



TETHYS OIL

Corporate governance report
2013

Corporate governance report

Corporate governance practices refer to the decision-making systems through which owners, directly or indirectly, control a company. Tethys Oil AB is a publicly traded company listed on NASDAQ OMX Stockholm, Mid Cap. Tethys Oil adheres to the Swedish Code of Corporate Governance ("the Code"). The code is published on www.bolagstyrning.se, where a description of the Swedish Corporate Governance model can be found. This Corporate Governance Report 2013 is submitted in accordance with the Swedish Annual Accounts Act and the Code. It explains how Tethys Oil has conducted its corporate governance activities during 2013. Tethys Oil does not report any deviations from the code. The report has been reviewed by the company's auditors, please see page 35.

External and internal framework for governance in Tethys Oil

External:

Swedish Companies Act

Accounting legislation (eg Swedish accounting act, Swedish Annual Accounts Act and IFRS)

NASDAQ OMX Stockholm's rule book for issuers

Swedish Code of Corporate Governance

Internal:

Articles of Association

Board instructions, Rules of procedures

Polices such as Administration Policy, Hedging Policy, Information Policy, CSR Policy etc

Shareholders

Tethys Oil's shares have been traded on the NASDAQ OMX Stockholm since 2 May 2013. Previously the share was traded on NASDAQ OMX First North since 2004. At year end 2013 the share capital amounted to MSEK 5,924, represented by 35,543,750 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2013, the number of shareholders was 3,958 (2,655). Of the total number of shares, foreign shareholders accounted for approximately 56 per cent, approximately 79 per cent of the total shares were owned by legal entities, approximately 21 per cent by private indi-

viduals. For further information on share, share capital development and shareholders, see page 37 and Tethys Oil's website.

Annual General Meeting

The Annual General Meeting (AGM) must be held within six months of the close of the fiscal year. All shareholders who are listed in the share registry on the record date, and who have notified the company of their participation in due time, are entitled to participate in the AGM. The AGM was held in Stockholm on 22 May 2013. The AGM was attended by about 70 shareholders, representing about 34 per cent of the votes and share capital in the company. The resolutions passed by the meeting included the following:

- Adoption of the income statements and balance sheets for 2012 and discharge of liability for the Board of Directors and the President.
- Reelection of Vincent Hamilton, Magnus Nordin, Jan Risberg, Katherine Støvring and Staffan Knafve, and election of Per Brilioth as new member. Vincent Hamilton was elected Chairman of the Board. Håkan Ehrenblad and John Hoey left the board.
- The Chairman will be paid a fee of SEK 450,000 and each AGM-elected member not employed by the company will be paid SEK 175,000. The Chairman of the Audit Committee will be paid SEK 50,000 and each of the Committee's members will be paid SEK 25,000. The members of the Remuneration Committee will be paid SEK 25,000. The total fees for Committee work, including Committee Chairmen fees shall not exceed SEK 225,000.
- Auditors will be paid as invoices are approved.
- Principles of remuneration to senior executives.
- Rules for the appointment and work of the Nomination Committee.
- Authorization for the Board to resolve to issue new shares with consideration in cash and/or with consideration in kind or by set-off, to enable the company to make business acquisitions and to raise capital for the Company's business operations.

The minutes recorded at the Annual General Meeting can be found at Tethys Oil's website.

Nomination process

In accordance with the Nomination Committee Process approved by the 2013 AGM, the Nomination Committee for the 2014 AGM consists of members appointed by four of the larger shareholders of the Company based on shareholdings as per 30 June 2013. The names of the members of the Nomination Committee were announced and posted on the Company's website on 21 August 2013, i.e. within the time frame of six months before the AGM as prescribed by the Code of Governance.

The Nomination Committee for the 2014 AGM has held 4 meetings during its mandate and informal contacts have taken place between such meetings. The Nomination Committee report, including the final proposals to the 2014 AGM, is published on the Company's website together with the notice of the AGM.

The Nomination Committee's assignment is to produce proposals for the following matters, which will be presented to the AGM for resolution:

- AGM Chairman,
- Board members,
- Chairman of the Board,
- Board fees and remuneration for Committee work allocated to each member,
- Auditor's fee,
- Proposal regarding procedures and principles for establishing a Nomination Committee and issues pertaining thereto for the 2014 AGM.

The work of the Nomination Committee has during 2013 included evaluation of the Board's work, competence and composition, as well as the independence of the members. The Nomination Committee also considered other criteria such as the background and experience and also taken part of the board evaluation.

