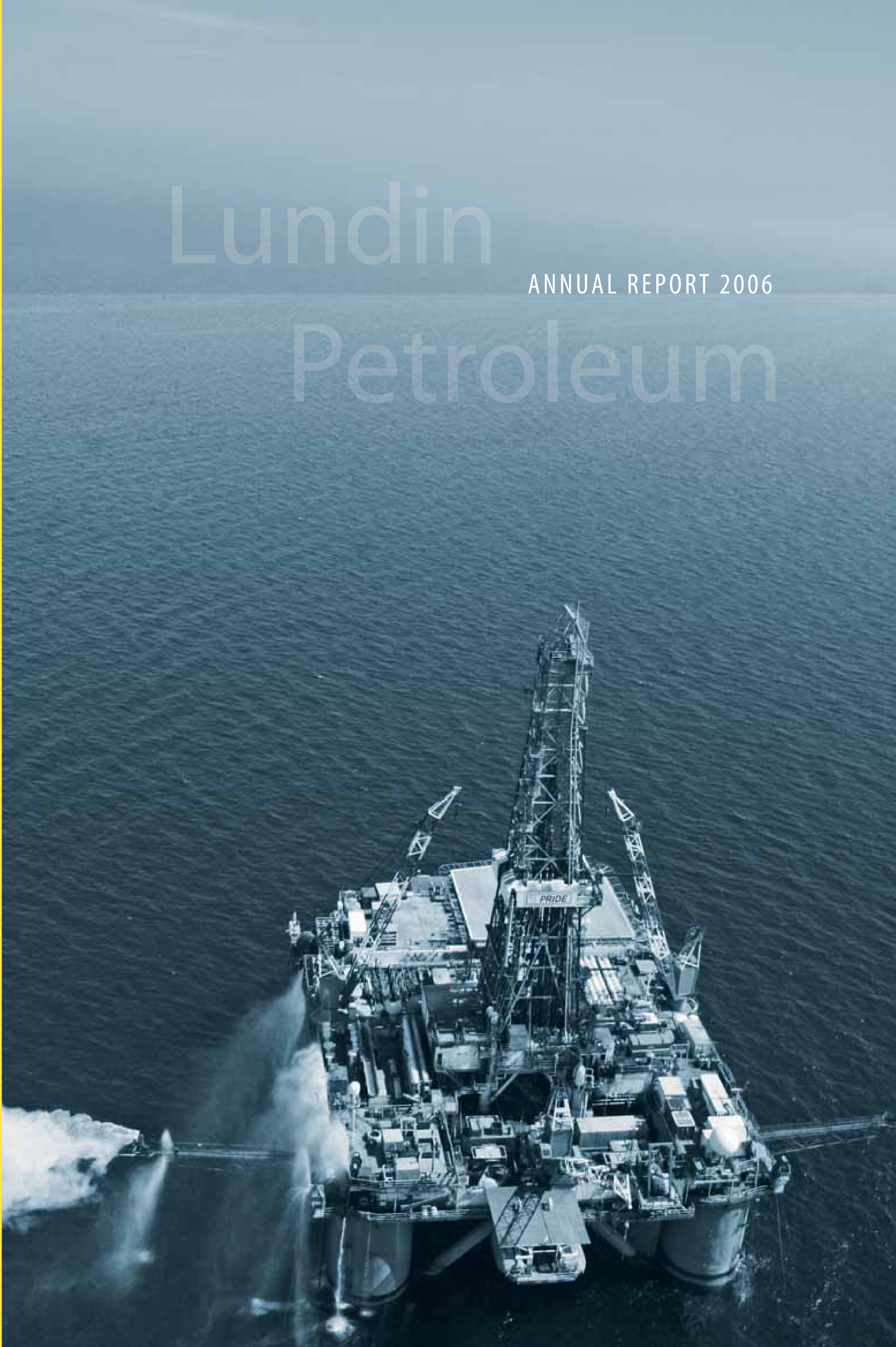
Lundin Petroleum

ANNUAL REPORT 2006



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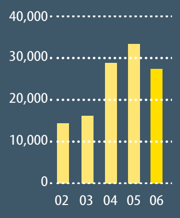
GOVERNANCE , SHARE INFORMATION

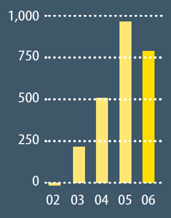
FINANCIAL

THE YEAR 2006

PRODUCTION (BOEPD)

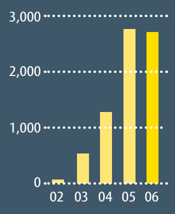


PROFIT (MSEK) [1]

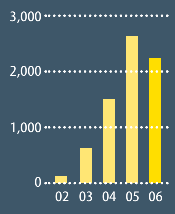


[1] Adjusted to exclude sale of assets

EBITDA (MSEK)



CASH FLOW (MSEK)



2006 SUMMARY

- **Average production of 29,400 boepd (33,100 boepd)**
- **Operating income of MSEK 4,414.5 (MSEK 4,190.2)**
- **Net profit of MSEK 794.4 (MSEK 994.0)**
- **Operating cash flow of MSEK 2,271.0 (MSEK 2,627.4)**
- **EBITDA MSEK 2,731.5 (MSEK 2,782.6)**
- **Diluted earnings per share SEK 2.81 (SEK 3.87)**
- **Debt/equity ratio 12% (9%)**

2005 in brackets

- **Reserves increased by 29%**
- **The Oudna field development in Tunisia successfully completed, onstream in November**
- **Ongoing development of the Alvheim field in Norway**

OUTLOOK 2007

- **Capital budget for development and exploration over MUSD 530**
- **Development projects – MUSD 290:**
  - Norway Alvheim field, onstream 2007
  - Norway Volund field, onstream 2009
  - United Kingdom, Broom field, development drilling
  - United Kingdom, Heather field, development drilling
  - United Kingdom, Thistle field, redevelopment
  - Russia, ongoing development drilling
  - France, Villeperdue field development drilling
  - Indonesia, Singa field development, onstream 2009
- **Exploration programme – MUSD 230:**
  - United Kingdom, 5 wells
  - Norway 3 wells
  - Russia 2 wells
  - Sudan 3 wells
  - Indonesia 6 wells
- **Total unrisked prospective resource potential of 1.4 billion barrels**

VISION

As an international oil and gas exploration and production company operating globally, the aim is to explore for and produce oil & gas in the most economically efficient, socially responsible and environmentally acceptable way, for the benefit of shareholders, employees, and co-ventures. Lundin Petroleum applies the same standards to all activities worldwide to satisfy both the commercial and ethical requirements. Lundin Petroleum strive to continuously improve the performance and to act in accordance with good oilfield practice and high standards of corporate citizenship.

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 around the world particularly in areas which have not been fully explored.
- To exploit its existing asset base with a proactive subsurface strategy to enhance ultimate hydrocarbon recovery. Lundin Petroleum is investing actively in mature assets through infill drilling, workovers and enhanced recovery techniques to maximize profitability.
- To acquire new hydrocarbon reserves, resources and exploration acreage where opportunities exist to enhance value.

Definitions:
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.

Images on the front and inside cover are of the testing of Oudna-3 well.

"Exploring for energy for future generations"

YEAR	**2006**	2005	2004	2003	2002
Net result, MSEK*	**794.4**	970.0	507.1	218.0	-17.3
EBITDA, MSEK	**2,731.5**	2,782.6	1,281.5	542.8	60.8
Cash flow, MSEK	**2,271.0**	2,627.4	1,502.8	634.6	115.1
Debt/equity ratio, %	**12**	9	45	–	89
Production in MMboe	**10.8**	12.1	9.8	5.8	1.4
Production in boepd	**29,400**	33,190	28,921	16,062	14,010

* Excluding result on sale of assets

C. ASHLEY HEPPENSTALL ▸ PRESIDENT & CEO

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

After four continuous years of exceptional growth driven by increases in reserves and production, Lundin Petroleum in 2006 was impacted by production shortfalls and delays to our exploration drilling programme. Nevertheless there were many positives for us in 2006 with the successful start-up of production from the Oudna field, offshore Tunisia, the acquisition of Valkyries Petroleum Corporation (Valkyries) creating a new core area in Russia, further asset acquisitions in the North Sea and Indonesia and new exploration deals completed in the United Kingdom, Vietnam, Ethiopia and Congo (Brazzaville).

We achieved our year end production target of 40,000 boepd following the start-up of production from the Oudna field, offshore Tunisia and our active development programme particularly at the Alvheim field, offshore Norway will increase our production levels to 50,000 boepd by the end of 2007. I firmly believe that 2006 was a short term aberration in what will be Lundin Petroleum's continued long term growth story which has and will continue to deliver increases in shareholder value.

Financial performance

Lundin Petroleum generated a net profit after taxes of MSEK 794 (MUSD 108) for the year ended 31 December 2006. Operating cash flow for the period was MSEK 2,271 (MUSD 308) and earnings before interest, tax, depreciation and amortisation (EBITDA) was MSEK 2,732 (MUSD 371).

Reserves

We continue to believe in strong oil prices and as such our ability to increase reserves and production will be the key to our success. In 2006 we increased our reserves by 29 percent to 176.4 million barrels of oil equivalent. This increase came from both acquisition activity and the organic replacement of reserves from our existing asset base. We produced a reserve replacement ratio of 122 percent from organic growth with our operations in France and Norway the primary contributors from development drilling activity, exploration success and new field development plans.

Production

Our 2006 production was always forecast to have limited growth compared to 2005. However our 2006 production of 29,400 boepd was below forecast due to United Kingdom facility related shortfalls, delays to United Kingdom development drilling and the conversion of our Venezuelan asset to an equity investment.

The loss of water injection capacity on the Heather platform in the United Kingdom had a major impact on Broom field production during the year and whilst having no impact on reserves it highlights the importance of facilities performance on older platforms. I am pleased that the Broom field production has in late 2006 and into 2007 exceeded expectations with good performance from the water injection facilities.

The highlight of 2006 was the successful start-up of production from the Oudna field, offshore Tunisia. Following commissioning of the artificial lift and water injection facilities in December 2006, gross production from the field has averaged well in excess of 20,000 bopd. The successful development of the Oudna field clearly highlights how previously uneconomic fields can be developed profitably in a higher oil price environment using focused subsurface and facilities personnel. We will seek to use this model to develop other existing discoveries in our portfolio which have previously remained undeveloped.

Lundin Petroleum is forecasting average production for 2007 at 41,000 boepd assuming production start-up of the Alvheim field.

Development

We continue to proactively invest in our asset base to generate production growth. Despite an increasing cost environment in our industry due particularly to equipment and personnel shortages we believe that in today's higher oil price environment there are many profitable investment opportunities within our portfolio.

The Alvheim field development which is one of the largest ongoing oil developments in Norway today is progressing very well and we are on track to achieve first oil in late second quarter/early third quarter 2007. The ongoing development drilling programme on Alvheim has already delivered reserve increases and I am confident that the greater Alvheim area will yield further reserves from existing fields as well as from the excellent exploration potential in the area. The Volund field development plan has now been approved by the Norwegian Government and is projected to be onstream through the Alvheim facilities in 2009.

In the United Kingdom we are also investing heavily in our ageing platform infrastructure. We believe that with proactive subsurface focus and using modern seismic imaging techniques the ultimate reserve recoverability of old fields such as Thistle and Heather can be increased. However to produce these late life incremental barrels we need to take a long term investment view believing in sustained high oil prices and making capital investments on our infrastructure to ensure that our facilities are able to handle these additional barrels. We have committed to a redevelopment of the Thistle platform last year and will in 2007 acquire new 3D seismic data as well as bring the Thistle platform rig back into service to enable a 2008 drilling campaign.

In France we continue to invest in existing producing fields and in 2007 will complete a four well horizontal infill drilling programme on the Villeperdue field using underbalanced drilling techniques.

Our recently acquired acreage in Congo (Brazzaville) already contains existing discovered undeveloped fields left behind by the majors and we will seek to use the same proactive development planning approach which was successful with the Oudna field to try to commercialise such discoveries.

Exploration

Lundin Petroleum remains firmly committed to creating shareholder value through exploration. In 2006 we successfully drilled the East Kameleon well in the Alvheim area in Norway. However the delays to our high impact drilling programme in Sudan, Norway and Russia were disappointing and are symptomatic of a tight rig and equipment market. In addition the operating environments in Sudan and Russia are challenging from a logistical perspective where we are seeking to drill wells in swamp and shallow water environments and this also had an impact on our schedule.

2007 will be a record year in terms of exploration activity for Lundin Petroleum. We will be drilling 19 exploration wells at a cost of USD 230 million targeting unrisked exploration potential of 1.4 billion barrels. We are drilling eight wells in the North Sea where rig capacity is secured for all wells. We are working very hard to progress our high potential exploration programmes in Russia and Sudan where drilling is planned to commence in 2007. These are both world class exploration projects with the potential to have a major positive impact on the value of Lundin Petroleum.

We were also active on the New Ventures front in 2006 signing new areas in Vietnam, Ethiopia and Congo (Brazzaville). The business cycle in our industry is long through exploration, appraisal, development and production and as such we are constantly seeking to generate new areas for exploration which will be the fuel for further organic growth in future years.

Acquisitions

The acquisition market remains tight and extremely competitive. Buyers continue to place significant value on soft assets as a means of securing deals. Lundin Petroleum believes it has the technical capability to generate such soft value internally and as such has participated in few competitive auction processes.

Nevertheless, 2006 was still quite active on the acquisition front. We were successful in completing the acquisition of Valkyries Petroleum Corp. which has created a new core area for Lundin Petroleum in Russia. We acquired a portfolio of producing, development and exploration assets which will be a platform for future growth in the country.

We also acquired during 2006 an expected 40 percent interest in the Peik undeveloped gas/condensate field in the greater Alvheim area straddling the United Kingdom/Norway border. In today's higher commodity price environment such fields which have remained undeveloped by larger companies represent an opportunity for smaller companies with the requisite technical and financial capacity. These projects are sufficiently material to Lundin Petroleum for us to devote the required management time to make them succeed.

We will continue to look at acquisitions as a mechanism to supplement our organic growth. We will focus on deals where we believe we have a competitive advantage whether through local knowledge or other specific skills. Conversely if we believe it is the best way to create shareholder value we will also consider strategic options. For example, we are currently looking at strategic options in relation to our United Kingdom and Norwegian assets, which we believe could unlock shareholder value.

In March 2007 we announced our intention to spin-off our United Kingdom and Norwegian business into a new Norwegian company, Viking Oil and Gas ASA. It is proposed to list the new company on the Oslo Stock Exchange and for Lundin Petroleum to sell 50.01 percent of its shareholding as part of an initial public offering. The purpose of the deal is to crystallise the value of our United Kingdom and Norwegian business whilst still retaining a 49.99 percent interest in the business. The majority of the proceeds of the deal will be returned to the shareholders.

Adolf. H. Lundin, the Company's founder and Honorary Chairman passed away in Geneva on Saturday September 30th 2006 at the age of 73. He was a pioneer in the oil and mining industries whose vision has been instrumental in the success of Lundin Petroleum and many other companies in the natural resource sectors.

He is survived by his wife, Eva Wehtje, and their 4 children and 12 grandchildren.

Oil markets

World oil prices have weakened from record highs during 2006. However, little has fundamentally changed in respect of the long term supply and demand position and therefore we believe oil prices will remain high. World oil demand continues to grow fuelled by growth in the developing world. OPEC will also now support oil prices in excess of $50/bbl but we believe this will not be necessary as prices will be driven by the underlying supply and demand. Our view today is that there is a higher probability of price increases than decreases. We live in a world of ever increasing demand, questionable supply where production continues to exceed new discoveries and where geopolitical events have the potential to further impact this imbalance.

The world is waking up to the important challenge of addressing climate change, the need for energy conservation and investment in renewable and nuclear energy. At Lundin Petroleum we seek to reduce our CO_2 emissions and use sound technologies to have a minimal impact on the environment. However, given that 70 percent of oil demand today is for transportation, until substantial progress is made in developing alternative energy sources and a viable substitute is found for gasoline, the world will continue to be reliant and dependant on oil for the foreseeable future.

Cost increases within the oil industry are a real issue. Shortages of rigs, equipment, services and personnel have resulted in material double digit inflation. This cost inflation is impacting on project economics despite high oil price assumptions. Over time these imbalances will stabilise pricing as new investments are made in the service sector but this will take time. However, we remain firmly committed to a proactive investment strategy as ultimately we believe increases to reserves and production will generate increased shareholder value.

Adolf H. Lundin

I would like to close this letter by paying tribute to our founder and Honorary Chairman Adolf H. Lundin who died in late 2006.

Adolf was an exceptional individual and an inspiration for many people associated with his companies including myself. Ever positive until the end, he was a firm believer that the whole world will become a better place through economic growth and development. On our many trips together around the world to impoverished places such as Sudan and Congo it was very clear that Adolf saw the development of such countries' mineral wealth as a win-win situation. For the brave entrepreneur there was an investment opportunity but at the same time by working in tandem with the local stakeholders there was an opportunity for local communities to develop a better life. The situation in such countries is not straightforward but Adolf believed that continued engagement from responsible companies was the way forward and we at Lundin Petroleum will continue to follow that philosophy to ensure benefits for our host countries as well as our shareholders.

On the behalf of the Board I would also like to thank Carl Bildt for his support and guidance over the past few years and wish him the very best in his new position as Minister of Foreign Affairs for Sweden.

Thanks to all our staff around the world for their continued commitment and hard work.

Best regards

C. Ashley Heppenstall
President and Chief Executive Officer

WORDS FROM THE CHAIRMAN

Well, the oil price did not reach USD 100 per barrel in 2006 as some believed was possible – including me; the price of Brent peaked at USD 78.69 per barrel on 8 August 2006. 'Peak oil' is still a future event and the age of permanent shortage has yet to begin. I think that these events could happen within the next two to three years as demand growth continues to show strength and the supply side is still very unpredictable and subject to disruptions of varying degrees. The question of whether there is an oil price that would temper demand is possibly being answered as the USA finally wakes up to the fact that there are excesses which even the world's most consumerist society is not prepared to continue to ignore. Renewable energy and global warming are grabbing the headlines even though the debate rages on whether the former is a realistic option to fossil fuels and whether the latter is caused by mankind. Whatever the answers to those questions might be it seems that nuclear power has once again returned as a strategic necessity in the long term.

So what we are really looking at after a century or more of oil dominance is at least another half century of the same but in an era when necessity accelerates the evolutionary process, driven by modern man's unique gift of innovation. In our sector this innovation has to focus on efficiency; both in the production and the consumption of hydrocarbons. Oil and gas is a precious resource which should be treated that way along with water and clean air. More efficiency and less waste will extend the oil era and will facilitate the natural recycling of the waste resulting from the burning of fossil fuels. Alternative energy will eventually completely replace hydrocarbons but in the meantime it is our responsibility to ensure that our remaining reserves are produced and utilised in the most efficient way possible without causing any permanent harm to the environment.

We at Lundin Petroleum continue with our quest to develop and produce hydrocarbons in the most efficient and responsible way possible. If 2006 was not memorable for us in terms of production growth, it certainly was in terms of development activity. The Oudna development offshore Tunisia is a perfect example of how innovative thinking and sheer determination can work together to produce great results. I take this opportunity to congratulate the whole team that pulled this project off in spite of numerous setbacks. The Alvheim project in Norway is another such example but this project also demonstrates how a consortium of oil companies with perhaps different priorities can work together and support each other to realise a common goal. Although we continue to face many challenges on a daily basis we are now in a much more comfortable zone in terms of resuming our production growth and 50,000 barrels oil per day is in my view a very realistic target by end of 2007. We also have an extensive exploratory drilling programme with secured rig slots which will make 2007 a very exciting year for the company. Russia and Sudan will remain our high potential areas both with their own set of political and logistical challenges. Again innovative thinking and sheer determination will make these projects happen.

IAN H. LUNDIN ▸ CHAIRMAN OF THE BOARD

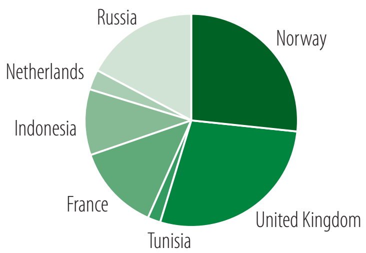
On Saturday 30 September 2006 my father, Adolf Henrik Lundin, drew his last breath. I will not end this letter by trying to express how much he is being missed both by family and staff. That is not what he would want. I am simply eternally grateful for his unconditional love and support and for showing us all how to get the most out of life. I only hope that I can pass on his positive outlook and some of his vision.

Sincerely,

Ian H. Lundin
Chairman of the Board

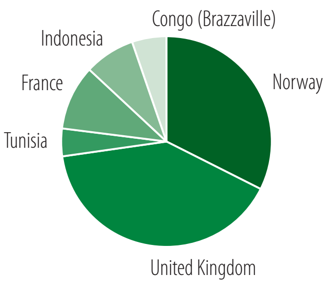
CHRIS BRUIJNZEELS ▸ VICE PRESIDENT RESERVOIR & PRODUCTION

Lundin Petroleum Proven and Probable Reserves



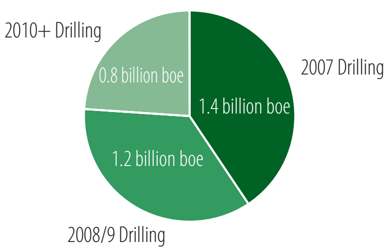
Proven and Probable Reserves 176.4 MMboe
at 1 January 2007

Contingent Resource Estimate



Contingent Resources Internal Estimate 122 MMboe
net Lundin Petroleum

Prospective Resource Estimate



Unrisked Prospective Resources Internal Estimate
3.4 billion boe net Lundin Petroleum

UNDERSTANDING RESOURCES

Reserves

Lundin Petroleum, like most companies in Europe, calculates reserves and resources according to the SPE/WPC definition of petroleum resources. This definition was first published in 1997 by the SPE (Society of Petroleum Engineers) and WPC (World Petroleum Congress) in an effort to standardise reserves reporting.

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 reserves, also abbreviated as 2P.

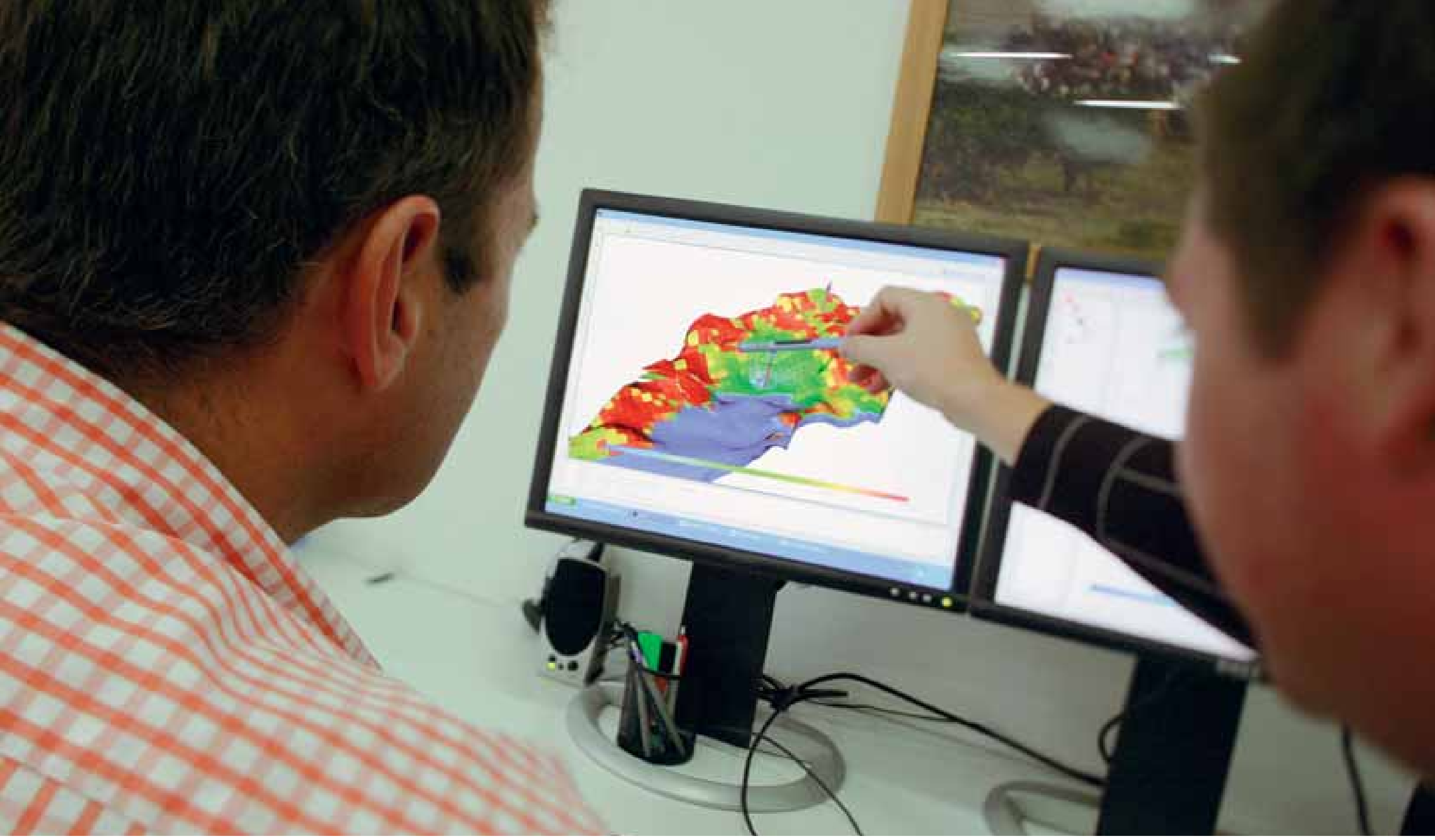
Lundin Petroleum's reserves are calculated using forward projections of production levels, work programmes and the associated capital investment, and operating cost levels. From these projections the last year of economic production is calculated, given an assumed oil price scenario. The aggregate production until this economic cut off point constitutes the reserves. Lundin Petroleum has used a long term oil price scenario of USD 50 per barrel for this calculation.

Each year Lundin Petroleum's reserves base is certified by an independent reserves certifier. Over the last years Gaffney, Cline and Associates (GCA) has performed this service. GCA is one of the largest independent reserves certifiers in the world and this year GCA certified 146.0 MMboe (million barrels of oil equivalent) of 2P oil and gas reserves net to Lundin Petroleum excluding Lundin Petroleum's newly acquired reserves in Russia. The Russian reserves are currently estimated at 30.4 MMboe based on third party reserves report available at the time of the acquisition. Lundin Petroleum's aggregate reserves base as at 1 January 2007 is therefore 176.4 MMboe, which is an increase of 29 percent compared to last year's reserves and Lundin Petroleum replaced last year's production by 122 percent from revisions in the existing reserves base as well as additions from moving contingent resources into reserves.

Contingent resources

In addition to its certified reserves, Lundin Petroleum has a number of discovered oil and gas resources which currently do not classify as reserves. According to the SPE/WPC these classify as contingent resources. Contingent resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

Lundin Petroleum has an estimated 122 MMboe of contingent resources. These resources are not reserves, because further work is required to mature them. Additional seismic has been shot over the Heather, Broom and Southwest Heather fields and additional



seismic over the Thistle field is scheduled for 2007. Following interpretation additional development targets will be firmed up which will allow to move these contingent resources into reserves. Work will start in 2007 to define development plans for Viodo (Congo (Brazzaville)) and appraisal drilling in PL006 and PL148 in Norway is scheduled.

Lundin Petroleum estimates its contingent resources in exactly the same manner as its reserves, be it that an additional maturation work plan is associated with these resources. There is a chance that identified resources will not mature into reserves.

Prospective resources

It is important to realise that Lundin Petroleum's contingent resources are not the same as Lundin Petroleum's exploration resources. Under the SPE/WPC definitions exploration resources are classified as prospective resources. Prospective resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

Lundin Petroleum has a large portfolio of exploration licences. These exploration licences are evaluated using techniques like gravity and magnetic surveys, geochemical surveys, seismic surveys and basin analysis. This analysis results in a long list of leads and drillable prospects. Leads are identified potential hydrocarbon accumulations that will require additional study before they are matured in prospects and appear in drilling plans. Prospects are ready to drill. It is important to realise that prospects and leads carry exploration risks, which result in a chance of not finding commercial hydrocarbons. These risks are identified by Lundin Petroleum and help management in ranking exploration activities.

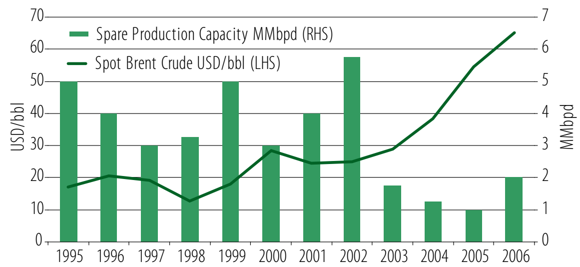
In 2007 Lundin Petroleum is planning to drill (operated and non-operated) 19 exploration wells targeting in total 1.4 billion boe of unrisked prospective resources net. Lundin Petroleum estimates a further 2 billion boe of net unrisked prospective resources, which could be targeted by exploration work programmes in 2008 and beyond.

Organic growth

As an integrated Exploration and Production company, Lundin Petroleum is continuously aiming to grow the business by identifying exploration targets and maturing exploration targets into drillable prospects, and thus increase its prospective resource base. By drilling exploration wells and discoveries, prospective resources are moved into contingent resources and after formulating a development strategy and demonstrating commerciality, contingent resources are moved into 2P reserves.

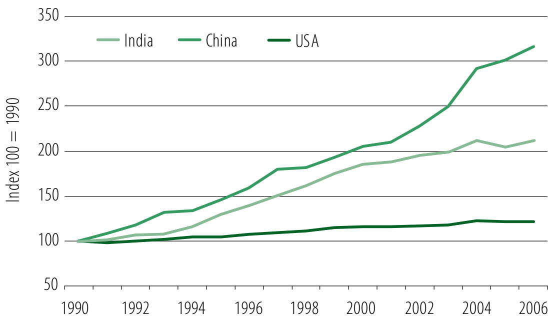
GEOFFREY TURBOTT ▸ VICE PRESIDENT FINANCE & CFO

Spare Production Capacity vs Oil Price



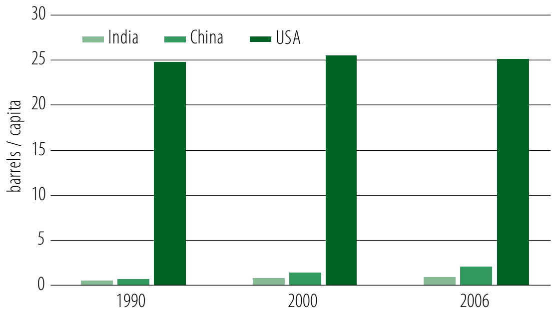
Source: BP Statistical Review 2006, Enskilda, EIA, Platts

Oil Consumption – India, China and USA



Source: BP Statistical Review 2006, EIA

Consumption – Barrels per Capita



Source: BP Statistical Review 2006, EIA, Chinability.com, Population Estimates Program, Population Division, U.S. Census Bureau

MARKET OVERVIEW

The primary driving force behind the world demand for oil is economic growth. The global gross domestic product (GDP) came in at 3.9 percent in 2006, up from 3.5 percent in 2005. In developing countries, demand for energy is much in line with economic growth, whereas in industrialised countries the growth in demand is more volatile in comparison with economic growth.

Oil price development

Oil prices have historically fluctuated widely. The oil price is governed by the dynamics between the supply of and demand for oil. There are numerous factors impacting the level of supply and demand of oil including global and regional economic and political developments in resource-producing regions as well as the extent to which the Organization of Petroleum Exporting Countries ("OPEC") and other producing nations influence global production levels. In addition, prices of alternative fuels, global economic conditions and weather conditions affect the oil prices.

