# FRESH ENERGY, NEW PROSPECTS

## Lundin Petroleum

ANNUAL REPORT 2009

# FRESH ENERGY

Lundin Petroleum has a proven track record of finding, developing and producing oil and gas resources. With our energy, expertise and an exciting portfolio of assets we aim to deliver long-term sustainable growth.

# CONTENTS

## LUNDIN PETROLEUM



## OPERATIONS



## GOVERNANCE



## FINANCIALS



**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.

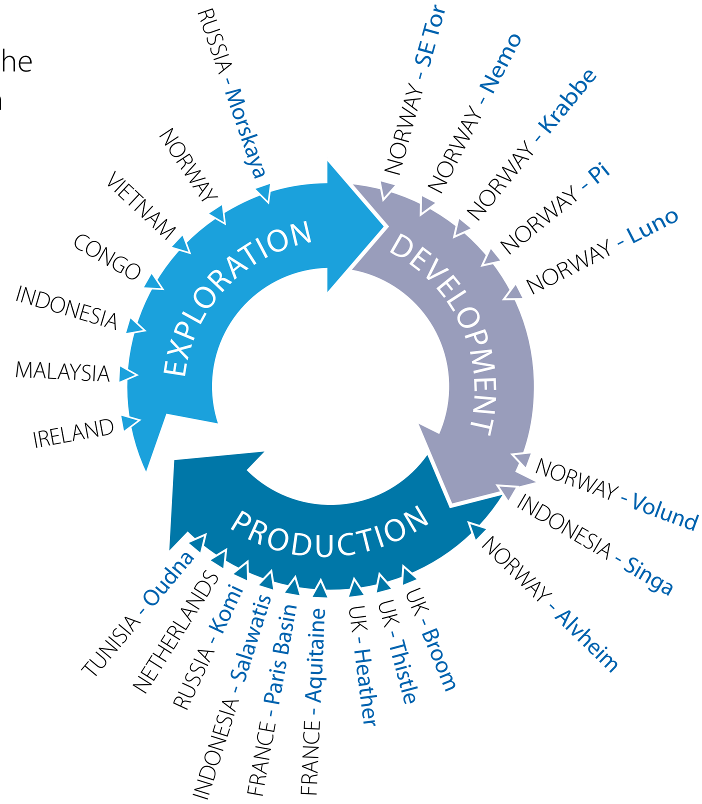
# NEW PROSPECTS

Lundin Petroleum has proven and probable reserves of 256 million barrels of oil equivalent. To secure future growth we aim to advance our pipeline of developments to production and continue to actively explore and drill for new resources.

## LUNDIN PETROLEUM'S ASSET PORTFOLIO

Lundin Petroleum has a balanced and exciting portfolio of assets throughout the exploration - development - production cycle.

- **Operations in 11 countries focused on 3 core areas**
  - Europe
  - Russia
  - South East Asia
- **119 licences held**
  - 73 exploration
  - 46 production
- **Operator of 67 licences**
- **64 producing fields**
- **Reserves: 256 MMboe**
- **Contingent resources: 285 MMboe**
- **Unrisked prospective resources: 1,736 MMboe**




## BRIEF HISTORY

| 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Lundin Petroleum AB was formed in 2001 as a result of the takeover of Lundin Oil by Talisman Energy. | Lundin Petroleum acquired Coparex International with a portfolio of assets in France, Tunisia, Indonesia, Netherlands and Venezuela. | A portfolio of assets in the United Kingdom, Norway and Ireland were acquired from DNO. | The Broom field in the United Kingdom was put on stream with gross production in excess of 25,000 boepd. | Broom phase 2 development successfully completed. |

| 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| The Oudna field in Tunisia was successfully completed and came on stream in November with gross production in excess of 20,000 boepd. | The Luno discovery was made in Norway with estimated gross resources in the range of 65–190 MMboe. | First oil was produced from the Alvheim field in Norway. A major discovery was made on the Morskaya prospect in the Caspian Sea, Russia | Three discoveries made in Norway; Viper, South Kneler and Marihøne A | Lundin Petroleum spins-off its UK business into a newly formed company, EnQuest. |

# 2009 ACHIEVEMENTS

## CASH FLOW
**MSEK 3,597**

## EBITDA
**MSEK 3,679**

## PRODUCTION
**+20%**

38,200 boepd

## RESERVES
**+26%**

Reserves replacement ratio 400%
256 MMboe*

* Following the spin-off of theUK business, Lundin Petroleum's net reserves will be 177 MMboe.


### HIGHLIGHTS

» 3 discoveries in Norway
» Strong production from Alvheim field, Norway
» Volund field development completed, Norway
» Licence PL301 acquisition - Krabbe discovery, Norway
» Thistle drilling rig reactivation completed, UK
» Extensive seismic acquisition and interpretion in Malaysia and Indonesia
» Sale of Russian assets - Ashirovskoya and Kaspiskoya fields

# 2010 OUTLOOK


## INVESTMENT CAPEX

**MUSD 500**

to be invested in exploration and development projects

## PROSPECTIVE RESOURCES

**330 MMboe**

being targeted by 11 exploration wells

## FORECAST PRODUCTION

**38,000-44,000 boepd***

* Following the spin-off of the UK business, Lundin Petroleum's 2010 production guidance is 29,000 – 33,000 boepd.

### FORECAST

» Spin-off of UK business with distribution of EnQuest shares
» First production from Volund field, Norway
» First gas from Singa field, Indonesia

# LETTER TO SHAREHOLDERS

## Dear fellow shareholders,

The theme of our Capital Markets Day presentation was that of "Continued Focused Growth" for Lundin Petroleum. We have been very successful over recent years in growing our reserves organically through exploration and exploitation drilling. In January 2010 we announced a reserves replacement ratio of 400 percent for the second consecutive year.

C. ASHLEY HEPPENSTALL
PRESIDENT AND CEO

This reserve growth will ultimately lead to increases in production, operating cash flow and value creation for our shareholders. Indeed our production increased by over 20 percent to 38,200 barrels of oil equivalent per day (boepd) in 2009 compared to the previous year with the first full year's contribution from the Alvheim field, offshore Norway. We have a portfolio of undeveloped reserves and resources which will deliver continued production growth for a number of years to come.

In addition to our large reserves portfolio we continue our strong focus on exploration with an active exploration programme in 2010 targeting unrisked potential resources of 330 million barrels of oil equivalent from eleven exploration wells. We are focusing our efforts on areas where we believe we have a competitive advantage and as such Norway, South East Asia and Russia will continue to be areas of focus for the company.

### Financial Performance

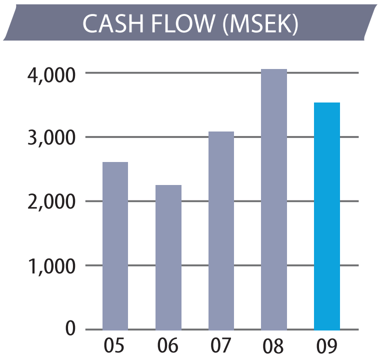
In 2009, our profitability was adversely affected by a number of non-recurring and non-cash items which resulted in a net loss after taxes attributable to the shareholders of Lundin Petroleum of MSEK 2,890.5 (MUSD 411.3). The major negative impact results from our decision to write down the carrying value of our Russian Caspian assets by approximately MSEK 3,209 (MUSD 450). Despite the fact that we have made a major discovery at Morskaya in the northern Caspian and that the area still contains further exploration potential, we felt it was prudent, following the latest unsuccessful exploration drilling on Petrovskaya, to reduce our carrying value.

I am pleased, however, that despite lower oil prices in 2009 Lundin Petroleum still generated a strong operating cash flow during the year. Operating cash flow in 2009 was MSEK 3,597.3 (MUSD 471.9) and we fully funded our major capital expenditures programme from internally generated funds. Our balance sheet remains very strong with unutilised borrowing capacity and strong liquidity to fund our growth going forward.

### Reserves

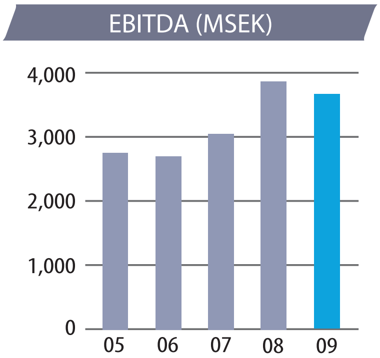
Proven and probable reserves increased by 26 percent in 2009 to 256 MMboe. We are particularly focused upon oil with over 85 percent of our reserves being liquid hydrocarbons and 95 percent of our reserves located in areas with tax/royalty fiscal regimes.

As I mentioned earlier we continue to be successful in increasing our reserve base which in 2009 was primarily driven by the addition of the Luno field offshore Norway. I am confident that our reserves will continue to increase in future years with positive results coming from our recent Luno appraisal well in addition to our major contingent resource portfolio.

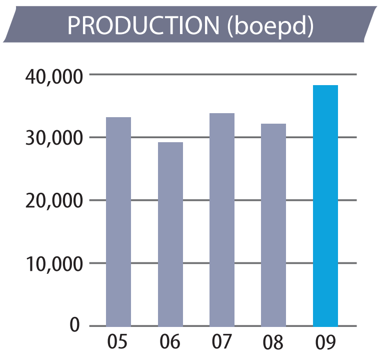



MSEK **3,597**

Higher production performance during the year partly offset the lower oil price received resulted in strong operating cashflow.




MSEK **3,679**




**38,200** boepd

Overall strong production performance from a full year of Alvheim production.

### Production / Development

The strong production performance from the Alvheim field, offshore Norway contributed to our 20 percent increase in production in 2009. In 2010 with the Volund field, offshore Norway, likely to come onstream mid-year and the redevelopment of the UK Thistle field, we are forecasting a production range of 38,000–44,000 boepd but exiting the year at close to 50,000 boepd. We are progressing our development studies on the Luno field with the objective to submit a plan of development in 2011. The Luno field is a world class project which we operate with a major equity position which when onstream will result in a further step change to our production levels.

### Exploration

Our exploration drilling programme in 2009 delivered mixed results with a number of new discoveries particularly in Norway but also some disappointments. Our core strategy is to focus on exploration in certain targeted areas where with a mixture of access to latest 3D seismic imaging technology, an experienced regional technical workforce and a corporate philosophy to allocate risk capital we can grow our business. This will continue in 2010 with a USD 290 million exploration budget targeting unrisked reserves potential of 330 million barrels. Our major focus will be Norway where we will be targeting the Greater Luno Area with four exploration wells particularly utilising our knowledge from the Luno and Luno South discoveries.

The world's economies are slowly beginning to grow following a sustained period of recession after the impact of the world financial crisis. This crisis has had a material impact upon the finances of many of the developed western economies. There still remains a level of uncertainty as to the long term effects of this and how that may impact growth when fiscal stimuli are removed. What is clear however is that the emerging market economies particularly China power forward and will represent the future demand growth engine for energy particularly hydrocarbons. Whilst short term oil prices are difficult to predict I remain confident that longer term oil prices can only go upwards as the impacts of increased demand coupled with limited supply feed into the system.

At Lundin Petroleum we have an exciting period of growth ahead of us where increased reserves will drive future production growth, cash flow and profitability. We continue to be exposed to exploration activity which if successful will have a material impact on our company. And we continue to maintain a financial structure which will allow us to grow in a way to ensure maximum value creation for our shareholders.

We announced recently the spin-off of our United Kingdom assets into EnQuest, a new independent oil and gas company focused on the UK North Sea. The transaction will not only crystallise a major profit for our Company but create a very interesting new investment vehicle in which Lundin Petroleum shareholders will own the majority of the company. EnQuest which will be listed on both the Stockholm and London stock exchanges has a proven management team, critical size to access capital and a strong balance sheet. I expect that EnQuest will grow aggressively over the next few months through a proactive acquisition strategy. My recommendation would be to keep your shares in EnQuest as I believe the company is well positioned to create further value for its shareholders.

I would like to thank you our shareholders for your continued support and patience, my fellow directors for their support and guidance and to all Lundin Petroleum employees for all their contributions during the year.

Yours sincerely,

**C. Ashley Heppenstall**
President and CEO

# WORDS FROM THE CHAIRMAN

## Dear fellow shareholders,

The steep economic downturn which began in 2008 is still weighing heavily on the world. However, even though many countries are still struggling with recession, China's growth was barely affected having since returned an astronomical rate (9.0% year on year).

IAN H. LUNDIN
CHAIRMAN

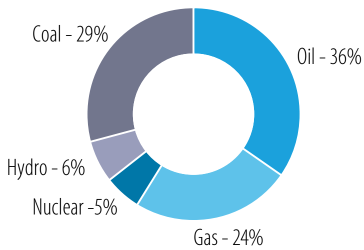
The country now outpaces the US in terms of car sales and is catching up in terms of imports of petroleum products and crude oil, breaking 5 million barrels per day at the end of 2009. In terms of economic growth the Middle East, South America, Africa and the rest of Asia (other than Japan) also continue to outpace the OECD countries by a wide margin. Of course economic growth means better living standards and with that comes increasing energy consumption. A return to economic growth in the developed world and continued growth in the rest of the world is simply not possible without affordable and abundant sources of energy.

### The energy mix

Meeting growing energy demand is at the forefront of government policy in most countries around the world. Coal, gas and nuclear power represent the three pillars required to meet the growing electricity demand. Although renewable energy will become more important in everyday use it will unfortunately never be able to meet base load electricity demand, or at least not until we have developed a way to store electricity in large quantities. We should also not forget that renewable energy, whether it is bio fuels or wind power, has its own "carbon footprint", which in some cases, is not negligible.

As far as transportation is concerned, oil products are still the most efficient and I would argue the cleanest fuels in existence. The technological advances made in recent years in internal combustion engines in combination with new light weight materials used in the manufacturing process of vehicles have reduced car emissions to a fraction of what they were in the past. These advances are breath taking and continue unabated such as the recently introduced stop-start technology. We should be on our guard when the car industry tries to convince us that electric and hybrids vehicles are the future of road transportation. These vehicles have their own drawbacks, for example the batteries used in hybrids and EV's (electronic vehicles) are heavy, expensive and serious environmental hazards.

GLOBAL ENERGY MIX

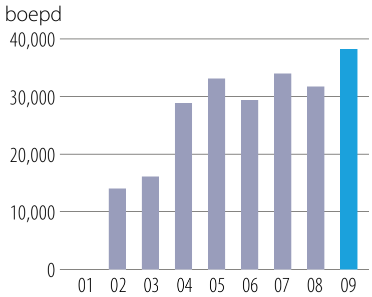



Source: 2009 BP Review of World Energy

### The political debate

The debate regarding climate change and what can be done about it culminated in the Copenhagen Summit in December 2009. The failure of this summit can be at least partially attributed to the question of whether the developing world should bear the brunt of meeting the targets specified by the developed world. All the sources of greenhouse gases; such as industrial, agricultural, natural (i.e volcanoes), deforestation need to be addressed, and singling out one of them is counter productive. But if we go beyond the climate change debate and simply address the management of natural resources in the face of a growing human population, it is clear that energy efficiency cannot be ignored. Excess energy consumption is still rampant in many parts of

PRODUCTION PERFORMANCE




Lundin Petroleum's production history since its inception in 2001.

the world and controlling waste together with better use of resources is the most straightforward method to reduce greenhouse gas emissions. High energy prices may be the main motivating factor necessary to increase efficiency but Government legislation has its role to play. Perhaps most importantly gasoline subsidies in certain countries such as Russia, China, Venezuela and Iran have to be phased out. Subsidised energy prices encourage domestic consumption on a grand scale using up natural resources wastefully and reducing export revenues. Similar subsidies exist in the form of artificially low prices for electricity, coal and natural gas and have the same undesirable effects. Energy in any form is precious and the waste of energy will continue until it is recognised as such and not used as a political tool by Governments around the world.

## Where we fit in

Lundin Petroleum experienced a very active year in 2009, carrying out a large exploration drilling programme while managing producing assets and turning undeveloped reserves into production. The proven and probable reserves increased by 26 percent to 256 MMboe as production averaged 38,200 boepd, a 20 percent increase over 2008. Norway now accounts for more than half of our total prospective resources and will continue be at the forefront of the Company's growth strategy. Norway's stable tax regime and its fair treatment of foreign investors are two good reasons for us to be there, but as always it is the potential size of discoveries that drives us. Our significant investment in Russia suffered a big set back as a result of disappointing drilling results. However we strongly believe that the Morskaya discovery in the Lagansky block will yield a lot of oil one day. We are also very pleased to have Gunvor International as a partner in this venture which will certainly give a boost to the project. Our producing assets in United Kingdom, France, Netherlands, Tunisia and Indonesia continue to perform well. Exploration activity in South Asia is ramping up with two wells in Vietnam this year and a major drilling campaign commencing in Malaysia in 2011.

We announced recently the spin-off of our United Kingdom assets into EnQuest, a new independent oil and gas company focused on the UK North Sea. The transaction will not only allow you, the shareholders, to participate in a new and exciting investment vehicle but will also crystallise the value of the UK assets. EnQuest which will be listed on both the Stockholm and London stock exchanges has a proven management team, strong cash flow and no long-term debt.

