LUNDIN PETROLEUM
ANNUAL REPORT 2012
BUILDING VALUE

LUNDIN PETROLEUM

OPERATIONS

GOVERNANCE

FINANCIAL REPORT

ADDITIONAL INFORMATION

JOHAN SVERDRUP

References in this Annual Report to gross estimated contingent resources of the Johan Sverdrup discovery of 1,700 to 3,300 MMboe, include 800 to 1,800 MMboe in PL501 (Lundin Petroleum working interest 40%) and 900 to 1,500 MMboe in PL265 (Lundin Petroleum working interest 10%). Lundin Petroleum's estimated contingent resources as at 31 December 2012 of 922.9 MMboe worldwide, 715.5 MMboe in Norway and 640.0 MMboe in the Johan Sverdrup discovery, include Lundin Petroleum's working interest share of the mid-range estimated contingent resources for the Johan Sverdrup discovery of 520.0 MMboe in PL501 and 120.0 MMboe in PL265. The contingent resource estimates in PL501 have been prepared by Lundin Petroleum, as operator of PL501, and were audited by Gaffney, Cline & Associates on behalf of Lundin Petroleum as at 31 December 2011. The contingent resource estimates in PL265 have been prepared by Statoil, as operator of PL265, and have not been audited on behalf of Lundin Petroleum. See Reserves, Resources and Production on pages 12 to 17.

LUNDIN PETROLEUM

References to "Lundin Petroleum" or "the Company" pertain to the corporate group in which Lundin Petroleum AB (publ) (company registration number 556610–8055) is the Parent Company or to Lundin Petroleum AB (publ), depending on the context.

RESERVES

Unless otherwise stated, all reserves estimates in this Annual Report are the aggregate of "Proved Reserves" and "Probable Reserves", together also known as "2P Reserves". See "Reserves, Resources and Production" on pages 12 to 17.

BUILDING VALUE

OVER THE LAST DECADE LUNDIN PETROLEM HAS ADOPTED A SUCCESFUL EXPLORATION DRIVEN ORGANIC GROWTH STRATEGY. EXPLORATION DISCOVERIES ARE CONVERTED INTO RESERVES AND PRODUCTION FOLLOWING APPRAISAL AND DEVELOPMENT PROGRAMMES WHICH ARE THEN OPTIMISED THROUGHOUT THEIR LIFESPAN BY UTILISING THE LATEST TECHNOLOGY AND THE EXPERIENCE OF HIGHLY SKILLED PEOPLE.
THE STRATEGY HAS BEEN SUCCESSFUL IN OUR FRENCH, MALAYSIAN AND IN PARTICULAR, OUR NORWEGIAN OPERATIONS WHERE WE ARE IN THE PROCESS OF DEVELOPING THE BRYNHILD, BØYLA, EDVARD GRIEG AND THE GIANT JOHAN SVERDRUP DISCOVERIES.

THIS IS BY NO MEANS THE END OF OUR ORGANIC GROWTH PHASE. WE BELIEVE THAT WE HAVE THE ASSETS, TECHNOLOGY AND EXPERTISE TO MAKE FURTHER SIGNIFICANT DISCOVERIES. OVER THE COMING YEARS IT IS OUR PLAN TO DRILL 10 to 15 EXPLORATION WELLS PER YEAR.

EXPLORE
DEVELOP
PRODUCE


EXPLORE


DEVELOP


PRODUCE

FOCUS ON JOHAN SVERDRUP APPRAISAL

OPERATIONAL HIGHLIGHTS 2012

- » Major appraisal programme on Johan Sverdrup, offshore Norway with successful drilling of six wells
- » Geitungen discovery, offshore Norway – Statoil's resource estimate of 140 – 270 MMboe
- » Successful appraisal of the Bertam discovery, offshore Malaysia
- » Two gas discoveries, offshore Malaysia, Berangan and Tembakau
- » Record production of 35,700 boepd
- » Reserves and contingent resources > 1 billion barrels

FINANCIAL RESULTS 2012

- » Net result of MUSD 103.9 (155.2)
- » EBITDA of MUSD 1,144.1 (1,012.1)
- » Operating cash flow of MUSD 831.4 (676.2)
- » Net debt at year end of MUSD 335 (133)

USD 1.7 BILLION CAPITAL EXPENDITURE BUDGET

FORECAST 2013

- » MUSD 1,100 of development expenditure predominantly offshore Norway
  - Edvard Grieg
  - Brynhild
  - Bøyla
- » MUSD 150 of appraisal expenditure predominantly on Johan Sverdrup, offshore Norway
- » MUSD 460 of exploration expenditure predominantly offshore Norway, offshore Malaysia and offshore Indonesia
  - 18 exploration wells targeting over 600 MMboe unrisked, net prospective resources

ORGANIC VALUE CREATION

LUNDIN PETROLEUM'S BUSINESS MODEL IS TO GENERATE SHAREHOLDER VALUE THROUGH THE EXPLOITATION OF HYDROCARBONS. LUNDIN PETROLEUM'S STRATEGY OF ORGANIC GROWTH INVOLVES IDENTIFYING CORE AREAS OF FOCUS AND THEN ESTABLISHING A TEAM OF PROFESSIONAL TECHNICAL STAFF WITH EXPERIENCE IN THOSE AREAS TO USE THE LATEST TECHNOLOGIES TO EXPLORE FOR OIL AND GAS. COMMERCIAL DISCOVERIES WILL BE APPRAISED, AND WHERE THEY ARE DEEMED TO BE ECONOMIC, PROGRESSED THROUGH THE DEVELOPMENT PHASE TO THE PRODUCTION STAGE. THE CASH FLOW GENERATED FROM PRODUCTION WILL BE REINVESTED IN EXPLORATION AND DEVELOPMENT. LUNDIN PETROLEUM BELIEVES THAT IT IS THROUGH THE DEVELOPMENT OF THIS BUSINESS MODEL THAT IT HAS ACHIEVED SUCCESS IN THE PAST AND WILL CONTINUE TO DELIVER RESULTS IN THE FUTURE.

OUR VISION

As an international oil and gas exploration and production company operating globally, Lundin Petroleum aims to explore for and produce oil and gas in an economically, socially and environmentally responsible way, for the benefit of all stakeholders, including shareholders, employees, business partners, host and home governments and local communities.

Lundin Petroleum applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements. Lundin Petroleum strives to continuously improve its performance and to act in accordance with good oilfield practice and high standards of corporate citizenship.

OUR STRATEGY

Lundin Petroleum is pursuing the following strategy:

» Proactively investing in exploration to organically grow its reserve base. Lundin Petroleum has an inventory of drillable prospects with large upside potential and continues to actively pursue new exploration acreage in core areas.

» Exploiting its existing asset base with a proactive subsurface strategy to enhance ultimate hydrocarbon recovery.

» Acquiring new hydrocarbon reserves, resources and exploration acreage where opportunities exist to enhance value.

DELIVERING VALUE THROUGH

EXPLORATION organic growth through the drill bit

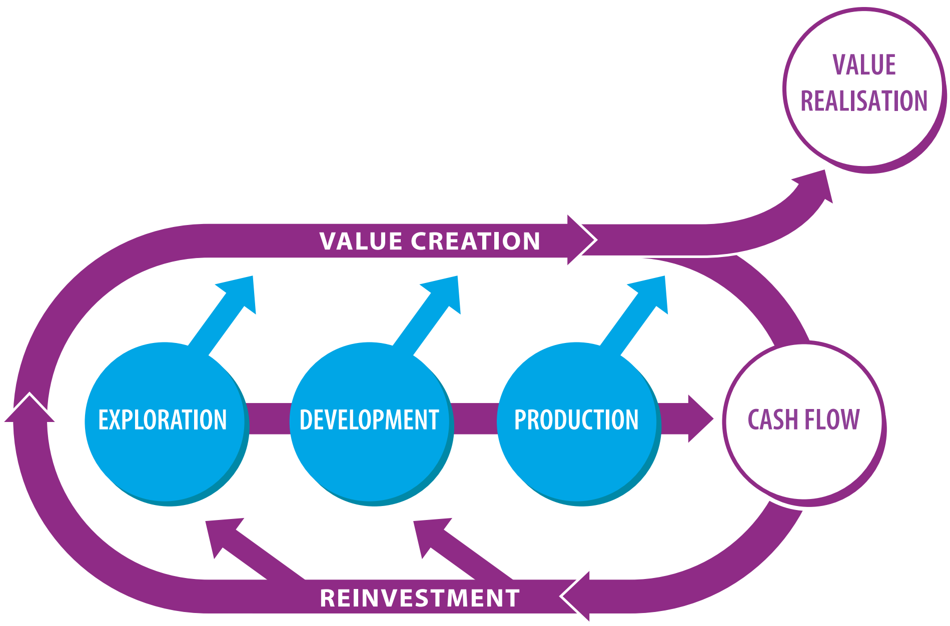
Lundin Petroleum focuses on building core exploration areas in specific countries with a clear objective to grow organically. Our strategy is to improve our technical understanding and thereby to develop new play concepts. We achieve this by using the latest technology including acquiring and processing 3D seismic and by building teams of talented and experienced people.

RESERVES & PRODUCTION converting discoveries into cash flow

Lundin Petroleum focuses on organically increasing its reserves base. Following exploration and appraisal, shareholder value is created through the conversion of discoveries into reserves and production. Our strategy is to continuously optimise the reserves and production throughout the life cycle of the asset by utilising the latest technologies and, above all, skilled people.

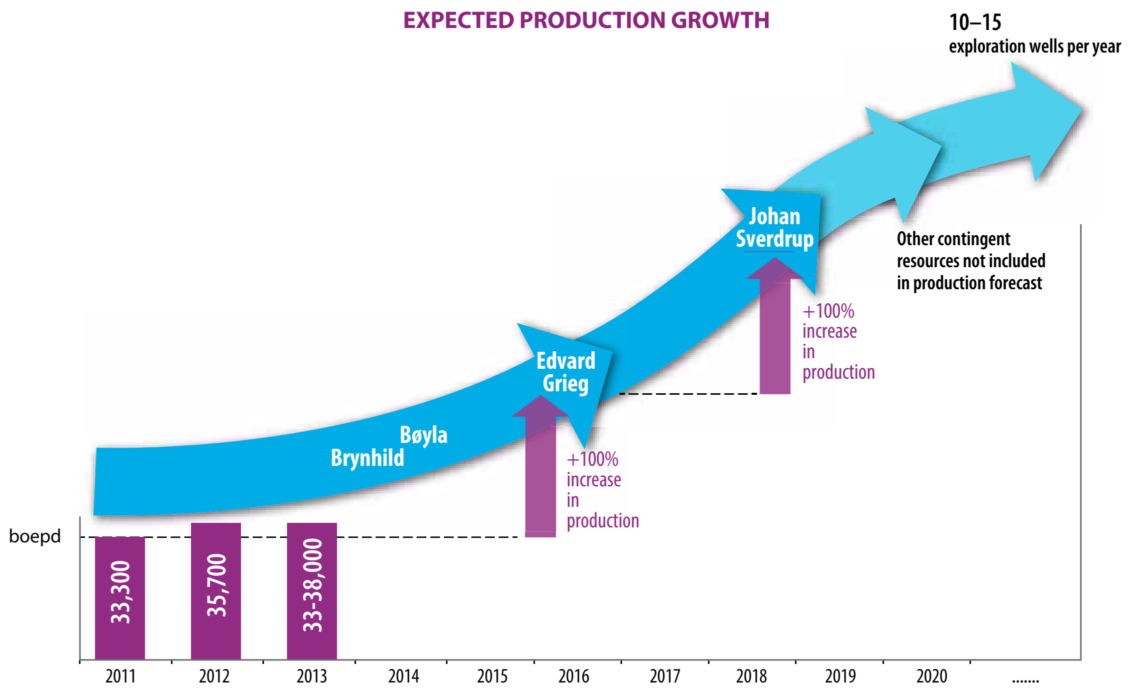
OPPORTUNISTIC VALUE REALISATION unlocking value in our asset portfolio

Throughout all stages of the business cycle, Lundin Petroleum seeks to generate shareholder value. All elements of the asset portfolio are constantly reviewed to determine that their value is fully reflected in the Lundin Petroleum share price. If it is determined that the value of an asset is not being fully reflected within the Lundin Petroleum share price, Lundin Petroleum will review all available options to determine how to realise the full value of that asset.



ORGANIC GROWTH STRATEGY BEARING FRUIT

CHIEF EXECUTIVE OFFICER'S REVIEW



Dear fellow shareholders,

2012 was yet another successful year for our Company. We have exceeded our production forecasts once again and this, coupled with our low operating costs and cash taxes, has resulted in a record operating cash flow of more than MUSD 830 for the year.

Since the end of 2001, we have increased our share price by over 50 times to a current market capitalisation exceeding USD 8 billion. This has been done without any issuance of new cash equity other than employee stock options. Our strong operating cash flow coupled with the availability of a new USD 2.5 billion bank facility means that we will be able to grow our business without further dilution to our shareholders. We have the ability to quadruple our existing production to over 150,000 boepd over the next seven years through the development of our existing Norwegian discoveries Brynhild, Bøyla, Edvard Grieg and Johan Sverdrup. This growth in production will have a major positive impact on our future financial performance. At the same time we will continue to concentrate on increasing our resource base through a major exploration drilling programme focused predominantly on Norway and South East Asia.

Financial Performance

For the financial year 2012, we generated record operating cash flow of MUSD 831.4 and EBITDA of MUSD 1,144.1 which represent increases of 23 percent and 13 percent respectively when compared to the previous year. Profit after tax for the period was MUSD 103.9 and was negatively impacted by non-cash exploration and asset impairment costs incurred in the fourth quarter. The nature of our business involves the drilling of successful exploration wells, such as Johan Sverdrup where the asset continues to be valued in our balance sheet based upon historical costs, as well as unsuccessful wells where the costs are immediately expensed. We have increased the number of wells to be drilled per year as our business has grown and this will likely mean that our profitability will continue to be negatively impacted by expensing unsuccessful wells. However the valuation of our business will continue to be driven by our ability to discover new resources through our exploration drilling programmes – even though this will not immediately be reflected in the profitability of the Company.

Reserves and Resources

Lundin Petroleum's success has been due to our ability to increase our resource base. Today we have net resources, including reserves and contingent resources of over 1 billion barrels recoverable, which are predominantly oil. Our reserves at the end of 2012 were 201.5 million barrels of oil equivalent. Whilst last year's reserve replacement ratio was lower than in previous years, I think everyone would agree that this will change when the contingent resources from the Johan Sverdrup field in Norway are booked as reserves. There is little doubt that the Johan Sverdrup field is commercial but reserves will not be booked until the signing of a unitisation agreement and the submission of the field development plan both scheduled for the end of 2014.

The Johan Sverdrup appraisal programme is ongoing and will continue throughout 2013 with at least four more appraisal wells. Johan Sverdrup is the largest discovery in the North Sea since the mid 1980's covering a large area. 15 appraisal wells, including the discovery well, have already been drilled and the preparation of a geological and reservoir model to incorporate all the acquired data is ongoing. Statoil as a working operator for the Johan Sverdrup field development has decided to delay the release of updated resource numbers until later this year when the appraisal programme and a conceptual development plan will be completed.

CHIEF EXECUTIVE OFFICER'S REVIEW

Production

Production for 2012 was 35,700 boepd, which was again, in the upper half of our original 32,000 to 38,000 boepd production guidance. Strong performance from the Alvheim and Volund fields, offshore Norway more than made up for lower production than forecast from the Gaupe field, offshore Norway and the early termination of production from the Oudna field, offshore Tunisia. I am pleased that we have consistently achieved our production forecasts over recent years despite the uncertainties and risks in our business.

In 2013 we expect our net production to average between 33,000 boepd and 38,000 boepd for the year and to exit the year at in excess of 40,000 boepd when the Brynhild field reaches plateau production.

We reiterate our guidance of production in excess of 70,000 boepd by the end of 2015 following first production from the Edvard Grieg field.

Development

Our development projects, Brynhild, Bøyla and Edvard Grieg in Norway, are all progressing satisfactorily.

We have increased our equity interest in the Brynhild field to 90 percent. Brynhild is a subsea tie-back to Shell's Pierce FPSO facility in the United Kingdom with a forecast gross plateau production of 12,000 boepd. The Maersk Guardian rig will commence the four Brynhild development wells during the second quarter of 2013. The Edvard Grieg development project is also progressing satisfactorily as we progress through the execution phase. It is very encouraging to see recent photographs of the Kværner Verdal yard on the west coast of Norway where the Edvard Grieg jacket is starting to take shape. The Edvard Grieg project remains on budget and on schedule for first oil in late 2015.

We are in the process of awarding a front end engineering (FEED) contract for the Bertam field development project, offshore Malaysia and still plan to make a final investment decision in 2013.

Appraisal

Five new appraisal wells were drilled on Johan Sverdrup in 2012 by Lundin Petroleum and Statoil. Each of the new wells provides important information for development planning as well as an understanding of the size of the resource. The resource estimates are primarily influenced by depth conversion, reservoir thickness and quality and oil/water contact assumptions. Lundin Petroleum will drill at least a further two appraisal wells and one exploration well in PL501 in 2013 and Statoil will drill two wells in PL265 and one in PL502.

The forward plan still remains for Statoil as working operator of Johan Sverdrup to complete a conceptual development plan by the end of 2013 and a development plan submission by the end of 2014.

Exploration

We are very excited about our 2013 exploration programme which involves the drilling of 18 exploration wells in Norway, South East Asia, France and the Netherlands. The budget of over MUSD 460 will be the largest in the Company's history and will be predominantly focused on Norway which will account for about 75 percent of the expenditure.

In Norway, we will concentrate on three core exploration themes being:

1. To find further resources in the Utsira High area close to the existing Edvard Grieg and Johan Sverdrup discoveries
2. To explore in the frontier Barents Sea area where we believe there is excellent potential for additional oil discoveries
3. To unearth a new core area

We are drilling six exploration wells in the Utsira High area with high expectations for the Luno II (PL359), Kopervik (PL625) and Torvastad (PL501) prospects which all individually have the potential to be material discoveries. In the Barents Sea we continue to increase our acreage in the ongoing licensing rounds and are today one of the largest players in the region. Our exploration drilling programme will continue in 2013 with the drilling of the Gohta prospect in PL492. We have acquired a large acreage position in the northern Norwegian Sea targeting an underexplored Jurassic high area where we will drill a large prospect in 2013 in PL330. I hope this will result in the opening up of the area which contains numerous prospects and leads in both PL330 and adjoining licences which we have secured.

We continue to make good progress with our exploration programme in Malaysia. Following the successful appraisal of the Bertam discovery in PM307 we acquired new 3D seismic on trend with the discovery. This led to the discovery of the 300 bcf Tembakau gas discovery in 2012 also located in PM307. I believe Tembakau which is a material discovery close to existing gas infrastructure has the potential to be commercialised. It is clear that the key to exploration success in Malaysia is to have access to modern 3D seismic data and we plan to continue our proactive exploration of the area in 2013.

Oil Market

The markets have begun 2013 with oil prices increasing. There is a growing realisation that the world economy is slowly recovering and if this continues will result in an increase in oil demand. China is the largest growth market for oil and with its growth rates appearing to bottom out I think we can expect this to further support demand. The geopolitical climate remains an issue with increasing instability in North Africa and little signs of improvement in the Middle East. This will put further pressure on forecasts of oil supply which I believe are already over estimated. Unconventional oil production in North America is certainly increasing but I believe the increased supply will be easily accommodated through growing demand from the developing world and supply declines from mature production areas. As a result I believe oil prices will remain firm.

PEOPLE ARE KEY

People

The oil industry places a great responsibility upon people to make the correct decisions, whether it is in relation to the correct site at which to drill a well or the best plan of development to take a discovery through to production. All of these decisions have to be based upon detailed technical knowledge supported by a sound commercial understanding.

At Lundin Petroleum we have the experienced people capable of making these decisions. On pages 30 to 33 of this annual report, in an extract from a speech I gave at the ONS conference, I explain how people have contributed to the growth of our business, particularly through the discovery of the giant Johan Sverdrup field offshore Norway.

Finding and retaining experienced professionals in our industry is a challenge we face every day. Exploration success has led to development projects for which we have recruited experienced development personnel and these developments will lead to operated production activities for which we are in the process of building an operating team.

We believe that the rewards for our employees provide both a competitive remuneration structure as well as providing the opportunities and challenges that our portfolio of assets offer for personal development.

Lundin Petroleum

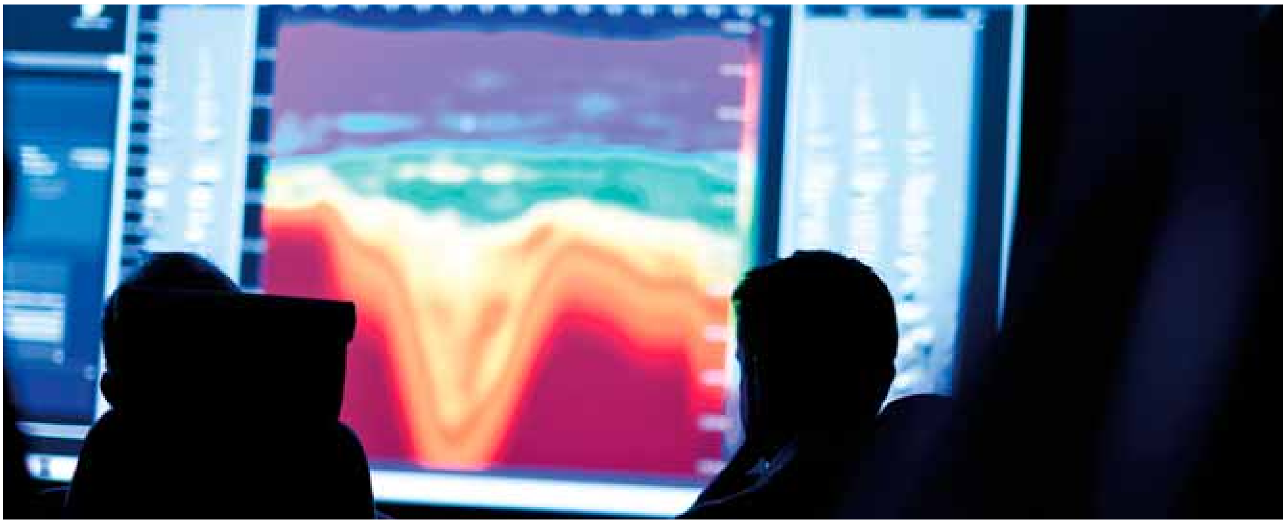
There is no new information to report in respect of the allegations regarding our historical operations in Sudan and Ethiopia. We have and will continue to assist the Swedish prosecutor as requested in relation to his investigation.

In respect of our ongoing commitment to Corporate Social Responsibility we have re-affirmed our engagement towards transparency by becoming an Extractive Industries Transparency Initiative (EITI) Supporting Company. As an EITI Supporting Company, Lundin Petroleum will report in accordance with EITI requirements in Norway and will promote transparency especially within the oil and gas industry and contribute to the fight against corruption.

Lundin Petroleum has delivered on its promise to generate shareholder value through exploration success. Our challenge now is to deliver further exploration success and to convert the discoveries that we have already made into cash flow through the completion of our operated development projects.

Yours sincerely,

C. Ashley Heppenstall
President and CEO



JOHAN SVERDRUP
A TRANSFORMATIONAL DEVELOPMENT

CHAIRMAN'S STATEMENT

Dear fellow shareholders,

Lundin Petroleum achieved a record year in terms of production and cash flow generation in 2012. To put our annual production of 13 million barrels of oil equivalent in context, it represents about 21.5 percent of Sweden's annual consumption of transport fuel or the energy output from three medium to large sized power plants. The ongoing development projects in Norway will ensure a steady growth in production throughout the coming years. When Johan Sverdrup reaches plateau production, I expect the Company's production to have grown by some 400 percent.

What is even more impressive is that over 90 percent of that growth will come from Norway, a politically and fiscally stable country where our product is priced at a premium to Dated Brent crude. However we should not forget that the underlying value of the Company is based on the number of barrels of oil equivalent of reserves and resources in the ground. Total booked reserves today stand at 202 million boe compared to contingent resources of almost 1 billion boe. In order for a contingent resource to be upgraded into reserves, it has to go through several stages of investigation from appraisal drilling to the formulation of a conceptual development plan and in some cases unitisation. The discovery known as Johan Sverdrup on PL501 and PL265, the largest discovery anywhere in the world in 2010, continues with appraisal drilling and it is expected that the PDO will be submitted in the fourth quarter of 2014. A unitisation process will proceed in parallel with the PDO submission (Lundin Petroleum has 40 percent working interest in PL501 and 10 percent in PL265). We would therefore expect to book Johan Sverdrup as reserves in 2015. But we will not stop there; Lundin Petroleum will drill 15 exploration wells in 2013 in Norway and South East Asia. Apart from the ongoing exploration programme in Malaysia and Indonesia, we are evaluating an oil discovery on Block PM308A offshore Peninsular Malaysia, which I hope will result in Lundin Petroleum's first development in that part of the world.

Since the acquisition of the North Sea assets in 2003, Lundin Petroleum's growth has been purely organic (i.e. without acquisitions or share issues for financing purposes). The Company's market value has grown exponentially during that period. This growth coupled with a dividend to shareholders in 2010 of USD 750 million, through the sale of the UK assets is a most impressive achievement. The Company is sufficiently funded to carry out the extensive exploration and development programme thanks to a combination of a USD 2.5 billion credit line established by 25 strong international banks and, of course, to our own strong cash flow. In 2013 alone, the Company expects to spend approximately USD 1.7 billion on exploration, appraisal and development. This capital spending programme should certainly unlock further value and ensure continued growth.

I am very proud of the men and women at Lundin Petroleum who work around the world and around the clock to deliver energy to meet the world's ever increasing needs. They do so without losing sight of the impact we have on the local communities and of the critical importance of following rules and regulations and best industry practice concerning health, safety and the environment. Lundin Petroleum is regularly rated for its ESG (environmental, social and governance) performance by various agencies such as MSCI and was placed on STOXX's ESG Leadership Index in 2012. The Board of Directors pays close attention to these matters which are of critical importance to the Company's raison d'être. I am indebted to the Board, the management, and every employee for taking Lundin Petroleum to new heights as we seek outstanding returns for our shareholders in a socially and environmentally responsible manner.

Finally a big thank you to you, fellow shareholders, for your continued support and loyalty.

Yours sincerely,

Ian H. Lundin
Chairman of the Board

EXPLORE

Targeted prospective resources 2013

Over 600 MMboe[1]

DEVELOP

Contingent Resources end 2012

Over 900 MMboe[2]

Reserves end 2012

Over 200 MMboe

PRODUCE

Production performance 2012

35,700 boepd

Production forecast 2013

33,000–38,000 boepd

LUNDIN PETROLEUM IS ACTIVE IN ALL STAGES OF THE LIFE CYCLE OF AN UPSTREAM OIL COMPANY. CONCENTRATED ACREAGE POSITIONS PROVIDE DRILLING PROSPECTS WHICH ARE CLASSIFIED AS PROSPECTIVE RESOURCES. HYDROCARBONS DISCOVERED THROUGH EXPLORATION DRILLING ARE CLASSIFIED AS CONTINGENT RESOURCES AND ARE APPRAISED TO DETERMINE COMMERCIALITY AND FUTURE DEVELOPMENT POTENTIAL. WHEN A DISCOVERY IS DEEMED COMMERCIAL AND THERE IS A CERTAINTY AS TO DEVELOPMENT, THE HYDROCARBONS ARE CLASSIFIED AS RESERVES.

[1] Excludes Torvastad prospect and proposed well in PL410 in Norway, Malaysia exploration drilling and Gurita well in Indonesia.

[2] PL501 mid range of previously guided 800–1,800 MMboe gross and PL265 mid range of Statoil estimate for Johan Sverdrup and Geitungen discovery

RESERVES

RESERVES SUMMARY

End 2011	**210.7**
– Produced (excluding sales/acquisitions)	-13.1
+ New Reserves (excluding sales/acquisitions)	-0.2
– Sales/ + Acquisitions	+4.1
End 2012	**201.5**

Oil price (Brent) USD 100/bbl + 2% escalation on oil price and costs

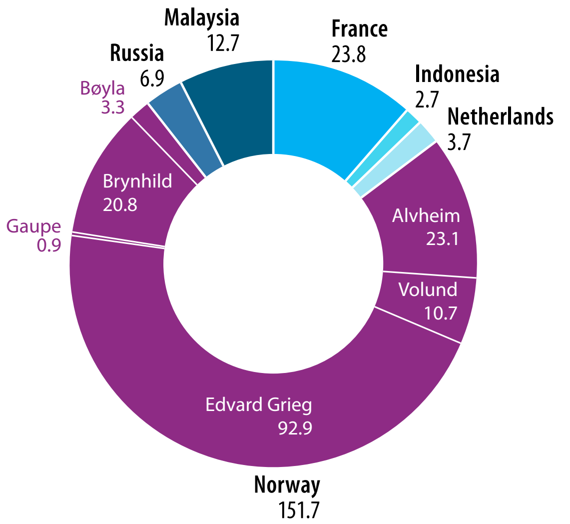
Lundin Petroleum had 201.5 million barrels oil equivalent (MMboe) of reserves at the end of 2012. After ten years of reserves growth (see graph on this page), 2012 resulted in a two percent increase in reserves when compared to end year 2011, following the acquisition of an extra 20 percent of the Brynhild field in Norway and excluding 2012 production of 13.1 MMboe.

The Reserves Changes graph on this page shows a significant reserves addition related to the Bertam development in Malaysia which passed the conceptual development phase and is moving towards a field development plan submission in 2013. Furthermore the development plan for the Brynhild field in Norway was revised with the inclusion of a fourth development well, resulting in a reserves increase. Lundin Petroleum's two main producing fields in Norway, Alvheim and Volund also saw a reserves increase due to good production results and the inclusion of an Alvheim infill well to be drilled in 2014.

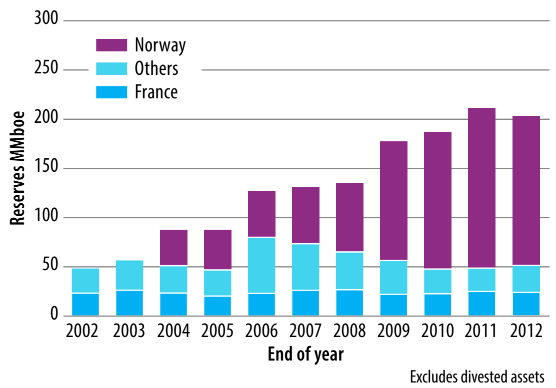
These increases in reserves were offset by strong 2012 production as well as reserves reductions due to poor production performance in the Gaupe field in Norway and the Komi fields in Russia.

Of the 201.5 MMboe of reserves, 91 percent is related to oil reserves and 92 percent of the total reserves are situated in tax-royalty regimes. Lundin Petroleum quotes all of its reserves in working interest barrels of oil equivalent. All reserves are independently audited by ERC-Equipoise Ltd. (ERCE).

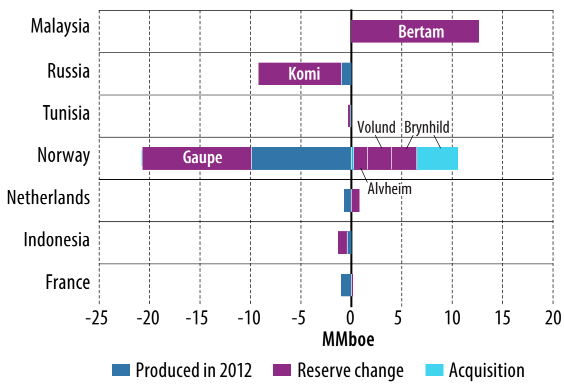
END 2012 RESERVES (MMboe)



RESERVES GROWTH



RESERVES CHANGES



CONTINGENT RESOURCES

Lundin Petroleum also has a number of discovered oil and gas resources which classify as contingent resources. Contingent resources are known oil and gas resources not yet classified as reserves due to one or more contingencies. Work is continuously on going to remove these contingencies and to move contingent resources to reserves.

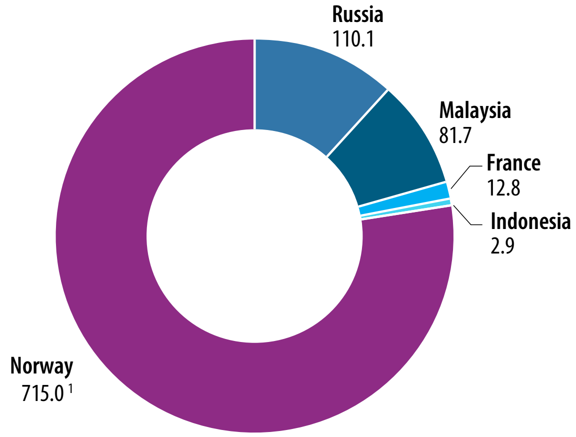
The Johan Sverdrup field in Norway constitutes almost two thirds of the 923 MMboe[1] of Lundin Petroleum's best estimate contingent resources. The field was discovered in 2010 and included in contingent resources at the end of 2010. At that stage the field size was uncertain and an appraisal campaign was started to delineate the field and establish a conceptual development plan. This work resulted in a large contingent resource update in 2011 as results indicated a much larger structure (see Contingent Resource History graph). Although there is no doubt that the Johan Sverdrup field will be developed and will be moved to reserves in the near future, the booking of reserves is contingent upon the formulation of a conceptual development plan as well as the successful outcome of unitisation discussions.

Following exploration success in the 2011 and 2012 drilling campaigns in Malaysia, 82 MMboe of gas contingent resources (net to Lundin Petroleum) were discovered in Sabah, east Malaysia and in Peninsular Malaysia. In Peninsular Malaysia there is an established gas market and infrastructure is relatively close. The Tembakau gas discovery (306 bcf gross best estimate contingent resources) is contingent on appraisal and the formulation of a conceptual development plan. In Sabah, east Malaysia the resource is contingent on certain local gas market aspects.

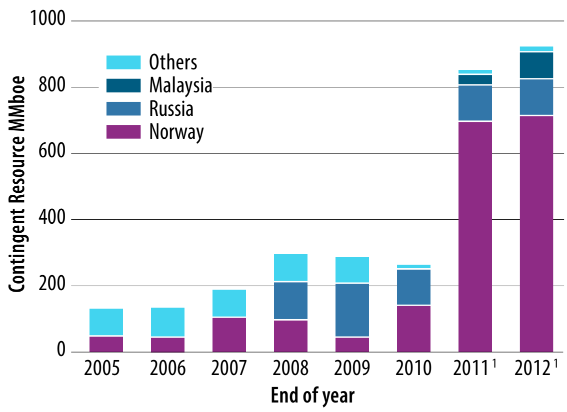
Most of the contingent resource estimates have been independently audited by ERCE. Gross contingent resources in the PL501 part of Johan Sverdrup (WI 40%) have been estimated at between 800 and 1,800 MMboe as audited by Gaffney Cline and Associates (GCA) as at the end of 2011. Appraisal is still ongoing and ERCE has not reviewed any update to the end 2011 estimates. In 2011, Statoil, the operator of PL265, has estimated gross contingent resources of 900 to 1,500 MMboe in the PL265 part of Johan Sverdrup (WI 10%). Statoil has also estimated that the 2012 Geitungen discovery in PL265 contains between 140 and 270 million barrels of gross recoverable oil (WI 10%). The Statoil estimates have not been independently audited by ERCE or GCA on behalf of Lundin Petroleum.

Lundin Petroleum has a substantial contingent resource portfolio which provides a strong resource base for future production growth.

CONTINGENT RESOURCES (MMboe)

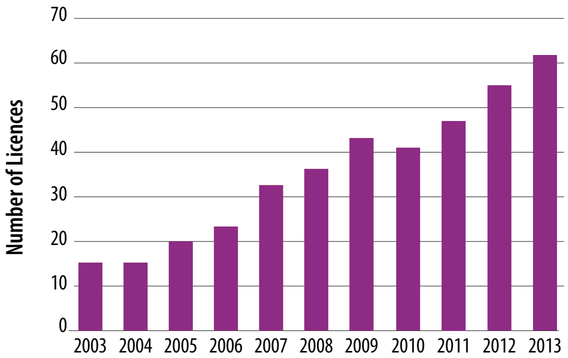


CONTINGENT RESOURCE HISTORY

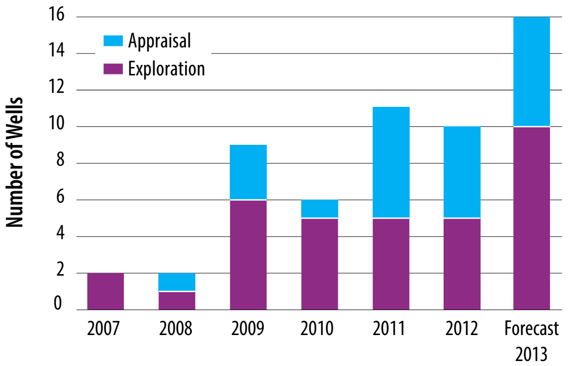


[1] PL501 mid range of previously guided 800–1,800 MMboe gross and PL265 mid range of Statoil estimate for Johan Sverdrup and Geitungen discovery

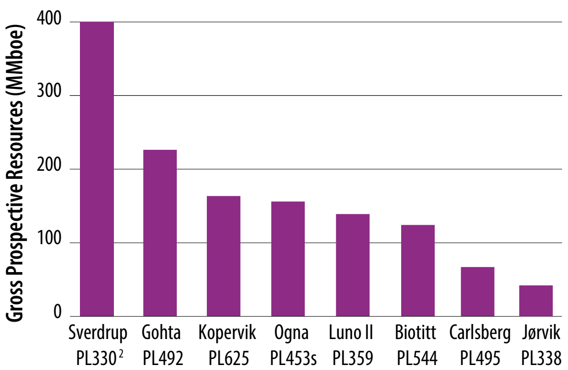
NORWAY – NUMBER OF LICENCES HELD



NORWAY – NUMBER OF WELLS DRILLED



NORWAY – TARGETED PROSPECTIVE RESOURCES DURING 2013 [1]



[1] Excludes Torvastad prospect and proposed well in PL410 in Norway, Malaysia exploration drilling and Gurita well in Indonesia.

[2] PL330 resources are partner estimates

PROSPECTIVE RESOURCES

Lundin Petroleum's business model is to grow organically through exploration. This means identifying and maturing exploration targets, drill exploration wells, appraise discoveries, develop and finally produce. To be successful with this strategy access to world class exploration acreage and first class people is needed. Lundin Petroleum has concentrated on two core exploration areas, Norway and South East Asia.

In Norway, Lundin Petroleum is now the second largest operated acreage holder after Statoil. The graph on this page shows the continuous growth in the number of licences held by Lundin Petroleum in Norway. In the 2012 APA round Lundin Petroleum were awarded seven new licences.

Since South East Asia was established as a core area in 2007, Lundin Petroleum now has a total of 12 exploration licences in Malaysia and Indonesia. In Malaysia, Lundin Petroleum is the second largest acreage holder after Petronas.

In 2013, Lundin Petroleum is planning to drill (operated and non-operated) 18 exploration wells, targeting in excess of 600 MMboe of net unrisked prospective resources. Ten exploration wells are planned to be drilled in Norway and five are planned to be drilled as part of the drilling campaign in Malaysia and Indonesia. Three wells are planned to be drilled in France and the Netherlands.

Lundin Petroleum only discloses prospective resource estimates for those prospects that will be drilled in the following year. However, many more prospects and leads have been identified from the large exploration licence portfolio and are being matured to be drilled in future years. In Norway rig capacity is already secured until 2016 to drill some nine to twelve exploration wells per year. In South East Asia, large areas of new 3D seismic have been acquired in core areas to help mature additional prospectivity and to formulate drilling campaigns in the years to come.

PRODUCTION

Lundin Petroleum produced 13.1 MMboe during 2012 at an average rate of 35,700 boepd. In early 2012 production for 2012 was forecasted to between 32,000 and 38,000 boepd and for the fourth consecutive year Lundin Petroleum produced within the guided range.

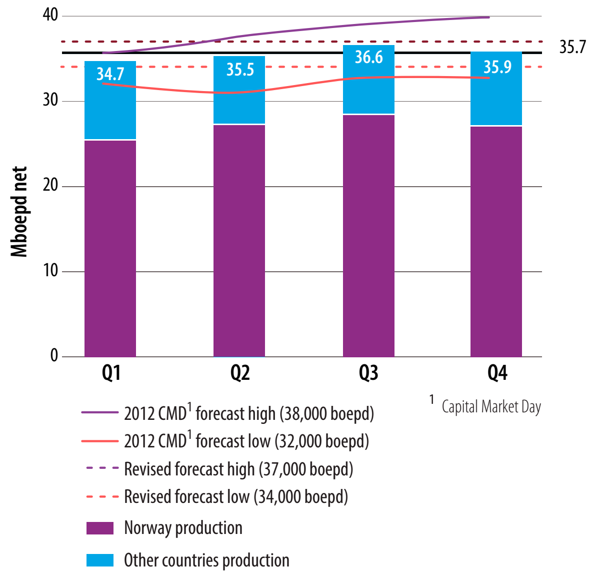
Continued strong production in the Alvheim and Volund fields was partly offset by disappointing production from the Gaupe field in Norway and the Singa field in Indonesia. Gaupe was brought onstream at the end of the first quarter 2012 and has proved to be a more compartmentalised reservoir than initially envisaged, resulting in a significant reserves write down. Singa production was impacted by a prolonged shut down of one of the producing wells awaiting repairs to the wellhead. In early 2012 all the production from the Oudna field in Tunisia was also lost following a rupture of one of the risers to the Ikdam FPSO during very heavy weather. The repairs were deemed uneconomic and the Oudna field was abandoned during 2012.

Lundin Petroleum's production forecast for 2013 is in the range of 33,000 to 38,000 boepd, at similar levels to 2012. Good production is expected from the Alvheim and Volund fields following the completion of one new Alvheim well at the end of 2012 and the start-up of one newly drilled Volund well in early 2013. Production for the third quarter of 2013 will be negatively impacted by a maintenance shutdown on the Alvheim FPSO. The Brynhild field is expected to come onstream in the fourth quarter of 2013. The project is currently on schedule and is expected to increase our net production to 40,000 boepd by the end of the year.

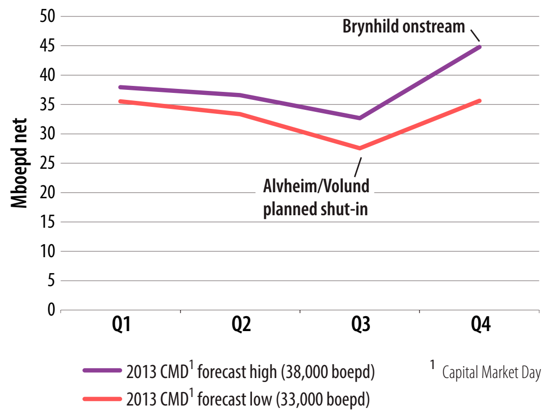
During 2012, the development plans for the Bøyla and Edvard Grieg fields were approved and with first oil expected in 2014 and 2015 respectively, Lundin Petroleum is forecasted to double its production by end 2015. This increase excludes any contribution from the potential Bertam field development in Malaysia for which a development plan is scheduled to be submitted in 2013, with first oil in 2015 at an estimated gross plateau rate of about 15,000 bopd. Lundin Petroleum has a 75 percent interest in Bertam.

The giant oil field Johan Sverdrup, with first oil planned in 2018, has the potential to quadruple the current net production when Johan Sverdrup reaches plateau production. This excludes any contribution from the rest of the contingent resource base, or any contribution from the 10 to 15 exploration wells Lundin Petroleum is planning to drill each year.

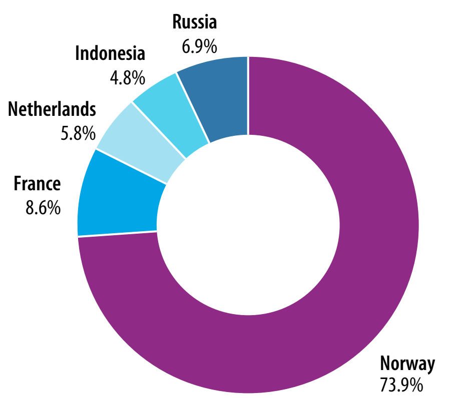
2012 PRODUCTION PERFORMANCE



2013 PRODUCTION GUIDANCE



2013 PRODUCTION GUIDANCE BY COUNTRY



Reserves Defined

RESERVES	PROVED RESERVES	PROBABLE RESERVES
Lundin Petroleum calculates reserves and resources according to 2007 Petroleum Resources Management System (PRMS) Guidelines of the Society of Petroleum Engineers (SPE), World Petroleum Congress (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE) and in compliance with the Canadian Oil and Gas Evaluation Handbook (COGE Handbook) and the Canadian National Instrument 51–101 Standards of Disclosure for Oil and Gas Activities. Lundin Petroleum's reserves are audited by ERC-Equipoise Ltd. (ERCE), an independent reserves auditor. Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. Estimation of reserves is inherently uncertain and to express an uncertainty range, reserves are subdivided in Proved, Probable and Possible categories. Lundin Petroleum reports its reserves as Proved plus Probable (2P) reserves.	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates.	Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves.

Resources Defined

CONTINGENT RESOURCES	PROSPECTIVE RESOURCES
Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be commercially viable for the Company to produce any portion of the contingent resources.	Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and chance of development. There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.

OIL DEMAND REMAINS STRONG

OIL MARKET OVERVIEW

Oil Demand and Supply and the price of oil

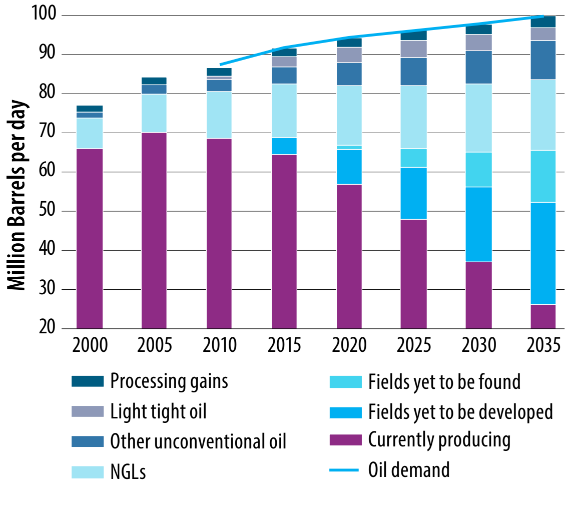
Oil remains the primary source of world energy consumption and is estimated to remain so for decades to come. Apart from the years 2008/2009 the world's oil demand has increased every year since 1994 with a CAGR (Compounded Annual Growth Rate) of 1.4 percent over this period up to 2012. The world's oil demand in 2012 amounted to just below 90 million barrels per day compared to less than 70 million barrels per day as recently as the mid-nineties. Non-OECD economic growth is continuing to fuel the demand for oil whilst OECD oil demand is continuing to fall due to sluggish economic growth and due to gains in fuel efficiency. The oil consumption propensity in the non-OECD economies is still relatively low but as these economies continue to grow and become more industrialised this propensity of consumption will also grow despite the continued improvement in energy efficiency. Oil consumption is forecast to increase further over the next decades driven by demand from the transportation sector, in particular from heavy duty vehicles. Demand from personal vehicles is forecast to remain relatively flat despite that the world fleet of personal vehicles is projected to double to 1.6 billion vehicles by 2040.

