

TETHYS OIL

Corporate governance
report 2015



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) ("the Company") 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, where a description of the Swedish Corporate Governance model can be found. This Corporate Governance Report 2015 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 2015. Tethys Oil does not report any deviations from the code, Nasdaq Stockholm's rule book for issuers, recommendations from the Swedish Securities Council, decisions from Disciplinary Committee at Nasdaq Stockholm or statements from the Swedish Securities Council. The report has been reviewed by the company's auditors, please see page 31.

External and internal framework for governance in Tethys Oil

External:

- Swedish Companies Act
- Accounting legislation (e.g. 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, Information policy, CSR policy etc

Shareholders

Tethys Oil's shares are traded on Nasdaq Stockholm. At year end 2015 the share capital amounted to MSEK 6, represented by 35,543,750 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2015, the number of shareholders was 5,563 (5,410). Of the total number of shares, foreign shareholders accounted for approximately 61 per cent. 49 per cent of the Swedish shareholding was held by legal entities. For further information on share, share capital devel-

opment and shareholders, see pages 33–35 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 13 May 2015. The AGM was attended by 111 shareholders, representing about 23 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 2014 and discharge of liability for the board of directors and the managing director
- Re-election of Per Brilioth, Magnus Nordin and Katherine Støvring. Dennis Harlin and Geoffrey Turbott were newly elected directors. Dennis Harlin was elected chairman of the board
- The chairman will be paid a fee of SEK 540,000 and each AGM elected member not employed by the company will be paid SEK 230,000. The chairman of the audit committee will be paid SEK 65,000 and each of the committee's members will be paid SEK 35,000. The members of the remuneration committee will be paid SEK 35,000. The total fees for committee work, including committee chairmen fees shall not exceed SEK 310,000
- Auditors will be paid as invoices are approved
- Principles of remuneration to senior executives
- Incentive programme as part of the remuneration package to employees. Issuance of 356,000 warrants where each warrant entitled to subscription to one new share in Tethys Oil. The warrants have a three year duration and the strike price of the warrants was SEK 80.40 per share
- 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.

Nomination process

In accordance with the nomination committee Process approved by the AGM 2015, the nomination committee for the AGM 2016 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2015. The names of the members of the nomination committee were announced and posted on the Company's website on 13 November 2015, i.e. within the time frame of six months before the AGM as prescribed by the Code.

The nomination committee for the AGM 2016 has held 6 meetings during its mandate and informal contacts have taken place between such meetings. The nomination committee report, including the final proposals to the AGM 2016, 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
- Auditors and auditor's fee
- Proposal regarding procedures and principles for establishing a nomination committee and issues pertaining thereto for the AGM 2017

The work of the nomination committee has during 2015 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 back-

ground and experience and also taken part of the board evaluation.

The nomination committee for the AGM 2016 consisted of the following members:

- Erik Norman, chairman of the nomination committee, representing himself, and
- Mikael Petersson, representing Lansdowne Investment Company Limited
- Niklas Antman, representing Incentive AS
- Dennis Harlin, 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 2015 of five directors and no deputies. Dennis Harlin 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.

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 7 planned meetings during the financial year.

The board's work in 2015

During 2015 the board held 7 scheduled meetings and 12 extraordinary meetings.

Board of directors' attendance

Name	Independence from larger shareholders	Board meetings	Audit committee	Remuneration committee
Dennis Harlin	Yes	14/14	3/3	4/4
Magnus Nordin	No	19/19	n.a	n.a
Katherine Støvring	Yes	19/19	6/6	4/4
Geoffrey Turbott	Yes	11/14	3/3	4/4
Per Brilioth	Yes	17/19	6/6	4/4

Meetings and main items for scheduled meetings 2015

February	Year-end report 2014
April	Annual report 2014, notice to AGM
May	First quarter report 2015
June	Constituent meeting and adoption of manuals and policies
July	Strategy
August	Second quarter report 2015, Capital structure
November	Third quarter report 2015, New ventures
December	Budget 2016, New ventures

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 through a questionnaire which is anonymous for the directors. 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 2016, consisting of all board members with the exception of the managing director Magnus Nordin. Per Brilioth is the chairman of the committee. The remuneration committee convened 4 times in 2015. The work has mainly focused on establishing principles for remuneration to management, to monitor and evaluate variable remuneration and construct and propose an incentive programme to the AGM 2015. 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 2016, consisting of all board members with the exception of the managing director Magnus Nordin. Geoffrey Turbott is the chairman of the committee. The audit committee convened 6 times in 2015. 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. Furthermore the audit committee has worked towards improving the interim financial reporting to shareholders. 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 Johan Malmqvist as Lead partner and Ulrika Ramsvik as co-signing auditor. PricewaterhouseCoopers AB was elected as the Company's auditor at the AGM 2015.