However there has been a significant increase in the price of crude oil price over the past 10 years. Lundin Petroleum has continually stated that we believe in sustained high oil prices due to a reduction in the spare production capacity, continued increase in demand for oil and the limitations on global refining capacity.

Declining spare production capacity

Oil prices have increased as the spare production capacity has declined. Spare production capacity, the difference between the amount of oil that could be produced and the amount of oil actually produced, on a global basis is at a historical low, both in absolute terms and even more so in relative terms. In the late 1990's the spare production capacity was around 3 million barrels per day which represented around 4 percent of the average daily production in that period compared to a much reduced spare production capacity of around 1.5 million barrels per day over the last two years which represents less than 2 percent of the average daily production over the period. Such a low margin of excess capacity has resulted in the market placing a premium on securing crude oil deliveries.

Increasing demand

Global oil consumption was around 84.5 MMboepd in 2006 an increase of around 0.8 MMboepd compared to the 2005 consumption level. The majority of the global oil consumption stems from North America but the majority of the growth in demand for oil is projected to be driven by the expansion of the Chinese and Indian economies.

From 1990 through to 2006 Chinese and Indian consumption of oil has increased by more than 200 percent and 110 percent respectively, equating to an annual increase over the period of 7.4 percent in China and 4.8 percent in India.

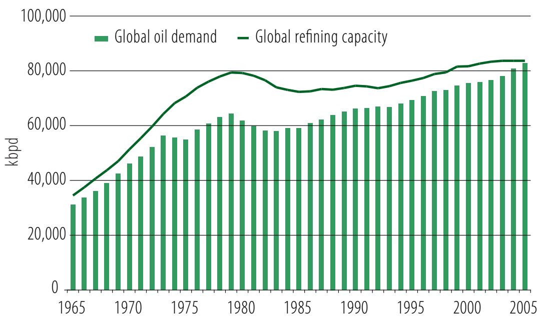
This is in stark contrast to North America where consumption has increased by a comparatively moderate 20 percent over the same period, or just over 1.2 percent per annum. Despite the astonishing growth in oil consumption in China and India over the last decade and a half, these two countries still consume less than 12 percent of the world's oil consumption; dwarfed by North America's consumption which amounts to roughly one quarter of the world's consumption.

Oil consumption per capita in North America has remained relatively flat over the last 15 years or so at around 25 barrels per capita per year. The oil consumption in China and India has on the other hand increased significantly on a per capita basis over the same period. The Chinese per capita consumption has increased from less than three quarters of a barrel in 1990 to over 2 barrels per capita in 2006 – however the average oil consumption of a North American is still 12 times more than what the average Chinese consumes and almost 30 times more than the average Indian consumes. As China and India strive to migrate from being developing economies into developed economies its oil consumption will in all likelihood continue to grow leading to higher demand for oil and thus higher oil prices as the world's oil fields will find it increasingly difficult to produce the volumes required to meet the rising demand. If China is to reach only half the current oil consumption that the average American enjoys then this would mean an increase in oil consumption of around 35 million barrels per day, which would represent a 40 percent increase on the current oil production levels.

Limited spare global refining capacity

The gap between global oil demand and global refining capacity has decreased over the last decade. A higher proportion of crude oil production in the global oil market is of a heavy/sour nature and the global refining system has growing challenges to cope with a situation where global oil demand is almost entirely related to the transportation sector which relies on a lighter/sweeter blend of crude oil. The global refining system struggles as it is not yet fully prepared technically to make sufficient quantities of light transportation fuel from the increasingly heavy/sour crude oil.

Spare Global Refining Capacity



Source: BP and Enskilda

Global reserves

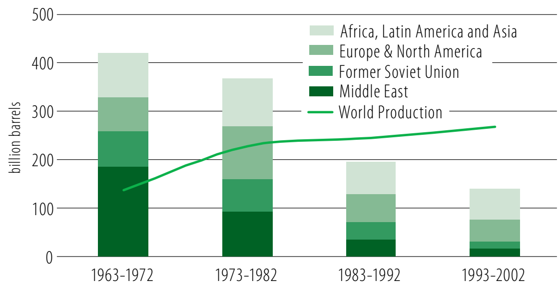
The Middle East is by far the region where the largest proven oil reserves are found, followed by South and Central America and Africa. In total, global proven oil reserves amounted to 1,200 billion bbls at the end of 2005, of which over 60 percent was attributable to the Middle East.

As well as oil, natural gas exists on all continents. However, the reserves of natural gas are distributed differently compared to the oil reserves. At the end of 2005 there was 180 thousand billion m^3 (6,300 trillion cubic feet) of proven natural gas reserves, of which the Middle East had around 40 percent and the former Soviet Union around 26 percent.

Production levels exceed reserves additions

The last two decades have seen global production of crude oil exceeding the rate of global new reserve additions and the issue of reserves replacement is becoming more of an issue for the oil industry and the global economy. Over the last decade the rate of crude oil production has been close to being double the rate of new reserves additions. As established areas of crude oil production become more developed, opportunities for substantial reserve additions have become limited and oil companies have had to seek new areas for exploitation. These new areas come with their own challenges of political, technical and environmental risks that must be addressed before their potential can be realised.

Production vs Additional Discoveries



Source: EIA

Competition – Partners

The actors in the oil and gas market consists of national oil companies (ex. Aramco, CNPC, Petronas, Statoil), the big integrated oil companies, the majors (ex. Exxon, Shell, BP) and independent oil companies such as Talisman Energy, Premier Oil and Lundin Petroleum. The main strategy of the national oil companies is to secure the energy supply for their respective country. They often have downstream operations as well i.e. refineries and distribution/petrol stations. The majors are public companies with both upstream and downstream operations while the independents are mainly focused on the upstream business. Their advantage is that they are smaller and more flexible and move quicker into new areas. Companies may be competitors when acquiring new acreage but can become partners in a later phase of the development.

ALEXANDRE SCHNEITER ▸ EXECUTIVE VICE PRESIDENT & COO

COUNTRY	No. of LICENCES	WORKING INTEREST
Albania	1	50%
Congo (Brazzaville)	1	18.75%
Ethiopia	2	100%
France	16	33.3–100%
Indonesia	6	14.5–100%
Ireland	3	12.5–50%
Netherlands	19	1.2–10%
Norway	24	7–100%
Russia	5	50–70%
Sudan	1	24.5%
Tunisia	4	40– 62.5%
United Kingdom	25	10–100%
Vietnam	1	33.3%

As at 31 March 2007

OPERATIONS REVIEW

2006 has proven to be a very challenging year but also a year of significant activities and achievements. The success of Lundin Petroleum continues to be driven by our ability to increase reserves and production. We announced third party certified reserves as at 1 January 2007 of 176.4 million barrels of oil equivalent representing a 29 percent increase on 2006 reserves and a replacement ratio of 122 percent. In parallel, our target year end production of 40,000 boepd was achieved with the Oudna field coming on stream successfully during the fourth quarter of 2006. Further key development activities marked 2006 with the start of the Alvheim field development drilling which will continue right through 2008. Alvheim is expected to come on stream late second quarter/early third quarter 2007 taking Lundin Petroleum's production to over 50,000 boepd by the end of 2007. In addition the field development plan for the Volund discovery was submitted during the third quarter of 2006 and was approved in early 2007. Volund is targeted to come onstream in early 2009. During 2006 facilities related issues in the United Kingdom negatively impacted our production. Those issues particularly related to the old infrastructure are challenging but I am confident that improvements are being made with our continued capital investment programme. We remain focused on ensuring that the field subsurface potential of these mature fields can be realised.

In parallel, during 2006 our proactive new venture strategy led to the signing of one new offshore block in Congo (Marine XI), two onshore blocks in Ethiopia (Ogaden-02 and 06), one offshore block in Vietnam (block 06-94) and the acquisition of seven new licences in the United Kingdom. Lundin Petroleum also successfully submitted several applications for new exploration licences during the 2006 bidding rounds in both Norway and United Kingdom. Such efforts have lead to the award of seven new licences in Norway and six new licences in the United Kingdom.

Our exploration drilling activities in 2006 were disappointing with the delays of our drilling activities in Sudan, Norway and Russia. However 2007 will be a very exciting and busy period with the drilling of 19 new exploration wells and the potential of a further 16 new exploration wells in 2008. Importantly, during the year significant efforts were made to successfully secure rigs for all our 2007 activities. Also, in view of our strategy of securing further rig slots beyond 2007, we entered into a joint venture with Marathon for a two year offshore drilling contract and one optional year, starting in 2009, for future activities in the Norwegian Continental Shelf.

On the acquisition side we continue to seek new opportunities within our existing operational areas and we also seek to enter into new core areas. This strategy led to the Valkyries acquisition creating a new exciting core area in Russia and the acquisition of the Peik discovery in the North Sea.

Without a very dynamic, dedicated, experienced and entrepreneurial group of people none of the above would have been achieved in such a short time frame. Today I feel extremely confident that the next few years will see numerous opportunities for significant growth potential.

2006 ACHIEVEMENTS

Planned Exploration Drilling Schedule 2007

Country	Licence	Working Interest %	Operator	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Norway	PL338	50	Lundin				
	PL335	18	BG				
	PL292	40	BG				
UK	P1089 & P1295	10	OilExCo				
	P1399	15	Endeavour				
	P1129	25	Lundin				
	P1301	30	Lundin				
	P1109 & P1107	40	Lundin				
Indonesia	Salawati Basin	25.93	PetroChina	2 wells			
	Salawati Island	14.51	Pertamina/PetroChina			2 wells	
	Blora Licence	43.29	Lundin				
Russia	Lagansky	70	Lundin				
Sudan	Block 5B	24.5	WNPOC				3 wells

NORWAY

The Norwegian Continental Shelf is one of the principal growth areas for Lundin Petroleum. The existing portfolio of licences comprise the full spectrum from exploration to mature producing assets.

The Alvheim development project is planned to come on stream in late second/early third quarter 2007 via a floating, production, storage and offloading vessel (FPSO). The development will result in oil and gas being produced from a series of good quality sandstone reservoirs. There is further reserve potential in the greater Alvheim area from existing fields in addition to the exploration potential in the area. Alvheim gross plateau production rate is forecast to be approximately 93,000 boepd.

The East Kameleon exploration/appraisal well was successfully completed and further proves up the north east extension of the Alvheim area.

The development plan for the Volund field located south of Alvheim, received approval from the Norwegian Government and is planned to come on stream as a subsea tieback to the Alvheim facilities in 2009 with a plateau production rate of approximately 25,000 boepd.

Lundin Petroleum has an extensive portfolio of 24 exploration licences with acreage locally associated with discoveries or others that already contain unexploited yet proven marginal accumulations of oil and gas. To test the prospectivity three exploration wells will be drilled during 2007. Rigs are secured for all three wells.

The production from Norway is currently generated from the Jotun Field.

NORWAY SUMMARY

- **Reserves 47.2 MMboe**
- **2006 average net production: 860 boepd**
- **2006 highlights**
  - Alvheim subsea installation completed.
  - Plan for Development and Operation for the Volund field approved by the Ministry of Petroleum and Energy.
  - Successful exploration/appraisal well on the East Kameleon structure in the Alvheim Area.
  - 7 new licences awarded in the recent 2006 APA licensing round.
  - Acquisition of Total's 50% interest in the Norwegian part of the Peik discovery.
- **2007 work programme**
  - 3 exploration wells to be drilled PL338, PL335, PL292.
  - Commisioning and hook-up of the Alvheim Vessel.
  - Continue development drilling at Alvheim with 4 producing wells expected in 2007.

UNITED KINGDOM

Lundin Petroleum has working interests in 4 production and 21 exploration licences in the United Kingdom Continental Shelf (UKCS). The UKCS is a core producing area for the Company. The major operated assets include two mature producing fields, Thistle and Heather, and the recent Broom subsea development which is tied back to the Heather platform. The Broom Field will extend the life of the Heather field providing additional production and reserves. The Company's total 2P reserves from its United Kingdom producing assets is 49.3 MMboe.

Lundin Petroleum has a strategic portfolio of development assets and an extensive portfolio of exploration licences with upside potential to further grow the reserve base on the UKCS. In addition third party business is actively being pursued which will help to reduce operating costs and extend the life of the Heather and Thistle assets further

UNITED KINGDOM SUMMARY

- **Reserves 49.3 MMboe**
- **2006 average net production: 16,700 boepd**
- **2006 highlights**

Heather/Broom Fields
- Acquisition of 3D seismic over the greater Heather Area which includes the Heather, Broom and SW Heather fields.
- Heather drilling rig successfully reactivated and one infill well drilled.
- Technical problems with the water injection system on Heather were resolved leading to improved production performance during the second half of the year.

Thistle Field
- Commenced a long term investment programme to redevelop the Thistle field. This will lead to a programme of well workovers and development drilling.
- The Thistle planned shutdown was successfully completed on schedule and within budget.
- Technical problems with the water injection system on Thistle were resolved leading to improved production performance during the second half of the year.

Acquisitions, Exploration and Drilling
- Acquisition of Total's 33.33% interest in the United Kingdom portion of the Peik Field.
- Various working interests in 7 exploration licences acquired from Palace Exploration Company (E&P) Limited of which Lundin Petroleum will assume operatorship in 5 of the licences.
- Awarded 6 exploration licences in the 24th licensing round
- 2 drilling slots were secured with the GSF Artic II semi-submersible during 2007 and 2008. A further 3 drilling slots were secured with the GSF Galaxy II jack-up in 2007.

- **2007 work programme**

Heather/Broom Fields
- Complete the Heather drilling programme.
- Investment in the produced water handling facilities on the Heather platform.
- Drill an development well on the Broom field.
- Continue subsurface evaluation of the Heather and Broom fields to define future infill well locations.

Thistle Field
- Further upgrades of the Thistle facilities and upgrade and reactivation of the Thistle drilling rig.
- Continue subsurface evaluation of the Thistle field to define future development well locations.
- Acquisition of new 3D seismic over the Thistle and Deveron fields.
- Attract third party business.

Development/Exploration
- Carry out appraisal/development planning for the South West Heather and Peik discoveries.
- Drill 5 exploration wells with an unrisked potential of approx 100MMboe.
- Participate in the 25th licensing round.

TUNISIA

The Oudna field development (Lundin Petroleum 40% working interest) was successfully completed and production commenced in November 2006. The development consists of a single production well supported by a single water injection well, both tied back to the Ikdam FPSO. Reservoir pressure is maintained by water injection and artificial lift is provided by a crude oil powered jet-pump. Following initial commissioning, the field has performed above the expected 20,000 bopd target production rate.

Review of further exploration potential and development options of other discoveries is ongoing.

Ikdam FPSO
The Ikdam is an Aframax tanker with a storage capacity of almost 600,000 bbls. The vessel complies with requirements for operating as a tanker, oil terminal and production facility. The vessel is owned by Ikdam Production S.A. and the shareholders are Lundin Petroleum (40%), Petrojarl (40%) and Brovig (20%). The commercial arrangements are such that Lundin Petroleum and Petrojarl each have a 50 percent commercial interest in the vessel.

TUNISIA SUMMARY

- **Reserves 3.8 MMboe**
- **2006 average net production: 1,176 boepd**
- **2006 highlights**
  - Successfully drilled Oudna field production and injection wells in first half of the year.
  - Following successful outcome of Oudna drilling, Isis field production ceased and the Ikdam FPSO was refurbished, upgraded and re-classified in Malta shipyard.
  - Ikdam FPSO was successfully re-deployed on the Oudna field in third quarter 2006, and production started on 11 November 2006.
- **2007 work programme**
  - Monitoring of Oudna field production performance and assessment of potential for additional drilling within the field.
  - Evaluation of other Tunisian acreage and opportunities.

FRANCE

France is one of the major operated producing areas of Lundin Petroleum. In the Paris Basin and Aquitaine Basin, production is optimised by using a variety of workover techniques, water injection and development drilling programmes. With successful water injection techniques, strong performance and production rates were achieved in several fields in the Paris Basin. Facilities and infrastructure are in place with excess capacity to enable future development.

Further exploration opportunities and exploitation of contingent resources are being pursued to provide Lundin Petroleum with additional production.

Through selective drilling programmes, investments in new projects and continued operational improvements, the French assets will continue to provide Lundin Petroleum with stable long term production.

FRANCE SUMMARY

- **Reserves 22.6 MMboe**
- **2006 average net production: 3,730 boepd**
- **2006 highlights**
  - Successful cold water frac campaign in Rhetien fields.
  - Successfully drilled Grandville GV-110 development well.
- **2007 work programme**
  - 4 underbalanced wells to be completed in the Villeperdue field with coiled tubing drilling technology.
  - Performing Grandville GV-110 production test to evaluate northern extension of the field.
  - 1 development well, Vert La Gravelle VGR-5, planned to delineate the field to the south.
  - 1 development well, Soudron SDN-118, planned to delineate the field to the west.

NETHERLANDS

The Netherlands is a mature gas province providing Lundin Petroleum with stable, long term onshore and offshore production. The production is generated from non-operated interests. Although most of the producing fields are mature, additional infill drilling and development opportunities are actively pursued.

All produced gas is sold to Gasunie under long term gas sales agreements.

NETHERLANDS SUMMARY

- **Reserves 5.4 MMboe**
- **2006 average net production: 2,107 boepd**
- **2006 highlights**
  - 1 development well K4-A5 drilled.
  - 1 development well K4-BE4 drilled.
  - Development of the K5F project launched.
  - 1 development well F15A6 spudded.
- **2007 work programme**
  - 2 K5F development wells to be drilled.
  - 1 offshore exploration well planned.
  - Various work-overs offshore.
  - 3 infill wells onshore to be drilled.
  - 1 tie-back onshore to be drilled.

INDONESIA

Lundin Petroleum has an extensive portfolio of production, development and exploration assets. Production is generated from non-operated assets in the Salawati Island and Salawati Basin Production Sharing Contracts (PSC's).

The development of the Singa gas discovery on the Lematang Block is ongoing with first gas expected in 2009. Gas sales arrangements are currently being finalised to supply gas to customers in west Java. Lundin Petroleum acquired an additional 10 percent working interest in the Lematang Block in 2006. The deal was completed in January 2007 resulting in a working interest for Lundin Petroleum of 25.88 percent.

The exploration well Tengis–1, onshore Java, will be drilled in 2007. Lundin Petroleum is operator.

There is further exploration potential in Indonesia both for operated and non operated assets.

INDONESIA SUMMARY

- **Reserves 17.6 MMboe**
- **2006 average net production: 2,449 boepd**
- **2006 highlights**
  - Completed the development of the TBA field offshore Salawati Island with 2 development wells and a mobile production unit. First oil was achieved in September.
  - 11 development wells drilled in Salawati Island/ Salawati Basin.
  - 8 exploration wells drilled in Salawati Island/ Salawati Basin.
  - 1 operated exploration well completed, Jati-1.
- **2007 work programme**
  - 10 development wells to be drilled in Salawati Basin.
  - 2 development wells to be drilled in Salawati Island.
  - 3 exploration wells to be drilled Salawati Basin.
  - 2 exploration wells to be drilled Salawati Island.
  - 1 exploration well to be drilled, Tengis – 1 in the Blora PSC onshore Central Java.
  - Develop the Singa gas field on South Sumatra. First gas expected 2009.

ALBANIA

Lundin Petroleum has a production sharing contract for the Durresi Block, offshore Albania, (working interest 50%).

3D seismic data has been acquired and the prospectivity of the block is under review.

IRELAND

Lundin Petroleum has three licence interests, offshore Ireland.

Lundin Petroleum holds a 12.5 percent interest in the Seven Heads Oil licensing option, which lies below the producing Seven Heads gas field. This option was extended to end 2006, and application has now been made to convert this to a lease undertaking.

Lundin Petroleum holds two other non-operated exploration licences, in the Donegal area (Inishowen 40%) and in the Slyne area (Inishmore 50%). Both are operated by Island Oil and Gas.

IRELAND SUMMARY

- **2006 highlights**
  - Awarded Inishmore and Inishowen exploration licences in March 2006 bid round.
  - Drilled Inishbeg prospect in Donegal Basin with well 13/12-1 in August 2006 – structure found to be dry.
  - Relinquished Frontier Exploration Licence 1/05 in December 2006 following results of well.
- **2007 work programme**
  - Initiate technical studies on new licences.
  - Prepare for 3D seismic commitment on Slyne basin licence.

SUDAN

Lundin Petroleum has a 24.5 percent working interest in Block 5B operated by White Nile (5B) Petroleum Operating Company Ltd. (WNPOC), a joint operating company owned by Petronas Carigali and Sudapet.

Exploration drilling will commence in 2007 with a three well initial drilling programme to test the large prospectivity of Block 5B which have been identified by earlier acquired seismic data. The wells will be drilled using swamp drilling equipment with support provided from a newly constructed logistics base.

A 1,500 km 2D seismic acquisition programme is ongoing with 700 km already acquired.

SUDAN SUMMARY

- **2007 work programme**
  - Continuing the 1,500 km 2D seismic acquisition.
  - A 3 well exploration drilling programme to commence targeting unrisked net resource of 525 million boe.

Current situation in Sudan

Since the signing of the Comprehensive Peace Agreement (CPA) in January 2005, the vast majority of the country – except for Darfur – is witnessing peace and economic development.

In accordance with the CPA, the Government of National Unity (GONU) transfers 50 percent of all oil revenues generated to the Government of South Sudan (GOSS); 2 percent of such revenues go to the producing state. As a result the economy of Sudan has witnessed constant growth: real GDP growth for 2005 and 2006 was 8.3 percent and 9.6 percent respectively, while projected growth for 2007 is 11.8 percent. This economic development will no doubt help stabilise the country as a whole and provide the basis for a more stable future.

Lundin Petroleum, though it is not operator, maintains a pro-active role in Sudan, and monitors particularly the situation in Block 5B. It is in ongoing contact with various stakeholders, including the representatives of relevant authorities in Sudan, with local and international NGOs but most importantly with the operator, WNPOC, to ensure that activities are conducted abiding to principles of corporate citizenship. In addition to the community development activities in Block 5B, to which it contributes to through the consortium, Lundin Petroleum has dedicated approximately one third of its Corporate Donations' programme to Sudan in 2006.

RUSSIA

Lundin Petroleum acquired Valkyries Petroleum Corp. in August 2006 in an all share transaction. The main assets include a growth oriented production, development and exploration portfolio of oil and gas projects in Russia. Key projects comprise interests in the Ashirovskoye producing field in Orenburg; in the producing Kaspiskoye Field in the Kalmykia Republic; in the producing Sotchemyu-Talyu Field and the North Irael Field in the Komi Republic; as well as an interest in the highly prospective Lagansky exploration block offshore in the Caspian Sea.

The Lagansky Block is 2,000 square kilometres in size and is located in the Central Caspian Basin, which contains some of the largest oil and gas accumulations in the world. Two exploration wells are planned to be drilled in the block during 2007. The barge mounted facilities necessary for shallow water drilling have been substantially completed.

RUSSIA SUMMARY

- **Reserves 30.4 MMboe**
- **2006 average net production: 4,664 boepd***
- **2007 work programme**

Ashirovskoye Oil Field
- 7 development wells.
- Upgrade production facilities.
- Internal field development plan.

Kaspiskoye Oil Field
- Facilities upgrades.
- Improve well performance.
- Field development plan.
- Potential development drilling in fourth quarter.

Sotchemyu Talyu Oil Field
- Full review of reservoirs.
- Upgrade of facilities.
- Internal field development plan.
- 7 new wells and 3 sidetracks planned.

North Irael Oil Field
- Acquisition of 3D seismic.
- 2 development wells.

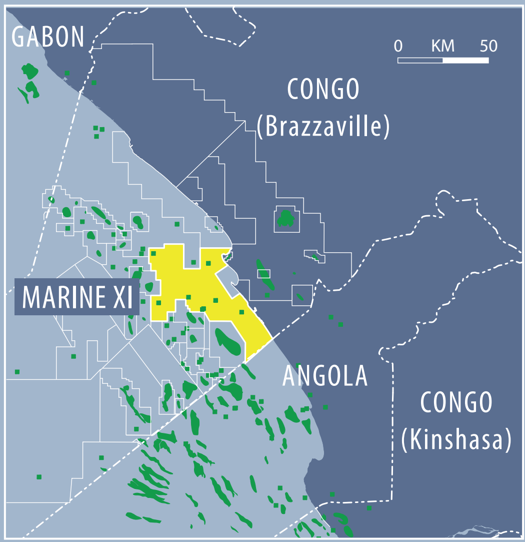
Lagansky Block
- 2 exploration wells to target net unrisked resource of over 600 MMboe.

* Average net production from 1 August 2006

NEW VENTURES

CONGO (BRAZZAVILLE)
Lundin Petroleum acquired an 18.75 percent interest in Marine Block XI, offshore Congo (Brazzaville). The block is operated by SOCO.

There has been previous exploration activity on the block resulting in four small oil discoveries and the definition of several undrilled leads. The largest of the discoveries has recoverable resources estimated to be 35 million barrels. All discoveries and leads are situated near existing facilities and in water depths ranging from 10 to 120 metres. The acquisition of a 1,200 km² 3D seismic programme was completed in early December 2006. Prior to this, the only seismic on the block was 2D data, which did not adequately image the pre-salt section. This large new survey, which covers most of the area of the block, will be used to improve the understanding of existing discoveries and to better define exploration targets for drilling.



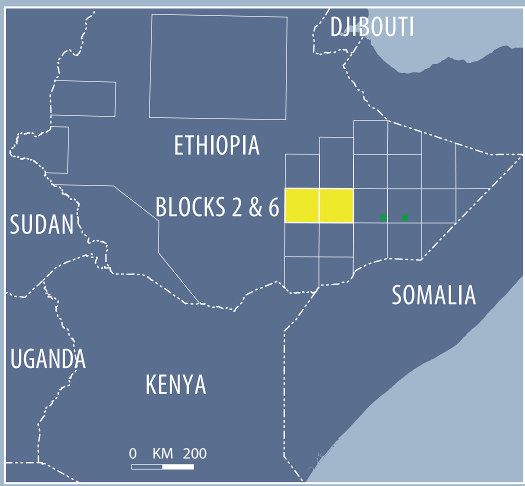
2006 highlights

- Successfully acquired 3D survey in the fourth quarter.
- Licence interest officially ratified by government in January 2007.

2007 work programme

- Complete processing of 3D seismic data.
- Feasibility studies to be undertaken for Viodo oil discovery.
- Prepare for planned 2008 drilling campaign.

ETHIOPIA
Lundin Petroleum has entered into a new PSC as an operator with 100 percent interest for Blocks 2 and 6 in the Ogaden Basin. There has been a limited amount of exploration activities in the Basin, however, the historical exploration of the Western Ogaden Basin has demonstrated a working petroleum system with proven source and reservoirs.

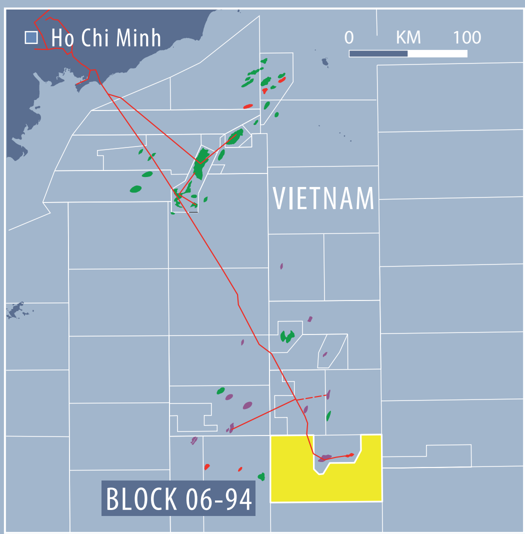


2007 work programme

- Reprocessing of current seimic data.
- An exploration drilling programme is planned for 2008.

VIETNAM
Lundin Petroleum has been awarded a 33.3 percent working interest in Block 06/94 in the Nam Con Son Basin, offshore southern Vietnam. The block covers an area of 4,195 km² in water depths ranging from 100 to 500 metres.

Several large structures have been mapped across the block with an existing high quality grid of 2D seismic. Future plans will include the acquisition of 800 km² of 3D seismic and the drilling of additional exploratory wells to prove up the oil and gas potential of the block. There are existing discoveries in adjacent licences.



CORPORATE RESPONSIBILITY

THE FIRST FIVE YEARS

Lundin Petroleum started off five years ago with a strong commitment to Corporate Responsibility (CR). This commitment was expressed in the Company's Code of Conduct[1], which was developed at the initiative of the Board of Directors, endorsed and reviewed by it annually. From the outset, Lundin Petroleum wanted to make clear its mission and the values by which it was guided and make these known to its stakeholders: first and foremost its staff, who are bound to act in accordance with the Code, but also its shareholders, host governments, local communities and representatives of civil society – all of whom, together with Lundin Petroleum, want to see socio-environmental welfare go hand in hand with technical and commercial performance.

Complementing its vision to "explore for and produce oil and gas in the most economically efficient, socially responsible and environmentally acceptable way", business principles guide Lundin Petroleum in its activities, seeking to achieve high standards of Company and staff performance coupled with a respect for state sovereignty, community interests and the environment.

Even though, over the past five years, the wording of the Code has not changed, the focus of activities in furtherance of the Code has evolved.

[1] All documents referred to in this section, i.e. Code of Conduct, HSE Policies, the Green Book, Corporate Donations programme, etc. can be accessed through www.lundin-petroleum.com.

2001–2003: FIRST PHASE

From 2001 to 2003, Lundin Petroleum's main asset was in Block 5A, Sudan. As operator, its CR emphasis was on ensuring that activities took place in accordance with universally accepted principles on the protection of human rights and with due regard to local communities. The Company developed a Human Rights Primer, based on the United Nations Declaration of Human Rights, which it disseminated throughout the Company along with Amnesty International's Human Rights Code for Companies and the Ten Basic Human Rights Standards for Law Enforcement Officials, etc. To reinforce knowledge and understanding of respect for human rights in practice, a human rights expert was brought in to train Company staff. At the same time, Lundin Petroleum developed and implemented a Community Development and Humanitarian Assistance Programme (CDHAP) whose aim was to assist local communities in the areas of freshwater supply, health, education, and capacity building in Sudan.

Impact in 2006

Lundin Petroleum's successor in Block 5A has maintained CDHAP and introduced it in other concessions in which it operates, including Block 5B. Furthermore, Lundin Petroleum has shared its experience in dealing with human rights with the operator of Block 5B, in furtherance of its continued commitment under the Code and to ensure awareness of human rights issues and means of dealing with them are maintained. Lundin Petroleum intends to draw on its experience in Sudan to develop similar programmes in relevant New Venture areas it acquired in the course of 2006: Congo (Brazzaville), Ethiopia, Russia and Vietnam.


A RESPONSIBLE PARTNER

2003–2005: SECOND PHASE

From 2003 to 2005, the Company's activities were primarily taking place in Western Europe, thus the focus shifted towards developing and implementing a sound Health, Safety and Environmental (HSE) practice. Lundin Petroleum's HSE Management System (the "Green Book"), modeled after ISO-14001, details how the Company's HSE commitments expressed in its HSE Policies are integrated into operational strategies, planning, implementation, monitoring and review. This not only entails attributing HSE roles and responsibilities throughout the organizations, but providing staff with required HSE training, carrying out environmental studies, such as baseline studies, environmental impact assessment, oil spill or emergency response plans, etc. and introducing measures to limit possible environmental impacts.

Impact in 2006

HSE is necessarily a "work in progress" area; Lundin Petroleum strives for continuous improvements, and while setbacks do occur, the general trend has been encouraging. In addition to improved overall key performance indicators (KPIs) for 2006, the Company has succeeded for the second year in a row to emit less than 75 percent of its authorised CO_2 quota in the United Kingdom.