The world's current annual oil consumption amounts to roughly 32 billion barrels. This means that to retain a constant reserve base, which in turn ensures a sufficient level of oil supply, the world needs to replace 32 billion barrels of oil every year either through new discoveries or through improved recovery from existing discoveries. Over recent years the average amount of oil discovered per year amounts to only roughly one third of the world's annual oil consumption. In addition to annual consumption consistently exceeding new volumes discovered the supply level of oil is also facing challenges from continuous decline from the older fields. The world oil supplies are to a large degree coming from older oil fields where production is now in decline. There are differing opinions on the world's decline rate from the currently producing fields but researchers point to a decline rate of more than 5 percent per annum which translates to a reduction of daily production from existing fields of around 4.5 million barrels or more.

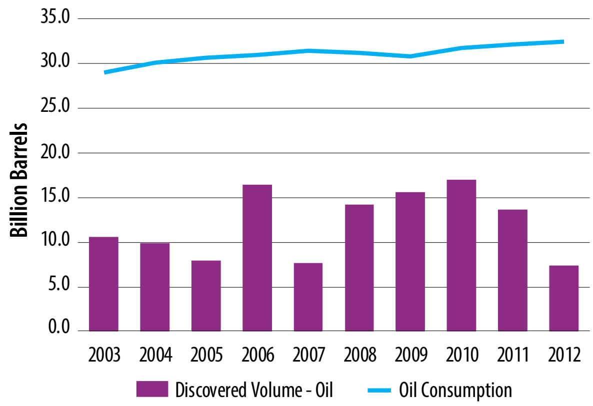
The average oil price for Dated Brent through 2012 was USD 112 per barrel which essentially is flat relative to the 2011 Dated Brent price. Since the beginning of the 20th century the oil price level, adjusted for inflation, during 2011 and 2012 has not been surpassed by any other year during this period. The recent strong oil price has enabled certain discovered resources to become commercially viable despite the high development and production costs associated with such resources. Typical resources falling into this high cost category are very deep water and/or deep reservoir developments and unconventional resources such as shale oil and tar sands. Whilst such marginal developments increase the supply of oil, such supply can only be relied on as long as the oil price stays strong because in a lower oil price environment these projects become uneconomic.

A continued increase in the demand for oil and a relatively large decline rate on the older producing fields makes Lundin Petroleum a firm believer in strong oil prices going forward.

FORECAST OIL SUPPLY AND DEMAND



OIL CONSUMPTION vs DISCOVERIES



Source: IEA WEO 2012

ECONOMIC EVALUATION OF AN EXPLORATION AND PRODUCTION COMPANY

Valuation Overview

Investors rely on numerous valuation metrics when deciding which company to invest in. As illustrated in the table on page 21 there are many metrics that can be used to value a company and each of these metrics serves a unique and particular valuation estimate. Each of these metrics focuses upon a different valuation component and provides a different valuation outcome. An investor, however, will normally not base his investment decision on any singular valuation metric, instead such an investment decision will in all likelihood be based upon a combination of valuation metrics, financial ratios and other factors such as the company's funding situation, management's track record and prospects for growth.

The difficulty that an investor faces when comparing companies using these valuation metrics is that companies are often at a different stage in the lifecycle of an oil company and direct comparisons may not give a meaningful valuation measurement. A company with mature assets may give good results on cash flow multiples but may have no resources for future growth. A company with substantial development projects will give a poor result on the same cash flow metric whilst having enormous growth potential.

The relevance of each metric to a company must be fully understood before meaningful comparisons can be made.

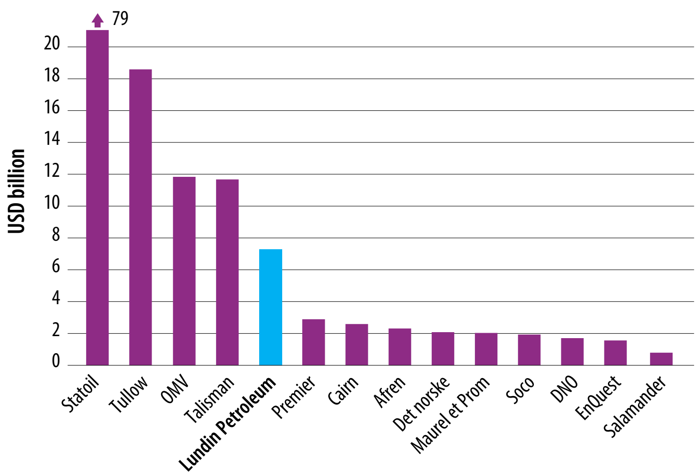
Dividend yield

Companies with excess cash have the choice of re-investing this cash into their existing asset base, to repay debt or to return this cash to its shareholders through dividends or through buying back its own shares. As companies grow and become more and more cash generative, they have a tendency to gravitate towards becoming regular dividend paying companies. Once a company becomes a proven and reliable regular dividend paying company the overriding valuation metric for such a company tends to be its dividend yield.

Analyst Coverage

BANK/BROKER	ANALYST	CONTACT
ABG Sundal Collier	Anders Holte	anders.holte@abgsc.no
Arctic Securities	Christian Yggeseth	christian.yggeseth@arcticsec.no
Bank of America Merrill Lynch	Alexander Holbourn	alexander.holbourn@baml.com
BMO Capital Markets	Kimberley Thompson	kimberley.thompson@bmo.com
Canaccord Genuity	Thomas Martin	tmartin@canaccordgenuity.com
Carnegie ASA	Alexander Vilval	alexander.vilval@carnegie.se
Cheuvreux Nordic	Joakim Ahlberg	jahlberg@cheuvreux.com
Citigroup Global Market	Michael Alsford	michael.alsford@citi.com
Credit Suisse	Thomas Adolff	thomas.adolff@credit-suisse.com
Danske Capital	Andre Baustad Benonisen	andre.benonisen@danskebank.com
Deutsche Bank	Phil Corbett	phil.corbett@db.com
DnB Nor	Espen Hennie	espen.hennie@dnbnor.no
First Securities AS	Teodor Sveen Nilsen	tsn@first.no
GMP Securities Europe LLP	Tao Ly	tao.ly@gmpeurope.com
Goldman Sachs International	Christophor Jost	christophor.jost@gs.com
Handelsbanken Capital Markets	Anne Gjøen	angj01@handelsbanken.no
Macquarie Securities Group	Mark Wilson	mark.wilson@macquarie.com
Morgan Stanley	Jamie Maddock	jamie.maddock@morganstanley.com
Nomura	Tom Robinson	tom.robinson@nomura.com
Nordea	Christian Kopfer	christian.kopfer@nordea.com
Öhman	Petter Hjertstedt	petter.hjertstedt@paretoohman.se
Royal Bank of Canada	James Hosie	james.hosie@rbccm.com
Scotia Capital	Gavin Wylie	gavin_wylie@scotiabank.com
SEB Enskilda	Julian Beer	julian.beer@enskilda.se
Société Générale	David Mirzai	david.mirzai@sgcib.com
Spare Bank 1	Kristoffer Dahlberg	kristoffer.dahlberg@sb1markets.no
TD Securities	Shahin Amini	shahin.amini@tdsecurities.com
Wood Mackenzie	Tom Ellacott	tom.ellacott@woodmac.com

PEER MARKET CAPS 31 DECEMBER 2012



Valuation Metrics				
Nominator	**Denominator**	**Result**	**Strength**	**Weakness**
EV / 2P RESERVES USD/boe				
Enterprise Value (EV) = Market Capitalisation + net debt	Proved + Probable reserves as certified by a reserves auditor as per standardised reserves definition (2P)	Measures what value the stock market puts on each barrel of 2P reserves	Enterprise value is easily derived as it is a function of the company's market capitalisation and net debt, both of which are normally readily available. 2P reserves are reported as per standardised definitions and are normally independently certified. Most E&P companies report 2P reserves once per year.	The valuation metric ignores all non-reserve assets such as contingent resources (2C) and prospective resources (exploration). The valuation metric also does not differentiate between reserves which are producing (more valuable) and reserves which are undeveloped or under development (less valuable) and nor does the metric reflect on the cash generation of the business.
EV / 2P + 2C RESOURCES USD/boe				
Enterprise Value = Market Capitalisation + net debt	2P reserves + contingent resources (2C) which may or may not be certified independently	Measures what value the stock market puts on each barrel of 2P reserves + 2C resources	Enterprise value is easily derived as it is a function of the company's market capitalisation and net debt, both of which are normally readily available. Includes all discovered resources in the portfolio (reserves and resources). Most E&P companies report 2P reserves and 2C resources once per year.	The valuation metric ignores prospective resources (exploration) in the company's portfolio. The valuation metric also does not differentiate between reserves which are producing (more valuable) and reserves which are undeveloped or under development (less valuable) and neither does the valuation metric take account of differing development costs or tax rates applicable to the undeveloped reserves and contingent resources. The valuation metric does not reflect on the cash generation of the business.
EV / 2P + 2C + RP RESOURCES USD/boe				
Enterprise Value = Market Capitalisation + net debt	2P reserves + 2C resources + Risked Prospective resources (RP resources) which may or may not be certified independently	Measures what value the stock market puts on each barrel of 2P reserves + 2C resources + risked prospective resources	Enterprise value is easily derived as it is a function of the company's market capitalisation and net debt, both of which are normally readily available. Includes all discovered resources in the portfolio (reserves and resources) and all risked undiscovered resources in the portfolio. Most E&P companies report 2P reserves and 2C resources and risked prospective resources once per year.	The valuation metric does not differentiate between reserves which are producing (more valuable) and reserves which are undeveloped or under development (less valuable) and neither does the valuation metric take account of differing development costs or tax rates applicable to the undeveloped reserves and contingent resources. The risked prospective resources is a highly subjective measurement as these resources have not been proven to exist. The valuation metric does not reflect on the cash generation of the business.
P/E RATIO				
P = share price of the company	E = Net post tax profit per share (EPS) on an annualised basis	Measures how many times annual earnings the market is valuing the company at	The share price of a company is always readily available. The annual net profit of a company is always readily available and is reported and audited according to standardised definitions all around the world.	The net profit of an E&P company only reflects the assets which are in production. Undeveloped 2P reserves and 2C resources are not reported in the income statement until such time that these assets are in production and nor are any prospective resources (exploration) reported in the income statement. The valuation metric does not reflect on the cash generation of the business.
EV/EBITDA				
Enterprise Value = Market Capitalisation + net debt	EBITDA = Earnings before Interest, Tax, Depreciation and Amortization on an annualised basis	Measures how many times annual EBITDA the market is valuing the company at including the company's net debt	Enterprise value is easily derived as it is a function of the company's market capitalisation and net debt, both of which are normally readily available. The annual EBITDA of a company is always readily available and is reported and audited according to standardised definitions all around the world.	The EBITDA of an E&P company only reflects the assets which are in production. Undeveloped 2P reserves and 2C resources are not reported in the income statement until such time that these assets are in production and nor are any prospective resources (exploration) reported in the income statement. The EBITDA measure does not reflect the possible cash taxes the producing reserves attract – the cash taxes can vary significantly from concession to concession and therefore the post tax cash generation is not necessary linearly related to the EBITDA measure.
EV/OCF				
Enterprise Value = Market Capitalisation + net debt	OCF = Operating Cash Flow on an annualised basis, normally the OCF is reported after cash tax payments	Measures how many times annual OCF the market is valuing the company at including the company's net debt	Enterprise value is easily derived as it is a function of the company's market capitalisation and net debt, both of which are normally readily available. The annual OCF of a company is always readily available and is reported and audited according to standardised definitions all around the world.	The reported OCF of an E&P company only reflects the assets which are in production. Undeveloped 2P reserves and 2C resources are not reported in the income statement until such time that these assets are in production and nor are any prospective resources (exploration) reported in the income statement
NET ASSET VALUE (NAV)				
		Measures the value of projected discounted cash flows from the company's asset base	Reflects the company's entire cash generation from its asset base including as yet undeveloped 2P reserves and 2C resources and a deemed risked valuation of the company's prospective resources (exploration assets).	Requires very detailed information on 2P reserves, 2C resources and risked prospective resources as well as fiscal regimes (tax) for each concession. This level of detail is normally not available to outsiders/third parties. Also requires discretionary assumptions on oil/gas prices, exchange rates and discount rates as well as estimates on development costs, costs which may not be incurred until many years in the future and hence difficult to estimate.

116 LICENCES IN 6 COUNTRIES

Lundin Petroleum has exploration and production assets focused upon two core areas, Norway and South East Asia, as well as assets in France, Netherlands and Russia. Lundin Petroleum maintains an exploration focus seeking to generate shareholder value through exploration success and also has the resources to take exploration successes through to the production phase.

Norway

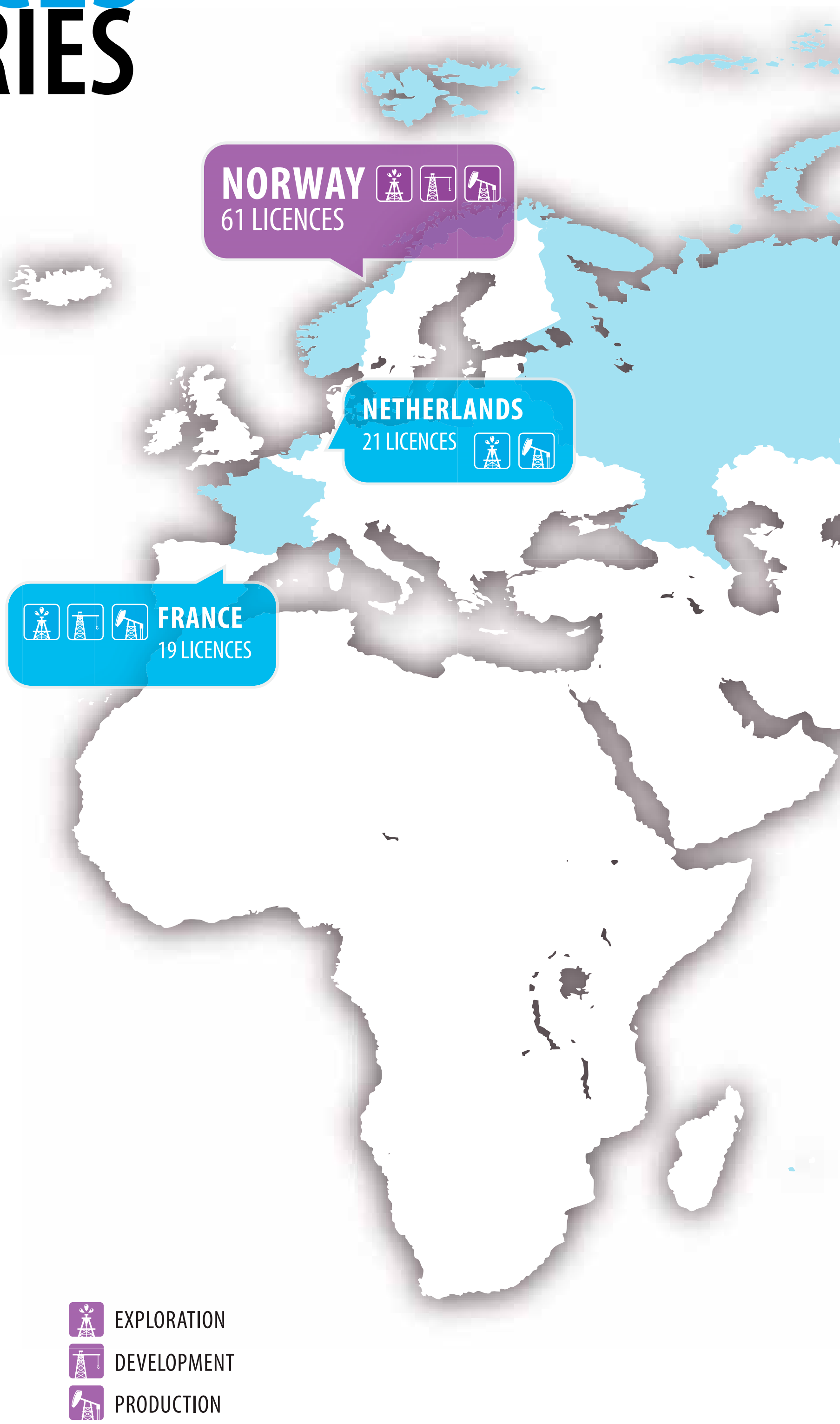
Lundin Petroleum entered Norway in 2003 and now holds 61 licences with activities spread between exploration, appraisal, development and production. It is planned to drill ten exploration wells in Norway in 2013. Exploration success has led to the Brynhild and Edvard Grieg developments, which will be the beginning of Lundin Norway operating its own production facilities. The Norwegian portfolio is dominated by the giant Johan Sverdrup field, discovered by Lundin Petroleum in 2010 on PL501. Johan Sverdrup sits in two licences, PL501 and PL265, and is therefore subject to a unitisation process to allocate resources to all of the licence partners. 15 wells have been drilled on the structure to date to determine the size of the resources. Statoil, operator of PL265, has been appointed working operator of the Johan Sverdrup development planning phase. The Alvheim and Volund fields continue to produce at or above forecast generating strong cash flows for reinvestment in the business.

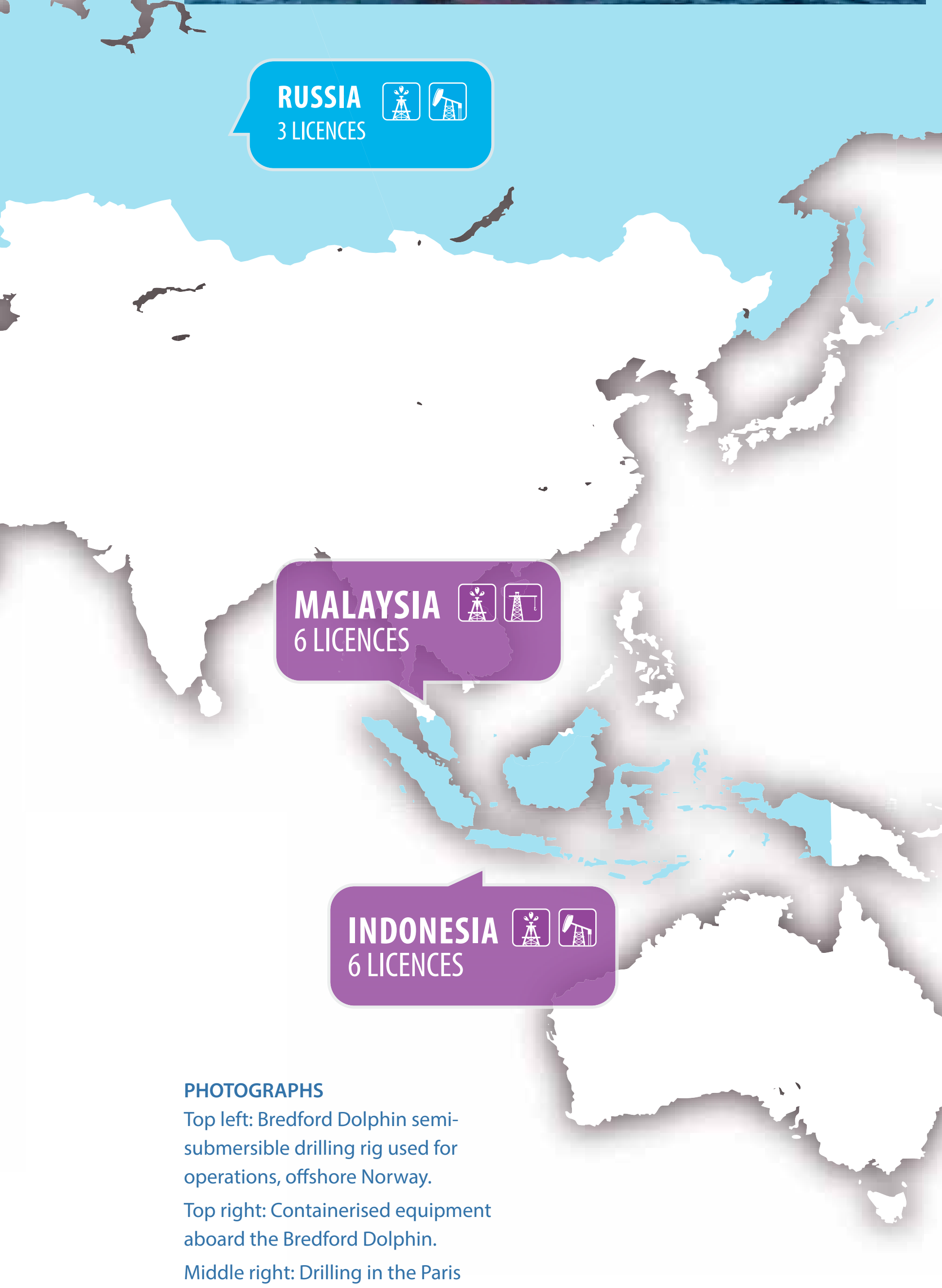
South East Asia

Lundin Petroleum has continued to develop its business in South East Asia through a second year of drilling operations in Malaysia as well as the preparation for commencement of a drilling campaign in Indonesia in 2013. Following discoveries in seven out of the ten wells drilled in Malaysia, Lundin Petroleum is looking for technical and commercial solutions to be able to develop the hydrocarbon resources discovered. The most mature discovery is the Bertam field. Initial engineering studies are being carried out for a field development.

Other

Lundin Petroleum continues to generate good cash flow from its operations in France, Netherlands and Russia. Operations in Tunisia ceased during 2012 when the Oudna field was decommissioned.





PHOTOGRAPHS

Top left: Bredford Dolphin semi-submersible drilling rig used for operations, offshore Norway.

Top right: Containerised equipment aboard the Bredford Dolphin.

Middle right: Drilling in the Paris Basin, onshore France.

Bottom right: Drilling offshore Peninsular Malaysia.

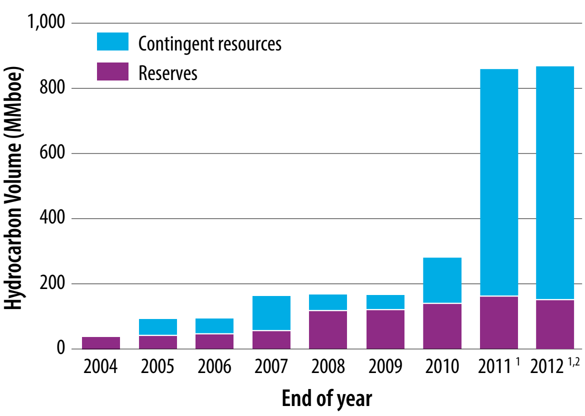
NORWAY IS LUNDIN PETROLEUM'S PRINCIPAL AREA OF OPERATION. LUNDIN PETROLEUM'S STRATEGY OF ORGANIC GROWTH HAS LED TO A PORTFOLIO OF NORWEGIAN LICENCES COMPRISING THE FULL SPECTRUM OF EXPLORATION AND APPRAISAL, DEVELOPMENT AND PRODUCTION ASSETS.


Norwegian drilling operations, Bredford Dolphin drilling rig

NORWAY

NORWAY KEY DATA	2012	2011
Reserves (MMboe)	**152**	162
Contingent resources (MMboe)	**715** [1,2]	697 [1]
Average net production per day (Mboepd)	**27**	23
Net turnover (MUSD)	**1,057**	975
Sales price achieved (USD/boe)	**107**	110
Cost of operations (USD/boe)	**5**	4
Operating cash flow contribution (USD/boe)	**72**	64

NORWAY RESOURCES



[1] PL501 mid range of previously guided 800–1,800 MMboe gross and PL265 mid range of Statoil estimate for Johan Sverdrup and Geitungen discovery for Johan Sverdrup PL265

[2] Excludes Ragnarrock and Luno South discoveries

Operations

Norway continues to represent the majority of Lundin Petroleum's operational activities with production during 2012 accounting for 76 percent of total 2012 production and accounting for 75 percent of total reserves as at the end of 2012. Lundin Petroleum's contingent resources are also concentrated in Norway with 77 percent of total best estimate contingent resources as at year end 2012 relating to discoveries in Norway and thus underpinning Norway as the major production contributor for Lundin Petroleum in the years to come. Over the next three years the majority of Lundin Petroleum's development expenditure will be channelled into development projects in Norway.

Production

The growth in production from the Norwegian assets continued in 2012 to an annual average production of 27,200 boepd, an increase of 17 percent over the 2011 production.

Alvheim

The net production from the Alvheim field (Working Interest (WI) 15%) during 2012 was 11,800 boepd, an increase of five percent relative to 2011. This increase was driven by two additional infill wells being completed on Alvheim during 2012, as well as an excellent uptime performance for the Alvheim FPSO of in excess of 95 percent. Two new infill wells on Alvheim were put into production in 2012 and this combined with the additional two infill wells drilled on Alvheim in 2011, and better than expected reservoir quality have resulted in an increase in gross ultimate recovery on Alvheim from 167 MMboe as at year end 2005 when the Alvheim plan of development was completed to 291 MMboe as at year end 2012, a 74 percent increase. The gross best estimate contingent resources associated with the Alvheim field amounted to 52 MMboe as at year end 2012 and represent possible targets for future infill wells. In January 2013, the Alvheim partnership was awarded additional acreage to the north of the Alvheim field through the 2012 APA licensing round, adding growth potential to the asset through securing near-field acreage to unlock additional drilling targets. The cost of operations for the Alvheim field for 2012 was below USD 5 per barrel excluding certain planned well intervention work.

Volund

The Volund field (WI 35%) achieved average net production of 13,100 boepd during 2012 which is an increase of nine percent relative to 2011. The production during 2012 exceeded expectations due to better than expected reservoir performance and better than expected Alvheim FPSO uptime. An additional Volund development well was drilled during 2012 and commenced production in early 2013. Since commencing production in 2010 the reservoir performance from the Volund field has exceeded expectations and as a result the certified gross ultimate recovery has increased from 50 MMboe at the time of submitting the plan of development for the field to 62 MMboe as at year end 2012. The cost of operations for the Volund field during 2012 was below USD 2 per barrel driven by lower than expected production costs and better than expected production.

Gaupe

First production from the Gaupe field (WI 40%) was achieved on 31 March 2012. Production from the Gaupe field has been below forecast since the commencement of production. Technical analysis indicates that the two production wells are connected to lower hydrocarbon volumes than was forecast prior to production startup due to increased compartmentalisation of the reservoir.

Development

Edvard Grieg

The Edvard Grieg field (WI 50%) was discovered by Lundin Petroleum in 2007 and the Norwegian Parliament approved the plan of development in June 2012. The development plan incorporates the provision for the coordinated development solution of the Edvard Grieg field with the nearby Ivar Aasen field (formerly Draupne) located in PL001B and operated by Det norske oljeselskap ASA. A plan of development was submitted for the Ivar Aasen field in December 2012.

The Edvard Grieg field is estimated to contain 186 MMboe of gross reserves with first production expected in late 2015 and forecast gross peak production of approximately 100,000 boepd. The gross capital cost of the Edvard Grieg field development is estimated at USD 4 billion and includes platform, pipelines and 15 wells. Contracts have been awarded to Kværner covering engineering, procurement and construction of the jacket and the

NORWAY DEVELOPMENTS

Illustrations of the Edvard Grieg platform and Brynhild subsea manifold.

Information brochures on the Edvard Grieg and Brynhild developments are available on www.lundin-petroleum.com

OPERATIONS – NORWAY

Left to right: Erik Sverre Jenssen, Chief Operating Officer and Torstein Sanness, Managing Director, Lundin Norway.

topsides for the platform and to Rowan Companies for a jack-up rig to drill the development wells. Saipem has been awarded the contract for marine installation. The development is progressing well and the construction work on the jacket which commenced in 2012 is ongoing. An appraisal well is planned to be drilled in the southeastern part of the Edvard Grieg field in 2013 to target additional resources and ensure optimum development well placement.

Brynhild

A plan of development of the Brynhild field in PL148 (WI 90%) was approved by the Norwegian Ministry of Petroleum and Energy in November 2011. The Brynhild field contains gross reserves of 23.1 MMboe and is expected to produce at an estimated gross plateau production rate of 12,000 boepd with first oil forecast in late 2013. The development involves the drilling of four wells tied back to the existing Shell operated Pierce field infrastructure in the United Kingdom sector of the North Sea. The development is well advanced in respect of engineering and construction work and the Maersk Guardian jack-up rig will commence development drilling in the second quarter of 2013. During 2012, Lundin Petroleum announced the completion of a transaction with Talisman Energy to acquire an additional 20 percent interest in PL148, taking Lundin Petroleum's interest in the field to 90 percent.

Bøyla

A plan of development for the Bøyla field in PL340 (WI 15%) was approved by the Ministry of Petroleum and Energy in 2012. The Bøyla field contains gross reserves of 21 MMboe and will be developed as a 28 km subsea tie-back to the Alvheim FPSO. Development drilling is planned to commence in 2013 with first oil from the Bøyla field targeted in the fourth quarter of 2014 at a gross plateau production rate of 19,000 boepd.

Johan Sverdrup (Appraisal)

Lundin Petroleum discovered the Avaldsnes field in PL501 (WI 40%) in 2010. In 2011, Statoil made the Aldous Major South discovery on the neighbouring PL265 (WI 10%) and following continuous appraisal drilling through 2011 it was determined that the discoveries were connected. In January 2012 the combined discovery was renamed Johan Sverdrup. Lundin Petroleum, as operator of PL501, and Statoil, as operator of PL265, have guided that the total resource range for Johan Sverdrup is between 800 and 1,800 MMboe on PL501 and between 900 and 1,500 MMboe on PL265. Both Lundin Petroleum and Statoil have also announced that a resource update is likely to be given towards the end of 2013 when a development concept selection is scheduled to be finalised.

The discovery is estimated to cover 180 km^2 and appraisal wells have been drilled on both PL501 and PL265 that confirm the oil water contact and the reservoir quality at each well location as well as the likely areal extent of the reservoir and the likely distribution of sands.

The Johan Sverdrup field contains two major reservoir units of Jurassic age, the Draupne sandstone, also referred to as Volgian sandstone and the underlying Vestland group. The Draupne sandstone has excellent reservoir characteristics and contains the majority of the Johan Sverdrup resources. The Vestland group is still very good quality reservoir with multi Darcy sands, but has more shaly intervals (lower net to gross) and is laterally more variable. Seismic is good enough to allow accurate prediction of the reservoir top in most of the wells. The total Jurassic package thickness is variable throughout the field but is in general thicker towards the west. During 2012, a total of three appraisal wells and two sidetracks on PL501 have been drilled and a further two appraisal wells on PL265 have also been completed, giving a total of 15 wells drilled on the structure.

In January 2012, the appraisal well 16/5-2S, located on PL501 was completed. The objective of the well was to delineate the southern flank of the Johan Sverdrup discovery within PL501. The well was deep to prognosis and as a result the reservoir was below the oil water contact.

Whilst Lundin Petroleum has not released any resource updates on Johan Sverdrup at the end of 2012, the results of the appraisal drilling to date, taken as a whole lead us to the view that the current most likely mid case Johan Sverdrup resources located in PL501 will be within the lower half of the previously guided 800 to 1,800 MMboe range.

It is likely that at least two further appraisal wells will be drilled in both PL501 and PL265 in 2013 with the main purpose of better defining the recoverable resource and to assist with the development planning strategy. One of the appraisal wells on PL501 will target the southwestern section of the discovery to the north of well 16/5-2 and one will target the northeastern section of the discovery to the east of well 16/2-13. One of the two appraisal wells on PL265 will target the fault margin with a

Johan Sverdrup Well Summary				
WELL	LICENCE	STATUS	GROSS RESERVOIR	GROSS OIL COLUMN
16/2-6 Avaldsnes	PL501	Discovery	23.5m	17m
16/2-6 T2	PL501	Sidetrack	25m	18m
16/3-4	PL501	Appraisal	14.5m	14m
16/3-4A	PL501	Sidetrack	4.5m	4.5m
16/2-8 Aldous MS	PL265	Appraisal	73m	67.5m
16/2-7	PL501	Appraisal	47m	7m
16/2-9S Aldous MN	PL265	Discovery	N/A	8m
16/2-7A	PL501	Sidetrack	23m	16m
16/2-10 Espevær	PL265	Appraisal	71m	64.5m
16/5-2S	PL501	Appraisal	9m	0m
16/2-11	PL501	Appraisal	55.5m	55.5m
16/2-11A	PL501	Sidetrack	48.5m	32.5m
16/2-13S	PL501	Appraisal	25m	25m
16/2-13A	PL501	Sidetrack	27.5m	11.5m
16/2-12 Geitungen	PL265	Discovery	35m	35m
16/2-14 Esp. High	PL265	Appraisal	31.5m	30m
16/2-16	PL501	Appraisal	55m	1.5m
16/2-16A T2	PL501	Sidetrack	70m	30m
16/2-15 Kvitsøy	PL265	Appraisal	52m	32m
16/3-5	PL501	Appraisal	30m	30m

drilling location between the wells 16/2-8 and 16/2-15 and one of the appraisal wells will be drilled on the western side of the fault close to the well 16/2-14.

Lundin Petroleum, as operator of PL501, has signed a Pre-Unit agreement with the partners within PL501 and PL265 for the joint field development of the Johan Sverdrup field. Statoil has been elected as working operator for the Pre-Unit phase. All parties in PL501 and PL265 have agreed a timetable for the Johan Sverdrup field with development concept selection to be made by the fourth quarter of 2013, a plan of development to be submitted by the fourth quarter of 2014 and first oil production by the end of 2018.

Exploration

Lundin Petroleum follows an exploration strategy of identifying core areas and taking a major position with high ownership percentages and operatorship. Annual exploration programmes are then based around working these core areas as well as identifying new core areas.

The current core areas are:

- The Utsira High
- The Barents Sea
- New areas
  - Utgard High
  - Southern North Sea
  - Møre Basin

Utsira High

In 2007 Lundin Petroleum found the key to the geological setting on the Utsira High area with the Edvard Grieg discovery. Subsequent drilling on similar structures around the Utsira High area led to the Avaldsnes discovery (Johan Sverdrup) in 2010. The work carried out in the area aligned with a greater understanding of the geology has generated multiple prospects.

In August 2012, the exploration well 16/2-12 targeting the Geitungen structure in PL265 (WI 10%) was successfully completed as an oil discovery. The well was located to the north of the Johan Sverdrup discovery and to the south of 16/2-9S Aldous Major North discovery. Data acquisition in the well indicates that the Geitungen structure is in communication with the Johan Sverdrup discovery. Preliminary calculations issued by the operator, Statoil, indicate that the size of the Geitungen discovery is between 140 and 270 million barrels of gross recoverable oil. Geitungen will be developed as part of the Johan Sverdrup development.

Lundin Petroleum's exploration programme in 2013 on the Utsira High area consists of six exploration wells, among others, targeting the Luno II, Kopervik and Torvastad prospects which are similar play concepts as Johan Sverdrup and Edvard Grieg.

Barents Sea

Lundin Petroleum has one of the largest acreage positions in the Barents Sea close to Statoil's Skrugard and Havis oil discoveries. Lundin Petroleum drilled its first operated well in the Barents Sea in 2011 resulting in the Skalle gas discovery. Two further wells were drilled in 2012.

In 2012, Lundin Petroleum drilled the Salina structure located on the west flank of the Loppa High in the Barents Sea, PL533 (WI 20%) and discovered gas/condensate. Preliminary calculations, made by the Norwegian Petroleum Directorate, give a range of gross discovered volume of between 174 and 246 bcf (29 and 41 MMboe) of recoverable gas/condensate. Further resource upside exists in fault compartments associated with the Salina structure.

OPERATIONS – NORWAY

A further exploration well was drilled in the Barents Sea in PL490 (WI 50%). The well was located 10 km to the north west of the Snøhvit field and was targeting stacked targets Snurrevad and Juksa at the lower Cretaceous and upper Jurassic reservoirs. No reservoir was found to be present in the Snurrevad target at the Jurassic level. The thin oil bearing sands in the Juksa discovery are unlikely to be commercial although it is encouraging that the well encountered oil bearing sands as opposed to gas.

In 2013 Lundin Petroleum plans to drill the Gohta prospect on PL492 (WI 40%) targeting a stacked prospect at the Triassic and Carboniferous levels.

Other – Southern North Sea
In June 2012, the drilling of exploration well 2/8-18S targeting the Clapton prospect on PL440s (WI 18%) in the southern North Sea was completed by the operator Faroe Petroleum. The well did not encounter hydrocarbons and was plugged and abandoned.

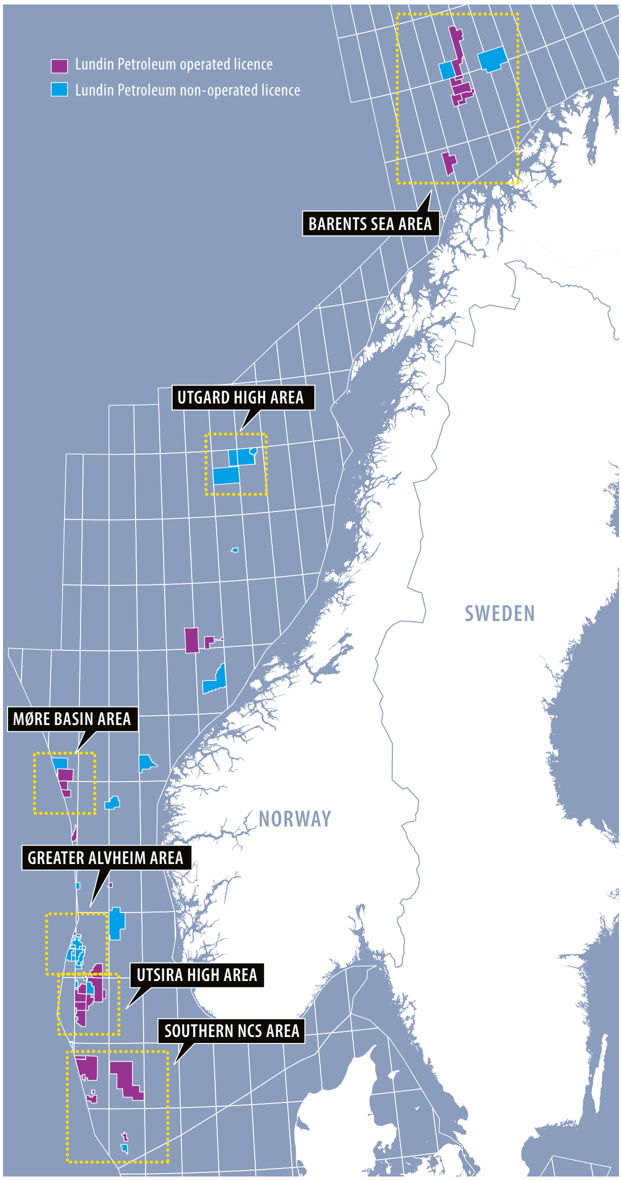
Lundin Petroleum has a two well programme in the southern North Sea in 2013. The Ogna well on PL453s (WI 35%), spudded in January 2013, targeting hydrocarbons in Upper to Middle Jurassic reservoirs was plugged and abandoned as a dry hole. The second well will be targeting the Carlsberg prospect on PL495 (WI 60%).

Other – Møre Basin
In October 2012, Lundin Petroleum announced the results of the Albert well in PL519 (WI 40%). The well encountered oil in thin Cretaceous reservoir sequence at the predicted level for the primary target but due to the thin thickness and uncertain distribution of the reservoir the discovery is currently deemed uncommercial. Further potential exists within the Albert structure if thicker Cretaceous reservoir section in this large structure can be identified. Further exploration activity is planned in this area in 2014 with the drilling of the Storm prospect in PL555 where Lundin Petroleum holds a 60 percent interest and is operator.

Other – Utgard High
Lundin Petroleum has built a significant acreage position around the Utgard High area in the Norwegian Sea. The Utgard High area is on trend with the prolific Halten and Donna terraces. In 2013 the Sverdrup prospect on PL330 (WI 30%) will be drilled targeting Cretaceous and Jurassic reservoirs.

In January 2012, Lundin Petroleum was awarded ten exploration licences in the APA 2011 licensing round of which four are operated by Lundin Petroleum. In January 2013, Lundin Petroleum was awarded a further seven exploration licences in the APA 2012 licensing round of which two are operated by Lundin Petroleum. Four of the seven licences awarded are in the North Sea, two in the Norwegian Sea and one in the Barents Sea. Lundin Petroleum has submitted several licence applications for the 22nd Norwegian licensing round with awards expected to be announced by the Ministry of Petroleum and Energy in the first half of 2013.

Lundin Petroleum's exploration programme in Norway for 2013 will consist of ten exploration wells for which drilling rigs have been secured.



Norway licence map showing core areas of operation

UTSIRA HIGH AREA

Edvard Grieg Development PL338 (WI 50%)

- » Edvard Grieg (Luno) discovery in 2007
- » Tellus discovery in 2011
- » Edvard Grieg/Tellus net reserves 92.9 MMboe
- » Edvard Grieg/Tellus PDO approved in 2012 and development commenced
- » Targeted first oil at end of 2015
- » Edvard Grieg appraisal well planned to be drilled in 2013

Utsira High Area Exploration

- » Fiveexploration wells planned to be drilled in the Utsira High Area during 2013
  - PL359 (WI 40%), Luno II prospect
  - PL625 (WI 40%), Kopervik prospect
  - PL544 (WI 40%), Biotitt prospect
  - PL501 (WI 40%), Torvastad prospect
  - PL410 (WI 70%), dependent on Luno II result

Johan Sverdrup Appraisal PL501(WI 40%) and PL265 (WI 10%)

- » Johan Sverdrup (Avaldsnes) discovered in 2010 on PL501 and Aldous Major South discovered in 2011 on PL265
- » 15 wells drilled on the discovery to date
- » Gross resource estimates of 800–1,800 MMboe on PL501 and 900–1,500 MMboe on PL265 [1]
- » Resources on PL501 and PL265 to be unitised, Pre-Unit agreement in place
- » 4 appraisal wells and 1 exploration well planned to be drilled in 2013

[1] PL265 range provided by Statoil

GREATER ALVHEIM AREA

Alvheim field (WI 15%)

- » Net reserves 23.1 MMboe
- » Gross ultimate recovery 291 MMboe
- » 2012 net production 11,800 boepd
- » 15 producing wells, 8 multilaterals
- » Ownership of the Alvheim FPSO

Volund field (WI 35%)

- » Net reserves 10.7 MMboe
- » Gross ultimate recovery 62 MMboe
- » 2012 net production 13,100 boepd

Bøyla field PL340 (WI 15%)

- » Bøyla discovery in 2009
- » Caterpillar discovery in 2011
- » PDO approved in 2012
- » Net reserves 3.3 MMboe

BARENTS SEA AREA

PL438 (WI 25%)

- » Skalle gas discovery in 2011

PL533 (WI 20%)

- » Salina gas discovery in 2012

PL490 (WI 50%)

- » Juksa drilled in 2012 – encountered thin oil bearing sands

PL492 (WI 40%)

- » Gohta prospect planned to be drilled in 2013

OTHER AREAS

Gaupe PL292 and PL292b (WI 40%)

- » Net reserves 0.9 MMboe
- » 2012 net production 2,300 boepd

Brynhild PL148 (WI 90%)

- » Net reserves 20.8 MMboe
- » Targeted first oil at end 2013

Southern NCS Area

- » Carlsberg prospect PL495 (WI 60%) planned to be drilled in 2013

Utgard High Area

- » Sverdrup prospect PL330 (WI 30%) planned to be drilled in 2013

JOHAN SVERDRUP

HOW UNCONVENTIONAL THINKING UNCOVERED A NORTH SEA GIANT

Left to right: Hans Christen Rønnevik, Exploration Manager and Arild Jørstad, Senior Geophysicist, Lundin Norway

HOW COULD A SMALL SWEDISH OIL AND GAS COMPANY FIND A MULTIBILLION BARREL RECOVERABLE OIL FIELD IN THE HEART OF THE NORWEGIAN NORTH SEA 45 YEARS AFTER THE AREA WAS OPENED UP FOR EXPLORATION?

Extract from CEO Ashley Heppenstall's speech at the ONS 2012 conference

The North Sea continental shelves of the United Kingdom and Norway are essentially the same geological formations and in sharing the hydrocarbon resources of the North Sea between Norway and the United Kingdom nature seems to have treated each country pretty much equally. However, the development of the United Kingdom and Norwegian sectors has taken place at a very different speed over the last 45 years. Since 1965, approximately 1,400 exploration and appraisal wells have been drilled in Norway compared to over 4,500 in the United Kingdom. The drill density of exploration wells in the United Kingdom is much higher than in Norway, in some areas up to two to three times higher. So why is this the case?

It isn't because the geological risk is higher in Norway than the United Kingdom as it is essentially the same geological formations. In my opinion there are two reasons for the lower historical exploration activity in Norway.

Firstly, lower taxes in the United Kingdom encouraged more active exploration drilling than in Norway where taxes were higher. This does not mean that taxes are high in Norway relative to world norms but faced with the same prospect in the United Kingdom versus Norway with the same chance of success then the prospect in the United Kingdom would be drilled first. Secondly, until ten years ago the Norwegian upstream, business was exclusively controlled by the major oil companies with no participation from the independent sector. I believe that independent companies have perhaps more appetite for risk than the majors and most certainly have a lower field reserve threshold in terms of the size of prospects which they are willing to drill. I believe that the earlier participation of the independent sector in the United Kingdom contributed to an increased level of exploration drilling. Today however the lower level of historical exploration drilling in Norway has created the opportunity for Lundin Petroleum and other independents on the Norwegian Continental Shelf (NCS).

Now I would like to turn to the regulatory environment in Norway. I firstly want to congratulate the Norwegian government for the regulatory and fiscal environment it has created on the Norwegian Continental Shelf. Stability of the fiscal regime is critical for our business where we are making investment decisions based upon projects expected to produce for 20 or 30 years. The fiscal regime in Norway has probably been the most stable in the world. In addition, the Oil Ministry and Norwegian Petroleum Directorate are managed by people who understand the oil and gas business, many of whom have worked in the industry rather than being career civil servants. This is a huge benefit to us from an industry operating perspective and facilitates the decision making process. There still remains a perception from the wider investment community that oil and gas taxes are high in Norway. I guess this is because historically they have always been compared with the lower rates in the United Kingdom. But if we take account of the exploration incentives, a country wide ring fence, capital uplift and interest deductibility the 78 percent taxes in Norway compares favourably with other petroleum producing regimes. We believe the fiscal regime in Norway encourages exploration driven companies such as Lundin Petroleum.

However there are times when it is necessary to make changes. I believe the changes made 10 years ago in Norway to fiscal policy and licensing rounds have played a major part in revitalising the Norwegian Continental Shelf. Faced with reductions in exploration activity and declining oil production new players were encouraged to come to Norway. Licence awards in pre-defined areas, the APA rounds, were introduced to encourage more exploration activity. Changes were also made to fiscal policy to allow cash refunds of exploration expenditure. This has encouraged diversity on the NCS, has brought in new players leading to increased levels of activity. These policy changes have been one of the reasons for the recent exploration successes such as those in the Greater Luno Area. As an outsider looking into Norway, I am sometimes astounded by the constant criticism the oil and gas industry receives from Norwegian society. The Norwegian Oil Ministry and industry should be applauded for the way they have managed the development of its natural resources and the huge value they have created for everyone in Norway. The changes made ten years ago are another clear example of this – doing the right thing at the right time.

