

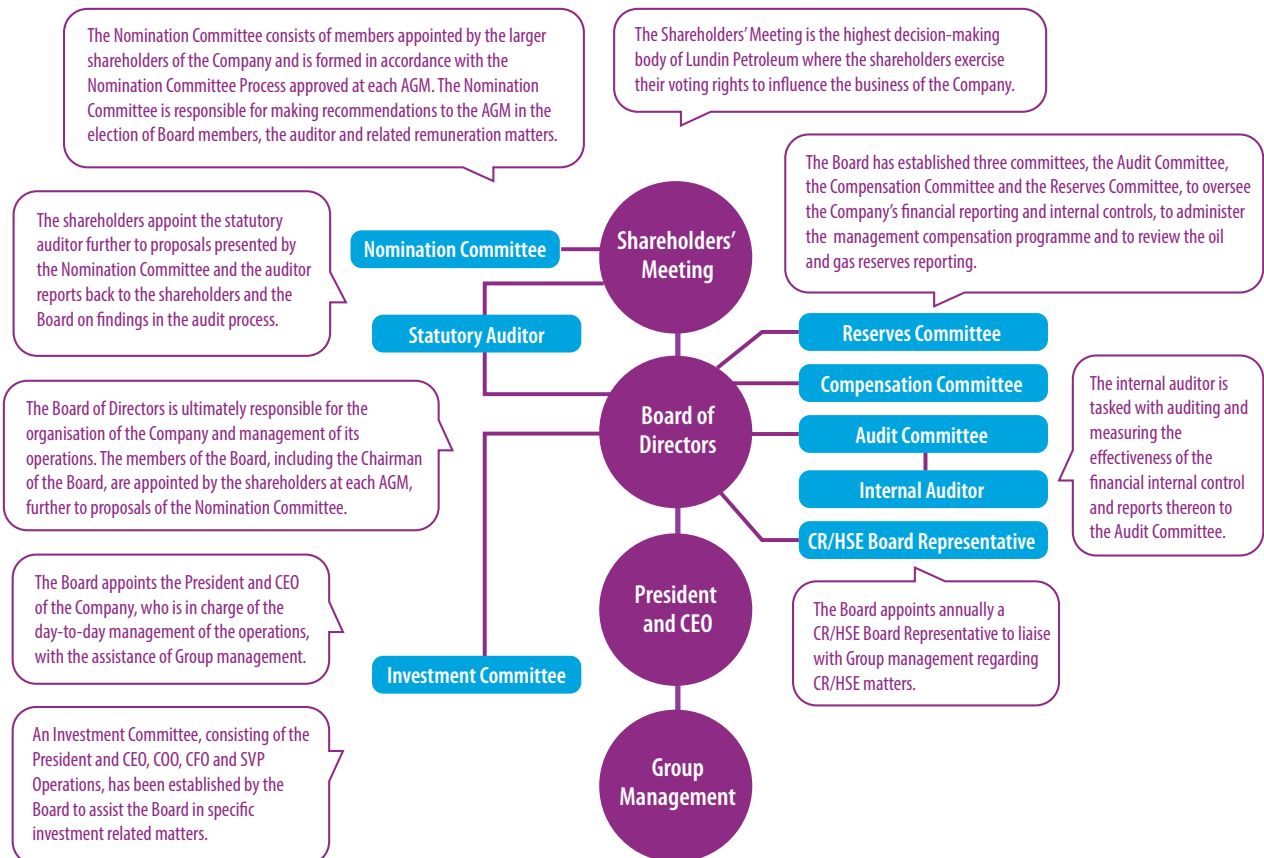
## INTRODUCTION – WORDS FROM THE CHAIRMAN

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](http://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](http://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](http://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](http://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

# CORPORATE GOVERNANCE REPORT 2012

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](http://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](http://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](http://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 Lööv	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 <sup>1</sup>
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		
<ul style="list-style-type: none"> <li>– Consideration of a report regarding the Board's work, as well as the results of the evaluation of the Board's work.</li> <li>– Assessment of the independence of the Board members under the rules of the Code of Governance.</li> <li>– 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.</li> <li>– 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.</li> <li>– Discussions regarding the reappointment of the current Board members and the Chairman of the Board at the 2013 AGM.</li> <li>– Consideration of the recommendation received through the Company's Audit Committee regarding the election of auditor at the 2013 AGM.</li> <li>– Consideration of Board and auditor remuneration issues.</li> <li>– Discussions regarding the appointment of an external independent Chairman for the 2013 AGM and consideration of suitable candidates.</li> <li>– Consideration of the Nomination Committee Process for the 2014 AGM.</li> <li>– Åsa Nisell, Ossian Ekdahl and Arne Lööv met with two Board members, Asbjørn Larsen and Kristin Færøvik, to discuss the work and functioning of the Board.</li> </ul>				<ul style="list-style-type: none"> <li>– The Nomination Committee fulfils the independence requirements of the Code of Governance and no member of Group management is a member of the Committee.</li> <li>– 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.</li> </ul>		

<sup>1</sup> 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

# CORPORATE GOVERNANCE REPORT 2012

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](http://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 Blaiseholms hamnen 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](http://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

### 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.

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.