2006: THIRD PHASE

In 2006, Lundin Petroleum's operations followed two main directions: a further development of existing assets and an active search and launch of New Ventures. As a result, experience gathered in the previous years in the field of HSE and CR conduct was relied upon to address new concerns and develop new procedures. From an HSE perspective, reporting has been further standardised enabling the Company to obtain more reliable comparable statistical HSE data for all its operated assets. From a CR point of view, a systematic process of carrying out a CR analysis of proposed New Ventures has been put in place; the analysis examines issues which the Company could be faced with and means to deal with them, if required. Finally, given an increased presence in countries faced with socio-economic challenges, a Corporate Donations programme was instituted. The programme is aimed at alleviating problems faced by communities primarily in countries where Lundin Petroleum has interests. It is meant to demonstrate that economic development coupled with social progress is a formula for success.

HSE AND CORPORATE DONATIONS

HSE INDICATORS IN 2006

Lundin Petroleum has maintained a HSE "zero goal" for all its operations: zero fatalities, zero injuries and zero spills. In the event that the goal is not achieved, as was the case in 2006, the objective is to ensure that through proper measures applied in a timely way, the impact on people and the planet remains as low as possible.

1. Fatalities

There were no fatalities among Company staff or contractors in 2006.

2. Injuries

There was no Lost Time Incidents (LTI) among Lundin Petroleum staff worldwide despite the intense Oudna development programme in Tunisia and the ambitious drilling programme in France.

The Lost Time Incident Frequency Rate (LTIFR, per 200,000 manhours) for operated assets managed by Company staff in 2006 was therefore zero.

Due to two minor LTIs which took place on the Heather and Thistle platforms in the United Kingdom, managed by Petrofac Facilities Management (PFM) on behalf of Lundin Petroleum, the LTIFR for operated assets including contractor performance was 0.21. This represents a significant improvement over 2005 where the LTIFR was 1.19.

3. Oil spills or gas leaks

Lundin Petroleum experienced three reportable oil spills, under Company rules[2]. A spill of approximately 60 barrels occurred in Soudron, France due to the rupture of a plug on a manifold. Upon the discovery of the spill, containment measures were put in place forthwith and remedial measures – the removal of polluted top soil and disposal at authorised landfill sites- were carried out to the satisfaction of French authorities. In the United Kingdom, there were two minor spills, one consisting of a diesel leak from pipe work under deck of approximately 5.7 barrels discharged in total. The pipe work was replaced. The second minor spill, approximately 2.6 barrels, was caused by a production upset and emergency plant shutdown. All spills were subjected to a root cause and impact analysis and reported to the authorities: none were deemed to have any lasting impact on the environment.

[2] The Company's internal reporting requirements are for any spill over 1 barrel.

CORPORATE DONATIONS IN 2006

In the words of our Chairman, Ian Lundin, "we are determined to have a positive impact on society wherever we invest. Our projects can only be considered to have been a success if they leave behind a better economic climate while having safeguarded the environment." Our Corporate Donations programme is aimed at enhancing the socio-economic conditions of populations in countries where we have operations but where the full benefits of our activities have yet to occur.

Projects under our Corporate Donations programme were selected based on their contribution to the humanitarian or the educational field, provided we felt that our contribution would make a material difference to the viability of the project, that it was in some way relevant to the oil and gas sector and/or the areas where we have activities. They were as follows:

1. Partnership agreement with the Swedish arm of SOS Children International, an organisation which supports needy children worldwide. The agreement in 2006 was to contribute to the monthly running costs of SOS Villages in Nigeria and Tunisia;

2. Scholarship for a Masters Degree in Petroleum Law and Policy at the Centre for Energy Petroleum and Mineral Law and Policy (CEPMLP), a leading European educational institution in the oil and gas sector situated in Scotland, granted to a junior lawyer from Indonesia.

3. Contribution to cover approximately half of the running costs of Bridge of Hope, a home, educational and drop in centre for street children in Khartoum, the national capital of Sudan.

4. Partnership agreement with Vet Care, a Sudanese NGO, for the supply of medicines and refurbishment of the main veterinarian clinic in Juba, the capital of South Sudan, as well as the creation of Women Development Centres.

5. Partnership agreement with Salam Sudan to train civil servants and NGOs from South Sudan in small project management at the University of Juba.

6. Support to Southern Sudan's Older People's Organisation's programme which provides training and tools to elderly persons tending to needs of orphaned or HIV affected children.

7. Supply of school kits to 1,400 students of the main primary school in Juba, as well as the construction of 10 latrines for the same school.

8. Miscellaneous support to activities which promote positive values in the cultural, safety, sports fields.

In 2007, we plan to continue our contributions to those organisations which have proven to be effective in their work and to identify new projects which can be implemented in existing or new areas of operations.

THE CODE OF CONDUCT

REVIEW OF CODE OF CONDUCT IN PRACTICE IN 2006

Attitude toward Business

We Say: we "promote innovation throughout operations".

We Do: we tested a number of innovative equipment and techniques throughout the operations. For instance in France, we carried out under-balanced drilling, involving coiled tubing, a drilling method which so far has yielded positive results.

Attitude towards Employees

We Say: we "provide a safe and healthy working environment".

We Do: we undertook a number of initiatives group wide in order to enhance the health and safety of our staff. For instance, given concerns that the Avian Flu could spread to humans, in order to ensure both the health of the staff and business continuity, Lundin Petroleum developed a pandemic preparedness plan; it was distributed to all its offices worldwide. The Company also commissioned a third party ergonomic survey of its new offices and individual work stations in order to ensure that requirements were met on an individual as well as collective basis.

Attitude towards Host Countries

We Say: we seek "to respect and gain the respect of the countries in which we operate".

We Do: we participate, where possible, to conferences or discussion forums initiated or supported by local governments dealing with oil and CR related issues. In 2006, Lundin Petroleum participated in investment conferences initiated and represented by the Government of South Sudan and the Government of National Unity of Sudan. In France, Lundin Petroleum participated in a conference organised by the environmental authorities and presented its management of the oil spill that occurred in Soudron as a case study for others to learn from.

Attitude towards Local Communities

We Say: we "encourage employment of indigenous people"

We Do: when Lundin Petroleum acquired the Tunisian assets as part of the Coparex deal in 2002, operations were managed by a combination of expatriate and local staff. By the end of 2006, all the staff were north African.

Attitude towards the Environment

We Say: we "strive to limit adverse impact on the environment, therefore contributing to sustainable development".

We Do: A third party sustainability audit was conducted by Maneco, a Swiss environmental management firm, of Lundin Petroleum corporate offices whose findings were summarised as follows:

Lundin Petroleum is committed to sustainable development. In the corporate office many social actions are under way on a voluntary basis. They need to be formalised in a sustainable development management system and better publicised/ promoted to the stakeholders. In the environmental field, the new office building has been designed using energy saving concepts with renewable source of energy installed for its heating/ cooling needs.

The heating system mentioned above, uses the energy from the underground/surface temperature difference, collected in a closed water circuit of 12 wells 160 meters deep, and linked to a heat pump to convert the energy. These are Lundin Petroleum's first steps in renewable energy.

ATTRACT, DEVELOP AND RETAIN THE BEST PEOPLE

The key to Lundin Petroleum's future success will be its ability to secure the human resources necessary for global business activities and to achieve competitive advantage through the effective deployment of personnel. As the oil industry reaches maturity and the skills crisis in the this environment intensifies, there is a need for more innovative and inventive HR strategies, policies and practices to attract and retain the talent required for business continuity.

Our strategy is to provide a framework to support current and future global initiatives through the recruitment and retention of high quality, well-trained and motivated personnel and to create and maintain a stimulating work environment in which staff feel valued and are treated with fairness and respect.

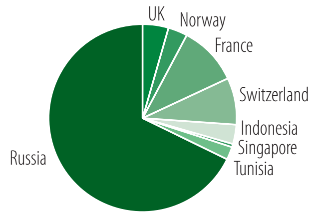
In order to specifically address the attraction and retention challenge, Lundin Petroleum has developed a robust recruitment and selection process to secure the best possible person-to-job fit that will contribute towards business effectiveness. Underpinning the recruitment and selection methodology is the need to provide equality of opportunity in employment where the skills and abilities of all individuals are recognised regardless of sex, sexual orientation, marital status, race, religion, age, creed, colour or nationality.

Equally important is our ability to retain key personnel, duly achieved in a variety of different ways: through the creation of a sense of community and support and a one team, one vision culture; recognition of employee work and non-work related needs; promotion of teamwork and mutual respect; good working conditions; increased responsibility to maximise job satisfaction; and recognition and reward.

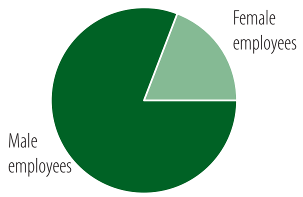
The maintenance and development of a strategy combined with policies, procedures and practices managing recruitment, selection, training, development, reward, compensation and employee relations means that Lundin Petroleum is equipped in terms of manpower for the challenges ahead.

During 2006 Lundin Petroleum had an average of 513 employees worldwide, 81 percent of which were male. The chart below shows the percentage of total employees per country in average over 2006.

Employees per Country



Employees by Gender



THE LUNDIN PETROLEUM SHARE AND SHAREHOLDERS

The Lundin Petroleum share
Lundin Petroleum's shares are listed on the Large Cap list, Nordic Exchange in Stockholm, Sweden.

Trading and market capitalisation
Trading of Lundin Petroleum shares takes place on Nordic Exchange. Market capitalisation as of 31 December 2006 was MSEK 25,856,792.

Liquidity
High liquidity is important in attracting major institutional investors to Lundin Petroleum. During the year a daily average of 2,158,745 Lundin Petroleum shares with a value of MSEK 186.4 where traded on the Nordic Exchange, in Stockholm.

Lundin Petroleum's share price can be monitored daily at www. lundin-petroleum.com where it is also possible to follow the Brent oil price.

Share capital and voting rights
The registered share capital at 31 December 2006 amounts to SEK 3,139,076 represented by 313,907,580 shares of nominal value SEK 0.01 each and representing 1 vote each. All outstanding shares are common shares and carry equal rights to participation in Lundin Petroleum's assets and earnings. One trading unit consists of 200 shares. An additional 307,500 shares have been issued but not registered at 31 December 2006.

Incentive warrants
The Group operates an employee incentive scheme whereby warrants are issued to employees following approval at the Annual General Meeting (AGM). The incentive warrants for 2004, 2005 and 2006 were issued at a 10 percent premium to the average closing price of Lundin Petroleum shares for the ten days after the AGM. The warrants are issued for a period of three years and are not exercisable during the first year of issue. From these programmes the incentive warrants outstanding at the end of the period and their expiry date and exercise prices are shown in the following table above.

In addition to these incentive warrants, 642,500 incentive warrants were acquired through the Valkyries acquisition and converted to Lundin Petroleum incentive warrants and another 371,500 incentive warrants in Lundin Petroleum were issued in connection with the acquisition of Valkyries. The exercise prices of the converted acquired incentive warrants and the incentive

	2004 programme	2005 programme	2006 programme
Number of warrants initially issued	2,250,000	3,000,000	3,226,000
Strike price in SEK	45.80	60.20	97.40
Exercisable period	31 May 2005 -31 May 2007	15 June 2006 -31 May 2008	15 June 2007 31 May 2009
Outstanding warrants as at 31 Dec 2006	841,000	2,565,000	3,196,000

warrants issued after the date of acquisition have an exercise price in the range SEK 17.87 – 97.40 with various exercise periods up to 31 May 2009. The number of outstanding acquired options amounted to 966,500 at 31 December 2006.

In the event that all outstanding incentive warrants are exercised Lundin Petroleum will receive an amount of MSEK 574.5 and the number of shares will be diluted by 2.4 percent.

A new incentive warrants scheme will be proposed to shareholders at the 2007 AGM whereby amongst other features, a performance condition will be incorporated. For further information see page 31 Compensation Committee.

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

The size of the dividend has 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 sustainable cash flow and net income from operations to maintain long-term financial strength and flexibility. Over time the total return to shareholders is expected to accrue to a greater extent from the increase in share price than from dividends received.

Due to the nature of Lundin Petroleum's operations, the dividend policy is to give priority to the funding of ongoing projects, and satisfy the immediate capital requirements of Lundin Petroleum.

Analyst coverage

Broker	Analyst	Contact
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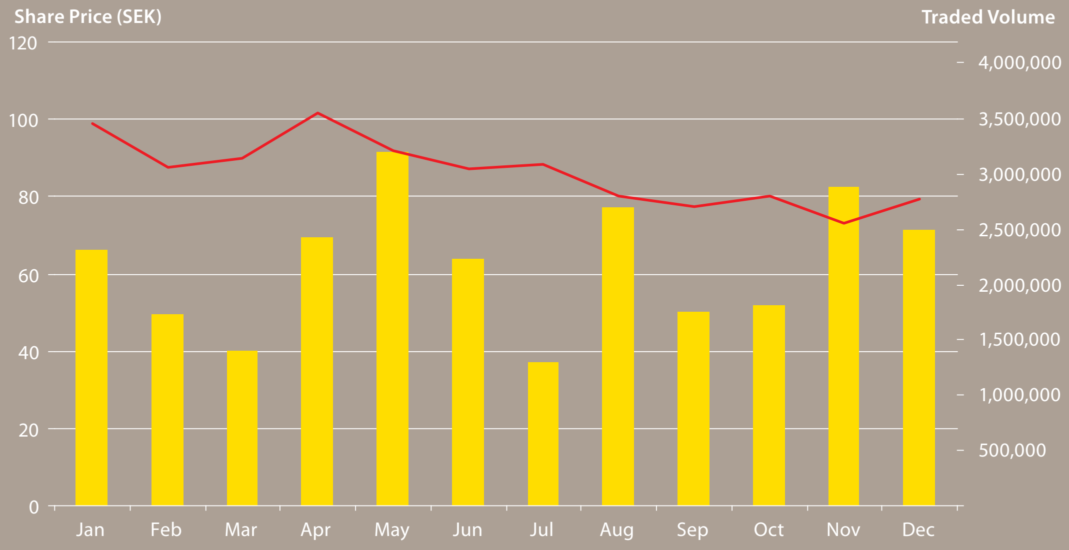
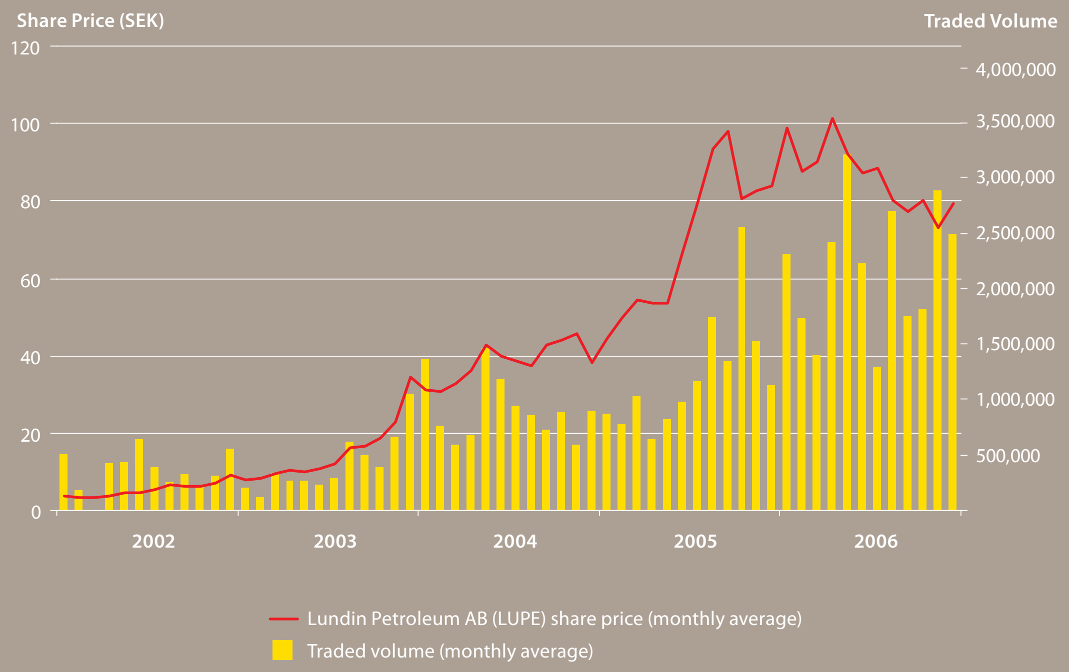
Öhman Fondkomission	Joakim Kindahl	joakim.kindahl@ohman.se

2006 SHARE PRICE



2002–2006 SHARE PRICE



THE LUNDIN PETROLEUM SHARE AND SHAREHOLDERS

Share data	Month and year	Quota value (SEK)	Change in number of shares	Total number of shares	Total share capital (SEK)
Formation of the Company	May 2001	100.00	1,000	1,000	100,000
Share split 10,000:1	June 2001	0.01	9,999,000	10,000,000	100,000
New share issue	June 2001	0.01	92,861,283	102,861,283	1,028,613
New share issue	July 2001	0.01	3,342,501	106,203,784	1,062,038
New share issue	Nov 2001	0.01	106,203,784	212,407,568	2,124,076
Warrants	June 2002	0.01	35,609,748	248,017,316	2,480,173
Incentive warrants	2002	0.01	667,700	248,685,016	2,486,850
Incentive warrants	2003	0.01	2,840,450	251,525,466	2,507,609
Incentive warrants	2004	0.01	2,222,900	253,748,366	2,537,484
Incentive warrants	2005	0.01	3,391,800	257,140,166	2,571,402
Incentive warrants	2006	0.01	1,219,500	258,359,666	2,583,597
Valkyries acquisition	2006	0.01	55,855,414	314,215,080	3,142,151
Total			**314,215,080**	**314,215,080**	**3,142,151**

Distribution of shareholdings

Distribution of shareholdings in Lundin Petroleum according to VPC, 31 December 2006.

Size categories as at 31 December 2006	Numbers of shareholders	Percentage of shares,%
1-500	29,829	1.8
501-1,000	8,534	2.3
1,001-10,000	9,696	9.6
10,001-50,000	1,009	6.7
50,001-100,000	148	3.4
100,001- 500,000	127	8.7
500,001 -	77	67.5
Total	**49,422**	**100**

Share ownership structure

Lundin Petroleum had 49,422 shareholders at 31 December 2006. The proportion of shares held by institutional investors amounted to 79 percent. Foreign investors held 52 percent of the shares. During the year the shareholding increased by 21 percent primarily as a result of the acquisition of Valkyries.

The 15 largest shareholders as at 31 December 2006	Numbers of shares	Subscription capital/votes,%
Lorito Holdings Ltd	76,342,896	24.3
Landor Participations Inc.	13,538,956	4.3
Swedbank Robur	12,692,870	4.1
Zebra Holdings Ltd	8,844,643	2.8
LGT Bank in Liechtenstein Ltd	7,047,183	2.3
Andra AP-fonden	6,888,746	2.2
AMF Pension fonder	6,600,800	2.1
SEB fonder	6,187,319	1.9
AFA Försäkring	4,677,330	1.5
AMF Pensionsförsäkring AB	3,790,000	1.2
Nordea fonder	3,135,497	1.0
Handelsbanken fonder	2,608,688	0.8
Första AP-fonden	2,483,100	0.8
Skandia Livförsäkrings AB	2,464,373	0.8
Folksam – KPA – Förenade Liv	2,384,067	0.8
Other shareholders	154,221,112	49.1
Total	**313,907,580**	**100**

- The 15 largest shareholders registered with the VPC, the Swedish Securities Register Center
- Lorito Holdings Ltd. holds 76,342,896 shares in Lundin Petroleum. Lorito Holdings Ltd. is an investment company wholly owned by a Lundin family trust.
- Landor Participations Inc holds 13,538,956 shares in Lundin Petroleum. Landor Participations Inc. is an investment wholly owned by a trust whose settler is Ian H. Lundin.
- Zebra Holdings Ltd holds 8,844,643 shares in Lundin Petroleum. Zebra Holdings Ltd is an investment company wholly owned by a Lundin family trust.
- As per 31 December 2006 an additional 307,500 shares had been issued but not registered.

FIVE YEAR FINANCIAL SUMMARY

For more detail on the formation of Lundin Petroleum and the financial years 2006 and 2005 please see page 38–91 of the Financial Statements.

INCOME STATEMENT SUMMARY (TSEK)	2006	2005	2004	2003[1]	2002[1]
Operating income	4,414,506	4,190,184	2,468,286	1,120,505	295,844
Production costs	-1,575,781	-1,310,905	-1,074,491	-419,911	-149,038
Depletion of oil and gas properties	-776,735	-753,428	-381,252	-192,002	-53,591
Write-off oil and gas properties	-123,469	-208,135	-150,065	-2,395	-
Gross profit	**1,938,521**	**1,917,716**	**862,478**	**506,197**	**93,215**
Sale of asset	-	192,122	98,192	720,098	–
General, administration & depreciation	-107,200	-96,680	-112,268	-157,786	-85,998
Operating profit	**1,831,352**	**2,013,158**	**848,402**	**1,068,509**	**7,217**
Financial investments	31	-152,449	-1,541	-50,526	1,816
Profit before tax	**1,831,352**	**1,860,709**	**846,861**	**1,017,983**	**9,033**
Tax	-1,036,917	-866,734	-241,603	-79,881	-26,362
Net result	**794,435**	**993,975**	**605,258**	**938,102**	**-17,329**
Net result attributable to:					
Shareholders of the parent company	803,005	993,507	598,245	930,229	-16,564
Minority interest	-8,570	468	7,013	7,873	-765
NET RESULT	**794,435**	**993,975**	**605,258**	**938,102**	**-17,329**

BALANCE SHEET SUMMARY (TSEK)	2006	2005	2004	2003*	2002*
Tangible fixed assets	14,525,270	5,827,007	4,334,025	1,872,962	2,045,589
Other non-current assets	1,662,651	502,474	481,041	134,018	103,586
Current assets	1,497,490	1,432,892	1,037,247	697,243	593,256
TOTAL ASSETS	**17,685,411**	**7,762,373**	**5,852,313**	**2,704,223**	**2,742,431**
Shareholders' equity	8,952,680	3,679,616	2,367,282	1,856,932	931,112
Minority interest	1,615,131	3,050	2,931	20,036	2,525
Total equity	**10,567,811**	**3,682,666**	**2,370,213**	**1,876,968**	**933,637**
Provisions	4,481,496	2,087,250	1,497,692	377,505	326,130
Interest bearing debt	1,391,063	736,151	1,343,021	118	1,067,177
Current liabilities	1,245,041	1,256,306	641,387	449,632	415,487
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	**17,685,411**	**7,762,373**	**5,852,313**	**2,704,223**	**2,742,431**

[1] The financial statements for the years 2006, 2005 and 2004 have been prepared in accordance with International Financial Reporting Standards (IFRS) (see page 52–57). The financial statements for the years 2002 and 2003 have been prepared under Swedish GAAP and are not in conformity with years 2006, 2005 and 2004.

Financial objectives

The primary objective of Lundin Petroleum is to add value for the shareholders, employees and co-venturers through profitable operations and growth. The added-value of Lundin Petroleum will flow from a mixture of improved cash flow and profitability from the producing assets and through exploration and technical success leading to an increase in reserves. Cash flow and profitability from the producing assets can be improved through good technical management of the assets leading to improved production levels and lower production costs. Lundin Petroleum aims to increase hydrocarbon reserves through exploration and through acquisitions. Lundin Petroleum will fund acquisitions through a mixture of internally generated funds, third party debt and if necessary, through new equity.

The shareholders' equity of Lundin Petroleum does not reflect the underlying value of its assets as the recorded value relates to part exploration and development expenditures and part acquisition costs capitalised in accordance with generally accepted accounting principles (IFRS). The underlying value of Lundin Petroleum's assets is the calculation of discounted cash flows based on future production from its reserves, which cash flow is then invested proactively to grow the reserves and production base.

CORPORATE GOVERNANCE REPORT

Since its creation, Lundin Petroleum AB ("Lundin Petroleum" or the "Company") has been guided by general principles of Corporate Governance designed to:

- Protect shareholder rights
- Provide a safe and rewarding working environment to all employees
- Carry out business (i.e. oil and gas exploration and production) in a professional and efficient manner keeping in mind the protection of the environment
- Contribute to the development and improvement of living standards of communities in all areas of operations.

In addition, Lundin Petroleum abides to principles of corporate governance elaborated internally and externally. They are to be found in the following documents:

The Swedish Code of Corporate Governance ("Code of Governance")

The Code of Governance is based on the Swedish Companies Act and the tradition of self-regulation. This document was issued in late 2004 by the Code Group on behalf of the Swedish Government (ref: SOU 2004:130) and integrated in the listing agreement with the Nordic Exchange 1 July 2005.

There are two instances in which the Company does not abide strictly to the terms of the Code of Governance although it does in substance. Firstly, since the Chief Executive Officer (CEO) does not speak fluent Swedish, his presentation during the Annual General Meeting (AGM) is delivered in English, not Swedish as the Code requires. However, Swedish subtitles are provided concurrently on the overhead slides. The second departure is that a board member serves as the chairman of the Nomination Committee; this was a unanimous decision of the Committee which felt he was the best candidate to carry out the task.

The Exchange Rules

The Exchange Rules form an integral part of the Listing Agreement between the Company and Stockholmsbörsen AB. Details regarding the Exchange Rules can be found on the following website www.omxgroup.com.

The Listing Agreement is an agreement between Stockholmbörsen and the Company regarding the requirements of being listed at the Nordic Exchange, Stockholm.

Lundin Petroleum's Code of Conduct ("Code")

The Code 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 business. The Code was adopted at the formation of Lundin Petroleum in 2001. Compliance with the Code is reviewed on an annual basis by the Board. The Code can be found on the Company's website www.lundin-petroleum.com.

The Code was developed by Lundin Petroleum at a time when there were no external requirements regarding corporate governance. The Company decided to make its values, principles and commitment explicit in order to set the necessary framework for ethical conduct, against which the Company could be assessed and evaluated.

Lundin Petroleum's policies and management system

The Company has policies covering Communication, Finance, HSE (Health, Safety and Environment) Information Technology, Internal Control and Personnel. It also has a dedicated Health, Safety and Environmental Management System ("Green Book"), which gives guidance to Management about the Company's intentions and expectations in HSE matters.

While the Code provides the Company's ethical framework, dedicated policies have been developed internally to provide specific guidelines applicable in the different business areas. In the HSE field, this is complimented by the Green Book modeled after the ISO 14001 standard.

The Board ensures the quality of the financial reports through a system of internal controls as outlined in the Board's report on internal control for 2006 on page 36-37 and maintains appropriate communication with the Company's auditors through its audit committee, see page 31.

The Lundin Petroleum Articles of Association, Code of Conduct and the HSE policies as well as a description of the Green Book are available at www. lundin-petroleum.com.

This Corporate Governance Report has not been subject to an audit by the Company's auditors.

THE ANNUAL GENERAL MEETING

The AGM elects the Board members for a period of one year. Board members are nominated in accordance with the nomination process which was adopted and put in place for the first time by the AGM in 2005 (see below). The composition of the Board of Directors is decided through a vote of the shareholders during the AGM after recommendation from the Nomination Committee.

NOMINATION PROCESS

Election to the Board

The Nomination Committee was first formed in 2005 and consists of a total of five members, representing four of the largest shareholders'; Magnus Bakke, of Robur Fonder, Ossian Ekdahl, of Första AP-fonden, Björn Lind, of SEB Trygg-Liv, Ian H. Lundin (of Landor Participation Inc. and Lorito Holdings Ltd, also Chairman of Lundin Petroleum) and Magnus Unger (non-executive Board member) who acts as Chairman of the committee. Magnus Unger was unanimously chosen as the chairman as it was felt that he had the most thorough knowledge both of the Company and Swedish requirements and thus could best represent the shareholders' interests. The names of the members of the Nomination committee were announced and posted on the website as soon as the representatives had been appointed.

In furtherance of the Nomination Committee's responsibility to propose members to the Board to the AGM, the Chairman undertook in 2005 on its behalf a systematic evaluation of the work of the Board and its members through the preparation of a questionnaire and presented the results and conclusions to the Nomination Committee. In addition to the functions described above the Nomination Committee makes recommendations to the AGM regarding fees for the Chairman and Board Members and for Board committee work, audit fees, and election of the Chairman to the AGM. No remuneration was paid to either the Chairman or any of the Committee members for their work on the Nomination Committee. There were two Nomination committee meetings during the year.

CORPORATE GOVERNANCE REPORT

Election of auditors
Klas Brand (elected 2005) and Bo Hjalmarsson (elected 2006) of PricewaterhouseCoopers are auditors of Lundin Petroleum for the period up until the end of the AGM 2009. Bo Karlsson of PricwaterhouseCoopers (elected 2006) is deputy auditor of Lundin Petroleum for the period up until the end of the AGM 2009.

THE BOARD OF DIRECTORS
The composition and the functions of the Lundin Petroleum Board are described below. The Board adheres to a set of rules and procedures, the Rules of Procedure, which are updated on a regular basis to take into account changes in legislation as well as the structure and orientation of the Company. The Rules were revised in August 2005 to conform to the terms of the Swedish Code of Corporate Governance. Main changes were in the reduction in the number of Board Committee's, the external Nomination Committee replacing the prior Governance Committee and Nomination Committee.

Composition of the Board
According to the Articles of Association the Board shall consist of a minimum of three and a maximum of ten directors. Nine Board members were elected at the AGM on 17 May 2006. At the statutory board meeting of 17 May 2006, Ian H. Lundin was appointed Chairman. No deputy directors have been appointed and the CEO is a member of the Board. There are no members appointed by employee organisations.

As a matter of policy, there is a majority of independent directors on the Board. The criteria to establish whether a director is "independent" are those listed under Article 3.2.4 of the Swedish Code of Governance and the listing requirements of the Nordic Exchange.

The Chairman of the Board of Directors is not employed by the Company and does not receive any salary nor is he eligible for participation in the Company's incentive programme. The Chairman of the Board of Directors upholds the reporting instructions for the Company Management as drawn up by the CEO and approved by the Board of Directors but does not take part in the day-to-day decision-making concerning the business operations of the Company.

REMUNERATION OF BOARD MEMBERS
Remuneration of the Chairman of the Board and Board members is in accordance with the resolution adopted by the Annual General Meeting. The remuneration of the Board of Directors is stated in the Annual Reports' note to financial statements – See Note 38, Remuneration to Board of Directors and Management.

Rules of procedures for the Board
The Rules of Procedure are adopted annually and reviewed when necessary. In order to be in full conformity with the Code of Corporate Governance, the Rules of Procedure were thoroughly reviewed and revised by the Board on 15 August 2005.

The Rules of Procedure set out the details of how the Board is to conduct its work, including the number of Board meetings, the division of duties within the Board of Directors, the Board composition and functioning, Board committees', tasks etc.

The functions of the Board
The Board of Directors' primary duties are the organisation of the Company and the management of the Company's operations including:

- Decisions regarding focus of the business and adoption of Company policies;
- Supply of capital;
- Appointment and regular evaluation of the work of the CEO and Company Management;
- Approval of the reporting instructions for the Company Management;
- Ensuring that the Company's external communications are open, objective and appropriate for target audiences;
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals;
- Follow-up and monitoring that operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market;
- Ensuring that the necessary guidelines governing the Company's ethical conduct are established.

The Board of Directors ensures 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.

The Board of Directors further ensures that there is systematic and structured evaluation of its work on an annual basis.