So based upon this macro environment of exploration potential in a stable regulatory environment, Lundin Petroleum decided to invest in Norway. We bought certain Norwegian assets from DNO in 2004 including its interest in the recently discovered Alvheim field operated by Marathon. But we also persuaded Torstein Sanness and Hans Christen Rønnevik to join us with a mandate of trying to grow a Norwegian focused independent oil company which could grow organically through exploration drilling.

Alvheim has performed extremely well but our investment in Torstein and Hans Christen was really the catalyst for our future success. Certainly one of the best investments we have ever made. Without good professional staff we are nothing.

Our overriding philosophy at Lundin Petroleum is that you have to delegate responsibility to the people on the ground. And in this respect, Norway is no different. The best people to run our Norwegian business are the Norwegians. Over the last 50 years Norway has invested heavily in educating a group of industry professionals who are now highly regarded across the world. I don't think anyone has ever questioned that Hans Christen and his exploration team are some of the best in the business having an excellent track record of finding oil. We did not try to reinvent the wheel. We simply had to harness their knowledge and expertise in the right environment.

Other companies in Norway have also excellent people – but the key to success is how you leverage on the knowledge and learning capabilities of your organisation. I cannot overemphasise the importance of our people and encouraging them to continuously challenge conventional thinking. It is often too easy to accept conventional thinking which leads to an adoption of the status quo. We want our people to think outside the box and in doing so appreciating the limitations of data, tools, methods and theories. The ability of our people to innovate has been critical to our success.

I would now like to turn to the issue of risk assessment and corporate decision making process. I personally believe that the decision making process in different corporations is critical to whether exploration prospects actually get drilled. I have talked earlier about our philosophy to put the decision making in respect of exploration prospectivity in the hands of local technical team. They have worked up the prospects, they best understand the risks and as such they should play a big part in the final decision. As I will explain later this was obviously critical for us when we drilled our first exploration well in the Greater Luno Area in 2007 which discovered the Edvard Grieg field. If this well would not have been drilled then it is likely Johan Sverdrup would still remain undrilled today.

In my opinion many oil and gas companies have become too risk averse with more focus on exploitation rather that exploration. I also believe that in many companies there are so many layers of management involved in an investment decision, so many committees, so many reviews that by the time the decision making process has moved from Stavanger to Houston, the final decision is so far removed from the individual with the real knowledge that wrong decisions are made. It often only takes one person up the decision chain to say "no" and the proposal doesn't proceed any further. At Lundin Petroleum our overriding philosophy is we try to support the recommendations of the people on the ground. If we don't then we should question whether we have the right people.

Let us now look at the impact of technology on our success. I have heard various technology providers state that the discovery of Johan Sverdrup was primarily due to their technology. This is simply not true. There is no question that recent developments in seismic imaging technology such as Geostreamer and Broadseis have provided the industry with excellent new tools which are a step change in the ability to better image the subsurface. Being at the forefront of applying emerging technology and methods is critical to our exploration model.

But the fact is that the Edward Grieg discovery well, which really was the critical well in unearthing the jewels of the Greater Luno Area, was drilled based upon old vintage 3D data. Today new technologies are widely available to all industry players as they are usually developed by service providers rather than by the oil and gas companies themselves. This means the differentiating factor is how organisations and people use and apply the technology – not necessarily the technology itself.

Nature was kind to Norway, the government developed an excellent regulatory regime, we have access to the best people and technology and put together in a corporate environment where the right decisions can be made. Let's take a quick walk through history to see how the discoveries in the Greater Luno Area were made.

The area of our focus here is what we call the Greater Luno Area. It is also referred to as the Haugaland High or the southern Utsira High. It is part of the area awarded to Esso in 1965 when it was granted the first licence on the Norwegian Continental Shelf PL001. Esso, now named Exxon, and others subsequently found over 1 billion barrels of recoverable oil in the northern Utsira High.

The southern Utsira High despite exploration activity from Exxon, Elf and Statoil in the years since 1965 had yielded limited success. The Ragnarrock oil and gas discovery in poor chalk reservoir had been discovered by Statoil in 1967 on the crest of the High.

Elf had drilled a dry exploration well in 1976 to the east of the High. We now know this well barely missed the Johan Sverdrup field by a matter of metres. It was almost 25 years before our discovery well on the field.

In 2004 after Lundin Petroleum acquired a non-operated interest in the Alvheim field our strategy was to grow organically through exploration. We wanted to find a new core exploration area where we could operate and hold much larger equity interests. The area where we focused was the southern Utsira High, an area which according to conventional industry thinking had limited potential. Conventional thinking was one of complex geology with reservoir and structural uncertainty. So when we applied for PL338 in the 2004 APA I don't think we had any competition.

Our team had a different view of the area than the conventional thinking. Our base concept back then was an area containing Jurassic sands of varying thickness over inlier basins and basement, a saturated hydrocarbon system with a 40 to 50 metres oil leg, and a common oil water contact over the whole of the high. We identified various potential stratigraphic traps fringing the High in the west and southwest including the Luno prospect.

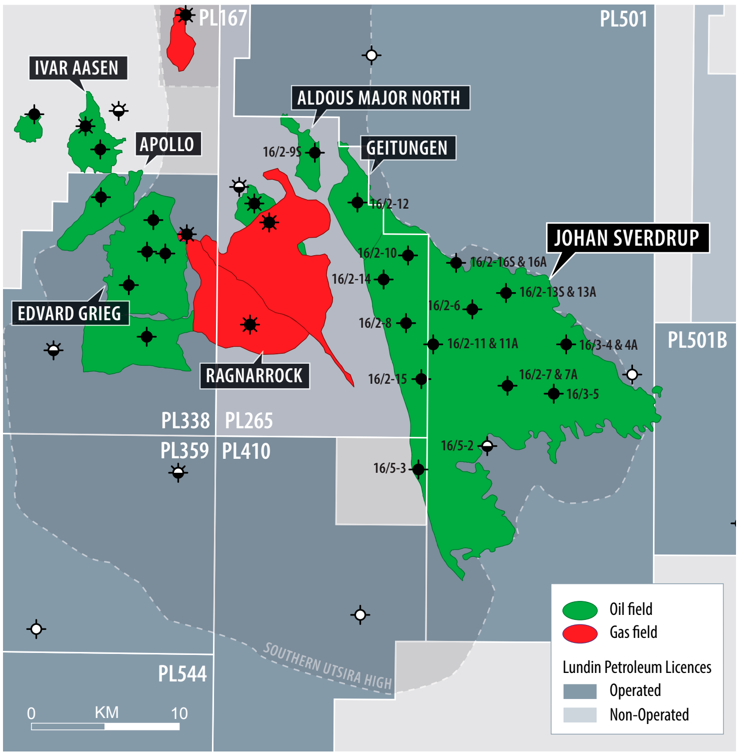
I remember so well sitting down with Hans Christen and our team at the time to discuss our application for PL338. Our potential partners had fallen by the wayside and we were looking at taking the licence with a well commitment with a 100 percent equity interest. The quality of the seismic over the main Luno (now named Edvard Grieg) prospect raised more questions than answers about the trapping mechanism. In fact I remember one of our senior corporate explorationists at the time saying "these Norwegians must be crazy if they think this is a valid prospect". The reality is that in many corporations this prospect would not have been drilled. But our Norwegian team stuck to their guns – this was their number one exploration pick. For them the facts were clear – they had developed a clear geological model with Draupne sands surrounding the High. Despite the poor quality seismic the trapping mechanism was the Jurassic sands pinching out against the basement High. This is much easier to see on the multicube 3D seismic available today.

Ultimately the investment decision for us was easy. We fully supported our team. And importantly if the well was successful and our concept proven to be correct then there was lots of additional prospectivity on the Haugaland High. So before we drilled the exploration well in 2007 we made sure we secured as much of the acreage in the area as possible. We picked up licences PL359 and PL410 in subsequent APA rounds in 2006 and 2007.

Edvard Grieg was drilled in 2007 and was an oil discovery. It has subsequently been appraised with two further wells. We have reserves of close to 200 million barrels of oil equivalent. The plan of development for Edvard Grieg was approved by the Norwegian Parliament in 2012. Major contracts for the jacket and topsides have already been awarded to Kværner and the development wells will be drilled using a Rowan jack-up rig. First oil is expected in late 2015 at a rate of close to 100,000 boepd. We have recruited an experienced team led by Bjørn Sund to build these facilities for us. They are predominately Norwegian and have a track record of building similar structures on the NCS for Norsk Hydro.

But for us the Edvard Grieg story was only the beginning of unearthing the potential of the Greater Luno Area. The discovery was absolutely fundamental to the story because it proved the concept. We believed, and indeed still believe, that wherever on the Haugaland High we can find reservoir, we have a very high probability of finding further oil fields.

But life is not always perfect. We subsequently drilled two further exploration wells on the Haugaland High in 2009 and 2010. Both wells were chasing Jurassic reservoir in inlier basins on the High. One found oil in porous basement called the Edvard Grieg South discovery but neither well found any material amount of Jurassic reservoir. After these two wells the sceptics started to question our ability to find more oil in the Greater Luno Area.



Discoveries on the southern Utsira High

We had already started to focus our attention in the eastern side of the Haugaland High and applied in the APA 2009 for PL501. Our Draupne sandstone depositional model from 2006 had been proven correct with the Edvard Grieg discovery and this was the breakthrough event that turned Avaldsnes from a high to a low risk prospect. Interestingly Statoil who had previously held the PL501 acreage bid against Lundin Petroleum in the APA 2009 application. Lundin Petroleum was granted the operatorship of PL501 and were forced married with Statoil and Maersk as partners. I suppose only the Ministry can answer the question as to why we were given operatorship. I would like to think it was due to the fact that we had in our application already identified the prospect which is now the Johan Sverdrup field which we were keen to drill and make a commitment well in the application.

We had identified that the Johan Sverdrup prospect extended into the adjoining PL265 and as a result we negotiated a deal to buy a ten percent working interest in this licence. I guess at that time the PL265 partners had either not identified the prospect or if they had then they didn't share our vision on its prospectivity. Despite the Edvard Grieg discovery the conventional thinking was still that Avaldsnes was a questionable prospect. The sceptics questioned the oil migration risk – how could the oil generated in the kitchen to the west of the Haugaland High have migrated to the east and they still questioned the reservoir risk.

We however were confident and pushed forward with the Avaldsnes exploration well in 2010. We had obtained valuable data particularly cores from the earlier wells as well as updating our subsurface models using updated 3D seismic data. The exploration well was a significant discovery. We found extremely good Volgian reservoir sandstone overlying good Upper to Middle Jurassic reservoir. These are the moments in the exploration business which we all dream about. We knew we had found something potentially big but we really didn't know how big. We knew that the areal closure of the structure against the boundary fault to the west was large – potentially 200 km^2. We knew at this location we had found good quality reservoir. But we didn't know how the continuity, thickness and quality of the reservoir would change over the whole structure. As a result of this uncertainty we announced that the discovery area proven by the first well contained between 100 and 400 million barrels of recoverable oil but we always had an idea we could be onto something much bigger.

During 2011 we drilled further appraisal wells as did Statoil in the adjoining PL265. As we had anticipated, these discoveries were part of one connected giant oil field now called Johan Sverdrup. Each of the further appraisal wells drilled to date have found this excellent quality reservoir which appears to be transgressive over the whole structure. It was also confirmed that the reservoir thickness increased to the west of the field. The end result is that when such a thick and good quality reservoir is compounded over such a large area the recoverable resources grow exponentially and we end up with a multibillion barrel oil field.

And there is still upside in the Greater Luno Area as the recent exploration discovery at Geitungen has proven. As we originally said – whenever you find good reservoir in the Greater Luno Area above the regional oil water contact you have a good chance to find further oil fields.

The question of "how Johan Svedrup was found" and "why did it take so long" will be debated for a long time. There is no question that Lundin Petroleum and particularly our team in Norway played a big part in the process. We identified back in 2006 the correct geological model prior to drilling the Edvard Grieg discovery and a concept that oil could have migrated around the High to fill what we now know is the Johan Sverdrup discovery. The presence of non biodegraded oil in Edvard Grieg and Johan Sverdrup flanking a saturated system was new knowledge that could not have been predicted by forward modelling. We had to drill the exploration wells.

Unconventional thinking was critical to the success. To quote from Piet Hein the Danish mathematician "To know what thou knowest not is in essence omniscience". Or put another way "to know what you don't know gives you the capacity to know everything".

Drilling operations, offshore Malaysia - West Courageous jack-up drilling rig

SOUTH EAST ASIA

Lundin Petroleum's assets in South East Asia are located offshore Malaysia and offshore and onshore Indonesia. Lundin Petroleum's assets offshore Malaysia consist of approximately 40,000 km^2 of exploration acreage, five gas discoveries and four oil discoveries. The Indonesian assets consist of approximately 23,000 km^2 of exploration acreage and one producing field onshore Sumatra.

Malaysia

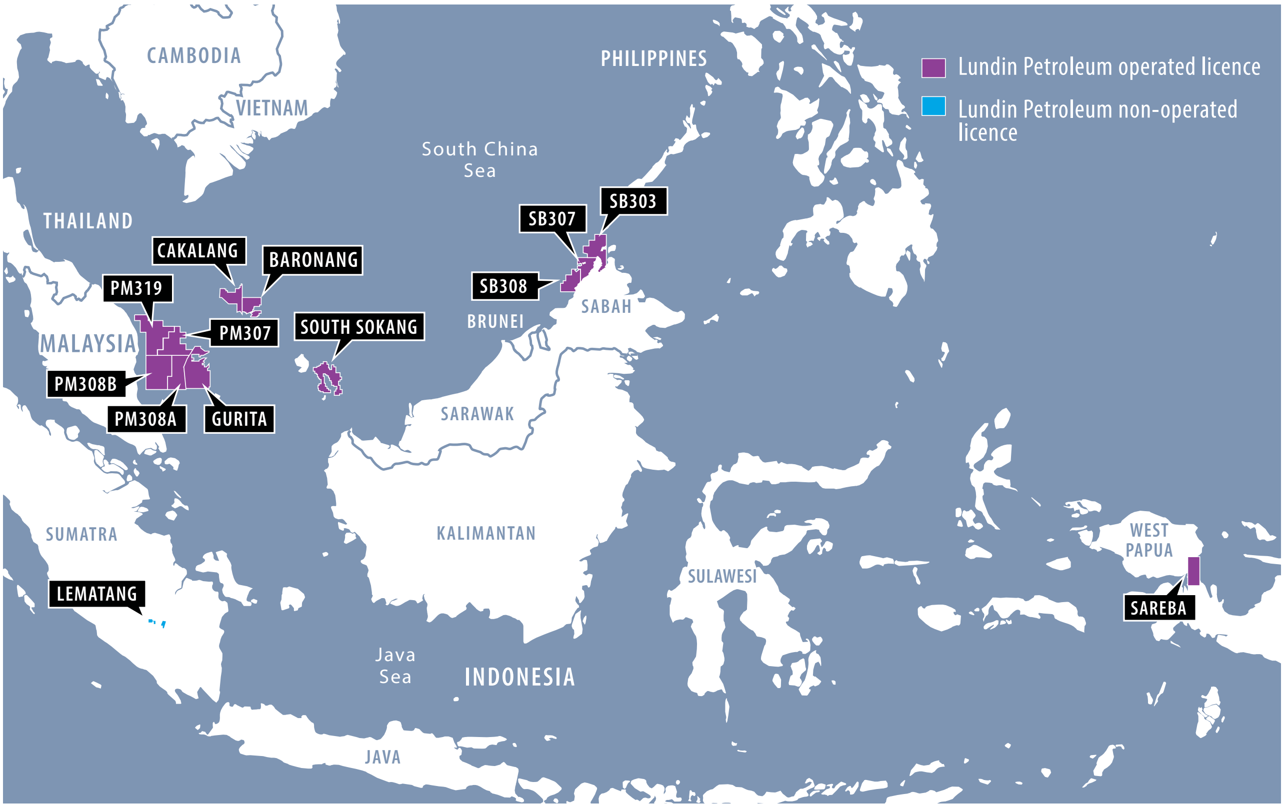
Since commencing its ten well exploration drilling programme offshore Malaysia in 2011 Lundin Petroleum has at the end of 2012 discovered 12.7 MMboe of reserves and 81.7 MMboe of net best estimate contingent resources. Lundin Petroleum operates in two core areas in Malaysia.

Offshore Peninsular Malaysia

Lundin Petroleum holds four production sharing contracts (PSC) offshore Peninsular Malaysia and has drilled six exploration wells in the area resulting in two oil discoveries, Janglau and Ara, confirmed one existing oil discovery, Bertam, and made one gas discovery, Tembakau. Bertam and Tembakau are likely to be commercial discoveries, with engineering studies being carried out for a Bertam development.

In January 2012, the Bertam-2 appraisal well on PM307 (WI 75%) was successfully completed proving the continuity and quality of the K10 oil reservoir sandstone and at the end of 2012, gross reserves of 17.0 MMboe were assigned to the field. Conceptual development studies are substantially complete in relation to a potential development of the Bertam field and a development decision will likely be taken in 2013. In November 2012, Lundin Petroleum announced the Tembakau-1 well in PM307, as a gas discovery. Given the relatively close proximity to existing gas infrastructure coupled with the forecast strong demand for gas on Peninsular Malaysia the building blocks for a commercial development are present and further studies will be undertaken to assess the commerciality of this discovery. It is estimated that the Tembakau discovery contains 306 bcf (51 MMboe) of gross best estimate contingent gas resources.

Block PM308A (WI 35%) contains the Janglau and Rhu oil discoveries. A further exploration well targeting the Ara prospect on Block PM308A was drilled during 2012 and completed in early 2013. The well was targeting the same Oligocene intra-rift sands as discovered in the Janglau discovery. The Ara-1 well encountered oil in nine individual sand units in a high pressured intra-rift section extending over a vertical interval of 800 metres. The well penetrated a total of approximately 40 metres net oil bearing reservoir.



South East Asia licence location map

In December 2012, Lundin Petroleum announced the award of a new PSC offshore Peninsular Malaysia. Block PM319 is operated by Lundin Petroleum with an 85 percent working interest with Petronas holding a 15 percent working interest. The block covers an area of approximately 8,400 km^2 and is located west of PM307. The area has very limited 3D coverage and work commitments include a full tensor gravity survey, 550 km^2 of 3D seismic and one xploration well.

An acquisition of 1,450 km^2 of new 3D seismic in PM308A (WI 35%) was completed during 2012 and an acquisition of 1,450 km^2 of new 3D seismic in PM307 (WI 75%) and partially PM319 (WI 85%) was shot during 2012 and completed in early 2013.

Two exploration wells offshore Peninsular Malaysia are planned to be drilled in 2013.

Offshore Sabah – East Malaysia

Lundin Petroleum holds two PSCs offshore Sabah in east Malaysia. Lundin Petroleum has drilled four exploration wells offshore Sabah in east Malaysia since 2011 resulting in three gas discoveries, Tarap, Cempulut and Berangan.

SB303 (WI 75%) contains the Tarap, Cempulut, Berangan and Titik Terang gas discoveries with an estimated gross best estimate contingent resource of 347 bcf (57.8 MMboe). Lundin Petroleum continues to evaluate the potential for commercialisation of these gas discoveries, most likely through a cluster development.

In September 2012, the Berangan-1 exploration well in SB303 was successfully completed as a gas discovery. The well is 10 km to the southeast of the Tarap gas discovery made by Lundin Petroleum in 2011, and 15 km to the south of the Cempulut gas discovery also made in 2011. The Berangan-1 discovery is estimated to contain 69 bcf (11.5 MMboe) of gross best estimate contingent gas resources and it is likely that it will be included in a cluster development with the other SB303 gas discoveries.

The commerciality of a potential gas cluster development is dependent upon getting access to the gas market in Sabah. There is a gas terminal at Kota Kinabalu around 140 km away which potentially could host the produced gas from a cluster development. There is also the possibility to connect a gas cluster development to the pipeline infrastructure going to the Sabah Oil and Gas Terminal at Kimanis, which is currently under construction.

An acquisition of 500 km^2 of new 3D seismic in SB307/308 (WI 42.5%) was completed during 2012.

One exploration well is planned to be drilled offshore Sabah in 2013.

OPERATIONS – SOUTH EAST ASIA

Indonesia

Lematang (south Sumatra)

Lundin Petroleum has a 25.88 percent ownership in the gas producing field Singa, onshore Sumatra. During 2012 the field has produced below expectation due to necessary well maintenance work on the field. The current PSC expires in 2017 and the reserves associated with the field do not extend beyond 2017. Lundin Petroleum has booked additional best estimate contingent resources on Singa which will be converted to reserves if and when the PSC expiry date is extended.

Natuna Sea

Lundin Petroleum has four PSCs in the Natuna Sea area. It has a 100 percent working interest and is the operator in the Cakalang, Baronang and the Gurita PSCs and a 60 percent working interest and operator of the South Sokang PSC.

A 3D seismic acquisition programme of 950 km² has been completed in 2012 on the Gurita Block (WI 100%) and an exploration well will be drilled in 2013. In 2013 an exploration well will also be drilled on the Baronang Block (WI 100%) and a 3D seismic acquisition programme is planned to be completed on the South Sokang Block (WI 60%).

Above: Drilling operations, offshore Malaysia
Opposite page: Oil pumps in Paris Basin, France

MALAYSIA

OFFSHORE PENINSULAR MALAYSIA

PM307 (WI 75%)
- » Successful appraisal of the Bertam oil discovery in 2012 with development decision in 2013
- » Tembakau gas discovery in 2012 with best estimate gross contingent resource of 306 bcf
- » Shot new 3D seismic of 1,450 km² in 2012

PM308B (WI 75%)
- » 3D seismic acquired 2009–2011

PM308A (WI 35%)
- » Ara exploration well completed as an oil discovery in early 2013
- » Janglau oil discovery made in 2011
- » Shot new 3D seismic of 1,450 km² in 2012 - development concept studies ongoing

PM319 (WI 85%)
- » New licence award in 2012
- » Acreage of 8,400 km²
- » Some of the 3D seismic shot on PM307 in 2012 extended onto PM319

OFFSHORE SABAH, EAST MALAYSIA

SB303 (WI 75%)
- » Berangan exploration well completed as a gas discovery in 2012 with best estimate gross contingent resources of 69 bcf
- » 4 gas discoveries on block with a total best estimate gross contingent resource of 347 bcf – potential for a gas cluster development

SB307/308 (WI 42.5%)
- » 3D seismic acquired in 2009/2010

INDONESIA

INDONESIA KEY DATA	2012	2011
Reserves (MMboe)	**3**	4
Contingent resources (MMboe)	**3**	2
Average net production per day (Mboepd)	**1**	1
Net turnover (MUSD)	**11**	13
Sales price achieved (USD/boe)	**32**	32
Cost of operations (USD/boe)	**15**	13
Operating cash flow contribution (USD/boe)	**13**	15

Baronang (WI 100%)
- » One exploration well planned to be drilled in 2013 targeting the Balqis and Boni prospects

Gurita (WI 100%)
- » Shot new 3D seismic of 950 km² in 2012
- » One exploration well planned to be drilled in 2013

South Sokang (WI 60%)
- » 3D seismic planned to be shot in 2013

OPERATIONS – CONTINENTAL EUROPE

Continental Europe – France and Netherlands

The French assets consist of mature onshore oil producing fields in the Paris Basin operated by Lundin Petroleum and mature onshore oil producing fields in the Aquitaine Basin operated by Vermilion. The Dutch assets consist of mature onshore and offshore gas producing fields operated by Vermilion, Gaz de France, ONE and Total.

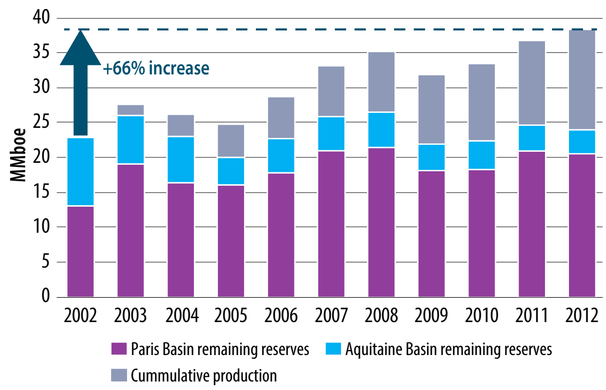
The French and Dutch assets were acquired through a corporate acquisition of Coparex in 2002. The combined net reserves at the time of acquiring the assets in 2002 was around 32 MMboe and the net cumulative production from the date of acquisition up to year end 2012 amounted to 22 MMboe. The remaining net reserves as at year end 2012 was 27.6 MMboe demonstrating that a significant portion of the produced volume has been replaced with additional reserves through a pro-active infill drilling and reservoir management strategy. The French assets also contain best estimate contingent resources of 12.8 MMboe net to Lundin Petroleum.

The combined operating cash flow from the French and Dutch assets amounted to approximately MUSD 100 for 2012 driven by high realised sales prices and a relatively low level of operating costs and cash taxes.

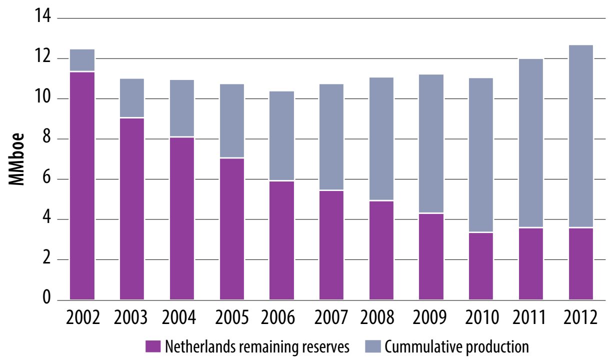
During 2012 the Grandville (WI 100%) redevelopment in the Paris Basin was substantially completed with the wells being brought onstream late in 2012. Two exploration wells were drilled in the Paris Basin through the course of 2012. The Amaltheus exploration well on the Val des Marais concession (WI 100%) was a discovery and the well has been put on long-term production test.

Lundin Petroleum is participating in one exploration well in the Paris Basin in 2013 with the drilling of the Hoplites-1 well on the Est Champagne concession (WI 100%).

FRANCE ULTIMATE RECOVERABLE RESERVES



NETHERLANDS ULTIMATE RECOVERABLE RESERVES



In the Netherlands the Vinkega-2 exploration well in the Gorredijk concession (WI 7.75%) was successfully completed as a gas discovery during 2012 and the discovery is planned to commence production in 2013.

Lundin Petroleum is participating in two exploration wells onshore Netherlands in 2013.

OPERATIONS – CONTINENTAL EUROPE

FRANCE

FRANCE KEY DATA	2012	2011
Reserves (MMboe)	**24**	25
Contingent resources (MMboe)	**13**	10
Average net production per day (Mboepd)	**3**	3
Net turnover (MUSD)	**118**	129
Sales price achieved (USD/boe)	**110**	111
Cost of operations (USD/boe)	**23**	19
Operating cash flow contribution (USD/boe)	**63**	65

Paris Basin

» Redevelopment of the Grandville (WI 100%) substantially completed and wells brought onstream late in 2012

» Exploration well on the Amaltheus prospect (WI 100%) completed as a discovery and the well was put on long-term production test in late 2012

» One exploration well planned to be drilled in 2013 on the Nettancourt prospect (WI 100%)

NETHERLANDS

NETHERLANDS KEY DATA	2012	2011
Reserves (MMboe)	**4**	4
Average net production per day (Mboepd)	**2**	2
Net turnover (MUSD)	**55**	45
Sales price achieved (USD/boe)	**60**	61
Cost of operations (USD/boe)	**15**	15
Operating cash flow contribution (USD/boe)	**52**	40

» Vinkega-2 exploration well completed as a gas discovery on the Gorredijk concession (WI 7.75%) in 2012

» 2 exploration wells planned onshore in 2013

OPERATIONS – OTHER AREAS

Above: Ikdam FPSO, Oudna, Tunisia
Opposite page: Paris Basin exploration drilling operations, France

RUSSIA

RUSSIA KEY DATA	2012	2011
Reserves (MMboe)	**7**	16
Contingent resources (MMboe)	**110**	110
Average net production per day (Mboepd)	**5**	3
Net turnover (MUSD)	**152**	80
Sales price achieved (USD/boe)	**77**	70
Cost of operations (USD/boe)	**13**	11
Operating cash flow contribution (USD/boe)	**10**	10

» 3 non-operated producing assets in the Komi region in northern Russia (WI 50%)
» During 2012 various infill wells were drilled and continued infill drilling is planned for 2013
» 45% of the produced oil was sold to the international market during 2012
» 70% working interest in Morskaya discovery in the Lagansky Block offshore north Caspian Sea

TUNISIA

TUNISIA KEY DATA	2012	2011
Reserves (MMboe)	**–**	0.3
Average net production per day (Mboepd)	**0**	1
Net turnover (MUSD)	**25**	25
Sales price achieved (USD/boe)	**108**	125
Cost of operations (USD/boe)	**211**	64
Operating cash flow contribution (USD/boe)	**26**	45

» Oudna field (WI 40%) shut-in and abandoned in 2012 following storm damage to a flowline in early 2012
» Ikdam FPSO disconnected from the wells and the wells have been permanently abandoned during 2012

CONGO (BRAZZAVILLE)

» Relinquished Block Marine XI (WI 18.75%) in 2012
» Block Marine XIV (WI 21.55%) expired in 2012
» Lundin Petroleum has exited the country in 2012

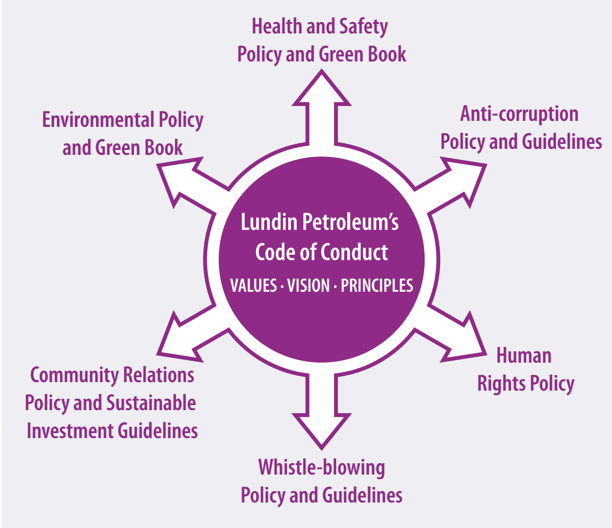
IRELAND

» One licence 04/06 (WI 50%)
» Seismic studies carried out during 2012
» Future plans under review

LUNDIN PETROLEUM'S COMMITMENT TO ITS STAFF, SHAREHOLDERS, HOST GOVERNMENTS, LOCAL COMMUNITIES AND SOCIETY IS TO ACT AS A RESPONSIBLE CORPORATE CITIZEN. THIS MEANS MAKING THE RIGHT DECISIONS IN THE BOARD ROOM AND IN THE FIELD, DAY AFTER DAY.

PRESERVING VALUE FOR ALL OUR STAKEHOLDERS

CR/HSE FRAMEWORK



Lundin Petroleum is committed to carry out its worldwide operations in a responsible manner. This means that the strategic decisions and field activities take into consideration potential impacts on people and the environment. Lundin Petroleum has developed a Corporate Responsibility (CR) framework that establishes systems and procedures to protect the health, safety and security of its stakeholders and the environment. The commitments to responsible corporate citizenship by which the Company is guided are set out in its Code of Conduct. Lundin Petroleum's policies, guidelines and the management system further detail how operations must implement the principles in their activities. Corporate Responsibility is an evolving field which requires continuous improvement; in practice it means seeking to achieve social, environmental and economic benefits simultaneously.

In 2012 Lundin Petroleum focused on further embedding the United Nations Global Compact Principles in its operational sites. The UN Global Compact is an initiative of the United Nations to encourage businesses and other societal actors to adopt sustainable and socially responsible practices by endorsing and reporting on the implementation of the ten principles covering human rights, labour standards, environment and anti-corruption. Lundin Petroleum formally became a member of the Global Compact in 2010 and has taken numerous steps to embed the principles in its daily operation. In 2012, the Company continued to train operational staff on the principles and focused on their relevance to everyone's day to day work.

CORPORATE RESPONSIBILITY MILESTONES AT LUNDIN PETROLEUM

THE GLOBAL COMPACT
WE SUPPORT

BY JOINING THE UNITED NATIONS GLOBAL COMPACT, LUNDIN PETROLEUM AFFIRMS ITS COMMITMENT TO ABIDE BY ITS 10 PRINCIPLES ON HUMAN RIGHTS, LABOUR STANDARDS, ENVIRONMENT AND ANTI-CORRUPTION.

HUMAN RIGHTS

Lundin Petroleum's Board of Directors strengthened the Company's commitment towards human rights in September 2012 by formally endorsing the UN Guiding Principles on Business and Human Rights and adopting a Human Rights Policy in December 2012.

Lundin Petroleum's Vice President Corporate Responsibility attended the Forum on Business and Human Rights at the United Nations in Geneva in order to learn about means to implement the Guiding Principles and to engage with its stakeholders.

ENVIRONMENT

The Company continues to promote environmental protection and awareness. Preservation of biodiversity and environmental protection were of particular focus in 2012; operations assessed potential effects of their activities and supported environmental projects.

Climate Change remains an important issue for Lundin Petroleum; the Company has adopted a new Climate Change Statement, emphasising the commitment to seek energy efficiency measures to reduce its carbon footprint and in 2012 participated for the fourth time in the Carbon Disclosure Project.

LABOUR STANDARDS

Lundin Petroleum guarantees in its Code of Conduct the right to freedom of association. It ensures equal opportunity without discrimination on the basis of age, culture, disability, gender, race, religion, etc. by selecting candidates based on their competence and qualifications to perform the job.

Robust processes for contractor selection and evaluation ensure that there is no child or other form of forced labour in relation to Lundin Petroleum's worldwide operations.

ANTI-CORRUPTION

The Anti-corruption Policy and the Guidelines, adopted in 2011, were the subject of staff training in 2012. There were no cases of corruption reported throughout the Group under the Guidelines or the Whistleblowing Procedure.

To further reinforce Lundin Petroleum's commitment to transparency, as per the Board of Directors' resolution, Lundin Petroleum became an EITI supporting company in 2013.

Stakeholder Engagement

In its Code of Conduct Lundin Petroleum recognises five key stakeholder groups: shareholders, staff, host countries, host communities and society at large. The type of engagement differs for each group; shareholders are informed of the Company's activities through public disclosure in the form of quarterly and annual reports, website and Annual General Meeting, whereas, engagement with staff is a daily occurrence. Contacts with host governments take place prior to the acquisition of a licence and throughout the lifetime of an asset, while local communities engagement takes place prior to the commencement of and throughout the period of field activities. As for society at large, the Company seeks to contribute to the better understanding of the importance and impact of Corporate Responsibility in its business conduct and to the sector by participating as speaker (The University of Stockholm and the Graduate Institute of International and Development Studies, Geneva), panellist (Global Energy Forum 2012, Geneva) or participant (CSR Conference, Oslo, ISO 26000 Open Forum, Geneva, Forum on Business and Human Rights, Geneva, Risk Management Master Class, Amsterdam) in various conferences or workshops which also offer the opportunity to meet experts in relevant corporate responsibility fields from whom the Company can learn about best practice. In 2012, Lundin Petroleum's Vice President Corporate Responsibility contributed an article on "The Evolution of Corporate Social Responsibility in the Past Ten Years: the Viewpoint of a Practitioner" to Oil Gas and Energy Law Intelligence (OGEL). Lundin Petroleum continued to support research on governance in, and the economic impact of, the extractive industry at the Center on Conflict, Development and Peace Building of the Graduate Institute of International and Development Studies.

HSE MANAGEMENT

"HAVING A STRONG SAFETY CULTURE MEANS THAT PEOPLE WORK SAFELY NOT JUST BECAUSE THEY ARE BEING TOLD TO BUT BECAUSE THEY SEE THE VALUE TO THEMSELVES, OUR COMPANY AND OUR STAKEHOLDERS IN DOING SO.

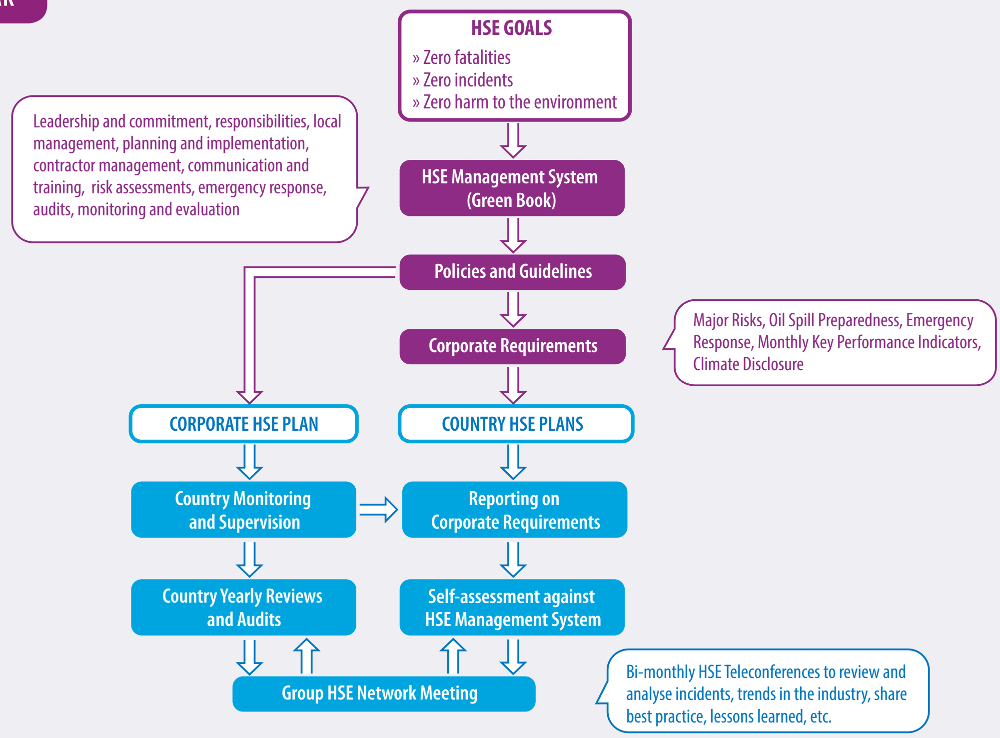
MIKE NICHOLSON,
General Manager – South East Asia

The purpose of an HSE management system (the Green Book) is to have systems and procedures in place to prevent accidents or incidents with an impact on people, environment and assets. Since the Company was created, there have not been any work-related fatalities in its operations. In 2012, Lundin Petroleum's Key Performance Indicators (KPIs) are all better than in 2011 (see table on page 43), except for the number of Lost Time Incidents and Incident Rate among contractors. Incidents reported were of low severity with no lasting impact on people or the environment.

The Company uses KPIs as the basis of its pro-active HSE management approach, focussing on areas where incidents have occurred. In 2012 the emphasis was placed on contractor evaluations and management through onsite reviews, as well as sharing experiences and lessons learned within the Group on an ongoing basis and through bi-monthly HSE teleconferences.

Lundin Petroleum also reinforced its management of risk (see page 71) to continue to prevent accidents.

HSE FRAMEWORK



HSE EXCELLENCE – DECOMMISSIONING IN TUNISIA

The Oudna field, offshore Tunisia, had produced most of its recoverable reserves when in March 2012 exceptionally bad weather caused damage to one of the risers, beyond economic repair. Field decommissioning was declared in June 2012. As operator, Lundin Tunisia promptly mobilised the required resources and commenced the decommissioning of the Ikdam Floating Production, Storage and Offloading Unit (FPSO) in July.

The scope of work included dismantling of the mooring system components. A total of 170 tons of steel components with up to seven tons loads were dismantled subsea by divers and recovered to the surface with a dynamic positioned vessel. The chafe chain, the main part of the mooring system under more than 500 tons tension, was safely released from the FPSO bow and passed on to a support vessel which was positioned only a few metres from the FPSO. Concurrently, tank cleaning was conducted to prepare for gas free certification.

These operations involved over 15 contractors including five support vessels from various nationalities and backgrounds. Over 150 persons were involved in the FPSO decommissioning operations for a highly active 70 day-period.

"WE ARE PROUD TO REPORT THAT THE DECOMMISSIONING OF THE FPSO WAS COMPLETED EFFICIENTLY AND INCIDENT FREE

CHERIF BEN KHELIFA,
General Manager, Tunisia

HSE INDICATOR DATA		2012	2011	2010	2009 [5]
Exposure Hours	Employees	909,196	1,036,831	731,793	905,166
	Contractors	1,561,482	2,354,452	2,336,409	3,454,980
Fatalities	Employees	0	0	0	0
	Contractors	0	0	0	0
Lost Time Incidents [1]	Employees	2	3	2	2
	Contractors	5	3	2	1
Restricted Work Incidents [2]	Employees	0	0	0	1
	Contractors	0	3	7	0
Medical Treatment Incidents [3]	Employees	1	1	0	2
	Contractors	0	4	17	7
Lost Time Incident Rate [4]	Employees	0.44	0.58	0.55	0.44
	Contractors	0.64	0.25	0.17	0.06
Total Recordable Incident Rate [4]	Employees	0.66	0.77	0.55	1.10
	Contractors	0.64	0.85	2.23	0.46
Oil Spills	No.	2	7	1	1
	Vol. (m^3)	4.18	33	10	40
Chemical Spills	No.	1	2	1	2
	Vol. (m^3)	1.75	3.50	7.70	129.78
Hydrocarbon Leaks	No.	0	0	0	1
	Mass (kg)	0	0	0	4
Near Misses with High Potential	No.	5	3	3	24
Non-compliance with Permits/ Consents	No.	0	0	6	19

HSE EXCELLENCE – 4 YEARS WITH NO RECORDABLE INCIDENTS

The crew and the management of the West Courageous jack-up rig used by Lundin Malaysia in Block PM308A achieved its fourth year with no recordable injuries.

Senior management from Lundin Malaysia went offshore to recognise the outstanding efforts by the crew each and every day and to emphasise the importance of the human factor as a key element in this success story.

[1] Lost Time Incident (LTI) is an incident which results in a person having at least one day away from work.
[2] Restricted Work Incident (RWI) is an incident which results in keeping a person from performing one or more routine functions.
[3] Medical Treatment Incident (MTI) is a work related injury or illness that does not result in a job restriction or days away from work.
[4] Lost Time Incident Rate and Total Recordable Incident Rate are calculated on the basis of 200,000 hours.
[5] Includes United Kingdom.

A SUSTAINABLE APPROACH

"LUNDIN NORWAY'S SUSTAINABILITY APPROACH IS KEY TO ITS STRATEGIC GROWTH AND SUCCESS

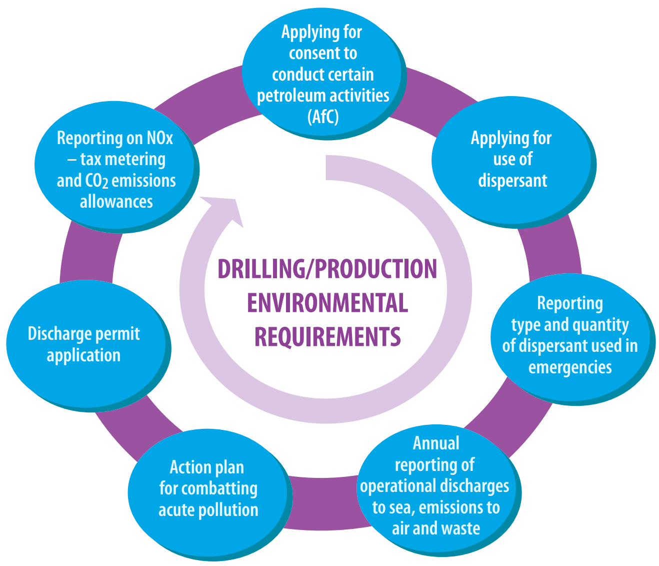
ERIK SVERRE JENSSEN,
Chief Operating Officer, Norway

LUNDIN PETROLEUM'S SUSTAINABILITY APPROACH IN NORWAY

Lundin Norway is committed to carry out its activities in a responsible way, in adherence with the Company's Code of Conduct, HSE Policies and Management System, as well as in conformity with applicable Norwegian legislation including the Framework Regulations, the Petroleum Act, the Pollution Control Act, the Working Environment Act and the Health Act.

The Company's HSE Policy states that *"Lundin Norway shall perform all operations in line with the principle of sustainable growth. Company profit, the society in which we operate and communicate with, and the environment, are interdependent factors."*

ENVIRONMENTAL REQUIREMENTS



In the exploration phase, as part of its sustainability strategy, Lundin Norway gathers environmental data and conducts comprehensive analysis of ecosystems beyond what is required by the authorities. It acquires a full understanding of the natural environment in its licence areas before it commences any field activity whether seismic, exploration or appraisal drilling, field development, and eventually production. Once the environmental data has been duly collected and analysed, Lundin Norway shares its findings with partners, authorities and the public.

For all field development projects such as Edvard Grieg, the facilities design ensures that emissions to air and discharges to sea are minimised through closed flaring, low NOx turbines, the possibility to receive electricity from the shore, heat recovery, re-injection of produced water in the reservoir, amongst others.

The Best Available Technique principle is adhered to and energy efficiency is optimised, through heat recovery from exhaust gas and variable speed drive on large pumps and compressors.

Lundin Norway does not commence seismic acquisition, drilling, field development or production unless it has ascertained that it is environmentally sound.

Mapping of the Ecosystem in the Barents Sea

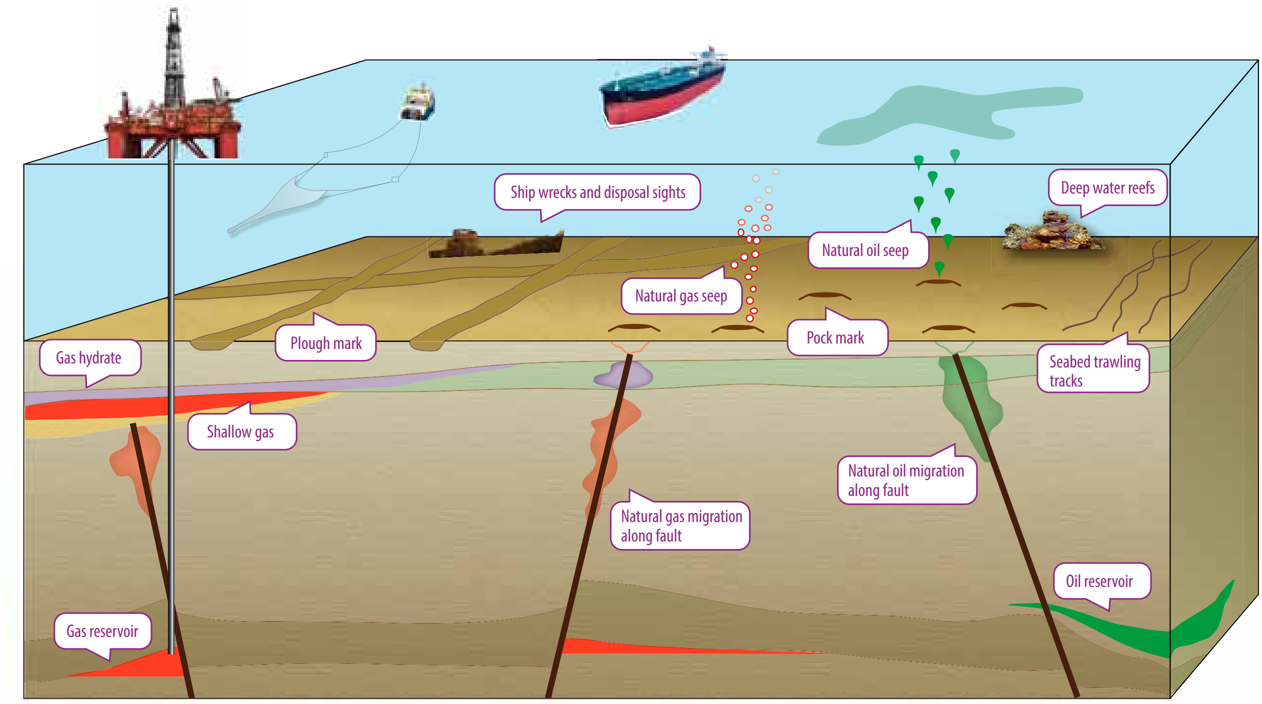
Seabed mapping in the Barents Sea consists of visual, sediment and species sampling, as well as geophysical methods, within and adjacent to its licence areas, with the purpose of:

- Increasing environmental knowledge and understanding of ecosystems
- Increasing knowledge of pre-existing geohazards like gas hydrates and seabed gas leakage

The results of Lundin Norway's mapping work have been widely shared through academic articles, presentations at seminars and international conferences, as well as through the Norwegian Government Marine Research Programme (Mareano).