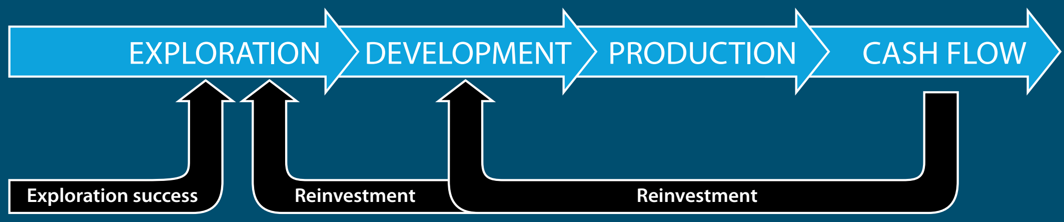
The oil industry is often considered to be in its twilight and it is true that the average age of professionals in the business is increasing at an alarming rate. So while there is a prevailing view that fossil fuels will be phased out in the next few decades, energy dependence on these fuels is actually increasing. Responsible use of these resources is the duty of producers and consumers alike. Technological advances and efficient markets will make it easier to achieve economic goals while protecting the environment. Lundin Petroleum will do its part by developing and producing its oil and gas reserves in a sound and responsible manner.

Finally I would like to thank all our employees for a job well done and you, our shareholders, for your continued support.

Yours sincerely,

**Ian H. Lundin**
Chairman of the Board

# OUR BUSINESS, VISION & STRATEGY




## BUSINESS CONCEPT

Lundin Petroleum is an independent upstream oil and gas company and in order to grow our business we seek to be involved in all aspects of the upstream business. The heart of an oil and gas company is reserves – the oil and gas which have been discovered and which can be economically and commercially extracted. This reserve base provides our production which in turn generates cash flow and profitability.

Our objective is to increase our reserve base through organic growth and at times through acquisitions. Where our reserve replacement ratio is greater than 100 percent, for every barrel produced we have been successful in replacing that barrel with at least another barrel and thereby have been able to grow our business.

To achieve this growth we are continually making investments to increase our oil and gas licences, prospective resources and contingent resources. We increase our licences predominantly through direct negotiations with host governments as well as acquiring interests from other oil and gas companies. We then invest in the likes of aeromagnetic and seismic studies and our geologists and geophysicists conduct studies to identify drillable exploration prospects on our licences.

An exploration prospect is a structure which has the potential to contain hydrocarbons but which has to be drilled to confirm success. We invest heavily in exploration drilling to confirm whether our exploration prospects contain oil and/or gas. When this exploration drilling is successful in identifying hydrocarbons the discovered resources are added to our contingent resource portfolio.

The economists, reservoir engineers, facilities engineers, development geologists and commercial team seek to put in place an economically viable plan to extract these resources. When we are successful, the contingent resources in question moves into reserves. Further investment is made to develop those reserves through building infrastructure and drilling further production wells. The end result is commercial production.

The upstream cycle from licence negotiation, through seismic acquisition, exploration drilling, development plan preparation and execution and finally production can take many years. As such we are constantly seeking to increase our exposure to all areas of this cycle. Our objective is to increase our licences, prospective resources, contingent resources, reserves and production to generate increased shareholder value.

## VISION

As an international oil and gas exploration and production company operating globally, our aim is to explore for and produce oil and 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, ethical and local requirements. Lundin Petroleum strives to continuously improve its performance and to act in accordance with good oilfield practice and high standards of corporate citizenship.

## STRATEGY

Lundin Petroleum is pursuing the following strategy:

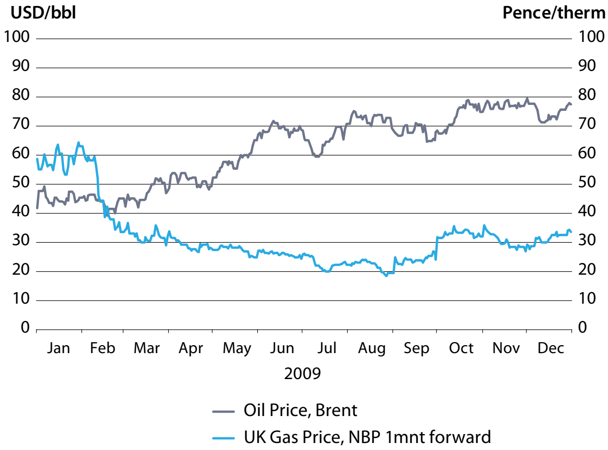
» Proactively investing in exploration to organically grow its reserve base. Lundin Petroleum has an inventory of drillable prospects with large upside potential and continues to actively pursue new exploration acreage around the world.

» Exploiting 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 increase value.

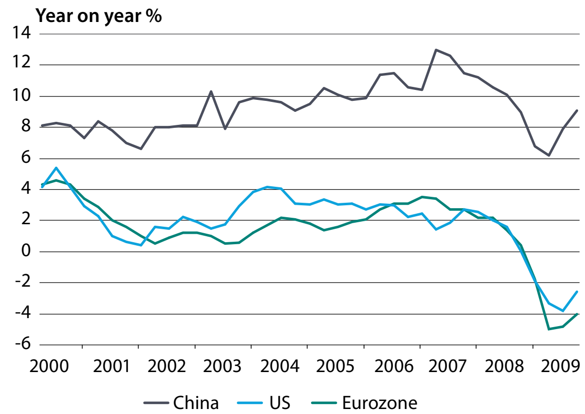
» Acquiring new hydrocarbon reserves, resources and exploration acreage where opportunities exist to enhance value.

# MARKET OVERVIEW

BRENT vs UK GAS PRICES




REAL GDP




Source: Bloomberg

Markets at the beginning of 2009 were still influenced by the credit crisis and ongoing investor insecurity. Governments were looking internally at how to support the failing financial system and restore confidence with fiscal rescue packages for banks and investment funds. Given the extent of the crisis, the rate of recovery in the second half of 2009 was perhaps surprising, with an economic turnaround in Asia and most European countries moving out of technical recessions by the end of 2009.

## Oil pricing

The Brent crude price early in 2009 reached a low of USD 40 per barrel, recovering to USD 75 per barrel at the end of 2009. The critical factor that influenced the turnaround in the oil price was the strength of world economic recovery. The application of fiscal spending policies from the United States and China, particularly in the manufacturing and heavy industry sectors, led to stronger than expected recovery in the third and fourth quarter.

On the demand side the recovery of the economy assisted with stronger than expected demand from North America and Asia, notably from China and India.

## Gas pricing

Historically, the gas price has been strongly linked to the oil price, however gas prices did not follow the same upward curve of oil prices in the past year due to a combination of factors: large discoveries of shale gas in the United States, where gas costs around half of oil in terms of heating value, and the coming onstream of large LNG projects just as demand shrank due to the global recession.

Towards the end of 2009 a cold start to winter and concerns about European supply channels contributed to a slight recovery of the gas price.

## Investment trends

The trend of oil companies reducing investment in marginal projects continued, with technically unconventional projects being delayed or cancelled and budgets being decreased across the board. Oil companies concentrated on their core business of conventional hydrocarbon extraction, and investment shifted from marginal areas to high yield low-cost areas. The mid term effect for the major companies of the contraction of investment in 2009 is likely to be difficulty in retaining reserves replacement ratios as capital budget restrictions on investments in incremental production and the lack of development of unconventional projects will restrict reserves and production levels.

The net result of the economic recovery towards the end of 2009 was an increase in the oil price to USD 75 per barrel. When the oil price reached USD 70 to USD 80 per barrel in 2008, many companies invested in alternative energy and unconventional projects such as Canadian oil sands or shale, which became more economically viable. It is reasonable to suggest that if the higher oil price is sustained for the next year, investment in alternative sources of energy will gradually resume.

Evidence is available of the significant market pickup in the latter half of 2009, with rig utilisation rates approaching levels seen before the credit crisis, a good indication that the oil and gas business has rebounded strongly.

The more conservative approach to finance in businesses has also been reflected in dividend payout policies, with companies not paying out dividends in order to keep cash reserves where possible. We expect to see a larger number of mergers and consolidations towards the latter half of 2010, with companies acquiring resources to keep the reserves replacement ratio healthy and production numbers up.

## Operating environment

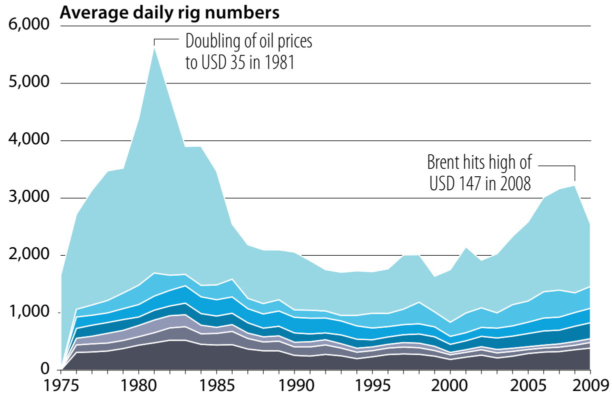
The increase in the oil price is particularly important given the gradual increase in operating costs. When the oil price decreased there was only a marginal decrease in costs so profit margins were still constricted.

Other pressures include changes in the contractual environment, with the application of service contracts in new areas such as Iraq, and moves from governments to change current production sharing contracts to alter the split between government and oil companies – generally to the advantage of the host government.

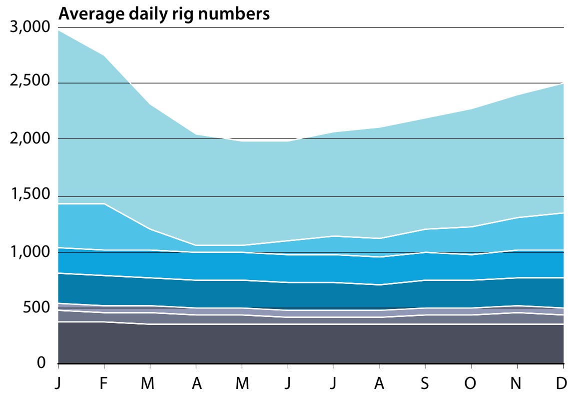
## Future growth

As easily accessible or economically viable reserves become scarcer, the relationship between oil companies, National Oil Companies and governments becomes more important as it defines access to those reserves – but it is also important to note that as a result of a more competitive environment and the scarcity of opportunity the value of those reserves and therefore the value of the industry as a whole has increased. The past year has shown that the oil and gas industry is not dependent on western demand to the same degree as in the past - demand from emerging markets has fuelled the increase of the oil price to almost pre crisis levels. Future growth of demand in markets such as China, and the steps that are being taken to increase supply sources will ensure the growth of the industry for years to come.

## DAILY RIG NUMBERS 1975-2009




## DAILY RIG NUMBERS 2009

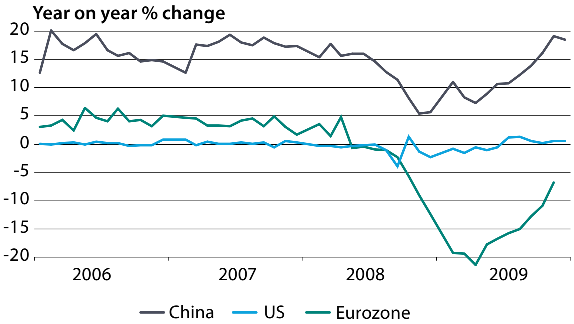



- U.S.
- Canada
- Far East
- Middle East
- Africa
- Europe
- Latin America

No China or Russia available

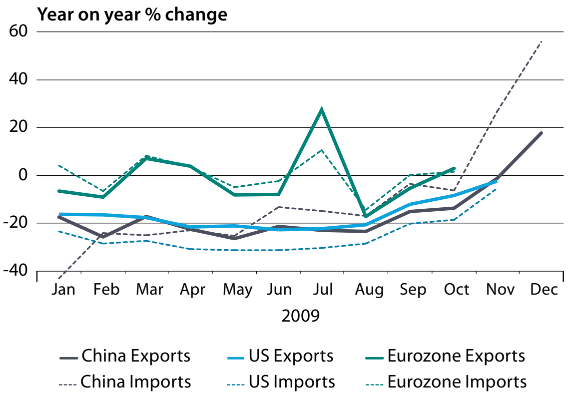
Source: Baker Hughes

## INDUSTRIAL PRODUCTION



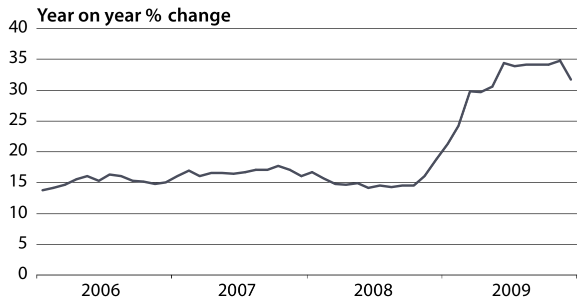

Source: Bloomberg

## EXPORT / IMPORT GROWTH RATES




Source: International Monetary Fund

## CHINA BANK LENDING




Source: Bloomberg

# Leading World Recovery Case Study on China

The collapse of the liberal western banking regime in 2009 shifted the balance of global economic influence towards fast growth economies such as China, which still has a forecasted GDP growth of 9 percent in 2010 (International Monetary Fund), providing a compelling argument for the view that the world economy will recover more quickly than anticipated.

The effects of the credit crunch for China were through a decline in exports and external investment, which had a ripple effect in industrialised cities in terms of unemployment and slower growth. However at the end of 2009 industrial production statistics show a dramatic turnaround – with a 20 percent year on year increase, contrasting to the performance of the Eurozone, which registered a decrease of 6 percent in December 2009.

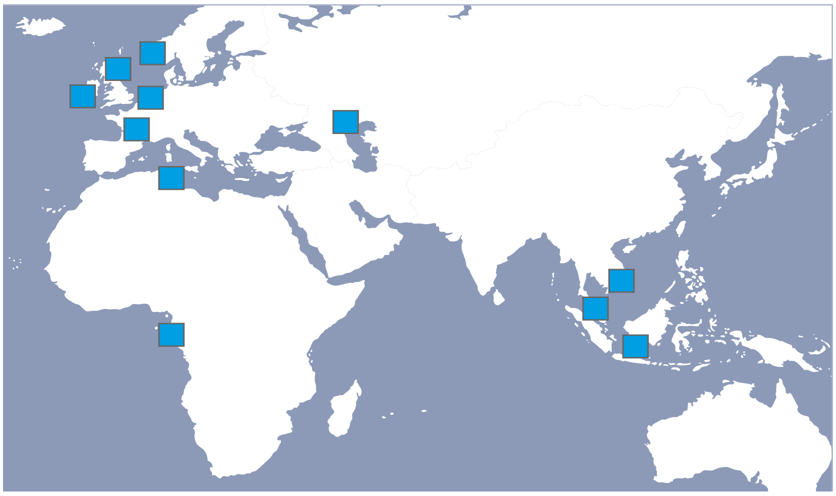
The reason behind the quick Chinese recovery lies in two factors – firstly, the economic and banking structure is more conservative, so the economy was less exposed to investments in subprime risk – and secondly, whilst international markets were slowing down, China could stimulate domestic growth using an economic surplus which was built over the previous years of a substantial trade imbalance – notably with the US but also with Europe. When the crisis ensued in late 2008 and into 2009, the Chinese government had an economic surplus available to avoid a recessionary spiral.

The Chinese government continued to invest heavily through the financial crisis in infrastructure and industry, and statistics prove the effectiveness of this strategy. The volume of bank lending in China increased by up to 20 percent in 2009, compared to a decrease in lending in the US and Eurozone; the combination of the injection of funds from the government with the liquidity provided by the banks resulted in continuous GDP growth in China even through the financial crisis.

One of the most illustrative success stories is the automotive industry, where in 2009, according to the Chinese Association of Automobile Manufacturers, China took the title from the US of the world's leading carmaker, increasing sales by a phenomenal 46 percent up to 13.8 million units This can be compared to the US performance in the same industry where American automotive sales declined by 2.8 million units to 10.4 million. This is an example of a more extensive reality, with predictions that the Chinese economy will overtake the US in terms of GDP in just ten years.

There are two real options for future growth in China - if the government chooses a more balanced approach, through a revaluation of the Chinese currency, the remnimbi, more imports will signify opportunity for non Chinese companies to access the significant savings base in the country – but with a slightly slower GDP growth level for China. If, however, the situation remains at the status quo, China will still provide opportunities for the import of energy and raw material, and exports to the still consumer based western world. It is evident that China will be one of the most significant agents for change and growth of the world economy for the foreseeable future.

# OPERATIONS



ALEXANDRE SCHNEITER
EXECUTIVE VICE PRESIDENT & COO

**Reserves increase**
256 MMBOE

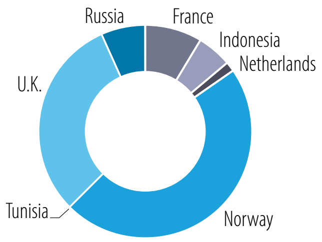
**Production increase**
38,200 BOEPD

**Focus on 3 core areas**
EUROPE, RUSSIA & SE ASIA

**3 exploration**
DISCOVERIES IN 2009

# RESERVES, RESOURCES AND PRODUCTION

## 2P RESERVES

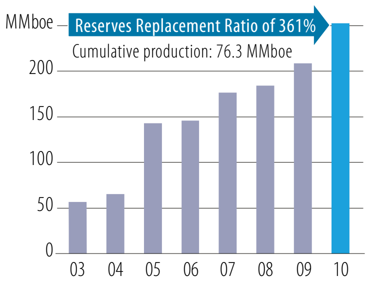



**256**MMboe*

net to Lundin Petroleum as at 1 January 2010.