Name	Function	Elected	Audit Committee	Compensation Committee	Independent of Company
Ian H. Lundin	Chairman	2001	Yes		No
C. Ashley Heppenstall	President & CEO	2001			No
Viveca Ax :son Johnson	Director	2005		Yes	Yes
Lukas H. Lundin [2]	Director	2001		Yes	Yes
Kai Hietarinta	Director	2001			Yes
William Rand	Director	2001	Yes	Yes	Yes
Magnus Unger	Director	2001	Yes	Yes	No
Adolf H. Lundin [1]	Honorary Chairman	2001			No
Carl Bildt [1]	Director	2001			Yes

[1] Mr. Adolf H Lundin, the Honorary Chairman and a director of Lundin Petroleum, passed away in September 2006. Mr. Carl Bildt resigned as a director of Lundin Petroleum in October 2006 after being appointed Minister of Foreign Affairs for Sweden.
[2] No professional ties to Lundin Petroleum but linked to dominant shareholder by family ties.

Board meetings

The Board of Directors normally holds at least five ordinary meetings per calendar year. At each of these meetings, the following matters are addressed:

- Review and approval of the minutes from the preceding meeting;
- Report of the CEO regarding:
  - Status of the business
  - Prospects
  - Economic and Commercial report
  - Financial report;
- Reports from the Committees of the Board of Directors;
- Items related to decisions (e.g. concerning investments, acquisition and sale of companies, formation of Subsidiaries and increases in capital of subsidiaries, loans and guarantees, and also structural and organizational matters);
- Miscellaneous issues of material importance for the Company.

During 2006, 11 board meetings took place, including the statutory meeting. One executive session whereby the Board was given the opportunity to interact directly with the management was also held. The increased amount of board meetings during 2006 compared to 2005 was due in part to the acquisition of Valkyries Petroleum Corp.

Committees

The Board has a Compensation Committee and an Audit Committee, each with its clear mandate as described below.

Compensation Committee

The function of the Compensation Committee is to receive information on and determine matters regarding compensation to the Group Management. The guiding philosophy of the Committee in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and promote performance.

Lundin Petroleum considers that a variable salary is an important part of the remuneration package where associated performance targets reflect the key drivers for value creation and growth in shareholder value. At the end of each year the President and Chief Executive Officer will make a recommendation to the Compensation Committee regarding the payment of bonus awards to employees based upon their individual contribution to Lundin Petroleum's performance. This incorporates the achievement of the Company's strategic objective of growth and enhancement of shareholder value through increases in the stock price resulting from increased reserves, production, cash flow and profit. In order to facilitate the payment of appropriate bonus awards, Lundin Petroleum operates a Performance Assessment Process whereby critical work-specific, technical and behavioural objectives are established and measured over a 12 month period.

Further to discussions with Swedish institutional shareholders regarding the Lundin Petroleum AB Share Option Plan, the Compensation Committee engaged a third party consultancy to review and to provide recommendations for terms of the Lundin Petroleum's future Long-Term Incentive Strategy. The findings were presented to a focus group made up of representatives of Första AP-fonden, AMF Pension and Tredje AP-fonden and the corresponding revisions to the Plan were received positively. The revised Share Option Plan will be presented at the AGM in 2007 for approval and amongst other features, now incorporates a performance condition attached to the vesting of share option allocations.

The remuneration to the Group Management is also described on pages 34–35 Management and stated in Note 38, Remuneration to Board of Directors and Management.

Members: William A. Rand (Chairman), Lukas H. Lundin, Viveca Ax: son Johnson and Magnus Unger

Audit Committee

The function of the Audit Committee is to review on behalf of the Board, the Company's quarterly (Q1 and Q3) interim financial statements, review and make recommendations to the Board in relation to the Company's six month and yearly accounts, review audit fees, ensure maintenance of, and compliance with, the Company's internal control systems and liaise with the Group's external auditors as part of the annual audit process.

Members: William A. Rand (Chairman), Ian H. Lundin and Magnus Unger

Meeting attendance

Name	Board	Audit Committee	Compensation Committee
Ian H. Lundin	11/11	6/7	
C. Ashley Heppenstall	11/11		
Viveca Ax:son Johnson	11/11		1/2[2]
Lukas H. Lundin	10/11		1/2
Kai Hietarinta	9/11		1/2[2]
William Rand	11/11	6/7	2/2
Magnus Unger	10/11	7/7	2/2
Adolf H. Lundin[1]	5/11		
Carl Bildt[1]	8/11		

[1] Mr. Adolf H Lundin, the Honorary Chairman and a director of Lundin Petroleum, passed away in September 2006. Mr. Carl Bildt resigned as a director of Lundin Petroleum in October 2006 after being appointed Minister of Foreign Affairs for Sweden.

[2] Kai Hietarinta was member of the Compensation Committee for the period May 2005–May 2006. Viveca Ax:son Johnson became a member in May 2006.

Systematic evaluation of the Board's work

A formal review of the work of the Board was conducted in 2005. Through a questionnaire submitted to all the members, different aspects of Board work were considered including working procedures, working climate, need of special competence and information. The results and conclusions were presented to the Nomination Committee. The overall conclusions from the review process were the following:

- Existing composition of the Board is good for the tasks at hand
- Presentation materials and Board meetings are of professional quality
- Positive atmosphere during Board meetings conducive to open and frank discussions during meetings

Evaluation of the Board of Directors takes place on an ongoing basis.

BOARD OF DIRECTORS

From left to right Ian H. Lundin, Viveca Ax:son Johnson, C. Ashley Heppenstall (President and CEO)

PRESENTATION OF THE BOARD OF DIRECTORS
The board of directors consisted at the end of 2006 of seven elected Board members. The President and CEO is the only executive member. One member of the Board is a woman, representing 14 percent of the Board of directors.

Ian H. Lundin
Director 2001, Chairman since 2002
Born 1960
Other board duties: Vostok Nafta Investment Ltd.
Bachelor of Science degree in Petroleum Engineering from the University of Tulsa.
Shares in Lundin Petroleum: nil [1]
Incentive warrants: nil

Viveca Ax:son Johnson
Director since 2005
Born 1963
Other board duties: Chairman of Axel and Margret Ax:son Johnson Foundation, deputy Chairman of Nordstjernan AB. Board member of GP Förvaltnings AB, Sirius Machinery AB, Skanditek Industriförvaltning AB, Välinge Holding AB and Heerema Trust.
Shares in Lundin Petroleum: nil
Incentive warrants: nil

C. Ashley Heppenstall
President and Chief Executive Officer. Director since 2001
Born 1962
Other board duties: Matrix RM Fund.
Bachelor of Science degree in Mathematics from the University of Durham.
Shares in Lundin Petroleum: 1,268,250
Incentive warrants: 850,000

[1] Landor Participations Inc holds 13,538,956 shares in Lundin Petroleum. Landor Participations Inc. is an investment company wholly owned by a trust whose settler is Ian H. Lundin.


From left to right William A. Rand, Kai Hietarinta, Lukas H. Lundin, Magnus Unger

William A. Rand
Director since 2001
Born 1942
Other significant board duties: Lundin Mining Corp., Tenke Mining Corp., Vostok Nafta Investment Ltd., Denison Mine Corp., Canadian Gold Hunter Corp., Pender Financial Group Corporation and Dome Ventures Corp. Commerce degree (Honours Economics) from McGill University. Law degree from Dalhousie University. Master of Law degree in International Law from the London School of Economics.
Shares in Lundin Petroleum: 120,441
Incentive warrants: nil

Kai Hietarinta
Director since 2001
Born 1932
Other board duties: None.
Master of Science degree in Engineering from Helsinki University of Technology. MBA from Helsinki School of Economics. Dr of Economics HC from the School of Economics and Business Administration in Turku.
Shares in Lundin Petroleum: nil
Incentive warrants: nil

Lukas H. Lundin
Director since 2001
Born 1958
Board duties: Chairman of Tanganyika Oil Co. Ltd., Vostok Nafta Investment Ltd., Canadian Gold Hunter Ltd, Denison Mine Corp., Tenke Mining Corp., Pearl Exploration & Production Ltd., Red Back Mining Inc. and Lundin Mining Corp. Board member of Atacama Minerals Corp.
Graduate from New Mexico Institution of Mining, Technology and Engineering.
Shares in Lundin Petroleum: 796,845
Incentive warrants: nil

Magnus Unger
Director since 2001
Born 1942
Other board duties: Chairman of Strategic Leap AB and CAL-Konsult AB. Board member of System Separation AB and Quartz Pro AB
MBA from the Stockholm School of Economics.
Shares in Lundin Petroleum: 50,000
Incentive warrants: nil

MANAGEMENT AND AUDITORS

From left to right Geoffrey Turbott, C. Ashley Heppenstall, Alexandre Schneiter

Management and company structure
The President and CEO, who is a member of both the Board of Directors as well as of the Group Management, has overall responsibility for the Lundin Petroleum Group. The President and CEO is assisted in his functions by the Group Management (see below). All the managers in the Company are responsible for working in compliance with the Company's strategies and the Code.

The main responsibility for the operations of subsidiaries, ensuring that the established profitability targets are maintained and that all of Lundin Petroleum's internal rules and principles are followed, rests with the manager of each subsidiary (General Manager) as well as with the Group Management. General Managers regularly report on all commercial, HSE, financial and legal, as well as tax issues to the Group Management

Remunerations of the group management
Lundin Petroleum's aim is to recruit, motivate and retain high calibre executives capable of achieving the objectives of the Group, and to encourage and appropriately reward superior performance in a manner that enhances shareholder value. Accordingly, the Group operates a Policy on Remuneration which ensures 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 senior executives are rewarded fairly for their contribution to the Group's performance (see Note 38).

C. Ashley Heppenstall
President and Chief Executive Officer, born 1962
Ashley Heppenstall has worked with public companies controlled by the Lundin family since 1993. He has been with Lundin Petroleum from the start in 2001. He was appointed President and CEO in 2002 and as such he is responsible for the overall leadership, strategy and vision of Lundin Petroleum. Ashley Heppenstall is a mathematics graduate of the University of Durham .
For additional information see Board on page 32.

Alexandre Schneiter
Executive Vice President and Chief Operating Officer, born 1962
Alex Schneiter has worked with public companies controlled by the Lundin family since 1993. He has been with Lundin Petroleum from the start in 2001. He leads an experienced team of oil and gas professionals who are responsible for Lundin Petroleum's worldwide exploration and production operations. Alex Schneiter is a graduate of the University of Geneva with a degree in Geology and a master degree in Geophysics.
Shares in Lundin Petroleum: 50,000
Incentive warrants outstanding: 800,000

Geoffrey Turbott
Vice President Finance and Chief Financial Officer, born 1963
Geoffrey Turbott has worked with public companies controlled by the Lundin family since 1995. He has been with Lundin Petroleum from the start in 2001. He is directly responsible for Lundin Petroleum's financial reporting, internal audit, financial risk management, tax and treasury functions. Geoffrey Turbott is a member of the Institute of Chartered Accountants of New Zealand.
Shares in Lundin Petroleum: 4,200
Incentive warrants outstanding: 280,000

From left to right Chris Bruijnzeels, Christine Batruch, Tim Coulter, Jeffrey Fountain

Christine Batruch
Vice President Corporate Responsibility, born 1959
Christine Batruch has been with Lundin Petroleum from the start in 2001. She is responsible for Lundin Petroleum's strategy in HSE and for overseeing implementation of the Company's policies and procedures. She is also responsible for relations with host and home governments, local communities and relevant interest groups. Christine Batruch is a graduate of the University of Toronto, with a Bachelor of Arts Degree in History and degrees in Civil and Common Law from McGill University in Montreal. In 1989 she qualified as barrister and solicitor of the Law Society of Upper Canada in Ontario Canada.
Shares in Lundin Petroleum: 2,000
Incentive warrants outstanding: 110,000

Jeffrey Fountain
Vice President Legal, born 1969
Jeffrey Fountain joined Lundin Petroleum at the beginning of 2003. He is responsible for all legal matters pertaining to the Lundin Petroleum group of companies. Jeffrey Fountain has a Bachelor of Commerce and Economics degree from Trinity College, University of Toronto and a Bachelor of Laws degree from University of Toronto.
Shares in Lundin Petroleum: nil
Incentive warrants outstanding: 165,000

Chris Bruijnzeels
Vice President Reservoir and Production, born 1959
Chris Bruijnzeels joined Lundin Petroleum in 2003. He is responsible for the optimum development of Lundin Petroleum's asset portfolio. Chris Bruijnzeels is a graduate of the University of Delft with a degree in Mining Engineering.
Shares in Lundin Petroleum: nil
Incentive warrants outstanding: 125,000

Tim Coulter
Vice President Operations, born 1953
Tim Coulter joined Lundin Petroleum in 2005. He is responsible for engineering, drilling and production operations for the Lundin Petroleum group of companies. Tim Coulter is a graduate of the University of Washington in Seattle with a Bachelor of Science degree in Molecular Biology and has a Masters of Science in Petroleum Engineering from Stanford University, California.
Shares in Lundin Petroleum: nil
Incentive warrants outstanding: 100,000

AUDITORS

PricewaterhouseCoopers AB, Lilla Bommen 2, Gothenburg, Sweden

Klas Brand, born 1956
Auditor since 2001
Authorised Public Accountant, PricewaterhouseCoopers AB

Bo Hjalmarsson, born 1960
Auditor since 2006, deputy auditor 2001–2005
Authorised Public Accountant, PricewaterhouseCoopers AB

Bo Karlsson, Deputy Auditor. Born 1966
Deputy Auditor since 2006
Authorised Public Accountant, PricewaterhouseCoopers AB

INTERNAL CONTROL REPORT

THE BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING FOR THE FINANCIAL YEAR 2006

According to the Swedish Company's Act and the Swedish Code of Conduct the Board is responsible for the internal control of the company. This report has been prepared in accordance with the Swedish Code of Corporate Governance and is accordingly limited to internal control over financial reporting. This report describes the financial internal control function but does not comment on its effectiveness. The Swedish Corporate Governance Board has decided that the Board does not need to make a formal statement on how the internal control has functioned during the year. Therefore, this report is limited to a description of how the internal control over financial reporting is organised. This report is not part of the formal financial statements and has not been subject to audit by the Company's external auditors.

The internal control system for financial reporting has been created to ensure the Group's objective for financial reporting is fulfilled. Lundin Petroleum's objective for financial reporting is as follows:
"The financial reporting objective of Lundin Petroleum is to provide reliable and relevant information for internal and external purposes, in compliance with existing laws and regulations, on a timely and accurate manner."

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.

Lundin Petroleum's Financial Reporting Internal Control System consists of five key components and is based upon "the COSO Framework", which is the generally accepted framework for internal controls systems instigated by the Committee of Sponsoring Organisations of the Treadway Commission.

Control environment
The control environment establishes the overall tone for the organisation and is the foundation for all of the other components of internal control. Sub-components of the control environment are:

- Integrity and ethical values
- Commitment to the development of Financial Reporting Competencies
- Management's philosophy and operating style
- Organisational structure
- Assignment of authority and responsibility
- Human resources policies and procedures
- Participation by those charged with governance (i.e., board of directors, audit committee)

The Board adopted the Code of Conduct of Lundin Petroleum in 2001 when the Group was formed. Through this Code the Board has stated the Group's vision and values and the standards of integrity, ethical value and competence at which the Group's employees must operate. The Board has approved in 2005 an anti-fraud policy outlining 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 inclusion of independent directors within the Board of Directors provides an objective view and monitoring of the Companies processes and application thereof. The Group is constantly reviewing and developing the existing Delegation of Authority levels to ensure that they reflect the realization of the current business needs and objectives. As part of the constant review, during the course of preceding year the Board has also approved new Human Resources policies and procedures.

The responsibility for maintaining an effective control environment and for operating the system of internal control and risk management is delegated to the President and CEO and the management at varying levels. All employees are accountable for compliance with these guidelines, principles and values within their areas of control and risk management.

Together with laws and external regulations, these internal guidelines form the control environment which is the foundation of the internal control and risk-management process.

Risk assessment
Risk assessment includes identifying, sourcing and measuring business risks, such as strategic, operational, commercial, financial and compliance risks, including non-compliance with laws, other external regulations, and internal guidelines.

Lundin Petroleum has reviewed and analysed the risks that exist within the financial reporting process and has structured its internal control systems around the risks identified. The risks have been grouped based on the following categories: Revenue, Procurement, Inventory/Production, Capitalised Expenditure and Fixed Assets, Tax, Treasury and Cash Management, Financial reporting, Information Technology. The above categories are subdivided and control activities have been developed to mitigate the identified risks.

Following the identification and evaluation of a risk a control activity must be implemented to minimize the risks in the financial reporting process.

Control activities
Control activities are the methods and activities for controlling the accuracy and reliability of reports, fostering efficiency and ensuring compliance with defined accounting principles and other directives given by the management.

The choice of control activities depends on the nature of the risk identified and the results of a cost-benefit analysis, within the guidelines set by the Group. Developed control activities within Lundin Petroleum include process for approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets, segregation of duties, policies and procedures and information technology. The degree of compliance with these control activities indicates the level of risk that exists within the financial reporting process.

There are monthly, quarterly and annual financial reporting timetables in place to ensure timely information is made available to management, enabling them to carry out their responsibilities adequately and efficiently.

Existing procedures and policies are constantly reviewed. The procedures and policies are currently undergoing further development based on a timetable with set implementation dates.

Lundin Petroleum seeks to constantly improve its processes and has decided to implement an enhanced and standardised group reporting system to minimize the risks in the financial consolidation and thereby increasing the control, efficiency and effectiveness of the financial reporting process. This system will enhance the monitoring of the financial accounting. In February 2007 the implementation of the group accounting software Cognos Controller commenced and is expected to be finalised before the summer of 2007.

Information and communication

Communicating relevant information throughout all levels of the company and to the appropriate external parties is an important part of internal control. Management has focused on understanding the systems and processes that are important in the accumulation of financial data, including the system of controls that safeguard information, the processes for authorizing transactions, and the system for maintaining records.

Lundin Petroleum believes that an awareness of the COSO framework throughout the organization stimulates an environment of self control and constant improvement.

Guidelines regarding the financial reporting are communicated to employees, e.g. by ensuring that all manuals, policies and codes are published and accessible internally. During the course of the year, the COSO Framework was reinforced and further communicated to the offices along with a redistribution of the Finance and Administration Manual.

The communication is continuous and the information is spread through the Group regularly.

Monitoring

Monitoring of the financial reporting of Lundin Petroleum is carried out by the Board of Directors, Group Management, External auditors and Shareholders', and the Lundin Petroleum's Internal Audit function and other employees on different functions within the Group through their COSO awareness.

The Board of Directors

The Board reviews and evaluates comprehensive financial information regarding the Group as a whole and the entities it comprises. The Board also reviews, primarily through the Audit Committee, the most important accounting principles applied by the Group in financial reporting, as well as changes to these principles. Minutes are taken at all meetings of the Audit Committee and are available to all Board members and the auditors. The working procedures determined by the Board include detailed instructions regarding the type of internal financial reports that shall be submitted to the Board.

The Board reviews and approves the interim reports for Quarter 2 and Quarter 4 and the annual report. The Quarter 1 and Quarter 3 reports are reviewed and approved by the Audit committee. For more information about the functions of the Board see pages 30-33.

External auditing and monitoring

Lundin Petroleum's financial statements are audited by their external auditors on an annual basis for inclusion within the annual report. A limited review is carried out on the half year report. The external auditors meet regularly with the management of the company and attend the Audit Committee meetings for the review and approval of the half and full year financial statements. The external auditors meet the Board of the company without management present at least once a year.

In addition to the interim and annual reports the following are issued to the public thereby enabling shareholders to monitor the activities of the company:

- Press releases on all important matters which could materially affect the share price.
- Presentations and telephone conferences for analysts, investors and media representatives on the day of publication of the quarterly and full-year results, and in connection with release of important news.

Compliance with the control activities is monitored at all levels from departmental management up to the Board of Directors.

Monitoring of the control activities

Lundin Petroleum acknowledges that it is necessary to review the effectiveness of the control activities and the compliance therewith and as such believes that an internal audit function is necessary. In 2006 Lundin Petroleum recruited an employee who has amongst other duties, the responsibility to manage the internal audit function and will dedicate 60 percent of his time for doing so.

In 2005 Lundin Petroleum commenced a review of the accounting procedures of its offices to evaluate the extent to which the accounting policies of the group were being followed. Reviews were conducted in all of Lundin Petroleum's seven offices during 2005/2006. No material divergence from Lundin Petroleum's procedures was reported. During 2006, the initial reviews' findings were followed up with the relevant offices and are being addressed.

Following the initial review findings and in line with Lundin Petroleum's internal risk assessment it was determined that the priority for further audit work should be directed towards the procurement system and an audit in this area commenced in 2006. Following the completion of the audit of the procurement system within Lundin Petroleum's offices it is planned to conduct a wider scope audit.

Improving on a continuous basis

The internal control of financial reporting has created a continuous evaluation of the risks and control activities within the organization. The evaluation work involves internal as well as external benchmarking. This evaluation process and the work followed is an ongoing process involving enhancement of control activities such as procedures and processes and information and communication within the Group.

KEY FINANCIAL DATA

Data per share	2006	2005	2004	2003*	2002*
Shareholders' equity SEK per share [1]	33.63	14.32	9.34	7.38	3.70
Operating cash flow SEK per share [2]	8.05	10.22	5.89	2.52	0.49
Cash flow from operations SEK per share [3]	7.35	9.89	4.59	0.98	1.09
Earnings SEK per share [4]	2.83	3.89	2.39	3.73	-0.07
Earnings SEK per share fully diluted [5]	2.81	3.87	2.37	3.71	-0.07
Dividend per share	–	–	–	–	–
Quoted price at the end of the financial year (regards the parent company), SEK	79.50	85.00	38.20	34.30	9.20
Number of shares at year end	314,215,080	257,140,166	253,748,366	251,525,466	248,685,016
Weighted average number of shares for the year [6]	280,867,805	255,685,730	252,727,926	249,401,389	232,150,181
Weighted average number of shares for the year (fully diluted) [6]	282,251,337	256,974,123	255,134,255	251,041,951	233,235,711

1 The Group's shareholders' equity divided by the number of shares at year end.

2 The Group's operating income less production costs and less current taxes divided by the weighted average number of shares for the year.

3 Cash flow from operations in accordance with the consolidated statement of cash flow divided by the weighted average number of shares for the year.

4 The Group's net result divided by the weighted average number of shares for the year.

5 The Group's net result divided by the weighted average number of shares for the year after considering the dilution effect of outstanding warrants.

6 The number of shares at the beginning of the year with new issue of shares weighted for the proportion of the period they are in issue.

Key data group	2006	2005	2004	2003*	2002*
Return on equity, %[7]	11	33	29	67	-2
Return on capital employed, %[8]	22	49	32	50	-3
Debt/equity ratio, %[9]	12	9	45	–	89
Equity ratio, %[10]	51	47	41	69	34
Share of risk capital, %[11]	81	70	60	78	44
Interest coverage ratio, %[12]	4,010	4,231	2,276	1,559	-342
Operating cash flow/interest ratio [13]	4,848	5,833	3,862	1,011	822
Yield [14]	–	–	–	–	–

7 The Group's net result divided by the Group's average total equity.

8 The Group's income 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).

9 The Group's interest bearing liabilities in relation to shareholders' equity.

10 The Group's total equity in relation to balance sheet total.

11 The sum of the total equity and the deferred tax provision divided by the balance sheet total.

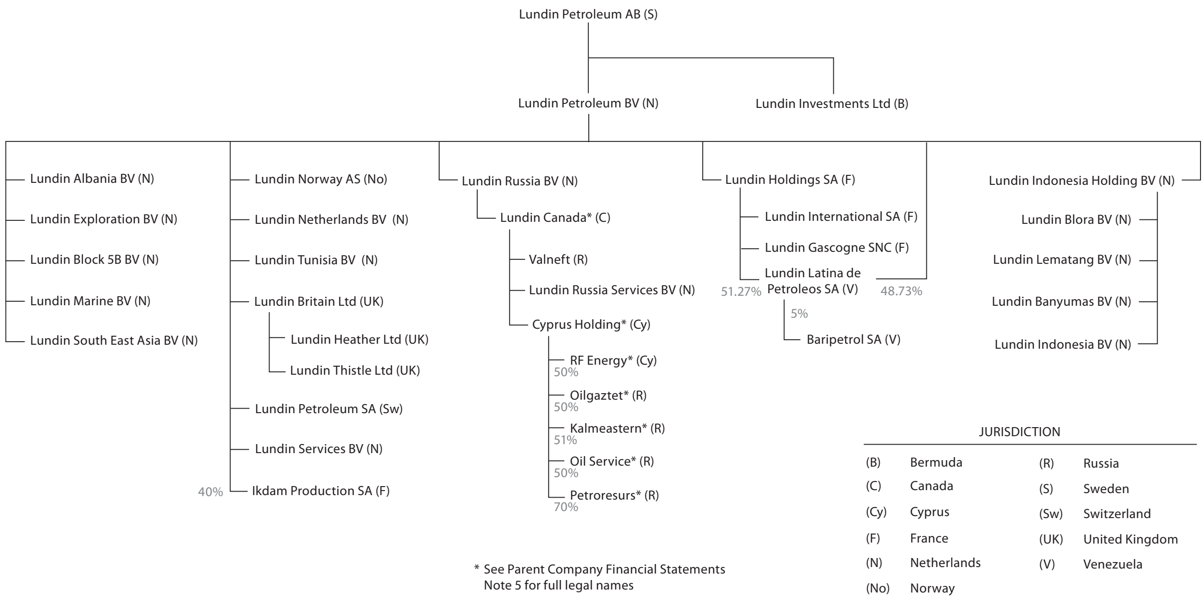
12 The Group's result after financial items plus interest expenses plus/less exchange differences on financial loans divided by interest expenses.

13 The Group's operating income less production costs and less current taxes divided by the interest charge for the year.

14 Dividend in relation to quoted share price at the end of the financial year.

* The financial statements for the years 2006, 2005 and 2004 have been prepared in accordance with International Financial Reporting Standards (IFRS) (see page 52). The financial statements for the years 2002 and 2003 have been prepared under Swedish GAAP and are not in conformity with years 2006, 2005 and 2004.

Group Structure as at 31 December 2006



Note: the Group structure shows significant subsidiaries only

FORMATION

Lundin Petroleum AB was formed in connection with the SEK 4 billion take-over of Lundin Oil AB by Talisman Energy Inc. during 2001. As a result of the transaction Lundin Oil AB shareholders received SEK 36.50 in cash plus one share in Lundin Petroleum AB for each share held in Lundin Oil AB. On 6 September 2001 the shares of Lundin Petroleum AB started trading on the Nya Marknaden administered by Stockholmbörsen. On 2 October 2003 the shares in Lundin Petroleum AB were listed on the O-list of the Stockholmbörsen. On 1 July 2004 Lundin Petroleum AB was transferred to the Large Cap list, Nordic Exchange, Stockholm.

On 19 September 2002 the Company completed the acquisition of 95.3% of the outstanding shares of Lundin International SA (formerly Coparex International SA) from BNP Paribas. On 13 January 2003 the Company completed the acquisition of 75.8% of OER oil AS. OER oil AS subsequently acquired interests in two producing fields offshore Norway and a 100% interest in OER energy AS (formerly called Aker Energy AS).

On 13 February 2004, Lundin Petroleum completed the acquisition from DNO ASA of its UK and Irish oil and gas interests. On 17 June 2004, Lundin Petroleum completed the acquisition of certain Norwegian assets from DNO ASA. On 23 November 2004, Lundin Petroleum divested its shareholding in OER oil AS to Endeavour International.

On 31 July 2006, Lundin Petroleum completed the acquisition of 100% of the shares in Valkyries Petroleum Corporation ("Valkyries").

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

OPERATIONS

The main business of Lundin Petroleum is the exploration for, the development of and the production of oil and natural gas.

In accordance with Lundin Petroleum's stated objective of increasing reserves through a strategy of acquisitions and exploration, reserves were acquired during 2002 through the acquisition of Lundin International SA (formerly Coparex International SA). Further reserves were acquired during 2003 in Norway through OER oil AS. During 2004, reserves were acquired through the purchase of all of the UK and Irish assets and substantially all of the Norwegian assets of DNO ASA. During 2006 reserves were acquired through the acquisition of Valkyries giving the group assets in Russia. Lundin Petroleum maintains a portfolio of oil and gas production assets and development projects in various countries with exposure to further exploration opportunities.

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

DIRECTORS' REPORT

United Kingdom
The net production to Lundin Petroleum for the year ended 31 December 2006 was 16,700 barrels of oil equivalent per day (boepd) representing over 55% of the total production for the Group.

Production in the first half year of 2006 was below expectation due to the underperformance of the North Terrace production well coupled with limitations on water injection capacity due to pump availability and a temporary shut-in of one production well. The lack of water injection resulted in significant pressure depletion in the Broom reservoir which negatively impacted production in the first half of the year. In the third quarter the water injection was fully restored. In the fourth quarter of 2006 the restoration of two water injection pump operations ensured that despite increasing water cut, oil production continued to increase as the reservoir was re-pressurised.

A 3D seismic acquisition was successfully completed during the first half of 2006 over the Broom, Heather and South West Heather fields. The results of the Broom seismic will be incorporated into a revised reservoir simulation model during the first half of 2007 using actual field production data. Further infill drilling will be completed on the Broom field during the second half of 2007 for which rig capacity has been secured.

Production from the Heather field (WI 100%) averaged approximately 2,200 boepd during the year ended 31 December 2006. Limited water injection capacity continued to have a negative impact on production as the majority of capacity was allocated to the Broom field. The project to reinstall the Heather platform drilling rig was successfully completed in the first quarter of 2006. A drilling programme commenced with the drilling of the first Heather infill well which is currently producing at approximately 300 bopd. The drilling programme continues with the drilling of a well to test the potential of the non-producing Heather Triassic reservoir. Further Heather drilling will then be postponed until 2008 to provide accommodation space for facilities projects on the Heather platform.

Net production from the Thistle field (WI 99%) averaged approximately 4,100 boepd during the year ended 31 December 2006. In the first quarter delays were experienced in restoring water injection capacity following the shutdown in 2005 which has had a negative impact on oil production during the first half year of 2006. In addition, Thistle was shutdown for seven days during the first quarter of 2006 due to leaking closed drains pipework. Due to improved water injection rates following earlier capital investment programmes the production in the third quarter was ahead of expectations following the delays earlier in the year of restoring water injection and continued to outperform in the fourth quarter. Lundin Petroleum has commenced a long-term investment programme to redevelop the Thistle field. The redevelopment involves the reinstallation of the Thistle drilling rig and a 3D seismic programme on Thistle in 2007 as well as further facilities investment to ensure an extended life for the Thistle platform.

In the third quarter of 2006 Lundin Petroleum acquired various working interests in seven exploration licences in the North Sea from Palace Exploration Company (E & P) Limited of which Lundin Petroleum will assume operatorship in five of the licences. The acquisition received UK Government approval in December 2006. The proposed work programme on the acquired licences includes the drilling of five exploration wells in 2007 for which rig capacity has been secured for all wells.

Norway
Net production from the Jotun field (WI 7%) offshore Norway averaged approximately 900 boepd during the year ended 31 December 2006. A three well infill drilling programme on Jotun was completed in the fourth quarter of 2006. The first well came on production in November 2006 with a consequent positive impact on production but the remaining two wells were unsuccessful.

The development of the Alvheim field (WI 15%) offshore Norway continues to progress satisfactorily. Development drilling is ongoing and will continue into 2008. In tandem, the Alvheim FPSO is in Norway undergoing final topsides installation and subsea installation is now substantially complete. First production from the Alvheim field is expected in the late second/early third quarter of 2007 at a forecast net plateau production rate of 14,100 boepd. During the third quarter of 2006, the East Kameleon exploration well was successfully drilled as an oil and gas discovery proving up the north eastern extension of the Alvheim field complex. This successful well coupled with further technical work led to reserve increases in the Alvheim field at year end where gross reserves are now 190 million barrels of oil equivalent.