Based on the positive experience in the Barents Sea, Lundin Norway plans to expand detailed seabed mapping to other core areas on the Norwegian Continental Shelf such as the North Sea.

ECOSYSTEM MAPPING IN THE BARENTS SEA



LUNDIN NORWAY IS INVOLVED IN A NUMBER OF R&D PROJECTS IN ORDER TO ENSURE THE SUSTAINABILITY OF ITS OPERATIONS.

- Introduction of cutting edge technology and methods useful for the oil industry
- Sponsorship of a CO_2 storage project at Spitsbergen
- Sponsorship of five PhD and one MSc students from Norway, Sweden and Germany to support the seabed mapping project
- Participation through the Norwegian Oil and Gas Association in a project looking at improved methods for cleaning oil based drill cuttings
- Contribution as member of the Norwegian Clean Seas Association for Operating Companies (NOFO) of approximately NOK 3 million (US 500,000) between 2010 and 2012 to research and development (R&D) on means to improve oil spill clean-up

SUSTAINABLE INVESTMENTS

"THROUGH OUR SUSTAINABLE INVESTMENT PROGRAMME WE SEEK TO HAVE A POSITIVE IMPACT IN OUR AREAS OF OPERATIONS

CHRISTINE BATRUCH
Vice President Corporate Responsibility

In 2006, Lundin Petroleum established a Sustainable Investment Programme to promote social, economic, and environmental projects and organisations as well as citizenship among its staff. Since then, the Company has funded a significant number of projects, primarily in its areas of operations.

In 2012, Lundin Petroleum continued to fund some of its long standing projects, such as SOS Children Villages, while it initiated new ones focussing on the preservation of the environment. The main projects supported by Lundin Petroleum and its affiliates in 2012 can be seen on the adjacent map.

Lundin Petroleum intends to pursue sustainable investments and community development projects associated to its operations. However, as the Company's operations grow, so does the need to engage in larger scale and more sustainable projects whose impact can be measured over time. This will better fulfil the commitment the Company made under the United Nations Global Compact to further the Millennium Development Goals. Lundin Petroleum has therefore decided to seek the support of an organisation with a strong track record in philanthropy and social investments.

Partnership with the Lundin Foundation

In 2013 Lundin Petroleum entered into a partnership agreement with the Lundin Foundation in order to increase the scale and impact of the Company's sustainable investment projects and benefit from the Lundin Foundation's expertise and network of implementing organisations. Lundin Petroleum has committed to annually contribute 0.1 percent of its previous year's operating income to the Lundin Foundation. At least 70 percent of the funds will be attributed to Lundin Petroleum's thematic focus, namely energy, environment, good governance and sustainability, primarily in its countries of operation. The remaining funds will go to the Lundin Foundation's other projects. The Lundin Foundation has adopted the Impact Reporting Investment Standards, which provide a standardised set of metrics and definitions that permit comparison on social and economic performance, to measure its impact on the projects it supports.

To ensure that the projects are aligned with Lundin Petroleum's Community Relations Policy and Sustainable Investment Programme a Management Committee will be formed by respectively two representatives of Lundin Petroleum and the Lundin Foundation. Furthermore, Lundin Petroleum will have a representative on Lundin Foundation's board of directors.

Lundin Petroleum will report on an annual basis on the Lundin Foundation's projects, progress and their impact.

For more information on Lundin Petroleum's sustainable investment programme visit the Responsibility pages on www.lundin-petroleum.com

The Lundin Foundation

The Lundin Foundation is a philanthropic organisation founded by the Lundin family. The Lundin Foundation is currently supported by a number of publicly traded natural resource companies committed to the highest standards of corporate social responsibility. The Lundin Foundation provides early stage capital, technical assistance, and strategic grants to outstanding social enterprises and organisations across the globe, with a view to contributing to sustained improvements in social and economic development. The Lundin Foundation works collaboratively with a number of leading private, bilateral and multilateral organisations both to leverage impacts and ensure alignment with host communities and governments. To date, Lundin Foundation's investments have supported 35 enterprises, which in turn have generated USD 42 million in annual revenue, hired over 1,800 employees, paid over USD 8.7 million in wages, transacted over USD 22.8 million in business with over 55,000 rural farmers and microenterprises, and enabled over 375,000 rural customers gain access to improved agricultural products and equipment, financial services and off-grid energy. All proceeds realised from impact investments are reinvested in charitable purposes. The Lundin Foundation additionally provides strategic grants to support education and health initiatives needed to create the enabling conditions for social enterprise to flourish.

For more information about the Lundin Foundation and its projects see www.lundinfoundation.org.

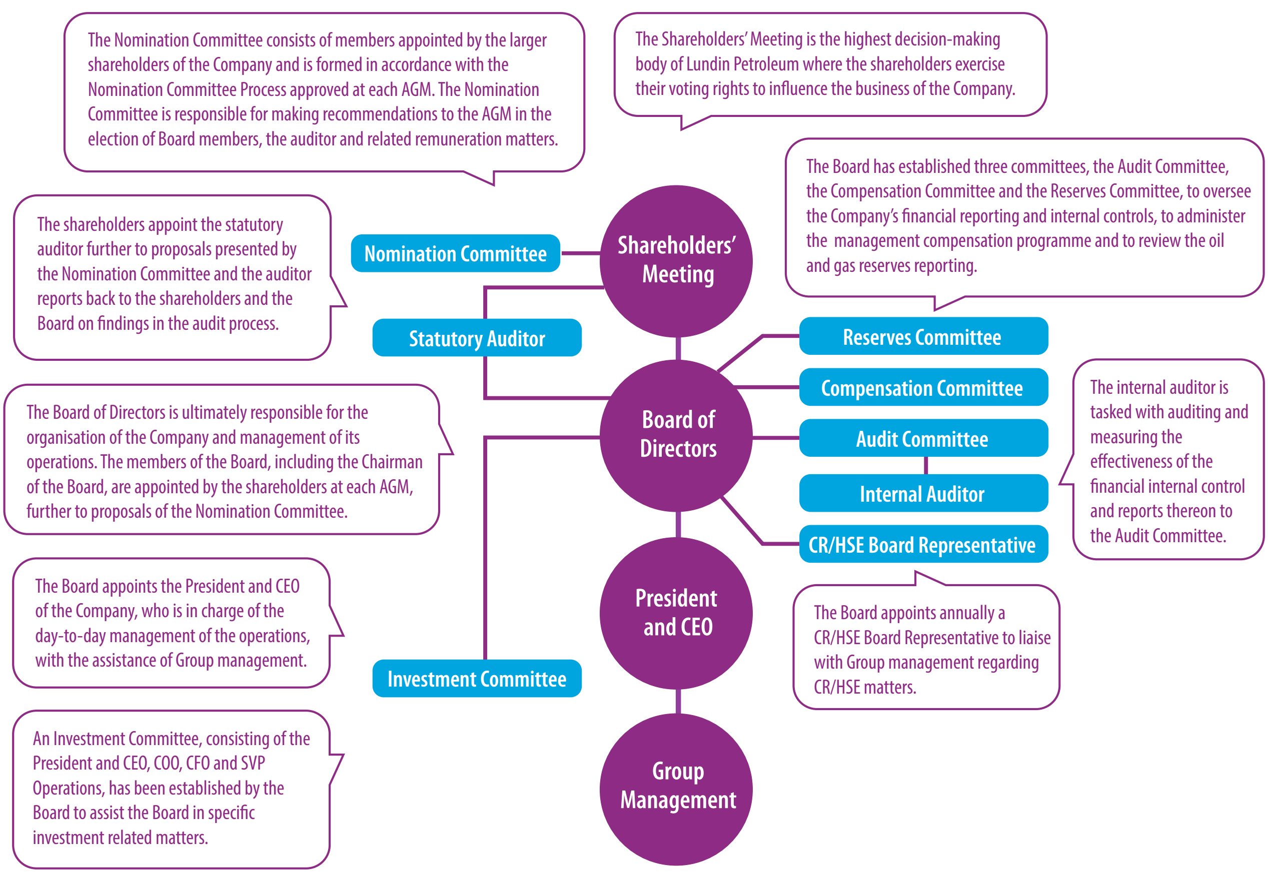
CORPORATE GOVERNANCE REPORT 2012

INTRODUCTION – WORDS FROM THE CHAIRMAN

As Chairman of the Board of Directors of Lundin Petroleum, my primary duty is to ensure that the Board performs its functions to provide guidance to, and oversee the work of, Group management. For the Board to function efficiently, it is critical that the flow of information is smooth, timely and of course comprehensive without being excessive. My work as Chairman has been made straightforward by the excellent quality and very high standard of the information provided by Group management. When a company is as active as Lundin Petroleum in terms of evaluating and acquiring new projects, it is very important to have a short response time to consider and respond to management proposals. The Board has to be not only reactive, but have insightful input in the decision-making process. The Board has to be able to rely on Group management and have full confidence in their ability, without being complacent in any way. I attach a lot of importance to open lines of communication and informal interaction between the Board and Group management at all levels. Full transparency between the Board and Group management is a must in any public company, but for Lundin Petroleum it is second nature. Written rules and procedures are of course there to guide the Board, putting on paper practices which have always been applied. To me, these reflect good corporate governance, common sense and the high level of ethical conduct that is set in stone within Lundin Petroleum. It has been an honour and a most fulfilling experience to serve as Chairman of Lundin Petroleum since 2002 and I look forward to doing so well into the future, if this is the wish of our shareholders.

> "FULL TRANSPARENCY BETWEEN THE BOARD AND GROUP MANAGEMENT IS A MUST IN ANY PUBLIC COMPANY, BUT FOR LUNDIN PETROLEUM IT IS SECOND NATURE
>
> IAN H. LUNDIN
> Chairman of the Board

GOVERNANCE STRUCTURE OF LUNDIN PETROLEUM



LUNDIN PETROLEUM – GOVERNANCE STRUCTURE

The object of Lundin Petroleum's business is to explore for, develop and produce oil and gas and to develop other energy resources, as laid down in the Articles of Association. The Company aims to create value for its shareholders through exploration and organic growth, while operating in an economically, socially and environmentally responsible way for the benefit of all stakeholders. To achieve this value creation, Lundin Petroleum applies a governance structure that favours straightforward decision making processes, with easy access to relevant decision makers, while nonetheless providing the necessary checks and balances for the control of the activities, both operationally and financially. Lundin Petroleum is committed to applying good corporate governance practices that are best suited for the Company and its activities, to ensure that the Company is managed in an effective manner, in the best interests of all shareholders, for continued delivery of value creation for shareholders.

This Corporate Governance Report has been subject to a review by the Company's statutory auditor.

GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

Since its creation in 2001, Lundin Petroleum has been guided by general principles of corporate governance to:

» Protect shareholder rights
» Provide a safe and rewarding working environment to all employees
» Abide by applicable laws and best industry practice
» Carry out its activities competently and sustainably
» Sustain the well-being of local communities in its areas of operations

Lundin Petroleum adheres to principles of corporate governance found in both internal and external rules and regulations. As a Swedish public limited company listed on the NASDAQ OMX Stockholm, Lundin Petroleum is subject to the Swedish Companies Act (SFS 2005:551) and the Annual Accounts Act (SFS 1995:1554), as well as the Rule Book for Issuers of the NASDAQ OMX Stockholm, which can be found on www.nasdaqomx.com. Lundin Petroleum is also listed on the Toronto Stock Exchange and is as a result subject to Canadian securities regulations as well, including the Toronto Stock Exchange Rule Book available on www.tmx.com.

In addition, the Company abides by principles of corporate governance found in a number of internal and external documents.

The Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (Code of Governance) is based on the tradition of self-regulation and acts as a complement to the corporate governance rules contained in the Companies Act, the Annual Accounts Act and other regulations such as the Rule Book for Issuers and good practice on the securities market. The Code of Governance can be found on www.bolagsstyrning.se.

Main external rules and regulations for corporate governance at Lundin Petroleum

» Swedish Companies Act
» Swedish Annual Accounts Act
» The NASDAQ OMX Stockholm Rule Book for Issuers
» The Toronto Stock Exchange Rule Book
» Swedish Code of Corporate Governance

Main internal rules and regulations for corporate governance at Lundin Petroleum

» The Articles of Association
» The Code of Conduct
» Policies, Guidelines and Procedures
» The HSE Management System (Green Book)
» The Rules of Procedure of the Board, instructions to the CEO and for the financial reporting to the Board and the terms of reference of the Board Committees and the Investment Committee

The Code of Governance is based on the "comply or explain principle", which entails that a company may choose to apply another solution than the one provided by the Code of Governance if it finds an alternative solution to be more appropriate in a particular case. The company must however explain why it did not comply with the rule in question and describe the company's preferred solution, as well as the reasons for it. Lundin Petroleum complied with all the rules of the Code of Governance in 2012, other than in one instance as mentioned in the schedule on page 51 regarding the composition of the Nomination Committee. Furthermore, there were no infringements of applicable stock exchange rules during the year, nor any breaches of good practice on the securities market.

Lundin Petroleum's Articles of Association

Lundin Petroleum's Articles of Association, which form the basis of the governance of the Company's operations, set forth the Company's name, the seat of the Board, the object of the business activities, the shares and share capital of the Company and contain rules with respect to the Shareholders' Meetings. The Articles of Association do not contain any limitations as to how many votes each shareholder may cast at Shareholders' Meetings, nor any provisions regarding the appointment and dismissal of Board members or amendments to the Articles of Association. The Articles of Association can be found on www.lundin-petroleum.com.

Lundin Petroleum's Code of Conduct

Lundin Petroleum's Code of Conduct is a set of principles formulated by the Board to give overall guidance to employees, contractors and partners on how the Company is to conduct its activities in an economically, socially and environmentally responsible way, for the benefit of all its stakeholders, including shareholders, employees, business partners, host and home governments and local communities. The Company applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements and strives to continuously improve its performance and to act in accordance with good oilfield practice and high standards of corporate citizenship. The Code of Conduct is an integral part of the Company's contracting procedures and any violations of the Code of Conduct will be the subject of an inquiry and appropriate remedial measures. Performance under the Code of Conduct is assessed on an annual basis by the Board. The Code of Conduct can be found on www.lundin-petroleum.com.

Lundin Petroleum's Policies, Guidelines and Procedures and Management System

While the Code of Conduct provides Lundin Petroleum's ethical framework, dedicated policies, guidelines and procedures have been developed to outline specific rules and controls applicable in the different business areas. The Company has policies, guidelines and procedures covering for example Operations, Accounting and Finance, Health, Safety and Environment (HSE), Community Relations, Anti-Corruption, Human Rights, Legal, Information Systems, Human Resources (HR) and Corporate Communications. The policies, guidelines and procedures are reviewed on a continuous basis and are modified and up-dated as and when required. Some of these documents can be found on www.lundin-petroleum.com, whereas others are only available internally.

In addition, Lundin Petroleum has a dedicated HSE Management System (Green Book), modelled after the ISO 14001 standard, which gives guidance to management, employees and contractors regarding the Company's intentions and expectations in HSE matters. The Green Book serves to ensure that all operations meet Lundin Petroleum's legal and ethical obligations, responsibilities and commitments within the HSE field. A more detailed description of the Green Book is available on www.lundin-petroleum.com.

Lundin Petroleum's Rules of Procedure of the Board

The Rules of Procedure of the Board contain the fundamental rules regarding the division of duties between the Board, the Committees, the Chairman of the Board and the Chief Executive Officer (CEO). The Rules of Procedure also include instructions to the CEO, instructions for the financial reporting to the Board and the terms of reference of the Board Committees and the Investment Committee. The Rules of Procedure are approved annually by the Board.

SHARE CAPITAL AND SHAREHOLDERS

The shares of Lundin Petroleum are listed on the Large Cap list of the NASDAQ OMX Stockholm and on the Toronto Stock Exchange. At the end of 2012, the issued share capital of Lundin Petroleum amounted to SEK 3,179,106 divided into 317,910,580 shares with a quota value of SEK 0.01 each. All shares carry the same voting rights and the same rights to a share of the Company's assets and net result.

Lundin Petroleum had at the end of 2012 a total of 43,954 shareholders listed with Euroclear Sweden, which represents an increase of 7,057 shareholders compared to 2011, i.e. an increase of approximately 20 percent. As at 31 December 2012, the major shareholders of the Company, which held more than ten percent of the shares and votes, were Lorito Holdings (Guernsey) Ltd. and Zebra Holdings and Investment (Guernsey) Ltd., two investment companies wholly owned by Lundin family trusts, which together held 27.4 percent of the shares. In addition, Landor Participations Inc., an investment company wholly owned by a trust whose settler is Ian H. Lundin, held 3.6 percent of the shares.

As in previous years, the Annual General Meeting (AGM) held on 10 May 2012 authorised the Board to repurchase and sell its own shares as an instrument to optimise the Company's capital structure and to secure the Company's obligations under its incentive plans. Based on the authorisation, Lundin Petroleum purchased 485,647 of its own shares during the second quarter of 2012 and as a result, held 7,368,285 of its own shares as at 31 December 2012, representing 2.3 percent of the share capital. The average purchase price for the shares is SEK 51.90. Further information regarding the shares and shareholders of Lundin Petroleum in 2012, as well as the Company's dividend policy, can be found on page 68.

NOMINATION COMMITTEE

The shareholders of the Company decide at each AGM how the Nomination Committee is to be formed. The tasks of the Nomination Committee include making recommendations to the AGM regarding the election of the Chairman of the AGM, election of Board members and the Chairman of the Board, remuneration of the Chairman and other Board members, including remuneration for Board Committee work, election of the auditor, remuneration of the auditor and the Nomination Committee Process for the AGM of the following year. The Nomination Committee members are, regardless of how they are appointed, required to promote the interests of all shareholders of the Company. No remuneration is paid to the Chairman or any other member of the Nomination Committee for their work on the Nomination Committee.

Nomination Committee for the 2013 AGM

In accordance with the Nomination Committee Process approved by the 2012 AGM, the Nomination Committee for the 2013 AGM consists of members appointed by four of the larger shareholders of the Company based on shareholdings as per 1 August 2012. The names of the members of the Nomination Committee were announced and posted on the Company's website on 24 October 2012, i.e. within the time frame of six months before the AGM as prescribed by the Code of Governance. The Company's Vice President Legal, Jeffrey Fountain, acts as the secretary of the Nomination Committee. The Nomination Committee has held four meetings during its mandate and informal contacts have taken place between such meetings. Further information regarding the Nomination Committee and its work is included in the schedule that follows on the next page and the full Nomination Committee report, including the final proposals to the 2013 AGM, are published on the Company's website together with the notice of the AGM.

Nomination Committee for the 2013 AGM						
Member	Appointed by	Meeting attendance	Shares represented as at 1 August 2012	Shares represented as at 31 December 2012	Independent of the Company and the Group management	Independent of the Company's major shareholders
Åsa Nisell	Swedbank Robur fonder	4/4	2.6 percent	2.6 percent	Yes	Yes
Ossian Ekdahl	Första AP-fonden	4/4	1.1 percent	0.9 percent	Yes	Yes
Arne Lööw	Fjärde AP-fonden	4/4	1.2 percent	1.2 percent	Yes	Yes
Ian H. Lundin	Lorito Holdings (Guernsey) Ltd., Zebra Holdings and Investment (Guernsey) Ltd. and Landor Participations Inc., also non-executive Chairman of the Board of Lundin Petroleum	4/4	31.0 percent	31.0 percent	Yes	No[1]
Magnus Unger	Non-executive Board member of Lundin Petroleum who acts as the Chairman of the Nomination Committee	4/4	–	–	Yes	Yes
			Total 35.9 percent	Total 35.7 percent		

Summary of the Nomination Committee's work during their mandate	Other requirements
– Consideration of a report regarding the Board's work, as well as the results of the evaluation of the Board's work. – Assessment of the independence of the Board members under the rules of the Code of Governance. – Consideration of the size and composition of the Board, in view of the Company's current position and expected development and the Board members' qualifications and experience. – Appointment of an external executive recruitment company to identify suitable candidates to propose as new Board members to the 2013 AGM, evaluation of the results of the search and interviewing possible candidates. – Discussions regarding the reappointment of the current Board members and the Chairman of the Board at the 2013 AGM. – Consideration of the recommendation received through the Company's Audit Committee regarding the election of auditor at the 2013 AGM. – Consideration of Board and auditor remuneration issues. – Discussions regarding the appointment of an external independent Chairman for the 2013 AGM and consideration of suitable candidates. – Consideration of the Nomination Committee Process for the 2014 AGM. – Åsa Nisell, Ossian Ekdahl and Arne Lööw met with two Board members, Asbjørn Larsen and Kristin Færøvik, to discuss the work and functioning of the Board.	– The Nomination Committee fulfils the independence requirements of the Code of Governance and no member of Group management is a member of the Committee. – Magnus Unger was again unanimously elected as Chairman, a function that he has held since the Nomination Committee formed for the 2006 AGM. The fact that he is the Chairman of the Nomination Committee and a Board member of Lundin Petroleum constitutes a deviation from rule 2.4 in the Code of Governance, however, as in previous years, this deviation was considered justified both by the Company and the Nomination Committee given Magnus Unger's experience and support from the major shareholders of the Company.

[1] For details, please see schedule on pages 64–65

SHAREHOLDERS' MEETINGS

The Shareholders' Meeting is the highest decision-making body of Lundin Petroleum where the shareholders exercise their voting rights and influence the business of the Company. Shareholders may request that a specific issue be included in the agenda provided such request reaches the Board in due time. The AGM is to be held each year before the end of June at the seat of the Board in Stockholm. The notice of the AGM, which is to be given no more than six and no less than four weeks prior to the meeting, is to be announced in the Post- och Inrikes Tidningar (the Swedish Gazette) and on the Company's website. The documentation for the AGM is provided on the Company's website in Swedish and in English at the latest three weeks, however usually four weeks, before the AGM.

At the AGM, the shareholders decide on a number of key issues regarding the governance of the Company, such as election of the members of the Board and the auditor, the remuneration of the Board, management and the auditor, including approval of the Policy on Remuneration for the Executive Management, discharge of the Board members and the CEO from liability and the adoption of the annual accounts and appropriation of the Company's result. Extraordinary General Meetings are held as and when required for the operations of the Company.

2012 AGM

The 2012 AGM was held on 10 May 2012 at Grand Hotel in Stockholm. The AGM was attended by 664 shareholders, personally or by proxy, representing 54.4 percent of the share capital. The Chairman of the Board, all Board members and the CEO were present, as well as the Company's auditor and the majority of the members of the Nomination Committee for the 2012 AGM. The members of the Nomination Committee for the 2012 AGM were Kerstin Stenberg (Swedbank Robur fonder), Ulrika Danielson (Andra AP-fonden), Anders Algotsson (AFA Försäkring), Ian H. Lundin (Lorito Holdings (Guernsey) Ltd., Zebra Holdings and Investment (Guernsey) Ltd. and Landor Participations Inc., as well as non-executive Chairman of the Board of Lundin Petroleum) and Magnus Unger (non-executive Board member of Lundin Petroleum and Chairman of the Nomination Committee). In order for all participants to be able to follow the AGM, all proceedings were simultaneously translated from Swedish to English and from English to Swedish and all AGM materials were provided both in Swedish and English.

The resolutions passed by the 2012 AGM include:

- Re-election of Ian H. Lundin, Magnus Unger, William A. Rand, Lukas H. Lundin, C. Ashley Heppenstall, Asbjørn Larsen and Kristin Færøvik as Board members. Dambisa F. Moyo declined re-election.
- Re-election of Ian H. Lundin as Chairman of the Board.
- Discharge of the Board and the CEO from liability for the administration of the Company's business for 2011.
- Adoption of the Company's income statement and balance sheet and the consolidated income statement and balance sheet and deciding that no dividend was to be declared for 2011.
- Approval of the remuneration of the Board members and the auditor.
- Approval of the Company's Policy on Remuneration for the Executive Management.
- Authorisation for the Board to issue new shares and/or convertible debentures corresponding to in total not more than 35 million new shares, with or without the application of the shareholders pre-emption rights.
- Authorisation for the Board to decide on repurchases and sales of the Company's own shares on the NASDAQ OMX Stockholm or the Toronto Stock Exchange, where the number of shares held in treasury from time to time shall not exceed five percent of all outstanding shares of the Company.
- Approval of the Nomination Committee Process for the 2013 AGM.
- Rejection of shareholder proposals in relation to the Company's past operations.

The minutes of the 2012 AGM and all AGM materials, in Swedish and English, are available on the Company's website www.lundin-petroleum.com, together with the Chairman's and the CEO's addresses to the AGM.

2013 AGM

The 2013 AGM will be held on 8 May 2013 at 1 p.m. in Vinterträdgården at Grand Hotel, Södra Blaiseholmshamnen 8, in Stockholm. Shareholders who wish to attend the meeting must be recorded in the share register maintained by Euroclear Sweden on 2 May 2013 and must notify the Company of their intention to attend the AGM no later than 2 May 2013. Further information about registration to the AGM, as well as voting by proxy, can be found in the notice of the AGM, available on www.lundin-petroleum.com.

EXTERNAL AUDITORS OF THE COMPANY

Statutory Auditor

Lundin Petroleum's statutory auditor audits annually the Company's financial statements, the consolidated financial statements, the Board's and the CEO's administration of the Company's affairs and reports on the Corporate Governance Report. In addition, the auditor performs a review of the Company's half year report. The Board of Directors meets at least once a year with the auditor without any member of Group management present at the meeting. In addition, the auditor participates regularly in Audit Committee meetings, in particular in connection with the Company's half year and year end reports. At the 2012 AGM, no election of auditor took place as the audit firm PricewaterhouseCoopers AB was elected at the 2009 AGM as the auditor of the Company for a period of four years until the 2013 AGM. The auditor in charge is the authorised public accountant Bo Hjalmarsson.

The auditor's fees are described in the notes to the financial statements – see Note 35 on page 104 and Note 10 on page 109. The auditor's fees also detail payments made for assignments outside the regular audit mandate. Such assignments are kept to a minimum to ensure the auditor's independence towards the Company.

The principal tasks of the Board of Directors include:

- establishing the overall operational goals and strategy of the Company;
- making decisions regarding the supply of capital;
- appointing, evaluating and, if necessary, dismissing the CEO;
- ensuring that there is an effective system for follow-up and control of the Company's operations;
- ensuring that there is a satisfactory process for monitoring the Company's compliance with laws and other regulations relevant to the Company's operations;
- defining necessary guidelines to govern the Company's ethical conduct;
- ensuring that the Company's external communications are characterised by openness, and that they are accurate, reliable and relevant;
- ensuring that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general include satisfactory systems of internal control; and
- continuously evaluating the Company's and the Group's economic situation.

Independent Qualified Reserves Auditor

Lundin Petroleum's independent qualified reserves auditor audits annually the Company's oil and gas reserves and contingent resources, i.e. the Company's core assets, although such assets are not separately reported in the Company's balance sheet or income statement. The auditor is appointed by the Board, based on the recommendation of the Reserves Committee. The auditor meets at least once a year with the Company's Reserves Committee and Group management to discuss the reserves reporting and the audit process, and provides a yearly report on reserves data as required by applicable Canadian securities regulation. The current auditor is ERC-Equipoise Ltd. For further information regarding the Company's reserves and resources, please see the Reserves, Resources and Production section on pages 12–17.

BOARD OF DIRECTORS

The Board of Directors of Lundin Petroleum is responsible for the organisation of the Company and management of the Company's operations. The Board of Directors is to manage the Company's affairs in the interests of the Company and all shareholders with the aim of creating long-term shareholder value.

Composition of the Board

The Board shall, according to the Articles of Association, consist of a minimum of three and a maximum of ten directors with a maximum of three deputies, and the AGM decides the final number each year. The Board members are elected for a term of one year and as mentioned previously, Ian H. Lundin, also Chairman of the Board, Magnus Unger, William A. Rand, Lukas H. Lundin, C. Ashley Heppenstall, also CEO of the Company, Asbjørn Larsen and Kristin Færøvik were re-elected as Board members at the 2012 AGM for the period until the next AGM. Dambisa F. Moyo declined re-election. There are no deputy members and no members appointed by employee organisations. The Board members, with the exception of the CEO, are not employed by the Company, do not receive any salary from the Company and are not eligible for participation in the Company's incentive programmes. In addition, the Board is supported by a corporate secretary who is not a Board member. The appointed corporate secretary is Jeffrey Fountain, the Company's Vice President Legal.

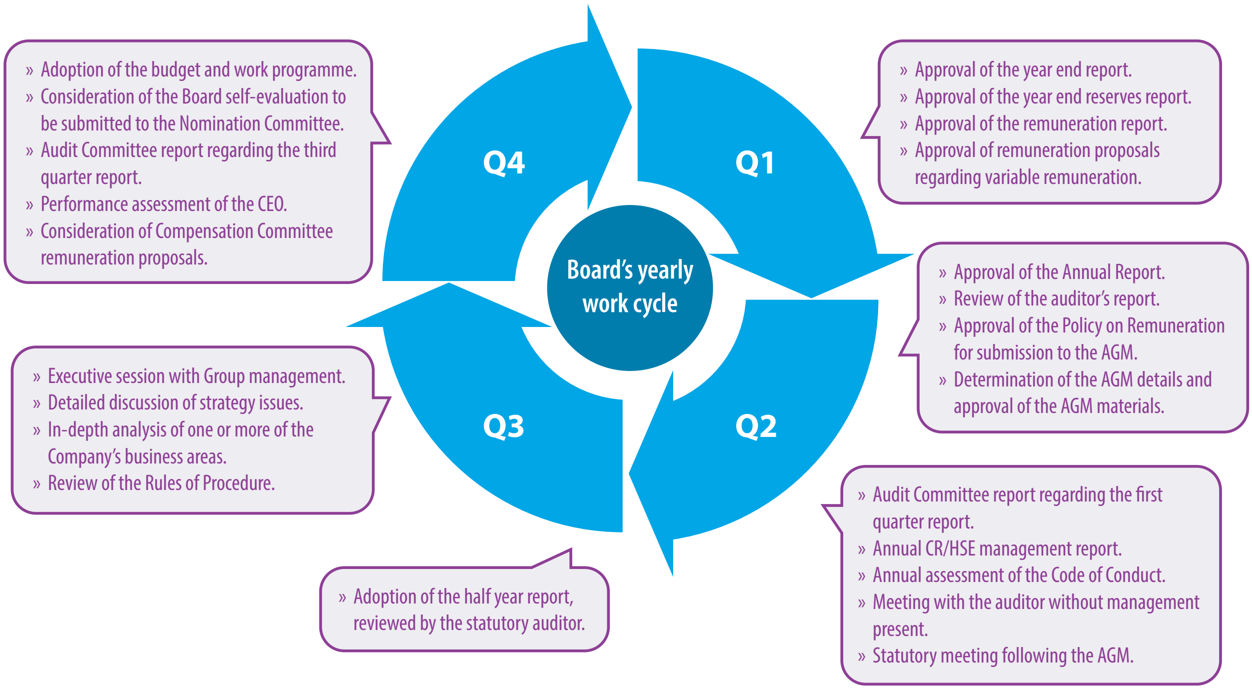
The Chairman of the Board, Ian H. Lundin, is responsible for ensuring that the Board's work is well organised and conducted in an efficient manner. He upholds the reporting instructions for management, as drawn up by the CEO and as approved by the Board, however, he does not take part in the day-to-day decision-making concerning the operations of the Company. The Chairman maintains close contacts with the CEO to ensure the Board is at all times sufficiently informed of the Company's operations and financial status, and to provide support to the CEO in his tasks and duties. The Chairman further meets, at various occasions during the year, shareholders of the Company to discuss shareholder questions and ownership issues in general, as well as other Company stakeholders. In addition, the Chairman actively promotes the Company and its interests in the various operational locations and in respect of potential new business opportunities.

All Board members elected at the 2012 AGM have extensive experience from the world of business and several members are also highly experienced within the oil and gas field. The Nomination Committee for the 2012 AGM considered, taking into account the business operations of Lundin Petroleum and its current phase of development, that the Board is composed of multi-faceted individuals who are well-suited for the job and whose expertise, experience and background is extensive. Further, in preparation of the elections at the 2012 AGM, the Nomination Committee considered the independence of each proposed Board member and determined that the composition of the proposed Board met the independence requirements of the Code of Governance both in respect of independence towards the Company and the Group management and towards the Company's major shareholders. The independence of each Board member is presented in the schedule on pages 64–65.

Board Meetings and Work

The Board is guided by the Rules of Procedure, which set out how the Board is to conduct its work. In addition to the statutory meeting following the AGM, the Board normally holds at least six ordinary meetings per calendar year. At the meetings, the CEO reports on the status of the business, prospects and the financial situation of the Company. In addition, decision items and issues of material importance to the Company are considered by the Board and the Board Committees report on matters as and when required. The Board's yearly work cycle is illustrated in the below chart.

The Board's work follows a yearly cycle to ensure the Board duly addresses all areas of responsibility and that adequate focus is placed on strategic and important issues for the benefit of the Company's shareholders. Generally, issues are discussed and addressed at the ordinary meetings as follows.



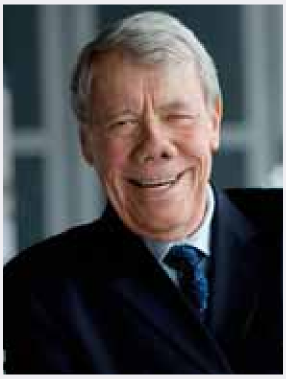
BOARD OF DIRECTORS

Ian H. Lundin
Chairman since 2002
Director since 2001
Member of the Nomination Committee
Chairman of the Reserves Committee

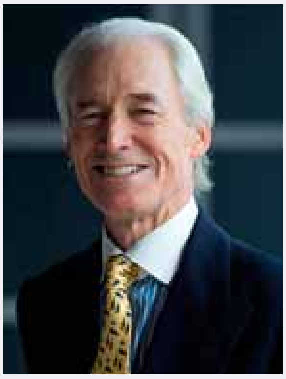
Lukas H. Lundin
Director since 2001

C. Ashley Heppenstall
Director since 2001
President and Chief Executive Officer since 2002

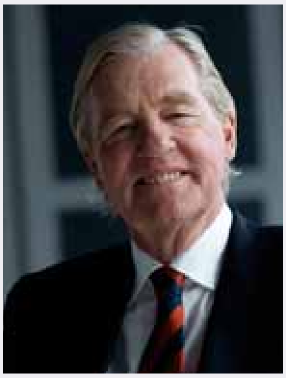
Kristin Færøvik
Director since 2011
Member of the Compensation Committee



Asbjørn Larsen
Director since 2008
Member of the Audit and Reserves Committees
CR/HSE Board Representative



William A. Rand
Director since 2001
Chairman of the Audit and Compensation Committees



Magnus Unger
Director since 2001
Member of the Audit and Compensation Committees
Chairman of the Nomination Committee

More information on the Board of Directors can be found on pages 64–65 and on www.lundin-petroleum.com

Board Meetings in 2012

During 2012, eight board meetings took place, including the statutory meeting. To develop the Board's knowledge of the Company and its operations, a yearly field trip is in general carried out to one of the Company's operational locations. In September 2012, the Board visited the Norwegian operations and an executive session, together with Group management, was held in connection with the Board meeting. At the executive session, an in-depth operations review regarding the Group's exploration and development activities was given, as well as a reserves and production update. A financial overview of the Group was presented and a Corporate Responsibility (CR) and HSE report, with a particular focus on the UN Guiding Principles on Business and Human Rights, was given. Group management also attended a number of Board meetings during the year to present and report on specific questions, as and when required.

Board of Directors

Board's work during the year

- Review and approval of the report for the financial year ended 31 December 2011.
- Receiving management updates on the business and operations of the Company, including in respect of production forecasts and issues, key exploration events, on-going development projects in Norway and related key contracts, etc.
- Strategic discussions regarding the current operations and future exploration and development projects.
- Consideration of asset disposals and acquisitions.
- Consideration of substantial projects and commitments including significant contract awards, drilling rig and seismic survey arrangements, revisions to drilling programmes, development plan (PDO) submissions, extensions of exploration periods, etc.
- Consideration of new licence applications.
- Consideration and approval of field decommissioning and abandonment issues.
- Extensive discussions regarding the Company's new USD 2.5 billion credit facility and approval of the final arrangement.
- Discussions with the Company's auditor regarding the 2011 audit process and compliance with the Company's 2011 Policy on Remuneration (without management present at the meeting).
- Consideration of shareholder proposals received for the 2012 AGM in relation to the Company's past operations, receiving an expert opinion on the subject and approval of a statement to recommend to shareholders to vote against such proposals.
- Review and approval of the materials and proposals for the 2012 AGM, including the Company's 2011 Annual Report.
- Discussions regarding unfounded media allegations in relation to the Company's past operations in Sudan and Ethiopia and the Swedish International Prosecution Office's investigation into alleged violations of international humanitarian law in Sudan during the years 1997-2003.
- Review and approval of the Company's six month report as per 30 June 2012, based on the recommendations of the Audit Committee.
- Implementation of the authorisation granted by the 2012 AGM to repurchase the Company's own shares.
- Consideration of shareholder and investor relations questions and activities, including stakeholder engagement issues and communication with shareholders.
- Review and approval of reserves statements required under Canadian securities regulation.
- Review and approval of the Company's endorsement of the UN Guiding Principles on Business and Human Rights.
- Review and approval of the Company's Human Rights Policy and Guidelines.
- Review and approval of the Company's support and endorsement of the Extractive Industries Transparency Initiative (EITI) Principles.
- Discussions regarding the Company's HSE performance and progress.
- Consideration of significant insurance policies and issues.
- Review and approval of the 2013 budget and work programme.
- In addition, the Board continuously received management reports regarding the on-going operations, the Company's financial status and CR/HSE matters to enable the Board to duly monitor the Company's operations and financial position.

The Board is also responsible for evaluating the work of the CEO on a continuous basis and shall carry out, at least once a year, a formal performance review . In 2012, the Compensation Committee, on behalf of the Board, undertook a review of the work and performance of Group management, including the CEO, and presented the results of the review at a Board meeting, including proposals regarding the compensation of the CEO and other Group management. Neither the CEO nor other Group management were present at the Board meetings when such discussions took place.

Evaluation of the Board's Work

A formal review of the work of the Board was conducted in November 2012 through a questionnaire submitted to all Board members, with the objective of ensuring that the Board functions in an efficient manner and, as applicable, to enable the Board to strengthen its focus on matters which may be raised. The topics considered included several aspects of the Board's structure, work, meetings and general issues such as support and information given to the Board.

Individual feedback from all Board members was received and the overall conclusions were very positive and showed that the structure and composition of the Board is appropriate and that the Board members are experienced professionals who are well informed about the Company and its operations. The Board Committees function efficiently and the duties and decision-making powers within the Board are clear. The meetings are well planned and prepared, with high quality presentations, which enables the Board to function in a well-informed and efficient manner. Individual suggestions received for future issues to consider were that it would be advantageous to have more discussions regarding the overall strategy of the Company, in an ever rapidly changing environment.

The results and conclusions of the review were presented to the Nomination Committee.

Remuneration of Board Members

The remuneration of the Chairman and other Board members follows the resolution adopted by the AGM. At the 2012 AGM, the Chairman was awarded an amount of SEK 1,000,000 and each other Board member, with the exception of the CEO, an amount of SEK 450,000. The AGM further decided to award SEK 100,000 for each ordinary Board Committee assignment and SEK 150,000 for each assignment as Committee Chairman, however, limited to a total of SEK 800,000 for Committee work. No remuneration is paid for any assignments in relation to the Reserves Committee. In addition, the 2012 AGM approved an amount of SEK 2,000,000 to be paid to Board members for special assignments outside the directorship.

The remuneration of the Board of Directors is detailed further in the schedule on pages 64–65 and in the notes to the financial statements – see Note 33 on pages 102–103.

BOARD COMMITTEES AND THE CR/HSE REPRESENTATIVE

To maximise the efficiency of the Board's work and to ensure a thorough review of certain issues, the Board has established a Compensation Committee, an Audit Committee and a Reserves Committee and has appointed a CR/HSE Board Representative. The tasks and responsibilities of the Committees are detailed in the terms of reference of each Committee, which are annually adopted as part of the Rules of Procedure of the Board. Minutes are kept at Committee meetings and matters discussed are reported to the Board. In addition, informal contacts take place between ordinary meetings as and when required by the operations.

Compensation Committee

The Compensation Committee assists the Board in Group management remuneration matters and receives information and prepares the Board's and the AGM's decisions on matters relating to the principles of remuneration, remunerations and other terms of employment of Group management. The objective of the Committee in determining compensation for Group management is to provide a compensation package that is based on market conditions, is competitive and takes into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the individual. The Committee's tasks also include monitoring and evaluating programmes for variable remuneration, the application of the Policy on Remuneration as well as the current remuneration structures and levels in the Company. For further information regarding Group remuneration matters, see the remuneration sections of this report on pages 59–61.

Audit Committee

The Audit Committee assists the Board in ensuring that the Company's financial reports are prepared in accordance with International Financial Reporting Standards (IFRS), the Swedish Annual Accounts Act and accounting practices applicable to a company incorporated in Sweden and listed on the NASDAQ OMX Stockholm and the Toronto Stock Exchange. The Audit Committee itself does not perform audit work, however, it supervises the Company's financial reporting and assesses the efficiency of the Company's financial internal controls, internal audit and risk management, with the primary objective of providing support to the Board in the decision making processes regarding such matters. In addition, the Committee is empowered by the Committee's terms of reference to make decisions on certain issues delegated to it, such as review and approval of the Company's first and third quarter interim financial statements on behalf of the Board. 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 further assists the Company's Nomination Committee in the preparation of proposals for the election of auditor at the AGM, as and when required.

Reserves Committee

The Reserves Committee was created in connection with the listing of Lundin Petroleum's shares on the Toronto Stock Exchange in 2011 and reviews and reports to the Board on matters relating to the Company's policies and procedures for reporting oil and gas reserves and related information as per National Instrument 51–101 (NI 51–101) issued under applicable Canadian securities regulation. The Reserves Committee reports to the Board on the Company's procedures for disclosing oil and gas reserves and other related information, on the appointment of the independent qualified reserves auditor and on the Company's procedures for providing information to the independent qualified reserves auditor. The Reserves Committee also meets with Group management and the independent qualified reserves auditor to review, and determine whether to recommend that the Board approve, the statement of reserves and other oil and gas information required to be submitted annually under NI 51–101.

The CR/HSE Board Representative

The Board of Directors has a leadership and supervisory role in all CR and HSE matters within the Group and appoints yearly one non-executive Director to act as the CR/HSE Board Representative. The tasks of the CR/HSE Board Representative include to liaise with Group management regarding CR and HSE related matters and to regularly report on such matters to the Board of Directors. The current CR/HSE Board Representative is Asbjørn Larsen. More information about the Company's CR/HSE activities can be found in the Corporate Responsibility section on pages 40–47.

In June 2010, the Swedish International Public Prosecution Office commenced an investigation into alleged violations of international humanitarian law in Sudan during 1997–2003. The Company has been asked by the Prosecution Office to provide information regarding its operations in Block 5A in Sudan during the relevant time period. As repeatedly stated, Lundin Petroleum categorically refutes all allegations of wrongdoing and will cooperate with the Prosecution Office's investigation. Lundin Petroleum strongly believes that it was a force for good in Sudan and that its activities contributed to the improvement of the lives of the people of Sudan.

Audit Committee 2012			
Members	**Meeting attendance**	**Audit Committee work during the year**	**Other requirements**
William A. Rand, Chairman Magnus Unger Asbjørn Larsen	6/6 6/6 6/6	– Assessment of the 2011 year end report and the 2012 half year report for completeness and accuracy and recommendation for approval to the Board. – Assessment and approval of the first and third quarter reports 2012 on behalf of the Board. – Evaluation of accounting issues in relation to the assessment of the financial reports. – Follow-up and evaluation of the results of the internal audit of the Group. – Three meetings with the statutory auditor to discuss the financial reporting, internal controls, etc. – Evaluation of the audit performance and the independence and impartiality of the statutory auditor. – Review and approval of auditor's fees. – Assisting the Nomination Committee in its work to propose an auditor for election at the 2013 AGM.	– The composition of the Audit Committee fulfilled the independence requirements of the Swedish Companies Act and the Code of Governance. – William A. Rand has chaired the Audit Committee since its inception in 2002 and all Audit Committee members have financial/legal management expertise. In addition, Asbjørn Larsen's previous assignments include the position of CFO and CEO of a Norwegian listed upstream petroleum company and he has extensive experience in accounting and audit matters.

Compensation Committee 2012			
Members	**Meeting attendance**	**Compensation Committee work during the year**	**Other requirements**
William A. Rand, Chairman Magnus Unger Kristin Færøvik	3/3 3/3 2/3	– Review of the performance of the CEO, the other members of Executive Management and other Group management as per the Performance Management Process. – Preparing a report regarding the Board's evaluation of remuneration of the Executive Management in 2011. – Continuous monitoring and evaluation of remuneration structures, levels, programmes and the Policy on Remuneration. – Preparing a proposal for the 2012 Policy on Remuneration for Board and AGM approval. – Preparing a proposal for remuneration and other terms of employment for the CEO for Board approval. – Review of the CEO's proposals for remuneration and other terms of employment of the other members of Executive Management and VP level employees for Board approval. – Review and approval of the CEO's proposals for the principles of compensation of other Group management and employees. – Review and approval of the CEO's proposals for 2012 LTIP awards. – Undertaking a remuneration benchmark study and engaging the HayGroup to assist with the study.	– The composition of the Compensation Committee fulfilled the independence requirements of the Code of Governance. – William A. Rand has chaired the Compensation Committee since its inception in 2002 and thus possesses extensive experience in compensation matters. In addition, considering the varied backgrounds and experience of the Committee members in general, the Compensation Committee has ample knowledge and experience of management remuneration issues.