* Following the spin-off of the UK business, Lundin Petroleum's net reserves will be 177 MMboe

## RESERVES GROWTH




**361**%

**reserve replacement**

ratio with cumulative production: 76.3 MMboe from 2003 to 2009.

### Reserves

As of 1 January 2010, Lundin Petroleum has 255.9 million barrels of oil equivalent (MMboe) of proven and probable (2P) oil and gas reserves. This is an increase of 26 percent when compared to last year, taking into account production of 13.9 MMboe in 2009. The reserves replacement ratio, which is calculated by dividing the increase in reserves during 2009 by the production in 2009 is 398 percent. Of the 255.9 MMboe of 2P reserves, 85.5 percent is related to oil reserves. 95 percent of the total 2P reserves are situated in tax-royalty regimes. Lundin Petroleum is quoting all of its reserves in working interest barrels of oil equivalent.

For the second consecutive year Lundin Petroleum has reported a reserves increase of 26 percent and a reserves replacement ratio of close to 400 percent. In other words, every barrel produced in 2008 has been replaced by almost 4 barrels of 2P reserves and every barrel produced in 2009 has also been replaced by 4 barrels of 2P reserves, giving a strong reserves base for future production growth. Since January 2003 Lundin Petroleum has increased its reserves from 56.8 MMboe to 255.9 MMboe, with an aggregate/cumulative reserves replacement ratio of 361 percent including acquisitions.

In Norway, Lundin Petroleum's reserves increased by 85 percent to 120.9 MMboe, mainly as a result of moving contingent resources associated with the Luno discovery into 2P reserves after the successful drilling and testing of the first appraisal well in early 2009. Furthermore, the Pi project operated by British Gas is close to development sanction and has therefore been moved from contingent resources to reserves. It should be noted that the positive results of the second Luno appraisal well drilled towards the end of 2009 have not been incorporated in the latest 1 January 2010 reserves numbers.

In Russia the sale of the Ashirovskoye field in the Orenburg region and the Kaspiskoye field in Kalmykia during 2009 had a negative impact of 3.0 MMboe. However, this has been fully compensated for by an increase in reserves in our assets in the Komi Republic, mainly due to better than expected reservoir performance.

## RESERVES DEFINED

**Reserves**

Lundin Petroleum calculates reserves and resources according to 2007 Petroleum Resources Management System (PRMS) Guidelines of the Society of Petroleum Engineers (SPE), World Petroleum Congress (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE). Lundin Petroleum's reserves are certified by Gaffney, Cline and Associates (GCA), an independent reserves auditor. Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. Estimation of reserves is inherently uncertain and to express an uncertainty range, reserves are subdivided in Proved, Probable and Possible categories. Lundin Petroleum reports its reserves as Proved plus Probable (2P) reserves.

**Proved reserves**

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 percent probability that the quantities actually recovered will equal or exceed the estimates.

**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 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

EXPLORATION → DEVELOPMENT → PRODUCTION

| Prospective Resources | | Contingent Resources | | 2P Reserves | |
|---|---|---|---|---|---|
| 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| 2.7 Bn boe | 1.7 Bn boe | 294 MMboe | 285 MMboe | 217 MMboe | 256 MMboe |

Note: reserves and resources are published as per 1 January each year

## Contingent resources

In addition to its certified reserves, Lundin Petroleum has a number of discovered oil and gas resources which classify as contingent resources.

As of 1 January 2010 Lundin Petroleum has based on internal estimates some 285 MMboe of contingent resources. This is slightly down from the 1 January 2009 position (294 MMboe). The move from contingent resources to 2P reserves of Luno and Pi has partly been offset by an increase in contingent resources in Morskaya in Russia, the Marihøne A discovery and the acquisition of the Krabbe field in Norway.

Previously Morskaya contingent resources net to Lundin Petroleum were quoted assuming a Lundin Petroleum interest of 50 percent. This assumed that Gazprom would exercise its call option on Morskaya. During 2009 this option lapsed, Lundin Petroleum bought out the minority partners and subsequently sold 30 percent of its interest to Gunvor Cyprus Ltd, leaving a net interest of 70 percent. This has resulted in an increase in net contingent resources of 163 MMboe.

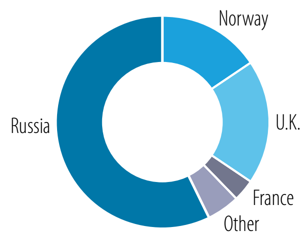
Lundin Petroleum has an active work programme to mature contingent resources into reserves. Conceptual development studies for the Krabbe field have commenced with the aim to progress to a development plan in 2011 and in the Broom field in the United Kingdom, an infill appraisal well will be drilled into newly identified terrace fault blocks in the north-west part of the field.

## Prospective resources

Lundin Petroleum has a substantial portfolio of exploration licences. As of 1 January 2010 and based on internal estimates these licences could contain some 1.7 billion boe of unrisked prospective resources net to Lundin Petroleum. Some 61 percent of these resources is situated in Norway, with a further 24 percent in South-East Asia.

In 2010 Lundin Petroleum is planning to drill (operated and non-operated) 11 exploration wells targeting in total 332 MMboe of net unrisked prospective resources. Eight of these exploration wells will be drilled in Norway, two in Vietnam and one in Congo Brazzaville.

## CONTINGENT RESOURCES

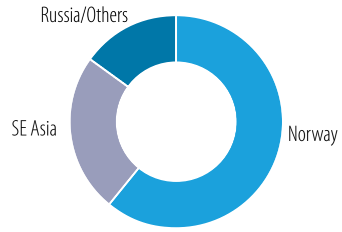



**285MMboe***

net to Lundin Petroleum as at 1 January 2010.

* Following the spin-off of the UK business, Lundin Petroleum's contingent resources will be 231 MMboe.

## PROSPECTIVE RESOURCES




**1,736MMboe***

unrisked resources net to Lundin Petroleum as at 1 January 2010.

* Following the spin-off of the UK business, Lundin Petroleum's prospective resources will be 1,656 MMboe.

## RESOURCES DEFINED

### Contingent resources

According to the SPE/WPC 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.

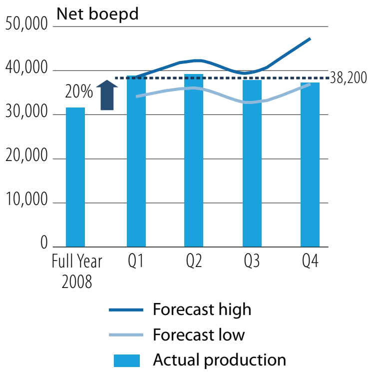
### Prospective resources

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.

### 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

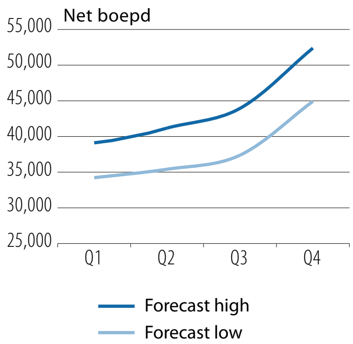
## 2009 PRODUCTION




**38,200boepd**

production for 2009 – 20% increase over 2008.

## 2010 FORECAST




**38,000-44,000***

boepd production guidance for 2010.

* Following the spin-off of the UK business, Lundin Petroleum's 2010 production guidance is 29,000 – 33,000 boepd.

### Production

Lundin Petroleum produced a total of 13.9 million barrels of oil equivalents (MMboe) in 2009 from fields in Norway, France, Netherlands, United Kingdom, Russia, Tunisia, and Indonesia. The production for 2009 was 20 percent higher than for 2008 when production amounted to 11.6 MMboe.

The main contributor to the increase is the Alvheim field in Norway contributed a full year's production in 2009 having come onstream in late June 2008. The Alvheim field has performed above expectations since production commenced, producing at an average of 13,800 barrels of oil equivalent per day (boepd) during 2009. A development programme is ongoing on the Alvheim field with Phase 2 of the drilling programme to start in 2010.

In 2010 the Volund field, south of the Alvheim field will come on stream and further increase production.

### Sales

Lundin Petroleum sold a total of 13.9 MMboe at an average oil price achieved of USD 57.16 per barrel of oil equivalent (boe). The average Dated Brent price for 2009 was USD 61.67 per barrel.

The oil produced in Russia which is 14 percent of Lundin Petroleum's total production is sold either on the Russian domestic market or exported into the international market. 40 percent of the Russian sales in 2009 were on the international market at an average price of USD 57.23 per barrel and the remaining 60 percent of Russian sales being sold on the domestic market at an average price of USD 24.67.

### Variations

Production quantities in a period can differ from sales quantities for a number of reasons. Timing differences can arise due to inventory, storage and pipeline balances effects. Several of Lundin Petroleum's fields are producing into storage tanks onboard FPSOs, such as the Oudna field in Tunisia, the Alvheim/Volund fields in Norway and the TBA field in Indonesia or into onshore storage tanks such as the fields in the Aquitaine basin in France. These storage tanks are being offloaded on a regular basis depending on the production volume and it is only at the point of having offloaded these tanks that the sale of this crude is recorded in the income statement and this can sometimes lead to a misalignment between what is reported as produced crude oil volume versus sold crude oil volumes. However, over time these differences between reported production and sales volumes will balance out.

In certain fiscal regimes part of the production volume has to be transferred to the government as a tax and/or royalty payment in kind which results in lower sales volumes than production volumes. Production from Lundin Petroleum's Indonesian fields and from the Oudna field in Tunisia are liable for such "in-kind" payments.

### Production forecast

Lundin Petroleum's production forecast for 2010 is in the range of 38,000 to 44,000 boepd. With the spin-off of the assets in the United Kingdom to EnQuest plc, Lundin Petroleum's production forecast for 2010 will be in the range of 29,000 to 33,000 boepd.

# CORE AREA – EUROPE

| NORWAY – KEY DATA | 2009 | 2008 |
|---|---|---|
| Reserves (MMboe) | 120.9 | 70.5 |
| Contingent resources (MMboe) | 44.6[2] | 97.4 |
| Average production per day (Mboepd) | 13.9 | 6.5 |
| Net turnover (MSEK) | 2,445.8 | 1,446.9 |
| Sales price achieved (USD/boe) | 60.48 | 90.45 |
| Cost of operations (USD/boe) | 4.71 | 8.48 |
| Operating cash flow contribution (USD/boe) | 56.58 | 113.60[1] |

[1] Includes tax refund [2] Excludes Ragnarrock and Luno South discoveries


## Norway
### consistently delivering results

Norway will remain the principal area of operation for Lundin Petroleum following the spin-off of the UK assets to EnQuest. The existing portfolio of licences comprises the full spectrum of exploration/appraisal, development and producing assets.

### Alvheim
The Alvheim field (Working Interest (WI) 15%) during 2009 produced on average gross 92,000 boepd. Gross ultimate recoverable reserves increased to 246 MMboe. Phase 1 of the Alvheim project has been successfully completed and Phase 2 which involves the drilling of three additional multi-lateral wells is expected to be completed in 2011. There is further potential in the greater Alvheim area from existing discoveries and from exploration.

### Volund
The Volund field (WI 35%) is located to the south of Alvheim and is a sub-sea tieback to the Alvheim FPSO. The field is expected to come on stream in mid 2010 and gross plateau production is forecast to be approximately 25,000 boepd.

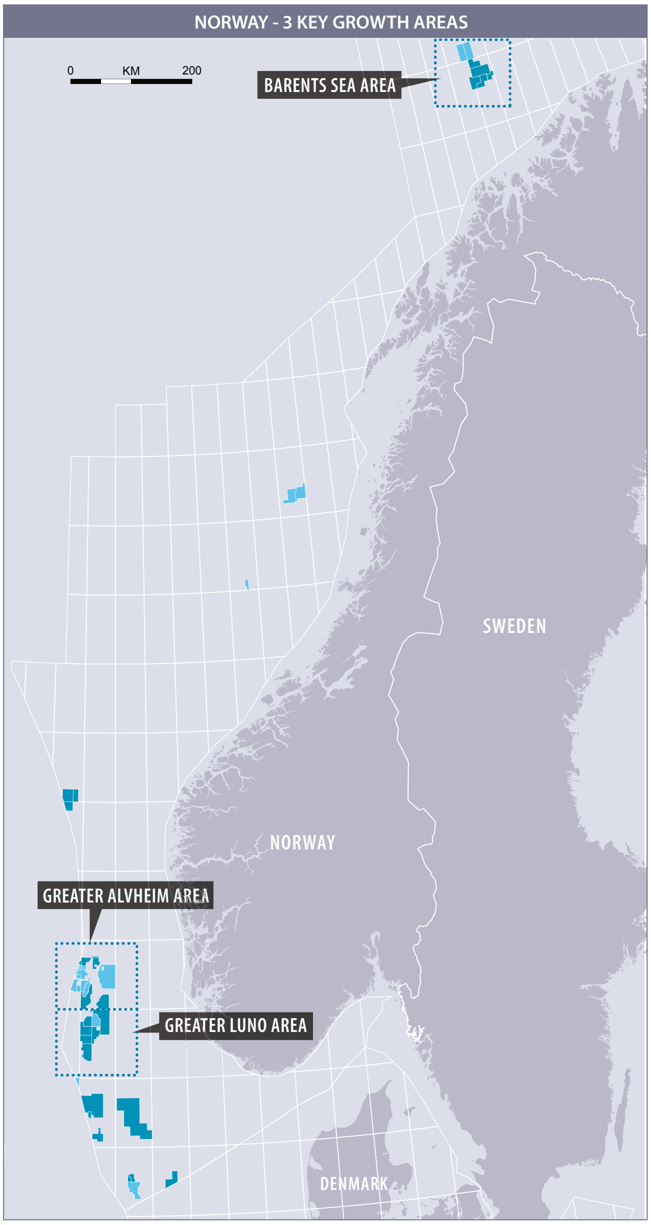
### Luno
The Luno exploration well in licence PL338 (WI 50%), operated by Lundin Petroleum, was successfully drilled as an oil discovery in late 2007. The first appraisal well was completed in early 2009 and has confirmed the extension of the Luno field to the north east. The certified gross proven and probable reserves are 95 MMboe with a recovery factor of 26 percent. A second appraisal well was completed in early 2010 which proved 50 meters of net pay with excellent reservoir characteristics. Conceptual development studies are ongoing for the Luno field to select a development concept by the end of 2010 and a development plan submission is scheduled for 2011. A further discovery was made during 2009 on the Luno South prospect. The discovery was made in fractured basement reservoir and is potentially connected to large volumes of oil in place but will require further work to determine resource potential and commerciality.

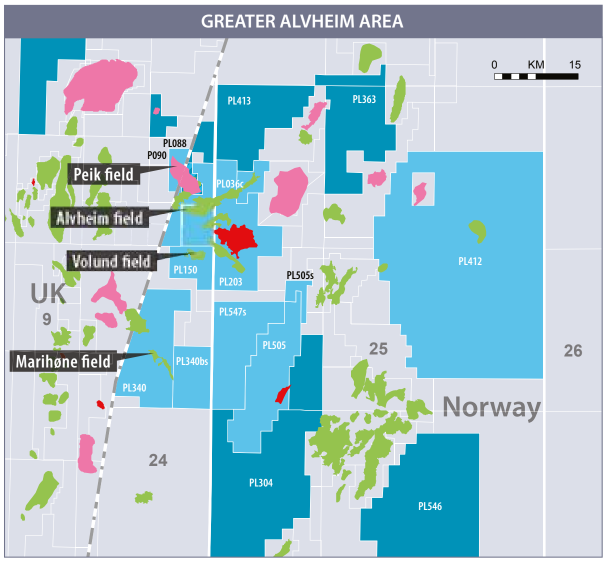
Lundin Petroleum has a major exploration acreage position in the Greater Luno Area covering licences PL359 (WI 40%), PL409 (WI 70%), PL410 (WI 70%) and PL501 (WI 40%).

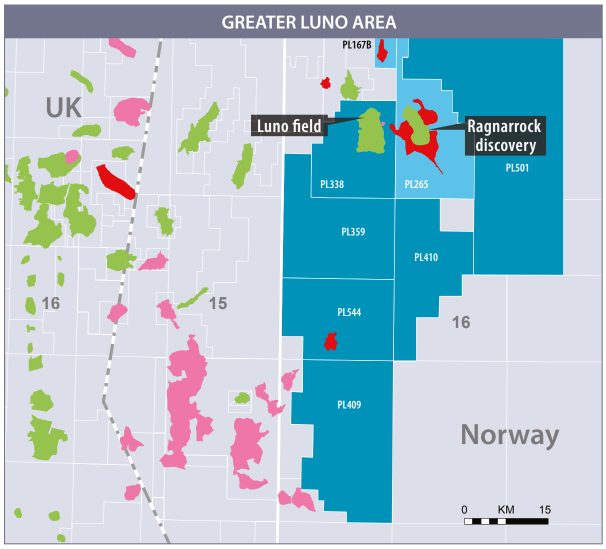
Lundin Petroleum acquired 10 percent in PL265 containing the Ragnarrock oil and gas discovery and adjacent to the Luno field in 2009.