A plan of development for the Volund field (WI 35%) was submitted to the Norwegian Government in the third quarter of 2006 and approved in January 2007. Volund will be developed as a subsea tie back to the Alvheim FPSO with three production wells and one water injection well. First production of oil and gas is forecasted in 2009 at an initial rate of 8,000 boepd net to Lundin Petroleum.

As detailed above the East Kameleon exploration well (WI 15%) was confirmed as a discovery. Exploration drilling on the Luno prospect in PL338 (WI 50%) operated by Lundin Petroleum is planned for the first half of 2007. This well will be part of a three well 2007 exploration programme in Norway also including PL335 (WI 18%) and PL292 (WI 40%). Rig capacity is secured for all wells.

France
In the Paris Basin production averaged 2,700 boepd for the year ended 31 December 2006. An ongoing programme of workovers and well intervention has yielded a positive impact on production particularly from the Rhetien fields. A four well infill drilling programme on the Villeperdue field (WI 100%) commenced during the third quarter of 2006 and will be completed in 2007. The exploration well Chevigny-1 in the Val des Marais concession (WI 50%) drilled in July 2006 was plugged and abandoned as a dry hole.

In the Aquitaine Basin (WI 50%) the net production was 1,000 boepd for the year ending 31 December 2006.

Indonesia

Salawati Island and Basin (Papua)

The net production from Salawati (Salawati Island WI 14.5% and Salawati Basin WI 25.9%) was 2,500 boepd during 2006. First production from the TBA field offshore Salawati Island was achieved during the third quarter of 2006 following the successful installation of a FPSO facility. The TBA field is currently producing at approximately 700 boepd net to Lundin Petroleum.

Banyumas (Java)

The Jati-1 exploration well (WI 25%) was plugged and abandoned as uncommercial in the first half of 2006.

Blora (Java)

The Tengis-1 exploration well (WI 43.3%) has been delayed due to issues associated with field regulatory approvals and will now be drilled in 2007.

Lematang (South Sumatra)

A plan of development for the Singa gas field (WI 25.88%) was approved by the Indonesian regulatory authorities in the fourth quarter of 2006.

A gas sales arrangement is currently being finalised to supply gas to customers in West Java. First gas from the Singa development is forecast for 2009.

Lundin Petroleum signed an agreement in June 2006 to acquire an additional 10% working interest in the Lematang block from Serica Energy plc for USD 5 million. The deal was completed in January 2007 and Lundin Petroleum now owns a 25.88% working interest in the Lematang block containing the Singa field.

The Netherlands

Gas production from the Netherlands for the period averaged 2,100 boepd.

Tunisia

The Oudna field (WI 50%) development was successfully completed in November 2006 with commencement of first oil production. During the third quarter of 2006 the re-classification and upgrading work on the Ikdam FPSO was completed in the Malta drydocks. Full production rates at in excess of 10,000 bopd net to Lundin Petroleum were achieved in December 2006 following the commissioning of the jet pump and water injection facilities and average production rates remain at these levels.

Entreprise Tunisienne d’Activités Pétrolières (ETAP), the Tunisian state oil company, had an option for 120 days from first production to participate in the Oudna field for 20% which they excercised in March 2007. Lundin Petroleum’s share of the Oudna field is now 40% and ETAP will be required to fund their share of past capital and operating costs in exchange for its working interest.

Production from the Isis field (WI 40%) was suspended in April 2006 as planned. The average production from the field during the period from 1 January 2006 to suspension was 600 bopd.

Venezuela

In July 2006 an agreement was completed between Lundin Petroleum and its partners and the Venezuelan national oil company Petroleos de Venezuela S.A. (PDVSA) in connection with the conversion of the Colón Unit Operating Services Agreement (WI 12.5%) into a new joint venture company with direct participation by PDVSA. Lundin Petroleum holds a 5% equity interest in the new joint venture company, Baripetrol SA. The new arrangement was effective from 1 April 2006 and as such Lundin Petroleum has from this date accounted for its investment in Venezuela as an equity holding and has not reported its share of production. PDVSA has agreed to extend the period for exploration and production on the Colón block from 2014 to 2026.

The net production from the Colón block in the first quarter 2006 was 1,800 boepd.

Russia

Following the successful acquisition of Valkyries Petroleum Corporation on 1 August 2006, the net production to Lundin Petroleum from this date has averaged 4,600 boepd.

Development drilling is ongoing at the Orenburg (WI 50%) and Komi (WI 50%) production field operations and will continue through 2007. In tandem long term development planning is ongoing at the Orenburg and onshore Kalmykia (WI 51%) operations.

The Morskaya-1 exploration well in the Lagansky block located in the North Caspian Sea has been delayed until 2007. Construction of the barge mounted facilities necessary for shallow water drilling has been substantially completed in Astrakhan. However, construction delays were experienced such that it was not possible to complete the exploration drilling activities in sufficient time prior to the onset of winter conditions in the North Caspian Sea when drilling is not possible. Seismic acquisition has continued in the Lagansky block with the acquisition of 775 km of data in 2006. It is planned to drill two exploration wells in the Lagansky block in 2007 as well as acquiring an additional 700 km of 2D and 3D seismic.

DIRECTORS' REPORT

Ireland
An offshore exploration well was drilled during the third quarter of 2006 on Petroleum Exploration Licence 1/05 in the Donegal Basin (WI 30%). The well was plugged and abandoned as a dry hole. Lundin Petroleum has relinquished its interest in the licence.

Nigeria
Lundin Petroleum held an interest in OML 113 offshore Nigeria containing the Aje oil and gas discovery. Technical and commercial studies have been completed and as a result Lundin Petroleum has decided not to proceed with further appraisal drilling on the Aje field. Lundin Petroleum has relinquished its interest in the licence.

Sudan
A comprehensive peace agreement was signed in Sudan in early 2005 between the Government and the Sudan People's Liberation Army (SPLA). A new Government has been formed containing representatives of the major political factions. In addition a National Petroleum Commission has been formed comprising of the President of Sudan, representatives of the national Government of Southern Sudan and representatives of the local area where oil activity is taking place. The National Petroleum Commission will oversee petroleum activities in Sudan.

The 2D seismic acquisition is ongoing on Block 5B (WI 24.5%) where 509 km of new data was acquired in 2006. A three well exploration programme in Block 5B is now planned to commence in mid-2007. Construction of swamp drilling equipment, the preparation of the logistics base and the construction of a new land rig is ongoing. The commencement of drilling operations in 2007 is still subject to the operating environment in Block 5B remaining stable and secure.

South East Asia / Vietnam
Lundin Petroleum opened a new office in Singapore during the third quarter of 2006 to develop new venture exploration and production opportunities in the South East Asia region. In August 2006 Lundin Petroleum was conditionally awarded a 33.33% working interest in Block 06/94 in the Nam Con Son Basin, offshore Vietnam. The Production Sharing Agreement was signed in February 2007. It is planned to acquire 750 square kilometres of 3D seismic on the Block in 2007.

Ethiopia
A new production sharing contract was signed in November 2006 for Block 2 and 6 (WI 100%), covering 24,000 square kilometres in the Ogaden Basin.

Congo (Brazzaville)
In the third quarter of 2006 Lundin Petroleum announced the acquisition of an 18.75% working interest in Marine XI Block, offshore Congo (Brazzaville) from Soco International plc. All government approvals in respect of the deal were received in January 2007. During the fourth quarter of 2006, a 1,200 square kilometre 3D seismic acquisition programme was successfully completed on the Block which will be processed and interpreted during 2007 in anticipation of a future drilling campaign.

FUTURE OUTLOOK
The Company is actively pursuing opportunities to further expand its oil and gas portfolio and increasing its reserves through acquisition of producing properties, exploration activity and exploitation of existing assets.

ENVIRONMENT
Lundin Petroleum and its international exploration and production affiliates conduct their international exploration and production operations, at a minimum, in accordance with all applicable environmental procedures and programmes. The Group has no operations in Sweden. See also Note 41 – Risk Management for further information.

FINANCIAL RESULT AND CONDITION OF THE GROUP
Result
Lundin Petroleum reports a net profit for the year ended 31 December 2006 of MSEK 794.4 (MSEK 994.0) representing earnings per share on a fully diluted basis of SEK 2.81 (SEK 3.87) for the year 2006.

Operating cash flow for the year ended 31 December 2006 amounted to MSEK 2,271.0 (MSEK 2,627.4) representing operating cash flow per share on a fully diluted basis of SEK 8.05 (SEK 10.22) for the year ended 31 December 2006.

Earnings before interest, tax and depletion and amortisation (EBITDA) for the year ended 31 December 2006 amounted to MSEK 2,731.5 (MSEK 2,782.6) representing EBITDA per share on a fully diluted basis of SEK 9.68 (SEK 10.83) for the year ended 31 December 2006.

Investments
On 31 July 2006 Lundin Petroleum acquired 100% of the shares of Valkyries Petroleum Corp. ("Valkyries") in an all share transaction. The financial results of Valkyries have been fully consolidated within the Lundin Petroleum group from 1 August 2006.

On 12 July 2006, Lundin Petroleum signed an agreement with PDVSA to convert its directly owned 12.5% interest in the Colón Block Operating Service Agreement into a 5% shareholding in a joint venture company, Baripetrol SA, owning 100% of the Colón Block. The agreement confirmed the effective date for the transfer as 1 April 2006. Under the IFRS rules, under which Lundin Petroleum prepares its financial statements, this investment will be treated as an Other shares and participations and Lundin Petroleum will only report income of dividend received. As such, Lundin Petroleum has ceased to report production and reserves, and revenue and cost of sales for the Colón Block from 1 April 2006.

Revenue
Net sales of oil and gas for the year ended 31 December 2006 amounted to MSEK 4,233.3 (MSEK 3,995.5) and are detailed in Note 1. Production for the year ended 31 December 2006 amounted to 10,832.9 (12,083.5) thousand barrels of oil equivalent (Mboe) representing 29.7 Mboe per day (mboepd) (33.2 mboepd) for the year ended 31 December 2006. The average price achieved for a barrel of oil equivalent for the year ended 31 December 2006 amounted to USD 59.70 (USD 52.93).

The average Dated Brent price for the year ended 31 December 2006 amounted to USD 65.13 (USD 54.54) per barrel resulting in a post-tax negative hedge settlement of MSEK 105.8 (MSEK 261.7).

Other operating income for the year ended 31 December 2006 amounted to MSEK 181.2 (MSEK 194.7). This amount includes tariff income from the United Kingdom, France and the Netherlands and income for maintaining strategic inventory levels in France. The sale of CO_2 emission rights in the United Kingdom during the second quarter of 2006 generated revenue of MSEK 22.3.

Sales for the year ended 31 December 2006 were comprised as follows

Sales Average price per barrel * expressed in USD	2006	2005
United Kingdom		
- Quantity in boe	5,769.0	7,241.0
- Average price per boe	63.76	54.56
France		
- Quantity in boe	1,374.7	1,563.8
- Average price per boe	62.62	53.75
Norway		
- Quantity in boe	319.5	372.4
- Average price per boe	60.42	51.45
Netherlands		
- Quantity in boe	766.8	855.4
- Average price per boe	48.79	37.45
Indonesia		
- Quantity in boe	634.1	495.9
- Average price per boe	58.65	48.90
Russia		
- Quantity in boe	788.8	–
- Average price per boe	35.03	–
Tunisia		
- Quantity in boe	397.3	328.6
- Average price per boe	61.79	62.53
Ireland		
- Quantity in boe	–	24.1
- Average price per boe	–	33.30
Total		
- Quantity in boe	**10,050.2**	10,881.2
- Average price per boe	**59.70**	52.93

* The average sales per barrel is excluding the result on the hedge settlement.

Income from Venezuela was derived by way of a service fee and interest income until 1 April 2006, being the effective date on which the 12.5% ownership of the Colón Block was converted into a 5% shareholding in Baripetrol SA.

The oil produced in Russia is sold on either of the Russian domestic market or exported into the international market. For the 153 day period that the results of Valkyries were consolidated within Lundin Petroleum 31% of Russian sales were on the export market at an average price of USD 54.50 per barrel. The remaining 69% of Russian sales were on the domestic market at an average price of USD 26.37 per barrel.

Production

Production	2006	2005
United Kingdom		
- Quantity in mboe	6,086.3	7,360.7
- Quantity in mboepd	16.7	20.2
France		
- Quantity in mboe	1,361.7	1,533.7
- Quantity in mboepd	3.7	4.2
Norway		
- Quantity in mboe	316.1	360.2
- Quantity in mboepd	0.9	1.0
Netherlands		
- Quantity in mboe	766.8	855.4
- Quantity in mboepd	2.1	2.3
Indonesia		
- Quantity in mboe	904.1	825.1
- Quantity in mboepd	2.5	2.3
Russia		
- Quantity in mboe	808.1	–
- Quantity in mboepd	2.2	–
Tunisia		
- Quantity in mboe	429.1	354.8
- Quantity in mboepd	1.2	1.0
Venezuela		
- Quantity in mboe	160.7	769.4
- Quantity in mboepd	0.4	2.1
Ireland		
- Quantity in mboe	–	24.2
- Quantity in mboepd	–	0.1
Total		
- Quantity in mboe	10,832.9	12,083.5
- Quantity in mboepd	29.7	33.2
Minority share in Russia		
- Quantity in mboe	100.4	–
- Quantity in mboepd	0.3	–
Total excluding minority share		
- Quantity in mboe	**10,732.5**	12,083.5
- Quantity in mboepd	**29.4**	33.2

The daily production for Russia of 2.2 mboepd is calculated over the full reporting period. The average daily production for Russia for the 153 day period that it is included within the Lundin Petroleum result is 5.3 mboepd. Lundin Petroleum has fully consolidated certain subsidiaries of which they have control with the portion not owned by Lundin Petroleum shown as a minority interest. The average production for Russia for the 153 day period included in the consolidated result, adjusted for Lundin Petroleum's share of ownership, is 4.6 mboepd.

The number of barrels produced differs from the number of barrels sold for a number of reasons. There are timing differences between sales and production in field areas such as Tunisia and Norway where production is into a Floating Production Storage Offloading vessel (FPSO). Sales are recorded when a lifting takes place and these can be at varying intervals and will not always be equal to the production at the end of a financial period. Sales in the United Kingdom are based upon production nominated in advance and may not represent the actual production for that month. A difference between nominated and actual production will result in a timing difference in an accounting period. The accounting effect of the timing differences between sales and production are reflected in the movements in the hydrocarbons inventory and the under/overlift position. Over time, the total sales will equal the production. There are permanent differences between production and sales in some of the field areas. The production reported for the United Kingdom is the platform production. This is the amount of crude oil that is produced from the field into the pipeline system that takes the crude to the onshore terminal. Once the field's crude oil enters the pipeline system it is commingled with the crude oil produced from other fields in the pipeline system that produce the blend of crude oil that is sold. The crude oil that is pumped into the pipeline system is tested against the blend of crude oil that arrives at the terminal and an adjustment is made to the number of barrels allocated to each field to reflect the relative quality of the crude oil input into the system. There is a quality adjustment of approximately minus five percent applied to the United Kingdom crude oil produced. In Indonesia, production is allocated under a Production Sharing Contract (PSC) where, as part of the commercial terms of the agreement, a part of the working interest production is allocated to the host country as a type of royalty payment.

Production for Venezuela is only included for the period until 31 March 2006. The production shown in the table page 43 represents the production achieved in the period divided by the number of days in the period. Production for Venezuela is given for the first quarter only but divided by the number of days for the year. Daily production achieved for Venezuela during the period that the production was included amounted to 1.8 mboepd.

Production from the Isis field, offshore Tunisia, ceased on 20 April 2006 when the FPSO Ikdam sailed to Malta for refurbishment prior to relocating to the Oudna field. The Isis field produced 0.6 mboepd for the period up to 20 April 2006. The Oudna field commenced production on 11 November 2006 and has produced 7.2 mboepd net to Lundin Petroleum for the 50 day period since production start up.

Production cost

Production costs for the year ended 31 December 2006 expressed in US dollars were comprised as follows:

Production cost and depletion in TUSD	2006	2005
Cost of operations	184,320	148,570
Tariff and transportation expenses	20,310	17,906
Royalty and direct taxes	21,061	4,803
Changes in inventory/overlift	-11,852	4,563
Total production costs	**213,839**	175,842
Depletion	105,406	101,064
Total	**319,245**	276,906

Production cost and depletion in USD per boe	2006	2005
Cost of operations	17.01	12.30
Tariff and transportation expenses	1.87	1.48
Royalty and direct taxes	1.94	0.40
Changes in inventory/overlift	-1.09	0.38
Total production costs	**19.73**	14.56
Depletion	9.73	8.36
Total cost per boe	**29.46**	22.92

Production costs for the year ended 31 December 2006 amounted to MSEK 1,575.8 (MSEK 1,310.9) and is detailed in Note 2. The reported cost of operations amounted to USD 17.01 per barrel (USD 12.30 per barrel) for the year ended 31 December 2006.

In January 2006, Lundin Petroleum gave guidance that the cost of operations for the year 2006 would be USD 12.80 per barrel based upon an annual production of 13.1 million barrels of oil. The cost of operations is dominated in 2006 by the high levels of fixed costs for the two offshore UK platforms on the Thistle and Heather fields. The actual expenditure reported for the UK operations was 12% over the forecast for the year due to a number of factors including increased personnel costs following changes to offshore work rotations, higher fuel and supply boat costs and a devaluation of the USD:GBP exchange rate from the forecast exchange rate of 4.6%. The higher recorded costs associated with the lower levels of production achieved during 2006 has resulted in a unit cost of operations of USD 17.01 per barrel.

Royalty and direct taxes includes Russian Mineral Resource Extraction Tax ("MRET") and Russian Export Duties. The rate of MRET varies in relation to world oil prices and is levied on the volume of Russian production. MRET averaged USD 11.34 per barrel for the period that Valkyries was included within the Lundin Petroleum results. The rate of export duty on Russian oil is revised by the

Russian Federation once every two months and is dependant on the price obtained for Russian oil on the export market. The export duty is levied on the volume of oil exported from Russia and averaged USD 29.61 per barrel for the period that Valkyries was included within the Lundin Petroleum results.

Depletion

Depletion of oil and gas properties for the year ended 31 December 2006 amounted to MSEK 776.7 (MSEK 753.4) and is detailed in Note 3. The Isis field was shut down earlier than anticipated to allow the FPSO Ikdam to relocate to the Oudna field. This coupled with a higher than anticipated provision for site restoration costs on the Isis field resulted in an undepleted cost pool for Isis of MSEK 35.2. This amount was charged to the income statement in the second quarter of 2006.

On 12 July 2006 Lundin Petroleum signed an agreement converting the 12.5% direct interest in the Colón Block into a 5% equity investment in a joint venture company holding 100% of the Colón Block. As part of the agreement the life of the field was extended from 2014 to 2026. Lundin Petroleum has accelerated its depletion on the carrying value of the Venezuela investment. This has had the effect of increasing the depletion cost per barrel because there is no Venezuelan production corresponding to the depletion charge. Going forward management will no longer deplete the asset but will review the recoverability of the carrying amount of the investment.

Write off

Write off of oil and gas properties amounted to MSEK 123.5 (MSEK 208.1) for the year ended 31 December 2006 and are detailed in Note 4. During the year exploration and appraisal project costs are capitalised as they are incurred and then reviewed on a regular basis to assess their future recoverability. When a decision is made not to proceed with a project the relevant costs are expensed. The oil and gas properties written off during 2006 includes the Donegal licence offshore Ireland, the Val des Marais well in France, the exploration well drilled in Block F-12 in the Netherlands and costs relating to the drilling of the Jati-1 well in Indonesia. Other write downs are new venture projects.

Sale of assets

In 2005 Lundin Petroleum entered into a sale and leaseback agreement for the Jotun vessel utilised in the Jotun field offshore Norway resulting in a pre-tax gain of MSEK 192.1 and a post tax gain of MSEK 24.0.

Other income

Other income for the year ended 31 December 2006 amounted to MSEK 9.6 (MSEK 6.4) and represents fees and costs recovered by Lundin Petroleum from third parties.

General, administrative and depreciation expenses

General, administrative and depreciation expenses for the year ended 31 December 2006 amounted to MSEK 116.8 (MSEK 103.1). Depreciation charges amounted to MSEK 11.4 (MSEK 9.8) for the year ended 31 December 2006.

Financial income

Financial income for the year ended 31 December 2006 amounted to MSEK 96.4 (MSEK 44.0) and is detailed in Note 6. Interest income for the year ended 31 December 2006 amounted to MSEK 31.6 (MSEK 31.2) and includes interest received on bank accounts of MSEK 25.6 (MSEK 12.5), interest received on a loan to an associated company for an amount of MSEK 4.0 (MSEK 3.8), interest received in relation to tax repayments for an amount of MSEK 1.0 (MSEK 9.4) and the interest fee received from Venezuela for an amount of MSEK 1.0 (MSEK 5.4).

Dividend income received for the year ended 31 December 2006 amounted to MSEK 12.0 (MSEK 12.8) and relates to distributions received from an unconsolidated investment in a company owning an interest in the Dutch gas processing and transportation infrastructure (NOGAT).

Net exchange gains for the year ended 31 December 2006 amounted to MSEK 46.2 (MSEK -122.0). Exchange rate variations result from fluctuations in the value of the USD currency against a pool of currencies which includes NOK, EUR and GBP. The exchange gains for the year ended 31 December 2006 are mainly the result of the revaluation of the outstanding USD loans into the reporting currencies of the entities in which the funds were drawn.

Financial expense

Financial expenses for the year ended 31 December 2006 amounted to MSEK 96.4 (MSEK 196.5) and are detailed in Note 7. Interest expense for the year ended 31 December 2006 amounted to MSEK 41.8 (MSEK 45.0) and mainly relates to the bank loan facility.

The amortisation of financing fees amounted to MSEK 18.6 (MSEK 15.2) for the year ended 31 December 2006. The financing fees are in relation to the bank loan facility and are amortised over the anticipated usage of the bank loan facility.

Tax

The tax charge for the year ended 31 December 2006 amounted to MSEK 1,036.9 (MSEK 866.7) and is detailed in Note 8.

The current corporation tax charge of MSEK 535.0 (MSEK 240.7) comprises current corporation tax charges in, primarily the United Kingdom, France, the Netherlands, Indonesia and Venezuela. The increase in the current corporation tax charge is partly due to the United Kingdom having utilised prior year tax losses to offset current corporation tax during the comparative period. The tax losses available in the United Kingdom were fully utilised during 2005. Additionally, in the United Kingdom, the rate of Supplementary Corporation Tax (SCT) has been increased from 10% to 20% with effect from 1 January 2006 by the passing of the Finance Act 2006 raising the effective rate of tax in the United Kingdom from 40% to 50%. At the time it was announced that the tax rate in the United Kingdom would be increased, it was also announced that the tax deduction for capital expenditure incurred in 2005 could be deferred until 2006 when it would benefit from a deduction against the higher rate of tax. Lundin Petroleum has elected to exercise this option which has resulted in a lower 2006 current tax charge of MSEK 65.2. The taxation legislation in Norway allows for a tax deduction of 100% of exploration expenditure in the year the expenditure is incurred and for any resulting tax losses to be refunded in cash resulting in an anticipated tax refund for the year ended 31 December amounting to MSEK 79.6.

The deferred corporate tax charge for the year ended 31 December 2006 amounted to MSEK 477.0 (MSEK 647.1). Included in the deferred tax charge is a charge of MSEK 174.9 for tax losses carried forward utilised in Norway and France and a charge of MSEK 506.1 due to timing differences in the rate of depletion of oil and gas assets between accounting and fiscal reporting. The deferred tax charge for the comparative period includes the utilisation of the tax losses in the United Kingdom. The income statement has been affected by a one off, non-cash charge of MSEK 216.2 for the restatement of the opening deferred tax balances relating to the United Kingdom assets. Following the successful drilling of the Oudna wells and the removal of the FPSO Ikdam from the Isis field for redeployment to the Oudna field, Lundin Petroleum has recognised a deferred tax asset of MSEK 106.3 for tax losses that are expected to be utilised against taxable income from the Oudna field.

The petroleum tax charge for the year ended 31 December 2006 amounts to MSEK 32.7 (MSEK 11.3) and consists of State Profit Share tax (SPS) in the Netherlands. The deferred petroleum tax benefit for the year ended 31 December 2006 amounts to MSEK 7.8 (MSEK 32.3) and relates to Petroleum Revenue Tax (PRT) in the United Kingdom.

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 24% and 78%. Currently the majority of the Group's profit is derived from the United Kingdom where the effective tax rate amounts to 50%. The effective tax rate for the Group for the year ended 31 December 2006 amounts to approximately 57%. The effective tax rate for the Group for the year ended 31 December 2006 excluding the restatement of the opening deferred tax balance in the United Kingdom and the inclusion of the tax asset in Tunisia amounts to approximately 51%.

Minority interest
The net profit attributable to minority interest for the year ended 31 December 2006 amounted to MSEK -8.6 (MSEK 0.5) and relates to the 0.14% of Lundin International SA that is owned by minority shareholders and the minority portion of the subsidiaries of Valkyries which are fully consolidated.

BALANCE SHEET
Non-current assets
Oil and gas properties as at 31 December 2006 amounted to MSEK 14,407.8 (MSEK 5,732.9) and are detailed in Note 9. The amount includes the Russian assets acquired from Valkyries at their allocated purchase price. Development and exploration expenditure incurred for the year ended 31 December 2006 can be summarised as follows:

Development expenditure in MSEK	2006	2005
United Kingdom	558.7	619.8
France	98.5	24.2
Norway	772.5	596.2
Netherlands	19.6	49.0
Indonesia	69.4	59.8
Russia	107.6	–
Tunisia	489.7	72.5
Venezuela	-2.4	35.5
Development expenditure	**2,113.6**	1,457.0

Exploration expenditure in MSEK	2006	2005
United Kingdom	83.3	17.2
France	25.1	16.8
Norway	103.1	69.6
Netherlands	8.1	16.6
Indonesia	62.3	61.2
Russia	183.1	–
Tunisia	–	2.0
Ireland	41.6	2.6
Sudan	50.6	7.8
Nigeria	7.6	158.2
Congo (Brazzaville)	79.0	–
Other	24.8	45.3
Exploration expenditure	**668.6**	395.3

Other tangible fixed assets as at 31 December 2006 amounted to MSEK 117.4 (MSEK 94.1) and are detailed in Note 10.

The book amount for goodwill in relation to the acquisition of Valkyries amounted to MSEK 817.2 and is detailed in Note 11.

Financial assets as at 31 December 2006 amounted to MSEK 357.4 (MSEK 204.7) and are detailed in Note 13-17. Restricted cash as at 31 December 2006 amounted to MSEK 18.6 (MSEK 23.8) and represents the cash amount deposited to support a letter of credit issued in support of exploration work commitments in Sudan. Shares and participations amount to MSEK 260.3 (MSEK 151.9) as at 31 December 2006. The increase includes the value of the 5% holding in Baripetrol SA received upon the conversion of the 12.5% interest in the Colón Block in Venezuela amounting to MSEK 129.5 as at 31 December 2006. Deferred financing fees relate to the costs incurred establishing the bank credit facility and are being amortised over the period of estimated usage of the facility. Other financial assets amount to MSEK 78.5 (MSEK 8.2) and includes funds held by joint venture partners in anticipation of future expenditures and an amount of MSEK 67.9 representing VAT paid on exploration costs in Russia that are expected to be recovered from future project revenues.

The deferred tax asset relates primarily to tax losses carried forward in the Tunisia, France and Norway.

Current assets
Current receivables and inventories amounted to MSEK 1,200.3 (MSEK 1,043.5) as at 31 December 2006 and are detailed in Note 18-21. Inventories include hydrocarbons and consumable well supplies. Corporation tax receivables as at 31 December 2006 amounted to MSEK 115.0 (MSEK 117.3) and related to tax refunds due in Norway and the Netherlands. Other assets amounted to MSEK 101.5 (MSEK 59.0) as at 31 December 2006.

Cash and cash equivalents as at 31 December 2006 amounted to MSEK 297.2 (MSEK 389.4).

Non-current liabilities
Provisions as at 31 December 2006 amounted to MSEK 4,481.5 (MSEK 2,087.3) and are detailed in Note 23-25. This amount includes a provision for site restoration of MSEK 624.7 (MSEK 329.2). The increase in the site restoration provision at 31 December 2006 is the result of changes in the estimates of the cost to dismantle facilities and plug and abandon wells after the cessation of production. The provision for deferred tax amounted to MSEK 3,832.6 (MSEK 1,735.1) and is mainly arising on the excess of book value over the tax value of oil and gas properties. The amount has increased during 2006 following the deferred tax gross up of the excess purchase price allocated to the acquired Valkyries assets.

Long term interest bearing debt amounted to MSEK 1,391.1 (MSEK 736.2) as at 31 December 2006 and is detailed in Note 26. On 16 August 2004, Lundin Petroleum entered into a seven-year credit facility agreement to borrow up to MUSD 385.0 comprising MUSD 35.0 for Letters of Credit in support of future site restoration costs payable to former owners of the Heather field, offshore United Kingdom, and cash drawings of MUSD 350.0. The amount of cash drawings outstanding under the facility at 31 December 2006 amounted to MUSD 185.0. The long term interest bearing debt also includes the long-term portion of a bank loan drawn by a subsidiary of Valkyries.

Current liabilities
Current liabilities as at 31 December 2006 amounted to MSEK 1,245.0 (MSEK 1,256.3). Joint venture creditors amounted to MSEK 650.8 (MSEK 642.6) and mainly relates to the amounts payable for the development activities in progress in Norway, Tunisia and Indonesia. Short-term interest bearing debt amounted to MSEK 47.4 and relates to the current portion of a bank loan drawn by a subsidiary of Valkyries.

ANNUAL GENERAL MEETING
The Annual General Meeting will be held in Stockholm on 16 May 2007.

DIVIDEND
The Directors propose that no dividend be paid for the year. For details of the dividend policy refer to the share information on page 25.

PROPOSED DISPOSITION OF UNAPPROPRIATED EARNINGS
The Board of Directors and the CEO propose that the unrestricted equity of the Parent Company of TSEK 6,899,643, including the result for the year of TSEK 1,754,833, be brought forward.

CHANGES IN BOARD
During 2006, there were two changes to the Board of Directors of Lundin Petroleum. In September 2006, Mr. Adolf H Lundin, the Honorary Chairman and a director of Lundin Petroleum, passed away. Mr. Carl Bildt resigned as a director of Lundin Petroleum in October 2006 after being appointed Minister of Foreign Affairs for Sweden.

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, balance sheet, statement of cash flow, statement of changes in equity and related notes.

The Parent Company's income statement, balance sheet, statement of cash flow, statement of changes in equity and related notes can be found on pages 83–89.

INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2006	2005
Operating income			
Net sales of oil and gas	1	4,233,348	3,995,477
Other operating income	1	181,158	194,707
		4,414,506	4,190,184
Cost of sales			
Production costs	2	-1,575,781	-1,310,905
Depletion of oil and gas properties	3	-776,735	-753,428
Write off of oil and gas properties	4	-123,469	-208,135
Gross profit		**1,938,521**	1,917,716
Sale of assets		–	192,122
Other income		9,618	6,438
General, administration and depreciation expenses	5	-116,818	-103,118
Operating profit		**1,831,321**	2,013,158
Result from financial investments			
Financial income	6	96,395	44,012
Financial expenses	7	-96,364	-196,461
		31	-152,449
Profit before tax		**1,831,352**	1,860,709
Corporation tax	8	-1,012,071	-887,784
Petroleum tax	8	-24,846	21,050
		-1,036,917	-866,734
Net result		**794,435**	993,975
Net result attributable to:			
Shareholders of the parent company		803,005	993,507
Minority interest		-8,570	468
Net result		**794,435**	993,975
Earnings per share – SEK [1]	33	2.86	3.89
Diluted earnings per share – SEK [1]	33	2.85	3.87

[1] Based on net result attributable to shareholders of the parent company.