Reserves Committee 2012			
Members	**Meeting attendance**	**Reserves Committee work during the year**	**Other requirements**
Ian H. Lundin, Chairman Asbjørn Larsen	1/1 1/1	– General review of the Company's oil and gas reserves procedures and practices. – Review of the Company's procedures for assembling and reporting other information associated with oil and gas activities. – Meeting with management and Gaffney, Cline & Associates, the independent qualified reserves auditor, to discuss the 2011 reserves reporting. – Review of reserves data. – Consideration of a change of independent qualified reserves auditor to ERC-Equipoise Ltd. as of the 2012 reserves reporting.	– The composition of the Reserves Committee fulfilled the independence requirements of Canadian securities regulation as per NI 51-101.

MANAGEMENT

C. Ashley Heppenstall
President and Chief Executive Officer, Director

Christine Batruch
Vice President Corporate Responsibility

Alexandre Schneiter
Executive Vice President and Chief Operating Officer

Jeffrey Fountain
Vice President Legal

Geoffrey Turbott
Vice President Finance and Chief Financial Officer

Teitur Poulsen
Vice President Corporate Planning and Investor Relations

Chris Bruijnzeels
Senior Vice President Operations

More information on the management can be found on page 66 and on www.lundin-petroleum.com

MANAGEMENT

Management structure

The President and CEO of the Company, C. Ashley Heppenstall, is responsible for the management of the day-to-day operations of Lundin Petroleum. He is appointed by, and reports to, the Board and is also the only executive Board member. The tasks of the CEO and the division of duties between the Board and the CEO are defined in the Rules of Procedure and the Board's instructions to the CEO. In addition to the overall management of the Company, the CEO's tasks include ensuring that the Board receives all relevant information regarding the Company's operations, including profit trends, financial position and liquidity, as well as information regarding important events such as significant disputes, agreements and developments in important business relations. The CEO is also responsible for preparing the required information for Board decisions and for ensuring that the Company complies with applicable legislation, securities regulations and other rules such as the Code of Governance. Furthermore, the CEO maintains regular contacts with the Company's stakeholders, including shareholders, the financial markets, business partners and public authorities. To fulfil his duties, the CEO works closely with the Chairman of the Board to discuss the Company's operations, financial status, up-coming Board meetings, implementation of decisions and other relevant matters.

The CEO is assisted in his functions by Group management, being:

- » The Investment Committee, which in addition to the CEO includes
  - the Chief Operating Officer (COO), Alexandre Schneiter, who is responsible for Lundin Petroleum's worldwide exploration and production operations, as well as HR;
  - the Chief Financial Officer (CFO), Geoffrey Turbott, who is responsible for the financial reporting, internal audit, tax, treasury function and economics; and
  - the Senior Vice President Operations (SVP Operations), Chris Bruijnzeels, who is responsible for operations, reserves and the optimum development of Lundin Petroleum's asset portfolio, as well as risk management and IT.
- » The Vice President Corporate Responsibility, Christine Batruch, who is responsible for the Group's CR and HSE strategy, the Vice President Legal, Jeffrey Fountain, who is responsible for all legal matters pertaining to the Group and the Vice President Corporate Planning and Investor Relations, Teitur Poulsen, who is responsible for Group investor relations as well as all matters relating to the corporate planning and development of Lundin Petroleum.
- » The General Managers/Managing Directors who are responsible for the day-to-day activities of the local operational entities.

Group management works closely together in respect of commercial, technical, HSE, financial and legal issues with the aim of creating long-term shareholder value. Group management is also responsible for ensuring that the operations are conducted in compliance with all Group policies, guidelines and procedures.

Investment Committee

The Company's Investment Committee, which consists of the members of the Executive Management, was established by the Board in 2009 to assist the Board in discharging its responsibilities in overseeing the Company's investment portfolio. The role of the Investment Committee is to determine that the Company has a clearly articulated investment policy, to develop, review and recommend to the Board investment strategies and guidelines in line with the Company's overall policy, to review and approve investment transactions and to monitor compliance with investment strategies and guidelines. The responsibilities and duties include considering annual budgets, supplementary budget approvals, investment proposals, commitments, relinquishment of licences, disposal of assets and performing other investment related functions as the Board may designate. The Investment Committee has scheduled meetings every two weeks and meets more frequently if required by the operations.

REMUNERATION

Group Principles of Remuneration

Lundin Petroleum aims to offer all its employees compensation packages that are competitive and in line with market conditions to ensure it can recruit, motivate and retain highly skilled individuals, in a manner that also enhances shareholder value. The principles of remuneration within the Group are therefore made up of four elements, being (i) basic salary; (ii) yearly variable salary; (iii) long-term incentive plans; and (iv) other benefits. As part of the yearly assessment process, the Company has established a Performance Management Process to align individual and team performance to the strategic and operational goals and objectives of the overall business. Individual performance measures are formally agreed and key elements of variable remuneration are clearly linked and defined to the achievement of stated and agreed performance measures. To ensure compensation packages within the Group remain competitive and in line with market conditions, the Compensation Committee undertakes regular benchmarking studies. The Compensation Committee may also request the advice and assistance of external reward consultants, which it did in 2012 through the HayGroup. The HayGroup did not perform any other assignments for the Company or the Executive Management.

Remuneration of Executive Management

The remuneration of Executive Management follows the principles that are applicable to all employees, however, the principles must be approved by the AGM. The Compensation Committee therefore prepares yearly for approval to the Board, and for submission for final approval to the AGM, a Policy on Remuneration for the Executive Management. Based on the approved Policy on Remuneration, the Compensation Committee subsequently proposes to the Board for approval the remuneration and other terms of employment of the CEO, and the CEO proposes to the Compensation Committee, for approval by the Board, the remuneration and other terms of employment of the other members of the Executive Management.

The tasks of the Compensation Committee include monitoring and evaluating the application of the Policy on Remuneration approved by the AGM, and to fulfil this task, the Compensation Committee prepares a yearly report, for approval by the Board, on the evaluation of remuneration of the Executive Management. The statutory auditor of the Company also verifies on a yearly basis whether the Company has complied with the Policy on Remuneration. Both reports are available on the Company's website and the Policy on Remuneration approved by the 2012 AGM is included in this Corporate Governance Report. Further details regarding the remuneration of Executive Management in 2012 can be found in the notes to the financial statements – see Notes 33–34 on pages 102–104.

For information regarding the Board's proposal for remuneration to the Executive Management to the 2013 AGM, please see page 81.

POLICY ON REMUNERATION FOR THE EXECUTIVE MANAGEMENT AS APPROVED BY THE 2012 AGM

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 percent 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 percent 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.

INTERNAL CONTROL AND RISK MANAGEMENT FOR THE FINANCIAL REPORTING

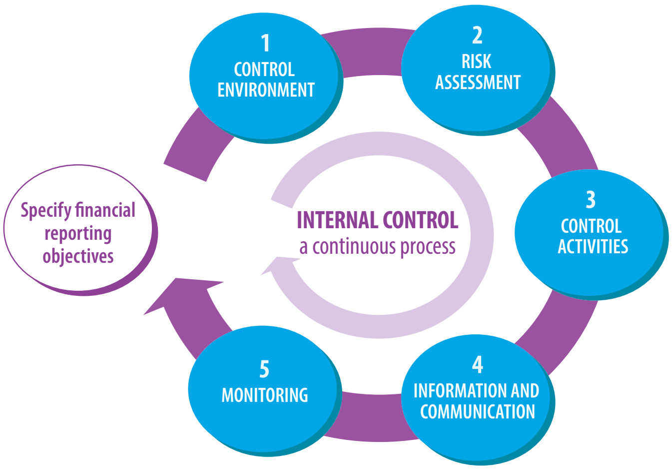
Introduction

The responsibility of the Board of Directors for internal control over financial reporting is regulated by the Swedish Companies Act, the Swedish Annual Accounts Act and the Swedish Code of Governance. The information in this report is limited to internal control and risk management regarding financial reporting and describes how internal control over the financial reporting is organised, but does not comment on its effectiveness.

Internal control system for financial reporting

Lundin Petroleum's objective for financial reporting is to provide reliable and relevant information for internal and external purposes, in compliance with existing laws and regulations, in a timely and accurate manner. An internal control system for financial reporting has been created to ensure that this objective will be met. An internal control system can only provide reasonable and not absolute assurance against material misstatement or loss, and is designed to manage rather than eliminate the risk of failure to achieve the financial reporting objectives.

FINANCIAL REPORTING INTERNAL CONTROL SYSTEM THE FIVE KEY COMPONENTS



Lundin Petroleum's Financial Reporting Internal Control System consists of five key components, as described below and is based upon the Committee of Sponsoring Organisations of the Treadway Commission (COSO) model. The internal control of financial reporting is a continuous evaluation of the risks and control activities within the Group. The evaluation work is an ongoing process that involves internal and external benchmarking, as well as improvement and development of control activities.

1. Control Environment

Lundin Petroleum's Board of Directors has the overall responsibility for establishing an effective internal control system. The Audit Committee assists the Board in relation to the financial reporting, internal control and the reporting of financial risks. The Audit Committee also supervises the efficiency of the internal auditing, internal control and financial reporting and reviews all interim and annual financial reports.

The CEO is responsible for maintaining in the daily operations an effective control environment and for operating the system of internal control and risk management in the Group and is assisted by Group management at varying levels. Lundin Petroleum further has an internal auditor whose main responsibility is to ensure adherence to the internal control framework. The internal auditor reports to the Audit Committee.

The development and implementation of a Group-wide framework of consistent policies and procedures, to strengthen the internal control of the Group, is a continuous process. Together with laws and external regulations, these internal policies and procedures form the control environment which is the foundation of the internal control and risk management process at Lundin Petroleum. All employees are accountable for compliance with these policies and procedures within their areas of control and risk management.

The internal control environment of Lundin Petroleum has been further strengthened by a risk management policy that was adopted during 2012. The purpose of the policy is to establish a common understanding of the Company's minimum requirements and principles to be followed in relation to the management of risk for all activities undertaken.

2. Risk Assessment

Risk assessment is an integrated part of the internal control framework and is performed on an ongoing basis at Lundin Petroleum. Risk assessment is a process that identifies, sources and measures the risk of material error in the financial reporting and accounting systems of the Group. This process is the basis for designing control activities to mitigate identified risks.

Risks relating to financial reporting are monitored and assessed by the Board through the Audit Committee. As part of the risk assessment, Lundin Petroleum reviews and analyses the risks that exist within the financial reporting process and structures its internal control systems around the risks identified. The risks are assessed through a standardised methodology based on likelihood and impact and are then documented in a Group-wide risk map. When risks are identified and evaluated, control activities are implemented to minimise the risks in the financial reporting process. Conclusions of the risk assessment are reported to management and the Board through the Audit Committee. Identified risk areas are mitigated through business processes with incorporated risk management, policies and procedures, segregation of duties and delegation of authority. For further details on the different risks, see the Risks and Risk Management section on pages 70–71.

3. Control Activities

The finance department of each Group company is responsible for the regular analysis of the financial results and for reporting thereon to the finance department at Group level. Various other control activities are also incorporated into the financial reporting process to ensure that the financial reporting gives a true and fair view at any reporting date and that business is conducted efficiently.

The Investment Committee, which consists of members of the Executive Management, oversees the Group's investment decisions through the annual budget process, supplementary budget requests submitted during the year etc., and makes recommendations to the Board as required. The Investment Committee meets at least twice per month and its review and approval process constitutes an important control activity within the Group.

The internal auditor performs on a regular basis risk assessments and audits as per an internal audit plan which is approved by the Audit Committee twice per year. In addition, the internal auditor coordinates joint venture audits that are undertaken by Lundin Petroleum. In the oil and gas industry, operations are conducted through joint venture arrangements, where partners share the costs and risks of the activities. To ensure that accounting procedures are followed and costs are incurred in accordance with the joint operating agreement, for non-operated assets, joint venture partners have audit rights over the operating partner.

4. Information and Communication

Communicating relevant information throughout all levels of the Group, as well as to external parties, in a complete, correct and timely manner is an important part of the internal control framework.

Internal policies and procedures relating to the financial reporting, such as the Authorisation Policy, the Group Accounting Principles Manual and the Finance and Accounting Manual, are updated and communicated on a regular basis by Group management to all affected employees and are accessible through the information system network.

For communication to external parties, a communications policy has been formulated. The policy has been approved by the Board and defines how external information is to be issued, by whom and the way in which the information should be given.

Significant internal documents that form the control environment at Lundin Petroleum:

- » The Code of Conduct: the Code of Conduct sets out the principles by which Lundin Petroleum is guided and describes the responsibilities it has towards its stakeholders.
- » The Anti-fraud Policy: this policy outlines the employees' responsibilities with regard to fraud prevention, what to do if fraud is suspected and what action will be taken by management in the case of suspected or actual fraud.
- » The Whistleblowing Policy: this policy was adopted to complement the anti-fraud policy as a means to address serious concerns that could have a significant impact on the Group.
- » The Authorisation Policy: this policy defines the limits of authority that are applicable within the Group.
- » The Group Accounting Principles Manual: this manual outlines the Group's accounting principles and explains how transactions are to be accounted for and requirements for disclosure. The manual focuses upon the accounting policies to be applied in accordance with International Financial Reporting Standards (IFRS).
- » The Finance and Accounting Manual: this manual describes the day-to-day financial procedures within the Group.

5. Monitoring

In order to ensure the effectiveness of the internal control in respect of the financial reporting, monitoring activities are conducted by the Board, the Audit Committee and the Executive Management, including the Company's CFO. The internal auditor and the Group finance department monitor compliance with internal policies, procedures and other policy documents. Further, an important monitoring activity carried out by the internal auditor is to follow-up on the results of the previous years' internal audits and risk assessments to ensure that the appropriate corrective measures have been implemented. Monitoring takes place at a central level, but also locally in the Group companies.

BOARD OF DIRECTORS

Name	Ian H. Lundin	C. Ashley Heppenstall	Kristin Færøvik	Asbjørn Larsen
Function	Chairman (since 2002)	President and Chief Executive Officer, Director	Director	Director, CR and HSE Representative
Elected	2001	2001	2011	2008
Born	1960	1962	1962	1936
Education	Bachelor of Science degree in Petroleum Engineering from the University of Tulsa.	Bachelor of Science degree in Mathematics from the University of Durham.	Master of Science degree in Petroleum Engineering from the University of Trondheim.	Norwegian School of Economics and Business Administration (NHH).
Experience	Ian H. Lundin was previously CEO of International Petroleum Corp. during 1989–1998, of Lundin Oil AB during 1998–2001 and of Lundin Petroleum during 2001–2002.	C. Ashley Heppenstall has worked with public companies where the Lundin family has a major shareholding since 1993. He was CFO of Lundin Oil AB during 1998–2001 and of Lundin Petroleum during 2001–2002.	Kristin Færøvik is currently the Executive Vice President Offshore of Bergen Group. She worked with Marathon Petroleum Company 2003–2010 and with BP 1986–2003.	Asbjørn Larsen was CFO of Saga Petroleum during 1978–1979 and President and CEO during 1979–1998.
Other board duties	Chairman of the board of Etrion Corporation and Bukowski Auktioner AB.	Member of the board of Etrion Corporation, Vostok Nafta Investment Ltd. and Gateway Storage Company Limited.	Member of the board of GC Rieber Shipping AS.	Member of the board of Selvaag Gruppen AS, GreenStream Network Oyj, The Montebello Cancer Rehabilitation Foundation and The Tom Wilhelmsen Foundation.
Shares in Lundin Petroleum (as at 31 December 2012)	Nil[1]	1,391,283	9,000	12,000
Board Attendance	8/8	8/8	8/8	8/8
Audit Committee Attendance	–	–	–	6/6
Compensation Committee Attendance	–	–	2/3	–
Reserves Committee Attendance	1/1	–	–	1/1
Remuneration for Board and Committee work	SEK 916,673	Nil	SEK 525,000	SEK 525,000
Remuneration for special assignments outside the directorship [6]	SEK 1,920,000	Nil	Nil	Nil
Independent of the Company and the Group management	Yes[2]	No[3]	Yes	Yes
Independent of the Company's major shareholders	No[1]	No[3]	Yes	Yes

1 Ian H. Lundin is the settler of a trust that owns Landor Participations Inc., an investment company that holds 11,538,956 shares in the Company, and is a member of the Lundin family that holds, through a family trust, Lorito Holdings (Guernsey) Ltd. which holds 76,342,895 shares in the Company and Zebra Holdings and Investment (Guernsey) Ltd. which holds 10,844,643 shares in the Company.

2 Ian H. Lundin has been regularly retained by management to perform remunerated work duties which fall outside the scope of the regular work of the Board. It is the Nomination Committee's and the Company's opinion that despite his work, he remains independent of the Company and the Group management.

3 C. Ashley Heppenstall is in the Nomination Committee's and the Company's opinion not deemed independent of the Company and the Group management since he is the President and CEO of Lundin Petroleum, and not of the Company's major shareholders since he holds directorships in two companies in which entities associated with the Lundin family hold ten percent or more of the share capital and voting rights.

BOARD OF DIRECTORS

Name	Lukas H. Lundin	William A. Rand	Magnus Unger
Function	Director	Director	Director
Elected	2001	2001	2001
Born	1958	1942	1942
Education	Graduate from the New Mexico Institute of Mining, Technology and Engineering.	Commerce degree (Honours Economics) from McGill University, Law degree from Dalhousie University, Master of Laws degree in International Law from the London School of Economics and Doctorate of Laws from Dalhousie University (Hon.).	MBA from the Stockholm School of Economics.
Experience	Lukas H. Lundin has held several key positions within companies where the Lundin family has a major shareholding.	William A. Rand practised law in Canada until 1992, after which he co-founded an investment company and pursued private business interests.	Magnus Unger was an Executive Vice President within the Atlas Copco group during 1988–1992.
Other board duties	Chairman of the board of Lundin Mining Corp., Vostok Nafta Investment Ltd., Denison Mines Corp., Lucara Diamond Corp., NGEx Resources Inc., Sirocco Mining Inc. and Lundin Foundation, member of the board of Fortress Minerals Corp. and Bukowski Auktioner AB.	Member of the board of Lundin Mining Corp., Vostok Nafta Investment Ltd., Denison Mines Corp., New West Energy Services Inc. and NGEx Resources Inc.	Chairman of the board of CAL-Konsult AB and member of the board of Black Earth Farming Ltd.
Shares in Lundin Petroleum (as at 31 December 2012)	788,331[4]	120,441	50,000
Board Attendance	7/8	8/8	8/8
Audit Committee Attendance	–	6/6	6/6
Compensation Committee Attendance	–	3/3	3/3
Reserves Committee Attendance	–	–	–
Remuneration for Board and Committee work	SEK 425,000	SEK 675,000	SEK 625,000
Remuneration for special assignments outside the directorship [6]	Nil	Nil	SEK 100,000
Independent of the Company and the Group management	Yes	Yes	Yes
Independent of the Company's major shareholders	No[4]	No[5]	Yes

4 Lukas H. Lundin is a member of the Lundin family that holds, through a family trust, Lorito Holdings (Guernsey) Ltd. which holds 76,342,895 shares in the Company and Zebra Holdings and Investment (Guernsey) Ltd. which holds 10,844,643 shares in the Company.

5 William A. Rand is in the Nomination Committee's and the Company's opinion not deemed independent of the Company's major shareholders since he holds directorships in companies in which entities associated with the Lundin family hold ten percent or more of the share capital and voting rights.

6 The remuneration paid during 2012 relates to fees paid for special assignments undertaken on behalf of the Group. The payment of such fees was in accordance with fees approved by the 2012 AGM.

Dambisa F. Moyo declined re-election at the AGM on 10 May 2012. During the period of 1 January to 10 May 2012, she attended 2 out 3 Board meetings, as well as 1 out 1 Compensation Committee meeting. For additional information regarding Dambisa F. Moyo, please see the Company's 2011 Annual Report, and for remuneration paid to her during 2012, please refer to Note 33 on pages 102–103.

EXECUTIVE MANAGEMENT/ INVESTMENT COMMITTEE				
Name	C. Ashley Heppenstall	Alexandre Schneiter	Geoffrey Turbott	Chris Bruijnzeels
Function	President and Chief Executive Officer, Director	Executive Vice President and Chief Operating Officer	Vice President Finance and Chief Financial Officer	Senior Vice President Operations
With Lundin Petroleum since	2001	2001	2001	2003
Born	1962	1962	1963	1959
Education	Bachelor of Science degree in Mathematics from the University of Durham.	Graduate from the University of Geneva with a degree in Geology and a Masters degree in Geophysics.	Member of the Institute of Chartered Accountants of New Zealand.	Graduate from the University of Delft with a degree in Mining Engineering.
Experience	C. Ashley Heppenstall has worked with public companies where the Lundin family has a major shareholding since 1993. He was CFO of Lundin Oil AB during 1998–2001 and of Lundin Petroleum during 2001–2002.	Alexandre Schneiter has worked with public companies where the Lundin family has a major shareholding since 1993.	Geoffrey Turbott has worked with public companies where the Lundin family has a major shareholding since 1995.	Chris Bruijnzeels worked with Shell International during 1985–1998 in several reservoir engineering functions and with PGS Reservoir Consultants during 1998-2003 as Principal Reservoir Engineer and Director Evaluations.
Board duties	Member of the board of Etrion Corporation, Vostok Nafta Investment Ltd. and Gateway Storage Company Limited.	Member of the board of ShaMaran Petroleum Corp. and Swiss Sailing Team AG.	None.	None.
Shares in Lundin Petroleum (as at 31 December 2012)	1,391,283	223,133	45,000	21,333
Phantom options	2,062,848	1,512,755	962,662	962,662

Stockholm, 9 April 2013

The Board of Directors of Lundin Petroleum AB (publ)

Auditor's report on the Corporate Governance Statement

To the annual meeting of the shareholders in Lundin Petroleum AB (publ), corporate identity number 556610-8055

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2012 on pages 48-66 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 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, April 9 2013

PricewaterhouseCoopers AB

Bo Hjalmarsson	Johan Malmqvist
Authorized Public Accountant	Authorized Public Accountant
Lead Partner	

THE LUNDIN PETROLEUM SHARE AND SHAREHOLDERS

Lundin Petroleum share

The Lundin Petroleum share is listed on the Large Cap list of the Nasdaq OMX (OMX) Stockholm in Sweden and is part of the OMX 30 index. The share is also listed on the Toronto Stock Exchange (TSX) in Canada.

Market capitalisation

Lundin Petroleum's market capitalisation as at 31 December 2012 was MSEK 47,528.

Liquidity

During the year a total of 320.9 million shares were traded on the OMX to a value of approximately MSEK 47,452. A daily average of 1.3 million Lundin Petroleum shares were traded on the OMX in Stockholm. 0.6 million shares were traded on the TSX to a value of approximately CAD 12.6 million. A daily average of 3,741 Lundin Petroleum shares were traded on the TSX.

Share capital and voting rights

The registered share capital as at 31 December 2012 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each and representing one vote each. All outstanding shares are common shares and carry equal rights to participation in Lundin Petroleum's assets and earnings.

Own purchased shares

The Annual General Meeting (AGM) of Lundin Petroleum held on 10 May 2012 resolved to authorise the Board of Directors to decide on the repurchase and sale of Lundin Petroleum shares on the OMX and TSX during the period until the next AGM. The maximum number of shares that can be repurchased and held in treasury from time to time cannot exceed five percent of all shares of Lundin Petroleum. The purpose of the authorisation is to provide the Board of Directors with a means to optimise Lundin Petroleum's capital structure and to secure Lundin Petroleum's exposure in relation to the LTIPs.

The total number of repurchased shares held by Lundin Petroleum on 31 December 2012 amounted to 7,368,285.

AGM resolution

During the AGM in 2012 it was resolved that the Board of Directors is authorised to issue no more than 35 million new shares, without the application of the shareholders' pre-emption rights, in order to enable the Company to raise capital for the Company's business operations and business acquisitions. If the authorisation is fully utilised the dilution effect on the share capital will amount to ten percent.

Dividend policy

Lundin Petroleum's primary objective is to add value to the shareholders, employees and society through profitable operations and growth. This will be achieved by increased hydrocarbon reserves, developing discoveries and thereby increasing production and ultimately cash flow and operating income. This added value will be expressed partly by a long-term increase in the share price and dividends.

The size of any dividend would have to be determined by Lundin Petroleum's financial position and the possibilities for growth through profitable investments. Dividends will be paid when Lundin Petroleum generates sufficient cash flow and operating income from operations to maintain long-term financial strength and flexibility. Over time the total return to shareholders is expected to transfer from an increase in share price to dividends received.

Lundin Petroleum is progressing on a number of transformational development projects which will require funding. This development funding will take priority over dividend payments.

Share data

Since Lundin Petroleum was incorporated in May 2001 and up to 31 December 2012 the Parent Company share capital has developed as shown below.

Share data	Year	Quota value (SEK)	Change in number of shares	Total number of shares	Total share capital (SEK)
Formation of the Company	2001	100.00	1,000	1,000	100,000
Share split 10,000:1	2001	0.01	9,999,000	10,000,000	100,000
New share issue	2001	0.01	202,407,568	212,407,568	2,124,076
Warrants	2002	0.01	35,609,748	248,017,316	2,480,173
Incentive warrants	2002–2008	0.01	14,037,850	262,055,166	2,620,552
Valkyries Petroleum Corp. acquisition	2006	0.01	55,855,414	317,910,580	3,179,106
Total			**317,910,580**	**317,910,580**	**3,179,106**

Number of shares in circulation as at 31 December 2012.

	2012
Number of shares issued	317,910,580
Number of shares owned by Lundin Petroleum	7,368,285
Number of shares in circulation	**310,542,295**

Share ownership structure

Lundin Petroleum had 43,954 shareholders as at 31 December 2012. The proportion of shares held by Swedish retail investors amounted to 12 percent. Foreign investors held 70 percent of the shares.

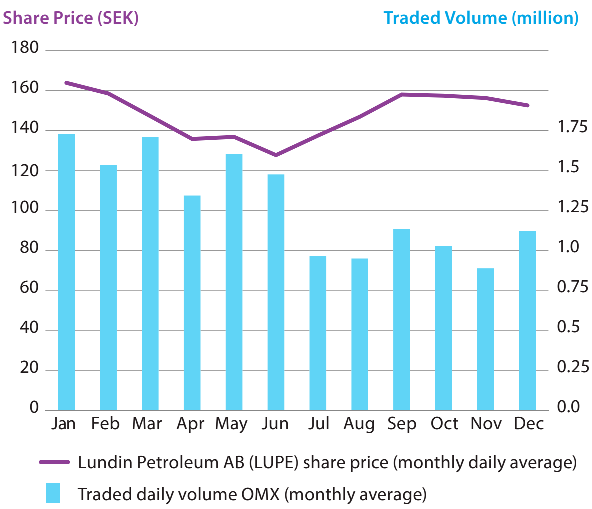
The 10 largest shareholders as at 31 Dec 2012	Number of shares	Subscription capital/votes,%
Lorito Holdings (Guernsey) Ltd.[1]	76,342,895	24.01
Landor Participations Inc.[2]	11,538,956	3.63
Zebra Holdings and Investment (Guernsey) Ltd.[1]	10,844,643	3.41
Swedbank Robur fonder	8,248,334	2.59
Lundin Petroleum AB	7,368,285	2.32
Norges Bank Investment Management (Pension Fund Global)	5,314,647	1.67
Fjärde AP-fonden	3,657,851	1.15
Länsförsäkringar fondförvaltning AB	2,918,807	0.92
Första AP-Fonden	2,901,928	0.91
Danske Capital Sverige AB	2,795,260	0.88
Other shareholders	185,978,974	58.51
Total	**317,910,580**	**100.00**

[1] An investment company wholly owned by a Lundin family trust.
[2] An investment company wholly owned by a trust whose settler is Ian H. Lundin.

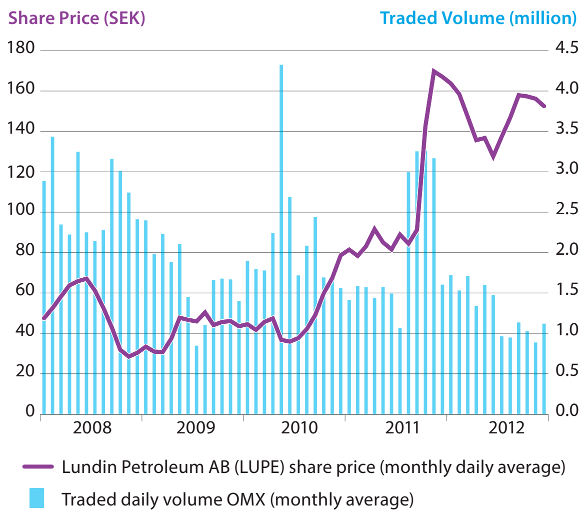
The top 10 shareholder list excludes shareholdings through nominee accounts. The above list only includes institutional shareholders who hold the shares directly as reported by Euroclear Sweden with the exception of the shareholding of Norges Bank Investment Management (NBIM) whose holding has been obtained directly from NBIM.

Size categories	Numbers of shareholders	Percentage of shares,%
1–500	30,813	1.53
501–1,000	5,786	1.53
1,001–10,000	6,275	5.85
10,001–50,000	706	4.81
50,001–100,000	118	2.58
100,001–500,000	168	12.62
500,001–	88	71.08
Total	**43,954**	**100.00**

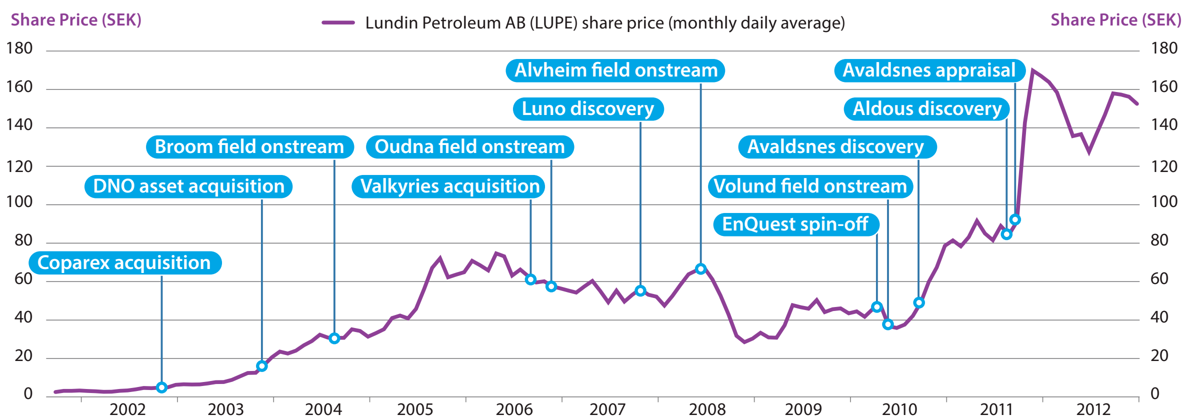
SHARE PRICE 2012



5 YEAR SHARE PRICE 2008–2012



SHARE PRICE 2001–2012



RISKS AND RISK MANAGEMENT

The objective of risk management is to identify, understand and manage threats and opportunities within the business on a continual basis. This objective is achieved by creating a mandate and commitment to risk management at all levels of the business. This approach actively addresses risk as an integral and continual part of decision making within the Company and is designed to ensure that all risks are identified, fully acknowledged, understood and communicated well in advance. The ability to manage and or mitigate these risks represents a key component in ensuring that the business aim of the Company is achieved. Nevertheless oil and gas exploration, development and production involve high operational and financial risks, which even a combination of experience, knowledge and careful evaluation may not be able to fully eliminate or which are beyond the Company's control.

Lundin Petroleum has identified the following principal risks relative to the Group's performance. The impact of risks within any one of these segments can influence the reputation of the Company (reputational risk).

Description of risk	Mitigation – Risk management
STRATEGIC RISK	
Failure to create shareholder value and meet shareholder expectations A strategy that is ineffective and poorly communicated or executed may lead to a loss of investor confidence and a reduction in the share price.	Lundin Petroleum's business model clearly defines the vision and strategy of the Company. Throughout all stages of the business cycle, Lundin Petroleum seeks to generate shareholder value by proactively investing in exploration to organically grow the reserve base, exploiting the existing asset base and acquiring new or disposing of reserves, as well as through an opportunistic approach. Strong communication channels are coupled with effective leadership in order to maintain creativity and an entrepreneurial spirit. This ensures that the entire organisation works towards the same goal.
Inadequate asset portfolio management Ineffective management may lead to a failure to understand and unlock the full value of an asset which could negatively impact shareholder value.	Lundin Petroleum continually reviews the economic value of the existing asset portfolio in order to ensure that the value of each asset within the portfolio is well understood, communicated and fully reflected within the share price.
Ineffective recruitment, retention and management of human capital An inability to attract and retain employees could cause short and medium term disruption to the business.	The Lundin Petroleum recruitment and compensation strategy is aligned with corporate goals and objectives and takes into consideration industry trends. The Performance Management process is designed to drive engagement and create a philosophy of ownership at all levels of the Company.
Lack of corporate responsibility and environmental awareness A real or perceived lack of corporate responsibility and environmental awareness can have an adverse impact on the people the Company works with, on the environment in which the Company operates and as well as on its reputation. Any such impact on the Company's reputation could in turn impact its license to operate, financing or access to new opportunities.	Lundin Petroleum's Corporate Responsibility framework is applied to all its activities and includes monitoring of risk mitigation measures, reporting and investigation of all incidents. Communication plans and management of stakeholder relations are designed to maintain good and effective relationships. (See also pages 40–47 Corporate Responsibility for more information). The Company's aim is to explore for and produce oil and gas in an economically, socially and environmentally responsible way, for the benefit of all its stakeholders, including shareholders, employees, business partners, host and home governments and local communities.
FINANCIAL RISK [1]	
Cost escalation and investment oversight Adequate policies must be in place to ensure that all necessary internal and external approvals are in place prior to the commitment to spend. Any change in expenditures must be captured in a timely manner through the reporting requirements.	Through the Lundin Petroleum annual budget and supplementary budget approval process the Company has implemented a rigorous process of oversight of all expenditure on a continual basis. This process ensures that expenditure is in line with approvals from the Investment Committee and that change is communicated in a thorough and timely manner.
Liquidity risk The risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price, could lead to inability to fund exploration and development work programmes.	Lundin Petroleum monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs. The economics and planning department continuously monitors the macro and micro economic environment impacting the Group's business to ensure that management is informed of developments impacting capital decision making.
Credit risk The risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposure to customers.	Lundin Petroleum's policy is to limit credit risk by limiting the customers and partners to major oil companies and only use major banks. If there is a credit risk for oil and gas sales, the policy is to require an irrevocable letter of credit for the full value of the sale.
Financial reporting risk The risk that material misstatements in financial reporting and failure to accurately report financial data could lead to regulatory action, legal liability and damage to the Company's reputation.	The internal control system for financial reporting is in place to ensure the Group's objective for financial reporting is fulfilled.

[1] For more detailed information regarding financial risks see also Note 13 in notes to the financial statements pages 97–99.
More information on the internal control is found in the Corporate Governance report 48–66.

Description of risk	Mitigation – Risk management
OPERATIONAL RISK	
Development projects do not achieve stated objectives Ensuring that development projects remain on budget, on schedule and achieve operational objectives is essential in ensuring that shareholder value is maximised.	All development projects must pass through the Lundin Petroleum value process that requires technical, financial, Investment Committee and Board approval of all investment decisions. The development project management process assigns a steering committee that provides guidance, direction and control to the project. Government organisations, partners and third party groups also provide independent oversight. In Norway the Company is governed by the detailed guidelines for plan for development and operation of a petroleum deposit (PDO) and plan for installation and operation of facilities for transport and utilisation of petroleum (PIO) as published by the Norwegian Petroleum Directorate.
Health, safety and environment (HSE) A major operational HSE event could have a negative impact on the people and environment in which the Company works. This in turn can have an adverse impact on valuation.	Lundin Petroleum promotes active management of HSE issues throughout the Group. Proactive risk management, HSE policies, and an HSE management system in compliance with statutory requirements are an integral part of operations. (See also pages 40–47 Corporate Responsibility for more information.)
Increase in production costs Production costs are affected by the normal economic drivers of supply and demand as well as by various field operating conditions.	Effective procurement and cost control management processes are essential in ensuring that reasonable cost levels are achieved relative to business plans. Diligent operations management and effective maintenance planning help to ensure efficiency during operations. Production delays and declines from normal field operating conditions cannot be eliminated and may adversely affect revenue and cash flow levels to varying degrees.
Availability of operational equipment Oil and gas exploration and development activities are dependent on the availability of drilling and related equipment. An inability to procure equipment on a timely basis may delay exploration and development activities.	Advanced planning of the Company's operational programme includes ensuring that the contracting strategy and procurement process is in place. Regular engagement with contractors and suppliers as well as consideration for equipment as part of the licence application process mitigates the risk.
Reserve and resources estimates In general, estimates of economically recoverable oil and gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved.	Reserves and resource calculations undergo a comprehensive internal peer review process and adhere to industry standards. All reserves are independently audited by ERC-Equipoise Ltd. as part of the annual reserves audit process unless otherwise stated. (See also pages 12–17 Reserves, Resources and Production for more information.)
Inability to replace and grow reserves The ability to increase reserves will depend not only on the ability to explore and develop the Company's present portfolio of opportunities, but also on the ability to select and acquire suitable producing assets or prospects.	The use of effective peer review for subsurface analysis and well site selection together with a well defined strategy for recruitment and retention of talented personnel mitigates the risk. (See also pages 12–17 Reserves, Resources and Production for more information.)
Ineffective systems to prevent bribery and corruption Corruption can occur in any country of operation. Incidents of non-compliance with anti-bribery and anti-corruption laws could be damaging to Lundin Petroleum, its reputation and shareholder value.	A consistent application of Lundin Petroleum's Code of Conduct, together with policies and procedures that clearly define levels of authority and internal control requirements help to mitigate risk. In 2010 Lundin Petroleum joined the UN Global Compact to further confirm the Company's commitment to ethical business practice and the Board of Directors adopted in 2011 an anti-corruption policy and guidelines. (See also pages 40–47 Corporate Responsibility for more information.)
EXTERNAL RISK	
Geopolitical Risk The Company is, and will be, actively engaged in oil and gas operations in various countries. Changes to laws within these countries may lead to negative consequences such as but not limited to the expropriation of property, cancellation of or modification of contract rights, and or increased taxation.	The Company reviews its portfolio of assets in relation to its financial performance on a regular basis. The consideration of political risk elements is a key component driving investment decisions for the Company as a whole. Local laws are monitored and the Company strives to ensure comprehensive interpretation and compliance with any changes that may impact the business.
Fluctuation in the price of oil and gas The price of oil and gas are affected by the normal economic drivers of supply and demand as well as the financial investors and market uncertainty.	Lundin Petroleum's policy is to adopt a flexible approach towards oil price hedging based on an assessment of the benefits of the hedge contract in specific circumstances.
Fluctuation in currency rates Crude oil prices are generally set in US dollars, whereas costs may be in a variety of currencies. Fluctuation in exchange rates can therefore give rise to foreign exchange exposures	Lundin Petroleum's policy on currency rate hedging is, in case of currency exposure, is to consider setting the rate of exchange for known costs in non-US Dollar currencies to US Dollars in advance so that future US Dollar cost levels can be forecasted with a reasonable degree of certainty. The functional currencies of the companies in the Group are reviewed annually.
Interest rate risk The uncertainty in future interest rates could have an impact on the Company's earnings. The Group's interest rate risk arises from long-term borrowings.	Lundin Petroleum regularly assesses the benefits of interest rate hedging on borrowings.

FINANCIAL REPORT

The address of Lundin Petroleum AB's registered office is Hovslagargatan 5, Stockholm, Sweden.

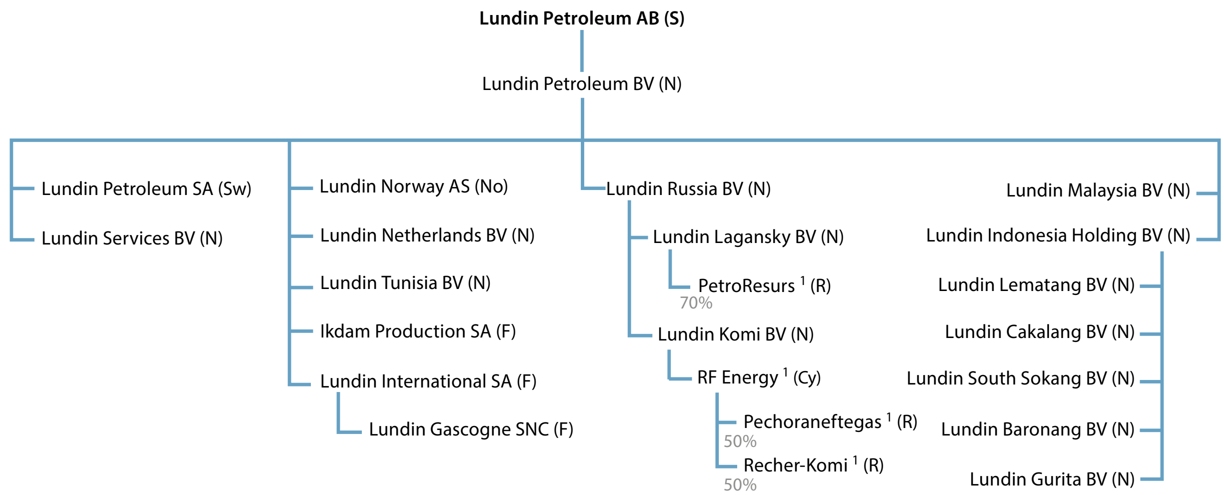
The main business of Lundin Petroleum is the exploration for, the development of, and the production of oil and gas. Lundin Petroleum maintains a portfolio of oil and gas production assets and development projects in various countries with exposure to exploration opportunities.

The Group does not carry out any significant research and development. The Group maintains branches in most of its areas of operation. The Parent Company has no foreign branches.

CHANGES IN THE GROUP

On 27 August 2012, Lundin Petroleum acquired a further 60 percent equity in Ikdam Production SA, a company which owns the Ikdam FPSO vessel, bringing its total ownership to 100 percent. The financial results of Ikdam Production SA are fully consolidated in the Group's financial statements from the end of August 2012.

Group Structure as at 31 December 2012



JURISDICTION

(Cy)	Cyprus	(R)	Russia
(F)	France	(S)	Sweden
(N)	Netherlands	(Sw)	Switzerland
(No)	Norway		

[1] See Group Financial Statements Note 11 and Parent Company Financial Statements Note 11 for full legal names and all subsidiaries

Note: The Group structure shows significant subsidiaries only

DIRECTORS' REPORT

OPERATIONAL REVIEW

PRODUCTION

Production for the financial year 2012 amounted to 35.7 thousand barrels of oil equivalent per day (Mboepd) (33.3 Mboepd) and was comprised as follows:

Production in Mboepd	2012	2011
Crude oil		
Norway	23.3	21.1
France	2.8	3.1
Russia	2.7	3.1
Tunisia	0.1	0.7
Total crude oil production	**28.9**	28.0
Gas		
Norway	3.9	2.1
Netherlands	1.9	2.0
Indonesia	1.0	1.2
Total gas production	**6.8**	5.3
Total production		
Quantity in Mboe	**13,050.4**	12,151.5
Quantity in Mboepd	**35.7**	33.3

EUROPE

Norway

Production

Production in Mboepd	Lundin Petroleum Working Interest (WI)	2012	2011
Alvheim	15%	11.8	11.2
Volund	35%	13.1	12.0
Gaupe	40%	2.3	–
		27.2	23.2

The net production from the Alvheim field during the year exceeded expectations due to the excellent uptime performance of the Alvheim FPSO at over 95 percent and the cancellation of the anticipated second quarter shut-down of the SAGE system. An Alvheim development well was drilled during the first half of 2012 and was tied-in and put on production in October 2012. In January 2013, the Alvheim partnership was awarded additional acreage to the north of the Alvheim field through the 2012 APA licensing round. The work programme for this new acreage involves 3D seismic reprocessing with the objective of identifying potential new drilling targets in the Alvheim area. The cost of operations for the Alvheim field for the year was below USD 5 per barrel excluding planned well intervention work during the third quarter of 2012.

Volund field production during the year exceeded expectations due to better than expected reservoir performance and the Alvheim FPSO uptime. An additional Volund development well has been drilled and was put onstream in the first quarter of 2013. The cost of operations for the Volund field for the year was below USD 2 per barrel driven by lower than expected production costs and better than expected production.

First production from the Gaupe field in PL292 was achieved on 31 March 2012. Production from the Gaupe field has been below forecast since the commencement of production. Technical analysis indicates that the two production wells are connected to lower hydrocarbon volumes than was forecast prior to production start-up. Consequently the reserves have been reduced based on the conservative assumption that no additional production wells will be drilled.

Development

The Norwegian Parliament approved the Edvard Grieg (WI 50%) plan of development in June 2012. The development plan incorporates the provision for the coordinated development solution of the Edvard Grieg field with the nearby Ivar Aasen field (formerly Draupne) located in PL001B and operated by Det norske oljeselskap ASA. A plan of development was submitted for the Ivar Aasen field in December 2012.

The Edvard Grieg field is estimated to contain 186 million barrels of oil equivalents (MMboe) of gross reserves with first production expected in late 2015 and forecast gross peak production of approximately 100.0 Mboepd. The gross capital cost of the Edvard Grieg field development is estimated at USD 4 billion to include platform, pipelines and 15 wells. Contracts have been awarded to Kværner covering engineering, procurement and construction of the jacket and the topsides for the platform and to Rowan Companies for a jack-up rig to drill the development wells. Saipem has been awarded the contract for marine installation. The development is progressing well and construction work on the jacket is ongoing. Construction and engineering work on the jacket, topside and export pipelines will continue throughout 2013. An appraisal well is planned to be drilled in the southeastern part of the Edvard Grieg reservoir in 2013 to target additional resources.

A plan of development of the Brynhild field in PL148 (WI 90%) was approved by the Norwegian Ministry of Petroleum and Energy in November 2011. The Brynhild field contains gross reserves of 23.1 MMboe and is expected to produce at an estimated gross plateau production rate of 12.0 Mboepd with first oil forecast in late 2013. The development involves the drilling of four wells tied back to the existing Shell operated Pierce field infrastructure in the United Kingdom sector of the North Sea. The development is well advanced in respect of engineering and construction work and the Maersk Guardian jack-up rig will commence development drilling in the second quarter of 2013. In December 2012, Lundin Petroleum announced that it had completed a transaction with Talisman Energy to acquire an additional 20 percent interest in PL148, taking Lundin Petroleum's interest in the field to 90 percent.

A plan of development for the Bøyla field in PL340 (WI 15%) was submitted in June 2012 and approved by the Ministry of Petroleum and Energy in October 2012. The Bøyla field contains gross reserves of 21 MMboe and will be developed as a 28 km subsea tie-back to the Alvheim FPSO. First oil from the Bøyla field is expected in the fourth quarter of 2014 at a gross plateau production rate of 19.0 Mboepd.

Appraisal

Lundin Petroleum discovered the Avaldsnes field in PL501 (WI 40%) in 2010. In 2011, Statoil made the Aldous Major South discovery on the neighboring PL265 (WI 10%). Following appraisal drilling, it was determined that the discoveries were connected and in January 2012 the combined discovery was renamed Johan Sverdrup. An appraisal programme is ongoing to define the recoverable resource and assist with the development planning strategy.

During the year, a total of four appraisal wells and two sidetracks on PL501 were drilled and a further two appraisal wells on PL265 were also completed.