### 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.

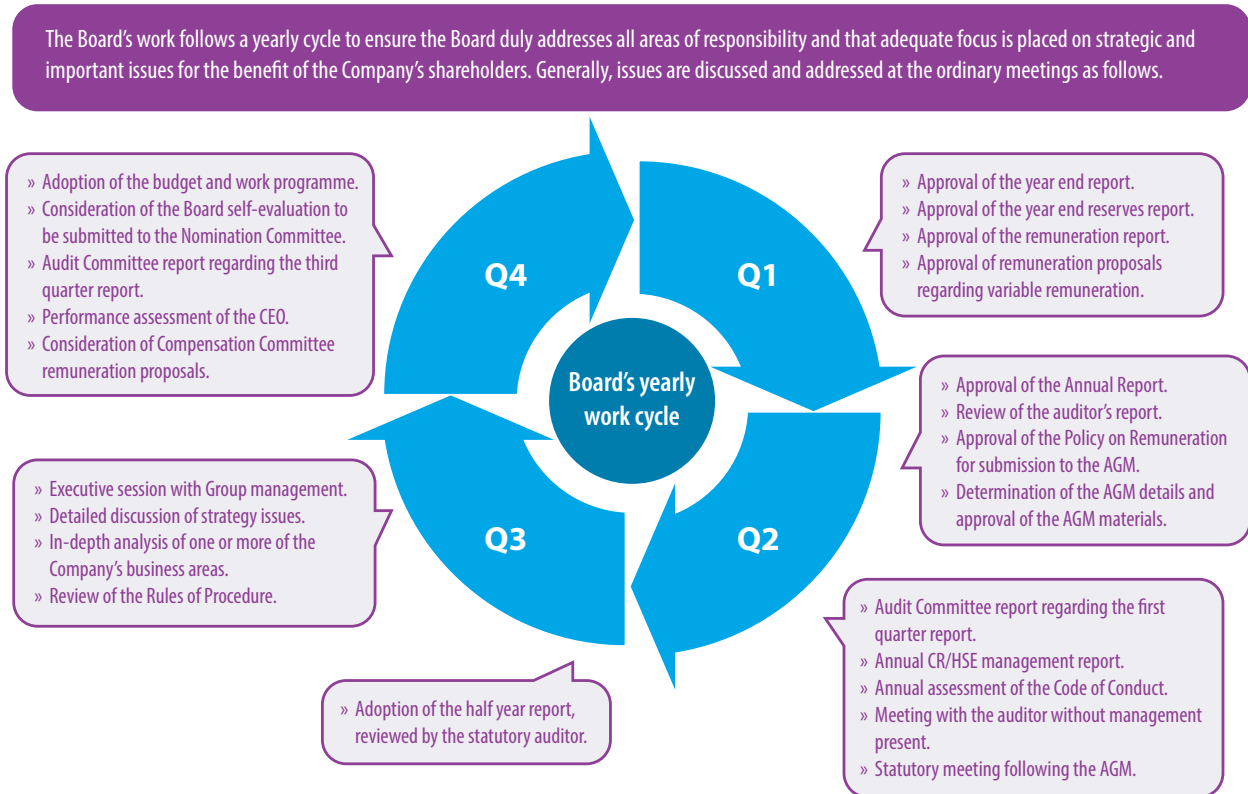
The Chairman of the Board, Ian H. Lundin, is responsible for ensuring that the Board's work is well organised and conducted in an efficient manner. He upholds the reporting instructions for management, as drawn up by the CEO and as approved by the Board, however, he does not take part in the day-to-day 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.