### Subsea tie back opportunities
Lundin Petroleum also has a number of discoveries that are likely to be developed as subsea tiebacks to existing production facilities offshore, in the coming years. These are Pi (PL292), Nemo (PL148), Peik (PL088) and Krabbe (PL301) with a total of 35 MMboe in recoverable reserves.

### Further Exploration potential
Lundin Petroleum has an active exploration programme during 2010 with 8 wells being drilled in Norway. The net unrisked resource exposure is approximately 300 MMboe.




Lundin Petroleum operator
Lundin Petroleum partner
Oil field
Gas field
Condensate field

## GREATER ALVHEIM AREA

**Alvheim field** (WI 15%)

» Gross ultimate recovery 246 MMboe
» Phase 2 drilling to commence in 2010
» FPSO - 140,000 bopd capacity currently full

**Volund field** (WI 35%)

» Gross reserves 49 MMboe
» Net plateau production 8,700 boepd
» Phase 1 development completed
» Phase 2 drilling (2 wells) in 2010
» First oil - first half 2010

**PL203** (WI 15%)

» Viper (oil) and South Kneler (gas) discoveries in 2009

**PL340** (WI 15%)

» Marihøne A discovery in 2009, delineated with 2 sidetracks (20-30 MMboe gross)
» Likely tieback to Alvheim FPSO
» Other prospectivity in block
» 1 exploration well in 2010

## GREATER LUNO AREA

» Luno discovery in PL338 (WI 50%) in 2007
» Luno successfully appraised in 2009 & 2010
» Luno net reserves 95 MMboe
» Luno South discovery in 2009
» 10% interest acquired in PL265 in 2009 which contains Ragnarrock discovery
» 4 exploration wells to be drilled in 2010

## BARENTS SEA AREA

» 4 prospects matured in Barents Sea
» Exploration drilling to commence in 2011

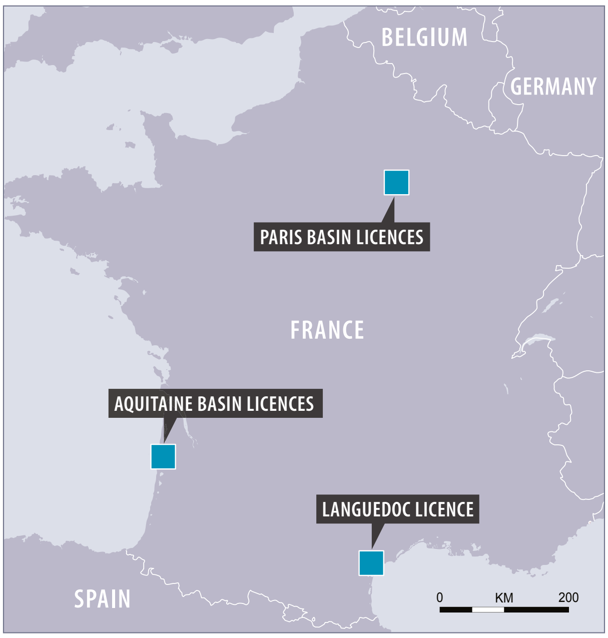
# France
## reliable long-term production

The French fields are mature production assets which have been on stream for many years. In the Paris Basin (WI 43.3-100%) and Aquitaine Basin (WI 50%), cost effective drilling intervention and work over activities are ongoing to maintain production levels. With successful water injection techniques, so called cold water fracs, improved performance has been achieved in several fields in the Paris Basin, leading to increases in production rates and reserves.

Facilities and infrastructure are in place with excess capacity to enable a rapid development of new reserves. The French assets generate low depletion and predictable long term production for Lundin Petroleum.

Further exploration opportunities and exploitation of contingent resources are being pursued to increase French production.

| FRANCE – KEY DATA | 2009 | 2008 |
|---|---|---|
| Reserves (MMboe) | 21.9 | 26.4 |
| Contingent resources (MMboe) | 9.6 | 9.9 |
| Average production per day (Mboepd) | 3.4 | 3.8 |
| Net turnover (MSEK) | 604.9 | 819.0 |
| Sales price achieved (USD/boe) | 60.94 | 92.63 |
| Cost of operations (USD/boe) | 14.97 | 13.75 |
| Operating cash flow contribution (USD/boe) | 35.07 | 48.97 |





# Netherlands
## stable production

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.

The produced gas is sold to Gasterra under a long term contract in accordance with the Dutch government's small gas field policy.

| NETHERLANDS – KEY DATA | 2009 | 2008 |
|---|---|---|
| Reserves (MMboe) | 3.4 | 4.3 |
| Average production per day (Mboepd) | 2.1 | 2.3 |
| Net turnover (MSEK) | 301.6 | 398.2 |
| Sales price achieved (USD/boe) | 50.49 | 70.90 |
| Cost of operations (USD/boe) | 12.28 | 11.43 |
| Operating cash flow contribution (USD/boe) | 30.48 | 44.71 |

# Ireland
## frontier exploration

Lundin Petroleum has one non-operated exploration licence offshore Ireland in the Slyne Basin (Inishmore licence 50%). A licence extension was applied for and granted on Slyne basin licence 04/06, where work continues ahead of planned 3D seismic acquisition to better define the mapped prospect.

# United Kingdom
## spin-off of UK business

On 6 April 2010, Lundin Petroleum announced the completion of the spin-off its UK business into a newly formed company called EnQuest plc. EnQuest acquired the UK oil and gas production, development and exploration assets and operations of both Lundin Petroleum and Petrofac Limited, a London listed company.

Lundin Petroleum received 55 percent of the shares of EnQuest which were distributed to Lundin Petroleum shareholders. EnQuest is listed on both the London Stock exchange and the NASDAQ OMX Stockholm.

### EnQuest

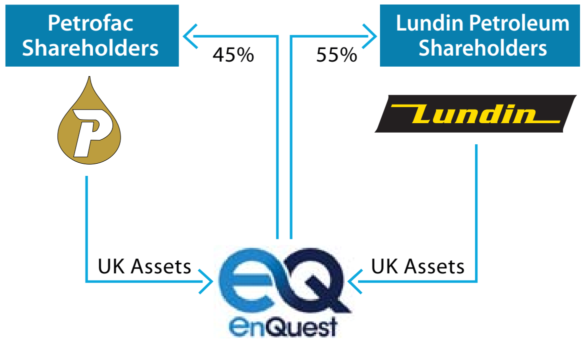
EnQuest is an independent oil and gas production and development company whose initial activities will be focused on the United Kingdom Continental Shelf (UKCS). EnQuest intends to deliver sustainable growth in shareholder value by focusing on the exploitation of its acquired reserves, commercialising and developing discoveries, converting its significant contingent resources into reserves and pursuing selective acquisitions.

With a portfolio of producing assets, development opportunities and appraisal and exploration opportunities, strong cash flow generation and an experienced management and staff that have a proven development and operating record, EnQuest believes that it will be well positioned to increase its production and reserves and benefit from the opportunities that exist in the UKCS.

EnQuest's asset portfolio will comprise primarily producing assets and development opportunities, together with appraisal and exploration opportunities, all of which are located in the UKCS.

EnQuest's producing assets will include interests in six producing fields: Broom, Heather, Thistle, Deveron, West Don and Don Southwest. EnQuest will have interests in 16 production licences covering 26 blocks or part blocks in the UKCS, of which 15 licences are operated by EnQuest. EnQuest's licence interests also provide it with an inventory of potential developments, discoveries and prospects, which are predominantly located close to EnQuest's interests in existing infrastructure.

Based on the 2009 production of Lundin Petroleum and Petrofac, EnQuest's average daily working interest production for the year ended 2009 would have been approximately 13,620 bopd. Gaffney, Cline & Associates (GCA) has certified that, as at 1 January 2010, EnQuest had a total of 80.5 MMbbls of net 2P oil and NGL reserves. As at 1 January 2010, GCA has also certified net oil and gas contingent resources for individual assets. The aggregate of the oil contingent resources (2C) on an unrisked basis is 67.5 MMbbls, and of the gas contingent resources (2C) is 30.6 Bcf [1]. In addition, EnQuest has identified five further exploration opportunities, all of which have been independently reviewed by GCA.




| UNITED KINGDOM – KEY DATA | 2009 | 2008 |
|---|---|---|
| Reserves (MMboe) | 78.8 | 82.1 |
| Contingent resources (MMboe) | 54.3 | 56.3 |
| Average production per day (Mboepd) | 10.2 | 10.2 |
| Net turnover (MSEK) | 1,783.7 | 2,280.8 |
| Sales price achieved (USD/boe) | 62.83 | 96.41 |
| Cost of operations (USD/boe) | 34.54 | 42.19 |
| Operating cash flow contribution (USD/boe) | 23.36 | 48.77 |

[1] GCA warns that there may be a significant risk that accumulations containing contingent resources will not achieve commercial production and that it is inappropriate to aggregate contingent resources.

# CORE AREA – RUSSIA

| RUSSIA – KEY DATA | 2009 | 2008 |
|---|---|---|
| Reserves (MMboe) | **16.9** | 18.6 |
| Contingent resources (MMboe) | **163.3** | 115.0 |
| Average production per day (Mboepd) | **4.8** | 5.0 |
| Net turnover (MSEK) | **567.5** | 816.3 |
| Sales price achieved (USD/boe) | **37.64** | 62.85 |
| Cost of operations (USD/boe) | **8.59** | 8.52 |
| Operating cash flow contribution (USD/boe) | **7.23** | 9.82 |


## Russia
### considerable growth potential

**Lagansky Block**
Russia is one of Lundin Petroleum's core areas with major focus on the Lagansky block in the Caspian where Lundin Petroleum has a 70 percent interest (WI 70%).

The Lagansky Block is 2,000 square kilometres in size and is located offshore in the north Caspian area, close to major world class hydrocarbon discoveries. The Morskaya discovery was made in 2008 and contains good quality oil and has estimated contingent resources of 227 MMboe.

Appraisal drilling on the Morskaya field most likely will take place in 2011.

*Further exploration potential*
A new 3D seismic acquisition programme is ongoing with 150 $km^2$ already acquired and another 75 $km^2$ to be acquired during 2010. Interpretation is ongoing to provide a better understanding of the nature of the remaining potential in the block. Several additional structures have been identified and resource potential is being assessed. A further exploration well will be drilled in 2011.

**Komi**
Lundin Petroleum has a 50 percent licence interest in three producing fields in Komi. Production comes from Devonian carbonate reservoirs. Infill drilling has successfully increased production to around 9,000 boepd gross. Infill drilling will continue in 2010. Oil is exported via the nearby Transneft pipeline system and about 60-65 percent is sold domestically.

# CORE AREA – SOUTH EAST ASIA

| INDONESIA – KEY DATA | 2009 | 2008 |
|---|---|---|
| Reserves (MMboe) | 13.7 | 15.2 |
| Contingent resources (MMboe) | 4.3 | 4.5 |
| Average production per day (Mboepd) | 2.4 | 2.3 |
| Net turnover (MSEK) | 281.4 | 293.7 |
| Sales price achieved (USD/boe) | 60.58 | 92.92 |
| Cost of operations (USD/boe) | 22.78 | 20.77 |
| Operating cash flow contribution (USD/boe) | 13.51 | 13.76 |

## Indonesia
production, development and exploration activities

### Salawati Basin and Island
Production in Indonesia is generated from non-operated assets in Salawati Island and the Salawati Basin located on Papua. An exploration programme is ongoing within these licences in order to maintain production levels.

### Lematang Block
The development of the Singa gas discovery on the Lematang Block in South Sumatra is ongoing with first gas expected in 2010. A gas sales agreement has been signed that will supply gas to customers in West Java. Lundin Petroleum has a working interest in the Lematang Block of 25.88 percent.

### Further exploration potential
There are four exploration licences within proven petroleum systems. Acquisition of 2D and 3D seismic is ongoing with the aim to commence exploration drilling activities in 2011.

## Vietnam
drilling two exploration wells in 2010

Lundin Petroleum has a 33.33 percent working interest in Block 06/94 in the Nam Con Son Basin, offshore southern Vietnam. There are a number of oil and gas discoveries in the basin and the block contains some significant prospects.

During 2010 two exploration wells are going to be drilled in the block.

## Malaysia
major exploration programme

Lundin Petroleum has signed Production Sharing Agreements (PSA) for Blocks PM308A (WI 35%), PM308B (WI 75%) and SB303 (WI 75%). 3D seismic has been acquired in each of the blocks and is currently being interpreted. Exploration drilling is likely to commence in 2011.




# OTHER OPERATIONS

## Congo (Brazzaville)
### exploration drilling in Marine XIV

Lundin Petroleum has an 18.75 percent interest in Block Marine XI and a 21.55 percent working interest in the adjoining Block Marine XIV, offshore Congo (Brazzaville). Previous exploration activity on the Block Marine XI has resulted in four small oil discoveries. All discoveries are situated near existing facilities and in shallow water.

The Liyeke Marine-1 exploration well in Block Marine XI was drilled in 2009 and encountered a heavy oil column. An appraisal well on the Viodo discovery was completed as a further oil discovery. The results of the well are currently being reviewed with respect to the development potential of the Viodo filed.

In Block Marine XIV a 3D seismic survey was completed in 2009 and exploration drilling will commence in 2010.

| CONGO (BRAZZAVILLE) – KEY DATA | 2009 | 2008 |
|---|---|---|
| Contingent resources (MMboe) | 1.4 | 3.2 |

## Tunisia
### consistent production from Oudna field

The Oudna field (WI 40%) came on stream in November 2006. The field is producing at relatively stable rates of approximately 3,000 bopd, gross, despite late life and high water cut. The Oudna field 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.

The Ikdam FPSO is owned by Ikdam Production S.A. and the shareholders are Lundin Petroleum (40%), Teekay-Petrojarl Production AS (40%) and Gezina AS (20%).

| TUNISIA – KEY DATA | 2009 | 2008 |
|---|---|---|
| Reserves (MMboe) | 0.3 | 0.4 |
| Contingent resources (MMboe) | 7.9 | 7.9 |
| Average production per day (Mboepd) | 1.4 | 1.6 |
| Net turnover (MSEK) | 194.1 | 335.2 |
| Sales price achieved (USD/boe) | 54.72 | 116.22 |
| Cost of operations (USD/boe) | 26.83 | 22.42 |
| Operating cash flow contribution (USD/boe) | 13.33 | 63.45 |

# CORPORATE RESPONSIBILITY





## We are committed to:

## Ensure the Safety of our Staff

## Protect and Preserve the Environment

## Engage with all our Stakeholders

Lundin Petroleum documents referred to in this section can be found at www.lundin-petroleum.com, in the RESPONSIBILITY section.

The aim of Corporate Responsibility (CR) is to have in place the necessary systems, procedures and projects in order to ensure that Lundin Petroleum's activities are carried out in accordance with good oilfield practice, preserving the integrity of its staff, contractors and the environment, and contributing to socio-economic development in its countries of operations.

During 2009 Lundin Petroleum sold or relinquished its East African assets to focus on the three strategic areas of Europe, Russia and South East Asia. At the same time the business model was revisited from a CR perspective to ensure that it was suitable for this new phase of operations.

As part of this process, Lundin Petroleum has strengthened its CR framework by revising some documents, while introducing new ones.

## The Code of Conduct

The Code, which is at the core of Lundin Petroleum's Corporate Responsibility commitment details the Company's Corporate Responsibility Vision, the Values and the Principles by which it is guided, as well as the Responsibilities which the Company has vis-à-vis its main stakeholders, i.e. shareholders, staff, host countries, host communities and the environment.

The Code has remained unchanged since its adoption in 2001, as it continues to reflect the values held by its directors, management and staff. It is subject to an annual review, which is presented to the Board of Directors.

## The Corporate Responsibility Policies

The key CR Policies are:

**The Health & Safety Policy**, which states that "the control and management of health and safety issues commands at least equal prominence, when balanced against operational and commercial considerations".

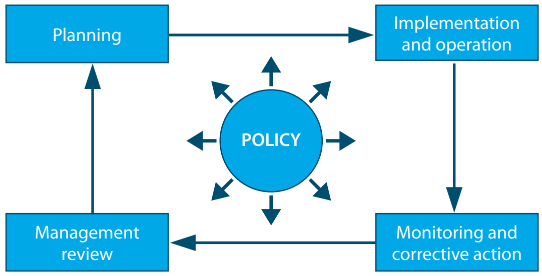
**The Environmental Policy**, which underlines "the importance of conservation and the need to minimise the effects of pollution within the scope of its operations".

**The Community Relations Policy**, which commits Lundin Petroleum to operate in a way that is consistent with the welfare of neighbouring communities.

These Policies have also remained unchanged, as they continue to represent Lundin Petroleum's high level commitment to Health, Safety, Environment (HSE) and Communities.