In January 2012, a third appraisal well, 16/5-2S, located on PL501 was completed. The objective of the well was to delineate the southern flank of the Johan Sverdrup, PL501 discovery. The well, despite encountering good Jurassic sandstone reservoir, was deep to prognosis and as a result the reservoir was below the oil water contact.

In March 2012, a further appraisal well, 16/2-11, was completed on PL501 which encountered a 54 metre gross oil column in Upper and Middle

Jurassic sandstone reservoir in an oil-down-to situation. The reservoir was encountered at depth prognosis. A sidetrack of the well was successfully completed encountering a 35 metre gross oil column confirming similar excellent reservoir thickness and quality.

In the third quarter of 2012, the drilling of the appraisal well 16/2-13S on the northeastern part of the Johan Sverdrup discovery and a sidetrack well 16/2-13A were successfully completed. The results from the wells were excellent in respect of reservoir quality and thickness, validating the field geological model and confirming a deeper oil water contact at this location. Well 16/2-13S encountered a 25 metre gross oil column in Upper and Middle Jurassic sandstone reservoir in an oil-down-to situation. The sidetrack well 16/2-13A encountered a gross reservoir column of approximately 22 metres, of which 12 metres were above the oil water contact. The oil water contact was established at approximately 1,925 metres below Mean Sea Level (MSL) which is approximately 3 metres deeper than observed in earlier PL501 wells.

In December 2012, the drilling of appraisal well 16/2-16 in the northeastern flank of the discovery was successfully completed. The well encountered a total of 15 metres of sand within a 60 metre Jurassic sequence. The oil water contact was encountered at the same depth as for well 16/2-13A to the east at 1,925 metres below MSL, resulting in an oil bearing reservoir column at this location of approximately 1 metre. A further sidetrack 16/2-16AT2 was drilled to the west of well 16/2-16 with a step-out of approximately 1,000 metres. The sidetrack, which was successfully completed in January 2013, encountered a gross oil column of 30 metres with largely excellent reservoir qualities within the Jurassic reservoir sequence. Oil was encountered at the same depth as at well 16/2-10 on PL265 which is the deepest oil water contact encountered in Johan Sverdrup so far.

Appraisal well 16/3-5 in the southeastern part of Johan Sverdrup in PL501 has been successfully completed and tested in the first quarter of 2013.

In November 2012, Statoil announced the successful completion of appraisal well 16/2-14 on Johan Sverdrup in PL265. Well 16/2-14 was drilled in a northwestern segment of Johan Sverdrup approximately 6 km northwest of the discovery well 16/2-6 drilled by Lundin Petroleum. The well 16/2-14 encountered an approximately 30 metre reservoir section saturated with oil. The well confirmed good reservoir quality at this location.

In early January 2013, the Norwegian Petroleum Directorate announced the successful completion of appraisal well 16/2-15 drilled in the southwestern part of Johan Sverdrup in PL265. The well was drilled 5 km southeast of the discovery well 16/2-6 and encountered a gross oil column of 30 metres of which 20 metres contained excellent reservoir quality.

It is likely that at least two further appraisal wells will be drilled in both PL501 and PL265 in 2013.

Lundin Petroleum, as operator of PL501, has signed a Pre-Unit agreement with the partners within PL501 and PL265 for the joint field development of the Johan Sverdrup field. Statoil has been elected as working operator for the Pre-Unit phase. All parties in PL501 and PL265 have agreed a timetable for the Johan Sverdrup field with development concept selection to be made by the fourth quarter of 2013, a plan of development to be submitted by the fourth quarter of 2014 and first oil production by the end of 2018.

Exploration

During the year a total of five exploration wells have been completed in Norway.

In June 2012, the drilling of exploration well 2/8-18S targeting the Clapton prospect on PL440s (WI 18%) was completed by the operator Faroe Petroleum. The well, which is located in the southern North Sea, did not encounter hydrocarbons. The well was drilled to a depth of 2,619 metres below MSL and was plugged and abandoned.

In August 2012, the exploration well 16/2-12 targeting the Geitungen structure in PL265 (WI 10%) was successfully completed as an oil discovery. The well, which was located to the north of the Johan Sverdrup discovery and to the south of 16/2-9S Aldous Major North discovery, has proved a gross oil column of 35 metres in high quality sandstone of Jurassic age. Oil was also proven in the basement rock. Data acquisition in the well, including coring, wireline logging and fluid sampling, indicates that the Geitungen structure is in communication with the Johan Sverdrup discovery made by Lundin Petroleum in 2010. Preliminary calculations indicate that the size of the Geitungen discovery is between 140 and 270 million barrels of gross recoverable oil[1]. Geitungen will be developed as part of the Johan Sverdrup development.

In October 2012, Lundin Petroleum announced the results of the Albert well in PL519 (WI 40%). The main objective of well 6201/11-3 was to test Cretaceous and Triassic age sandstones of a multiple target structure. The well encountered oil in thin Cretaceous reservoir sequence at the predicted level for the primary target. The thin thickness and uncertain distribution of the reservoir do not give a basis for resource estimation at this stage and as such the discovery is currently deemed uncommercial. Further potential exists within the Albert structure if thicker Cretaceous reservoir section in this large structure can be identified. The Triassic secondary reservoir was tight without movable hydrocarbons. A minor column of movable hydrocarbons was also encountered in a Paleocene secondary target. Further exploration activity is planned in this area in 2014 with the drilling of the Storm prospect in PL555 where Lundin Petroleum holds a 60 percent interest and is operator.

In October 2012, Lundin Petroleum announced that exploration well 7220/10-1 in PL533 (WI 20%) had discovered gas/condensate in the Salina structure located on the west flank of the Loppa High in the Barents Sea. The well has proved two gas columns in sandstone of Cretaceous and Jurassic age. Data acquisition in the well, including coring, wireline logging and fluid sampling, has proven good reservoir quality in the sandstone. Preliminary calculations, made by the Norwegian Petroleum Directorate, give a range of gross discovered volume in the Salina structure of between 174 and 246 billion cubic feet (bcf) (29 and 41 MMboe) of recoverable gas/condensate. Further resource upside exists in fault compartments associated with the Salina structure.

In November 2012, Lundin Petroleum successfully completed the exploration well 7120/6-3S in PL490 (WI 50%) in the Barents Sea. The well was located 10 km to the northwest of the Snøhvit field and was targeting stacked targets Snurrevad and Juksa at the lower Cretaceous and upper Jurassic reservoirs. The preliminary analysis of a cored section of the reservoir indicate thin oil bearing sands in a 8 to 9 metres zone at the top of a 25 metre lower Cretaceous sand sequence. No reservoir was found to be present in the Snurrevad target at the Jurassic level. The thin oil bearing sands in the Juksa discovery are unlikely to be commercial however it is encouraging that the well encountered oil bearing sands as opposed to gas.

Lundin Petroleum announced in July 2012 that it had entered into farm-out agreements to reduce its holdings in a number of licences. Spring Energy Norway AS has acquired a 10 percent interest in PL490, with Lundin Petroleum retaining 50 percent and Norwegian Energy Company ASA has acquired a 10 percent interest in PL492, with Lundin Petroleum retaining 40 percent; both licences are located in the Barents

[1] Estimated by PL265 operator, Statoil

Sea. Explora Petroleum AS has acquired a 30 percent interest in PL544 and Lundin Petroleum retains 40 percent; the licence is located in the North Sea. The Norwegian authorities have approved these farm-out agreements. In January 2012, Lundin Petroleum was awarded ten exploration licences in the APA 2011 licensing round of which four are operated by Lundin Petroleum. In January 2013, Lundin Petroleum was awarded a further seven exploration licences in the APA 2012 licensing round of which two are operated by Lundin Petroleum. Four of the seven licences awarded are in the North Sea, two in the Norwegian Sea and one in the Barents Sea. Lundin Petroleum has submitted several licence applications for the 22nd Norwegian licensing round with awards expected to be announced by the Ministry of Petroleum and Energy in the first half of 2013.

Lundin Petroleum's exploration programme in Norway for 2013 will consist of 10 exploration wells with a continued focus on the Utsira High area with six exploration wells targeting similar play concepts as Johan Sverdrup and Edvard Grieg. In addition, one exploration well has been drilled in the first quarter 2013 in the southern North Sea and a second well is expected to be drilled and completed in the second quarter 2013. One well is planned to be drilled in the Barents Sea and one well is scheduled to be drilled on PL330 (WI 30%) in the northern Norwegian Sea. Rigs have been secured for all of the 2013 exploration wells.

France

Production

Production in Mboepd	Lundin Petroleum Working Interest (WI)	2012	2011
Paris Basin	100%	2.3	2.4
Aquitaine Basin	50%	0.5	0.7
		2.8	3.1

The redevelopment of the Grandville field in the Paris Basin was substantially completed during the year with the development wells brought onstream during the fourth quarter of 2012.

Two exploration wells were drilled in the year. The Amaltheus exploration well in the Paris Basin on the Val des Marais concession (WI 100%) was successfully completed in the fourth quarter of 2012 as an oil discovery. The well has been put on long-term test. A second exploration well targeting the Contault prospect in the Paris Basin on the Est Champagne concession (WI 100%) was completed during the fourth quarter of 2012 as a dry hole. Lundin Petroleum is drilling one exploration well in the Paris Basin in 2013. The Hoplites-1 well will be drilled on the Est Champagne concession (WI 100%) targeting the Nettancourt prospect.

The Netherlands

The net gas production to Lundin Petroleum from the Netherlands averaged 1.9 Mboepd for the year. Development drilling on existing production assets is ongoing to optimise field recovery. The Vinkega-2 exploration well in the Gorredijk concession (WI 7.75%) was a gas discovery in the third quarter of 2012 and is currently planned to commence production in the second quarter of 2013.

Lundin Petroleum is participating in two exploration wells onshore Netherlands in 2013.

Ireland

Following the completion of seismic studies on the Slyne Basin licence 04/06 (WI 50%), the licence partners are considering the way forward.

SOUTH EAST ASIA

Indonesia

Lematang (South Sumatra)

The net production to Lundin Petroleum from the Singa gas field (WI 25.9%) during the year amounted to 1.0 Mboepd. Production in the year has been negatively affected by well maintenance work which was completed in September 2012.

Baronang/Cakalang (Natuna Sea)

Exploration drilling on the Baronang Block (WI 100%) will commence in 2013.

South Sokang (Natuna Sea)

A 3D seismic acquisition programme is planned to be completed in 2013 on South Sokang (WI 60%).

Gurita (Natuna Sea)

A 3D seismic acquisition programme of 950 km^2 has been completed in 2012 on the Gurita Block (WI 100%) and an exploration well will be drilled in 2013.

Malaysia

East Malaysia, offshore Sabah

Lundin Petroleum holds two licences offshore Sabah in east Malaysia.

SB303 (WI 75%) contains the Tarap, Cempulut and Titik Terang gas discoveries with an estimated gross contingent resource of more than 270 bcf. Lundin Petroleum continues to evaluate the potential for commercialisation of these gas discoveries, most likely through a cluster development.

In September 2012, the Berangan-1 exploration well in SB303 was successfully completed as a gas discovery. The well penetrated a gross gas column of over 165 metres in the target mid-Miocene aged sands 10 km to the southeast of the Tarap gas discovery made by Lundin Petroleum in 2011, and 15 km to the south of the Cempulut gas discovery also made in 2011. The Berangan discovery is estimated to contain 69 bcf (11.5 MMboe) of gross contingent gas resources and it is likely that it will be included in a cluster development with the other SB303 gas discoveries.

In July 2012, the Tiga Papan 5 well in SB307/308 (WI 42.5%) targeting mid-Miocene aged sands of the Tiga Papan Unit was plugged and abandoned as a dry hole.

One exploration well will be drilled offshore Sabah in 2013.

Offshore Peninsular Malaysia

Lundin Petroleum holds four licences offshore Peninsular Malaysia.

In June 2011, Lundin Petroleum acquired a 75 percent working interest in Block PM307. A 2,100 km^2 3D seismic acquisition programme was completed in 2011. In January 2012, the Bertam-2 appraisal well was successfully completed proving the continuity and quality of the K10 oil reservoir sandstone. Conceptual development studies are substantially complete in relation to a potential development of the Bertam field and a decision will be taken in 2013. In November 2012, Lundin Petroleum announced the Tembakau-1 well, drilled on Block PM307, as a gas discovery. The Tembakau-1 well was drilled to a total depth of 1,565 metres and encountered a series of stacked gas pay sands at the Miocene level. The net pay was 60 metres over five high quality sand intervals. Given the relatively close proximity to existing gas infrastructure coupled with the forecast strong demand for gas on Peninsular Malaysia the building blocks for a commercial development are present and further studies will be undertaken to assess the commerciality of this discovery. It is estimated that the Tembakau discovery contains 306 bcf (51 MMboe) of gross contingent gas resources. A 3D seismic acquisition programme over the northern part of Block PM307 is currently ongoing. The 3D seismic acquisition is also stretching into the recently awarded Block PM319 (WI 75%).

Block PM308A (WI 35%) contains the Janglau and Rhu oil discoveries. A further exploration well targeting the Ara prospect on Block PM308A has been completed in the first quarter 2013. The well is targeting the Oligocene intra-rift sands discovered by the Janglau exploration well drilled in 2011. An acquisition of 1,450 km^2 of new 3D seismic in PM308A was completed during the year.

In Block PM308B (WI 75%) the Merawan Batu-1 exploration well was completed in October 2012 and plugged and abandoned as a dry hole.

In December 2012, Lundin Petroleum announced the award of a new block offshore Peninsular Malaysia. Block PM319 is operated by Lundin Petroleum with a 85 percent working interest, with Petronas holding a 15 percent working interest. The block covers an area of approximately 8,400 km^2 and is located west of Block PM307 where Lundin Petroleum and Petronas have achieved success during 2012 with the appraisal of the Bertam oil field and the discovery of gas with the Tembakau-1 well. The area has very limited 3D coverage and work commitments include a full tensor gravity survey, 550 km^2 of 3D seismic and one exploration well.

Two exploration wells offshore Peninsular Malaysia will be drilled in 2013.

RUSSIA

The net production to Lundin Petroleum from onshore assets located in the Komi Republic, Russia for the year was 2.7 Mboepd. Production has been below expectations through the year and consequently the remaining reserves as at 31 December 2012 have been reduced.

In the Lagansky Block (WI 70%) in the northern Caspian a major oil discovery was made on the Morskaya discovery in 2008. The discovery is deemed to be strategic, due to its offshore location, by the Russian Government under the Foreign Strategic Investment Law (FSIL). As a result a 50 percent ownership by a state owned company is required prior to appraisal and development. Discussions continue with third parties to meet the requirements of the FSIL.

AFRICA

Tunisia

The production from the Oudna field (WI 40%) for the first quarter of 2012 was 0.4 Mboepd and 0.1 Mboepd for the year. Following storm damage to a flowline in March 2012, the Oudna field was shut-in. An assessment of repair solutions to the flowline was carried out and it was determined to be uneconomic to repair. During 2012, the Ikdam FPSO was disconnected from the Oudna field and the wells were permanently abandoned. During the year Lundin Petroleum has increased its ownership in the Ikdam FPSO to 100 percent and will now seek new opportunities for the vessel.

Congo (Brazzaville)

With the relinquishment of its interest in the Block Marine XI licence (WI 18.75%) in June 2012 and the expiry of the Block Marine XIV licence (WI 21.55%) in October 2012, Lundin Petroleum has exited Congo (Brazzaville).

FINANCIAL REVIEW

FINANCIAL RESULT

Result

The net result for the financial year 2012 amounted to MUSD 103.9 (MUSD 155.2). The net result attributable to shareholders of the Parent Company for the year amounted to MUSD 108.2 (MUSD 160.1) representing earnings per share of USD 0.35 (USD 0.51).

Earnings before interest, tax, depletion and amortisation (EBITDA) for the year amounted to MUSD 1,144.1 (MUSD 1,012.1) representing EBITDA per share of USD 3.68 (USD 3.25). Operating cash flow for the year amounted to MUSD 831.4 (MUSD 676.2) representing operating cash flow per share of USD 2.68 (USD 2.17).

Operating income

Net sales of oil and gas for the year amounted to MUSD 1,319.5 (MUSD 1,257.7) and are detailed in Note 1. The average price achieved by Lundin Petroleum for a barrel of oil equivalent amounted to USD 100.89 (USD 101.04) and is detailed in the following table. The average Dated Brent price for the year amounted to USD 111.67 (USD 111.26) per barrel. The Alvheim and Volund field crude cargoes sold during the year, which represented 61 percent (63 percent) of the total volumes sold, averaged USD 3.53 (USD 3.87) per barrel over Dated Brent for the pricing period for each lifting.

Sales of oil and gas for the year were comprised as follows:

Sales Average price per boe expressed in USD	2012	2011
Crude oil sales		
Norway		
– Quantity in Mboe	8,270.1	7,896.0
– Average price per boe	115.29	115.38
France		
– Quantity in Mboe	1,041.1	1,155.5
– Average price per boe	110.44	110.59
Netherlands		
– Quantity in Mboe	1.7	2.2
– Average price per boe	100.09	103.87
Russia		
– Quantity in Mboe	981.6	1,138.4
– Average price per boe	77.23	69.85
Tunisia		
– Quantity in Mboe	227.5	198.2
– Average price per boe	108.14	125.12
Total crude oil sales		
– Quantity in Mboe	**10,522.0**	10,390.3
– Average price per boe	**110.90**	110.25
Gas and NGL sales		
Norway		
– Quantity in Mboe	1,513.9	947.2
– Average price per boe	64.18	61.14
Netherlands		
– Quantity in Mboe	704.2	722.8
– Average price per boe	60.18	60.61
Indonesia		
– Quantity in Mboe	338.1	387.7
– Average price per boe	32.43	32.43
Total gas and NGL sales		
– Quantity in Mboe	**2,556.2**	2,057.7
– Average price per boe	**59.69**	54.50
Total sales		
– Quantity in Mboe	**13,078.2**	12,448.0
– Average price per boe	**100.89**	101.04

Sales quantities in a period can differ from production quantities as a result of permanent and timing differences. Timing differences can arise due to inventory, storage and pipeline balances effects. Permanent differences arise as a result of paying royalties in kind as well as the effects from production sharing agreements.

The oil produced in Russia is sold on either the Russian domestic market or exported into the international market. 45 percent (37 percent) of Russian sales for the year were on the international market at an average price of USD 109.93 per barrel (USD 109.92 per barrel) with the remaining 55 percent (63 percent) of Russian sales being sold on the domestic market at an average price of USD 49.98 per barrel (USD 46.45 per barrel).

Other operating income amounted to MUSD 25.7 (MUSD 11.8) for the year and included MUSD 11.0 (MUSD –) relating to a pre-tax settlement of an equity redetermination that was agreed between the parties in Blocks K4a, K4b/K5a and K5b, offshore Netherlands, and MUSD 6.5 (MUSD 5.8) of income relating to a quality differential compensation received from the Vilje field owners to the Alvheim and Volund field owners in Norway. The quality compensation adjustment in Norway arises as all three fields produce to the Alvheim FPSO vessel and the oil is commingled to produce an Alvheim crude blend which is then sold. Also included in other operating income is tariff income from France and the Netherlands and income for maintaining strategic inventory levels in France.

Production costs

Production costs including inventory movements for the year amounted to MUSD 172.5 (MUSD 193.1) and are detailed in Note 2. The production costs in the year included a MUSD 15.9 credit for change in the lifting position and inventory movements compared to a MUSD 13.1 charge in the comparative period as explained below. The production and depletion costs per barrel of oil equivalent produced are detailed in the table below.

Production cost and depletion in USD per boe	2012	2011
Cost of operations	8.09	8.43
Tariff and transportation expenses	2.27	1.88
Royalty and direct taxes	3.93	4.31
Changes in inventory/lifting position	-1.22	1.08
Other	0.14	0.18
Total production costs	**13.21**	15.88
Depletion [1]	14.26	13.59
Total cost per boe	**27.47**	29.47

[1] excludes decommissioning costs

The total cost of operations for the year was MUSD 105.6 compared to MUSD 102.5 for the comparative period and includes cost of operations of MUSD 12.0 associated with the Gaupe field, Norway which came onstream on 31 March 2012. The cost of operations for the Oudna field, Tunisia was MUSD 8.6 for the year compared to MUSD 17.0 for the comparative period following the shut-in of production in March 2012. The cost of operations per barrel for the year was lower than the comparative period due to the higher production.

The tariff and transportation expenses for the year amounted to MUSD 29.7 compared to MUSD 22.9 for the comparative period. Included in the year are costs associated with the Gaupe field of MUSD 7.4.

Royalty and direct taxes includes Russian Mineral Resource Extraction Tax (MRET) and Russian Export Duties. The rate of MRET is levied on the volume of Russian production and varies in relation to the international market price of Urals blend and the Rouble exchange rate. MRET averaged USD 22.92 (USD 21.21) per barrel of Russian production for the year. The rate of export duty on Russian oil is revised monthly by the Russian Federation and is dependent on the average price obtained for Urals Blend for the preceding one month period. The export duty is levied on the volume of oil exported from Russia and averaged USD 57.08 (USD 57.52) per barrel for the year.

There are both permanent and timing differences that result in sales volumes not being equal to production volumes during a period. Changes to the hydrocarbon inventory and under or overlift positions result from these timing differences and a net amount of MUSD 15.9 was credited to the income statement for the year compared to a MUSD 13.1 charge for the comparative period. There was a net underlift movement of MUSD 18.5 on the Alvheim/Volund fields, Norway, where crude sales volumes during the year were lower than production volumes compared to a MUSD 18.7 net overlift movement for the comparative period. In addition, the Gaupe field, Norway, was underlifted during the year resulting in a MUSD 12.9 (MUSD –) credit to production costs. The Gaupe field hydrocarbons are processed across the non-operated Armada host platform and there is an allocation agreement whereby new fields compensate existing fields through volume for production deferred by the new production stream. The resultant underlift position is repaid by the existing fields in future periods. There were also liftings of inventory from the Ikdam FPSO on the Oudna field, Tunisia, resulting in a MUSD 14.6 (MUSD -6.2) charge to production costs in the year.

Depletion and decommissioning costs

Depletion charges amounted to MUSD 186.2 (MUSD 165.1) and are detailed in Note 3. Norway contributed 83 percent of the total depletion charge for the year at an average rate of USD 15.54 per barrel. The increase in depletion charges over the comparative period is mainly a result of the inclusion of the Gaupe field, Norway.

Decommissioning costs charged to the income statement in the year amounted to MUSD 5.3 (MUSD –) and are detailed in Note 3. This represents the costs of decommissioning the Oudna field, Tunisia, in excess of the provision for this work. The Oudna field was fully decommissioned in 2012.

Exploration costs

Exploration costs for the year amounted to MUSD 168.5 (MUSD 140.0) and are detailed in Note 4. Exploration and appraisal costs are capitalised as they are incurred. When exploration drilling is unsuccessful, the capitalised costs are expensed. All capitalised exploration costs are reviewed on a regular basis and are expensed where there is uncertainty regarding their recoverability.

During 2012, MUSD 103.1 (MUSD 74.1) of exploration costs relating to Norway were expensed. In the fourth quarter of 2012 the costs related to the Albert well on PL519 and the Juksa well and associated licence costs on PL490 were expensed for amounts of MUSD 36.6 and MUSD 50.1 respectively. Costs of MUSD 12.3 associated with the Clapton well on PL440S drilled in the second quarter of 2012 were also expensed.

In Malaysia, an amount of MUSD 46.7 (MUSD 11.0) of exploration costs was expensed in 2012. This primarily related to the costs of drilling the Merawan Batu prospect and associated licence costs on PM308B of MUSD 36.1 which were expensed in the fourth quarter of 2012. The costs of the Tiga Papan 5 well and associated licence costs in SB307/308 of MUSD 9.8 were also expensed in the second quarter of 2012.

In France, the expensed exploration costs for the unsuccessful exploration well drilled in the fourth quarter of 2012 on the Est Champagne concession amounted to MUSD 4.5.

Other exploration costs expensed during the year relate to the expensing of capitalised costs following technical reviews and include licence relinquishments.

Impairment costs of oil and gas properties

Impairment costs for the year amounted to MUSD 237.5 (MUSD –) and are detailed in Note 5. Following poor performance since the start of production from the Gaupe field, Norway, the reserves have been reduced based on the conservative assumption that no further production wells will be drilled resulting in an impairment charge of MUSD 205.8. In addition, poor reservoir performance from the onshore Russian assets has led to an impairment charge of MUSD 31.7.

General, administrative and depreciation expenses

The general, administrative and depreciation expenses for the year amounted to MUSD 31.7 (MUSD 67.0) of which MUSD 9.1 (MUSD 44.9) related to non-cash charges in relation to the Group's Long-term Incentive Plan (LTIP) scheme.

The provision for the LTIP is calculated based on Lundin Petroleum's share price at the balance sheet date using the Black and Scholes method and is applied to the portion of the outstanding LTIP awards which are recognised at the balance sheet date. Any change in the value of the awards due to a change in the share price impacts all awards recognised at the balance sheet date including those of previous periods with the change in the provision being reflected in the income statement. The Lundin Petroleum share price decreased by 12 percent during 2012 compared to a 102 percent increase during 2011. Lundin Petroleum has mitigated the cash exposure of the LTIP by purchasing its own shares. For more detail refer to the remuneration section below.

Depreciation charges for the year amounted to MUSD 3.1 (MUSD 2.6).

Financial income

Financial income for the year amounted to MUSD 27.2 (MUSD 46.5) and is detailed in Note 6.

Interest income for the year amounted to MUSD 5.1 (MUSD 4.1) and included MUSD 1.3 in relation to the Brynhild transaction with Talisman Energy.

Net foreign exchange gains for the year amounted to MUSD 6.2 (MUSD 8.9). During the year, there was an exchange loss of MUSD 5.5 (MUSD -8.9) on the non-USD denominated intercompany loans and working capital balances and this loss was offset by a realised exchange gain of MUSD 11.7 (MUSD –) on settled foreign exchange hedges.

A gain on consolidation of a subsidiary of MUSD 13.4 (MUSD –) was reported in the third quarter of 2012 and relates to the accounting for the full consolidation of Ikdam Production SA (IPSA) following the acquisition of the outstanding 60 percent of the shares of the company at the end of August 2012. Lundin Petroleum already held 40 percent of the shares in IPSA which was acquired as part of the Coparex acquisition in 2002. At the time of the Coparex acquisition, no value was assigned to the shares of IPSA and a provision was made against a loan to IPSA from the Group. Following the acquisition of the remaining 60 percent equity, a step-up in the carrying value of the existing 40 percent interest based on the fair value of the assets and liabilities of the company at the end of August 2012 was recorded and the provision made against the original loan was released.

An amount of MUSD 30.0 relating to the gain on sale of Africa Oil Corporation shares is included in financial income for the comparative period.

Financial expenses

Financial expenses for the year amounted to MUSD 48.5 (MUSD 21.0) and are detailed in Note 7.

Interest expenses for the year amounted to MUSD 6.8 (MUSD 5.4). An additional amount of interest of MUSD 3.4 (MUSD 1.4) associated with the funding of the Norwegian development projects was capitalised in the year.

A provision for the costs of site restoration is recorded in the balance sheet at the discounted value of the estimated future cost. The effect of the discount is unwound each year and charged to the income statement. An amount of MUSD 5.1 (MUSD 4.5) has been charged to the income statement for the year.

The amortisation of the deferred financing fees for the year amounted to MUSD 6.6 (MUSD 2.2) and relates to the expensing of the fees incurred in establishing the loan facility over the period of usage of that facility. Lundin Petroleum arranged a new USD 2.5 billion financing facility which was signed on 25 June 2012 and the fees associated with this facility are being amortised on a going forward basis.

Loan facility commitment fees for the year amounted to MUSD 10.3 (MUSD 1.0). The increase over the comparative period relates to the commitment fees on the undrawn portion of the larger USD 2.5 billion financing facility entered into in June 2012.

Lundin Petroleum owns 50 million shares in ShaMaran Petroleum which were acquired in 2009 in a non-cash transaction. The investment was booked at the fair value of the shares at the date of acquisition and subsequent movements in the fair value of the shares are recognised in other comprehensive income. In January 2012, ShaMaran Petroleum announced that it had relinquished its working interests in its operated Production Sharing Contract licences and, as such, it was considered that there had been a permanent diminution in the fair value of the shares of ShaMaran Petroleum held by Lundin Petroleum. As a result of the permanent diminution in the fair value of the shares, the cumulative loss recognised in other comprehensive income of MUSD 18.6 was reclassified from equity and recognised in the income statement in the first quarter of 2012. The subsequent gain on the shares since the impairment has been recognised in other comprehensive income.

Tax

The tax charge for the year amounted to MUSD 418.4 (MUSD 574.4) and is detailed in Note 8.

The current tax charge for the year amounted to MUSD 341.3 (MUSD 400.2) of which MUSD 311.8 (MUSD 365.6) relates to Norway. The Norwegian current tax charge for the year is lower than the comparative period primarily as a result of higher development and exploration expenditure spent in 2012.

The deferred tax charge for the year amounted to MUSD 77.1 (MUSD 174.2) and arises primarily where there is a difference in depletion for tax and accounting purposes. In Norway, there is a deferred tax charge for the year of MUSD 80.4 (MUSD 166.2) which is net of a deferred tax release on the impairment of the Gaupe field amounting to MUSD 160.6 in the fourth quarter of 2012.

The Group operates in various countries and fiscal regimes where corporate income tax rates are different from the regulations in Sweden. Corporate income tax rates for the Group vary between 20 percent and 78 percent. The effective tax rate for the Group for the year amounted to 80 percent. This effective rate is calculated from the face of the income statement and does not reflect the effective rate of tax paid within each country of operation. The overall effective rate of tax is driven by Norway where the tax rate is 78 percent reduced by the effect of uplift on development expenditure for tax purposes. The effective rate is increased due to a number of non-tax adjusted items in the year including the impairment of the ShaMaran shares, the Malaysian expensed exploration costs and certain general and administrative costs, as well as a lower tax credit on the impairment of the Russian onshore assets and exploration costs relating to the Rangkas Block, Indonesia. There is no tax expense associated with the financial income booked on full consolidation of Ikdam Production SA.

Non-controlling interest

The net result attributable to non-controlling interest for the year amounted to MUSD -4.3 (MUSD -4.9) and relates mainly to the non-controlling interest's share in a Russian subsidiary which is fully consolidated.

BALANCE SHEET

Non-current assets

Oil and gas properties amounted to MUSD 2,864.4 (MUSD 2,329.3) and are detailed in Note 9.

Development and exploration expenditure incurred for the year was as follows:

Development expenditure in MUSD	2012	2011
Norway	369.0	186.8
France	29.2	30.9
Netherlands	8.5	4.1
Indonesia	-0.4	6.4
Russia	7.5	4.2
	413.8	232.4

An amount of MUSD 369.0 of development expenditure was incurred in Norway during the year, primarily on the Brynhild and Edvard Grieg field developments. In the previous year, MUSD 186.8 was spent on the development of the Gaupe and Alvheim fields. During the year, MUSD 29.2 was incurred in France, primarily on the Grandville field redevelopment.

Exploration expenditure in MUSD	2012	2011
Norway	323.2	288.6
France	9.8	1.7
Indonesia	16.4	16.4
Russia	3.6	10.0
Malaysia	100.5	98.7
Congo (Brazzaville)	1.3	19.0
Other	2.5	3.1
	457.3	437.5

Exploration and appraisal expenditure of MUSD 323.2 was incurred in Norway during the year, mainly on the appraisal drilling of the Johan Sverdrup field and exploration drilling of the Clapton prospect on PL440S, the Albert prospect on PL519, the Salina prospect on PL533 and the Juksa well on PL490. In the comparative period, MUSD 288.6 was spent in Norway on the Johan Sverdrup field appraisal drilling and four exploration wells. MUSD 100.5 (MUSD 98.7) was spent in Malaysia primarily on drilling five wells and the acquisition of seismic data.

Tangible fixed assets amounted to MUSD 49.4 (MUSD 16.1) and represent office fixed assets and real estate, as well as the accounting value of the Ikdam FPSO which was consolidated for the first time in August 2012.

Other shares and participations amounted to MUSD 20.0 (MUSD 17.8) and mainly relates to the shares held in ShaMaran Petroleum which are reported at market value.

Deferred tax assets amounted to MUSD 13.3 (MUSD 15.3) and is mainly relating to the part of the tax loss carry forwards in the Netherlands that are expected to be utilised.

Current assets

Inventories amounted to MUSD 18.7 (MUSD 31.6) and include both hydrocarbon inventories and well supplies. The reduction compared to 31 December 2011 is mainly due to the lifting of the Oudna field, Tunisia hydrocarbon inventory during the year.

Prepaid expenses and accrued income amounted to MUSD 32.9 (MUSD 4.5) and includes prepaid insurance on the Edvard Grieg development project, Norway and 2013 licence fees.

Derivative instruments amounted to MUSD 9.1 (MUSD –) and relates to the mark-to-market on the unsettled foreign currency hedges contracts that were entered into during 2012.

Other receivables amounted to MUSD 40.3 (MUSD 23.1) and are detailed in Note 18. Included in other receivables is the underlift position which amounted to MUSD 26.4 (MUSD 1.9) of which MUSD 24.5 related to the Norwegian producing fields, including the Gaupe field.

Cash and cash equivalents amounted to MUSD 97.4 (MUSD 73.6). Cash balances are held to meet operational and investment requirements.

Non-current liabilities

The provision for site restoration amounted to MUSD 190.5 (MUSD 119.3) and relates to future decommissioning obligations, as detailed in Note 21. The increase compared to 31 December 2011 mainly results from updated estimates for decommissioning costs and the use of a lower discount factor to calculate the present value of the decommissioning liabilities.

The provision for deferred taxes amounted to MUSD 942.2 (MUSD 803.5) as detailed in Note 8 and is arising on the excess of book value over the tax value of oil and gas properties. Deferred tax assets are netted off against deferred tax liabilities where they relate to the same jurisdiction.

Other provisions amounted to MUSD 70.4 (MUSD 63.4) and are detailed in Note 23. Included in other provisions is the non-current portion of the provision for Lundin Petroleum's LTIP scheme which amounted to MUSD 67.1 (MUSD 58.1).

Financial liabilities amounted to MUSD 384.2 (MUSD 204.5) and are detailed in Note 24. Bank loans amounted to MUSD 432.0 (MUSD 207.0) and relates to the outstanding loan under the Group's USD 2.5 billion revolving borrowing base facility. Capitalised financing fees amounted to MUSD 47.8 (MUSD 2.5) and relate to the new seven year USD 2.5 billion financing facility entered into in June 2012. The capitalised fees are being amortised over the expected life of the financing facility. The comparative amount relates to the balance of the capitalised financing fees for the previous financing facility which were fully expensed during the year.

Other non-current liabilities amounted to MUSD 22.6 (MUSD 21.8) and mainly arises from the full consolidation of a subsidiary in which the non-controlling interest entity has made funding advances in relation to LLC PetroResurs, Russia.

Current liabilities

Tax liabilities amounted to MUSD 170.0 (MUSD 240.1) of which MUSD 163.6 (MUSD 223.0) relates to Norway.

Joint venture creditors amounted to MUSD 209.6 (MUSD 88.4) and relates to the high level of development and drilling activity in Norway and Malaysia.

Other liabilities amounted to MUSD 15.5 (MUSD 29.2) and are detailed in Note 26.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held in Stockholm on 8 May 2013.

BOARD'S PROPOSAL FOR REMUNERATION TO THE EXECUTIVE MANAGEMENT

The intention of the Board of Directors is to propose to the 2013 AGM the adoption of a Policy on Remuneration for 2013 that follows in essence the same principles as applied in 2012 and that contains similar elements of remuneration for the Executive Management as the 2012 Policy on Remuneration being basic salary, yearly variable salary, Long-term Incentive Plan (LTIP) and other benefits. An LTIP for the Executive Management consisting of a phantom option plan was approved by the 2009 AGM, however, following the exceptional performance of the Company and its share price since the 2009 AGM, the Board of Directors has reviewed the terms of the 2009 LTIP. As a result, the Board of Directors has decided to propose to the 2013 AGM that the 2009 LTIP be replaced by a new 2013 LTIP, with an equal number and allocation of LTIP awards to the members of the Executive Management as under the 2009 LTIP. The proposed 2013 LTIP does not change the Company's financial obligation to the Executive Management, however, it will provide the Executive Management with the opportunity to receive the LTIP award entitlement in: (a) cash; and/or (b) shares of the Company. These shares will be transferred from the previously issued shares held by the Company and therefore, no new shares of the Company will be issued under the proposed 2013 LTIP. The details of the proposal are available on www.lundin-petroleum.com.

In addition, as in previous years, the Board of Directors will further seek authorisation to deviate from the Policy on Remuneration in case of special circumstances in a specific case.

For a detailed description of the Policy on Remuneration applied in 2012, refer to the Corporate Governance report on pages 48–66. The remuneration to Board and Executive Management is detailed in Note 33 of the consolidated financial statements.

SHARE INFORMATION

For the AGM resolution on the authorisation to issue new shares, see page 68, The Lundin Petroleum Share and Shareholders.

DIVIDEND

The Directors propose that no dividend be paid for the year. For details of the dividend policy refer to the dividend policy, page 68, The Lundin Petroleum Share and Shareholders.

PROPOSED DISPOSITION OF UNAPPROPRIATED EARNINGS

The Board of Directors propose that the unrestricted equity of the Parent Company of TSEK 7,005,298, including the net result for the year of TSEK 762,231 be brought forward.

CHANGES IN BOARD OF DIRECTORS

At the AGM held on 10 May 2012, the current members of the Board of Directors of Lundin Petroleum were re-elected. Dambisa F. Moyo had declined to stand for re-election. At the 2013 AGM, the current members of the Board of Directors will be proposed for re-election, with the exception of Kristin Færøvik, who has declined to stand for re-election. Peggy Bruzelius and Cecilia Vieweg will further be proposed for election as new members of the Board of Directors.

FINANCIAL STATEMENTS

The result of the Group's operations and financial position at the end of the financial year are shown in the following income statement, statement of comprehensive income, balance sheet, statement of cash flow, statement of changes in equity and related notes, which are presented in US Dollars.

The Parent Company's income statement, balance sheet, statement of cash flow, statement of changes in equity and related notes presented in Swedish Kroner can be found on pages 105–110.

CORPORATE GOVERNANCE REPORT

Lundin Petroleum has issued a Corporate Governance report which is separate from the Financial Statements. The Corporate Governance report is included in this document, on the pages 48–66.

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2012	2011
Operating income			
Net sales of oil and gas	1	1,319,490	1,257,691
Other operating income	1	25,652	11,824
		1,345,142	1,269,515
Cost of sales			
Production costs	2	-172,474	-193,104
Depletion and decommissioning costs	3	-191,444	-165,138
Exploration costs	4	-168,480	-140,027
Impairment costs of oil and gas properties	5	-237,490	–
Gross profit		**575,254**	771,246
General, administration and depreciation expenses		-31,722	-67,022
Operating profit	1	**543,532**	704,224
Result from financial investments			
Financial income	6	27,241	46,455
Financial expenses	7	-48,522	-21,022
		-21,281	25,433
Profit before tax		**522,251**	729,657
Income tax expense	8	-418,401	-574,413
Net result		**103,850**	155,244
Net result attributable to the shareholders of the Parent Company:		108,161	160,137
Net result attributable to non-controlling interest:		-4,311	-4,893
Net result		**103,850**	155,244
Earnings per share – USD [1]	29	0.35	0.51

[1] Based on net result attributable to shareholders of the Parent Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2012	2011
Net result		**103,850**	155,244
Other comprehensive income			
Exchange differences foreign operations		61,661	-37,525
Cash flow hedges		9,222	6,971
Available for sale financial assets		16,053	-50,210
Income tax relating to other comprehensive income	8	-2,306	-1,743
Other comprehensive income, net of tax		84,630	-82,507
Total comprehensive income		**188,480**	72,737
Total comprehensive income attributable to:			
Shareholders of the Parent Company		190,233	80,466
Non-controlling interest		-1,753	-7,729
		188,480	72,737

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

Expressed in TUSD	Note	2012	2011
ASSETS			
Non-current assets			
Oil and gas properties	9	2,864,395	2,329,270
Other tangible assets	10	49,418	16,084
Other shares and participations	12	19,983	17,775
Deferred tax	8	13,270	15,345
Other financial assets	14	10,852	10,960
Total non-current assets		**2,957,918**	2,389,434
Current assets			
Inventories	15	18,700	31,589
Trade receivables	16	125,905	144,954
Prepaid expenses and accrued income	17	32,906	4,522
Derivative instruments	13	9,056	–
Joint venture debtors	13	11,539	20,252
Other receivables	18	40,277	23,090
Cash and cash equivalents	19	97,425	73,597
Total current assets		**335,808**	298,004
TOTAL ASSETS		**3,293,726**	2,687,438
EQUITY AND LIABILITIES			
Equity			
Share capital		463	463
Additional paid in capital		474,855	483,565
Other reserves	20	-63,734	-145,806
Retained earnings		662,660	502,523
Net result		108,161	160,137
Shareholders' equity		**1,182,405**	1,000,882
Non-controlling interest		67,648	69,424
Total equity		**1,250,053**	1,070,306
Non-current liabilities			
Provision for site restoration	21	190,470	119,341
Pension provision	22	1,510	1,460
Provision for deferred tax	8	942,235	803,493
Other provisions	23	70,410	63,699
Financial liabilities	24	384,188	204,494
Other non-current liabilities		22,556	21,830
Total non-current liabilities		**1,611,369**	1,214,317
Current liabilities			
Trade payables	13	15,718	16,546
Tax liabilities	8	170,007	240,052
Derivative instruments	13	–	168
Accrued expenses and deferred income	25	12,687	16,227
Joint venture creditors	13	209,594	88,417
Other liabilities	26	15,473	29,190
Provisions	23	8,825	12,215
Total current liabilities		**432,304**	402,815
TOTAL EQUITY AND LIABILITIES		**3,293,726**	2,687,438
Pledged assets	27	1,831,294	1,790,617
Contingent liabilities and assets	28	–	–

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2012	2011
Cash flow from operations			
Net result		103,850	155,244
Gain on sale of assets		-1,117	–
Adjustments for non-cash related items	30	1,056,898	915,174
Interest received		3,489	1,457
Interest paid		-8,871	-1,597
Income taxes paid		-428,842	-183,870
Changes in working capital:			
Change in inventories		12,889	-11,550
Change in underlift position		-24,588	11,601
Change in receivables		7,973	36,605
Change in overlift position		-7,180	5,909
Change in liabilities		104,453	-32,037
Total cash flow from operations		**818,954**	896,936
Cash flow from investments			
Investment in oil and gas properties		-919,356	-670,032
Investment in office equipment and other assets		-9,702	-3,786
Investment in subsidiaries		-11,000	–
Decommissioning costs paid		-18,550	–
Proceeds from sale of other shares and participations		–	53,938
Change in other financial fixed assets		–	1,908
Other payments		-3,188	-1,168
Total cash flow from investments		**-961,796**	-619,140
Cash flow from financing			
Proceeds from borrowings		592,000	175,000
Repayments of borrowings		-366,274	-427,238
Paid financing fees		-49,225	–
Purchase of own shares		-8,710	–
Dividend paid to non-controlling interest		-23	-212
Total cash flow from financing		**167,768**	-252,450
Change in cash and cash equivalents		**24,926**	25,346
Cash and cash equivalents at the beginning of the year		73,597	48,703
Cash acquired on consolidation of a subsidiary		815	–
Currency exchange difference in cash and cash equivalents		-1,913	-452
Cash and cash equivalents at the end of the year		**97,425**	73,597

The effects of acquisitions of subsidiary companies have been excluded from the changes in the balance sheet items. The effects of currency exchange differences due to the translation of foreign group companies have also been excluded as these effects do not affect the cash flow. Cash and cash equivalents comprise cash and short-term deposits maturing within less than three months.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Total Equity comprises: Expressed in TUSD	Share capital [1]	Additional paid-in-capital	Other reserves [2]	Retained earnings	Net result	Non-controlling interest	Total equity
Balance at 1 January 2011	**463**	**483,565**	**-66,135**	**-9,352**	**511,875**	**77,365**	**997,781**
Transfer of prior year net result	–	–	–	511,875	-511,875	–	–
Net result	–	–	–	–	160,137	-4,893	155,244
Currency translation difference	–	–	-34,689	–	–	-2,836	-37,525
Cash flow hedges	–	–	6,971	–	–	–	6,971
Available for sale financial assets	–	–	-50,210	–	–	–	-50,210
Income tax relating to other comprehensive income	–	–	-1,743	–	–	–	-1,743
Total comprehensive income	**–**	**–**	**-79,671**	**–**	**160,137**	**-7,729**	**72,737**
Transactions with owners							
Distributions	–	–	–	–	–	-212	-212
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**-212**	**-212**
Balance at 31 December 2011	**463**	**483,565**	**-145,806**	**502,523**	**160,137**	**69,424**	**1,070,306**
Transfer of prior year net result	–	–	–	160,137	-160,137	–	–
Net result	–	–	–	–	108,161	-4,311	103,850
Currency translation difference	–	–	59,103	–	–	2,558	61,661
Cash flow hedges	–	–	9,222	–	–	–	9,222
Available for sale financial assets	–	–	16,053	–	–	–	16,053
Income tax relating to other comprehensive income	–	–	-2,306	–	–	–	-2,306
Total comprehensive income	**–**	**–**	**82,072**	**–**	**108,161**	**-1,753**	**188,480**
Transactions with owners							
Distributions	–	–	–	–	–	-23	-23
Purchase of own shares	–	-8,710	–	–	–	–	-8,710
Total transactions with owners	**–**	**-8,710**	**–**	**–**	**–**	**-23**	**-8,733**
Balance at 31 December 2012	**463**	**474,855**	**-63,734**	**662,660**	**108,161**	**67,648**	**1,250,053**

[1] Lundin Petroleum AB's issued share capital at 31 December 2012 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each, the USD equivalent of the issued share capital is TUSD 463. Included in the number of shares issued at 31 December 2012 are 7,368,285 shares which Lundin Petroleum holds in its own name.

[2] Other reserves are described in detail in Note 20.

ACCOUNTING POLICIES

Company information

The main business of Lundin Petroleum is the exploration for, the development of, and the production of oil and gas. Lundin Petroleum maintains a portfolio of oil and gas production assets and development projects in various countries with exposure to exploration opportunities.

The Group does not carry out any significant research and development. The Group maintains branches in most of its areas of operation. The Parent Company has no foreign branches.

The address of Lundin Petroleum AB's registered office is Hovslagargatan 5, Stockholm, Sweden.

Basis of preparation

Lundin Petroleum's annual report has been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations adopted by the EU Commission and the Swedish Annual Accounts Act (SFS 1995:1554). In addition RFR 1 "Supplementary Rules for Groups" has been applied as issued by the Swedish Financial Reporting Board. The Parent Company applies the same accounting policies as the Group, except as specified in the Parent Company accounting policies on page 105.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed under the headline "Critical accounting estimates and judgements".

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Accounting standards, amendments and interpretations

There have not been any new and revised standards or interpretations issued, that have had a material impact to the Group's financial statements for the financial year 2012.

The following newly issued standards are not mandatory for the 2012 financial statements and have not been adopted early. These standards might lead to significant changes in the accounting and standard practice for the industry. Careful consideration will be required to assess the practical implication for the Group.