## 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](http://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



## CORPORATE GOVERNANCE REPORT 2012

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	<ul style="list-style-type: none"> <li>- Assessment of the 2011 year end report and the 2012 half year report for completeness and accuracy and recommendation for approval to the Board.</li> <li>- Assessment and approval of the first and third quarter reports 2012 on behalf of the Board.</li> <li>- Evaluation of accounting issues in relation to the assessment of the financial reports.</li> <li>- Follow-up and evaluation of the results of the internal audit of the Group.</li> <li>- Three meetings with the statutory auditor to discuss the financial reporting, internal controls, etc.</li> <li>- Evaluation of the audit performance and the independence and impartiality of the statutory auditor.</li> <li>- Review and approval of auditor's fees.</li> <li>- Assisting the Nomination Committee in its work to propose an auditor for election at the 2013 AGM.</li> </ul>	<ul style="list-style-type: none"> <li>- The composition of the Audit Committee fulfilled the independence requirements of the Swedish Companies Act and the Code of Governance.</li> <li>- 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.</li> </ul>
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	<ul style="list-style-type: none"> <li>- Review of the performance of the CEO, the other members of Executive Management and other Group management as per the Performance Management Process.</li> <li>- Preparing a report regarding the Board's evaluation of remuneration of the Executive Management in 2011.</li> <li>- Continuous monitoring and evaluation of remuneration structures, levels, programmes and the Policy on Remuneration.</li> <li>- Preparing a proposal for the 2012 Policy on Remuneration for Board and AGM approval.</li> <li>- Preparing a proposal for remuneration and other terms of employment for the CEO for Board approval.</li> <li>- 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.</li> <li>- Review and approval of the CEO's proposals for the principles of compensation of other Group management and employees.</li> <li>- Review and approval of the CEO's proposals for 2012 LTIP awards.</li> <li>- Undertaking a remuneration benchmark study and engaging the HayGroup to assist with the study.</li> </ul>	<ul style="list-style-type: none"> <li>- The composition of the Compensation Committee fulfilled the independence requirements of the Code of Governance.</li> <li>- 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.</li> </ul>
Reserves Committee 2012			
Members	Meeting attendance	Reserves Committee work during the year	Other requirements
Ian H. Lundin, Chairman Asbjørn Larsen	1/1 1/1	<ul style="list-style-type: none"> <li>- General review of the Company's oil and gas reserves procedures and practices.</li> <li>- Review of the Company's procedures for assembling and reporting other information associated with oil and gas activities.</li> <li>- Meeting with management and Gaffney, Cline &amp; Associates, the independent qualified reserves auditor, to discuss the 2011 reserves reporting.</li> <li>- Review of reserves data.</li> <li>- Consideration of a change of independent qualified reserves auditor to ERC-Equipoise Ltd. as of the 2012 reserves reporting.</li> </ul>	<ul style="list-style-type: none"> <li>- The composition of the Reserves Committee fulfilled the independence requirements of Canadian securities regulation as per NI 51-101.</li> </ul>

## MANAGEMENT



**C. Ashley Heppenstall**  
President and Chief  
Executive Officer,  
Director



**Christine Batruch**  
Vice President Corporate  
Responsibility



**Alexandre Schneider**  
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](http://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 Schneider, 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.

# CORPORATE GOVERNANCE REPORT 2012

## INTERNAL CONTROL AND RISK MANAGEMENT FOR THE FINANCIAL REPORTING

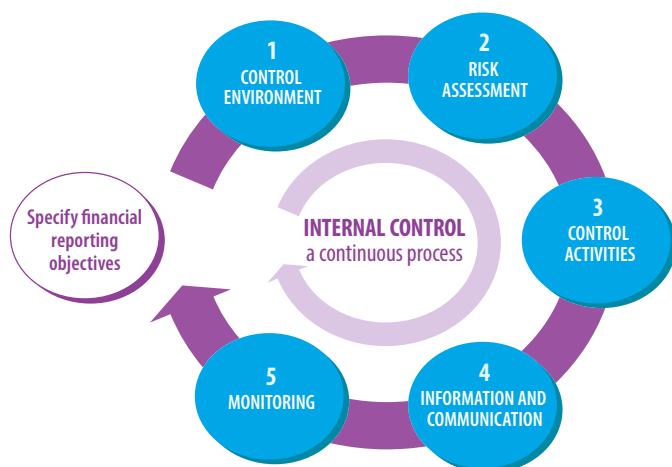
### Introduction

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.



# CORPORATE GOVERNANCE REPORT 2012

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 <sup>1</sup>	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 <sup>6</sup>	SEK 1,920,000	Nil	Nil	Nil
Independent of the Company and the Group management	Yes <sup>2</sup>	No <sup>3</sup>	Yes	Yes
Independent of the Company's major shareholders	No <sup>1</sup>	No <sup>3</sup>	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
Lukas H. Lundin	William A. Rand	Magnus Unger	Name
Director	Director	Director	Function
2001	2001	2001	Elected
1958	1942	1942	Born
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.	Education
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.	Experience
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.	Other board duties
788,331 <sup>4</sup>	120,441	50,000	Shares in Lundin Petroleum (as at 31 December 2012)
7/8	8/8	8/8	Board Attendance
–	6/6	6/6	Audit Committee Attendance
–	3/3	3/3	Compensation Committee Attendance
–	–	–	Reserves Committee Attendance
SEK 425,000	SEK 675,000	SEK 625,000	Remuneration for Board and Committee work
Nil	Nil	SEK 100,000	Remuneration for special assignments outside the directorship <sup>6</sup>
Yes	Yes	Yes	Independent of the Company and the Group management
No <sup>4</sup>	No <sup>5</sup>	Yes	Independent of the Company's major shareholders

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 of 3 Board meetings, as well as 1 out of 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.

## CORPORATE GOVERNANCE REPORT 2012

EXECUTIVE MANAGEMENT/ INVESTMENT COMMITTEE				
Name	C. Ashley Heppenstall	Alexandre Schneider	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 Schneider 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

A handwritten signature in black ink, appearing to read 'Bo Hjalmarsson', written over a horizontal line.

Bo Hjalmarsson  
Authorized Public Accountant  
Lead Partner

A handwritten signature in black ink, appearing to read 'Johan Malmqvist', written over a horizontal line.

Johan Malmqvist  
Authorized Public Accountant