessed by the auditors and is required to be reported to the Audit Committee; none were reported in 2012.

In order to ensure effective internal control over the financial reporting there are specific procedures of the Company (and the Group) designed. The Group's policies and review procedures regarding accounting and financial reporting cover material areas to support correct, complete and timely accounting reporting and disclosure. Identified risks are generally mitigated through monitoring and review procedures and segregation of duties. The Board of Directors has appointed the Audit Committee to supervise the process; furthermore, external audit process is completed twice a year.

Public reporting is conducted in accordance with the NASDAQ OMX Rulebook applicable in respect of the Company.

### **Effect of Recent and Pending Disputes**

The Company has been engaged in or affected by several disputes involving the Company and its major shareholders over the course of 2012, continuing to an extent in 2013. This report is therefore subject to the notices published by the Company regarding such disputes and the information contained herein may be affected by such matters of which the Company is not fully aware. In particular, as of the time of this report, the composition of the Board of Directors is materially different from its composition over the majority of 2012. For practical reasons, the Company's current management is unable to comment with full certainty on the actions undertaken by the Board of Directors in its previous composition. The Company is hopeful that any uncertainties in its management practices will be gradually removed over the course of 2013 based on the settlement achieved between the Company and its major shareholders and approved by the 31 May 2013 shareholders' meeting.