The nomination committee for the AGM 2014 consisted of the following members:

- Dennis Harlin, chairman of the nomination committee, representing himself and Annemarie Danielsson, and
- Håkan Ehrenblad, representing himself. (Håkan Ehrenblad replaced Vincent Hamilton as per 1 January 2014 following the sale of his shares which was announced in a press release 11 October 2013)
- Jan Risberg, representing himself
- Mikael Petersson, representing himself, Niklas Antman and SSE Capital

The Board and its work

Board composition

The articles of association stipulate that the board of directors of Tethys Oil shall consist of no less than three and no more than ten board members with no more than three deputy board members. Board members are elected for a maximum of one year at a time. The board of directors of Tethys Oil consisted from the AGM 2013 until 11 October 2013 of six directors and no deputies. On 11 October 2013, Vincent Hamilton, the Chairman of the board, resigned. Since then, the board has consisted of five members and Staffan Knafve has been appointed as new Chairman. Four board members are independent from the Company, the Company's management and the Company's larger shareholders, and five board members are independent from larger shareholders/ interested parties.

Rules of procedure

The Board of directors' work is governed by annually adopted rules of procedure. The Board of directors supervise the work of the Managing director by continually following up the Company's operations. The Board of directors also ensures that the Company's organisation, administration and control are properly managed. The Board of directors adopts strategies and goals and resolves on larger investments, acquisitions and disposals of business activities or assets. The Board of directors also appoints the Managing director and determines the Managing director's salary and other compensation.

The Chairman of the board of directors supervises the work and is responsible for it being well organised and efficient. This entails, among other things, continually following the Company's operations in contact with the Managing director and being responsible for other board members receiving the information and documentation needed to ensure high quality discussions in and well founded decisions by the board of directors. The Chairman is responsible for the evaluation of the Board of directors' and the Managing director's work and represents the Board of directors in ownership matters.

According to the current rules of procedure the board of directors shall, after the constituent board meeting following the AGM, hold a minimum of 7 planned meetings during the financial year.

The Board's work in 2013

During 2013 the board held 7 scheduled meetings and 8 extraordinary meetings.

Assignments of the Board's work

The Chairman of the Board is responsible for assessing the Board's work including the performance of individual board members. This is done on an annual basis. The assessment focuses on such factors as the Board's way of working, number of meetings and effectiveness, time for preparation, available competence and individual board members influence of the Board's work. The Nomination Committee takes part of the results, and it is a component in the Nomination Committee's work to submit proposals concerning board members.

Remuneration committee

The Board has established a Remuneration committee for the period up to and including the AGM 2014, consisting of all board members with the exception of the Managing director Magnus Nordin. Staffan Knafve is the Chairman of the committee. The Remuneration committee convened 3 times in 2013. The work has mainly focused on establishing princip-

Board of Directors attendance

Name	Independence	Board meetings	Audit committee	Remuneration committee
Staffan Knafve	Yes	15/15	5/6	3/3
Magnus Nordin	No	15/15	-	-
Katherine Stövring	Yes	15/15	6/6	3/3
Jan Risberg	Yes	15/15	6/6	3/3
Per Brilioth	Yes	7/8	3/4	2/2
Vincent Hamilton	Yes	13/13	-	-
Håkan Ehrenblad	Yes	7/7	2/2	1/1
John Hoey	Yes	7/7	2/2	1/1

Meetings and items 2013

February	Year-end report 2012
March	Policies and strategy
April	Annual report 2012, Listing application, Listing prospectus
May	First quarter report 2013; Constituent meeting and adoption of manuals and policies
June	
August	Second quarter report 2013
September	Strategy, financing and hedging
October	Resignation of Vincent Hamilton
November	Third quarter report 2013
December	Budget 2014

les for remuneration to management and to monitor and evaluate variable remuneration. The Remuneration committee reports to the Board, normally in conjunction with the following Board meeting.

Audit committee

The board has established an Audit committee for the period up to and including AGM 2014, consisting of all board members with the exception of the Managing director Magnus Nordin. Jan Risberg is the chairman of the committee. The Audit Committee convened 6 times in 2013. The work has mainly focused on supervising the Company's financial reporting and assessing the efficiency of the Company's financial internal controls and internal audit, with the primary objective of providing support to the Board in the decision making processes regarding such matters. The Audit Committee also regularly liaises with the Group's statutory auditor as part of the annual audit process and reviews the audit fees and the auditor's independence and impartiality. The Audit committee reports to the Board, normally in conjunction with the following Board meeting.

