

## **LUNDIN PETROLEUM AB'S 2012 POLICY ON REMUNERATION FOR THE EXECUTIVE MANAGEMENT**

### **Application and Objectives of the Policy**

In this Policy on Remuneration, the terms "Executive Management" or "Executives" refers to the President and Chief Executive Officer (CEO), the Executive Vice President and Chief Operating Officer, the Vice President Finance and Chief Financial Officer, and the Senior Vice President Operations.

It is the aim of Lundin Petroleum to recruit, motivate and retain high calibre Executives capable of achieving the objectives of the Group, and to encourage and appropriately reward performance in a manner that enhances shareholder value. Accordingly, the Group operates this Policy on Remuneration to ensure that there is a clear link to business strategy and a close alignment with shareholder interests and current best practice, and aims to ensure that the Executive Management is rewarded fairly for its contribution to the Group's performance.

### **Compensation Committee**

The Board of Directors of Lundin Petroleum has established the Compensation Committee to, among other things, administer this Policy on Remuneration. The Compensation Committee is to receive information and prepare the Board of Directors' and the Annual General Meeting's decisions on matters relating to the principles of remuneration, remunerations and other terms of employment of the Executive Management. The Compensation Committee meets regularly and its tasks include monitoring and evaluating programmes for variable remuneration for the Executive Management and the application of this Policy on Remuneration, as well as the current remuneration structures and levels in the Company.

### **Elements of Remuneration**

There are four key elements to the remuneration of Executive Management:

- a) basic salary;
- b) yearly variable salary;
- c) long-term incentive plan; and
- d) other benefits.

### **Basic Salary**

The Executive's basic salary shall be based on market conditions, shall 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 Executive's basic salary, as well as the other elements of the Executive's remuneration, shall be reviewed annually to ensure that such remuneration remains competitive and in line with market conditions. As part of this assessment process, the Company, as well as the Compensation Committee, periodically undertakes benchmarking comparisons in respect of its remuneration policy and practices. In such circumstances, the comparator group is chosen with regard to:

- a) companies both within and outside the oil and gas industry;
- b) the size of the company (market capitalisation, turnover, profits and employee numbers);
- c) the diversity and complexity of the company's business;
- d) the geographical nature of the company's business; and
- e) the company's growth, expansion and change profile.

The advice and assistance of specialised consultants may be requested in connection with these comparisons and the Compensation Committee shall ensure that there is no conflict of interest regarding other assignments such consultants may have for the Company and the Executive Management.

### **Yearly variable salary**

The Company considers that yearly variable salary is an important part of the Executive's remuneration package where associated performance targets reflect the key drivers for value creation and growth in shareholder value. Through its Performance Management Process, the Company sets predetermined and measurable performance criteria for each Executive, aimed at promoting long-term value creation for the Company's shareholders.

At the end of each year, the CEO will make a recommendation to the Compensation Committee regarding the payment of the yearly variable salary to the other Executives based upon the achievement of their respective performance criteria. After consideration of the CEO's recommendations, the Compensation Committee will recommend to the Board of Directors for approval the level of the yearly variable salary of the CEO and of the other Executives.

The yearly variable salary shall, in the normal course of business, be based upon a predetermined limit, being within the range of 1 - 12 monthly salaries. However, the Compensation Committee may recommend to the Board of Directors for approval yearly variable salary outside of this range in circumstances or in respect of performance which the Compensation Committee considers to be exceptional.

### **Long-term Incentive Plan**

The Company believes that it is appropriate to structure the long-term incentive plan (LTIP) to align Executive Management's incentives with shareholder interests. Therefore, the Company's LTIP for Executive Management is an incentive plan related to the Company's share price.

The LTIP for Executive Management approved by the 2009 AGM provided for the issuance by Lundin Petroleum of phantom options exercisable after 13 May 2014, being five years from the date of grant. The exercise of these options does not entitle the recipient to acquire shares of Lundin Petroleum, but to receive a cash payment based on the appreciation of the market value of such shares.

The Executives were granted phantom options with an exercise price equal to 110 per cent of the average of the closing prices of the Company's shares on the NASDAQ OMX

Stockholm for the ten trading days immediately following the 2009 AGM. In accordance with the terms of the 2009 LTIP, the exercise price was adjusted in connection with the distribution by Lundin Petroleum to its shareholders of shares of EnQuest plc and Etrion Corporation, and such adjusted exercise price is equal to SEK 52.91. The total number of phantom options granted to Executive Management is 5,500,928, following adjustments in connection with such distributions of shares of EnQuest plc and Etrion Corporation.

Such options will vest on 13 May 2014, being the fifth anniversary of the date of grant. The Executive will be entitled to receive a cash payment equal to the average closing price of Lundin Petroleum's shares during the fifth year following grant, less the exercise price, multiplied by the number of options then held by the Executive. Payment of the award under these phantom options will occur in two equal instalments: (i) first on the date immediately following the fifth anniversary of the date of grant (May 2014), and (ii) second on the date which is one year following the date of the first payment (May 2015).

No Executive who received an award of phantom options will be eligible for a grant of awards under the Company's unit bonus plan during the five year vesting period of the phantom options.

If the recipient of an award of phantom options resigns from the Group or if the recipient's employment is terminated for cause or similar during the five year vesting period, the award of phantom options will immediately terminate. If the recipient's employment is terminated for any other reason during such period, the award of phantom options will vest and become immediately payable, based on the average closing price of Lundin Petroleum's shares during the 90 day period prior to such termination. If a third party acquires more than 50 per cent of the then outstanding Lundin Petroleum shares, the award of phantom options will vest and become immediately payable based on the value per Lundin Petroleum share paid by such third party.

From an accounting perspective the 2009 LTIP for Executive Management is regarded as compensation for services provided and will, under IFRS 2, result in accounting costs which will be distributed over the five year vesting period. Lundin Petroleum's liability under the LTIP will be measured at fair market value and will be revalued at each reporting period. The changes in value will be recognised in the income statement over the five year period so that the accumulated cost over the period corresponds to the value of the LTIP on the final date.

### **Other Benefits**

Other benefits shall be based on market terms and shall facilitate the discharge of each Executive's duties. Such benefits include statutory pension benefits comprising a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions in relation to the basic salary are dependent upon the age of the Executive.

### **Severance Arrangements**

A mutual termination period of between one month and six months applies between the Company and Executives, depending on the duration of the employment with the Company. In addition, severance terms are incorporated into the employment contracts

for Executives that give rise to compensation, equal to two years' basic salary, in the event of termination of employment due to a change of control of the Company.

The Compensation Committee shall approve termination packages that exceed USD 150,000 in value per individual.

**Authorisation for the Board**

The Board of Directors is authorised to deviate from the Policy on Remuneration in accordance with Chapter 8, section 53 of the Swedish Companies Act in case of special circumstances in a specific case.

