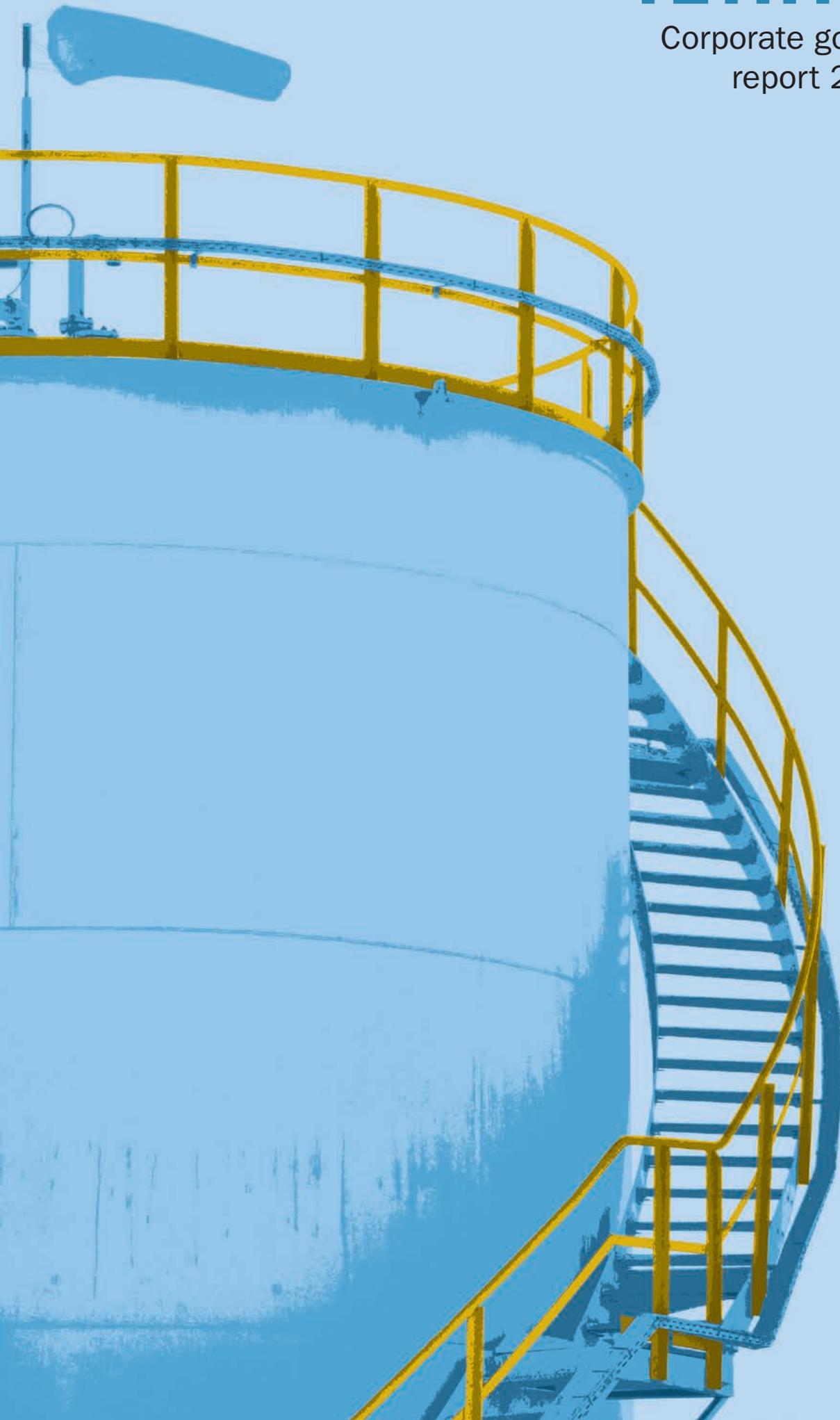


# TETHYS OIL

Corporate governance  
report 2014



# Corporate governance report

Corporate governance practices refer to the decision-making systems through which owners, directly or indirectly, control a company. Tethys Oil AB (publ) is a publicly traded company listed on NASDAQ Stockholm, mid cap. Tethys Oil adheres to the Swedish code of corporate governance (“the code”). The code is published on [www.bolagstyrning.se](http://www.bolagstyrning.se), where a description of the Swedish corporate governance model can be found. This corporate governance report 2014 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 2014. 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 Stockholm’s rule book for issuers
- Swedish code of corporate governance

### Internal:

- Articles of association
- Board instructions, rules of procedures
- Policies such as Administration policy, Hedging policy, Information policy, CSR policy etc

## Shareholders

Tethys Oil’s shares are traded on the NASDAQ Stockholm exchange. At year end 2014 the share capital amounted to MSEK 5.925, represented by 35,543,750 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2014, the number of shareholders was 5,410 (3,958). Of the total number of shares, foreign shareholders accounted for approximately 64 per cent. 52 per cent of the Swedish shareholding was held by legal entities. For further information on share, share capital development and shareholders, see page 37 and Tethys Oil’s website, [www.tethysoil.com](http://www.tethysoil.com).