## The HSE Management System (The Green Book)

Lundin Petroleum's HSE Management System, the Green Book, sets corporate requirements for the systematic and comprehensive integration of HSE issues in the management of the Company's worldwide operations. The Company aims to achieve continuous improvement of its HSE performance, through a process of continuous management which includes planning, implementation, monitoring and review, as described in the figure. The Green Book was revised in 2009 in order to render explicit the fact that HSE encompasses both safety and




security, and that security issues have to be addressed at each stage of the process described above.

## The HSE goals

In its Code and Policies, Lundin Petroleum commits to HSE stewardship. It has expressed this in the following high level HSE goals, applicable to its operations worldwide:

» Zero fatalities
» Zero incidents
» Zero harm to the environment

In an effort to assist operations to put into effect these high level goals, together with HSE representatives of two of its leading assets, namely Norway and the UK, Lundin Petroleum has added promotion, prevention and reduction measures to undertake in each of the Health, Safety and Environment field:

**Health**
» Promote a healthy work environment
» Prevent occupational illnesses
» Reduce health hazards

**Safety**
» Promote risk identification
» Prevent loss of asset integrity
» Reduce risks to personnel

**Environment**
» Promote energy efficiency
» Prevent unnecessary waste
» Reduce carbon footprint

A further way to achieve its HSE goals is having in place adapted procedures, at all levels of the organisation, which reflect HSE commitments and best industry practice.

## The HSE Plan

The purpose of Lundin Petroleum's corporate HSE Plan is to have a systematic approach to HSE management, to increase HSE awareness among staff and involving them in planned activities, to promote a sound HSE culture at corporate management level as well as promote the Company's corporate HSE goals.

The Plan is developed on a yearly basis in order to be relevant to the type and scope of the activities planned throughout the Group.

### The procedures

There are both corporate and operational procedures in place.

Corporate procedures aim to ensure that operations are conducted in a safe and respectful manner. In 2009, in order to clarify corporate HSE expectations on its operations, Lundin Petroleum issued HSE Management System Requirements (HSE MSR), which provide guidance on what are the specific requirements on operations under the Green Book. The HSE MSR Self-Assessment Form was also developed for operations to complete in 2009 in order to ascertain their level of compliance with the HSE MSR. In 2010, the HSE MSR Self-Assessment shall be used by corporate management to audit HSE practice at its operated assets. Lundin Petroleum's corporate HSE Reporting Requirements were also modified to align with the Occupational Safety and Health Administration standards (OSHA 1904). With both leading and lagging indicators, the new HSE reports will eventually enable the Company to carry out tracking and trend analysis of HSE performance group-wide.

Corporate procedures are also in place to ensure business continuity in the event of a problem either at operations or corporate. Lundin Petroleum revised its emergency response system in 2009, with the view of rendering communications between corporate and operations more effective during emergency situations.

Operational procedures span the whole spectrum of the activities, including studies and assessments (environmental, security, risks, etc.) to permit-to-work systems, oil spill and emergency response preparedness as well as HSE and business continuity plans. All procedures are tested and verified on an ongoing basis, through drills as well as internal, external and/or regulatory audits.

### The HSE Network

A formal HSE Network has been created bringing together HSE managers and/or General Managers of operations worldwide. A dedicated web forum has been set up where all the CR framework documents discussed above have been included together with operations' specific documentation. A group-wide HSE Teleconference is held on a bi-monthly basis to review HSE Key Performance Indicators (KPIs) and other relevant HSE issues.

### The HSE Committee

Lundin Petroleum has also created a corporate HSE Committee to further streamline HSE into its business processes with the Senior Vice President Operations, the Vice President Corporate Responsibility, the Group Drilling Manager as well as the Group Human Resources Manager. The purpose of the Committee is to assess HSE implications of (planned) operations, as well as review KPIs on an ongoing basis. While the Committee is scheduled to meet on a bi-monthly basis, it can do so on an ad hoc basis whenever an issue warrants it.

### The HSE Management Meeting

In the third quarter of 2009, an HSE quarterly Management Meeting was initiated, chaired by the Chief Operating Officer, the meeting convenes senior management and members of the HSE Committee to discuss progress against the HSE Plan, review HSE performance in the Group and HSE implications of planned operational activities.

### Corporate Responsibility performance

The test as to the effectiveness of the Corporate Responsibility framework ultimately resides in the Company's performance, the problems it faces group-wide and how it manages them.

### HSE Key Performance Indicators (KPIs)

The systematic and consistent tracking and reporting of Health, Safety and Environmental KPIs allows the Company to manage HSE issues as well as to highlight areas that require concerted attention. As part of its review of its HSE Management System in 2009, Lundin Petroleum has introduced new monthly reporting requirements. The purpose of these requirements is to standardise the information that is being tracked and reported from its operated assets, and, more importantly, to have a more thorough understanding of its group-wide HSE performance. Since 2004, Lundin Petroleum has been tracking the number of Fatalities, Lost Time Incidents (LTI), and Oil Spills (over 1 barrel) in its operated assets. It introduced reporting of LTI Rates (LTIR, per 200,000 man hours) in 2005. Indicators introduced in 2009 include Restricted Work Incidents (RWI) and Medical Treatment Incidents (MTIs). These two indicators enable the Company to track its Total Recordable Incident Rate (TRIR).

Other indicators which are reported since 2009 are chemical spills, which, together with oil spills, enable the Company to assess its impact on the environment, as well as hydrocarbon

## GLOBAL COMPACT

Following a resolution of its Board of Directors, Lundin Petroleum shall join the United Nations Global Compact (UNGC) in the spring of 2010.

The UNGC was launched in 2000 at the initiative of the then Secretary General of the United Nations, Kofi Annan; it has become the world's largest corporate citizenship and sustainability initiative with over six thousand participants from the private and public sectors, and civil society. It is a voluntary initiative that aims to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption.

On joining the UNGC, Lundin Petroleum will commit to:

» Incorporate the principles as an integral part of business strategy, day-to-day operations and organizational culture
» Incorporate the principles in the decision making process of the Board of Directors
» Contribute to broad development objectives through partnerships
» Publish a Communication on Progress (COP)
» Advance the Global Compact and responsible business practices through active outreach to stakeholders and the public at large.

For further information on the UNGC, please refer to www.unglobalcompact.org.

leaks, which indicate the number of instances where there was an unplanned release which did not flow to either land or sea. In addition to some of the lagging indicators described above, Lundin Petroleum is now also tracking leading indicators, such as Near Misses with High Potential (NMHP) in order to identify possible problems which the Company should be aware of to remediate. No clear trend can be detected from the NMHP in 2009, they will be closely reviewed in 2010 with that objective in mind. Other leading indicators are main areas of concern or regulatory issues identified by the operations.

Lastly, Lundin Petroleum has also introduced yearly corporate reporting requirements from producing assets on emissions (CO2, NOx, SOx, CO, N2O, CH4, nmVOC). 2009 will represent the baseline year for Lundin Petroleum, which will be used for comparative purposes in 2010, and eventually reduction targets.

## HSE Indicators 2009 for operated assets

| HSE INDICATOR DATA | | |
|---|---|---|
| Exposure Hours | Employees | 905,166 |
| | Contractors | 3,454,980 |
| Fatalities | Employees | 0 |
| | Contractors | 0 |
| Lost Time Incidents | Employees | 2 |
| | Contractors | 1 |
| Restricted Work Incidents | Employees | 1 |
| | Contractors | 0 |
| Medical Treatment Incidents | Employees | 2 |
| | Contractors | 7 |
| Lost Time Incident Rate | Employees | 0.44 |
| | Contractors | 0.06 |
| Total Recordable Incident Rate | Employees | 1.10 |
| | Contractors | 0.46 |
| Oil Spills | No. | 1 |
| | Vol. ($m^3$) | 40 |
| Chemical Spills | No. | 2 |
| | Vol. ($m^3$) | 129.775 |
| Hydrocarbon Leaks | No. | 1 |
| | Mass (kg) | 4 |
| Near Misses with High Potential | No. | 24 |
| Non-compliance with Permits/Consents | No. | 19 |

Lost Time Incident (LTI) is an incident which results in a person having at least one day away from work.

Restricted Work Incident (RWI) is an incident which results in keeping a person from performing one or more routine functions.

Medical Treatment Incident (MTI) is a work related injury or illness that does not result in a job restriction or days away from work.

## 2009 HSE performance

There were no fatalities within the Group, whether among operated or non-operated assets.

There were two Lost Time Incidents (LTI) involving Lundin Petroleum staff and one LTI involving a contractor; as a result Lundin Petroleum's overall Lost Time Incident Rate (LTIR) for its operated assets in 2009 was 0.138 (for staff and contractors combined). The LTIs all involved hand injuries as did the Restricted Work Incident (RWI); in each case, the circumstances leading to the incident were thoroughly investigated together with the operational team, in order to identify the different causes that led to the incident, to ensure required lessons were learned and corrective actions taken to avoid similar incidents in the future. All but one of the Medical Treatment Incidents (MTI) related to eye incidents. A trend had been identified in 2008 in the UK, where a majority of the cases occurred leading to the introduction of various measures, such as training, provision of new Personal Protective Equipment (PPE) to reduce the instances in 2009. Further efforts will be undertaken in 2010 to reduce MTIs due to improper use of PPE. The Total Recordable Incident Rate for Lundin Petroleum staff and contractors in 2009 was 0.59.

None of the environmental incidents which have been recorded for the first time in 2009, present areas of major concern.

An improving environmental trend which can be noted is the substantial reduction in the number of spills since 2008. As reported at the time, the spills were of no lasting impact on the environment, though they signalled some failures in the system. In France, where most of the spills had occurred in 2008, a systematic campaign of assessing pipe work was undertaken; where found deficient, the pipes were replaced by non corrodible fibre glass pipes, in order to reduce the risk of spills. Due to the efficiency of the emergency response team and the mitigating measures put in place, the single spill that occurred was fully remediated so as not to have any permanent impact on the environment.



## CLIMATE CHANGE AND CARBON DISCLOSURE PROJECT

In view of the growing concern regarding climate change and the connection established by the scientists of the Intergovernmental Panel of Experts on Climate Change (IPCC) between greenhouse gas emissions and climate change, Lundin Petroleum issued a Climate Change Statement in 2007, committing to "take steps to assess and reduce its greenhouse gas emissions".

In furtherance of this commitment, Lundin Petroleum has extended its corporate reporting requirements to include greenhouse gas emissions and, since 2008, the Company contributes the Carbon Disclosure Project, an initiative that requires companies to report on their climate change strategy, the risk it represents to their business, as well as their emissions.

In 2009, Lundin Petroleum ranked 8th out of 128 respondents to the Nordic Carbon Disclosure Project and thus featured in the Carbon Disclosure Leadership Index (CDLI), a key component of CDP's annual Nordic 2008 Report which highlights companies that have displayed the most professional approach to corporate governance in respect of climate change disclosure practice. Companies, like Lundin Petroleum, which made it to the CDLI were recognised for their good internal data management and understanding of climate change related issues affecting them.

## Performance highlights

Below is an overview of some of the activities undertaken within the Group, which represents the Corporate Responsibility approach in Lundin Petroleum's operations.

### FRANCE

» Anti-pollution plans were developed for the Courdemanges, Dommartin-Lettrée, Granville, Soudron and Vert-La-Gravelle fields to help prevent or mitigate spills.
» A Safety Management System was developed for the two 4,000 $m^3$ storage tanks situated on the Villeperdue production site.
» Films were produced for visitors and for contractors, demonstrating the HSE requirements applicable in the Company's Paris Basin operations.

### INDONESIA

» An environmental study was carried out by PT Ecotropica prior to the planned 2010 seismic operations on the Rangkas Block.
» An environmental study commenced for the Baronang and Cakalang Blocks.
» No LTIs were recorded on any of the Company's non-operated assets in the Salawati Basin & Island; one was recorded on the Lematang Block.

### MALAYSIA

» Lundin Malaysia, through its contractor PGS carried out five 3D seismic surveys for a total of 166'000 hours without recording a single LTI.
» A fish trap scouting and clearance operation was carried out prior to the survey to reduce risks identified in the project HSE Plan.
» Information and compensation meetings held with fishermen.

### NORWAY

» Lundin Norway conducted seven well operations with four different rig contractors representing more than 500,000 hours with one LTI.
» The State Pollution Control Authority approved the quality and content of Lundin Norway's environmental report submitted and baseline study conducted in 2009.
» An audit by the Petroleum Safety Authority on major accident risks resulted in no follow-up actions required.

### RUSSIA

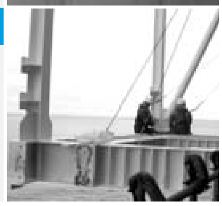
» The All Russian Society of Nature Conservations conducted an environmental assessment prior to the drilling of Petrovskaya-1 to ensure there would be no negative impact on the environment.
» Multiple inspections were carried out by Russian industrial safety and environmental protection authorities resulting in overall positive assessments.

### TUNISIA

» A comprehensive emissions' campaign was carried out consisting of gas analyses of all diesel engines and boilers.
» Tunisian management and VP Corporate Responsibility visited the Ikdam FPSO to review circumstances leading to the LTI and to reiterate importance of abiding by HSE rules and procedures.

### UNITED KINGDOM

» Lundin Britain achieved another full year of LTI free days at end of 2009, Thistle had 772 LTI free days and Heather 561.
» Lundin Britain has continued to emit less than its CO2 allowance under the Emissions Trading System. This year's surplus allocation was 34,800 tons.
» There were six inspections on Lundin Britain during 2009 none of which resulted in Improvement or Enforcement Notices from either the Health and Safety or the Environmental authorities.



## Sustainable Investments

Lundin Petroleum has established in its Code of Conduct its intention to have a positive impact in its areas of operations. Its main task is to find oil and gas in an economically efficient manner, with due respect to nearby communities and environments; however the benefit from its activities can take a number of years to materialise. In the meantime, Company staff, partners or contractors are actively engaged in operational activities.

In order to bridge the gap between the time the Company initiates its activities and the time these result in a beneficial impact on communities, whether through taxes, royalties or revenue sharing schemes, Lundin Petroleum has elaborated two mechanisms to promote the welfare of local communities: community development projects and corporate donations.

Community development projects are elaborated as part of Lundin Petroleum's and/or operating partners' licence commitments in economically challenged areas; they are part and parcel of the operations and are done on a scale that reflects the extent and nature of the operational activities. Corporate donations take place in areas where Lundin Petroleum has limited interface with local communities, either by virtue of the fact that its operations are offshore or because they are partner-operated.

In both cases, the philosophy driving the selection of projects is to build local capacity for self-sufficiency. As a result, save where there are acute humanitarian problems requiring immediate relief, Lundin Petroleum seeks to invest for a sustainable future by funding educational and vocational projects.

In the sustainable initiatives below, there is an overview of some of the projects undertaken or supported by Lundin Petroleum in 2009 which throw further light on the Company's Corporate Responsibility approach in the various environments in which it is active.

## Corporate Donations

In addition to the instances explained above, corporate donations are also made in response to projects it identifies as promoting values the Company wishes to support. These can take place in any of the areas where it has a presence or interests. The Corporate Donations programme involves making monetary or in-kind contributions to individuals, groups or projects which enhance the welfare of particularly disadvantaged people, contribute to the better understanding of the oil and gas sector, or promote positive values. The main selection criteria are relevance and materiality, which means that a project must be in an area or field Lundin Petroleum has an interest in, and the contribution must have a material effect on the project.

### FRANCE

» The Company has developed a geothermal project and is actively promoting among the authorities and local entrepreneurs, for the use of geo-thermal energy which can be produced from the hot water basins discovered through injection wells.

### INDONESIA

» The Company continued its support of SOS Children's Village Cibubur, initiated in 2006 and contributed additional funds towards the construction of a new multipurpose building.

### NORWAY

» The Company continued its sponsorship of the development of ArcticWeb, a geoportal for offshore arctic areas, giving immediate access to environmental design basis data.
» As part of a geological R&D project on core sampling analysis of the Barents Sea, Lundin Norway funds a research project carried by two PhDs from GeoForschungZentrum, in Potsdam, Germany. When completed, in 2012, the research project will be put in the public domain.
» Lundin Petroleum contributed to Save the Children Norway due to its programmes in Darfur.

### RUSSIA

» The Company continued to sponsor the major programme initiated by the local organisation KaspNirh that aims to replenish fish stock in the Volga-Caspian basin, through the artificial breeding and release of sturgeon fry in natural waters. A total of 17,500 juveniles were released under this programme in 2009.
» The Company initiated a project for the release of juvenile Siberian Cranes obtained from the Oksky Reserve in the Astrakhan Biosphere Reserve, with the expectation that this exceptional breed will develop in that region.
» Lundin Petroleum facilitated the exhibition of Ivan the Terrible's helmet, from Stockholm's Royal Armoury's collection in the Moscow and Astrakhan Kremlin museums.

### SUDAN

» In Block 5B a full Community Development Programme was in place during the operations, consisting in the provision of medical, veterinarian and educational support to various communities, as well as the construction of community centers in both Ayod and Wan Machar. In addition a road was built to facilitate access of the local population from remote areas to populated centers.
» Lundin Petroleum fully financed the building of a Training Center at the University of Juba, in South Sudan; this is the first construction project for the University since the Government of South Sudan was established in 2005, pursuant to the Peace Agreement. The main hall in the building can accommodate up to 250 students.
» The Company continued its support of the home for Street Children in Khartoum Sudan, to the end of the year, having secured, now that the company has ceased activities in that country, the continued support of the home from the Lundin for Africa Foundation.

