

## **LUNDIN PETROLEUM AB'S 2018 POLICY ON REMUNERATION FOR GROUP MANAGEMENT**

### **Application of the Policy**

In this Policy on Remuneration, the term “Group Management” refers to the President and Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and Vice President level employees. Group Management is expected to be comprised of seven executives in 2018.

This Policy on Remuneration also comprises remuneration paid to members of the Board of Directors for work performed outside the directorship.

### **Objectives of the Policy**

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 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 Group 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 Group Management. The Compensation Committee meets regularly and its tasks include monitoring and evaluating programmes for variable remuneration for Group Management and the application of this Policy on Remuneration, as well as the current remuneration structures and levels in the Company.

The Compensation Committee may request the advice and assistance of external reward consultants, however, it shall ensure that there is no conflict of interest regarding other assignments that such consultants may have for the Company and Group Management.

### **Elements of Remuneration**

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

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

### **Base Salary**

The executive's base 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 base 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 Compensation Committee undertakes yearly benchmarking studies in respect of the Company's remuneration policy and practices.

### **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.

The yearly variable salary shall, in the normal course of business, be based upon a predetermined limit, being within the range of one to twelve monthly salaries (if any). The cost of yearly variable salary for 2018 is estimated to range between no payout at minimum level and MSEK 22.1 (excluding social costs) at maximum level, based on the current composition of Group Management. 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 its long-term incentive plans (LTIP) to align Group Management's incentives with shareholder interests. Remuneration which is linked to the share price results in a greater personal commitment to the Company. Therefore, the Board believes that the Company's LTIP for Group Management should be related to the Company's share price.

Information on the principal conditions of the proposed 2018 LTIP for Group Management, which follows the same principles as the LTIP approved by the 2014 - 2017 Annual General Meetings, is available as part of the documentation for the Annual General Meeting on [www.lundin-petroleum.com](http://www.lundin-petroleum.com).

The cost at grant of the proposed 2018 LTIP is estimated to range between no cost at minimum level and MSEK 48.7 (excluding social costs) at maximum level, based on the current composition of Group Management.

### **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 base salary. The pension contributions in relation to the base salary are dependent upon the age of the executive.

### **Severance Arrangements**

A mutual notice period of between one and twelve 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, up to two years' base salary, in the event of termination of employment due to a change of control of the Company. The Board of Directors is further authorised, in individual cases, to approve severance arrangements, in addition to the notice periods and the severance arrangements in respect of a change of control of the Company, where employment is terminated by the Company without cause, or otherwise in circumstances at the discretion of the Board. Such severance arrangements may provide for the payment of up to one year's base salary; no other benefits shall be included. Severance payments in aggregate (i.e. for notice periods and severance arrangements) shall be limited to a maximum of two years' base salary.

### **Remuneration to members of the Board of Directors**

In addition to Board of Directors' fees resolved by the Annual General Meeting, remuneration as per prevailing market conditions may be paid to members of the Board of Directors for work performed outside the directorship.

### **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.

### **Outstanding Remunerations**

Remunerations outstanding to Group Management comprise awards granted under the Company's previous LTIP programs and include 203,553 LTIP Awards under the 2015 Performance Based Incentive Plan, 242,057 LTIP Awards under the 2016 Performance Based Incentive Plan, 258,619 LTIP Awards under the 2017 Performance Based Incentive Plan, 1,700 unit bonus awards under the 2015 Unit Bonus Plan, 4,662 unit bonus awards under the 2016 Unit Bonus Plan, 4,119 unit bonus awards under the 2017 Unit Bonus Plan. Further information about these plans is available in note 29 of the Company's Annual Report 2017.