## 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 14 May 2014. The AGM was attended by about 102 shareholders, representing about 23.9 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 2013 and discharge of liability for the board of directors and the managing director.
- Re-election of Per Brilioth, Staffan Knafve, Magnus Nordin, Jan Risberg and Katherine Støvring. Staffan Knafve was elected chairman of 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.
- Authorization for the board to resolve to purchase own shares in Tethys Oil AB

The minutes recorded at the annual general meeting can be found at Tethys Oil’s website, [www.tethysoil.com](http://www.tethysoil.com).

## Nomination process

In accordance with the nomination committee process approved by the AGM 2014, the nomination committee for the AGM 2015 consists of members appointed by three of the largest shareholders of the company based on shareholdings as per 30 September 2014. The names of the members of the nomination committee were announced and posted on the company’s website on 13 November 2014, i.e. within the time frame of six months before the AGM as prescribed by the code.

The nomination committee for the 2015 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 2015 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 2016 AGM.

The work of the nomination committee has during 2014 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 2015 consisted of the following members:

- Jan Risberg, chairman of the nomination committee, representing himself,
- Mikael Petersson, representing Lansdowne Investment Company Limited,
- Göran Källebo, representing himself and

- Staffan Knafve, chairman in Tethys Oil AB

## 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 has consisted since the AGM 2014 of five directors and no deputies. Staffan Knafve has been chairman of the board. 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 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 6 planned meetings during the financial year.

### The board's work in 2014

During 2014 the board held 6 scheduled meetings and 8 extraordinary meetings.

## Board of directors attendance

Name	Independence	Board meetings	Audit committee	Remuneration committee
Staffan Knafve	Yes	14/14	4/4	5/5
Magnus Nordin	No	14/14	–	–
Katherine Stövring	Yes	14/14	4/4	5/5
Jan Risberg	Yes	14/14	4/4	5/5
Per Brilioth	Yes	14/14	4/4	5/5

## Meetings and items 2014

February	Year-end report 2013, Loan facility
April	Annual report 2013 notice to AGM
May	First quarter report 2014; Constituent meeting and adoption of manuals and policies
June	Liquidation of foreign subsidiary
August	Second quarter report 2014
October	Strategy, notice to EGM
November	Third quarter report 2014, repurchase of shares
December	Budget 2015

### 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 2015, 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 5 times in 2014. The work has mainly focused on establishing principles for remuneration to management, to moni-

tor and evaluate variable remuneration and construct and propose an incentive programme to an extra general meeting (EGM) which was subsequently cancelled. 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 the AGM 2015, 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 4 times in 2014. The work has mainly focused on supervising the company's financial reporting and assessing the efficiency of the company's financial internal controls, 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 Ulrika Ramsvik as co-signing. PricewaterhouseCoopers AB was elected as the company's auditor at the AGM 2014.

*Tethys Oil AB's auditor: PricewaterhouseCoopers AB*

	<b>Klas Brand</b>	<b>Ulrika Ramsvik</b>
Role	Lead partner	Co-signing
Born	1956	1973
Company auditor since	2012	2014

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. Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. In 2014, remuneration to PricewaterhouseCoopers AB amounted to MSEK 1. 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, the chief financial officer and the executive vice president (EVP) corporate development.

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:

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

#### Base salary

The base 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 base 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 (CEO), chief financial officer (CFO) and executive vice president (EVP) corporate development.

#### 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 other employees. The remuneration committee will recommend to the board of directors for approval the level of the yearly variable salary of the executive management. For other employees, the remuneration committee will only be involved if the variable salary exceeds USD 10,000 per employee.

