



# PETROGRAND

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Press release from Petrogrand AB (publ)

21 March 2014

## **PETROGRAND AB (PUBL) ANNOUNCES A PUBLIC CASH OFFER TO THE OWNERS OF SHARES, CONVERTIBLE BONDS AND WARRANTS IN SHELTON PETROLEUM AB (PUBL)**

Petrogrand AB (publ) ("Petrogrand") hereby announces a public cash offer to acquire all shares of series-A ("A-share") at a price of SEK 18.6 in cash per share, all shares of series-B ("B-share") at a price of SEK 18.6 in cash per share (jointly referred to as the "Shares"), all convertible bonds of series 2013/2014 at a price of SEK 17.5<sup>1</sup>, and accrued interest, per convertible bond (the "Bonds") and all warrants at a price of SEK 3 per warrant (the "Warrants") in Shelton Petroleum AB (publ) ("Shelton") (the "Offer"). The B-shares in Shelton are listed on NASDAQ OMX Stockholm ("NASDAQ OMX") Small Cap.

### **The Offer in brief**

- Petrogrand offers SEK 18.6 in cash per every A-share, SEK 18.6 in cash per every B-share, SEK 17.5 in cash, and accrued interest, per every Bond and SEK 3 in cash per every Warrant in Shelton.<sup>2</sup> Petrogrand reserves the right to restate compensation per A-share, B-share, Bond and Warrant in the event that the number of outstanding Shares, Bonds and / or Warrants would be subject to change until the end of the acceptance period.
- The Offer represents a premium of 0 percent to the closing price of the B-shares of Shelton on NASDAQ OMX on 20 March 2014 of SEK 18.6. The Offer represents a premium of -33.0 percent to the volume-weighted average trading price for the B-shares in Shelton on NASDAQ OMX over the last 90 calendar days to the closing price for the B-shares on 20 March 2014, the last calendar day before the announcement of the Offer.
- Petrogrand is one of the largest shareholders in Shelton with approximately 9.0 percent of the share capital and approximately 8.3 percent of the voting rights in Shelton.
- The completion of the Offer is conditional upon that an independent due diligence of Shelton is completed and that the Offer is accepted to such extent that Petrogrand becomes the owner of shares representing more than 50 percent of the total number of outstanding shares in Shelton.
- An offer document regarding the Offer is expected to be made public around 4 April 2014. The acceptance period is expected to commence on 7 April 2014 and end on 25 April 2014. Settlement is expected to commence on 7 May 2014.
- Petrogrand has chosen to announce the Offer without prior contacts with the Board of Directors of Shelton. Petrogrand believes this procedure to be the most appropriate way to safeguard an independent assessment and statement by the Board of Directors of Shelton in the best interest of all shareholders.

<sup>1</sup> The price of the Bonds include the nominal amount and the full remaining time value.

<sup>2</sup> Based on 170 580 A-shares, 14 892 530 B-shares, 1 400 625 Bonds and 320 000 Warrants

## **Background and reasons for the offer**

During the spring of 2013, Shelton and Petrogrand began discussions regarding a possible cooperation which essentially meant that Petrogrand's cash and cash equivalents would be used to make investments in some of Shelton's assets, including investments related to Shelton's Russian oil license in Bashkiria and the Ukrainian Lelyaki-field. On 14 June 2013 an agreement was reached on cooperation, and as part of the cooperation agreement (the "Cooperation Agreement") two convertible loans were issued to Petrogrand on a total amount of SEK 215 million. Both parties agreed that the Cooperation Agreement had great potential both from an industrial and financial perspective.

The first investment funded under the Cooperation Agreement gave very good results, which was also reflected in the increase of Shelton's market value. Thanks to the fruitful collaboration, Petrogrand chose to convert the first convertible loan in October 2013. It was through this first conversion that Petrogrand became Shelton's largest shareholder.

Petrogrand's intention was to also convert the second convertible loan for further investments in accordance with the Cooperation Agreement. However, Shelton's Board objected to this, which led to a disagreement between the parties. When the parties were not able to agree, the Cooperation Agreement was put to an end in early 2014, the repayment of the second convertible loan was settled and the Board of Petrogrand chose not to pursue any further efforts to carry out the conversion.

Petrogrand is one of the largest shareholders in Shelton and believes that there is an industrial and a financial rationale behind the Offer. It is Petrogrand's view that Petrogrand, through its strong financial position and employee competence can help in the realization of Shelton's license portfolio and that the company's extensive network in Russia and the Ukraine will facilitate the expansion possibilities for Petrogrand and Shelton as a combined company.