IFRS 9, 'Financial instruments' The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 is effective from 1 January 2015 and not from 1 January 2013 as originally intended. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

IFRS 10, 'Consolidated financial statements' The objective of the standard is to build on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 from 1 January 2014.

IFRS 11, 'Joint arrangements' The standard is focusing on the rights and obligations of the joint arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 from 1 January 2014.

IFRS 12, 'Disclosures of interests in other entities' The standard introduces a range of new and expanded disclosure requirements. These will require the disclosure of significant judgements and assumptions made by management in determining whether there is joint control and if there is a joint venture, a joint operation or another form of interest. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 from 1 January 2014.

IFRS 13, 'Fair value measurement' The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. IFRS 13 is effective from 1 January 2013 and is not expected to have any significant effect on the consolidated financial statements of the Group.

Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the sole right to exercise control over the operations and govern the financial policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing the Group's control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The non-controlling interest in a subsidiary represents the portion of the subsidiary not owned by the Group. The equity of the subsidiary relating to the non-controlling shareholders is shown as a separate item within equity for the Group. The Group recognises any non-controlling interest on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ACCOUNTING POLICIES

Jointly controlled entities
As stated above, a subsidiary that is controlled by the Group will be fully consolidated within the results of Lundin Petroleum. Joint control exists when the Group does not have the control to determine the strategic operating, investing and financing policies of a partially owned entity without the co-operation of others. When this is the case the entity is proportionally consolidated.

Jointly controlled assets
Oil and gas operations are conducted by the Group as co-licencees in unincorporated joint ventures with other companies. The Group's financial statements reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities of the joint venture applicable to the Group's interests.

Associated companies
An investment in an associated company is an investment in an undertaking where the Group exercises significant influence but not control, generally accompanying a shareholding of at least 20 percent but not more than 50 percent of the voting rights. Such investments are accounted for in the consolidated financial statements in accordance with the equity method and are initially recognised at cost.

Other shares and participations
Investments where the shareholding is less than 20 percent of the voting rights are treated as available for sale financial assets. If the value of these assets has declined significantly or has lasted for a longer period, the cumulative loss is removed from equity and an impairment charge is recognised in the income statement. Dividends received attributable to these assets is recognised in the income statement as part of net financial items.

Foreign currencies
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in US Dollars, which is the currency the Group has elected to use as the presentation currency.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date and foreign exchange currency differences are recognised in the income statement. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in financial income/expenses in the income statement except deferred exchange differences on qualifying cash flow hedges which are recorded in other comprehensive income.

Presentation currency

The balance sheets and income statements of foreign Group companies are translated for consolidation purposes using the current rate method. All assets and liabilities are translated at the balance sheet date rates of exchange, whereas the income statements are translated at average rates of exchange for the year, except for transactions where it is more relevant to use the rate of the day of the transaction. The translation differences which arise are recorded directly in the foreign currency translation reserve within other comprehensive income. Upon disposal of a foreign operation the translation differences relating to that operation will be transferred from equity to the income statement and included in the result on sale. Translation differences arising from net investments in subsidiaries, used for financing exploration activities, are recorded directly in other comprehensive income.

For the preparation of the annual financial statements, the following currency exchange rates have been used.

	2012 Average	2012 Period end	2011 Average	2011 Period end
1 USD equals NOK	5.8148	5.5639	5.5998	5.9927
1 USD equals EUR	0.7778	0.7579	0.7185	0.7729
1 USD equals RUR	31.0546	30.5665	29.3738	32.2784
1 USD equals SEK	6.7725	6.5045	6.4867	6.8877

Classification of assets and liabilities
Non-current assets, long-term liabilities and provisions consist of amounts that are expected to be recovered or paid more than twelve months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within twelve months after the balance sheet date.

Oil and gas properties
Oil and gas properties are recorded at historical cost less depletion. All costs for acquiring concessions, licences or interests in production sharing contracts and for the survey, drilling and development of such interests are capitalised on a field area cost centre basis.

Costs directly associated with an exploration well are capitalised until the determination of reserves is evaluated. If it is determined that a commercial discovery has not been achieved, these exploration costs are charged to the income statement. During the exploration and development phases, no depletion is charged. The field will be transferred from the non-production cost pool to the production cost pool within oil and gas properties once production commences, and accounted for as a producing asset. Routine maintenance and repair costs for producing assets are expensed to the income statement when they occur.

Net capitalised costs to reporting date, together with anticipated future capital costs for the development of the proved and probable reserves determined at the balance sheet date price levels, are depleted based on the year's production in relation to estimated total proved and probable reserves of oil and gas in accordance with the unit of production method. Depletion of a field area is charged to the income statement once production commences.

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates.

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Proceeds from the sale or farm-out of oil and gas concessions in the exploration stage are offset against the related capitalised costs of each cost centre with any excess of net proceeds over all costs capitalised included in the income statement. In the event of a sale in the exploration stage, any deficit is included in the income statement.

Impairment tests are performed annually or when there are facts and circumstances that suggest that the net book value of capitalised costs within each field area cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is higher than the anticipated future net cash flow from oil and gas reserves attributable to the Group's interest in the related field areas. Capitalised costs cannot be carried unless those costs can be supported by future cash flows from that asset. Provision is made for any impairment, where the net carrying value, according to the above, exceeds the recoverable amount, which is the higher of value in use and fair value less costs to sell, determined through estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting. If there is no decision to continue with a field specific exploration programme, the costs will be expensed at the time the decision is made.

Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is based on cost and is calculated on a straight line basis over the estimated economic life of 20 years for real estate and 3 to 5 years for office equipment and other assets. The FPSO vessel will be depreciated over its remaining useful life once the upgrade of the vessel has been completed.

Additional costs to existing assets are included in the assets' net book value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The net book value of any replaced parts is written off. Other additional expenses are deemed to be repair and maintenance costs and are charged to the income statement when they are incurred.

The net book value is written down immediately to its recoverable amount when the net book value is higher. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Goodwill

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Non-current assets held for sale

In order to classify an asset as a non-current asset held for sale the carrying value needs to be assumed to be recovered through a sale transaction rather than through continuing use. It must also be available for immediate sale in its present condition and a sale must be highly probable. If the asset is classified as a non-current asset held for sale it will be recorded at the lower of its carrying value and fair value less estimated cost of sale.

Impairment of assets excluding goodwill and oil and gas properties

At each balance sheet date the Group assesses whether there is an indication that an asset may be impaired. Where an indicator of impairment exists or when impairment testing for an asset is required, the Group makes a formal assessment of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is calculated by discounting estimated future cash flows to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When the recoverable amount is less than the carrying value an impairment loss is recognised with the expensed charge to the income statement. If indications exist that previously recognised impairment losses no longer exist or are decreased, the recoverable amount is estimated. When a previously recognised impairment loss is reversed the carrying amount of the asset is increased to the estimated recoverable amount but the increased carrying amount may not exceed the carrying amount after depreciation that would have been determined had no impairment loss been recognised for the asset in prior years.

Financial instruments

Assets and liabilities are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost unless stated otherwise. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Lundin Petroleum recognises the following financial instruments:

» Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment. Translation differences are reported in the income statement except for the translation differences arising from long-term loans to subsidiaries, used for financing exploration activities and for which no fixed terms of repayment exists, which are recorded directly in other comprehensive income.

» Other shares and participations (available for sale financial assets) are valued at fair value and any change in fair value is recorded directly in the fair value reserve within other comprehensive income until realised. Where other shares and participations do not have a quoted market price in an active market and whose fair value cannot be measured reliably, they are accounted for at cost less impairment if applicable. A gain or a loss on available for sale financial assets shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognised.

» Derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the income statement.

The Group has only cash flow hedges which qualify for hedge accounting. The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are transferred to the income statement in the period when the hedged item will affect the income statement. When a hedging instrument no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in other comprehensive income remains in shareholders' equity until the forecast transaction no longer is expected to occur, at which point it is being transferred to the income statement.

Inventories

Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories of hydrocarbons are stated at the lower of cost and net realisable value. Under or overlifted positions of hydrocarbons are valued at market prices prevailing at the balance sheet date. An underlift of production from a field is included in the current receivables and valued at the reporting date spot price or prevailing contract price and an overlift of production from a field is included in the current liabilities and valued at the reporting date spot price or prevailing contract price. A change in the over or underlift position is reflected in the income statement as production costs.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, cash in hand and interest bearing securities with original maturities of three months or less.

Equity

Share capital consists of the registered share capital for the Parent Company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. Excess contribution in relation to the issuance of shares is accounted for in the item additional paid-in-capital.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until these shares are cancelled or sold. Where these shares are subsequently sold, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the Company's equity holders.

The change in fair value of other shares and participations is accounted for in the fair value reserve. Upon the realisation of a change in value, the change in fair value recorded will be transferred to the income statement. The change in fair value of hedging instruments which qualify for hedge accounting is accounted for in the hedge reserve. Upon settlement of the hedge instrument, the change in fair value remains in other comprehensive income until the hedged item effects the income statement. The currency translation reserve contains unrealised translation differences due to the conversion of the functional currencies into the presentation currency.

Retained earnings contain the accumulated results attributable to the shareholders of the Parent Company.

Provisions

A provision is reported when the Company has a legal or constructive obligation as a consequence of an event and when it is more likely than not that an outflow of resources is required to settle the obligation and a reliable estimate can be made of the amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as financial expense.

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognise the future commitment. An asset is created, as part of the oil and gas property, to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognises the discounted value of the future liability. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to financial expenses. Changes in site restoration costs and reserves are treated prospectively and consistent with the treatment applied upon initial recognition.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period where appropriate.

Revenue

Revenues from the sale of oil and gas are recognised in the income statement net of royalties taken in kind. Sales of oil and gas are recognised upon delivery of products and customer acceptance or on performance of services. Incidental revenues from the production of oil and gas are offset against capitalised costs of the related cost centre until quantities of proven and probable reserves are determined and commercial production has commenced.

Service income, generated by providing technical and management services to joint ventures, is recognised as other income.

Production and sales taxes directly attributable to fields, including royalties and export duties, are expensed in the income statement and classified as direct production taxes included within production costs. The fiscal regime in the area of operations defines whether royalties are payable in cash or in kind. Royalties payable in cash are accrued in the accounting period in which the liability arises. Royalties taken in kind are subtracted from production for the period to which they relate.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Qualifying assets are assets that take a substantial period of time to complete for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending to be used for the qualifying asset is deducted from the borrowing costs eligible for capitalisation. This applies on the interest on borrowings to finance fields under development which is capitalised within oil and gas properties until production commences. All other borrowing costs are recognised in profit or loss in the period in which they occur. Interest on borrowings to finance the acquisition of producing oil and gas properties is charged to income as incurred.

Employee benefits

Short-term employee benefits

Short-term employee benefits such as salaries, social premiums and holiday pay, are expensed when incurred.

Pension obligations

Pensions are the most common long-term employee benefits. The pension schemes are funded through payments to insurance companies. The Group's pension obligations consist mainly of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense when they are due.

The Group has one obligation under a defined benefit plan. The relating liability recognised in the balance sheet is valued at the discounted estimated future cash outflows as calculated by an external actuarial expert. Actuarial gains and losses are charged to the income statement. The Group does not have any designated plan assets.

Share-based payments
Lundin Petroleum recognises cash-settled share-based payments in the income statement as expenses during the vesting period and as a liability in relation to the long-term incentive plan. The liability is measured at fair value and revalued using the Black & Scholes pricing model at each balance sheet date and at the date of settlement, with any change in fair value recognised in the income statement for the period.

Income taxes
The components of tax are current and deferred. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is matched.

Current tax is tax that is to be paid or received for the year in question and also includes adjustments of current tax attributable to previous periods.

Deferred income tax is a non-cash charge provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values. Temporary differences can occur for example where investment expenditure is capitalised for accounting purposes but the tax deduction is accelerated or where site restoration costs are provided for in the financial statements but not deductible for tax purposes until they are actually incurred. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets are offset against deferred tax liabilities in the balance sheet where they relate to the same jurisdiction.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker being Executive Management, which, due to the unique nature of each country's operations, commercial terms or fiscal environment, is at a country level. Information for segments is only disclosed when applicable. Segmental information is presented in Notes; Note 1 segment information, Note 3 depletion costs, Note 4 exploration costs, Note 5 impairment of oil and gas properties, Note 8 taxes and Note 9 oil and gas properties.

Critical accounting estimates and judgements
The management of Lundin Petroleum has to make estimates and judgements when preparing the financial statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. The most important estimates and judgements in relation thereto are:

Estimates in oil and gas reserves
Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and site restoration. Standard recognised evaluation techniques are used to estimate the proved and probable reserves. These techniques take into account the future level of development required to produce the reserves. An independent qualified reserves auditor reviews these estimates. See page 115 Reserve quantity Information. Changes in estimates in oil and gas reserves, resulting in different future production profiles, will affect the discounted cash flows used in impairment testing, the anticipated date of site decommissioning and restoration and the depletion charges in accordance with the unit of production method. Changes in estimates in oil and gas reserves could for example result from additional drilling, observation of long-term reservoir performance or changes in economic factors such as oil price and inflation rates.

Information about the carrying amounts of the oil and gas properties and the amounts charged to income, including depletion, exploration costs, and impairment costs is presented in Note 9.

Impairment of oil and gas properties
Key assumptions in the impairment models relate to prices and costs that are based on forward curves and the long-term corporate assumptions. Lundin Petroleum carried out its annual impairment tests in conjunction with the annual reserves audit process. The calculation of the impairment requires the use of estimates. For the purpose of determining an eventual impairment the assumptions that management uses to estimate the future cash flows for value-in-use are future oil and gas prices and expected production volumes. These assumptions and judgements of management that are based on them are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates and the discount rate applied is reviewed throughout the year.

Information about the carrying amounts of the oil and gas properties and impairment of oil and gas properties is presented in Notes 5 and 9.

Provision for site restoration
Amounts used in recording a provision for site restoration are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and decommissioning. Due to changes in relation to these items, the future actual cash outflows in relation to the site decommissioning and restoration can be different. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of site restoration provisions are reviewed on a regular basis.

The effects of changes in estimates do not give rise to prior year adjustments and are treated prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

Information about the carrying amounts of the Provision for site restoration is presented in Note 21.

Events after the balance sheet date
All events up to the date when the financial statements were authorised for issue and which have a material effect in the financial statements have been disclosed.

NOTE 1 – SEGMENT INFORMATION

The Group operates within several geographical areas. Operating segments are reported at country level that is consistent with the internal reporting provided to Executive Management.

The following tables present segment information regarding; operating income, operating profit contribution and certain asset and liability information regarding the Group's business segments. In addition segment information is reported in the following notes; Note 3 depletion costs, Note 4 exploration costs, Note 5 impairment of oil and gas properties, Note 8 income taxes and Note 9 oil and gas properties.

TUSD	2012	2011
Operating income		
Net sales of:		
Oil		
Norway	953,432	911,072
France	114,974	127,789
Netherlands	170	228
Russia	75,806	79,515
Tunisia	24,597	24,798
	1,168,979	1,143,402
Condensate		
Norway	2,312	1,314
Netherlands	999	–
	3,311	1,314
Gas		
Norway	94,851	57,909
Netherlands	41,385	42,496
Indonesia	10,964	12,570
	147,200	112,975
Total net sales	**1,319,490**	1,257,691
Other income:		
Norway	6,487	5,848
France	2,641	1,566
Netherlands	12,213	1,397
Other	4,311	3,013
Total other income	**25,652**	11,824
Total operating income	**1,345,142**	1,269,515

Revenues are derived from various external customers. There were no intercompany sales or purchases in the year or in the previous year, and therefore there are no reconciling items towards the amounts stated in the income statement.

TUSD	2012	2011
Operating profit contribution		
Norway	558,646	703,711
France	70,429	85,334
Netherlands	29,908	18,868
Indonesia	-7,511	168
Russia	-26,304	7,715
Tunisia	-4,297	13,476
Malaysia	-47,554	-11,010
Congo (Brazzaville)	-1,309	-51,273
Other	-28,476	-62,765
Total operating profit contribution	**543,532**	704,224

	Assets		Equity and Liabilities	
TUSD	2012	2011	2012	2011
Norway	1,942,797	1,445,439	1,221,134	1,035,145
France	279,587	207,894	87,194	70,581
Netherlands	112,801	96,643	555,397	300,139
Indonesia	108,243	106,123	16,299	16,400
Russia	619,029	652,168	112,463	114,179
Tunisia	12,663	21,703	9,421	21,416
Malaysia	197,757	138,697	33,148	39,987
Congo (Brazzaville)	30	7,677	768	9,012
Other	20,819	11,094	7,849	10,273
Assets/Liabilities per country	**3,293,726**	2,687,438	**2,043,673**	1,617,132
Shareholders' equity	N/A	N/A	1,182,405	1,000,882
Non-controlling interest	N/A	N/A	67,648	69,424
Total equity for the Group	**N/A**	N/A	**1,250,053**	1,070,306
Total consolidated	**3,293,726**	2,687,438	**3,293,726**	2,687,438

See also Note 9 for detailed information of the oil and gas properties including depletion per country. There are no reconciling items towards the balance sheet totals.

NOTE 2 – PRODUCTION COSTS

TUSD	2012	2011
Cost of operations	105,612	102,476
Tariff and transportation expenses	29,684	22,863
Direct production taxes	51,328	52,390
Change in lifting position	-30,700	18,419
Inventory movement	14,782	-5,290
Other	1,768	2,246
Total production costs	**172,474**	193,104

For further information on production costs, see the Directors' Report on page 78.

NOTE 3 – DEPLETION AND DECOMMISSIONING COSTS

TUSD	2012	2011
Norway	154,140	130,011
France	11,668	12,174
Netherlands	10,437	11,939
Indonesia	5,612	6,250
Russia	4,320	4,764
Total depletion costs	**186,177**	165,138
Tunisia	5,267	–
Total decommissioning costs	**5,267**	–
Total depletion and decommissioning costs	**191,444**	165,138

	2012	2011
Average depletion cost, USD per boe		
Norway	15.54	15.34
France	11.21	10.88
Netherlands	15.03	16.47
Indonesia	15.20	14.76
Russia	4.39	4.18
Total	**14.27**	13.59

For further information on depletion and decommissioning costs, see the Directors' Report on page 78.

NOTE 4 – EXPLORATION COSTS

TUSD	2012	2011
Norway	103,052	74,060
France	5,012	1,486
Indonesia	7,432	967
Malaysia	46,683	11,015
Congo (Brazzaville)	1,298	51,263
Other	5,003	1,236
Total exploration costs	**168,480**	140,027

For further information on exploration costs, see the Directors' Report on page 78.

NOTE 5 – IMPAIRMENT COSTS OF OIL AND GAS PROPERTIES

TUSD	2012	2011
Norway	205,835	–
Russia	31,655	–
Total impairment costs of oil and gas properties	237,490	–

For further information on impairment costs of oil and gas properties, see the Directors' Report on pages 78–79 and Note 9 oil and gas properties.

NOTE 6 – FINANCIAL INCOME

TUSD	2012	2011
Interest income	5,050	4,138
Foreign currency exchange gain, net	6,154	8,945
Gain on consolidation of a subsidiary	13,409	–
Gain on sale of shares	–	29,974
Guarantee fees	233	998
Other financial income	2,395	2,400
Total financial income	**27,241**	46,455

Exchange rate variations result primarily from fluctuations in the value of the USD currency against a pool of currencies which includes, amongst others, EUR, NOK and RUR. Lundin Petroleum has USD denominated debt recorded in subsidiaries using a functional currency other than USD. The foreign currency exchange gain, net includes a realised exchange gain of MUSD 11.7 (MUSD –) on settled foreign exchange hedges.

For further information on financial income, see the Directors' Report on page 79.

NOTE 7 – FINANCIAL EXPENSES

TUSD	2012	2011
Loan interest expenses	6,819	5,390
Result on interest rate hedge settlement	198	6,995
Unwinding of site restoration discount	5,073	4,494
Amortisation of deferred financing fees	6,634	2,181
Loan facility commitment fees	10,315	1,005
Impairment of other shares	18,631	–
Other financial expenses	852	957
Total financial expenses	**48,522**	21,022

For further information on financial expenses, see the Directors' Report on page 79.

NOTE 8 – INCOME TAXES

Tax charge TUSD	2012	2011
Current tax		
Norway	311,760	365,615
France	21,721	27,149
Netherlands	5,898	3,014
Indonesia	663	760
Russia	794	1,360
Tunisia	61	1,634
Other	405	678
Total current tax	**341,302**	400,210
Deferred tax		
Norway	80,413	166,190
France	2,366	2,149
Netherlands	2,180	-981
Indonesia	-1,913	3,177
Russia	-2,949	1,604
Tunisia	1,507	-1,937
Malaysia	-4,473	5,149
Other	-32	-1,148
Total deferred tax	**77,099**	174,203
Total tax	**418,401**	574,413

For further information on taxes, see the Directors' Report on page 79.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of Sweden as follows:

TUSD	2012	2011
Profit before tax	522,251	729,657
Tax calculated at the corporate tax rate in Sweden (26.3%)	-137,352	-191,900
Effect of foreign tax rates	-282,571	-371,884
Tax effect of expenses non-deductible for tax purposes	-25,942	-21,002
Tax effect of deduction for petroleum tax	22,517	15,770
Tax effect of income not subject to tax	4,414	8,751
Tax effect of utilisation of unrecorded tax losses	8,348	6,669
Tax effect of creation of unrecorded tax losses	-7,787	-23,155
Adjustments to prior year tax assessments	-28	2,338
Tax charge	**-418,401**	-574,413

The tax rate in Norway is 78 percent and the large contribution of the results from Norway are the primary reasons for the significant effect of foreign tax rates in the table above.

continued – NOTE 8

The tax charge relating to components of other comprehensive income is as follows:

	2012			2011		
TUSD	Before tax	Tax charge/credit	After tax	Before tax	Tax charge/credit	After tax
Exchange differences on foreign operations	-61,661	–	-61,661	-37,525	–	-37,525
Cash flow hedges	9,222	-2,306	6,916	6,971	-1,743	5,228
Available for sale financial assets	16,053	–	16,053	-50,210	–	-50,210
Other comprehensive income	**86,936**	**-2,306**	**84,630**	-80,764	-1,743	-82,507
Current tax		–			–	
Deferred tax		-2,306			-1,743	
		-2,306			-1,743	

The deferred tax charge amounting to TUSD 2,306 (TUSD 1,743) has been recorded directly in other comprehensive income.

Corporation tax liability – current and deferred TUSD	Current		Deferred	
	2012	2011	2012	2011
Corporation tax				
Norway	163,648	222,971	802,770	660,643
France	–	6,656	36,701	33,691
Netherlands	2,500	7,733	7,975	3,326
Indonesia	1,684	1,021	6,148	7,688
Russia	648	152	77,158	80,334
Tunisia	1,527	1,519	–	1,823
Malaysia	–	–	11,384	15,857
Other	–	–	99	131
Total tax liability	**170,007**	240,052	**942,235**	803,493

There is also a tax receivable of TUSD 3,986 (TUSD –) relating to France reported in other receivables at the end of the year, as reported in Note 18.

Specification of deferred tax assets and tax liabilities [1] TUSD	2012	2011
Deferred tax assets		
Unused tax loss carry forwards	13,758	12,714
Overlift position	–	3,842
Fair value of financial instruments	–	42
Other deductible temporary differences	8,720	6,524
	22,478	23,122
Deferred tax liabilities		
Accelerated allowances	867,392	736,834
Fair value on derivative instruments	2,264	–
Capitalised acquisition cost	158	155
Deferred tax on excess values	81,629	74,281
	951,443	811,270

[1] The specification of deferred tax assets and tax liabilities does not agree to the face of the balance sheet due to the netting off of balances in the balance sheet when they relate to the same jurisdiction.

The deferred tax assets primarily relate to tax loss carried forwards in the Netherlands for an amount of TUSD 12,572 (TUSD 12,329). Deferred tax assets in relation to tax loss carried forwards are only recognised in so far that there is a reasonable certainty as to the timing and the extent of their realisation.

The deferred tax liabilities arise mainly on accelerated allowances, being the difference between the book and the tax value of oil and gas properties primarily in Norway, and tax on the excess value of the acquired assets in Russia. The deferred tax liabilities will be released over the life of the assets as the book value is depleted for accounting purposes.

Unrecognised tax losses

The Group has Dutch tax loss carry forwards of approximately MUSD 161 (MUSD 134). Dutch tax losses can be carried forward and utilised for up to nine years. A deferred tax asset relating to the tax loss carry forwards of MUSD 110 (MUSD 87) has not been recognised as at 31 December 2012 due to the uncertainty as to the timing and the extent of the tax loss carry forward utilisation.

NOTE 9 – OIL AND GAS PROPERTIES

TUSD	31 December 2012	31 December 2011
Production cost pools	857,009	792,446
Non-production cost pools	2,007,386	1,536,824
	2,864,395	2,329,270

2012 production cost pools TUSD	Norway	France	Netherlands	Indonesia	Russia	Tunisia	Total
Cost							
1 January	791,950	265,721	105,085	68,696	98,229	105,876	1,435,557
Additions	112,311	29,224	8,515	-430	7,458	–	157,078
Disposals	–	-1,406	–	–	–	-105,876	-107,282
Change in estimates	21,262	18,140	21,210	–	1,196	–	61,808
Reclassifications	229,389	43	9	12	–	–	229,453
Currency translation difference	66,113	5,930	2,203	–	1,649	–	75,895
31 December	1,221,025	317,652	137,022	68,278	108,532	–	1,852,509
Depletion							
1 January	-326,283	-100,376	-64,469	-10,391	-35,716	-105,876	-643,111
Depletion charge for the year	-154,140	-11,668	-10,437	-5,612	-4,320	–	-186,177
Impairment	-205,835	–	–	–	-31,655	–	-237,490
Disposals	–	1,302	–	–	–	105,876	107,178
Reclassifications	–	-43	–	–	–	–	-43
Currency translation difference	-32,192	-2,212	-1,453	–	–	–	-35,857
31 December	-718,450	-112,997	-76,359	-16,003	-71,691	–	-995,500
Net book value	**502,575**	**204,655**	**60,663**	**52,275**	**36,841**	**–**	**857,009**

2011 production cost pools TUSD	Norway	France	Netherlands	Indonesia	Russia	Tunisia	Total
Cost							
1 January	767,187	243,961	102,780	62,292	95,565	105,876	1,377,661
Additions	38,832	30,945	4,146	6,404	4,194	–	84,521
Disposals	–	–	–	–	–	–	–
Change in estimates	7,158	650	1,556	–	54	–	9,418
Currency translation difference	-21,227	-9,835	-3,397	–	-1,584	–	-36,043
31 December	791,950	265,721	105,085	68,696	98,229	105,876	1,435,557
Depletion							
1 January	-209,907	-91,903	-54,961	-4,141	-30,952	-105,876	-497,740
Depletion charge for the year	-130,011	-12,174	-11,939	-6,250	-4,764	–	-165,138
Currency translation difference	13,635	3,701	2,431	–	–	–	19,767
31 December	-326,283	-100,376	-64,469	-10,391	-35,716	-105,876	-643,111
Net book value	**465,667**	**165,345**	**40,616**	**58,305**	**62,513**	**–**	**792,446**

2012 non production cost pools TUSD	Norway	France	Netherlands	Indonesia	Russia	Malaysia	Congo (Brazzaville)	Other	Total
1 January	804,075	7,124	3,122	35,829	552,504	129,831	–	4,339	1,536,824
Additions	630,532	9,781	2,464	16,385	3,595	100,455	1,298	–	764,510
Disposals	–	–	–	–	-1,010	–	–	–	-1,010
Expensed Exploration costs	-103,052	-5,012	-565	-7,559	–	-46,683	-1,298	-4,311	-168,480
Change in estimates	11,763	–	–	–	–	–	–	–	11,763
Reclassifications	-229,389	–	–	-12	–	–	–	–	-229,401
Currency translation difference	85,811	266	111	-40	7,293	-233	–	-28	93,180
31 December	**1,199,740**	**12,159**	**5,132**	**44,603**	**562,382**	**183,370**	**–**	**–**	**2,007,386**

continued – NOTE 9

2011 non production cost pools TUSD	Norway	France	Netherlands	Indonesia	Russia	Tunisia	Malaysia	Congo (Brazzaville)	Other	Total
1 January	461,249	7,113	1,902	20,255	550,119	–	42,057	32,256	4,099	1,119,050
Additions	436,534	1,740	1,632	17,711	10,048	13	98,657	19,007	169	585,511
Expensed Exploration costs	-74,060	-1,486	-255	-2,163	–	-13	-11,015	-51,263	228	-140,027
Change in estimates	15,353	–	–	–	–	–	–	–	–	15,353
Currency translation difference	-35,001	-243	-157	26	-7,663	–	132	–	-157	-43,063
31 December	**804,075**	**7,124**	**3,122**	**35,829**	**552,504**	**–**	**129,831**	**–**	**4,339**	**1,536,824**

In 2012, the reclassification from Non-Production cost pools to Production cost pools related to the production start-up on the Gaupe field, Norway.

Impairment
Lundin Petroleum carried out its impairment testing at 31 December 2012 in conjunction with the annual reserves audit process. Lundin Petroleum used an oil price deck of USD 100 per bbl inflating at 2 percent per annum, a future cost inflation factor of 2 percent per annum and a discount rate of 10 percent to calculate the future pre-tax cash flows. As a result of the impairment testing performed, the Gaupe field, Norway and the onshore producing assets in Russia were impaired and a pre-tax cost of MUSD 237.5 was charged to the income statement. For further information on impairment, see the Directors' Report on pages 78–79.

Capitalised borrowing costs
During 2012, MUSD 3.4 (MUSD 1.4) of capitalised interest costs were added to oil and gas properties and relate to oil and gas assets in Norway. The interest rate for capitalised borrowing costs is calculated at the external facility borrowing rate of LIBOR plus the margin of 2.75 percent per annum.

Exploration expenditure commitments
The Group participates in joint ventures with third parties in oil and gas exploration activities. The Group is contractually committed under various concession agreements to complete certain exploration programmes. The commitments as at 31 December 2012 are estimated to be MUSD 935.7 (MUSD 629.8) of which third parties who are joint venture partners will contribute approximately MUSD 491.5 (MUSD 279.8).

NOTE 10 – OTHER TANGIBLE ASSETS

	2012				2011			
TUSD	FPSO	Real estate	Office equipment and other assets	Total	FPSO	Real estate	Office equipment and other assets	Total
Cost								
1 January	–	11,129	17,936	29,065	–	11,182	15,174	26,356
Acquired on consolidation	25,222	–	–	25,222	–	–	–	–
Additions	6,037	86	3,579	9,702	–	–	3,786	3,786
Disposals	–	–	-175	-175	–	–	-655	-655
Reclassification	–	–	–	–	–	-53	–	-53
Currency translation difference	1,253	52	837	2,142	–	–	-369	-369
31 December	32,512	11,267	22,177	65,956	–	11,129	17,936	29,065
Depreciation								
1 January	–	-1,375	-11,605	-12,980	–	-1,337	-9,748	-11,085
Disposals	–	–	162	162	–	–	530	530
Depreciation charge for the year	–	-117	-2,999	-3,116	–	-95	-2,579	-2,674
Currency translation difference	–	-53	-551	-604	–	57	191	248
31 December	–	-1,545	-14,993	-16,538	–	-1,375	-11,606	-12,981
Net book value	**32,512**	**9,722**	**7,184**	**49,418**	–	9,754	6,330	16,084

The depreciation charge for the year is based on cost and an estimated useful life of 3 to 5 years for office equipment and other assets. Real estate is depreciated using an estimated useful life of 20 years. Depreciation is included within the general, administration and depreciation line in the income statement.

The FPSO will be depreciated over its remaining useful life once the upgrade of the vessel has been completed. The FPSO was consolidated from the end of August 2012, see section Changes in the Group in the Directors' Report on page 73.

NOTE 11 – SHARES IN JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

As at 31 December 2012	Number of shares	Share %
RF Energy Investments Ltd. [1]	11,540	50.00
– CJSC Pechoraneftegas [1]	20,000	Direct 100.00, indirect 50.00
– LLC Zapolyarneftegas [1]	1	Direct 100.00, indirect 50.00
– LLC NK Recher-Komi [1]	1	Direct 100.00, indirect 50.00
– Geotundra BV [1]	20,000	Direct 100.00, indirect 50.00

[1] Through the proportional consolidation of RF Energy Investments Ltd. (RF Energy), the subsidiaries of RF Energy are also proportionally consolidated in the Lundin Petroleum accounts.
"Direct" refers to RF Energy's ownership percentage, "indirect" refers to the Group's ultimate ownership percentage.

The amounts included below for the jointly controlled entity RF Energy represent 100 percent of the reported accounts.

RF Energy consolidated TUSD	2012	2011
Income statement		
Revenue	152,044	159,481
Operating cost	-198,337	-149,348
Net result	**-46,293**	10,133
Balance Sheet		
Non-current assets	109,892	122,381
Current assets	43,469	39,428
Total assets	**153,361**	161,809
Equity	56,655	97,015
Non-current liabilities	72,692	47,220
Current liabilities	24,014	17,574
Total liabilities	**153,361**	161,809

The financial results of Ikdam Production SA are fully consolidated following the increase in the shareholding from 40 percent to 100 percent in August 2012 and the company is in consequence no longer an associated company.

Ikdam Production SA TUSD	2011
Income statement	
Revenue	2,610
Operating cost	-4,946
Net result	-2,336
Balance Sheet	
Non-current assets	–
Current assets	775
Total assets	775
Equity	-13,934
Non-current liabilities	14,213
Current liabilities	496
Total liabilities	775

NOTE 12 – OTHER SHARES AND PARTICIPATIONS

Other shares and participation comprise: TUSD	31 December 2012			31 December 2011
	Number of shares	Share %	Book amount	Book amount
ShaMaran Petroleum Corp.	50,000,000	8.02	19,584	17,380
Cofraland B.V.	31	7.75	399	391
Maison de la géologie	–	–	–	4
			19,983	17,775

In October 2009, Lundin Petroleum received 50 million shares of ShaMaran Petroleum Corporation (ShaMaran) in consideration for the sale of Lundin International BV, a 100 percent owned subsidiary, which had commenced negotiations for Production Sharing Contracts (PSCs) for three separate exploration and development blocks in Kurdistan. The investment was booked at the fair value of the shares at the date of acquisition and under accounting rules, any subsequent movement in the fair value of the shares is being recorded in the consolidated statement of comprehensive income.

The fair value of ShaMaran is calculated using the quoted share price at the Toronto Stock Exchange at the balance sheet date and is detailed below.

ShaMaran TUSD	2012	2011
1 January	17,380	68,205
Fair value movement	16,303	-49,964
Currency translation difference	4,532	-861
Impairment	-18,631	–
31 December	**19,584**	17,380

During 2012, the fair value of the ShaMaran shares was impaired by MUSD 18.6, see section financial expenses in the Directors' Report, page 79.

As at 31 December 2012, the other shares and participations include TUSD 399.0 (TUSD 395.0) recognised at cost because their fair value cannot be measured reliably since there is no quoted share price and due to the uncertainty of the timing of the future cash flows from these companies.

For further information on other shares and participations, see the section non-current assets in the Directors' Report on page 80.

NOTE 13 – FINANCIAL RISKS, SENSITIVITY ANALYSIS AND DERIVATIVE INSTRUMENTS

As an international oil and gas exploration and production company operating globally, Lundin Petroleum is exposed to financial risks such as currency risk, interest rate risk, credit risks, liquidity risks as well as the risk related to the fluctuation in the oil price. The Group seeks to control these risks through sound management practice and the use of internationally accepted financial instruments, such as oil price, interest rate and foreign exchange hedges. Lundin Petroleum uses financial instruments solely for the purpose of minimising risks in the Group's business.

Financial liabilities TUSD	31 December 2012	31 December 2011
Current		
Trade payables	15,718	16,546
Derivative instruments	9,056	–
Joint venture creditors	209,594	88,417
Acquisition liabilities	–	10,979
Non-current		
Bank loans	432,000	207,000
Other non-current liabilities	22,556	21,830

Capital management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to meet its committed work programme requirements in order to create shareholder value. The Group may put in place new credit facilities, repay debt, or other such restructuring activities as appropriate. Group management continuously monitors and manages the Group's net debt position in order to assess the requirement for changes to the capital structure to meet the objectives and to maintain flexibility. Lundin Petroleum is not subject to any externally-imposed capital requirements.

No significant changes were made in the objectives, policies or procedures during the year ended 31 December 2012.

Lundin Petroleum monitors capital on the basis of net debt. Net debt is calculated as bank loans less cash and cash equivalents.

TUSD	31 December 2012	31 December 2011
Bank loans	432,000	207,000
Less cash and cash equivalents	-97,425	-73,597
Net debt	**334,575**	133,403

The increase compared to 2011 is due to the new revolving credit facility, signed in June 2012.

continued – NOTE 13

Interest rate risk
Interest rate risk is the risk to the earnings due to uncertain future interest rates.

Lundin Petroleum is exposed to interest rate risk through the credit facility (see also liquidity risk below). Lundin Petroleum will assess the benefits of interest rate hedging on borrowings on a continuous basis. If the hedging contract provides a reduction in the interest rate risk at a price that is deemed acceptable to the Group, then Lundin Petroleum may choose to enter into an interest hedge.

The table below summarises the effect that a change in the interest rate for the credit facility would have had on the net result and equity for the year ended 31 December 2012:

Net result in the financial statements (MUSD)	103.9	103.9
Possible shift (%)	-10%	10%
Total effect on net result (MUSD)	**0.4**	**-0.4**

In the first quarter of 2013, Lundin Petroleum entered into a three year fixed interest rate swap, starting 31 March 2013, in respect of MUSD 500 of borrowings, fixing the LIBOR rate at approximately 0.57 percent per annum. This hedge reduces the interest rate risk.

Currency risk
Lundin Petroleum is a Swedish company which is operating globally and therefore attracts substantial foreign exchange exposure, both transactional as well as conversion from functional currency to presentation currency. The functional currency of Lundin Petroleum's subsidiaries are Norwegian Kroner (NOK), Euro (EUR) and Russian Rouble (RUR), as well as US Dollar (USD), making Lundin Petroleum sensitive to fluctuations of these currencies against the US Dollar, the presentation currency.

Transaction exposure
Lundin Petroleum's policy on currency rate hedging is, in case of currency exposure, to consider setting the rate of exchange for known costs in non-US Dollar currencies to US Dollars in advance so that future US Dollar cost levels can be forecasted with a reasonable degree of certainty. The Group will take into account the current rates of exchange and market expectations in comparison to historic trends and volatility in making the decision to hedge.

During the year, the Group entered into currency hedging contracts fixing the rate of exchange from USD into NOK to meet NOK operational and tax requirements as summarised in the table below. Under IAS 39, subject to hedge effectiveness testing, these cash flow hedges are treated as effective and changes to the fair value are reflected in other comprehensive income. At 31 December 2012, a current asset has been recognised amounting to MUSD 9.1 (MUSD –) representing the short-term portion of the fair value of the outstanding currency hedging contracts.

Buy	Sell	Average contractual exchange rate	Settlement period
MNOK 1,580.7	MUSD 261.6	NOK 6.04: 1 USD	1 Jun 2012 – 20 Dec 2012
MNOK 670.7	MUSD 110.4	NOK 6.07: 1 USD	2 Jan 2013 – 20 Dec 2013

Translation exposure
The following table summarises the effect that a change in these currencies against the US Dollar would have on operating result and equity through the conversion of the income statements of the Group's subsidiaries from functional currency to the presentation currency US Dollar for the year ended at 31 December 2012.

Operating profit in the financial statements (MUSD)		543.5	543.5
Shift of currency exchange rates	Average rate 2012	10% USD weakening	10% USD strengthening
EUR/USD	0.7778	0.7071	0.8556
NOK/USD	5.8148	5.2862	6.3963
RUR/USD	31.0546	28.2315	34.1601
Total effect on operating result (MUSD)		**53.9**	**-53.9**

The foreign currency risk to the Group's income and equity from conversion exposure is not hedged.

Price of oil and gas
Price of oil and gas are affected by the normal economic drivers of supply and demand as well as the financial investors and market uncertainty. Factors that influence these include operational decisions, natural disasters, economic conditions, political instability or conflicts or actions by major oil exporting countries. Price fluctuations can affect Lundin Petroleum's financial position.

The table below summarises the effect that a change in the oil price would have had on the net result and equity at 31 December 2012:

Net result in the financial statements (MUSD)	103.9	103.9
Possible shift (%)	-10%	10%
Total effect on net result (MUSD)	**-37.5**	**37.5**

The impact on the net result from a change in oil price is reduced due to the 78 percent tax rate in Norway.

Lundin Petroleum's policy is to adopt a flexible approach towards oil price hedging, based on an assessment of the benefits of the hedge contract in specific circumstances. Based on analysis of the circumstances, Lundin Petroleum will assess the benefits of forward hedging monthly sales contracts for the purpose of establishing cash flow. If it believes that the hedging contract will provide an enhanced cash flow then it may choose to enter into an oil price hedge.

For the year ended 31 December 2012, the Group did not enter into oil price hedging contracts. There are no oil price hedging contracts outstanding as at 31 December 2012.

Credit risk
Lundin Petroleum's policy is to limit credit risk by limiting the counter-parties to major banks and oil companies. Where it is determined that there is a credit risk for oil and gas sales, the policy is to require an irrevocable letter of credit for the full value of the sale. The policy on joint venture parties is to rely on the provisions of the underlying joint operating agreements to take possession of the licence or the joint venture partner's share of production for non-payment of cash calls or other amounts due.

As at 31 December 2012, the Group's trade receivables amounted to MUSD 126.0 (MUSD 145.0). There is no recent history of default. Other long-term and short-term receivables are considered recoverable. The provision for bad debt as at 31 December 2012 amounted to MUSD – (MUSD –). Cash and cash equivalents are maintained with banks having strong long-term credit ratings.

Liquidity risk
Liquidity risk is defined as the risk that the Group could not be able to settle or meet its obligations on time or at a reasonable price. Group treasury is responsible for liquidity, funding as well as settlement management. In addition, liquidity and funding risks and related processes and policies are overseen by management.

On 25 June 2012, Lundin Petroleum entered into a new seven year secured revolving borrowing base facility of USD 2.5 billion to provide funding for Lundin Petroleum's ongoing exploration expenditure and development costs, particularly in Norway. It is expected that the Group's ongoing development and exploration expenditure requirements will be funded by the Group's operating cash flow and the loan facility. No loan repayments are required for the credit facility in 2013. See Note 24 for more information regarding the Group's credit facility.

Lundin Petroleum has, through its subsidiary Lundin Malaysia BV, entered into five Production Sharing Contracts (PSC) with Petroliam Nasional Berhad, the oil and gas company of the Government of Malaysia (Petronas), in respect of the six operated Blocks in Malaysia. Bank guarantees have been issued in support of the work commitments in relation to these PSCs amounting to MUSD 75.4. In addition, bank guarantees have been issued to cover work commitments in Indonesia amounting to MUSD 2.4 and in Tunisia for MUSD 1.5 relating to a tax dispute.

Financial instruments by category
The accounting policies for financial instruments have been applied to the line items below:

31 December 2012 TUSD	Loan receivables and other receivables	Available for sale	Derivatives used for hedging	Financial liabilities valued at amortised cost
Assets				
Other shares and participations	–	19,983	–	–
Bonds	9,526	–	–	–
Derivative instruments	–	–	9,056	–
Trade receivables	125,905	–	–	–
Joint venture debtors	11,539	–	–	–
Cash and cash equivalents	97,425	–	–	–
	244,395	**19,983**	**9,056**	**–**
Liabilities				
Trade payables	–	–	–	15,718
Joint venture creditors	–	–	–	209,594
Bank loans	–	–	–	432,000
Other non-current liabilities	–	–	–	22,556
	–	**–**	**–**	**679,868**

31 December 2011 TUSD	Loan receivables and other receivables	Available for sale	Derivatives used for hedging	Financial liabilities valued at amortised cost
Assets				
Other shares and participations	–	17,775	–	–
Bonds	9,588	–	–	–
Trade receivables	144,954	–	–	–
Joint venture debtors	20,252	–	–	–
Other receivables	11,176	–	–	–
Cash and cash equivalents	73,597	–	–	–
	259,567	**17,775**	**–**	**–**
Liabilities				
Trade payables	–	–	–	16,546
Bank loans	–	–	–	207,000
Other non-current liabilities	–	–	–	21,830
Derivative instruments	–	–	168	–
Joint venture creditors	–	–	–	213,944
Acquisition liabilities	–	–	–	10,979
	–	**–**	**168**	**470,299**

For financial instruments measured at fair value in the balance sheet, the following fair value measurement hierarchy is used:
– Level 1: based on quoted prices in active markets;
– Level 2: based on inputs other than quoted prices as within level 1, that are either directly or indirectly observable;
– Level 3: based on inputs which are not based on observable market data.

Based on this hierarchy, financial instruments measured at fair value can be detailed as follows:

31 December 2012 TUSD	Level 1	Level 2	Level 3
Assets			
Available for sale financial assets			
- Equity securities	19,584	–	399
- Derivative instruments	–	9,056	–
	19,584	**9,056**	**399**
Liabilities			
- Derivative instruments	–	–	–
	–	**–**	**–**

31 December 2011 TUSD	Level 1	Level 2	Level 3
Assets			
Available for sale financial assets			
- Equity securities	17,380	–	395
	17,380	**–**	**395**
Liabilities			
- Derivative instruments	–	168	–
	–	**168**	**–**

Equity securities Level 3 TUSD	31 December 2012	31 December 2011
1 January	395	408
Disposal	-4	–
Currency translation difference	8	-13
31 December	**399**	395

The outstanding derivative instruments can be specified as follows:

Fair value of outstanding derivative instruments in the balance sheet (TUSD)	31 December 2012		31 December 2011	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	–	–	–	168
Currency hedge	9,056	–	–	–
Non-current	–	–	–	–
Current	9,056	–	–	168
Total	**9,056**	**–**	–	168

The fair value of the currency hedge is calculated using the forward exchange rate curve applied to the outstanding portion of the outstanding currency hedging contracts. The effective portion of the currency hedge as at 31 December 2012 amounted to TUSD 9,056 (TUSD –).

The fair value of the interest rate swap is calculated using the forward interest rate curve applied to the outstanding portion of the swap transaction. The effective portion of the interest rate swap as at 31 December 2012 amounted to TUSD – (TUSD 168).

For risks in the financial reporting see the section Internal control and risk management for the financial reporting in the Corporate Governance report on pages 62–63 and risks and risk management on pages 70–71 for more information.

NOTE 14 – OTHER FINANCIAL ASSETS

TUSD	31 December 2012	31 December 2011
Bonds	9,526	9,588
Other	1,326	1,372
	10,852	10,960

The Group holds 7.6 million Euro denominated bonds in Etrion Corporation with a coupon rate of 9 percent per year and a maturity date in April 2015.

NOTE 15 – INVENTORIES

TUSD	31 December 2012	31 December 2011
Hydrocarbon stocks	1,576	16,307
Drilling equipment and consumable materials	17,124	15,282
	18,700	31,589

NOTE 16 – TRADE RECEIVABLES

The trade receivables relate mainly to hydrocarbon sales to a limited number of independent customers from whom there is no recent history of default. The trade receivables balance is current and the provision for bad debt is nil.