BALANCE SHEET

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

Expressed in TSEK	Note	2006	2005
ASSETS			
Non current assets			
Oil and gas properties	9	14,407,846	5,732,871
Other tangible assets	10	117,424	94,136
Goodwill	11	817,185	–
Shares in jointly controlled entities and associated companies	12	0	0
Other shares and participations	13	260,265	151,928
Long-term receivables		67,886	–
Deferred tax	8	488,024	297,788
Derivative instruments	14	–	1,825
Other financial assets	15–17	29,291	50,933
Total non current assets		**16,187,921**	6,329,481
Current assets			
Inventories	18	123,679	99,943
Trade receivables	19	621,273	523,315
Prepaid expenses and accrued income	20	54,471	27,276
Derivative instruments	14	4,199	13,430
Tax receivable		114,963	117,283
Other receivables	21	281,684	262,230
Cash and cash equivalents		297,221	389,415
Total current assets		**1,497,490**	1,432,892
TOTAL ASSETS		**17,685,411**	7,762,373
EQUITY AND LIABILITIES			
Equity			
Share capital		3,142	2,571
Additional paid in capital		6,220,567	1,121,029
Other reserves	22	-439,856	212,376
Retained earnings		2,365,822	1,350,133
Net Profit		803,005	993,507
Shareholders equity		**8,952,680**	3,679,616
Minority interest		1,615,131	3,050
Total equity		**10,567,811**	3,682,666
Non-current liabilities			
Site restoration	23	624,675	329,173
Pension	24	10,127	13,810
Deferred tax	8	3,832,648	1,735,058
Other provisions	25	14,046	9,209
Bank loans	26	1,391,063	736,151
Total non-current liabilities		**5,872,559**	2,823,401
Current liabilities			
Trade payables		220,734	135,394
Tax liability	8	173,998	117,691
Derivative instruments	14	–	193,777
Accrued expenses and prepaid income	29	56,645	45,445
Other liabilities	30	793,664	763,999
Total current liabilities		**1,245,041**	1,256,306
TOTAL EQUITY AND LIABILITIES		**17,685,411**	7,762,373
Pledged assets	31	1,986,537	1,128,763
Contingent liabilities	32	161,313	–

STATEMENT OF CASH FLOW

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2006	2005
Cash flow from operations			
Net result		794,435	993,975
Adjustments cash flow from operations	34-35	1,977,665	1,690,613
Interest received		25,401	28,773
Interest paid		-473,864	-160,023
Income taxes paid		-2,336	-64,875
Changes in working capital			
Increase/decrease in current assets		-222,935	-90,217
Decrease/increase in current liabilities		-15,970	141,862
Total cash flow from operations		**2,075,396**	2,540,108
Cash flow used for investments			
Investment in subsidiary assets	40	40,971	-236
Sale of assets/investments		–	192,122
Investment/divestment of real estate		-18,586	-40,190
Change in other financial fixed assets		-1,793	16,850
Other payments		-28,324	-12,183
Investment in oil and gas properties		-2,782,309	-1,852,415
Investment in office equipment and other assets		-19,399	-16,137
Total cash flow used for investments		**-2,809,440**	-1,712,189
Cash flow from/used for financing			
Changes in long-term bank loan		651,574	-822,240
Proceeds from share issues		40,648	59,275
Dividend paid to minority		-2,125	–
Total cash flow from/used for financing		**690,097**	-762,965
Change in cash and cash equivalents		-43,947	64,954
Cash and cash equivalents at the beginning of the year		389,415	268,377
Currency exchange difference in cash and cash equivalents		-48,247	56,084
Cash and cash equivalents at the end of the year		**297,221**	389,415

The effects of acquisitions and divestments 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.

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Total Equity comprises: Expressed in TSEK	Share capital[1]	Additional paid-in-capital[2]	Other reserves[3]	Retained earnings	Net result	Minority interest	Total equity
Balance at 1 January 2005	**2,537**	**1,055,213**	**-224,583**	**837,676**	**598,245**	**2,931**	**2,272,019**
Transfer of prior year net result	–	–	–	598,245	-598,245	–	–
Transfer of hedge reserve	–	–	98,194	-98,194	–	–	–
Currency translation difference	–	–	301,587	–	–	531	302,118
Change in fair value	–	–	37,178	–	–	–	37,178
Income and expenses recognised directly in equity	**–**	**–**	**338,765**	**–**	**–**	**531**	**339,296**
Net result	–	–	–	–	993,507	468	993,975
Total recognised income and expense	**–**	**–**	**338,765**	**–**	**993,507**	**999**	**1,333,271**
Issuance of shares	34	59,241	–	–	–	–	59,275
Transfer of share based payments	–	6,575	–	-6,575	–	–	–
Share based payments	–	–	–	18,981	–	–	18,981
Investments	–	–	–	–	–	-880	-880
Balance at 31 December 2005	**2,571**	**1,121,029**	**212,376**	**1,350,133**	**993,507**	**3,050**	**3,682,666**
Transfer of prior year net result	–	–	–	993,507	-993,507	–	–
Currency translation difference	–	–	-695,258	–	–	-88,997	-784,255
Change in fair value	–	–	-19,190	–	–	–	-19,190
Income and expenses recognised directly in equity	**–**	**–**	**-714,448**	**–**	**–**	**-88,997**	**-803,445**
Net result	–	–	–	–	803,005	-8,570	794,435
Total recognised income and expense	**–**	**–**	**-714,448**	**-**	**803,005**	**-97,567**	**-9,010**
Transfer to income statement	–	–	62,216	–	–	–	62,216
Dividend	–	–	–	–	–	-2,125	-2,125
Acquired minority	–	–	–	–	–	1,714,036	1,714,036
Issuance of shares	571	5,094,354	–	–	–	–	5,094,925
Transfer of share based payments	–	5,184	–	-5,184	–	–	–
Share based payments	–	–	–	27,366	–	–	27,366
Investments	–	–	–	–	–	-2,263	-2,263
Balance at 31 December 2006	**3,142**	**6,220,567**	**-439,856**	**2,365,822**	**803,005**	**1,615,131**	**10,567,811**

[1] Lundin Petroleum AB's registered share capital at 31 December 2006 amounts to SEK 3,139,076 represented by 313,907,580 shares with a quota value of SEK 0.01 each. In addition there are 307,500 shares that have been issued in exchange for incentive warrants that have been exercised but were not registered by the 31 December 2006.

[2] The additional paid in capital is from of 1 January 2006 included in Other reserves as well as currency differences on loans to subsidiaries. An additional 1 million Lundin Petroleum shares have been reserved for issuance to the previous holder of Valkyries' interest in the Caspiskaya Field, upon the Caspiskaya Field producing 2,500 bopd for a continuous period of thirty days. This consideration has been valued at the closing price at 31 July 2006 and also included in the purchase price. See note 38 – Acquired Subsidiary.

[3] Other reserves are described in detail in Note 22.

ACCOUNTING PRINCIPLES

Introduction
Lundin Petroleum's Annual Report for 2006, as well as the Annual Report for 2005, has been prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements of the group have been prepared in accordance with prevailing IFRS standards and International Financial Reporting Standards Committee (IFRIC) interpretations adopted by the EU Commission at the end of December 2006 and the Annual Accounts Act and the recommendations RR30 issued by Redovisningsrådet. In addition, the Group has chosen to adopt the amendments to IAS 1 Presentation of Financial Statements in advance of the effective date for those amendments of 1 January 2007.

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 held for sale financial assets.

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 consolidated financial statements of the Lundin Petroleum Group have been prepared using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The minority interest in a subsidiary represents the portion of the subsidiary not owned by the Company. The equity of the subsidiary relating to the minority shareholders is shown as a separate item within equity for the Group.

All intercompany profits, transactions and balances are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 should be proportionally consolidated in accordance with the IFRS definition of joint control in an entity.

For companies held which Lundin Petroleum does not have full control over, proportional consolidation has been used.

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% but not more than 50% of the voting rights. Such investments are accounted for in the consolidated financial statements in accordance with the equity method. The difference between the acquisition cost of shares in an associated company and the net fair value of the assets, liabilities and contingent liabilities of the associated company recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The Group's share in the post-acquisition results of the associated company is recognised in the income statement and the Group's share in post-acquisition movements in the equity of the associated company are recognised directly in the Group's equity. When the Group's accumulated share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Other shares and participations
Investments where the shareholding is less than 20% of the voting rights are treated as available for sale financial assets.

Jointly controlled entities – unincorporated
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.

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 SEK, which currency the Group has elected to use as the presentation currency.

Functional currency
Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date and recognised in the income statement. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in the income statement.

Presentation currency
The balance sheets and income statements of foreign subsidiary companies are translated for consolidation using the current rate method. All assets and liabilities of the subsidiary companies are translated at the balance sheet date rates of exchange, whereas the income statements are translated at weighted average rates of exchange for the year. The translation differences which arise are taken directly to the foreign currency translation reserve within shareholders' equity. On a 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 on long term intercompany loans, used for financing exploration activities, are taken directly to shareholders' equity.

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

	Average	Period end
1 EUR equals SEK	9.2533	9.0404
1 USD equals SEK	7.3690	6.8644

Classification of assets and liabilities
Non-current assets, long-term liabilities and provisions consist for the most part solely 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.

General
Assets and liabilities are recognised initially at fair value and subsequently measured at amortised cost unless stated otherwise. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units from which the benefits of the business combination originates. Cash-generating units to which goodwill has been allocated are tested for impairment annually at least. If the fair value of the asset is less than the carrying value the impairment loss is allocated first to reduce the goodwill on the unit and thereafter to the other assets of the unit. Impairment losses on goodwill are not reversed.

On disposal of a subsidiary or a jointly controlled entity the amount of goodwill is included in the profit or loss on disposal.

Oil and gas properties
Oil and gas operations 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. During this phase no depletion is charged. Upon the completion of the development and the start of the production the field will be accounted for as a producing asset. If it is determined that a commercial discovery has not been achieved these costs are charged to the income statement.

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% 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% 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 are offset against the related capitalised costs of each cost centre in the exploration stage with any excess of net proceeds over all costs capitalised included in the income statement. A gain or loss is recognised on the sale or farm-out of producing areas when the depletion rate is changed by more than 20 percent.

ACCOUNTING PRINCIPLES

Impairment tests are carried out at least annually to determine that the net book value of capitalised cost within each field area cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in the related field areas. Capitalised costs can not be carried within a field cost pool unless those costs can be supported by future cash flows from that field. Provision is made for any impairment, where the net book value, according to the above, exceeds the estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting or fair value less costs to sell. 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.

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

Non-current assets held for sale
To classify as non-current asset held-for-sale the carrying amount needs to be assumed to be recovered through a sale transaction rather than through continuing use. It also must be available for immediate sale in its present condition and sale must be highly probable. If classified as non-current held-for-sale the assets will be valued 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 reviews the carrying amounts of its tangible assets to determine whether there is an indication that the recoverable amount is less than the carrying amount. If so the recoverable amount of the asset is estimated in order to determine whether an impairment loss needs to be recorded.

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. If the recoverable amount is estimated to be less than its carrying amount the carrying amount is reduced to its recoverable amount and an impairment loss is recognised either in profit or loss or in the equity statement. When an impairment loss is reversed the carrying amount of the asset is increased to the estimated recoverable amount but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Financial instruments
Lundin Petroleum recognises the following financial instruments:

- Loans and receivables are valued at the amounts they are expected to be realised. Translation differences are reported in the income statement except for the translation differences on long term intercompany loans, used for financing exploration activities, which are taken directly in shareholders' equity.

- Other shares and participations (available for sale financial assets) are valued at fair value and any change in fair value is recorded directly in shareholders' equity until realised. Where the 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.

- Derivative instruments. Derivatives 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 categorises derivatives as follows:

1. Fair value hedge
   Changes in the fair value of derivatives that qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability.
2. Cash flow hedge
   The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in shareholders´ equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in shareholders´ equity 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 shareholders´ equity is transferred to the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss reported in equity is immediately transferred to the income statement.
3. Net investment hedge
   Hedges of net investments in foreign operations are accounted for in a similar manner as cash flow hedges. The gain or loss accumulated in shareholders' equity is transferred to the income statement at the time the foreign operation is disposed of.
4. Derivatives that do no qualify for hedge accounting
   When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the income statement.

Restricted cash
Restricted cash represents cash amounts that have a conditional restriction on their withdrawal and are shown as a financial fixed asset in the balance sheet.

Inventories
Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on a first in first out (FIFO) basis. 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.

Cash and cash equivalents
Cash and cash equivalents includes cash at bank, cash in hand and highly liquid 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.

The change in fair value of shares and participations is accounted for in the fair value reserve. Upon the crystallisation 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 is accounted for in the hedge reserve. Upon settlement of the hedge instrument, the change in fair value is transferred to 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 formal or informal 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.

On fields where the Group is required to contribute to site restoration costs, a provision is created to recognise the future liability. At the date of acquisition of the field or at first production, an asset, as part of oil and gas properties, is created 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.

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.

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 directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready 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.

Leases
For a lease to qualify as a finance lease, substantially all of the risks and benefits of ownership must pass to the lessee. In all other cases the lease will be classified as an operating lease. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

ACCOUNTING PRINCIPLES

Employment benefits

Short term employee benefits

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

Pension obligations

Pensions are the most common long-term employee benefit. 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 equity-settled share-based payments in the income statement as expenses and as an equity reserve in relation to the incentive warrants programme. The equity reserve in relation to incentive warrants programmes is valued at fair value at grant date of the options using the Black & Scholes option pricing method. The fair value of the incentive warrant programme is charged to personnel costs over the vesting period. The fair value of the equity reserve under the incentive warrant programme is remeasured at each reporting date recognising changes that affect the number of options expected to vest. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Income taxes

The main components of tax are current and deferred. 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet 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.

Lundin Petroleum divides the tax accounts between corporation tax and petroleum tax. Petroleum Revenue Tax (PRT) is classified as Petroleum tax and charged as a tax expense on taxable field profits included in the income statement.

Segment reporting

The primary basis the Group uses for segmental reporting is at a country level due to the unique nature of each country's operations, commercial terms or fiscal environment. The secondary basis the Group uses for segmental reporting is oil and gas operations for which reference is made to the financial statements as a whole.

Related party transactions

Lundin Petroleum recognises the following related parties: associated companies, jointly controlled entities, members or the family of the key management personnel or other parties that are partly, direct or indirect, controlled by key management personnel or of its family.

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

The business of the Group is the exploration for, development of and production of 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. 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.

Site restoration provision

Amounts used in recording a provision for site restoration are estimates based on current legal and constructive requirements, current technology and price levels for the removal of facilities and plugging and abandoning of wells. 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 dealt with prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgment, actual results could differ from these estimates.

Estimates in impairment of goodwill
Determination of whether goodwill has suffered any impairment requires an estimation of the value in use of the cash- generating units to which goodwill has been allocated. The present value calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

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.

Coming IFRS accounting principles
The following new standards, amendments and interpretations to existing standards have been approved by the EU but are not yet effective:

IFRS 7 Financial Instruments: Disclosures: Effective for the annual periods beginning on or after 1 January 2007. IFRS 7 deals with the disclosure requirements in relation to all risks arising from financial instruments and applies to any entity that holds financial instruments. The Group will apply IFRS 7 from 1 January 2007.

IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies: Effective for the annual periods beginning on or after 1 March 2006. IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. The Group does not see this standard as relevant for the Group's operations.

IFRIC 8 Scope of IFRS 2: Effective for the annual periods beginning on or after 1 May 2006. IFRIC 8 requires consideration of transaction involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall under IFRS 2. The Group will apply IFRIC 8 from 1 January 2007 but it is not expected to have any impact on the Groups accounts.

IFRIC 9 Reassessment of Embedded Derivatives: Effective for the annual periods beginning on or after 1 June 2006. IFRS 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a part of the contract. IFRIC 9 is not relevant to the Groups operations.

IFRIC 10 Interim Financial Reporting and Impairment: Effective for the annual periods beginning on or after 1 November 2006. IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investment in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet data. The Group will apply IFRIC 10 from 1 January 2007 but it is not expected to have any impact on the Groups accounts.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

NOTE 1 – SEGMENTAL INFORMATION (TSEK)

	2006	2005
Operating income		
Net sales of:		
Crude oil		
- United Kingdom	2,670,527	2,908,682
- France	634,301	629,842
- Norway	141,812	140,713
- Indonesia	272,333	179,673
- Russia	203,604	–
- Tunisia	180,912	153,751
	4,103,489	4,012,661
Condensate		
- United Kingdom	40,160	36,527
- Netherlands	6,328	3,467
- Indonesia	901	1,234
	47,389	41,228
Gas		
- Norway	442	1,746
- Netherlands	269,337	229,617
- Indonesia	820	1,328
- Ireland	–	5,776
	270,599	238,467
Service fee		
- Venezuela	23,478	127,408
Oil price hedging settlement	-211,607	-424,287
	4,233,348	3,995,477
Other income:		
- United Kingdom	125,944	146,931
- France	11,974	14,627
- Norway	14,369	14,276
- Netherlands	10,375	12,927
- Russia	113	–
- Other	18,383	5,946
	181,158	194,707
Total operating income	**4,414,506**	4,190,184
Operating profit contribution		
- United Kingdom	1,268,597	1,397,827
- France	385,285	277,100
- Norway	72,682	267,559
- Netherlands	140,348	62,206
- Venezuela	-49,280	57,146
- Indonesia	-21,875	119,655
- Russia	106,094	–
- Tunisia	89,115	57,899
- Ireland	-44,221	4,222
- Nigeria	–	-158,174
- Iran	–	-6,078
- Other	-115,424	-66,204
Total operating profit contribution	**1,831,321**	2,013,158

Intercompany sales amounts to TSEK nil (TSEK nil) and intercompany purchases amounts to TSEK nil (TSEK nil).

	2006 SEK	2006 USD	2005 SEK	2005 USD
Average crude sales price, per barrel or boe				
- United Kingdom	469.85	63.76	406.74	54.56
- France	461.45	62.62	400.71	53.75
- Norway	445.23	60.42	383.56	51.45
- Netherlands	359.53	48.79	279.19	37.45
- Indonesia	432.19	58.65	364.55	48.90
- Russia	258.14	35.03	–	–
- Tunisia	455.33	61.79	466.16	62.53
- Ireland	–	–	248.33	33.31
Consolidated	**439.93**	**59.70**	394.59	52.93

	2006 SEK	2006 USD	2005 SEK	2005 USD
Average depletion cost, per barrel or boe				
- United Kingdom	70.23	9.53	69.11	9.27
- France	48.78	6.62	44.13	5.92
- Norway	82.24	11.16	74.03	9.93
- Netherlands	78.77	10.69	82.83	11.11
- Indonesia	27.56	3.74	19.61	2.63
- Russia	46.50	6.31	–	–
- Tunisia	155.12	21.05	53.08	7.12
- Venezuela	418.93	56.85	58.15	7.80
Consolidated	**71.70**	**9.73**	62.32	8.36

	Assets		Equity and Liabilities	
	2006 TSEK	2005 TSEK	2006 TSEK	2005 TSEK
United Kingdom	3,006,085	3,124,289	2,421,587	1,951,801
France	1,064,759	1,146,890	445,729	323,613
Norway	2,484,825	1,560,495	1,626,495	1,156,224
Netherlands	707,792	789,338	360,115	248,260
Indonesia	546,958	429,200	219,830	189,030
Russia	8,557,655	–	1,847,690	–
Tunisia	816,105	197,018	123,934	62,445
Ireland	42,146	2,850	8,118	–
Venezuela	143,134	277,733	4,021	61,413
Albania	30,439	46,912	7,724	33,738
Congo (Brazzaville)	74,443	–	24,393	–
Sudan	99,941	54,758	4,182	2,195
Other	111,129	132,890	23,782	50,988
Assets/Liabilities per country	**17,685,411**	7,762,373	**7,117,600**	4,079,707
Shareholders' equity	N/A	N/A	8,952,680	3,679,616
Minority interest	N/A	N/A	1,615,131	3,050
Total equity for the group	**N/A**	N/A	**10,567,811**	3,682,666
Group total	**17,685,411**	7,762,373	**17,685,411**	7,762,373

See also Note 9 for detailed information of the oil and gas properties per country.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

NOTE 2 – PRODUCTION COSTS (TSEK)

Production costs comprise:	2006	2005
Cost of operations	1,358,254	1,107,591
Tariff and transportation expenses	149,665	133,492
Direct production taxes	155,197	35,805
Change in lifting position	-103,669	39,481
Inventory movement – hydrocarbons	16,334	-4,935
Inventory movement – well supplies	–	-529
	1,575,781	1,310,905

NOTE 3 – DEPLETION OF OIL AND GAS PROPERTIES (TSEK)

Depletion of oil and gas properties per country:	2006	2005
United Kingdom	427,516	508,519
France	66,420	67,651
Norway	25,993	26,663
Netherlands	60,402	70,834
Indonesia	24,944	16,192
Russia	37,555	–
Tunisia	66,568	18,831
Venezuela	67,337	44,738
	776,735	753,428

NOTE 4 – WRITE-OFF OF OIL AND GAS PROPERTIES (TSEK)

Oil and gas properties written off were as follows:	2006	2005
France	19,635	–
Netherlands	15,111	30,162
Indonesia	26,425	855
Nigeria	7,646	158,174
Ireland	44,219	–
Iran	–	6,040
Other – project appraisal	10,433	12,904
	123,469	208,135

During the year exploration and appraisal project costs are capitalised as they are incurred and then reviewed on a regular basis to assess their future recoverability. When a decision is made not to proceed with a project the relevant costs are expensed.

The oil and gas properties written off during 2006 includes the Donegal licence offshore Ireland, the Val des Marais well in France, the exploration well drilled in Block F-12 in the Netherlands and costs relating to the drilling of the Jati-1 well in Indonesia. Other write downs are new venture projects.

NOTE 5 – REMUNERATION TO THE GROUP'S AUDITORS (TSEK)

Remuneration to the Group's auditors for	2006	2005
Audit fees		
- PricewaterhouseCoopers	5,028	4,289
- Other	302	52
	5,330	4,341
Other		
- PricewaterhouseCoopers	1,511	498
- Other	582	47
	2,093	545
	7,423	4,886

NOTE 6 – FINANCIAL INCOME (TSEK)

Financial income comprise:	2006	2005
Interest income	31,572	31,195
Dividends received	12,028	12,817
Foreign exchange gain, net	28,560	–
Gain on currency rate hedge	17,656	–
Fair value adjustment on pension (Note 24)	1,679	–
Repayment on loan	4,900	–
	96,395	44,012

NOTE 7 –FINANCIAL EXPENSES (TSEK)

Financial expenses comprise:	2006	2005
Loan interest expenses	41,803	45,003
Change in market value interest rate hedge	691	-7,949
Unwind site restoration discount	24,126	17,082
Amortisation of deferred financing fees	18,633	15,182
Foreign exchange loss, net	–	104,575
Loss on currency rate hedge	–	17,396
Other financial expenses	11,111	5,172
	96,364	196,461

NOTE 8 – TAXES (TSEK)

	Corporation tax		Petroleum tax	
The tax charge comprises:	2006	2005	2006	2005
Current				
- United Kingdom	463,983	209,135	–	–
- France	105,657	9,296	–	–
- Norway	-79,814	-54,295	–	–
- Netherlands	27,744	19,332	32,674	11,270
- Indonesia	3,810	1,153	–	–
- Russia	5,814	–	–	–
- Venezuela	6,286	54,996	–	–
- Switzerland	1,555	1,036	–	–
	535,035	240,653	**32,674**	11,270
Deferred				
- United Kingdom	344,195	343,221	-4,405	-42,799
- France	70,280	82,805	–	–
- Norway	-7,442	210,766	–	–
- Netherlands	105,397	-7,666	-3,423	10,479
- Indonesia	25,657	17,460	–	–
- Russia	-5,998	–	–	–
- Tunisia	-65,357	–	–	–
- Venezuela	125	545	–	–
- Congo (Brazzaville)	8,952	–	–	–
- Sudan	1,227	–	–	–
	477,036	647,131	**-7,828**	-32,320
Total tax	**1,012,071**	887,784	**24,846**	-21,050

The total tax charge amounts to TSEK 1,036,917 (TSEK 866,734).

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

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:

	2006	2005
Profit before tax	1,831,352	1,860,709
Tax calculated at the corporate tax rate in Sweden (28%)	-512,779	-521,001
Effect of foreign tax rates	-363,437	-302,208
Tax effect of expenses non-deductible for tax purposes	-98,821	-28,128
Tax effect of deduction for petroleum tax	65,387	32,831
Tax effect of income not subject to tax	1,214	41,003
Tax effect of utilisation of unrecorded tax losses	65,086	–
Tax effect of creation of unrecorded tax losses	–	-78,898
Adjustments to prior year deferred taxes	-22,049	-14,863
Adjustments to prior year tax assessments	-146,672	-16,520
	-1,012,071	-887,784

The adjustments to prior year tax assessments relates to the United Kingdom. At the time it was announced that the tax rate in the United Kingdom would be increased, it was also announced that the tax deduction for capital expenditure incurred in 2005 could be deferred until 2006 when it would benefit from a deduction against the higher rate of tax. Lundin Petroleum has elected to exercise this option which has resulted in a lower 2006 current tax charge of MSEK 65.2. The income statement has been affected by a one off, non-cash charge of MSEK 216.2 for the restatement of the opening deferred tax balances relating to the United Kingdom assets.

	Current tax liability		Deferred tax liability	
Tax liability – current and deferred	2006	2005	2006	2005
Corporation tax				
- United Kingdom	74,843	63,550	1,076,374	912,695
- France	92,374	–	202,740	129,197
- Norway	–	–	698,329	436,294
- Netherlands	1,194	–	119,038	148,663
- Indonesia	4,386	2,413	60,571	88,723
- Russia	1,201	–	1,576,169	–
- Tunisia	–	–	68,932	–
- Congo (Brazzaville)	–	–	8,340	–
- Sudan	–	–	1,139	–
- Albania	–	–	7,722	–
- Venezuela	–	44,917	-	-3,565
Total corporation tax liability	**173,998**	110,880	**3,819,354**	1,712,007
Petroleum tax				
- United Kingdom	–	–	7,949	12,264
- Netherlands	–	6,811	5,345	10,787
Total petroleum tax liability	–	6,811	13,294	23,051
Total tax liability	**173,998**	117,691	**3,832,648**	1,735,058

The wholly owned French companies have been consolidated for tax purposes within France from 1 January 2003. The taxation liability of a French company can be reduced wholly or in part by the surrender of losses from another French company. Losses incurred by a company prior to tax consolidation can only be carried forward and utilised against that company's income indefinitely.

During 2005 the Swedish taxation authority (Skatteverket) conducted a tax audit of Lundin Petroleum AB for the financial years 2002 to 2003. The tax authorities have disallowed a portion of expenses recharged to Lundin Petroleum AB by Lundin Oil Services SA for costs associated with services performed by the management of the Lundin Petroleum Group. As Lundin Petroleum AB is in a tax loss position, this disallowance of the expenses reduces the tax losses carried forward but does not result in a current tax charge. The tax losses incurred have not been recorded as deferred tax assets due to the uncertainty as to the timing of their utilisation. The tax authorities have charged penalties on the value of the taxable effect of the disallowed costs amounting to TSEK 5,038.1. The company is challenging the assessment of the penalties and the disallowance of the management costs as the company believes that they are a valid charge to the Parent Company of the Lundin Petroleum Group and as such, Lundin Petroleum has not made a provision in the accounts for the penalties charged.

A deferred tax liability for the amount of TSEK 633 (TSEK 42,028) related to the interest rate hedge outstanding per 31 December 2006 has been accounted for directly in equity. The deferred tax liability arises mainly on the excess of book value over the tax value of oil and gas properties and tax on the excess value of the acquired assets in Russia. A current tax of TSEK 38,643 has been accounted for in the income statement in relation to the transfer of the fair value on derivative instruments from shareholders' equity to the income statement.

Specification of deferred tax assets and tax liabilities	2006	2005
Deferred tax assets		
Unused tax loss carry forwards	394,971	172,705
Site restoration provision	42,194	68,509
Royalties	–	5,060
Overlift	2,581	2,785
Fair value of derivative instruments	–	45,125
Other deductible temporary differences	48,278	3,604
	488,024	297,788
Deferred tax liabilities		
Accelerated allowances	2,212,468	1,723,501
Fair value of derivative instruments	633	3,097
Exchange gains and losses	42,206	–
Capitalised acquisition cost	6,276	8,360
Deferred tax on excess values	1,566,076	–
Other taxable temporary differences	4,989	100
	3,832,648	1,735,058

The deferred tax asset is primarily relating to loss carry forwards in Norway for an amount of TSEK 298,732 (TSEK 163,895) and Tunisia for an amount of TSEK 90,191 (TSEK 15,917). Deferred tax assets in relation to tax loss carry forwards are only recognised in so far that there is a reasonable certainty as to the timing and the extent of their realisation.