The Offer also ensures Petrogrand's continued expansion in the Russian market, particularly in the possibilities to realize the agreement with Gazprom Neft.

Petrogrand understands the business Shelton engages in is risky. Petrogrand now presents an Offer that gives the shareholders of Shelton an opportunity to sell at a price that Petrogrand deems favorable, which is not always possible in the market due to limited share liquidity.

In determining the offer price Petrogrand has taken into account a number of factors that are considered relevant. These factors include Shelton's current position, its future possibilities to realize value and the risks associated therewith.

Petrogrand has noted that the offer is on par with the current market price but believes that this level must be seen in light of a number of other factors. In the fall 2013 Petrogrand converted convertible 1 at a valuation of Shelton (based on all A-shares and B-shares) of SEK 243 million, calculated after the capital injection from the conversion of convertible 1. The Offer today is made at a valuation of SEK 308 million (based on all A-shares and B-shares), which is a premium of approximately 17 percent to the value Petrogrand converted to in the fall 2013. This valuation is also strengthened by the independent valuation of Shelton and the Fairness Opinion by ABG Sundal Collier made in connection with the recommendation that the Board of Petrogrand issued regarding the offer from Shelton.

In light of these considerations, Petrogrand believes the terms and conditions of Petrogrand's Offer to be fair and reasonable and that the Offer represents an opportunity for all of Shelton's shareholders to liquidate their investments at a fair price that accurately reflects Shelton's prospects.

### *Shelton's bid on Petrogrand*

On 22 January 2014 Shelton made a public offer to the shareholders of Petrogrand to acquire all outstanding shares of Petrogrand. The Board of Petrogrand recommended that the shareholders of Petrogrand do not accept Shelton's offer. The recommendation was made primarily on the basis of some uncertainties, which are further described in the Board's statement. The offer from Shelton has been increased twice and the Board of Petrogrand has continuously recommended their shareholders not to accept the offer.

When Shelton completed the public offer to the shareholders of Petrogrand on 14 March 2014, the offer had been accepted by 12.5 percent of the shareholders in Petrogrand. Further, according to Shelton, a group of investors

who represent 12.5 percent of the shares in Petrogrand, including Metroland, have undertaken to accept the Offer. In total, therefore, approximately 25 percent of the shareholders in Petrogrand accepted or have undertaken to accept the offer. With respect of the above mentioned industrial and financial motives, and considering the low acceptance level in Shelton's public offer to the shareholders of Petrogrand, it is Petrogrand's view that the Offer represents an opportunity for owners of Shares, Bonds and Warrants in Shelton to receive a cash payment as well as an opportunity for Petrogrand and Shelton for the future realization of the synergies that both parties have identified.

## **The Offer**

### *Compensation*

Petrogrand offers SEK 18.6 in cash per A-share, SEK 18.6 in cash per B-share, SEK 17.5 in cash, which includes the nominal amount and the full remaining time value, as well as compensation for not included accrued interest, per Bond in Shelton and SEK 3 in cash per Warrant. The total value of the Offer, based on the total amount of Shares, Warrants and Bonds, amounts to approximately SEK 306 million.<sup>3</sup>

### *Premium*

The Offer represents a premium of 0 percent to the closing price of 18.6 for the B-share in Shelton on NASDAQ OMX on the day prior of the announcement of the Offer on 20 March. The Offer represents a premium of -33.0 percent to the volume-weighted average trading price for the B-shares in Shelton on NASDAQ OMX over the last 90 calendar days to the closing price for the B-shares on 20 March 2014, the last calendar day before the announcement of the Offer.

No commission will be charged in connection with the Offer.

### *Total value of the Offer*

The total value of the Offer, based on the 170 580 A-shares, 14 892 530 B-shares, 1 400 625 Bonds and 320 000 Warrants that are not, directly or indirectly, controlled by Petrogrand, amounts to approximately SEK 306 million.