#### Pension arrangements

The pension benefits comprise a defined contribution scheme with premiums calculated on the full base salary. The pension contributions shall be in relation to the base 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 other members of executive management. All members of executive management are entitled to twelve 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

<b>Executive</b>	<b>Base salary</b>	<b>Variable salary</b>	<b>Other benefits</b>	<b>Pension arrangements</b>	<b>Total 2014</b>	<b>2013</b>
Magnus Nordin	1,652	540	11	375	2,579	2,199
Morgan Sadarangani	1,102	360	11	217	1,689	1,485
Jesper Alm	566	–	6	129	701	–
<b>Total</b>	<b>3,320</b>	<b>900</b>	<b>28</b>	<b>721</b>	<b>4,969</b>	<b>3,684</b>

The increase in remuneration to management relate to partly an increase of base salaries, but mainly to variable salaries and implementation of pension arrangements. For further information, please see note 19.

### Remuneration to the board 2014

Remuneration to the board of directors during 2014 amounted to a total of TSEK 464, allocated among the board members in the way shown in the below table. The annual general meeting 2014 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	2014	2013
Total approved remuneration	1,375	1,375
Chairman	450	450
Director	175	175
Chairman audit committee	50	50
Member audit committee	25	25
Chairman remuneration committee	25	25
Member remuneration committee	25	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.

### 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 instructions 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

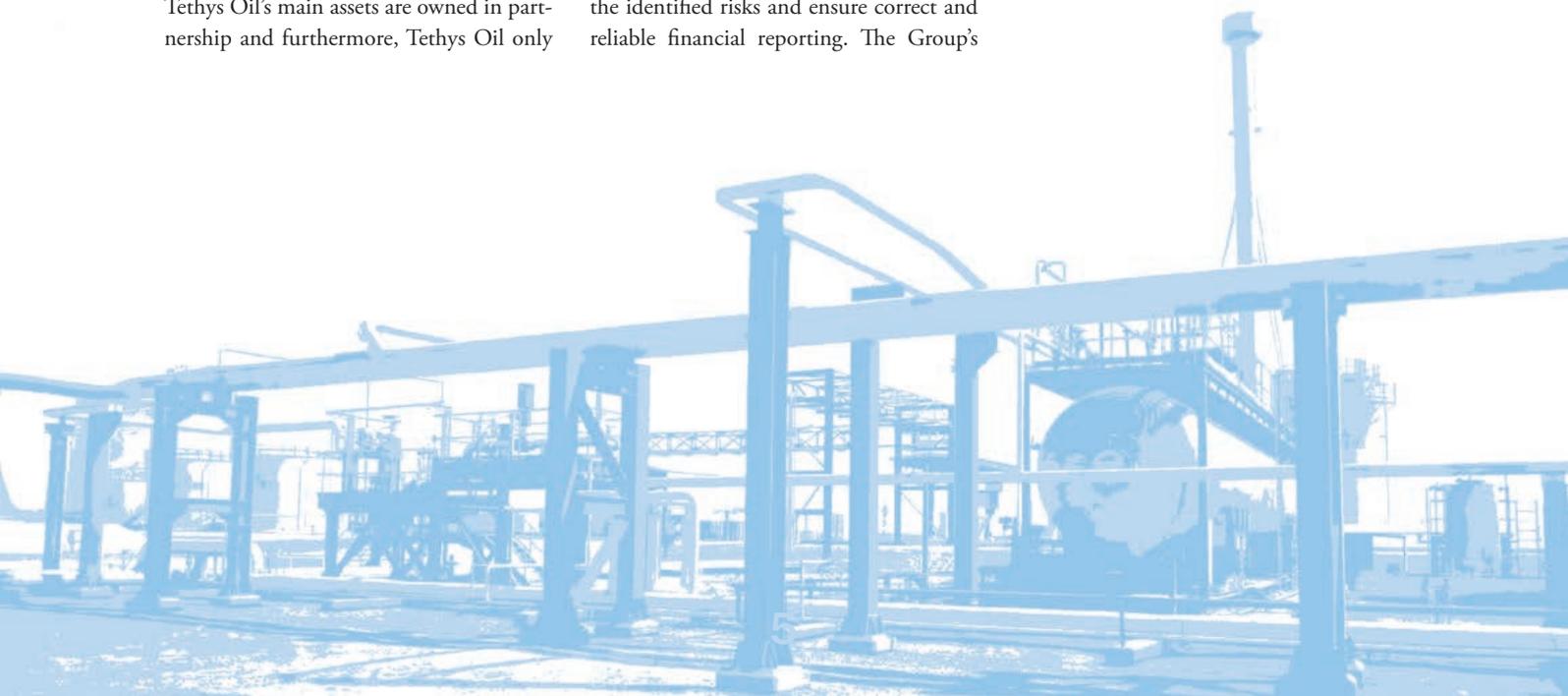
central financial department analyses and follows up on budget deviations, draws up forecasts, follows up on significant variations between periods and reports to the board of directors, which minimizes the risks for errors in the financial reporting. The control activities also include following up 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 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.