### TUNISIA

» Lundin Tunisia contributed, as in previous years to the running costs of the SOS Children Village in Gammarth.

### UNITED KINGDOM

Lundin Britain contributed to:
» Solstice Nurseries, an environmental charity providing practical support to adults with learning difficulties.
» Transition Extreme, a purpose-built centre providing a safe 'sports and social' environment for local children.
» Tullos Primary, where employees of Lundin Britain actively support the school and its pupils through a number of ventures such as talks and discussions, sports activities and environmental projects.

### VIETNAM

» Lundin Petroleum continued its support of the Go Vap SOS Children Village near Hoh Chi Minh.
» Pearl Energy selected homebuilding projects in the Mekong Delta project to which the Company contributed, as member of the partnership.

# CORPORATE GOVERNANCE REPORT

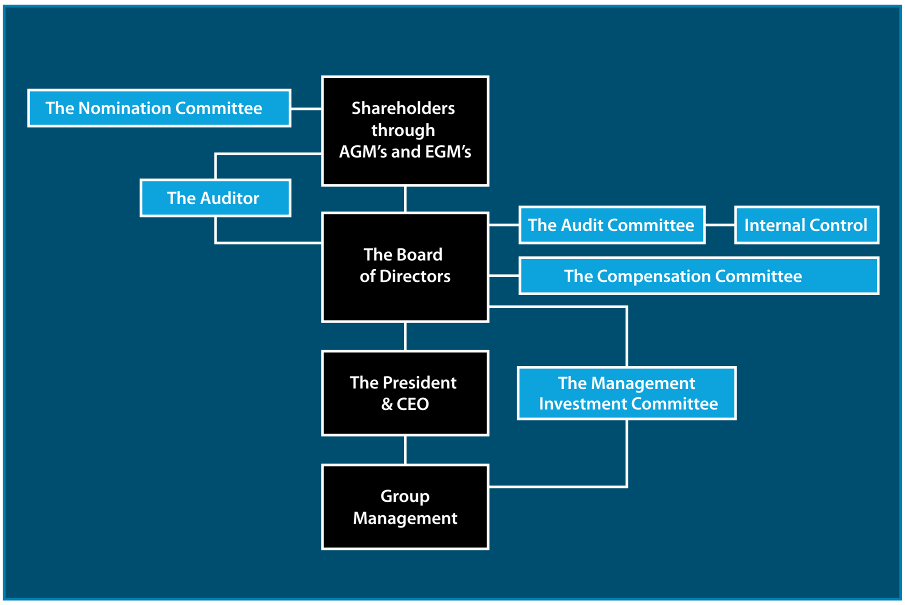
**Main external rules & regulations affecting Lundin Petroleum's corporate governance:**

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

**Main internal rules & regulations affecting Lundin Petroleum's corporate governance:**

- » The Articles of Association
- » The Rules of Procedure of the Board, instructions to the CEO and for the financial reporting and the terms of reference of Board Committees
- » The Code of Conduct
- » Policies, Guidelines & Procedures
- » The Green Book management system

LUNDIN PETROLEUM – GOVERNANCE STRUCTURE




## GUIDING PRINCIPLES OF CORPORATE GOVERNANCE AND APPLICABLE RULES AND REGULATIONS

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

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

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

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

In addition, the Company abides by principles of corporate governance found in a number of documents as described here below.

### The Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") is based on the tradition of self-regulation and acts as a complement to the corporate governance rules contained in the Swedish Companies Act, the Annual Accounts Act and other regulations such as the Rule Book for Issuers and good stock market practice. The Code first entered into force on 1 July 2005 and has since its introduction been subject to two major revisions. The first revised Code entered into force on 1 July 2008 and the second revised Code, adapted to new EU and Swedish regulations, entered into force on 1 February 2010. Certain rules regarding remuneration and independence of directors, as well as audit committees, will become applicable in stages during the course of 2010.

The Code is based on the "comply or explain principle", which entails that a company may choose to apply another solution than the one provided by the Code if it finds a Code rule inappropriate in a particular case. The company must however explain why it did not comply with the rule in question and describe the company's preferred solution, as well as the reasons for it.

Lundin Petroleum complied in all major aspects with the Code in 2009, other than certain instances in which the Company did not strictly adhere to the terms of the Code. Firstly, since the Chief Executive Officer (the "CEO") does not speak fluent Swedish, his presentation during the 2009 Annual General Meeting (the "AGM") was delivered in English, and not in Swedish as the Code requires. However, Swedish subtitles were provided concurrently on the overhead slides. Secondly, a Board member serves as the Chairman of the Nomination Committee for the 2010 AGM and, due to developments during the year, he is no longer deemed to be independent of the Company's major shareholders. The Nomination Committee however unanimously decided that he was the best candidate to carry out the task.

Lundin Petroleum further conducts its activities in accordance with the Code rules applicable at the time, and will therefore apply the new rules introduced in 2010 as of when such new rules enter into force.

### Lundin Petroleum's Articles of Association

Lundin Petroleum's Articles of Association form the basis of the governance of the Company's operations. The Articles of Association set forth the Company's name, the seat of the Board, the object of the business activities, the shares and share capital of the Company and contain rules with respect to the general meetings of shareholders. The Articles of Association can be found on the Company's website www.lundin-petroleum.com.

### Lundin Petroleum's Code of Conduct

Lundin Petroleum's Code of Conduct is a set of principles formulated by the Board to give overall guidance to employees, contractors and partners on how the Company is to conduct its activities. As an international oil and gas exploration, development and production company operating globally, the aim of the Company is to explore for and produce oil and gas in the most economically efficient, socially responsible and environmentally acceptable way, for the benefit of its shareholders, employees and co-venturers. The Company applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements.

The Code of Conduct was adopted at the formation of Lundin Petroleum in 2001 when no external requirements regarding corporate governance existed. The Company decided to make its values, principles and commitment explicit in order to set the necessary framework for its ethical conduct, against which the Company could be assessed and evaluated. Compliance with the Code of Conduct is reviewed on an annual basis by the Board. The Code of Conduct can be found on the Company's website www.lundin-petroleum.com.

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

While the Code of Conduct provides the Company's ethical framework, dedicated policies, guidelines and procedures have been developed internally to outline specific rules and controls applicable in the different business areas. The Company has policies, guidelines and procedures covering for example Operations, Accounting & Finance, Corporate Responsibility including HSE (Health, Safety and Environment), Legal, Information Systems, Human Resources and Investor Relations and External Communications. The policies, guidelines and procedures are reviewed on a continuous basis and are adjusted as and when required.

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

## LUNDIN PETROLEUM'S SHARE CAPITAL AND SHAREHOLDERS

The shares of Lundin Petroleum started trading on 6 September 2001 on the Nya Marknaden (New Market) administered by the Stockholm stock exchange. On 2 October 2003, the shares were transferred to the O-list and on 1 July 2004, to the Large Cap list of what is now the NASDAQ OMX Stockholm. At the end of 2009, the issued share capital of Lundin Petroleum amounted to SEK 3,179,106 divided into 317,910,580 shares with a quota value of SEK 0.01 each. All shares carry the same voting rights and the same rights to a share of the Company's assets.

Lundin Petroleum had at the end of 2009 a total of 41,652 shareholders listed with Euroclear Sweden (formerly VPC), out of which 91.3 percent were physical persons and 8.7 percent were legal entities. In terms of holding, 15 percent of the share capital was held by physical persons and 85 percent by legal entities. The Swedish resident shareholders represented 95.9 percent of all shareholders of the Company and together held 44.1 percent of the share capital. 63.3 percent of the shareholders held 500 shares or less and accounted for 1.5 percent of the share capital. The ten largest shareholders of the Company together held 46.1 percent of the share capital. Lundin Petroleum AB itself further held 4,490,300 of its own shares representing 1.4 percent of the share capital.

Additional information regarding the shares and shareholders of Lundin Petroleum in 2009 can be found on pages 41-43.

## THE GENERAL MEETING OF THE SHAREHOLDERS

The General Meeting of Shareholders is the highest decision-making body within Lundin Petroleum where the shareholders may exercise their voting rights and may influence the operations of the Company. The AGM is to be held each year before the end of June at the seat of the Board in Stockholm. The notice of the AGM, which is to be given no more than six and no less than four weeks prior to the meeting, is to be announced in the Post- och Inrikes Tidningar (the Swedish Gazette) and in Svenska Dagbladet. The documentation for the AGM is provided on the Company's website in Swedish and in English at the latest two weeks before the AGM.

The tasks of the AGM include the adoption of the annual accounts and appropriation of the Company's result, discharge of the Board members and the CEO from liability, election of the members of the Board and the auditors and deciding upon the remuneration of the Board, management and the auditors. The Board members are nominated in accordance with the nomination process adopted by the AGM of the previous year and are elected by the AGM for one year periods.

Extraordinary General Meetings ("EGM's") are held as and when required for the operations of the Company.

According to the Code, the Chairman of the Board, and as many Board members as are required for a quorum, are to be present at General Meetings of Shareholders, which entails more than half of the Board members. The CEO is also to be present at General Meetings of Shareholders. At an AGM, at least one member of the Company's Nomination Committee, at least one of the Company's auditors and to the extent possible, each member of the Board, are in addition to be present.

### The 2009 AGM

The 2009 AGM was held on 13 May 2009 at the Skandia movie theatre in Stockholm. The AGM was attended by 345 shareholders representing 49.2 percent of the share capital. The Chairman of the Board, all Board members, with the exception of one member, and the CEO were present, as well as the Company's auditors and all Nomination Committee members, with the exception of one member.

The 2009 AGM resolved, in accordance with the proposal of the Nomination Committee, that the Board of the Company shall until the next AGM consist of seven members, without any deputy members. The AGM resolved to re-elect Ian H. Lundin, Magnus Unger, William A. Rand, Lukas H. Lundin, C. Ashley Heppenstall and Asbjørn Larsen as Board members, and to elect Dambisa F. Moyo as a new member. It also decided to re-elect Ian H. Lundin as the Chairman of the Board and to elect PricewaterhouseCoopers AB as auditor with the authorised public accountant Bo Hjalmarsson as auditor in charge for the period until the 2013 AGM. In addition to matters such as granting discharge from liability to the Board and the CEO and approving the accounts, the AGM approved an amendment to the Articles of Association. The AGM further decided to authorise the Board to issue new shares and/or convertible debentures corresponding to in total not more than 35,000,000 new shares, with or without the application of the shareholders pre-emption rights, in order to enable the Company to raise capital for the Company's business operations and business acquisitions. The Board was further authorised to decide on repurchases and sales of the Company own shares on the NASDAQ OMX Stockholm, where the number of shares held in treasury from time to time shall not exceed five percent of all outstanding shares of the Company.

The minutes of the 2009 AGM are available in Swedish and in English on the Company's website.

### EGM in respect of the spin-off of the Company's UK business

An EGM was held on 22 March 2010 at Näringslivets hus in Stockholm. The EGM was attended by 149 shareholders representing 46.8 percent of the share capital. The Chairman of the Board and two other Board members, including the CEO, were present, as well as the Company's auditors. However, four out of seven Board members were unable to attend due to previous commitments, which thus led to a deviation from the Code.

The EGM resolved to approve the sale of Lundin North Sea B.V. to a newly formed UK company called EnQuest plc ("EnQuest") in exchange for such number of shares of EnQuest as will be equal to 55 percent of the total outstanding shares of EnQuest, and resolved on a dividend to the effect that all of Lundin Petroleum's shares in EnQuest, corresponding to approximately 55 percent of the total number of shares in EnQuest, are distributed to the shareholders of Lundin Petroleum, including authorisation to the Board to decide upon the record date for the right to receive shares in EnQuest. For further information regarding this transaction, please see page 20.

The minutes of the EGM are available in Swedish and in English on the Company's website.

## THE NOMINATION COMMITTEE

The tasks of the Nomination Committee include making recommendations to the AGM regarding the election of the Chairman and other Board members, fees for the Chairman and other the Board members, including fees for Board committee work, election of auditors, fees for the auditors, election of the Chairman at the AGM and principles for appointment of the Nomination Committee for the AGM of the following year. The Nomination Committee members are, regardless of how they are appointed, required to promote the interests of all shareholders of the Company. The majority of the members are to be independent of the Company and the Management and at least one is to be independent of the major shareholder of the Company. The Chairman of the Nomination Committee shall not be a Board member and if more than one Board member is appointed as a member of the Committee, only one of them may be non-independent of the Company's major shareholders.

In furtherance of the Nomination Committee's responsibility to propose members to the Board to the AGM, the Chairman of the Board undertakes each year an evaluation of the work of the Board and its members and presents the results and conclusions to the Nomination Committee. No remuneration is paid to the Chairman or any other Committee member for their work on the Nomination Committee.

### The Nomination Committee for the 2010 AGM

In accordance with the principles resolved by the 2009 AGM, the Nomination Committee for the 2010 AGM consists of a total of five members, representing four of the larger shareholders of the Company; KG Lindvall of Swedbank Robur Funds, Ossian Ekdahl of the First Swedish National Pension Fund, Ulrika Danielson of the Second Swedish National Pension Fund, Ian H. Lundin of Lorito Holdings (Guernsey) Ltd., Landor Participations Inc. and Zebra Holdings and Investment (Guernsey) Ltd., also Chairman of the Board of Lundin Petroleum, and Magnus Unger, a non-executive Board member who acts as the Chairman of the Committee. Magnus Unger was again unanimously elected as Chairman, a function that he has held since the Nomination Committee formed for the 2006 AGM, although this constitutes a deviation from the Code. Due to developments during the year, he is no longer deemed to be independent of the Company's major shareholders, as explained in the schedule on page 35, which leads to a deviation from the Code.

The names of the members of the Nomination Committee were announced and posted on the Company's website on 25 September 2009. The Nomination Committee held three meetings during the year, where one resolution was passed by way of a circular resolution, and informal contacts took place between such meetings. The report of the Nomination Committee regarding its work and proposals for the 2010 AGM will be published on the Company's website together with the notice of the AGM. The Nomination Committee for the 2010 AGM represents approximately 40 percent of the share capital of the Company.

## THE BOARD OF DIRECTORS

### 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 with a maximum of three deputies. As mentioned above, seven board members were elected at the 2009 AGM and no deputy directors. The CEO of the Company, C. Ashley Heppenstall, is also a member of the Board. There are no members appointed by employee organisations. The Board members are appointed for a one year period until the next AGM.

The composition of the Board elected at the 2009 AGM meets the independence requirements of the Code in respect of independence towards the Company and the Management and towards the Company's major shareholders. The Chairman of the Board is not employed by the Company, does not receive any salary from the Company and is not eligible for participation in the Company's incentive programmes. The Chairman upholds the reporting instructions for Management, as drawn up by the CEO and as approved by the Board of Directors, however, he does not take part in the day-to-day decision-making concerning the operations of the Company.

## The Functions of the Board

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

» Decisions regarding the focus of the business and adoption of Company policies
» Decisions regarding supply of capital
» Appointment and regular evaluation of the work of the CEO and the Management
» Approval of the reporting instructions for the 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 established goals
» 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 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 further ensures that there is systematic and structured evaluation of its work on an annual basis.

## The Rules of Procedure of the Board

The Board has established a set of rules, the Rules of Procedure, to outline the work of the Board. The Rules of Procedure set out the details regarding how the Board is to conduct its work, including the number of Board meetings and the division of duties within the Board. The Rules of Procedure also include instructions to the Company's CEO, instructions for the financial reporting to the Board and the terms of reference of the Board Committees. The Rules of Procedure are conform to the Code and are updated to take into account changes in legislation, as well as the structure and business of the Company, as and when required. The Rules of Procedure are adopted annually by the Board.

## Board Meetings and Work

The Board of Directors generally 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 assets, formation of subsidiaries and increases in capital of subsidiaries, loans and guarantees and structural and organisational matters)
» Miscellaneous issues of material importance to the Company

During 2009, eight board meetings took place, including the statutory meeting, and a field trip to Russia was organised. In addition, one executive session was held whereby the Board was given the opportunity to interact directly with Management. At the executive session, an operational up-date and a financial overview were given, as well as a Corporate Responsibility report including HSE issues. Senior executives further attended a number of Board meetings to present and report on specific questions, as and when required.

The Board's work in 2009 included strategic discussions on proposed asset disposals and acquisitions and on new licence applications. The Board monitored the Company's operations and financial position on a continuous basis and resolved to change the Company's presentation currency, in respect of the consolidated accounts, from SEK to USD. The Board also considered the Company's participation in the United Nations Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with certain principles in the areas of human rights, labour, environment and anti-corruption, and resolved that the Company should join the initiative. The Board further regularly received updates from Management on the 2009 operations and financial status and reviewed and approved the 2010 budget and work programme.

The Board is also responsible for evaluating the work of the CEO on a continuous basis and shall at least once a year, without Management present at the meeting, specifically consider this issue. In 2009, the Compensation Committee, on behalf of the Board, undertook a review of the work and performance of Group Management, including the CEO, and presented the results thereof at a Board meeting. Neither the CEO nor other Management were present at the Board meeting during these discussions.