## **Terms and Conditions of the Offer**

Completion of the Offer is conditional upon:

- i. the Offer being accepted to such an extent that Petrogrand becomes the owner of shares representing more than 50 percent of the outstanding shares in Shelton on a fully diluted basis;
- ii. no other party announcing an offer to acquire shares in Shelton on terms that are more favorable to the shareholders of Shelton than the Offer;
- iii. all regulatory, governmental or similar clearances, approvals and decisions necessary to complete the Offer, including approvals and clearances from competition authorities, being obtained, in each case on terms which, in Petrogrand's opinion, are acceptable;
- iv. neither the Offer nor the acquisition of Shelton being rendered partially or wholly impossible or significantly impeded as a result of legislation or other regulation, any decision of court or public authority, or any similar circumstance, which is actual or can reasonably be anticipated, and which Petrogrand could not reasonably have foreseen at the time of announcement of the Offer;
- v. no information made public by Shelton or disclosed by Shelton to Petrogrand being inaccurate, incomplete or misleading in any material respects, and Shelton having made public all information which should have been made public;
- vi. no circumstances, which Petrogrand did not have knowledge of at the time of announcement of the Offer, having occurred that have or can be expected to have a material adverse effect upon the

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<sup>3</sup> Based on the 170 580 A-shares, 14 892 530 B-shares, Bonds to an issued amount of SEK 22 410 000 and 320 000 Warrants that are not directly or indirectly controlled by Petrogrand.

company's sales, results, liquidity, equity or assets; and

vii. Shelton not taking any measures that is liable to impair the prerequisites for making or implementing the Offer. Petrogrand reserves the right to withdraw the Offer in the event that it is clear that any of the above conditions is not satisfied or cannot be satisfied.

viii. the total number of share in Shelton amounts to a maximum of 16 535 110.

However, with regard to conditions ii-viii, the Offer may only be withdrawn provided that the non-satisfaction of such condition is of material importance to Petrogrand's acquisition of Shelton. Petrogrand reserves the right to waive, in whole or in part, one, several or all of the conditions set out above, including, with respect to condition (i), to complete the Offer at a lower level of acceptance.

## **Financing of the Offer**

Petrogrand is not dependent on external financing for the Offer. The Offer will be financed with Petrogrand's available funds. Accordingly, the completion of the Offer is not conditional upon any financing being obtained.

## **Statement from Shelton's Board of Directors concerning the Offer**

Petrogrand has chosen to publish the Offer without prior contacts with Shelton's Board of Directors. Petrogrand believes that this approach is the most appropriate in order to ensure an independent evaluation and an independent statement from Petrogrand's Board of Directors in the interest of all shareholders. Shelton's Board of Directors, in accordance with the Takeover Rules (as defined below), must make public Shelton's statement regarding the Offer no later than two weeks before the expiration of the acceptance period.

## **Petrogrand's shareholding in Shelton**

Petrogrand owns and controls, at the time of the announcement of the Offer, 1 500 000 B-shares in Shelton. Petrogrand may during the acceptance period acquire, or enter into arrangements to acquire, additional shares and/or convertible bonds in Shelton in accordance with applicable laws and regulations.

## **Indicative time schedule<sup>4</sup>**

Publication of the offer document	4 April 2014
Acceptance period	7 April 2014 - 25 April 2014
Settlement	7 May 2014

Petrogrand reserves the right to extend the acceptance period and to postpone the date of settlement.

## **Mandatory redemption and delisting**

As soon as possible after Petrogrand has acquired shares representing more than 90 percent of the shares in Shelton, Petrogrand considers to initiate compulsory acquisition of the remaining Shares, Warrants and Bonds. In connection herewith, Petrogrand will act to delist Shelton's shares from NASDAQ OMX.

## **Applicable law and disputes**

Swedish law applies to the Offer. The Offer is subject to NASDAQ OMX's rules concerning public takeover offers on the stock market (the "Takeover Rules") and the Securities Council's rulings regarding interpretation and application of the Takeover Rules and, where appropriate, the Securities Council's former rulings regarding interpretation and application of Näringslivets Börskommitté's rules on public offerings. Petrogrand has on 19 March 2014, in accordance with the act on public takeover offers on the stock market, undertaken towards NASDAQ OMX to comply with the Takeover Rules, the Securities Council's rulings regarding interpretation and application of the Takeover Rules and, where appropriate, the Securities Council's former rulings regarding

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<sup>4</sup> All dates are preliminary and subject to change.

interpretation and application of Näringslivets Börskommitté's rules on public offers, and to submit to any sanctions imposed by NASDAQ OMX upon breach of the Takeover Rules. Petrogrand informed the Swedish Financial Supervisory Authority of the Offer and the above undertaking on 19 March 2014. Any dispute arising in connection with the Offer shall be settled exclusively by Swedish court, initially with the Stockholm City General Court.

### **Securities Council's statement 2014:11**

The Securities Council's statement 2014:11 stated that the Offer is not a takeover defense measure that Petrogrand is prevented from executing pursuant to section II.21 of the Swedish Corporate Governance Board's (Kollegiet för svensk bolagsstyrning) rules on public offers for shares in Swedish limited liability companies, whose shares are traded on certain multilateral trading facilities, could be unlawful if taken at an earlier time.