### 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

	<b>Staffan Knafve</b>	<b>Magnus Nordin</b>	<b>Jan Risberg</b>	<b>Katherine H. Stövring</b>	<b>Per Brillioth</b>
<b>Function</b>	Chairman of the board (since Oct 2013), chairman of the remuneration committee	Managing director, director	Director, chairman of the audit committee	Director	Director
<b>Elected</b>	2012	2001	2004	2012	2013
<b>Born</b>	1958	1956	1964	1965	1969
<b>Education</b>	Bachelor of Law, University of Stockholm.	Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles.	Bachelor of Science in Economics and business, University of Stockholm.	Master of Law, University of Oslo and MSc in Business Management, London Business School.	Bachelor of Science in Business Administration, University of Stockholm, Master of Finance, London Business School.
<b>Experience</b>	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
<b>Other board duties</b>	Member of finance committee at Royal Swedish Automobile Club.	Board member of Minotaurus AB and Minotaurus Energi AS.	Chairman Ovation Sports SA.		Board member of Vostok Nafta AB, member of the board of RusForest AB, Avito Holdings AB, X5 Group AB and Svenska Fotografiska museet AB.
<b>Shares in Tethys Oil as of 31 December 2014</b>	70,000*	1,464,127	843,419	–	5,000
<b>Board attendance</b>	14/14	14/14	14/14	14/14	14/14
<b>Audit committee attendance</b>	4/4	–	4/4	4/4	4/4
<b>Remuneration committee attendance</b>	5/5	–	5/5	5/5	5/5
<b>Remuneration for board and committee work</b>	500,000	–	250,000	225,000	225,000
<b>Independent of the company and management</b>	Yes	No	Yes	Yes	Yes
<b>Independent of the company's major shareholders</b>	Yes	Yes	Yes	Yes	Yes

\* Shares held through insurance policy.

## Executive management

	<b>Magnus Nordin</b>	<b>Morgan Sadarangani</b>	<b>Jesper Alm</b>
<b>Function</b>	Managing director	Chief financial officer	EVP corporate development
<b>With Tethys Oil since</b>	2004	2004	2014
<b>Born</b>	1956	1975	1975
<b>Education</b>	Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles.	Master of Economics in Business Administration, University of Uppsala.	Master of Economics in Business Administration, University of Lund.
<b>Experience</b>	Several executive positions in different oil companies.	Different positions within SEB and Enskilda Securities, Corporate Finance.	Partner, Pareto Securities Corporate Finance (Natural resources).
<b>Board duties</b>	Board member of Minotaurus AB and Minotaurus Energi AS.	None	None
<b>Shares in Tethys Oil as of 31 December 2014</b>	1,464,127	144,200	5,750*

\* Including shares held through insurance policy.

# Board of directors

---



**Staffan Knafve,**  
born in 1958. Member of the board since 2012 and chairman of the board since October 2013. Chairman of the remuneration committee and member of the audit committee.



**Magnus Nordin,**  
born in 1956. Managing director and member of the board since 2001.



**Jan Risberg,**  
born in 1964. Member of the board since 2004 and chairman of the audit committee and member of the remuneration committee.



**Katherine H. Støvring,**  
born in 1965. Member of the board since 2012 and member of the audit committee and the remuneration committee.



**Per Brilioth,**  
born in 1969. Member of the board since 2013 and member of the audit committee and the remuneration committee.

# Management

---



**Magnus Nordin,**  
born in 1956. Managing director. Employed since 2004.



**Morgan Sadarangani,**  
born in 1975. Chief financial officer and corporate secretary. Employed since 2004.



**Jesper Alm,**  
born in 1975. EVP corporate development. Employed since 2014.

# Auditors

---

**Klas Brand,**  
born in 1956. Authorized public accountant, Lead partner. Company's auditor since 2012. PricewaterhouseCoopers AB, Gothenburg.

**Ulrika Ramsvik,**  
born in 1973. Authorized public accountant. Company's auditor since 2014. PricewaterhouseCoopers AB, Gothenburg

## **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 2014 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, 17 April 2015  
PricewaterhouseCoopers AB

**Klas Brand**  
*Authorized Public Accountant*  
*Lead Partner*

**Ulrika Ramsvik**  
*Authorized Public Accountant*  
*Co-signing*