Auditors

Pursuant to its Articles of Association, Tethys Oil must have one or two auditors, and no more than two deputies. A registered firm of auditors may be appointed as the company's auditor.

Tethys Oil's auditor is PricewaterhouseCoopers AB with Klas Brand as Lead partner and Johan Malmqvist as partner. PricewaterhouseCoopers AB was elected as the Company's auditor at the AGM 2009.

Tethys Oil AB's auditor: PricewaterhouseCoopers AB

	Johan	
	Klas Brand	Malmqvist
Role	Lead partner	Partner
Born	1956	1975
Company Auditor since	2012	2010

The auditing firm has, besides the audit, conducted a limited number of other assignments on behalf of Tethys Oil. These assignments mainly consisted of services associated with auditing, such as in-depth reviews during audit. Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. In 2013, remuneration to PricewaterhouseCoopers AB amounted to TSEK 1,512. For details on remuneration to auditors, see note 12, Auditor's fees.

Managing director and management

The executive management in Tethys Oil consists of the Managing director and the Chief financial officer.

The Board of directors has adopted an instruction for the Managing director which clarifies the responsibilities and authority of the Managing director. According to the instruction, the Managing director shall provide the Board of directors with decision data in order to enable the Board to make well-founded decisions and with documents to enable it to continually monitor the activities for the year. The Managing director shall take the decisions needed for developing the business, within the legal framework, the business plan, the budget and the instruction for the Managing director adopted by the Board of directors as well as in accordance with other guidelines and instructions communicated by the Board of directors.

Remuneration to executive management

Remuneration to the executive management includes four main components:

- Basic salary
- Pension arrangements
- Yearly variable salary
- Other benefits

Basic salary

The basic salary shall be in line with market conditions, be competitive, and shall take into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the executive. The basic salary shall be reviewed annually to ensure that it remains competitive. In order to assess the competitiveness of the salary and benefit packages offered by the Group, comparisons may be made to those offered by similar companies. Executives include managing director and chief financial officer (CFO).

Variable salary

Variable salary to employees will be based upon their individual contribution to the Company's performance. The yearly variable salary for executives shall normally be within the range of 1–4 monthly salaries. At the end of each year, the Managing director will make a recommendation to the Remuneration Committee regarding the payment of the yearly variable salary to employees. The Remuneration Committee will recommend to the Board of Directors for approval the level of the yearly variable salary of the Managing director, and the CFO. For other employees, the Remuneration Committee will only be involved if the award exceeds USD 10,000 per employee.

Pension Arrangements

The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions shall be in relation to the basic salary and is set on an individual basis.

Severance Arrangements

A termination period of twelve months applies between the Company and managing director and nine months between the company and the CFO. Both are entitled to 12 months payments if the Company terminates their contracts.

The Board is entitled to deviate from the proposed guidelines if special reasons exist.

Remuneration to management, TSEK

Executive	Basic salary	Variable salary	Other benefits	Pension arrangements	Total 2013	2012
Magnus Nordin	1,545	400	11	243	2,199	1,230
Morgan Sadarangani	1,033	280	11	162	1,485	866

The increase in remuneration to management relate to partly an increase of basic salaries, but mainly to variable salaries and implementation of pension arrangements.

Remuneration to the Board 2013

Remuneration to the board of directors during 2013 amounted to a total of TSEK 1,375, allocated among the board members in the way shown in the below table. The annual general meeting 2013 resolved that remuneration of the chairman of the board of directors shall be TSEK 450 per annum and of the other members TSEK 175 per member per annum.

Remuneration to Board, TSEK	2013	2012
Total approved remuneration	1,375	350
Chairman	450	-
Director	175	100
Chairman Audit committee	50	25
Member Audit committee	25	-
Chairman Remuneration committee	25	25
Member Remuneration committee	25	-

Remuneration is not paid for service of the boards or directors of subsidiaries. Magnus Nordin, who is employed by Tethys Oil, does not receive any remuneration for his service on the board of directors.

Financial reporting and control

The Board of directors has the ultimate responsibility of the internal control for the financial reporting. Tethys Oil's system of internal control, with regard to financial reporting, is designed to minimize risks involved in financial reporting process and ensure a high level of reliability in the financial reporting. Furthermore, the system of internal control ensures compliance with applicable accounting requirements and other requirements that Tethys Oil must meet as a listed company.

Tethys Oil's main assets are owned in partnership and furthermore, Tethys Oil only

holds non-operated interest. The focus of internal control is therefore to ensure reliability and accuracy of the operator's financial information. The control is conducted by monthly and quarterly cost controls, quarterly budget reviews and interviews with operator to understand and explain deviations. Furthermore, non-operating partners can and have conducted a JV audit during 2013. The JV audit focused on accuracy and reliability of financial reporting and also on key processes, i.e financial reporting process, budget process and general administrative and control processes.