Unrecognised tax losses

The Group has Swedish and Dutch tax loss carry forwards, including tax losses in the current financial year, of MSEK 485.7 which in part are not yet assessed. The tax losses can be utilised indefinitely. A deferred tax asset relating to the tax losses carry forward has not been recognised as at 31 December 2006 due to the uncertainty as to the timing and the extent of their utilisation. This treatment is consistent with the comparative year's accounts.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

NOTE 9 – OIL AND GAS PROPERTIES (TSEK)

	2006	2005
Production cost pools	8,087,853	5,541,704
Non-production cost pools	6,319,993	191,167
	14,407,846	5,732,871

2006 production cost pools	UK	France	Norway	Netherlands	Indonesia	Russia	Tunisia	Venezuela	Total
Cost									
1 January	3,293,503	1,065,171	1,281,643	716,399	266,957	–	79,678	318,874	7,022,225
Acquired on acquisition	–	–	–	–	–	1,441,204	–	–	1,441,204
Additions – production/ development	642,017	123,612	875,599	27,781	108,276	107,598	490,299	-2,432	2,372,750
Disinvestments	–	–	–	–	–	-524	–	-272,774	-273,298
Change in estimates	194,851	15,261	15,229	28,916	–	–	66,068	–	320,325
Reclassifications	–	–	–	–	–	–	79,298	–	79,298
Currency translation difference	-510,046	-42,146	-126,197	-26,677	-42,228	-79,197	-50,687	-43,668	-920,846
31 December	3,620,325	1,161,898	2,046,274	746,419	333,005	1,469,081	664,656	–	10,041,658
Depletion									
1 January	-733,349	-220,433	-44,063	-245,769	-77,324	–	-59,892	-99,691	-1,480,521
Depletion charge for the year	-427,516	-66,420	-25,993	-60,402	-24,944	-37,555	-66,568	-67,337	-776,735
Write-offs	–	-19,635	–	-15,111	–	–	–	–	-34,746
Disinvestments	–	–	–	–	–	–	–	148,713	148,713
Currency translation difference	130,085	9,649	4,125	9,660	10,454	2,238	4,958	18,315	189,484
31 December	-1,030,780	-296,839	-65,931	-311,622	-91,814	-35,317	-121,502	–	-1,953,805
Net book value	**2,589,545**	**865,059**	**1,980,343**	**434,797**	**241,191**	**1,433,764**	**543,154**	**–**	**8,087,853**

2005 production cost pools	UK	France	Norway	Netherlands	Indonesia	Tunisia	Venezuela	Ireland	Total
Cost									
1 January	2,193,340	985,066	564,521	624,948	107,707	76,555	233,829	31,419	4,817,385
Acquired on consolidation	–	–	-781	–	–	–	–	–	-781
Additions – production/ development	637,067	40,998	665,813	65,572	103,599	2	35,470	–	1,548,521
Disinvestments	–	–	–	–	–	–	–	-32,708	-32,708
Reclassifications	–	-993	–	–	195	–	–	–	-798
Currency translation difference	463,096	40,100	52,090	25,879	55,456	3,121	49,575	1,289	690,606
31 December	3,293,503	1,065,171	1,281,643	716,399	266,957	79,678	318,874	–	7,022,225
Depletion									
1 January	-158,520	-146,630	-15,810	-138,326	-29,362	-39,242	-43,212	–	-571,102
Depletion charge for the year	-508,519	-67,651	-26,663	-70,834	-16,192	-18,831	-44,738	–	-753,428
Write-offs	–	–	–	-30,162	–	–	–	–	-30,162
Disinvestments	–	–	–	–	–	–	–	–	–
Currency translation difference	-66,310	-6,152	-1,590	-6,447	-31,770	-1,819	-11,741	–	-125,829
31 December	-733,349	-220,433	-44,063	-245,769	-77,324	-59,892	-99,691	–	-1,480,521
Net book value	**2,560,154**	**844,738**	**1,237,580**	**470,630**	**189,633**	**19,786**	**219,183**	**-**	**5,541,704**

2006 non-production cost pools	1 January	Acquired on acquisition	Additions	Write-offs	Reclassfication	Currency translation difference	31 December
Indonesia	42,814	–	23,379	-26,425	–	-5,937	33,831
Russia	–	6,242,293	183,150	–	–	-334,570	6,090,873
Tunisia	79,298	–	462	-462	-79,298	–	–
Albania	30,269	–	4,482	–	–	-4,468	30,283
Nigeria	–	–	7,646	-7,646	–	–	–
Ireland	2,622	–	41,635	-44,219	–	-38	–
Sudan	28,757	–	50,587	-171	–	-3,933	75,240
Congo (Brazzaville)	798	–	78,951	–	–	-5,516	74,233
Other	6,609	–	19,267	-9,800	–	-543	15,533
Net book value	**191,167**	**6,242,293**	**409,559**	**-88,723**	**-79,298**	**-355,005**	**6,319,993**

2005 non-production cost pools							
Indonesia	14,657	–	17,469	-855	–	11,543	42,814
Tunisia	3,760	–	74,493	–	–	1,045	79,298
Albania	4,085	–	24,476	–	–	1,708	30,269
Nigeria	–	–	158,174	-158,174	–	–	–
Iran	–	–	6,040	-6,040	–	–	–
Sudan	20,802	–	7,798	–	–	157	28,757
Other	6,437	–	15,444	-12,197	–	345	10,029
Net book value	**49,741**	**–**	**303,894**	**-177,266**	**–**	**14,798**	**191,167**

The reclassification from Non-Production cost pools to Production cost pools relates to the production start on the Oudna field. Acquired on acquisition includes the values assigned to the oil and gas properties acquired through the purchase of the shares in Valkyries the 31 July 2006. Acquired on consolidation in 2005 relate to adjustments made to the values assigned to the oil and gas assets acquired through the acquisition of the Norwegian assets from DNO ASA in 2004.

Capitalised interest
The capitalised interest costs included within the costs of oil and gas properties amounts to MSEK 45.8 (MSEK 17.8) and relates to oil and gas assets in Norway.

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 present commitments is estimated to be no more than MSEK 719.3 of which third parties who are joint venture partners have contractually agreed to contribute approximately MSEK 158.3.

Venezuela
In 2005 the Venezuelan government decided to restructure all operating services agreements in the country. Lundin Petroleum and its partners signed in 2005 a Transitional Agreement with Venezuelan national oil company PDVSA Petròleo SA. This agreement was relating to entering into good faith negotiations for conversion of the Operating Services Agreement into a joint venture company. The final effect of this transition on Lundin Petroleum's Venezuelan assets and values remained uncertain during 2005 although Lundin Petroleum and its partners had been assured by the Venezuelan Ministry of Energy and Petroleum that the new regime would preserve our asset value under the Operating Services Agreement.

On 12 July 2006, Lundin Petroleum signed an agreement with PDVSA to convert its directly owned 12.5% interest in the Colón Block Operating Service Agreement into a 5% shareholding in a joint venture company, Baripetrol SA, owning 100% of the Colón Block. The agreement confirmed the effective date for the transfer as 1 April 2006. Under the IFRS rules, under which Lundin Petroleum prepares its financial statements, this investment will be treated as Other shares and participations (see Note 13) and Lundin Petroleum will only report income of dividend received. As such, Lundin Petroleum has ceased to report production and reserves, and revenue and cost of sales for the Colon Block from 1 April 2006.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

NOTE 10 – OTHER TANGIBLE ASSETS (TSEK)

	2006			2005		
Other tangible fixed assets:	Real estate	Office equipment and other assets	Total	Assets under construction/ Real estate	Office equipment and other assets	Total
Cost						
1 January	56,007	63,467	119,474	10,905	39,365	50,270
Acquired on acquisition	5,838	6,274	12,112	–	–	–
Disinvestments	–	–	–	–	–	–
Additions	18,586	19,399	37,985	40,190	16,453	56,643
Write-off	–	2,587	2,587	–	-9	-9
Reclassification	–	–	–	–	798	798
Currency translation difference	-9,172	-7,831	-17,003	4,912	6,860	11,772
31 December	71,259	83,896	155,155	56,007	63,467	119,474
Depreciation						
1 January	–	-25,338	-25,338	–	-12,269	-12,269
Disinvestments	–	–	–	–	–	–
Depreciation charge for the year	-765	-12,701	-13,466	–	-9,781	-9,781
Write-off	–	-2,587	-2,587	–	–	–
Currency translation difference	49	3,611	3,660	–	-3,288	-3,288
31 December	-716	-37,015	-37,731	–	-25,338	-25,338
Net book value	**70,543**	**46,881**	**117,424**	56,007	38,129	94,136

Depreciation charge for the year reflects depreciation according to plan which is based on cost and an estimated useful life of 10 years for real estate and 3 to 5 years for office equipment and other assets. Depreciation is included within the general, administration and depreciation line in the income statement.

Acquired on acquisition includes the values assigned to the office equipment and other fixed assets acquired through the purchase of the shares in Valkyries during 2006.

NOTE 11 – GOODWILL

The book amount for goodwill recorded at 31 December 2006 is in relation to the acquisition of Valkyries per 31 July 2006.

Goodwill comprises:	2006	2005
1 January	–	–
Acquired on acquisition	862,137	–
Currency translation difference	-44,952	–
31 December	**817,185**	–

NOTE 12 – SHARES IN JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (TSEK)

Jointly controlled entities and associated companies comprise:	Consolidation method	Number of shares	Share %	Book amount 31 December 2006	Book amount 31 December 2005
Ikdam Production SA	Equity	1,600	40.00	0	0
Oil Service	Proportional consolidation	2	50.00	–	–
RF Energy Investments Ltd.	Proportional consolidation	11,540	50.00	–	–
- CJSC Pechoraneftegas [1]		20,000		–	–
- LLC Zapolyarneftegas [1]		1		–	–
- LLC NK Recher-Komi [1]		1		–	–
- Geotundra BV [1]		20,000		–	–
				0	0

[1] Through the proportional consolidation of RF Energy Investment Ltd. the 100% owned subsidiaries of RF Energy Investment Ltd. are also proportionally consolidated in the Lundin Petroleum accounts.

Income statement per 31 December 2006	Ikdam Production SA	Oil Service	RF Energy consolidated
Revenue	19,234	1,164	334,214
Operating cost	-27,188	-1,341	-333,079
Net result	-15,826	-339	-6,323

Balance Sheet per 31 December 2006	Ikdam Production SA	Oil Service	RF Energy consolidated
Non-current assets	135,499	4,997	1,059,767
Current assets	7,317	1,112	115,885
Total assets	142,816	6,109	1,175,652
Equity	2,228	2,389	572,820
Non-current liabilities	139,423	398	422,820
Current liabilities	1,165	3,322	180,012
Total liabilities	142,816	6,109	1,175,652

NOTE 13 – OTHER SHARES AND PARTICIPATIONS (TSEK)

Other shares and participation comprise:	Number of shares	Share %	Book amount 31 December 2006	Book amount 31 December 2005
- Baripetrol SA	5,000	5.00	129,490	–
- Noorderlijke Aardgas Transportmij B.V.	11,098,015	1.81	93,149	105,769
- Cofraland B.V.	31	7.75	2,734	2,841
- Island Oil and Gas plc	4,000,000	5.32	34,865	43,286
- Maison de la géologie	2	1.25	27	32
			260,265	151,928

The fair value of Island Oil & Gas plc is calculated using the quoted share price at the London Stock Exchange and the fair value of the shares in NOGAT is based on the discounted expected cash flow.

As at 31 December 2005, the other shares and participations include MSEK 2.8 recognised at cost because their fair value can not 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.

NOTE 14 – DERIVATIVE INSTRUMENTS (TSEK)

As an international oil and gas exploration and production company operating globally, Lundin Petroleum is exposed to financial risks such as fluctuations in currency rates, oil price, interest rates as well as credit financing. The Company shall seek to control these risks through sound management practice and the use of internationally accepted financial instruments, such as oil price hedges and interest rate hedges. Lundin Petroleum uses financial instruments solely for the purpose of minimising risks in the Company's business. For operational risks see Note 41.

Currency risk
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 Company 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.

Oil price risk
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.

Interest rate risk
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 Company, then Lundin Petroleum may choose to enter into an interest hedge.

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 back possession of the licence or the joint venture partner's share of production for non-payment of cash calls or other amounts due.

Liquidity risk
On 16 August 2004, the Group entered into a MUSD 385 loan facility to fund the DNO acquisition and to provide further funds for corporate purposes. The MUSD 385 loan facility has been used to provide Letters of Credit in the amount of MUSD 35 as security for the payment of future site restoration costs to former owners of the Heather field, offshore UK, and cash drawings of MUSD 350. The amount of cash drawings outstanding at 31 December 2006 amounted to MUSD 185. The Group has entered into oil price, interest rate and currency hedges to remove a portion of market risk from the future cash flows. It is expected that the Group's operating cash flows will be sufficient to meet the Group's ongoing development and exploration expenditure requirements, but when the cash flow should be insufficient the Group can utilise the undrawn portion of the loan facility.

Fair value of outstanding derivative instruments	31 Dec 2006		31 Dec 2005	
in the balance sheet:	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	4,199	–	15,255	4,373
Oil hedge contracts	–	–	–	170,833
Foreign exchange forward contracts	–	–	–	18,571
Total	**4,199**	**–**	15,255	193,777
Non-current	–	–	1,825	–
Current	4,199	–	13,430	193,777
Total	**4,199**	**–**	15,255	193,777

The Group had entered into the following oil price hedges:

Contract date	USD per barrel Dated Brent	Barrels per day	Start date	End date
3/2005	53.19	5,000	1/1/2006	31/12/2006
12/2005	61.40	5,000	1/1/2006	31/12/2006

Under the criteria of IAS 39, the oil price hedges were effective and qualified for hedge accounting. Changes in fair value of these contracts were charged directly to the shareholders' equity. Upon settlement the relating part of the reserve was released to the income statement.

The Group had entered into the following interest rate hedging contracts to tie the LIBOR based floating rate part of the Company's USD borrowings to a fixed LIBOR rate of interest.

Contract date	USD Libor interest rate	Amount hedged	Start date	End date
10/2002	3.49%	75,000,000	5/7/2005	3/1/2006
10/2002	3.49%	65,000,000	3/1/2006	3/7/2006
10/2002	3.49%	55,000,000	3/7/2006	2/1/2007
3/2004	2.32%	40,000,000	1/4/2004	2/4/2007

The 3.49% interest rate contract had been entered into in relation to a previous credit facility, which was repaid and cancelled of in 2003. As of 1 January 2004, this contract had been recorded at fair value with changes in fair value being recorded in the income statement. The 2.32% interest rate contract relates to the current credit facility. As from 1 January 2005, the contract met the conditions of IAS 39 to qualify for hedge accounting with changes in fair value being charged directly to shareholders' equity. Following the repayment of the underlying portion of the loan in 2005, the 2.32% interest rate contract became ineffective in the fourth quarter of 2005 and hedge accounting could no longer be applied. As from this date, changes in fair value of this contract were therefore charged to the income statement.

The Group had entered into the following currency hedging contracts:

Buy	Sell	Average contractual exchange rate	Settlement period
MGBP 36.0	MUSD 63.3	1.7588	20 Dec 2005 – 20 Nov 2006
MEUR 14.4	MUSD 18.3	1.2716	20 Dec 2005 – 20 Nov 2006
MCHF 10.0	MUSD 7.7	0.7711	20 Dec 2005 – 20 Nov 2006

The currency hedging contracts are treated as being ineffective and therefore do not qualify for hedge accounting under IAS 39. Changes in fair value of these contracts are directly charged to the income statement.

NOTE 15 – RESTRICTED CASH

Restricted cash includes cash amounts deposited to support letters of credit issued in support of exploration work commitments and amount to TSEK 18,641 (TSEK 23,827). The amount as at 31 December 2005 relates to the bank guarantee outstanding issued to the Minister of Energy and Mining, representing the Republic of Sudan, in relation to the first commitment period in Block 5B, Sudan. The bank guarantee has been supported by a cash deposit that can not be withdrawn whilst the guarantee remains outstanding.

NOTE 16 – DEFERRED FINANCING FEES

The deferred financing fees amounted in 2005 to TSEK 18,905 and related to the costs incurred establishing the bank credit facility and are being amortised over the estimated usage of the facility. In 2006 amortisation expenses amounted to TSEK 18,633 (TSEK 15,182) and the deferred financing fee was fully amortised during 2006. See also Note 7.

NOTE 17 – DEFERRED TAX ASSET

In the line item Other financial assets on the face of the Balance Sheet an amount of TSEK 10,650 (TSEK 8,201) relating to funds held by joint venture partners in anticipation of future expenditures are included.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

NOTE 18 – INVENTORIES (TSEK)

Inventories comprise:	31 December 2006	31 December 2005
Hydrocarbon stocks	48,283	62,485
Drilling equipment and consumable materials	75,396	37,458
	123,679	99,943

Drilling equipment and consumable material	31 December 2006	31 December 2005
1 January	37,458	35,011
Acquired on acquisition	16,706	–
Purchase	68,367	19,168
Used in production	-45,057	-17,075
Currency translation difference	3,721	7,249
	81,195	44,353
Provisions for obsolescence	-5,799	-6,895
31 December	**75,396**	37,458

NOTE 19 – TRADE RECEIVABLES (TSEK)

No material amounts have been recorded as provisions for bad debts.

NOTE 20 – PREPAID EXPENSES AND ACCRUED INCOME (TSEK)

Prepaid expenses and accrued income comprises:	31 December 2006	31 December 2005
Prepaid rent	4,577	4,538
Joint venture balances	11,093	478
Prepaid insurances	12,722	1,902
Accrued income	27	14,883
Other	26,052	5,475
	54,471	27,276

Joint venture balances included in prepaid expenses and accrued income relate only to unincorporated joint ventures.

NOTE 21 – OTHER RECEIVABLES (TSEK)

Other receivables comprises:	31 December 2006	31 December 2005
Underlift	46,936	49,482
Joint venture debtors	187,671	180,989
VAT receivable	29,067	17,363
Other receivables	18,010	14,396
	281,684	262,230

Joint venture debtors relate only to unincorporated joint ventures.

NOTE 22 – OTHER RESERVES (TSEK)

Other reserves in the statement of changes in equity comprises:	Available-for-sale reserve	Hedge reserve	Currency translation reserve	Total Other reserves
Balance at 1 January 2005	–	-98,194	-126,389	-224,583
Transfer of hedge reserve	–	98,194	–	98,194
Currency translation difference	–	–	301,587	301,587
Change in fair value	99,109	-61,931	–	37,178
Income and expenses recognised directly in equity	**99,109**	**-61,931**	**301,587**	**338,765**
Balance at 31 December 2005	**99,109**	**-61,931**	**175,198**	**212,376**
Currency translation difference	–	–	-695,258	-695,258
Change in fair value	-19,190	–	–	-19,190
Income and expenses recognised directly in equity	**-19,190**	**–**	**-695,258**	**-714,448**
Transfer to income statement	–	62,216	–	62,216
Balance at 31 December 2006	**79,919**	**285**	**-520,060**	**-439,856**

NOTE 23 – SITE RESTORATION (TSEK)

	2006	2005
1 January	329,173	296,024
Acquired on acquisition	10,534	–
Unwinding of discount (Note 7)	24,126	17,082
Payments	-28,846	-254
Changes in estimates	320,324	–
Disinvestments	–	-11,187
Currency translation difference	-30,636	27,508
31 December	**624,675**	329,173

NOTE 24 – PENSION (TSEK)

In May 2002 the Compensation Committee recommended to the Board of Directors, and the Board of Directors approved that a pension to 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.

Up to October 2006 the pension amount agreed consisted of monthly payments totalling an annual amount of TCHF 206 (TSEK 1,236) and thereafter of monthly payments totalling an annual amount of TCHF 138 (TSEK 827) payable to the widow of Adolf H. Lundin, Mrs Eva Lundin, which will continue for the duration of her life. The Company may, at its option, buy out the obligation to make the pension payments through a lump sum payment in the amount of TCHF 1,800 (TSEK 10,127).

In 2006 the pension provision has been valued using a discount rate of 2.5% which has resulted in a fair value adjustment gain recorded in the income statement amounting to TSEK 1,679.

Pension provision	2006	2005
1 January	13,810	14,518
Fair value adjustment	-1,679	–
Instalments paid	-1,112	-1,236
Currency translation difference	-892	528
31 December	**10,127**	13,810

NOTE 25 – OTHER PROVISIONS (TSEK)

Other provisions comprises:	Termination indemnity provision	Other	Total
1 January 2006	6,957	2,252	9,209
Additions	4,237	4,127	8,364
Payments	–	-2,142	-2,142
Currency translation difference	-1,256	-129	-1,385
31 December 2006	**9,938**	**4,108**	**14,046**

The termination indemnity provision represents Lundin Petroleum's share of the provision for employment termination costs within the Salawati joint ventures in Indonesia. This provision is supported in full by cash deposits held by the joint venture that are included within financial fixed assets.

NOTE 26 – BANK LOANS (TSEK)

Bank loans comprises:	31 December 2006	31 December 2005
Current		
Repayment within one year	–	–
Long term		
Repayment within 2 – 5 years	1,391,063	736,151
Repayment after five years	–	–
	1,391,063	736,151

Loan repayments are made based upon a net present value calculation of the assets future cash flows. No loan repayments are currently forecasted under this calculation. The loan repayments as shown in the table are driven by the loan reduction schedule. The interest rate on the Group's credit facility is floating at LIBOR + 1.1%.

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.

NOTE 27 – FINANCE LEASE (TSEK)

There are no finance leases within the Group.

NOTE 28 – OPERATING LEASE (TSEK)

Operating lease payments in the income statement amounts to MSEK 31.6 (MSEK 18.5) and relate to the sale and leaseback transaction of a vessel in Norway. The payments for the coming years have been based on the assumption of a 7% interest in the vessel. The operating lease expires on 1 July 2010. Lundin Petroleum has an option to lease the vessel for a further 10 years after this date.

Lease payments during 2007 and forward	31 December 2006	31 December 2005
Under 1 year	29,801	36,601
Within 2 – 5 year	70,116	115,841
Total	**99,917**	152,442

NOTE 29 – ACCRUED EXPENSES AND PREPAID INCOME (TSEK)

Accrued expenses and prepaid income comprises:	31 December 2006	31 December 2005
Holiday pay	4,742	6,496
Operating costs	29,485	24,576
General and administrative costs	2,437	747
Social security charges	5,068	6,000
Salaries and wages	2,066	413
Other	12,847	7,213
	56,645	45,445

NOTE 30 – OTHER LIABILITIES (TSEK)

Other liabilities comprises:	31 December 2006	31 December 2005
Overlift	17,986	67,911
Acquisition liabilities	37,183	38,615
Joint venture creditors	650,845	642,575
Interest bearing debt	47,364	–
VAT payable	5,498	5,201
Social charges payable	6,206	7,744
Other liabilities	28,582	1,953
	793,664	763,999

During 2002 the Group completed the acquisition of 95.3% of the outstanding shares in Lundin International SA (formerly Coparex International SA) for a cash payment of MUSD 172.5 and a deferred consideration of up to MUSD 27.5 payable depending upon the performance of certain Tunisian assets. In the annual accounts 2005 an amount of TSEK 38,615 was recorded against the purchase price of the shares for Lundin Petroleum's estimate of the amount payable under the deferred consideration. The contingent liability to pay the deferred consideration continued up to 31 December 2005 and after that the deferred consideration has been fully accrued under other liabilities.

Joint venture creditors relate only to unincorporated joint ventures.

NOTE 31 – PLEDGED ASSETS

During 2004, the Group had entered into a MUSD 385 loan facility under which an amount of MUSD 185.0 was outstanding as at 31 December 2006. This facility was secured by a pledge over the shares of the asset holding companies of the Group and future cash flows generated from the pledged companies.

The amount stated for pledged assets of TSEK 1,986,537 as at 31 December 2006, represents the net asset book values of the pledged companies.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

NOTE 32 – CONTINGENT LIABILITIES

The acquired Valkyries had four contingent liabilities outstanding. Two of the contingent liabilities relate to the Lagansky Block and amount to MUSD 12.5 to be paid in the event of a commercial discovery and MUSD 10.0 to be paid upon the award of a development licence for a resulting discovery. An additional MUSD 1 is due to the vendor for the Ashirovskoye Field, following the first calendar year in which production from this field exceeds 100,000 metric tons. These contingent liabilities are stated on the face of the balance sheet but have not been accrued.

Valkyries had agreed to pay an additional 1 USD per metric ton of oil discovered on newly discovered fields in the Orenburg licence area, assuming commercial quantities of oil. This is a contingent liability from the Oilgaztet acquisition for which none of the conditions have been met at this date. This contingent liability has been assumed by Lundin Petroleum but due to the uncertainty, no value has been assigned for this contingent liability.

NOTE 33 – EARNINGS PER SHARE

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

	2006	2005
The result of the Groups attributable to the shareholders of the Parent Company (in SEK)	794,435,500	993,506,862
Weighted average number of shares for the year	280,867,805	255,685,730
Earnings per share (in SEK)	**2.83**	3.89

Diluted earnings per share is calculated by adjusting the weighted average number of shares for the year with the dilution effect of outstanding warrants and to divide the result of the Group attributable to shareholders of the Parent Company by the diluted weighted shares.

	2006	2005
The result of the Groups attributable to the shareholders of the Parent Company (in SEK)	794,435,500	993,506,862
Weighted average number of shares for the year	280,867,805	255,685,730
Dilution effect of outstanding warrants	1,383,532	1,288,393
Weighted average number of shares for the year after considering the dilution effect of outstanding warrants.	282,251,337	256,974,123
Earnings per share (diluted) (in SEK)	**2.81**	3.87

NOTE 34 – ADJUSTMENT CASH FLOW FROM OPERATIONS (TSEK)

	Note	2006	2005
Other provisions		6,213	-1,286
Write off of oil and gas properties	4	123,469	208,135
Depletion, depreciation and amortization		790,201	763,209
Amortization of deferred financing fees	16	18,633	3,737
Interest income in Income Statement		-31,572	-31,195
Current tax in Income Statement		567,709	240,653
Interest expense in Income Statement		41,803	45,003
Other non-cash items	35	463,036	656,679
Unrealised exchange gains		-1,827	-2,200
Gain on sale of assets		–	-192,122
Adjustment cash flow from operations		**1,977,665**	1,690,613

NOTE 35 – CASH FLOW ANALYSIS – OTHER NON CASH ITEMS (TSEK)

	2006	2005
Deferred tax	469,208	618,610
Site restoration discount	24,126	17,085
Share based payments	27,366	18,981
Other non-cash items	-57,664	2,003
	463,036	656,679

NOTE 36 – RELATED PARTY TRANSACTIONS

The Group has entered into transactions with related parties on an arms length basis as described below:

The Group paid TSEK 372 (TSEK 402) to Namdo Management Services Ltd., a private corporation owned by Lukas H. Lundin, a director of Lundin Petroleum, pursuant to a services agreement. Namdo has approximately 12 employees and provides administration and financial services to a number of public companies. Accordingly, there is no basis for allocating the amounts paid to Namdo to Mr Lukas H. Lundin directly. The were no outstanding payable amount at balance date.

The Group received TSEK 565 (TSEK 2,334) from Vostok Nafta Investment Ltd and related companies, for the provision of office and accounting services. Vostok Nafta is considered a related party because the major shareholder is Lorito Holdings Ltd which also is the major shareholder in Lundin Petroleum. The outstanding receivable at balance date amounts to TSEK 16.

NOTE 37 – AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS (TSEK)

	2006		2005	
Average number of employees per country	Total employees	of which men	Total employees	of which men
Parent company				
Sweden	–	–	–	–
Total parent company	**–**	**–**	**–**	**–**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary foreign companies				
United Kingdom	24	17	62	55
France	53	41	50	40
Norway	17	11	16	12
Switzerland	42	29	35	23
Netherlands	6	3	6	3
Indonesia	17	10	16	11
Singapore	3	2	–	–
Russia	339	293	–	–
Tunisia	12	9	12	9
Total subsidiary companies	**513**	**415**	197	153
Total Group	**513**	**415**	197	153

For the Group, a total of 20 persons held senior management and board positions (2005: 20, 2004: 19 persons, 2003: 15 persons). Two women are included in these positions in 2006 and 2005 (One woman during 2004 and 2003).

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

	2006		2005	
Salaries, other remuneration and social security costs per country	Salaries and other remuneration	Social security costs	Salaries and other remuneration	Social security costs
Parent company				
Sweden	6,586	1,221	5,268	1,243
Total parent company	**6,586**	**1,221**	5,268	1,243
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
United Kingdom	31,156	4,193	85,166	7,082
France	21,458	17,794	16,237	8,275
Norway	19,742	5,438	18,906	2,542
Switzerland	44,134	7,818	42,293	3,279
Netherlands	4,792	760	5,776	214
Indonesia	5,568	4,415	8,860	79
Singapore	1,461	106	–	–
Russia	30,470	2,317	–	–
Tunisia	8,264	1,037	9,221	–
Total subsidiary companies	**167,045**	**43,608**	186,459	21,471
Total Group	**173,631**	**44,829**	191,727	22,714
of which defined contribution plan cost	14,143		8,450	
of which defined benefit plan cost	1,112		1,236	

	2006		2005	
Salaries, other remuneration per country split between the Board of Directors/MD and other employees	Board of Directors and MD	Other employees	Board of Directors and MD	Other employees
Parent company				
Sweden	6,586	–	5,268	–
Total parent company	**6,586**	**–**	5,268	–
Subsidiary companies in Sweden	**–**	**–**	–	–
Subsidiary foreign companies				
United Kingdom	6,330	24,826	2,684	82,482
France	-	21,458	–	16,237
Norway	2,019	17,722	2,237	16,669
Switzerland	4,346	39,788	8,451	33,842
Netherlands	1,192	3,599	1,873	3,903
Indonesia	1,952	3,616	3,009	5,851
Singapore	1,118	343	–	–
Russia	4,158	26,312	–	–
Tunisia	3,740	4,524	3,310	5,911
Total subsidiary companies	**24,855**	**142,188**	21,564	164,895
Total Group	**31,441**	**142,188**	26,832	164,895

NOTE 38 – REMUNERATION TO BOARD OF DIRECTORS' AND MANAGEMENT

The Board of Directors of Lundin Petroleum has established a Compensation Committee to administer the Company's executive compensation programme. The Committee is composed of three non-management directors and meets at least annually to receive information on and determine matters regarding executive compensation, in accordance with policies approved by the Board. The guiding philosophy of the Committee in determining compensation for executives is the need to provide a compensation package that is competitive and motivating; will attract and retain qualified executives; and encourages and motivates performance. Performance includes achievement of the Company's strategic objective of growth and the enhancement of shareholder value through increases in the stock price resulting from advances in the Company's business, continued low cost operations and enhanced cash flow and earnings. In establishing compensation for executive officers, the Committee takes into consideration individual performance, responsibilities, length of service and levels of compensation provided by industry competitors. The committee can recommend bonus payments to executive management in respect of work related to individual projects or in special circumstances. There is no policy for the guaranteed payment of an annual bonus.

Please see the page 31 for further information on the Compensation Committee.

Salaries and other remuneration to non-executive directors (TSEK)	Fees	Other [1]	Pension payments[2]	Total 2006	Total 2005
Ian H. Lundin	700	2,900	–	3,600	2,980
Adolf H. Lundin	–	–	1,112	1,112	1,256
Magnus Unger	538	–	–	538	438
Carl Bildt	288	–	–	288	350
Kai Hietarinta	429	–	–	429	375
Lukas Lundin	468	–	–	468	385
William Rand	600	–	–	600	525
Viveca Ax:son Johnson	435	–	–	435	195
Total	**3,458**	**2,900**	**1,112**	**7,470**	6,504

[1] Other remuneration paid during 2006 relates to fees paid for special projects undertaken on behalf of the Group. The payment of such fees was in accordance with fees approved at the 2005 AGM.

[2] The pension payment to Adolf H. Lundin is described more in detailed in Note 24 – Pensions.

There are no severance pay agreements in place for any of the Directors.

Salaries and other remuneration to Executive Management (TSEK)	Salary	Bonuses[4]	Benefits[1]	Total 2006	Total 2005	Pensions 2006[2]	Pensions 2005
C. Ashley Heppenstall	3,240	1,593	484	5,317	3,970	223	221
Other management [3]	10,067	2,551	752	13,370	10,144	693	577
Total	**13,307**	**4,144**	**1,236**	**18,687**	14,114	**916**	798

[1] Benefits paid include school fees and health insurance.

[2] Pension contributions on a non-contributory basis to pension funds considerable above the minimum Swiss statutory levels.

[3] Other management comprise the 6 Vice Presidents in office during the year.

[4] In December 2006 the Compensation Committee awarded a bonus for 2006 of one month's salary to the CEO and to the Vice Presidents. Included in the bonus expense for 2006 is also an amount of 3,035 TSEK relating to bonuses awarded in January 2006 for relating to 2005. In January 2007 the Compensation Committee agreed additional 2006 bonuses considering the employee's contributions to the results of the Company and the achievement of personal targets. The committee awarded C. Ashley Heppenstall an additional bonus of TSEK 1,080 equal to four months salary and awarded bonuses to the 6 Vice Presidents of TSEK 2,049 equal to between one and three months salary.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

The normal retirement age for the CEO is 65 years. The pension contribution is 10% of the qualifying income for pension purposes, 40% of which is funded by the employee. Qualifying income is defined as annual basic salary.

Since December 2006 enhanced severance provisions have been incorporated into the Employment Contracts for Executive Management. These provisions give rise to compensation in the event of termination of employment due to a company change of control. If the Employee elects to resign or if the Employee's employment is terminated without cause within one year following the change of control then the Employee shall be entitled to receive the stated compensation. The associated compensation is 2 year's basic salary for Chief Executive Officer, Executive VP and Chief Financial Officer and 1 year's basic salary for other senior executives.

The following incentive warrants have been issued to the executive management. The board of directors have no outstanding incentive warrants.

	Incentive warrants issued			Incentive warrants outstanding 31 December 2006		
Executive Management	2004 Programme	2005 Programme	2006 Programme	2004 Programme	2005 Programme	2006 Programme
C. Ashley Heppenstall	350,000	400,000	400,000	50,000	400,000	400,000
Other management	500,000	650,000	685,000	245,000	650,000	685,000
Total	**850,000**	**1,050,000**	**1,085,000**	**295,000**	**1,050,000**	**1,085,000**

For incentive warrants, see also Note 39.