Tethys Oil AB's auditor: PricewaterhouseCoopers AB

	Johan Malmqvist	Ulrika Ramsvik
Role	Lead partner	Co-signing auditor
Born	1975	1973
Company auditor since	2015	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, such as in-depth

reviews during audit. Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. In 2015, remuneration to PricewaterhouseCoopers AB amounted to MSEK 1. For details on remuneration to auditors, see note 11, 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 policy to executive management

Remuneration policy to the executive management includes five main components:

- Base salary
- Share based incentive programme
- 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.

Share based incentive programme

The share based incentive programme has the purpose to retain and recruit qualified and committed personnel on a global market for oil companies. The programme is available to all employees and is intended to be re-occurring. The 2015 programme is a three year programme.

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 annual 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

Executive TSEK	Base salary	Variable salary	Other benefits*	Pension arrangements	Total 2015	2014
Magnus Nordin	1,733	405	1,424	324	3,886	2,579
Morgan Sadarangani	1,156	270	702	216	2,344	1,689
Jesper Alm	1,061	135	718	216	2,130	701
Total	3,950	810	2,844	756	8,360	4,969

* Other benefits are mainly distribution of warrants from the incentive programme in line with the decision from the AGM 2015.

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 13.

Remuneration to the board 2015

Remuneration paid to the board of directors during 2015 amounted to a total of TSEK 1,200, allocated among the board members in the way shown in the below table. The annual general meeting 2015 resolved that remuneration of the chairman of the board of directors shall be TSEK 540 per annum and of the other members TSEK 230 per member per annum.

Remuneration to board, TSEK	2015	2014
Total approved remuneration	1,450	1,375
Chairman	540	450
Director	230	175
Chairman audit committee	65	50
Member audit committee	35	25
Chairman remuneration committee	–	25
Member remuneration committee	35	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 direc-

tors 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. At the current size of the company and the fact that the company holds non-operated interest it is not considered necessary for a dedicated internal auditor function.

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

	Dennis Harlin	Per Briljoth	Magnus Nordin	Katherine H. Støvring	Geoffrey Turbott
Function	Chairman of the board, director	Director, chairman of the remuneration committee	Managing director, director	Director	Director, chairman of the audit committee
Elected	2015	2013	2001	2012	2015
Born	1941	1969	1956	1965	1963
Education	Military Academy higher technical course	Bachelor of Science in Business Administration, University of Stockholm, Master of Finance, London Business School	Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles	Master of Law, University of Oslo and MSc in Business Management, London Business School	Member of New Zealand's institute of chartered accountants
Experience	Brigadier general (ret.). Vice president SAAB/Gripen International 1996–2009. Defence attaché in Bern and Rome and seconded to Ministry of Foreign Affairs	Executive positions in companies investing in the Russian oil and gas sector	Several executive positions in different oil companies	Several executive positions in the energy and shipping industry	Worked with public companies in which the Lundin family holds a major shareholding from 1995 to 2013, whereof as Chief Financial Officer and Vice President of Finance at Lundin Petroleum AB from 2002 to 2013
Other board duties		Member of the board of Vostok New Ventures AB, Vostok Emerging Finance Ltd, RusForest AB, Egidaco Investments PLC, Avito Holdings AB, Kontakt East Holding AB, X5 Group AB, Gateway Storage Company Ltd, Pomegranate AB, LeoVegas AB, Pet Sounds AB and Svenska Fotografiska museet AB			
Shares in Tethys Oil as of 31 December 2015	142,051	5,000	1,464,127	–	–
Remuneration for board and committee work	610,000	300,000	–	300,000	330,000
Independent of the company and management	Yes	Yes	No	Yes	Yes
Independent of the company's major shareholders	Yes	Yes	Yes	Yes	Yes

Executive management

	Magnus Nordin	Morgan Sadarangani	Jesper Alm
Function	Managing director	Chief financial officer	EVP corporate development
With Tethys Oil since	2004	2004	2014
Born	1956	1975	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	Master of Economics in Business Administration, University of Lund
Experience	Several executive positions in different oil companies	Different positions within SEB and Enskilda Securities, Corporate Finance	Partner, Pareto Securities Corporate Finance (Natural resources)
Shares in Tethys Oil as of 31 December 2015	1,464,127	144,200	5,750*
Warrants in Tethys Oil as of 31 December 2015	78,000	39,000	39,000

* Including shares held through endowment policy.

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 2015 on pages 26–31 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 Cor-

porate Governance 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, 27 April 2016
PricewaterhouseCoopers AB

Johan Malmqvist
Authorized Public Accountant
Lead Partner

Ulrika Ramsvik
Authorized Public Accountant



Corporate Head Office

Tethys Oil AB (publ)
Hovslagargatan 5B
SE-111 48 Stockholm
Sweden
Telephone +46 8 505 947 00
Fax +46 8 505 947 99
E-mail: info@tethysoil.com

Technical Office

Tethys Oil Oman Ltd
PO Box 1918
PC 130 Athaiba
Muscat
Sultanate of Oman

www.tethysoil.com