Internal control

Tethys Oil continually works on improving the financial reporting through evaluating the risk of errors in the financial reporting and related control activities. Control activities include following up on instruc-

tions and the application of accounting principles. The Board of directors is responsible for and monitors the control activities, which involve all levels of the organisation. The activities limit the identified risks and ensure correct and reliable financial reporting. The Group's central financial department analyses and follows up on budget deviations, draws up forecasts, follows up on significant variations between periods and reports to the Board of directors, which minimizes the risks for errors in the financial reporting. The control activities also include following up on the authorization manual and accounting principles. These control activities also include the operators in partnerships. The Board of directors further decides on specific control activities and internal auditing and auditing of operators in partnerships. The financial department regularly follows up on deviations and irregularities and report to the Audit committee. This structure is considered sufficient and suitable given the size and nature of the company's business. As an example of special control activities, an in-depth Joint Venture audit was made during 2013 on the operator of Blocks 3&4 together with the other non-operating partner Mitsui.

Information and communication

The Board has adopted an information policy for the purpose of ensuring that the external information is correct and complete. There are also instructions regarding information security and how to communicate financial information.

Monitoring

Both the Board and the management follow up on the compliance and effectiveness of the company's internal controls to ensure the quality of internal processes. The Board receives detailed monthly reports on the financial situation and development of the business to this end. The Audit committee ensures and monitors that control activities are in place for important areas of risk related to financial reporting.

Board of directors

	Staffan Knafve	Magnus Nordin	Jan Risberg	Katherine H. Stövring	Per Brillioth
Function	Chairman of the Board (since Oct 2013), Chairman of the Remuneration committee	Managing Director, Director	Director, Chairman of the Audit Committee	Director	Director
Elected	2012	2001	2004	2012	2013
Born	1958	1956	1964	1965	1969
Education	Bachelor of Law, Stockholm University	Bachelor of Arts, Lund University and Master of Arts, University of California Los Angeles	Bachelor of Science in Economics and business, Stockholm University	Master of Law, University of Oslo and MSc in Business Management, London Business School	Bachelor of Science in Business Administration, Stockholm University and Master of Finance, London Business School
Experience	Several senior positions in different Nordic investment banks	Several executive positions in different oil companies	Several senior position in Corporate Finance	Several executive positions in the energy and shipping industry	Executive positions in companies investing in the Russian oil and gas sector
Other Board duties	Chairman Investment Committee at Coeli Asset Management and Member Finance Committee at Royal Swedish Automobile Club.	Board member of Minotaurus AB, Minotaurus Energi AS and Cassandra Oil AB.	Chairman Ovation Sports SA		Board member of Vostok Nafta Investment Ltd, Black Earth Farming Ltd, RusForest AB, Avito AB, X5 Group AB and Svenska Fotografiska museet AB.
Shares in Tethys Oil as of 31 December 2013	70,000	1,464,127	843,419	–	5,000
Board attendance	15/15	15/15	15/15	15/15	7/8
Audit committee attendance	5/6	–	6/6	6/6	3/4
Remuneration committee attendance	3/3	–	3/3	3/3	2/2
Remuneration for board and committee work	475,000	–	225,000	225,000	225,000
Independent of the company and management	Yes	No	Yes	Yes	Yes
Independent of the company's major shareholders	Yes	Yes	Yes	Yes	Yes

Executive management

	Magnus Nordin	Morgan Sadarangani
Function	Managing director	Chief financial officer
With Tethys Oil since	2004	2004
Born	1956	1975
Education	Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles	Master of Economics in Business Administration, University of Uppsala.
Experience	Several executive positions in different oil companies	Different positions within SEB and Enskilda Securities, Corporate Finance, 1998–2002.
Board duties	Board member of Minotaurus AB, Minotaurus Energi AS and Cassandra Oil AB.	None
Shares in Tethys Oil as of 31 December 2013	1,464,127	144,200

Auditor's report on the Corporate Governance Statement

To the annual meeting of the shareholders of Tethys Oil AB (publ), corporate identity number 556615-8266

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2013 on pages 30–34 and that it has been prepared in accordance with the Annual Accounts Act. We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Govern-

ance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 22 April 2014
PricewaterhouseCoopers AB

Klas Brand
Authorized Public Accountant
Lead Partner

Johan Malmqvist
Authorized Public Accountant
Partner