NOTE 39 – INCENTIVE WARRANTS PROGRAMME

The Company runs an incentive programme for employees whereby warrants are issued to employees enabling them to buy shares in the company. The incentive warrants for 2004, 2005 and 2006 were issued at a 10% premium to the average closing price of Lundin Petroleum shares for the ten days after the AGM. The warrants are valid for three years but can not be exercised within the first year of issue. Issued warrants to employees leaving the Company within the first year of issue, are forfeited. For more information on the Share Option Plan of 2007 see page 25.

Movements in the number of incentive warrants outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Average weighted exercise price in SEK per share	Incentive warrants outstanding	Average weighted exercise price in SEK per share	Incentive warrants outstanding
At 1 January	50.93	4,678,000	24.11	5,249,800
Granted	96.94	3,597,500	60.20	2,900,000
Acquired	57.78	642,500	–	–
Forfeited	–	–	–	–
Exercised	33.33	-1,219,500	17.48	-3,391,800
Lapsed	68.78	-130,000	45.80	-80,000
At 31 December	**76.09**	**7,568,500**	50.93	4,678,000

The weighted average share price relating to the incentive warrants exercised during 2006 amounted to SEK 88.76 per share.

The fair value of incentive warrants granted during the period using Black & Scholes method valuation model amounted to TSEK 27,195 based on an assessed volatility of 30% and the continuously compounded Swedish government bond interest rate of 3.35%. The volatility was at the time of the valuation at a historical high level, however it was estimated that the volatility over the vesting period would have a normalised long-term volatility of 30%. The total expense accounted for during the period amounted to TSEK 27,366.

Incentive warrants outstanding at the end of the year have the following expiry date and exercise prices:

	Issued 2004	Issued 2005	Issued 2006
Exercise price (SEK)	45.80	60.20	97.40
Exercise period	31 May 2005 –31 May 2007	15 June 2006 –31 May 2008	15 June 2007 –31 May 2009
Valuation per warrant [1]	7.97	7.34	8.43

[1] The valuation has been calculated using the Black & Scholes method.

In addition to these incentive warrants, 642,500 incentive warrants were acquired and converted to Lundin Petroleum incentive warrants and another 371,500 incentive warrants in Lundin Petroleum were issued in connection with the acquisition of Valkyries. The exercise prices of the converted acquired incentive warrants and the incentive warrants issued after the date of acquisition have an exercise price in the range 17.87 – 97.40 SEK with various exercise periods up to 31 May 2009. The acquired incentive warrants and the ones issued in connection with the acquisition have a value per warrant in the range 13.92–15.98 SEK.

NOTE 40 – ACQUIRED SUBSIDIARY

On 31 July 2006 Lundin Petroleum acquired 100% of Valkyries Petroleum Corp. ("Valkyries") in exchange for shares in Lundin Petroleum AB. The financial results of Valkyries have been fully consolidated within the Lundin Petroleum group from 1 August 2006.

The acquired business contributed revenues of 203.7 MSEK and net gain of 3.9 MSEK to Lundin Petroleum for the period 1 August to 31 December 2006. There have been no audited accounts prepared for the Valkyries group of companies during 2006 and as a result there is no reliable information available upon which the calculation of what Valkyries would have contributed to Lundin Petroleum had the company been acquired for the full year can be based.

Valkyries was acquired by the issuance of 55.9 million new Lundin Petroleum shares to the former shareholders of Valkyries in exchange for their shares in Valkyries. The issued shares have been valued at 88.50 SEK per share representing the closing price of Lundin Petroleum on 31 July 2006. On 31 July 2006 there were 642,500 incentive warrants outstanding that had been previously issued by Valkyries. These incentive warrants have been converted to Lundin Petroleum incentive warrants on the closing date. Where the incentive warrants had a vesting date prior to the acquisition date they have been valued at the closing price of Lundin Petroleum on 31 July 2006 less the exercise price of the incentive warrant. Where the incentive warrant had not vested at the acquisition date they have been valued using the Black and Scholes valuation method.

An additional 1 million Lundin Petroleum shares have been reserved for issuance to the previous holder of Valkyries' interest in the Caspiskaya Field, upon the Caspiskaya Field producing 2,500 bopd for a continuous period of thirty days. This consideration has been valued at the closing price at 31 July 2006 and included in the purchase price.

Details of the purchase price calculation are as follows (amounts in TSEK):

Purchase price calculation	
- share issue of 55,855,414 shares	4,943,204
- conversion of 642,500 incentive warrants	22,572
- 1 million shares to be issued in relation to the Caspiskaya Field	88,500
- direct costs relating to the acquisition	13,287
Total purchase consideration	**5,067,563**

The excess of the purchase consideration over the fair value of the acquired assets has been attributed to goodwill. The goodwill is attributable to the establishment of the business unit focusing on opportunities in Russia and neighbouring states as well as the potential upside within the Valkyries existing assets. Key projects include a 50% interest in the producing Sotchemyu-Talyu and North Irael Fields in the Komi Republic; a 51% interest in the producing Caspiskaya Field in the Kalmykia Republic; a 50% interest in the producing Ashirovskoye field in Orenburg; and a 70% interest in the highly prospective Lagansky exploration block offshore in the Caspian Sea.

NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

Preparations are underway for the drilling of the Morskoye #1 exploration well in the Lagansky Block and drilling operations are expected to commence during 2007.

The assets and liabilities arising from the acquisition are as follows (TSEK):

	Fair value
Oil and gas properties	7,683,504
Other tangible fixed assets	12,107
Goodwill	862,137
Financial assets	11,899
Receivables and inventories	125,705
Minority interest	-1,714,035
Provisions	-10,534
Deferred tax liability	-1,668,152
Long-term interest bearing debt	-157,349
Current liabilities	-131,976
Net assets acquired	**5,013,306**
Cash and cash equivalents in subsidiary acquired	54,257
Purchase consideration	**5,067,563**

NOTE 41 – RISK MANAGEMENT

The major risk the Group faces is *the nature of oil and gas exploration and production* itself. 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's long-term commercial success depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. A future increase in Lundin Petroleum's reserves will depend not only on its ability to explore and develop any properties Lundin Petroleum may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. In addition, there is no assurance that commercial quantities of oil and gas will be discovered or acquired by Lundin Petroleum. Other risks have been categorised to either Operational Risks or Financial Risks.

Operational Risk

The Group faces a number of risks and uncertainties in the areas of operation which may have an adverse impact on its ability to successfully pursue its exploration, appraisal and development plans as well as on its production of oil and gas.

Production costs

Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Lundin Petroleum and may delay exploration and development activities.

Reliance on Key Personnel

Lundin Petroleum's success depends in large measure on certain key personnel. The competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Lundin Petroleum will be able to continue to attract and retain all personnel necessary for the development and operation of its business. See also page 24 for more on Lundin Petroleum personnel.

Reserve Estimates

In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

Health, Safety and Environment (HSE)
Extensive national, state, and local environmental laws and regulations in foreign jurisdictions affect nearly all of the operations of Lundin Petroleum. These laws and regulations set various standards regulating certain aspects of health and safety, and environmental quality, provide for civil and criminal penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. See also page 20–23 Corporate Responsibility for more information on Lundin Petroleums work with HSE .

Legal Risks
The company could be the target of legal complaints raised by customers, employees and other third parties in the areas of health, environmental, safety or business related issues or the failure to company with applicable legislation and regulations. Even if such disputes were to be resolved successfully, without financial consequences they could negatively impact the Group's reputation and take up resources that could be used for other purposes.

Competition
The petroleum industry is competitive in all its phases. Lundin Petroleum's competitors will include oil and gas companies that have substantially greater financial resources, staff and facilities than those of Lundin Petroleum. Lundin Petroleum's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and gas include price, methods and reliability of delivery.

Geopolitical risk
Lundin Petroleum is, and will be, actively engaged in oil and gas operations in various countries. Risks may arise in changes in laws affecting foreign ownership, government participation, taxation, royalties, duties, rates of exchange and exchange control. Further, certain aspects of Lundin Petroleum's exploration and production programs require the consent or favourable decisions of governmental bodies. In addition, Lundin Petroleum's exploration, development and production activities may be subject to political and economic uncertainties, expropriation of property and cancellation or modification of contract rights, taxation, royalties, duties, foreign exchange restrictions and other risks arising out of foreign governmental sovereignty over the areas in which Lundin Petroleum's operations are conducted, as well as risks of loss in some countries due to civil strife, acts of war, guerrilla activities and insurrection. Oil installations are known to be likely objects, and even targets, of military operations and terrorism. Given their vulnerability and the considerable economic interests involved, this adds to the risk profile of Lundin Petroleum's interests.

Financial Risk
For financial risks such as fluctuations in oil and gas prices, exchange rates and interest rate risks, liquidity risks and credit risk and hedging instruments used see Note 14 – Derivative Instruments.

For risks in the financial reporting see the Internal Control Report for financial reporting within Corporate Governance on pages 36–37 for more information.

NOTE 42 – SUBSEQUENT EVENTS

Lematang

Lundin Petroleum signed an agreement in June 2006 to acquire an additional 10% working interest in the Lematang block from Serica Energy plc for MUSD 5. The deal was completed in January 2007 and Lundin Petroleum now owns a 25.88% working interest in the Lematang block containing the Singa field.

Tunisia

Entreprise Tunisienne d'Activités Pétrolières (ETAP), the Tunisian state oil company, had an option for 120 days from first production to participate in the Oudna field for up to 20% which they exercised on 13 March 2007. Lundin Petroleum's share of the Oudna field has been reduced to 40% and ETAP will be required to fund their share of past capital and operating costs in exchange for its working interest.

Vietnam

In August 2006 Lundin Petroleum was conditionally awarded a 33.33% working interest in Block 06/94 in the Nam Con Son Basin, offshore Vietnam. The Production Sharing Agreement was signed in February 2007. It is planned to acquire 750 square kilometres of 3D seismic on the Block in 2007.

Congo (Brazzaville)

In the third quarter of 2006 Lundin Petroleum announced the acquisition of an 18.75% working interest in Marine XI Block, offshore Congo (Brazzaville) from Soco International plc. All government approvals in respect of the deal were received in January 2007.

Bank Facility

The credit facility agreement entered into on the 16 August 2004 of MUSD 385.0 increased to MUSD 500.0 on 28 February 2007. The cash drawings outstanding increased from MUSD 185.0 at 31 December 2006 to MUSD 270.0 per 31 March 2007.

Viking Oil and Gas

On 22 March 2007, Lundin Petroleum announced its intention to spin-off its Norwegian and United Kingdom businesses into a newly formed Norwegian company called Viking Oil and Gas ASA (Viking).

Lundin Petroleum intends to launch an initial public offering (IPO) of the shares of Viking and to seek a listing of the Viking shares on the Oslo Stock Exchange (OSE). Viking is currently a wholly-owned subsidiary of Lundin Petroleum. Through the IPO, Lundin Petroleum proposes to offer 50.01 percent of the Viking shares to the public at an indicative price range set between NOK 38 and NOK 44 per share and retain a substantial shareholding, 49.99 percent, in Viking. The IPO is expected to be completed before the end of the second quarter of 2007.

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 profit for the Parent Company amounted to a profit of MSEK 1,754.8 (MSEK 6.3) for the year ended 31 December 2006.

The profit included general and administrative expenses of MSEK 34.2 (MSEK 52.1). Interest income derived from loans to subsidiary companies amounted to MSEK 37.7 (MSEK 37.2). Currency exchange losses amounted to MSEK 17.9 (MSEK -2.4). Lundin Petroleum AB accrued an anticipated dividend due from a subsidiary of MSEK 1,768.3 during the year ended 31 December 2006.

No deferred tax asset has been recorded against the historic losses incurred by the Parent Company because of uncertainty as to the timing of their utilisation.

PARENT COMPANY INCOME STATEMENT

PARENT COMPANY INCOME STATEMENT FOR THE FINANCIAL YEAR ENDING AT 31 DECEMBER

Expressed in TSEK	Note	2006	2005
Operating income			
Other operating income		39,218	18,776
Gross profit		**39,218**	18,776
General, administration and depreciation expenses	1	-34,192	-52,141
Operating profit		**5,026**	-33,365
Result from financial investments			
Financial income	2	1,806,299	39,630
Financial expenses	3	-56,492	–
		1,749,807	39,630
Profit before tax		**1,754,833**	6,265
Corporation tax	4	–	–
Net result		**1,754,833**	6,265

PARENT COMPANY BALANCE SHEET

PARENT COMPANY BALANCE SHEET AT 31 DECEMBER

Expressed in TSEK	Note	2006	2005
ASSETS			
Non current assets			
Shares in subsidiaries	5	5,279,421	184,491
Receivables from Group companies	6	694,658	690,746
Total non current assets		**5,974,079**	875,237
Current assets			
Prepaid expenses and accrued income		533	37
Other receivables	7	1,790,627	11,099
Cash and cash equivalents		8,962	10,856
Total current assets		**1,800,122**	21,992
TOTAL ASSETS		**7,774,201**	897,229
EQUITY AND LIABILITIES			
Restricted equity			
Share capital		3,142	2,571
Statutory reserve		861,306	861,306
Total restricted equity		**864,448**	863,877
Unrestricted equity			
Other reserves		5,093,245	–
Retained earnings		51,565	23,118
Net Profit		1,754,833	6,265
Total unrestricted equity		**6,899,643**	29,383
Total equity		**7,764,091**	893,260
Current liabilities			
Trade payables		49	988
Liabilities to Group companies		7,648	–
Accrued expenses and prepaid income	8	1,908	2,543
Other liabilities		505	438
Total current liabilities		**10,110**	3,969
TOTAL EQUITY AND LIABILITIES		**7,774,201**	897,229
Pledged assets	9	1,986,537	1,128,763
Contingent liabilities	9	161,313	–

PARENT COMPANY STATEMENT OF CASHFLOW

PARENT COMPANY STATEMENT OF CASH FLOW FOR THE FINANCIAL YEAR ENDING AT 31 DECEMBER

Expressed in TSEK	2006	2005
Cash flow used for/from operations		
Net result	1,754,833	6,265
Adjustments for		
Other non-cash items	-6,365	18,981
Interest income received	-282	-82
Unrealised exchange gains	-1,837	-2,200
Changes in working capital		
Increase/decrease in current assets	-1,793,312	-7,683
Decrease/increase in current liabilities	5,826	-1,299
Total cash flow used for/from operations	**-41,137**	13,982
Cash flow used for investments		
Change in other financial fixed assets	-3,242	-72,911
Total cash flow used for investments	**-3,242**	-72,911
Cash flow from financing		
Proceeds from share issues	40,648	59,275
Total cash flow from financing	**40,648**	59,275
Change in cash and cash equivalents	-3,731	346
Cash and equivalents at the beginning of the year	10,856	10,289
Currency exchange difference in cash and cash equivalents	1,837	221
Cash and equivalents at the end of the year	**8,962**	10,856

PARENT COMPANY EQUITY STATEMENT

PARENT COMPANY EQUITY STATEMENT AT 31 DECEMBER

	Restricted Equity		Unrestricted equity			
	Share capital[1]	Statutory reserve	Other reserves[2]	Retained Earnings	Net result	Total equity
Balance at 1 January 2005	2,537	824,163	–	10,712	-28,673	808,739
Transfer of prior year net result	–	-28,673	–	–	28,673	–
New share issuance	34	59,241	–	–	–	59,275
Transfer of share based payments	–	6,575	–	-6,575	–	–
Share based payments	–	–	–	18,981	–	18,981
Net result	–	–	–	–	6,265	6,265
Balance at 31 December 2005	**2,571**	**861,306**	**–**	**23,118**	**6,265**	**893,260**
Transfer of prior year net result	–	–	–	6,265	-6,265	–
New share issuance	571	–	5,094,354	–	–	5,094,925
Transfer of share based payments	–	–	5,184	-5,184	–	–
Share based payments	–	–	–	27,366	–	27,366
Currency translation difference	–	–	-6,293	–	–	-6,293
Net result	–	–	–	–	1,754,833	1,754,833
Balance at 31 December 2006	**3,142**	**861,306**	**5,093,245**	**51,565**	**1,754,833**	**7,764,091**

[1] Lundin Petroleum AB's registered share capital at 31 December 2006 amounts to SEK 3,139,076 represented by 313,907,580 shares with a quota value of SEK 0.01 each. In addition there are 307,500 shares that have been issued in exchange for incentive warrants that have been exercised but were not registered by the 31 December 2006.

[2] The additional paid in capital is from of 1 January 2006 included in Other reserves as well as currency differences on loans to subsidiaries. An additional 1 million Lundin Petroleum shares have been reserved for issuance to the previous holder of Valkyries' interest in the Caspiskaya Field, upon the Caspiskaya Field producing 2,500 bopd for a continuous period of thirty days. This consideration has been valued at the closing price at 31 July 2006 and also included in the purchase price. See note 40 – Acquired Subsidiary.

ACCOUNTING PRINCIPLES

The financial statements of the Parent Company are prepared in accordance with accounting principles generally accepted in Sweden, applying RR 32 issued by the Swedish Financial Accounting Standards Council and the Annual Accounts Act. RR 32 requires the Parent Company to use similar accounting principles as for the Group, i.e. IFRS to the extent allowed by RR 32. The Parent Company's accounting principles do not in any material respect deviate from the Group principles.

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTE 1 – REMUNERATION TO THE AUDITORS (TSEK)

The auditors of the Parent Company are PricewaterhouseCoopers.

Remuneration to the Group's auditors	2006	2005
Audit fees	815	1,023
Other	59	498
	874	1,521

NOTE 2 – FINANCIAL INCOME (TSEK)

Financial income comprise:	2006	2005
Interest income	37,997	37,243
Anticipated dividend	1,768,302	–
Foreign exchange gain, net	–	2,387
	1,806,299	39,630

Included in the interest income for the Parent Company is an amount of TSEK 37,715 (TSEK 37,161) received from Group companies.

NOTE 3 – FINANCIAL EXPENSES (TSEK)

Financial expense comprise:	2006	2005
Foreign exchange losses, net	17,856	–
Other financial expenses- group	38,636	–
	56,492	–

The Parent Company's other financial expenses- group and foreign exchange losses relates primarily to the write-off of a loan to a subsidiary denominated in a foreign currency.

NOTE 4 – TAXES (TSEK)

	2006	2005
Profit before tax	1,754,833	6,265
Tax calculated at the corporate tax rate in Sweden (28%)	-491,353	-1,754
Tax effect of expenses non-deductible for tax purposes	-15,657	–
Tax effect of income not subject to tax	495,125	–
Tax effect of utilisation of unrecorded tax losses	11,885	1,754
	–	–

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTE 5 – SHARES IN SUBSIDIARIES (TSEK)

	Registration number	Registered office	Number of shares	Percentage	Nominal value per share	Book amount 31 December 2006	Book amount 31 December 2005
Directly owned							
Lundin Energy AB	556619-2299	Stockholm, Sweden	10,000,000	100	SEK 0.01	100	100
Lundin Investment Ltd	EC-14476	Hamilton, Bermuda	12,000	100	USD 1.00	585	585
Lundin Petroleum BV	BV 1216140	The Hague, Netherlands	180	100	EUR 100.00	5,278,736	183,806
						5,279,421	184,491
Indirectly owned							
Lundin Britain Ltd	3628497	London, UK	24,265,203	100	GBP 1.00		
- Lundin Heather Ltd	2748866	London, UK	9,701,000	100	GBP 1.00		
- Lundin Thistle Ltd	4487223	London, UK	100	100	GBP 1.00		
- Lundin UK Ltd	1006812	London, UK	5,004	100	GBP 1.00		
Lundin Norway AS	986 209 409	Oslo, Norway	1,320,000	100	NOK 100.00		
Lundin Netherlands Holding BV	BV 87466	The Hague, Netherlands	150	100	EUR 450.00		
Lundin Netherlands BV	BV 86811	The Hague, Netherlands	30,000	100	EUR 450.00		
Lundin Tunisia BV	BV 1355993	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Munir BV	BV 1225617	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Nigeria Ltd	RC 615830	Lagos, Nigeria	10,000,000	100	N 1.00		
Lundin Albania BV	BV 1310581	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Exploration BV	BV 1303454	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Sudan BV	BV 1225619	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Sudan (Halaib) Ltd	EC-16775	Hamilton, Bermuda	12,000	100	USD 1.00		
Lundin Block 5B BV	BV 1225618	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Marine BV	BV 1310579	The Hague, Netherlands	180	100	EUR 100.00		
- Lundin Marine SARL	06B090	Pointe Noire, Congo	200	100	FCFA 5,000		
Lundin East Africa BV	BV 1384640	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin South East Asia BV	BV 1384642	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Ventures BV	BV 1386730	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin New Ventures BV	BV 1272860	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Ventures 4 BV	BV 1397514	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Ventures 5 BV	BV 1397745	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Ventures 6 BV	BV 1397919	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Petroleum SA	1731/1999	Geneva, Switzerland	1,000	100	CHF 100.00		
Lundin Services BV	BV 1229867	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Holdings SA	Nanterre B442423448	Montmirail, France	1,853,700	100	EUR 10.00		
- Lundin International SA	Nanterre B572199164	Montmirail, France	1,660,662	99.86	EUR 15.00		
- Lundin Latina de Petroleos SA	N 6 Volume 8-A-Qto	Caracas, Venezuela	8,047,951	100	Bs 1,000		
- Lundin Gascogne SNC	Nanterre B419619077	Montmirail, France	100	100	EUR 152.45		
Lundin Indonesia Holding BV	BV 1386728	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Indonesia BV	BV 471132	The Hague, Netherlands	1,065	100	EUR 450.00		
- Lundin Lematang BV	BV 547158	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Oil & Gas BV	BV 547156	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Blora BV	BV 561660	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Sareba BV	BV 608284	The Hague, Netherlands	40	100	EUR 450.00		
- Lundin Banyumas B.V.	BV 1140222	The Hague, Netherlands	182	100	EUR 100.00		
Lundin Russia BV	BV 1386727	The Hague, Netherlands	18,000	100	EUR 1.00		
- Lundin Russia Services BV	BV 1391268	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Petroleum Canada Inc.	656565-4	Vancouver, Canada	55,855,414	100	CAD 1.00		
- Valkyries Petroleum Corp	119451151RC0001	Vancouver, Canada	55,855,514	100	CAD 1.00		
- Valneft	1057747770002	Moscow, Russia	1	100	USD 100,000		
- Valkyries Petroleum Russia Ltd	87515103RC0001	Vancouver, Canada	100	100	CAD 0.01		
- Valkyries Cyprus Ltd	148699	Nicosia, Cyprus	3736	100	CYP 1.00		
- RF Energy Investments Ltd	52863	Nicosia, Cyprus	11,540	50	CYP 1.01		
- LLC NK Recher-Komi	1021100948659	Komi Repub.,Russia	1	100	RUR 10,000		
- Geotundra BV	24321088	Rotterdam, Netherlands	20000	100	EUR 1.00		
- CJSC Pechoraneftegas	1021100876576	Komi Repub.,Russia	20000	100	RUR 158,4		
- LLC Zapolyarneftegas	1051100634573	Komi Repub.,Russia	1	100	RUR 30.000		
- Valkyries Overseas Ltd	889740700RC001	Vancouver, Canada	100	100	0.01		
- Valkam Holding Ltd	162301	Nicosia, Cyprus	1000	100	CYP 1.00		
- Valkam II Holding Ltd	166574	Nicosia, Cyprus	1000	100	CYP 1.00		
- CJSC Oilgaztet	1025601716360	Orenburg, Russia	401	50	RUR 1.000		
- Valkam III Holding Ltd	170233	Nicosia, Cyprus	1000	100	CYP 1.00		
- LLC Geoplast	1065018004292	Moscow Reg., Russia	5	49	RUR 4900		
- Mintley Cyprus Ltd	155499	Nicosia, Cyprus	1000	100	CYP 1.00		
- Ulankhol Cyprus Ltd	159376	Nicosia, Cyprus	1000	100	CYP 1.00		
- Oil Service	1050811101747	Kalmykia, Russia	2	50	RUR 5,000		
- CJSC Kalmeastern	1020800566841	Kalmykia, Russia	10000	51	RUR 10		
- Culmore Holding Ltd	162316	Nicosia, Cyprus	1000	100	CYP 1.00		
- Mintley Caspian Ltd	160901	Limasson, Cyprus	5000	70	CYP1.00		
- LLC PetroResurs	1047796031733	Moscow Reg., Russia	1	100	RUR 10,000		

The following companies were liquidated during 2006: Lundin Petroleum Holdings Ltd., Lundin Technical Services Ltd., Lundin Ireland Ltd., Lundin Munir Ltd., Lundin Sudan Ltd., Lundin Sudan (Block 5B) Ltd., Lundin South Sokang BV. and Lundin Behara BV. Lundin (Heather Oilfield) Ltd. and Lundin UK Exploration Ltd. are undergoing liquidation.

NOTE 6 – RECEIVABLES FROM GROUP COMPANY (TSEK)

Receivables from Group company:	31 December 2006	31 December 2005
Receivables from Group company	694,658	690,746
	694,658	690,746

Long term receivables due from subsidiaries represents funding of operations within the subsidiaries for which repayment is not foreseen within an agreed repayment schedule.

NOTE 7 – OTHER RECEIVABLES (TSEK)

Other receivables comprises:	31 December 2006	31 December 2005
Due from Group companies	1,790,552	9,881
VAT receivable	75	1,218
	1,790,627	11,099

NOTE 8 – ACCRUED EXPENSES AND PREPAID INCOME (TSEK)

Accrued expenses and prepaid income comprises:	31 December 2006	31 December 2005
Social security charges	503	442
Other	1,405	2,101
	1,908	2,543

NOTE 9 – PLEDGED ASSETS AND CONTINGENT LIABILITIES
Please see Group Note 31 and 32 for details.

At 17 April 2007, the Board of Directors and the President of Lundin Petroleum AB have adopted this annual report for the financial year ended 31 December 2006.

Stockholm, 17 April 2007

Ian H. Lundin
Chairman of the Board

C. Ashley Heppenstall
President & CEO

Magnus Unger

Viveca Ax:son Johnson

Lukas H. Lundin

Kai Hietarinta

William A. Rand

AUDITORS' REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Lundin Petroleum AB (publ) for the year 2006. (The company's annual accounts are included in the printed version on pages 38-89). The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member 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 our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, 17 April 2007

Klas Brand	Bo Hjalmarsson
(Authorised Public Accountant)	(Authorised Public Accountant)
PricewaterhouseCoopers AB	PricewaterhouseCoopers AB

SUPPLEMENTAL INFORMATION – RESERVE QUANTITY INFORMATION

UNAUDITED

Proved and probable oil reserves	Total Mbbl	UK Mbbl	France Mbbl	Netherlands Mbbl	Tunisia Mbbl	Norway Mbbl	Venezuela Mbbl	Indonesia Mbbl	Russia Mbbl
1 January 2005	125,852	50,309	23,174	805	5,152	30,634	5,034	10,744	–
Changes during the year									
- acquisitions	–	–	–	–	–	–	–	–	–
- sales	–	–	–	–	–	–	–	–	–
- revisions	10,815	6,616	-1,590	-646	-68	4,395	-175	2,283	–
- extensions and discoveries	4,510	4,510	–	–	–	–	–	–	–
- production	-11,127	-7,361	-1,534	-13	-355	-337	-716	-811	–
31 December 2005	130,050	54,074	20,050	146	4,729	34,692	4,143	12,216	–
2006									
Changes during the year									
- acquisitions	46,626	–	–	–	–	–	–	–	46,626
- sales	–	–	–	–	–	–	–	–	–
- revisions	11,005	1,328	3,960	-146	-512	5,016	150	239	970
- extensions and discoveries	–	–	–	–	–	–	–	–	–
- production	-10,017	-6,086	-1,362	–	-429	-294	-150	-888	-808
- reclassifications	-4,143	–	–	–	–	–	-4,143	–	–
31 December 2006	173,521	49,316	22,648	–	3,788	39,414	–	11,567	46,788

Proved and probable gas reserves	Total MMscf [1]	Netherlands MMscf	Norway MMscf	Venezuela MMscf	Indonesia MMscf	Ireland MMscf
1 January 2005	100,670	37,589	34,081	1,988	26,832	180
Changes during the year						
- acquisitions	–	–	–	–	–	–
- sales	-35	–	–	–	–	-35
- revisions	1,187	2,145	3,877	-363	-4,472	–
- extensions and discoveries	–	–	–	–	–	–
- production	-5,740	-5,054	-140	-317	-84	-145
31 December 2005	96,082	34,680	37,818	1,308	22,276	–
2006						
Changes during the year						
- acquisitions	12,986	–	–	–	12,986	–
- sales	–	–	–	–		
- revisions	12,412	2,375	9,267	53	717	–
- extensions and discoveries	–	–	–	–	–	–
- production	-4,900	-4,601	-135	-68	-96	–
- reclassifications	-1,293	–	–	-1,293	–	–
31 December 2006	115,287	37,454	46,950	–	35,883	–

[1] The Company has used a factor of 6,000 to convert one SCF to one BOE.

In the Russian reserves 16,344 Mbbl are attributed to minority and 30,444 Mbbl are attributed to Lundin Petroleum. Of the total proved and probable oil and gas reserves at 31 December 2006, an additionl 54 Mbbl and 82 MMscf of gas are attributable to minority shareholders of other subsidiaries of the Group.

The reserves , excluding Russia, as at 31 December 2006 have been certified by Gaffney, Cline & Associates. The russian reserves have been based on a third party reserves report available at the time of the acquisition of Valkyries.

FINANCIAL REPORTING DATES

Lundin Petroleum will publish the following interim reports:

‣ 15 May 2007	Three month report January – March 2007
‣ 15 August 2007	Six month report January – June 2007
‣ 14 November 2007	Nine month report January – September 2007
‣ February 2008	Year End report 2007

The reports are available on Lundin Petroleum's website, www.lundin-petroleum.com immediately after public announcement in Swedish and English. The reports are sent automatically to shareholders who have requested the information.

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 who cannot participate personally may be represented by proxy.

The Annual General Meeting of the shareholders is to be held on Wednesday, 16 May 2007 at 13.00 (Swedish time). Location: Oscarsteatern, Kungsgatan 62, in Stockholm.

Attendance at the meeting

Shareholders wishing to attend the meeting shall:
- be recorded in the share register maintained by the Swedish Central Securities Depository (VPC) on Thursday the 11 May 2007; and
- notify Lundin Petroleum of their intention to attend the meeting no later the Friday 12 May 2007.

Confirmation of attendance:
- in writing to Lundin Petroleum AB, Hovslagargatan 5, SE-111 48 Stockholm, Sweden
- by telephone: +46-8-440 54 50
- by fax: +46-8-440 54 59
- by e-mail: bolagsstamma@lundin.ch

When registering please give your name, social security personal number/company registration number, 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. Such registration must be effected by 11 May 2007.

DEFINITIONS

DEFINITIONS

An extensive list of definitions can be found on the Lundin Petroleum website www.lundin-petroleum.com under the heading "Definitions"

Abbreviations

SEK	Swedish krona
USD	US dollar
CHF	Swiss franc
NOK	Norwegian krona
GBP	British pound
TSEK	Thousand SEK
TUSD	Thousand USD
TCHF	Thousand CHF
MSEK	Million SEK
MUSD	Million USD

Oil related terms and measurements

bbl	Barrel (1 barrel = 159 litres)
bcf	Billion cubic feet (1 cubic foot = 0.028 m^3)
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
Mbbl	Thousand barrels (in Latin mille)
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

Probable reserves

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 probablistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Proved 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 probablistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimates.

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