NOTE 17 – PREPAID EXPENSES AND ACCRUED INCOME

TUSD	31 December 2012	31 December 2011
Prepaid rent	605	521
Prepaid area fees	16,660	–
Prepaid insurance	12,210	1,675
Accrued income	1,083	885
Other	2,348	1,441
	32,906	4,522

Prepaid insurance included an amount of TUSD 10,082 relating to the construction insurance on the Edvard Grieg project, Norway.

NOTE 18 – OTHER RECEIVABLES

TUSD	31 December 2012	31 December 2011
Underlift	26,439	1,851
Corporation tax	3,986	–
Short-term VAT receivable	2,963	5,699
Other	6,889	15,540
	40,277	23,090

NOTE 19 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include only cash at hand or on bank. No short term deposits are held as at 31 December 2012.

NOTE 20 – OTHER RESERVES

TUSD	Available for sale reserve	Hedge reserve	Currency translation reserve	Total Other reserves
1 January 2011	41,023	-5,149	-102,009	-66,135
Total comprehensive income	-50,210	5,228	-34,689	-79,671
31 December 2011	-9,187	79	-136,698	-145,806
Total comprehensive income	16,053	6,916	59,103	82,072
31 December 2012	**6,866**	**6,995**	**-77,595**	**-63,734**

NOTE 21 – PROVISION FOR SITE RESTORATION

TUSD	2012	2011
1 January	119,341	93,766
Unwinding of site restoration discount	10,340	4,494
Payments	-18,550	-1,168
Changes in estimates	73,571	24,771
Currency translation difference	5,768	-2,522
31 December	**190,470**	119,341

In calculating the present value of the site restoration provision, a pre-tax discount rate of 3.5 percent (5.5 percent) was used which is based on long-term risk-free interest rate projections. The estimated costs of the final decommissioning liabilities for the assets have been updated during the year and the effect of the updated estimates and the change in the discount rate used is reflected in change in estimates in the table above. Based on the estimates used in calculating the site restoration provision as at 31 December 2012, approximately 60 percent of the total amount is expected to settle after more than 15 years.

NOTE 22 – PENSION PROVISION

TUSD	2012	2011
1 January	1,460	1,421
Fair value adjustment	161	192
Instalments paid	-147	-155
Currency translation difference	36	2
31 December	**1,510**	1,460

In May 2002, the Compensation Committee recommended to the Board of Directors, and the Board of Directors approved that a pension be paid to Mr Adolf H. Lundin upon his resignation as Chairman of the Board of Directors and his appointment as Honorary Chairman. It was further agreed that upon the death of Mr Adolf H. Lundin, the monthly payments would be paid to his wife, Mrs Eva Lundin for the duration of her life.

Pension payments totalling an annual amount of TCHF 138 (TUSD 147) are payable to Mrs Eva Lundin. The Company may, at its option, buy out the obligation to make the pension payments through a lump sum payment of TCHF 1,800 (TUSD 1,967).

NOTE 23 – OTHER PROVISIONS

TUSD	LTIP	Termination indemnity provision	Other	Total
1 January 2012	70,294	3,517	2,103	75,914
Additions	13,873	718	96	14,687
Payment	-10,774	-3,188	–	-13,962
Currency translation difference	2,567	–	29	2,596
31 December 2012	**75,960**	**1,047**	**2,228**	**79,235**
Non-current	67,135	1,047	2,228	70,410
Current	8,825	–	–	8,825
Total	**75,960**	**1,047**	**2,228**	**79,235**

The termination indemnity provision represents Lundin Petroleum's share of the provision for employment termination costs for the Oudna joint venture in Tunisia.

For details of the LTIP see Note 34.

NOTE 24 – FINANCIAL LIABILITIES

TUSD	31 December 2012	31 December 2011
Bank loans	432,000	207,000
Capitalised financing fees	-47,812	-2,506
	384,188	204,494

Lundin Petroleum had a secured revolving borrowing base facility of MUSD 850 with a seven year term expiring in 2014. On 25 June 2012, Lundin Petroleum entered into a new seven year secured revolving borrowing base facility of USD 2.5 billion. The facility is with a group of 25 banks including many of the banks providing the USD 850 million facility. The USD 2.5 billion financing facility is a revolving borrowing base facility secured against certain cash flows generated by the Group. The amount available under the facility is recalculated every six months based upon the calculated cash flow generated by certain producing fields at an oil price and economic assumptions agreed with the banking syndicate providing the facility. The new facility has been completed to provide funding for Lundin Petroleum's ongoing exploration expenditure and development costs, particularly in Norway. The upfront fees associated with the new credit facility have been capitalised and are being amortised over the expected life of the financing facility. The interest rate on Lundin Petroleum's credit facility is floating and is currently LIBOR + 2.75 percent per annum.

In relation to financial liabilities, the following amounts were outstanding:

TUSD	31 December 2012	31 December 2011
Non-current		
Repayment within 2–5 years:		
Bank loans	–	207,000
Repayment after 5 years:		
Bank loans	432,000	–
Other non-current liabilities	22,556	21,830
Current		
Repayment within 6 months:		
Trade payables	15,718	16,546
Joint venture creditors	209,594	213,944
Acquisition liabilities	–	10,979
Repayment between 6–12 months:		
Other current liabilities	–	–
	679,868	470,299

The table above analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The maturity date of the new bank facility is June 2019 and there is a loan reduction schedule which commences in 2016 and reduces to zero by the final maturity date. In addition, the amount available to borrow under the facility is based upon a net present value calculation of the assets' future cash flows. Based on the reduction schedule and the current availability calculation, no repayments of the current outstanding bank loan balance falls due within five years.

The Group's credit facility agreement provides that an "event of default" occurs where the Group does not comply with certain material covenants or where certain events occur as specified in the agreement, as are customary in financing agreements of this size and nature. If such an event of default occurs and subject to any applicable cure periods, the external lenders may take certain specified actions to enforce their security, including accelerating the repayment of outstanding amounts under the credit facility. The Group is not in breach of the debt covenants.

NOTE 25 – ACCRUED EXPENSES AND DEFERRED INCOME

TUSD	31 December 2012	31 December 2011
Holiday pay	4,557	3,909
Operating costs	3,133	6,456
Social security charges	2,641	2,316
Salaries and wages	109	91
Other	2,247	3,455
	12,687	16,227

NOTE 26 – OTHER LIABILITIES

TUSD	31 December 2012	31 December 2011
Overlift	490	7,670
Acquisition liabilities	–	10,979
Withholding tax on salaries	5,430	4,770
VAT payable	263	1,899
Social charges payable	677	633
Mineral resource extraction tax	2,158	2,849
Other liabilities	6,455	390
	15,473	29,190

Acquisition liabilities at 31 December 2011 represent the amount payable to Noreco in relation to Lundin Petroleum's acquisition of Noreco's 20 percent working interest in PL148 Brynhild, Norway. The liability was settled in the first quarter of 2012. Other liabilities include an operational liability relating to the Gaupe field, Norway, an audit claim and other supplier payables.

NOTE 27 – PLEDGED ASSETS

In June 2012, Lundin Petroleum entered into a new seven year secured revolving borrowing base facility of USD 2.5 billion as described in Note 24 Financial liabilities. The facility is secured by a pledge over the shares of certain Group companies and a charge over some of the bank accounts of the pledged companies.

For accounting purposes, the pledged amount at 31 December 2012 is MUSD 1,831.3 (MUSD 1,791.0) and is the accounting value of net assets of the Group companies whose shares are pledged.

NOTE 28 – CONTINGENT LIABILITIES AND ASSETS

Contingent Liabilities
In connection with the acquisition by Lundin Petroleum of the additional 30 percent interest in the Lagansky Block in 2009, Lundin Petroleum has agreed to pay to the former owner of the Lagansky Block a fee to be based on USD 0.30 per barrel of oil in respect of 30 percent of the proven and probable reserves in the Lagansky Block as at the date a decision is made to proceed to a development.

Contingent Assets
In connection with the acquisition of a 30 percent interest in the Lagansky Block by a subsidiary of Gunvor International BV in 2009, Gunvor has agreed to pay to Lundin Petroleum a fee to be based on USD 0.15 per barrel of oil (up to gross 150 MMbbls) and USD 0.30 per barrel of oil (over gross 150 MMbbls) of the proven and probable reserves in the Lagansky Block as at the date a decision is made to proceed to a development.

The amounts of the contingent asset and liability related to the Lagansky Block are dependent on the outcome of future exploration and production activities. Due to the uncertainties related to these activities, estimates of the cash inflow and outflow can not be calculated with certainty.

In connection with the sale by Lundin Petroleum of its Salawati interests in Indonesia to RH Petrogas in 2010, RH Petrogas has agreed to pay to Lundin Petroleum up to MUSD 3.9 as deferred consideration. The amount and timing of such payment will be determined based on certain future field developments within the Salawati Island Block.

NOTE 29 – EARNINGS PER SHARE

Earnings per share is calculated by dividing the net result attributable to shareholders of the Parent Company by the weighted average number of shares for the year.

	2012	2011
Net result attributable to shareholders of the Parent Company (in USD)	108,160,717	160,136,792
Weighted average number of shares for the year	310,735,227	311,027,942
Earnings per share (in USD)	**0.35**	0.51

There was no dilution for the years 2012 and 2011.

NOTE 30 – ADJUSTMENT FOR NON-CASH RELATED ITEMS

TUSD	Note	2012	2011
Exploration costs	4	168,480	140,027
Impairment of oil and gas properties	5	237,490	–
Depletion, depreciation and amortisation	9/10	189,293	167,812
Impairment of other shares	12	18,631	–
Amortisation of deferred financing fees	7	6,634	2,181
Unwinding of site restoration discount	7/21	5,073	4,494
Decommissioning costs	3/21	5,267	–
Long-term incentive plan		12,988	63,443
Interest income	6	-5,050	-4,138
Current tax	8	341,302	400,210
Deferred tax	8	77,099	174,203
Interest expense	7	6,819	5,390
Exchange gains/losses	6	5,562	-8,945
Gain on sale of shares	6	–	-29,974
Gain on consolidation of subsidiary	6	-13,409	–
Other provisions		857	638
Other non-cash items		-138	-167
Adjustment to cash flow from operations		**1,056,898**	915,174

NOTE 31 – RELATED PARTY TRANSACTIONS

Lundin Petroleum recognises the following related parties: associated companies, jointly controlled entities, key management personnel and members of their close family or other parties that are partly, directly or indirectly, controlled by key management personnel or of its family or of any individual that controls, or has joint control or significant influence over the entity.

During the year, the Group has entered into transactions with related parties on commercial basis as described below:

TUSD	2012	2011
Purchase and sale of services:		
Purchase of services	-1,012	-735
Sale of services	396	391
Sale of financial services	–	915

The related party transactions concern other parties where key management personnel has joint control or significant influence over the entity. Key management personnel include directors and the Executive Management as defined in the Corporate Governance report page 59. The remuneration to the board of directors and Executive Management is disclosed in Note 33. There are no year end balances related to key management personnel.

NOTE 32 – AVERAGE NUMBER OF EMPLOYEES

Average number of employees per country	2012 Total employees	2012 of which men	2011 Total employees	2011 of which men
Parent Company in Sweden	**–**	**–**	–	–
Subsidiaries abroad				
Norway	144	104	100	72
France	56	45	57	46
Netherlands	7	3	7	3
Indonesia	26	15	22	12
Russia	43	27	46	28
Tunisia	7	5	10	6
Malaysia	50	32	32	21
Switzerland	39	23	39	24
Other	–	–	3	2
Total subsidiaries abroad	**372**	**254**	316	214
Total Group	**372**	**254**	316	214

Board members and Executive Management	2012 Total at year end	2012 of which men	2011 Total at year end	2011 of which men
Parent Company in Sweden				
Board members [1]	6	5	7	5
Subsidiaries abroad				
Executive Management [1]	4	4	4	4
Total Group	**10**	**9**	11	9

[1] Ashley Heppenstall, CEO and Board member is included in Executive Management.

NOTE 33 – REMUNERATION TO THE BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND OTHER EMPLOYEES

Salaries, other remuneration and social security costs TUSD	2012 Salaries and other remuneration	2012 Social security costs	2011 Salaries and other remuneration	2011 Social security costs
Parent Company in Sweden				
Board members	580	117	570	116
Subsidiaries abroad				
Executive Management	5,095	336	5,105	337
Other employees	70,499	16,095	62,312	13,436
Total Group	**76,174**	**16,548**	67,987	13,889
of which pension costs		**5,740**		4,344

Salaries and other remuneration for the Board members and Executive Management[1] TUSD	Fixed Board remuneration/ basic salary and other benefits [2]	Short-term variable salary [3]	Remuneration for Committee work	Board remuneration for special assignments [4]	Pension	Total 2012	Total 2011
Parent Company in Sweden							
Board members							
Ian H. Lundin	134	–	–	284	–	418	303
Magnus Unger	63	–	30	14	–	107	108
Lukas H. Lundin	63	–	–	–	–	63	70
William A. Rand	63	–	36	–	–	99	93
Asbjørn Larsen	63	–	15	–	–	78	77
Dambisa F. Moyo	29	–	6	–	–	35	77
Kristin Færøvik	63	–	15	–	–	78	39
Total Board members	**478**	**–**	**102**	**298**	**–**	**878**	**767**
Subsidiaries abroad							
Executive Management							
C. Ashley Heppenstall	1,005	1,133	–	–	96	2,234	2,049
Alexandre Schneiter	645	640	–	–	64	1,349	1,345
Chris Bruijnzeels	537	373	–	–	54	964	1,048
Geoffrey Turbott	587	373	–	–	58	1,018	1,132
Total Executive Management	**2,774**	**2,519**	**–**	**–**	**272**	**5,565**	**5,574**

[1] Salaries and other remuneration have been expensed during the year.

[2] Other benefits include school fees and health insurance.

[3] In December 2012, the Compensation Committee awarded a bonus for 2012 of one month's salary to Executive Management (included in the bonus expense for 2012). In January 2013, the Compensation Committee reassessed the bonus payments made for 2012 considering the employees' contributions to the results of the Group and the achievement of personal targets and awarded additional bonuses payable in January 2013. The same reassessment was made in January 2012 for 2011 and the amounts are included in the cost of 2012.

[4] Other remuneration paid during 2012 relates to fees paid for special assignments undertaken by Board members on behalf of the Group. The payment of such fees was in accordance with fees approved by the AGM.

Board members

There are no severance pay agreements in place for any non-executive directors and such directors are not eligible to participate in any of the Group's incentive programmes.

Executive Management

The pension contribution is between 19 percent and 21 percent of the qualifying income for pension purposes, 40 percent of which is funded by the employee. Qualifying income is defined as annual basic salary and bonus. The normal retirement age for the CEO is 65 years. .

The Executive Management has no outstanding incentive warrants. The third and last tranche under the 2008 Unit Bonus Plan was paid in 2011.

A mutual termination period of between one month and six months applies between the Company and Executive Management, depending on the duration of the employment with the Company, where the maximum applies as of the tenth year of employment. 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.

See pages 59–61 of the Corporate Governance report for further information on the Company's principles of remuneration and the Policy on Remuneration for the Executive Management for 2012.

NOTE 34 – LONG-TERM INCENTIVE PLANS

The Company maintains the long-term incentive plans (LTIP) described below.

Unit Bonus Plan

In 2008, Lundin Petroleum implemented a LTIP scheme consisting of a Unit Bonus Plan which provides for an annual grant of units that will lead to a cash payment at vesting. The LTIP has a three year duration whereby the initial grant of units vested equally in three tranches: one third after one year; one third after two years; and the final third after three years. The cash payment is conditional upon the holder of the units remaining an employee of the Group at the time of payment. The share price for determining the cash payment at the end of each vesting period will be the five trading day average closing Lundin Petroleum share price prior to and following the actual vesting date. The exercise price at vesting date 31st of May 2012 was SEK 127.90.

The LTIPs that follow the same principles as the 2008 LTIP have subsequently been implemented for employees other than Executive Management each year and are summarised in the table below.

Unit Bonus Plan	Plan				
	2009	2010	2011	2012	Total
Outstanding at the beginning of the period	219,984	470,169	418,400	–	1,108,553
Awarded during the period	–	–	–	361,158	361,158
Forfeited during the period	-10,544	-35,989	-34,169	–	-80,702
Exercised during the period	-209,440	-225,018	-133,606	–	-568,064
Outstanding at the end of the period	–	209,162	250,625	361,158	820,945
Vesting date					
31 May 2013		209,162	125,315	120,386	454,863
31 May 2014		–	125,310	120,386	245,696
31 May 2015		–	–	120,386	120,386
Outstanding at the end of the period		209,162	250,625	361,158	820,945

The costs associated with the unit bonus plans are as given in the following table.

Unit Bonus Plan TUSD	2012	2011
2008	–	786
2009	-754	3,851
2010	760	7,379
2011	2,116	4,350
2012	3,083	–
	5,205	16,366

LTIP awards are recognised in the financial statements prorata over their vesting period. The total carrying amount for the provision for the Unit Bonus Plan including social costs as at 31 December 2012 amounted to TUSD 11,972 (TUSD 17,343). The provision is calculated based on Lundin Petroleum's share price at the balance sheet date. The closing share price at 31 December 2012 was SEK 149.50.

Phantom Option Plan

At the AGM on 13 May 2009, the shareholders of Lundin Petroleum approved the implementation of an LTIP for Executive Management (being the President and Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Senior Vice President Operations) consisting of a grant of phantom options exercisable after five years from the date of grant. The exercise of these options entitles the recipient to receive a cash payment based on the appreciation of the market value of the Lundin Petroleum share. 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 and (ii) second on the date which is one year following the date of the first payment.

The LTIP for Executive Management includes 5,500,928 phantom options with an exercise price of SEK 52.91. The phantom options will vest in May 2014 being the fifth anniversary of the date of grant. The recipients will be entitled to receive a cash payment equal to the average closing price of the Company's shares during the fifth year following grant, less the exercise price, multiplied by the number of phantom options. The participants of the phantom option plan are not entitled to receive new awards under the Unit Bonus Plan whilst the phantom options are still outstanding.

Lundin Petroleum purchased 6,882,638 of its own shares up to 31 December 2010 at an average cost of SEK 46.51 per share to mitigate against the exposure of the LTIP. The Lundin Petroleum share price at 31 December 2012 was SEK 149.50. The provision for LTIP amounted to MUSD 64.0 including social charges as at 31 December 2012 and the market value of these shares held at 31 December 2012 was MUSD 158.2. The gain in the value of the own shares held cannot be offset against the cost for the LTIP in the financial statements in accordance with accounting rules.

LTIP awards are recognised in the financial statements prorata over their vesting period. The total carrying amount for the provision for the Phantom Option Plan including social costs as at 31 December 2012 amounted to TUSD 63,988 (TUSD 52,951). The provision is calculated based on Lundin Petroleum's share price at the balance sheet date using the Black and Scholes method applied to the portion of the awards recognised at the balance sheet date.

The non-cash charge in relation to the LTIP for Executive Management amounted to TUSD 9,058 (TUSD 44,900), including social costs for the financial year ended 31 December 2012.

For further details regarding the Phantom Option Plan, please see the pages 60–61 of the Corporate Governance report.

NOTE 35 – REMUNERATION TO THE GROUP'S AUDITORS

TUSD	2012	2011
PwC		
Audit fees	952	1,065
Audit related	–	75
Tax advisory services	227	179
Other fees	10	26
Total PwC	**1,189**	1,345
Remuneration to other auditors than PwC	278	305
Total	**1,467**	1,650

Audit fees include the review of the 2012 half year report. Audit related costs include special assignments such as licence audits, PSC audits and internal control audits.

NOTE 36 – SUBSEQUENT EVENTS

In the first quarter of 2013, Lundin Petroleum entered into a three year fixed interest rate swap, starting 31 March 2013, in respect of MUSD 500 of borrowings, fixing the LIBOR rate at approximately 0.57 percent per annum.

ANNUAL ACCOUNTS
OF THE PARENT COMPANY

Parent Company

The business of the Parent Company is investment in and management of oil and gas assets. The net result for the Parent Company amounted to MSEK 762.2 (MSEK -182.4) for the financial year 2012.

The operating income includes service income received from Group companies. The net result includes general and administrative expenses of MSEK 84.5 (MSEK 206.1), intra-group interest expense of MSEK 31.3 (MSEK 25.5) and a dividend received from the subsidiary Lundin Petroleum BV of MSEK 804.7 (MSEK –). The general and administrative expenses in the year are impacted by the variation in the provision for the Group's LTIP. The high cost in 2011 was a result of a significant increase in the Lundin Petroleum share price. The comparative period includes financial income of MSEK 6.5 for supporting certain financial obligations for ShaMaran Petroleum.

Accounting Policies

The financial statements of the Parent Company are prepared in accordance with accounting policies generally accepted in Sweden, applying RFR 2 issued by the Swedish Financial Reporting Board and the Annual Accounts Act (SFS 1995:1554). RFR 2 requires the Parent Company to use similar accounting policies as for the Group, i.e. IFRS to the extent allowed by RFR 2. The Parent Company's accounting policies do not in any material respect deviate from the Group policies, see pages 87–91.

PARENT COMPANY INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2012	2011
Operating income			
Other operating income	1	70,956	42,644
Gross profit		**70,956**	42,644
General, administration and depreciation expenses		-84,533	-206,108
Operating loss		**-13,577**	-163,464
Result from financial investments			
Financial income	2	807,074	6,560
Financial expenses	3	-31,266	-25,495
		775,808	-18,935
Profit before tax		**762,231**	-182,399
Income tax expense	4	–	–
Net result		**762,231**	-182,399

PARENT COMPANY COMPREHENSIVE INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2012	2011
Net result		762,231	-182,399
Other comprehensive income		–	–
Total comprehensive income		**762,231**	-182,399
Total comprehensive income attributable to:			
Shareholders of the Parent Company		**762,231**	-182,399
		762,231	-182,399

PARENT COMPANY BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2012	2011
ASSETS			
Non-current assets			
Shares in subsidiaries	11	7,871,847	7,871,947
Receivables from group companies		21,370	–
Total non-current assets		**7,893,217**	7,871,947
Current assets			
Prepaid expenses and accrued income		2,675	1,144
Other receivables	5	18,023	7,810
Cash and cash equivalents		1,080	3,849
Total current assets		**21,778**	12,803
TOTAL ASSETS		**7,914,995**	7,884,750
EQUITY AND LIABILITIES			
Restricted equity			
Share capital		3,179	3,179
Statutory reserve		861,306	861,306
Total restricted equity		**864,485**	864,485
Unrestricted equity			
Other reserves		2,489,380	2,551,805
Retained earnings		3,753,687	3,936,086
Net profit		762,231	-182,399
Total unrestricted equity		**7,005,298**	6,305,492
Total equity		**7,869,783**	7,169,977
Non-current liabilities			
Provisions	6	36,403	36,403
Payables to Group companies		–	673,988
Total non-current liabilities		**36,403**	710,391
Current liabilities			
Trade payables		1,035	1,171
Accrued expenses and prepaid income	7	7,356	2,742
Other liabilities		418	469
Total current liabilities		**8,809**	4,382
TOTAL EQUITY AND LIABILITIES		**7,914,995**	7,884,750
Pledged assets	9	11,911,649	12,333,233
Contingent liabilities	9	–	–

PARENT COMPANY STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	2012	2011
Cash flow from operations		
Net result	762,231	-182,399
Dividend	-804,746	–
Other non-cash items	78,793	207,410
Interest expenses paid	–	-332
Unrealised exchange losses	716	138
Changes in working capital:		
Change in current assets	-10,844	-1,779
Change in current liabilities	4,461	-10,118
Total cash flow from operations	**30,611**	12,920
Cash flow from investments		
Change in long-term financial fixed assets	100	–
Total cash flow from investments	**100**	–
Cash flow from financing		
Change in long-term liabilities	29,129	-15,702
Purchase of own shares	-62,425	–
Total cash flow from financing	**-33,296**	-15,702
Change in cash and cash equivalents	**-2,585**	-2,782
Cash and cash equivalents at the beginning of the year	3,849	6,735
Currency exchange difference in cash and cash equivalents	-184	-104
Cash and cash equivalents at the end of the year	**1,080**	3,849

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

	Restricted Equity		Unrestricted equity			
Expressed in TSEK	Share capital [1]	Statutory reserve	Other reserves [2]	Retained earnings	Net result	Total equity
Balance at 1 January 2011	3,179	861,306	2,551,805	–	3,936,086	7,352,376
Transfer of prior year net result	–	–	–	3,936,086	-3,936,086	–
Total comprehensive income	–	–	–	–	-182,399	-182,399
Balance at 31 December 2011	**3,179**	**861,306**	**2,551,805**	**3,936,086**	**-182,399**	**7,169,977**
Transfer of prior year net result	–	–	–	-182,399	182,399	–
Total comprehensive income	–	–	–	–	762,231	762,231
Transactions with owners						
Purchase of own shares	–	–	-62,425	–	–	-62,425
Total transactions with owners	**–**	**–**	**-62,425**	**–**	**–**	**-62,425**
Balance at 31 December 2012	**3,179**	**861,306**	**2,489,380**	**3,753,687**	**762,231**	**7,869,783**

[1] Lundin Petroleum AB's issued share capital at 31 December 2012 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each. Included in the number of shares issued at 31 December 2012 are 7,368,285 shares which Lundin Petroleum holds in its own name.

[2] From 1 January 2006, the additional paid in capital has been included in other reserves as well as currency differences on loans to subsidiaries.

NOTE 1 – OTHER OPERATING INCOME PER COUNTRY

TSEK	2012	2011
Norway	42,181	19,401
Indonesia	320	2,270
Tunisia	8,214	4,827
Malaysia	18,538	15,601
Other	1,704	545
	70,956	42,644

NOTE 2 – FINANCIAL INCOME

TSEK	2012	2011
Dividend	804,746	–
Guarantee fees	1,577	6,472
Foreign exchange gain	716	–
Other	35	88
	807,074	6,560

NOTE 3 – FINANCIAL EXPENSES

TSEK	2012	2011
Interest expenses Group	31,218	24,979
Interest expense non-Group	–	332
Foreign exchange losses, net	–	138
Other	48	46
	31,266	25,495

NOTE 4 – INCOME TAXES

TSEK	2012	2011
Net result before tax	762,231	-182,399
Tax calculated at the corporate tax rate in Sweden (26.3%)	-200,467	47,971
Tax effect of dividend not taxable	211,648	–
Tax effect of expenses non-deductible for tax purposes	-8,917	-35,674
Increase unrecorded tax losses	-2,264	-12,297
Tax credit/charge	**–**	**–**

NOTE 5 – OTHER RECEIVABLES

TSEK	31 December 2012	31 December 2011
Due from Group companies	17,238	7,291
VAT receivable	784	267
Others	–	252
	18,023	7,810

NOTE 6 – PROVISIONS

Provisions as at 31 December 2012 amounted to TSEK 36,403 (TSEK 36,403) and related to corporate income tax.

NOTE 7 – ACCRUED EXPENSES AND PREPAID INCOME

TSEK	31 December 2012	31 December 2011
Social security charges	–	349
Directors fees	424	194
Audit	184	942
Travel	1,020	575
Other	5,728	682
	7,356	2,742

NOTE 8 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

TSEK	Loan receivables and other receivables	Financial liabilities valued at amortised cost
Assets		
Receivables from Group companies – Non-current	21,370	–
Other receivables due from Group companies – Current	17,238	–
Cash and cash equivalents	1,080	–
	39,688	**–**
Liabilities		
Trade Payables	–	1,035
	–	**1,035**

NOTE 9 – PLEDGED ASSETS, CONTINGENT LIABILITIES AND ASSETS

Pledged assets relate to the accounting value of the pledge of the shares in respect of the new financing facility entered into by its fully-owned subsidiary Lundin Petroleum BV. Please see Group Note 27 and 28 for details.

NOTE 10 – REMUNERATION TO THE AUDITOR

TSEK	2012	2011
PwC		
Audit fees	1,416	1,424
Audit related	–	–
	1,416	1,424

There has been no remuneration to other auditors than PwC.

NOTE 11 – SHARES IN SUBSIDIARIES

TSEK	Registration number	Registered office	Total number of shares issued	Percentage owned	Nominal value per share	Book amount 31 December 2012	Book amount 31 December 2011
Directly owned							
Lundin Petroleum BV	27254196	The Hague, Netherlands	181	100	EUR 100.00	7,871,847	7,871,847
Lundin Energy AB	556619-2299	Stockholm, Sweden	10,000,000	100	SEK 0.01	–	100
						7,871,847	7,871,947
Indirectly owned							
Lundin Norway AS	986 209 409	Lysaker, Norway	4,930,000	100	NOK 100.00		
Lundin Netherlands BV	24106565	The Hague, Netherlands	6,000	100	EUR 450.00		
Lundin Netherlands Facilities BV	27324007	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Holdings SA	442423448	Montmirail, France	1,853,700	100	EUR 10.00		
- Lundin International SA	572199164	Montmirail, France	1,721,855	99.86	EUR 15.00		
- Lundin Gascogne SNC	419619077	Montmirail, France	100	100	EUR 152.45		
Ikdam Production SA	433912920	Montmirail, France	4,000	100	EUR 10.00		
Lundin Exploration BV	27273727	The Hague, Netherlands	180	100	EUR 100.00		
Lundin SEA Holding BV	27290568	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Malaysia BV	27306815	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Indonesia Holding BV	27290577	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Baronang BV	27314235	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Cakalang BV	27314288	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Gurita BV	27296469	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Lematang BV	24262562	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Oil & Gas BV	24262561	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Rangkas BV (under liquidation)	27314247	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Sareba BV	24278356	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin South Sokang BV	27324012	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin South East Asia BV (under liquidation)	27290262	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Cambodia BV (under liquidation)	27292990	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Russia BV	27290574	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Russia Services BV	27292018	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Russia Ltd.	656565-4	Vancouver, Canada	55,855,414	100	CAD 1.00		
- Culmore Holding Ltd	162316	Nicosia, Cyprus	1,002	100	CYP 1.00		
- Lundin Lagansky BV	27292984	The Hague, Netherlands	18,000	100	EUR 1.00		
- Mintley Caspian Ltd	160901	Nicosia, Cyprus	5,000	70	CYP 1.00		
- LLC PetroResurs	1047796031733	Moscow, Russia	1	100	RUR 10,000		
- Lundin Komi BV	53732561	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Tunisia BV	27284355	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Marine BV (under liquidation)	27275508	The Hague, Netherlands	180	100	EUR 100.00		
- Lundin Marine SARL (under liquidation)	06B090	Pointe Noire, Congo	200	100	FCFA 5,000		
Lundin Petroleum SA	660.0.330.999-0	Collonge-Bellerive, Switzerland	1,000	100	CHF 100.00		
Lundin Services BV	27260264	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Ventures XVII BV	53732855	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Ventures XVIII BV	55709532	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Ventures XIX BV	55709362	The Hague, Netherlands	18,000	100	EUR 1.00		

During 2012 the 100 percent investments in Lundin Energy AB and Lundin Vietnam BV were liquidated.

Lundin Marine BV, Lundin Marine SARL, Lundin South East Asia BV, Lundin Rangkas BV and Lundin Cambodia BV were under liquidation as at 31 December 2012.

BOARD ASSURANCE

At 9 April 2013, the Board of Directors and the President of Lundin Petroleum AB have adopted this annual report for the financial year ended 31 December 2012.

ASSURANCE

The Board of Directors and the President & CEO certify that the annual financial report for the Parent Company has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the financial position and profit of the Company and the Group and provides a fair review of the performance of the Group's and Parent Company's business, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm, 9 April 2013

Lundin Petroleum AB (publ) Org. Nr. 556610-8055

Ian H. Lundin	C. Ashley Heppenstall	Lukas H. Lundin	William A. Rand
Chairman	President & CEO	Board Member	Board Member

Magnus Unger	Asbjørn Larsen	Kristin Færøvik
Board Member	Board Member	Board Member

pwc

Auditor's report

To the annual meeting of the shareholders of Lundin Petroleum AB (publ), corporate identity number 556610-8055

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Lundin Petroleum AB (publ) for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 73 - 111.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with IFRS, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with IFRS, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Lundin Petroleum AB (publ) for the year 2012.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 9 April 2013

PricewaterhouseCoopers AB

Bo Hjalmarsson
Authorized Public Accountant
Lead Partner

Johan Malmqvist
Authorized Public Accountant

FIVE YEAR FINANCIAL DATA

Income Statement Summary (TUSD)	2012	2011	2010	2009	2008
Continuing operations					
Operating income	1,345,142	1,269,515	798,599	571,835	628,939
Production costs	-172,474	-193,104	-157,065	-155,311	-198,269
Depletion	-191,444	-165,138	-145,316	-118,128	-95,046
Exploration costs	-168,480	-140,027	-127,534	-134,792	-110,023
Impairment costs of oil and gas properties	-237,490	–	–	-644,766	-78,572
Gross profit	**575,254**	**771,246**	**368,684**	**-481,162**	**147,029**
Gain on sale of assets	–	–	66,126	4,589	20,481
General, administration and depreciation expenses	-31,722	–67,022	-40,960	-27,619	-19,684
Operating profit/(loss)	**543,532**	**704,224**	**393,850**	**-504,192**	**147,826**
Result from financial investments	-21,281	25,433	-12,507	29,559	-110,121
Result from share in associated company	–	–	–	-25,504	4,480
Profit/(loss) before tax	**522,251**	**729,657**	**381,343**	**-500,137**	**42,185**
Tax	-418,401	-574,413	-251,865	-45,669	-40,824
Net result from continuing operations	**103,850**	**155,244**	**129,478**	**-545,806**	**1,361**
Discontinued operations					
Net result from discontinued operations	–	–	368,992	8,737	59,042
Net result	**103,850**	**155,244**	**498,470**	**-537,069**	**60,403**
Net result attributable to the shareholders of the Parent Company	108,161	160,137	511,875	-411,268	93,958
Net result attributable to non-controlling interest	-4,311	-4,893	-13,405	-125,801	-33,555
NET RESULT	**103,850**	**155,244**	**498,470**	**-537,069**	**60,403**

Balance Sheet Summary (TUSD)	2012	2011	2010	2009	2008
Tangible fixed assets	2,913,813	2,345,354	2,014,242	2,556,275	2,704,556
Other non-current assets	44,105	44,080	129,944	119,093	259,515
Current assets	335,808	298,004	284,950	275,290	272,619
TOTAL ASSETS	**3,293,726**	**2,687,438**	**2,429,136**	**2,950,658**	**3,236,690**
Shareholders' equity	1,182,405	1,000,882	920,416	1,141,658	1,462,442
Non-controlling interest	67,648	69,424	77,365	95,555	179,793
Total equity	**1,250,053**	**1,070,306**	**997,781**	**1,237,213**	**1,642,235**
Provisions	1,204,625	987,993	769,687	897,622	779,370
Non-current liabilities	406,744	226,324	476,671	558,327	555,626
Current liabilities	432,304	402,815	184,997	257,496	259,459
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	**3,293,726**	**2,687,438**	**2,429,136**	**2,950,658**	**3,236,690**

KEY FINANCIAL DATA

Key financial data is based on continuing operations.

Financial data (TUSD)	2012	2011	2010	2009	2008
Operating income	1,345,142	1,269,515	798,599	571,835	628,939
EBITDA	1,144,061	1,012,063	603,450	392,324	414,794
Net result	103,850	155,244	129,478	-545,806	1,361
Operating cash flow	831,366	676,201	573,380	384,511	444,923

Data per share (USD)					
Shareholders' equity per share	3.81	3.22	2.96	3.64	4.67
Operating cash flow per share	2.68	2.17	1.84	1.23	1.41
Cash flow from operations per share	2.64	2.88	1.79	1.56	1.92
Earnings per share	0.35	0.51	0.46	-1.34	0.11
Earnings per share fully diluted	0.35	0.51	0.46	-1.34	0.11
EBITDA per share	3.68	3.25	1.93	1.25	1.31
Dividend per share	–	–	2.30	–	–
Number of shares issued at period end	317,910,580	317,910,580	317,910,580	317,910,580	317,910,580
Number of shares in circulation at period end	310,542,295	311,027,942	311,027,942	313,420,280	313,420,280
Weighted average number of shares for the period	310,735,227	311,027,942	312,096,990	313,420,280	315,682,981

Share price					
Quoted price at period end (SEK)	149.50	169.20	83.65	56.60	28.07
Quoted price at period end (CAD)	22.87	24.54	N/A[1]	N/A[1]	N/A[1]

Key ratios (%)					
Return on equity	9	15	12	-38	–
Return on capital employed	35	53	24	-28	9
Net debt/equity ratio	30	15	36	40	35
Equity ratio	38	40	41	42	51
Share of risk capital	66	69	67	66	71
Interest coverage ratio	75	59	19	-37	7
Operating cash flow/interest ratio	119	55	27	26	51
Yield	–	–	18	–	–

[1] The share is listed on the Toronto Stock Exchange from 24 March 2011.

KEY RATIO DEFINITIONS

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): Operating profit before depletion of oil and gas properties, exploration costs, impairment costs, depreciation of other tangible assets and gain on sale of assets.

Operating cash flow: Operating income less production costs and less current taxes.

Shareholders' equity per share: Shareholders' equity divided by the number of shares in circulation at period end.

Operating cash flow per share: Operating cash flow divided by the weighted average number of shares for the period.

Cash flow from operations per share: Cash flow from operations in accordance with the consolidated statement of cash flow divided by the weighted average number of shares for the period.

Earnings per share: Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period.

Earnings per share fully diluted: Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period after considering any dilution effect.

EBITDA per share: EBITDA divided by the weighted average number of shares for the period.

Weighted average number of shares for the period: The number of shares at the beginning of the period with changes in the number of shares weighted for the proportion of the period they are in issue.

Return on equity: Net result divided by average total equity.

Return on capital employed: Profit before tax plus interest expenses plus/less exchange differences on financial loans divided by the average capital employed (the average balance sheet total less non-interest bearing liabilities).

Net debt/equity ratio: Net interest bearing liabilities divided by shareholders' equity.

Equity ratio: Total equity divided by the balance sheet total.

Share of risk capital: The sum of the total equity and the deferred tax provision divided by the balance sheet total.

Interest coverage ratio: Result after financial items plus interest expenses plus/less exchange differences on financial loans divided by interest expenses.

Operating cash flow/interest ratio: Operating income less production costs and less current taxes divided by the interest charge for the period.

Yield: dividend per share in relation to quoted share price at the end of the period.

RESERVE QUANTITY INFORMATION

Proved and probable oil reserves	Total Mbbl	Norway Mbbl	France Mbbl	Netherlands Mbbl	Malaysia Mbbl	Tunisia Mbbl	Russia Mbbl
1 January 2011	157,081	117,478	22,310	86	–	514	16,693
Changes during the year							
– acquisitions	4,037	4,037	–	–	–	–	–
– sales	–	–	–	–	–	–	–
– revisions	19,206	16,585	2,252	-9	–	-116	494
– extensions and discoveries	12,934	11,500	1,314	–	–	120	–
– production	-10,250	-7,720	-1,118	–	–	-268	-1,144
31 December 2011	183,008	141,880	24,758	77	–	250	16,043
2012							
Changes during the year							
– acquisitions	4,073	4,073	–	–	–	–	–
– sales	–	–	–	–	–	–	–
– revisions	-5,756	2,460	143	18	–	-209	-8,168
– extensions and discoveries	12,713	–	–	–	12,713	–	–
– production	-10,568	-8,501	-1,040	-2	–	-41	-984
31 December 2012	183,470	139,912	23,861	93	12,713	–	6,891

Proved and probable gas reserves	Total MMscf[1]	Norway MMscf	Netherlands MMscf	Indonesia MMscf
1 January 2011	177,433	130,298	21,226	25,909
Changes during the year				
– acquisitions	–	–	–	–
– sales	–	–	–	–
– revisions	-10,013	-11,182	1,067	102
– extensions and discoveries	10,230	7,100	3,130	–
– production	-11,421	-4,587	-4,275	-2,559
31 December 2011	166,229	121,629	21,148	23,452
2012				
Changes during the year				
– acquisitions	893	–	893	–
– sales	–	–	–	–
– revisions	-43,807	-42,317	3,782	-5,272
– extensions and discoveries	–	–	–	–
– production	-14,893	-8,522	-4,156	-2,215
31 December 2012	108,422	70,790	21,667	15,965

[1] The Company has used a factor of 6,000 to convert one scf to one boe.

Of the total proved and probable oil and gas reserves as at 31 December 2012, 36 Mbbl (37 Mbbl) are attributable to non-controlling shareholders of other subsidiaries of the Group.

The reserves as at 31 December 2012 have been certified by the independent qualified reserves auditor, ERC-Equipoise Ltd. (ERCE).

SHAREHOLDER INFORMATION

FINANCIAL REPORTING DATES

Lundin Petroleum will publish the following interim reports:

» 7 May 2013	Three month report (January – March 2013)
» 7 August 2013	Six month report (January – June 2013)
» 6 November 2013	Nine month report (January – September 2013)
» 5 February 2014	Year End report 2013

The reports are available on www.lundin-petroleum.com in Swedish and English directly after public announcement.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is held within six months from the close of the financial year. All shareholders who are registered in the shareholders' registry and who have duly notified their intention to attend the AGM may do so and vote in accordance with their level of shareholding. Shareholders may also attend the AGM through a proxy and a shareholder shall in such a case issue a written and dated proxy. A proxy form is available on www.lundin-petroleum.com.

Lundin Petroleum's AGM is to be held on Wednesday, 8 May 2013 at 13.00 (Swedish time). Location: Vinterträdgården, Grand Hotel, Södra Blasieholmshamnen 8 in Stockholm.

Attendance at the meeting

Shareholders wishing to attend the meeting shall:

» be recorded in the share register maintained by Euroclear Sweden AB on Thursday 2 May 2013; and

» notify Lundin Petroleum of their intention to attend the meeting no later than Thursday 2 May 2013.

Confirmation of attendance

» in writing to Lundin Petroleum AB, c/o Computershare AB, P.O. Box 610, SE 182 16 Danderyd, Sweden

» by telephone: +46 8 51 80 15 54

» by e-mail: info@computershare.se

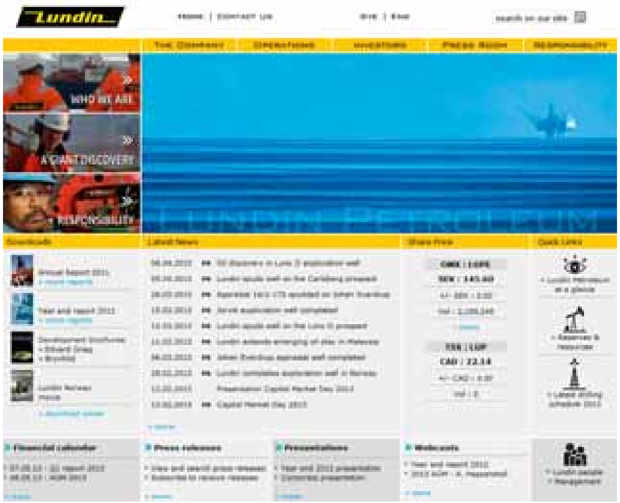
» via the website www.lundin-petroleum.com

When registering please indicate your name, social security number/company registration number, registered shareholding, address and day time telephone number.

Shareholders whose shares are registered in the name of a nominee must temporarily register the shares in their own names in the shareholders' register to be able to attend the meeting and exercise their voting rights. Such registration must be effected by Thursday 2 May 2013.

LUNDIN PETROLEUM WEBSITE

For more information regarding the Company's business, visit www.lundin-petroleum.com where you can find corporate, investor, press and media information as well as details on Lundin Petroleum's global operations, corporate governance and corporate responsibility.



OIL RELATED MEASUREMENTS

bbl	Barrel (1 barrel = 159 litres)
bcf	Billion cubic feet (1 cubic foot = 0.028 m^3)
Bn	Billion
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
Bn boe	Billion barrels of oil equivalents
Mbbl	Thousand barrels
Mbo	Thousand barrels of oil
Mboe	Thousand barrels of oil equivalents
Mboepd	Thousand barrels of oil equivalents per day
MMbo	Million barrels of oil
MMboe	Million barrels of oil equivalents
MMbpd	Million barrels per day
MMbopd	Million barrels of oil per day
Mcf	Thousand cubic feet
Mcfpd	Thousand cubic feet per day
MMscf	Million standard cubic feet
MMscfd	Million standard cubic feet per day
MMbtu	Million British thermal units

CURRENCY ABBREVIATIONS

CHF	Swiss Franc
CAD	Canadian Dollar
EUR	Euro
GBP	British Pound
NOK	Norwegian Kroner
RUR	Russian Rouble
SEK	Swedish Kroner
USD	US Dollar
TCHF	Thousand CHF
TSEK	Thousand SEK
TUSD	Thousand USD
MSEK	Million SEK
MUSD	Million USD

For further definitions of oil and gas terms and measurements vist www.lundin-petroleum.com

This information has been made public in accordance with the Securities Market Act (SFS 2007:528) and/or the Financial Instruments Trading Act (SFS 1991:980).

FORWARD-LOOKING STATEMENTS

Certain statements made and information contained herein constitute "forward-looking information" (within the meaning of applicable securities legislation). Such statements and information (together, "forward-looking statements") relate to future events, including the Company's future performance, business prospects or opportunities. Forward-looking statements include, but are not limited to, statements with respect to estimates of reserves and / or resources, future production levels, future capital expenditures and their allocation to exploration and development activities, future drilling and other exploration and development activities. Ultimate recovery of reserves or resources are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

All statements other than statements of historical fact may be forward-looking statements. Statements concerning proven and probable reserves and resource estimates may also be deemed to constitute forward-looking statements and reflect conclusions that are based on certain assumptions that the reserves and resources can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements". Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations and assumptions will prove to be correct and such forward-looking statements should not be relied upon. These statements speak only as on the date of this release and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. These forward-looking statements involve risks and uncertainties relating to, among other things, operational risks (including exploration and development risks), productions costs, availability of drilling equipment, reliance on key personnel, reserve estimates, health, safety and environmental issues, legal risks and regulatory changes, competition, geopolitical risk, and financial risks. These risks and uncertainties are described in more detail under the heading "Risks and Risk Management" and elsewhere in the Company's annual report. Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements included in this new release are expressly qualified by this cautionary statement.

RESERVES AND RESOURCES

Unless otherwise stated, Lundin Petroleum's reserve and resource estimates are as at 31 December 2012, and have been prepared and audited in accordance with National Instrument 51–101 Standards of Disclosure for Oil and Gas Activities ("NI 51–101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). Unless otherwise stated, all reserves estimates in this Annual Report are the aggregate of "Proved Reserves" and "Probable Reserves", together also known as "2P Reserves". For further information on reserve and resource classifications, see "Reserves, Resources and Production" on pages 12 to 17.

BOEs

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

DESIGNATED FOREIGN ISSUER

The Company is a reporting issuer in certain Canadian jurisdictions. However, the Company is a "designated foreign issuer" as defined in National Instrument 71-102 Continuous Disclosure and Other Exemptions Relating to Foreign Issuers, and is subject to foreign regulatory requirements, including those of the NASDAQ OMX Stockholm. As such, the Company is exempt from certain requirements otherwise imposed on reporting issuers in Canada.

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Landsten Reklam – Sjuhäradsbygdens Tryckeri

Corporate Head Office
Lundin Petroleum AB (publ)
Hovslagargatan 5
SE-111 48 Stockholm
Sweden
Telephone: +46-8-440 54 50
Telefax: +46-8-440 54 59
E-mail: info@lundin.ch

www.lundin-petroleum.com