### **Advisors**

Petrogrand has in connection with the Offer contracted Mangold Fondkommission as financial advisor and Baker & McKenzie KB and Calissendorff & Co. Attorneys KB as legal advisors.

Stockholm 21 March 2014

Petrogrand AB (publ)

The Board of Directors

This information was submitted for publication on 21 March 2014, 4:05 pm.

### **For further information, please contact:**

Maks Grinfeld, CEO, Phone +46-8-5000 78 10

### **Petrogrand in brief**

Petrogrand's predominant business concept is the operation of oil production through the acquisition of Russian oil companies and oil licenses. This concept is also intended to include the management and refining of Russian oil assets and, when circumstances are deemed to be favorable, the sale of assets and licenses which have been developed and improved. Work on identifying projects for possible investments in target companies or licenses is done in collaboration with our network of Russian contacts, such as investment banks and government organizations. The objective is to become one of Sweden's leading oil companies in the Russian market by means of investments in the Russian oil sector. Petrogrand's shares are traded on NASDAQ OMX First North under the name PETRO.

### **Shelton in brief**

Shelton Petroleum is a Swedish company focused on exploring and developing concessions in Russia and the resource-rich basins of Ukraine. The company holds three licenses in the Volga-Urals area and has commenced production on the Rustamovskoye field after a successful exploration program. In Ukraine, Shelton Petroleum's wholly-owned subsidiary has a joint venture with Ukrnafta (through Zhoda 2001 Corp) and Chornomornaftogaz, two leading Ukrainian oil and gas companies. The Shelton Petroleum share is traded on the NASDAQ OMX Main Market under the under the symbol SHEL B.

### **Important Notice**

The Offer is not being made to persons whose participation in the Offer requires that any additional offer document is prepared or registration effected or that any other measures are taken in addition to those required under Swedish law. This press release and any documentation relating to the Offer are not being published in or

distributed to or into and must not be mailed or otherwise distributed or sent in or into any country in which the distribution or offering would require any such additional measures to be taken or would be in conflict with any law or regulation in such country. Any such action will not be permitted or sanctioned by Petrogrand. Any purported acceptance of the Offer resulting directly or indirectly from a violation of these restrictions may be disregarded.

The offer is not being made, directly or indirectly, in or into Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or the United States of America by use of mail or any other means or instrumentality (including, without limitation, facsimile transmission, electronic mail, telex, telephone and the Internet) of interstate or foreign commerce, or of any facility of national security exchange, of Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or the United States of America., and the Offer cannot be accepted by any such use, means, instrumentality or facility of, or from within, Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or the United States of America. Accordingly, this press release and any documentation relating to the Offer are not being and should not be sent, mailed or otherwise distributed or forwarded in or into Australia, Canada, Hong Kong, Japan, New Zealand or South Africa or the United States of America.

Petrogrand will not deliver any consideration under the Offer into Australia, Canada, Hong Kong, Japan, New Zealand or South Africa or the United States of America. This press release is not being, and must not be, sent to shareholders with registered addresses in Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or the United States of America. Banks, brokers, dealers and other nominees holding shares for persons in Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or the United States of America must not forward this press release or any other document received in connection with the Offer to such persons. This press release has been published in Swedish and English. In the event of any discrepancy between the language versions, the Swedish version shall prevail.

**Reasonable caution notice:** The statement and assumptions made in the company's information regarding Petrogrand AB's ("Petrogrand") current plans, prognoses, strategies, concepts and other statements that are not historical facts are estimations or "forward looking statements" concerning Petrogrand's future activities. Such future estimations comprise but are not limited to statements that include words such as "may occur", "concerning", "plans", "expects", "estimates", "believes", "evaluates", "prognosticates" or similar expressions. Such expressions reflect the management of Petrogrand's expectations and assumptions made on the basis of information available at that time.

These statements and assumptions are subject to a large number of risks and uncertainties. These, in their turn, comprise but are not limited to I) changes in the financial, legal and political environment of the countries in which Petrogrand conducts business, II) changes in the available geological information concerning the company's projects in operation, III) Petrogrand's capacity to continuously guarantee sufficient financing to perform their activities as a "going concern", IV) the success of all participants in the group, or of the various interested companies, joint ventures or secondary alliances, V) changes in currency exchange rates, in particular those relating to the RUB/USD rate. Due to the background of the many risks and uncertainties that exist for any oil-prospecting venture and oil production company in its initial stage, Petrogrand's actual future development may significantly deviate from that indicated in the company's informative statements.