## Evaluation of the Board's Work

A formal review of the work of the Board was conducted in 2009. Through a questionnaire submitted to all Board members, different aspects of the Board's work were considered including the composition of the Board, the number of Board meetings, the skills and background of the Board, composition of Board Committees, working procedures and information provided to the Board. The results and conclusions were presented to the Nomination Committee. The overall conclusions from the review process were the following:

» Board structure:
The Board as a whole possesses the right skills and background for addressing issues facing the Company and the existing composition of the Board, including the current Committee structure, is appropriate.
» Board meetings:
The number of Board meetings is sufficient, the meetings are chaired effectively and the time at the meetings is used efficiently, the meetings are well planned and the Board receives adequate materials in advance of the meetings.
» Other:
Information provided between meetings is adequate and timely and the staff and related support to the Board and the Committees functions adequately.

### Remuneration of Board Members

The remuneration of the Chairman and other Board members follows the resolution adopted by the AGM. The 2009 AGM decided that the Board shall receive a total compensation equal to SEK 3,500,000. The Chairman was awarded an amount of SEK 800,000 and each other Board member, with the exception of the CEO, an amount of SEK 400,000. The AGM further decided to award SEK 100,000 for each Board Committee assignment, however, limited to a total of SEK 700,000 for Committee work.

The remuneration of the Board of Directors is detailed further in the schedule below and in the notes to the Annual Report – see Note 42 on page 80.

## THE BOARD COMMITTEES

The Board has established a Compensation Committee and an Audit Committee. The terms of references of each Committee are included in the Rules of Procedure of the Board, which are adopted annually by the Board.

### Compensation Committee

The function of the Compensation Committee is to receive information on, and determine matters regarding, the compensation of the CEO and other executives of the Company. The objective of the Committee in determining compensation for executives is to provide a compensation package that is competitive and motivating, will attract and retain qualified executives and will encourage and promote performance.

The Committee shall according to the terms of reference be composed of four non-executive Directors. The Chairman of the Board may chair the Compensation Committee. The other Committee members are to be independent of the Company and its executive Management. The Company's Compensation Committee for the year 2009 was not chaired by the Chairman of the Board and was also in other respects in compliance with these requirements.

The members of the Compensation Committee were William A. Rand, Chairman of the Committee, Lukas H. Lundin, Magnus Unger and Dambisa F. Moyo. The Compensation Committee held three meetings in 2009.

### Audit Committee

The function of the Audit Committee is to assist the Board in ensuring that the Company's financial reports are prepared in accordance with all laws and accounting practices applicable to a company listed on the NASDAQ OMX Stockholm. The Audit Committee is to supervise the Company's financial reporting and the efficiency of the Company's internal controls, internal audit and risk management. The Audit Committee therefore reviews, on behalf of the Board, the Company's quarterly (Quarter 1 and Quarter 3) interim financial statements, reviews and makes recommendations to the Board in relation to the Company's six month and yearly financial statements, reviews the audit fees, ensures maintenance of, and compliance with, the Company's internal control systems and regularly liaises with the Group's external auditors as part of the annual audit process.

The Audit Committee shall according to the terms of reference be composed of three non-executive Directors, the majority of which shall be independent of the Company and the executive Management. At least one member of the Committee is also to be independent of the Company's major shareholders. The Company's Audit Committee for the year 2009 was in compliance with these requirements.

The members of the Audit Committee were William A. Rand, Chairman of the Committee, Magnus Unger and Asbjørn Larsen. The Audit Committee held six meetings in 2009.

### Board and Committee Meeting Attendance and Remuneration

| Name | Board of Directors | Audit Committee | Compensation Committee | Total remuneration for Board and Committee work[1] |
|---|---|---|---|---|
| Ian H. Lundin | 8/8 | | | SEK 800,000 |
| C. Ashley Heppenstall | 7/8 | | | SEK – |
| Lukas H. Lundin | 7/8 | | 3/3 | SEK 558,000 |
| William A. Rand | 8/8 | 5/6 | 3/3 | SEK 600,000 |
| Magnus Unger | 8/8 | 6/6 | 3/3 | SEK 600,000 |
| Asbjørn Larsen | 5/8 | 5/6 | | SEK 450,000 |
| Dambisa F. Moyo[2] | 5/5 | | 1/1 | SEK 292,000 |

[1] The total remuneration paid in one financial year may not coincide in all instances with the fees resolved by the AGM due to e.g. timing differences in the accrual and payment of Board fees and Board and/or Committee memberships that arise or change during the year.

[2] Dambisa F. Moyo has been a member of the Board and the Compensation Committee as from 13 May 2009.

## THE MANAGEMENT AND THE AUDITOR

### Management and Company structure

The President and CEO of the Company, who is also a member of the Board of Directors, is responsible for the management of the day-to-day operations of Lundin Petroleum. The CEO reports to the Board and is responsible for ensuring that the Board receives, in accordance with the Board's instructions to the CEO, all relevant information to ensure that the Board's decisions are well-founded. The CEO is assisted in his functions by Group Management.

The main responsibility for the operations of subsidiaries, and for ensuring that all of Lundin Petroleum's internal rules and principles are followed by all Group companies and employees, rests with the manager of each subsidiary (General Manager/ Managing Director), as well as with Group Management. General Managers/Managing Directors regularly report on all commercial, technical, HSE, financial and legal issues to Group Management.

The remuneration of Management in 2009 and the Company's Policy on Remuneration are described in the notes to the Annual Report – see Note 42 on page 80.

### Management Investment Committee

The Board of Directors established the Management Investment Committee in 2009 to assist the Board in investment related decisions. The Investment Committee's tasks include reviewing and evaluating investment proposals, annual budgets, supplementary budget approvals, commitments, relinquishment of licences etc, as well as reviewing and approving the Group's five year Asset Business Plan. The Investment Committee reports to the Board and is composed of the Company's CEO, COO, SVP Operations and CFO.

### Auditor Elected at the 2009 AGM

At the 2009 AGM, the audit firm PricewaterhouseCoopers AB was elected as the auditor of the Company for the period until the 2013 AGM. The auditor in charge is the authorised public accountant Bo Hjalmarsson. The Audit Committee liaises with the Company's auditors on a continuous basis during the year and in addition, the Board of Directors meets at least once a year with the auditors without Management, including the CEO, present at the meeting.

The Auditor's fees are described in the notes to the Annual Report – see Note 8 on page 68.

### Board of Directors

| Name | Function | Elected | Audit Committee | Compensation Committee | Independent of the Company and the executive Management | Independent of the Company's major shareholders |
|---|---|---|---|---|---|---|
| Ian H. Lundin | Chairman | 2001 | | | Yes[1] | No[2] |
| C. Ashley Heppenstall | President & CEO | 2001 | | | No[3] | No[3] |
| Lukas H. Lundin | Director | 2001 | | Yes | Yes | No[4] |
| William A. Rand | Director | 2001 | Yes | Yes | Yes | No[5] |
| Magnus Unger | Director | 2001 | Yes | Yes | Yes | No[6] |
| Asbjørn Larsen | Director | 2008 | Yes | | Yes | Yes |
| Dambisa F. Moyo | Director | 2009 | | Yes[7] | Yes | Yes[8] |

[1] Ian H. Lundin has been regularly retained by Management to perform remunerated work duties which fall outside the scope of the regular work of the Board, e.g. in connection with the Company's major transactions. It is the Nomination Committee's opinion that despite his work, he remains independent of the Company and the executive Management.

[2] Ian H. Lundin is the settler of a trust that owns Landor Participations Inc., an investment company that holds 12,038,956 shares in the Company, and he is a member of the Lundin family that holds, through a family trust, Lorito Holdings (Guernsey) Ltd. which holds 76,342,895 shares in the Company and Zebra Holdings and Investment (Guernsey) Ltd which holds 10,844,643 shares in the Company.

[3] C. Ashley Heppenstall is the President & CEO of Lundin Petroleum.

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

[5] William A. Rand is in the Nomination Committee's opinion not deemed independent of the Company's major shareholders since he holds directorships in a number of listed companies in which the Lundin family, through a family trust, holds ten percent or more of the share capital and voting rights.

[6] Magnus Unger is in the Nomination Committee's opinion not deemed independent of the Company's major shareholders since he holds directorships in a number of listed companies in which the Lundin family, through a family trust, holds ten percent or more of the share capital and voting rights.

[7] Dambisa F. Moyo has been a member of the Board and the Compensation Committee as from 13 May 2009.

[8] Dambisa F. Moyo is a board member of the Lundin for Africa Foundation, a Canadian registered charity founded by the Lundin family. It is the Nomination Committee's opinion that despite her directorship in this charitable foundation, Dambisa F. Moyo remains independent of the Company's major shareholders.

## INTERNAL CONTROL AND RISK MANAGEMENT OF FINANCIAL REPORTS

According to the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for the internal control of the Company. This section, which is not part of the formal financial statements, has been prepared in accordance with the Code and is accordingly limited to internal control and risk management regarding financial reporting. This section describes how internal control over the financial reporting is organised, but does not comment on its effectiveness.

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, as described below, and is based upon the "COSO Framework", which is the generally accepted framework for internal control 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 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)

Through the Code of Conduct adopted by the Board in 2001, 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 shall operate. The Board has further approved an anti-fraud policy in 2005 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 Company's processes and application thereof. The Company is constantly reviewing and developing the existing delegation of authority levels to ensure that they reflect the realisation of the current business needs and objectives. A whistleblowing policy was adopted during 2008 to complement the anti-fraud policy through the provision of a mechanism whereby suspected fraud or other impropriety could be identified. The development and implementation of a Group-wide framework of consistent policies, guidelines and procedures, as part of a strengthening of the management and control function of the Group, has continued in 2009.

The responsibility for maintaining an effective control environment and for operating the system of internal control and risk management is delegated to the CEO and the Group 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 the risk of material error in the financial reporting and accounting systems in the Group. For futher details on the different risks, see the Risk Factors section on page 40.

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 assessed through a standardised methodology based on likelihood and impact and have been Grouped based on the following main categories; revenue and receivables, procurement and payables, production and inventory, capitalised expenditure and fixed assets, tax, treasury and cash management, financial reporting and Information Systems. Following the identification and evaluation of a risk, a control activity is implemented to minimise the risks in the financial reporting process.

### Control Activities

Control activities are 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 Management.

The choice of control activities depends on the nature of the risk identified and the results of a cost-benefit analysis. Developed control activities within Lundin Petroleum include processes for approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets, segregation of duties, policies, guidelines and procedures and Information Systems. 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.

The Group also constantly strives for improvement of its systems and processes.

Lundin Petroleum has a Group Accounting Principles (GAP) manual which has been distributed to all offices. The GAP manual outlines the Group's accounting principles and explains how transactions are to be accounted for and requirements for disclosure. The GAP manual focuses upon the accounting policies to be applied in accordance with International Accounting Standards (IFRS).

In 2009 the Lundin Petroleum Authorisation Guidelines have been completed and an update of the Lundin Petroleum Finance and Administration Manual (FAM) has commenced. The FAM describes the day-to-day financial procedures within the Group. Within the Group, existing policies, guidelines and procedures are subject to constant review.

In February 2009 the Management Investment Committee was established by the Board to assist the Board in discharging the Board's responsibilities in overseeing the Group's investment decisions and to make recommendations to the Board as required. The Management Investment Committee meets at least twice per month.

### Information and Communication

Communicating relevant information throughout all levels of the Group 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 authorising transactions and the system for maintaining records. Lundin Petroleum believes that an awareness of the COSO Framework throughout the organisation stimulates an environment of self control and constant improvement. Information and documentation regarding the financial reporting is communicated to employees, for example, by ensuring that all policies, guidelines and procedures are published and accessible internally.

Regular meetings were held between the senior finance staff and the external auditors during 2009 to discuss accounting policies and procedures and for planning the annual audit and the half year review. The Audit Committee was advised of the content of these meetings as part of the quarterly reporting cycle along with the financial results and principal accounting policies.

### Monitoring

Monitoring of the financial reporting of Lundin Petroleum is carried out by the Board of Directors, Group Management and external auditors and by Lundin Petroleum's Internal Audit function and other employees holding various 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 the financial reporting, as well as changes to these principles. Minutes are taken at all meetings of the Audit Committee and are provided 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 the second and fourth quarter and the annual report. The first and third quarterly reports are reviewed and approved by the Audit Committee.

*External Auditing*

Lundin Petroleum's financial statements are audited by the external auditors on an annual basis and the audit report is included in the annual report. A limited review is carried out on the half year report. The external auditors meet regularly with Group Management and attend the Audit Committee meetings for the review and approval of the half year and year-end financial statements. The external auditors meet the Board of the Company without Management present at least once a year.

*External communications*

In addition to the interim and annual reports, the following information is issued to the public to enable shareholders to monitor the activities of the Company:

- » Press releases on all important matters which could materially affect the share price
- » Presentations, webcasts and telephone conferences for analysts, investors and media representatives on the day of publication of the quarterly and year-end results, and in connection with release of important news
- » Regularly updated information on the Company's website relating to its business and operations

*Internal Control Auditor/Internal audit function*

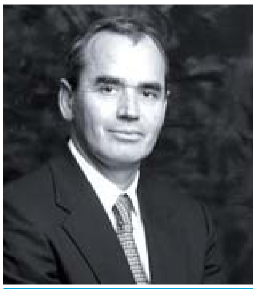
The Internal Control Auditor meets with and reports to the Audit Committee at least twice per year and reviews and assesses the internal controls for financial reporting.

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

### Improving on a continuous basis

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

# BOARD OF DIRECTORS



**Ian H. Lundin**
Director in 2001,
Chairman since 2002,
born 1960

Education: Bachelor of Science degree in Petroleum Engineering from the University of Tulsa.
Main work experience: Ian Lundin was previously CEO of Lundin Oil during 1998–2001 and of Lundin Petroleum during 2001–2002.
Other board duties: Vostok Nafta Investment Ltd and Chairman of Etrion Corporation.

Shares in Lundin Petroleum: nil[1]
Incentive warrants: nil

**C. Ashley Heppenstall**
President and CEO,
director since 2001,
born 1962

Education: Bachelor of Science degree in Mathematics from the University of Durham.
Main work experience: Ashley Heppenstall was previously CFO of Lundin Oil during 1998– 2001 and of Lundin Petroleum during 2001–2002.
Other board duties: Etrion Corporation.

Shares in Lundin Petroleum: 1,368,250
Incentive warrants: 200,000

**Asbjørn Larsen**
Director since 2008,
born 1936

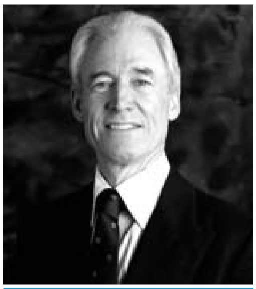
Education: Norwegian School of Economics and Business Administration (NHH).
Main work experience: Asbjørn Larsen was President and CEO of Saga Petroleum from 1979 to 1998.
Other board duties: Chairman of Belships ASA, vice Chairman of Saga Fjordbase AS. Member of the board of Selvaag Gruppen AS, GreenStream Network Oyj, Montebello Cancer Rehabilitation Center Foundation and the Tom Wilhelmsen Foundation.

Shares in Lundin Petroleum: nil
Incentive warrants: nil

**Lukas H. Lundin**
Director since 2001,
born 1958

Education: Graduate from the New Mexico Institute of Mining, Technology and Engineering.
Main work experience: Lukas Lundin has held several key positions within the Lundin group of companies.
Other significant board duties: Chairman of Red Back Mining Inc., Lundin Mining Corporation, Denison Mines Corp., NGEx Resources Inc., Atacama Minerals Corp. and Vostok Nafta Investments Ltd. Chairman and CEO of Lucara Diamond Corp., President and CEO of Fortress Minerals Corp.

Shares in Lundin Petroleum: 1,221,845
Incentive warrants: nil



**William A. Rand**
Director since 2001,
born 1942

Education: Commerce degree (Honours Economics) from McGill University and a law degree from Dalhousie University. Master of Laws degree in International Law from the London School of Economics.
Main work experience: William Rand practised law in Canada until 1972, after which he co-founded an investment company and pursued private business interests.
Other significant board duties: Lundin Mining Corp., Vostok Nafta Investment Ltd., Denison Mines Corp., New West Energy Services Inc., NGEx Resources Inc. and Dome Ventures Corporation.

Shares in Lundin Petroleum: 120,441
Incentive warrants: nil

**Magnus Unger**
Director since 2001,
born 1942

Education: MBA from the Stockholm School of Economics.
Main work experience: Magnus Unger was an Executive Vice President within the Atlas Copco Group during 1988-1992.
Other board duties: Chairman of Clean Tech East Holding AB, Bukowski AB and CAL-Konsult AB.

Shares in Lundin Petroleum: 50,000
Incentive warrants: nil

**Dambisa F. Moyo**
Director 2009,
born 1969

Education: Doctorate in Economics at Oxford University. Masters from Harvard University's Kennedy School of Government. MBA in Finance and Bachelors in Chemistry from the American University in Washington D.C.
Main work experience: Dambisa Moyo worked as a consultant for the World Bank during 1993-1995 and at Goldman Sachs during 2001-2008.
Other board duties: SABMiller, Lundin for Africa Foundation and Room to Read.

Shares in Lundin Petroleum: nil
Incentive warrants:nil

[1] Landor Participations Inc. holds 12,038,956 shares in Lundin Petroleum. Landor Participations Inc. is an investment company wholly owned by a trust whose settler is Ian H. Lundin.

All shareholdings are as at 31 December 2009

# MANAGEMENT

**C. Ashley Heppenstall**
President and CEO, director since 2001, 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 of Directors on page 38

**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 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 masters degree in Geophysics.

Shares in Lundin Petroleum: 205,632
Incentive warrants outstanding: 175,000

**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: 55,000
Incentive warrants outstanding: 75,000

**Chris Bruijnzeels**
Senior Vice President Operations, born 1959

Chris Bruijnzeels joined Lundin Petroleum in 2003. He is responsible for operations and development within 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: 10,000
Incentive warrants outstanding: 25,000

**Christine Batruch**
Vice President Corporate Responsibility, born 1959

Christine Batruch has been with Lundin Petroleum since 2001. She is responsible for Lundin Petroleum's strategy in HSE and government, community and stakeholder relations. 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: 7,942
Incentive warrants outstanding: 10,000

**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. He is also a member of the Association of International Petroleum Negotiators.

Shares in Lundin Petroleum: nil
Incentive warrants outstanding: 30,000

All shareholdings are as at 31 December 2009

# RISK FACTORS

The major risk the Lundin Petroleum 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 maximising 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.

## 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 pages 24–29 Corporate Responsibility for more information.

## 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 comply 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 natural 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 natural gas include price and 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 programmes 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

Financial risks such as fluctuations in currency rates, oil price, interest rates, liquidity risk and credit risk as well as derivative instruments used has been described in Note 19 on page 75 in the financial report.

Risks in the financial reporting are described in the Internal Control Report on pages 36–37, and in Market Overview on pages 9–11.

# THE LUNDIN PETROLEUM SHARE AND SHAREHOLDERS

## Lundin Petroleum share

Lundin Petroleum's shares are listed on the Large Cap list of the Nasdaq OMX ("OMX") Stockholm in Sweden. Lundin Petroleum's share is part of the OMX 30 index, at the OMX in Stockholm, Sweden.

## Trading and market capitalisation

Trading of Lundin Petroleum shares takes place on the OMX. Lundin Petroleum's market capitalisation as at 31 December 2009 was MSEK 17,994.

## Liquidity

During the year a total of 424,167,151 shares were traded on the OMX to a value of approximately MSEK 22,878.4. A daily average of 1,689,909 Lundin Petroleum shares with a weighted average value of MSEK 91.1 were traded on the OMX in Stockholm.

## Share capital and voting rights

The registered share capital at 31 December 2009 amounts to SEK 3,179,106 represented by 317,910,580 shares of quota 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.

## Long Term Incentive Plan

As part of the remuneration package to employees, the Group operate a long term incentive plan (LTIP). The LTIP up to and including 2007 included the granting of incentive warrants and are detailed in Note 42-43. The number of outstanding incentive warrants as at 31 December 2009 amounted to 1,410,750 and are shown in the table. The outstanding incentive share warrants represents a dilution of 0.4 percent if all are exercised, although at 31 December 2009, the exercise price was in excess of the prevailing share price. The LTIP for 2007 also included a Share Option Plan which is detailed in Note 42-43. Lundin Petroleum's maximum potential obligation under this plan is the award of 46,140 shares.

| | 2007 programme |
|---|---|
| Exercise price (SEK) | 78.05 |
| Number authorised | 3,950,000 |
| Number outstanding | 1,410,750 |
| Exercise period | 1 Dec 2008 – 31 May 2010 |

## Own purchased shares

The Annual General Meeting (AGM) of Lundin Petroleum held on 13 May 2008 resolved to authorise the Board of Directors to decide on the repurchase and sale of Lundin Petroleum shares on the OMX during the period until the next AGM. The maximum number of shares that can be repurchased and held in treasury from time to time cannot exceed five percent of all shares of Lundin Petroleum. The purpose of the authorisation is to provide the Board of Directors with an instrument to optimise Lundin Petroleum's capital structure and to secure Lundin Petroleum's costs in relation to the LTIP. The AGM held on 13 May 2009 renewed this authorisation for the Board of Directors.

In June 2007, Lundin Petroleum acquired 68,000 of its own shares to fully hedge its potential obligation under the 2007 Performance Share Plan.

In June 2008, Lundin Petroleum acquired 797,000 of its own shares to fully hedge its potential cash obligation under the 2008 LTIP.

On 16 September 2008 the Board of Directors resolved to mandate the management to execute repurchases of Lundin Petroleum shares on OMX. Under this mandate Lundin Petroleum acquired 3,625,300 of its own shares during September and October 2008.

The total number of repurchased shares held by Lundin Petroleum at 31 December 2009 amounted to 4,490,300.

## AGM resolution

During the AGM in 2009 it was resolved that the Board of Directors is authorised to issue no more than 35,000,000 new shares, without the application of the shareholders pre-emption rights, in order to enable the Company to raise capital for the Company's business operations and business acquisitions. If the authorisation is fully utilised the dilution effect on the share capital will amount to 10.0 percent.

## Share data

Since Lundin Petroleum was incorporated in May 2001 and up to 31 December 2009 the Parent Company share capital has developed as shown below.

| 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 | November 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 | 2,515,255 |
| 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 |
| Incentive warrants | 2007 | 0.01 | 1,335,500 | 315,550,580 | 3,155,506 |
| Incentive warrants | 2008 | 0.01 | 2,360,000 | 317,910,580 | 3,179,106 |
| **Total** | | | **317,910,580** | **317,910,580** | **3,179,106** |

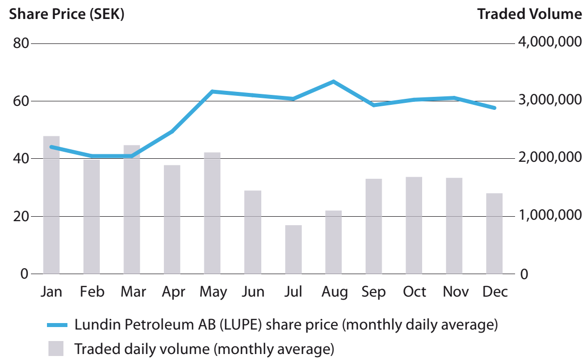
## Dividend policy

Lundin Petroleum's primary objective is to add value to the shareholders, employees and society through profitable operations and growth. This 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.

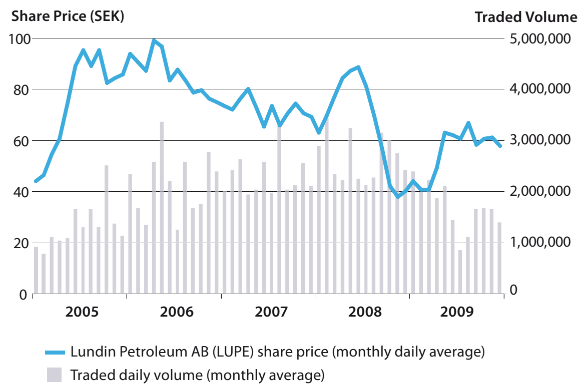
The size of any dividend would have to be determined by Lundin Petroleum's financial position and the possibilities for growth through profitable investments. Dividends will be paid when Lundin Petroleum generates sustainable cash flow and net income from operations to maintain long-term financial strength 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.

## Share Price 2009




## Share Price 2005–2009




## Distribution of shareholdings

Distribution of shareholdings in Lundin Petroleum as provided by Euroclear, 31 December 2009.

| Size categories as at 31 Dec 2009 | Numbers of shareholders | Percentage of shares,% |
|---|---|---|
| 1-500 | 26,378 | 1.5 |
| 501-1,000 | 6,667 | 1.8 |
| 1,001-10,000 | 7,428 | 7.2 |
| 10,001-50,000 | 812 | 5.6 |
| 50,001-100,000 | 126 | 2.8 |
| 100,001- 500,000 | 153 | 10.3 |
| 500,001 - | 88 | 70.8 |
| **Total** | **41,652** | **100.0** |

## Share ownership structure

Lundin Petroleum had 41,652 shareholders by 31 December 2009. The proportion of shares held by institutional investors amounted to 85.0 percent. Foreign investors held 56.0 percent of the shares.

| The 15 largest shareholders provided by VPC, as at 31 Dec 2009 | Numbers of shares | Subscription capital/votes,% |
|---|---|---|
| Lorito Holdings (Guernsey) Ltd | 76,342,895 | 24.0 |
| Swedbank Robur | 12,975,718 | 4.1 |
| AMF Pensionsförsäkring | 12,187,956 | 3.8 |
| Landor Participations Inc. | 12,038,956 | 3.8 |
| Zebra Holdings and Investment (Guernsey) Ltd | 10,844,643 | 3.4 |
| LGT Bank in Liechtenstein Ltd | 5,779,083 | 1.8 |
| SEB Investment Management | 5,662,198 | 1.8 |
| Fjärde AP-fonden | 4,766,090 | 1.5 |
| Lundin Petroleum AB | 4,490,300 | 1.4 |
| Andra AP-fonden | 4,370,305 | 1.4 |
| Handelsbanken fonder | 3,873,501 | 1.2 |
| Folksam – KPA – Förenade Liv | 3,567,478 | 1.1 |
| Första AP-fonden | 3,079,091 | 1.0 |
| Nordea Investment Funds | 2,916,995 | 0.9 |
| Skandia Fonder | 2,879,918 | 0.9 |
| Other shareholders | 152,135,453 | 47.9 |
| **Total** | **317,910,580** | **100.00** |

- The 15 largest shareholders are registered with the Euroclear AB, the Swedish Securities Register Center
- Lorito Holdings (Guernsey) Ltd. holds 76,342,895 shares in Lundin Petroleum. Lorito Holdings (Guernsey) Ltd. is an investment company wholly owned by a Lundin family trust.
- Landor Participations Inc. holds 12,038,956 shares in Lundin Petroleum. Landor Participations Inc. is an investment company wholly owned by a trust whose settler is Ian H. Lundin.
- Zebra Holdings and Investment (Guernsey) Ltd. holds 10,844,643 shares in Lundin Petroleum. Zebra Holdings and Investment (Guernsey) Ltd. is an investment company wholly owned by a Lundin family trust.

## Data per share

| Data per share | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Shareholders' equity SEK per share [1] | 25.93 | 36.49 | 35.02 | 33.63 | 14.32 |
| Operating cash flow SEK per share [2] | 11.48 | 12.96 | 9.91 | 8.05 | 10.22 |
| Cash flow from operations SEK per share [3] | 11.79 | 12.56 | 9.97 | 7.35 | 9.89 |
| Earnings SEK per share [4] | -9.22 | 1.77 | 3.04 | 2.86 | 3.89 |
| Earnings SEK per share fully diluted [5] | -9.22 | 1.77 | 3.03 | 2.85 | 3.87 |
| EBITDA SEK per share fully diluted [6] | 11.74 | 12.29 | 9.67 | 9.68 | 10.83 |
| Dividend per share | – | – | – | – | – |
| Quoted price at the end of the financial year (regards the parent company), SEK | 56.60 | 41.00 | 67.50 | 79.50 | 85.00 |
| Number of shares issued at year end | 317,910,580 | 317,910,580 | 315,550,580 | 314,215,080 | 257,140,166 |
| Number of shares in circulation at year end | 313,420,280 | 313,420,280 | 315,550,580 | 314,215,080 | 257,140,166 |
| Weighted average number of shares for the year [7] | 313,420,280 | 315,682,981 | 315,020,401 | 280,867,805 | 255,685,730 |
| Weighted average number of shares for the year (fully diluted) [7] | 313,420,280 | 315,682,981 | 315,409,915 | 282,251,337 | 256,974,123 |

[1] the Group's shareholders' equity divided by the number of shares at period end.

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

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

[4] the Group's net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period.

[5] the Group's net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period after considering the dilution effect of outstanding warrants.

[6] the Group's EBITDA divided by the weighted average number of shares for the period after considering the dilution effect of outstanding warrants. EBITDA is defined as operating profit before depletion of oil and gas properties, exploration costs, impairment costs and gain on sale of assets.

[7] the number of shares at the beginning of the period with new issue of shares weighted for the proportion of the period they are in issue.

## Analyst coverage

| Bank/Broker | Analyst | Contact |
|---|---|---|
| ABG Sundal Collier | Oddvar Bjørgan | oddvar.bjorgan@abgsc.no |
| Bank of America Merrill Lynch | Alejandro Demichelis | alejandro.demichelis@baml.com |
| Carnegie | Joakim Kindahl | joakim.kindahl@carnegie.se |
| Cheuvreux | Joakim Ahlberg | jahlberg@cheuvreux.com |
| Collins Stewart | Gordon Gray / Jamie Maddock | Ggray@collinsstewart.com / JMaddock@collinsstewart.com |
| Credit Suisse | Tao Ly / David Mirzai | tao.ly@credit-suisse.com / david.mirzai@credit-suisse.com |
| DnB NOR Markets | Espen Hennie | espen.hennie@dnbnor.no |
| Enskilda Securities | Julian Beer | Julian.beer@enskilda.se |
| GMP | Peter Nicol | peter.nicol@gmpeurope.com |
| Goldman Sachs | Christophor Jost | Christophor.Jost@gs.com |
| Handelsbanken | Anne Gjøen | angj01@handelsbanken.se |
| HQ Bank AB | Alexander Vilval | alexander.vilval@hq.se |
| Macquarie Securities Group | Mark Wilson / Brendan Warn | mark.wilson@maquarie.com / Brendan.warn@macquarie.com |
| Nordea | Christian Kopfer | christian.kopfer@nordea.com |
| Pareto | Thomas Aarrestad | thomas.aarrestad@pareto.no |
| Standard & Poor's | Christine Tiscareno | christine.tiscareno@standardandpoors.com |
| Swedbank Markets | John Helgesson | john.helgesson@swedbank.se |
| Öhman Fondkomission | Oskar Tuwesson | Oskar.Tuwesson@ohman.se |

# FIVE YEAR FINANCIAL SUMMARY

| Income Statement Summary (TSEK) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Operating income | 6,191,069 | 6,393,737 | 5,484,295 | 4,414,506 | 4,190,184 |
| Production costs | -2,299,894 | -2,378,706 | -2,266,911 | -1,575,781 | -1,310,905 |
| Depletion of oil and gas properties | -1,295,061 | -1,032,068 | -997,644 | -776,735 | -753,428 |
| Exploration and impairment costs | -5,639,499 | -1,515,376 | -369,596 | -123,469 | -208,135 |
| **Gross profit** | **-3,043,385** | **1,467,587** | **1,850,144** | **1,938,521** | **1,917,716** |
| Sale of asset | 32,098 | 130,547 | – | – | 192,122 |
| General, administration & depreciation (net) | -212,667 | -136,665 | -168,760 | -107,200 | -96,680 |
| **Operating profit/(loss)** | **-3,223,954** | **1,461,469** | **1,681,384** | **1,831,321** | **2,013,158** |
| Financial investments | 41,889 | -549,643 | 129,127 | 31 | -152,449 |
| Result from share in associated company | -194,399 | 29,298 | – | – | – |
| **Profit/(loss) before tax** | **-3,376,464** | **941,124** | **1,810,511** | **1,831,352** | **1,860,709** |
| Tax | -413,502 | -630,837 | -858,037 | -1,036,917 | -866,734 |
| **Net result** | **-3,789,966** | **310,287** | **952,474** | **794,435** | **993,975** |
| Net result attributable to: | | | | | |
| Shareholders of the parent company | -2,890,510 | 560,011 | 956,953 | 803,005 | 993,507 |
| Minority interest | -899,456 | -249,724 | -4,479 | -8,570 | 468 |
| **NET RESULT** | **-3,789,966** | **310,287** | **952,474** | **794,435** | **993,975** |

| Balance Sheet Summary (TSEK) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Tangible fixed assets | 18,191,679 | 21,124,177 | 16,879,890 | 14,525,270 | 5,827,007 |
| Other non-current assets | 847,453 | 2,026,954 | 1,424,395 | 1,662,651 | 502,474 |
| Current assets | 1,959,097 | 2,129,493 | 2,026,835 | 1,497,490 | 1,432,892 |
| **TOTAL ASSETS** | **20,998,229** | **25,280,624** | **20,331,120** | **17,685,411** | **7,762,373** |
| Shareholders' equity | 8,126,750 | 11,430,988 | 9,705,949 | 8,952,680 | 3,679,616 |
| Minority interest | 677,777 | 1,396,046 | 1,346,164 | 1,615,131 | 3,050 |
| **Total equity** | **8,804,527** | **12,827,034** | **11,052,113** | **10,567,811** | **3,682,666** |
| Provisions | 6,387,910 | 6,087,340 | 4,771,421 | 4,481,496 | 2,087,250 |
| Interest bearing debt | 3,973,326 | 4,339,769 | 2,740,168 | 1,391,063 | 736,151 |
| Current liabilities | 1,832,466 | 2,026,481 | 1,767,418 | 1,245,041 | 1,256,306 |
| **TOTAL SHAREHOLDERS' EQUITY & LIABILITIES** | **20,998,229** | **25,280,624** | **20,331,120** | **17,685,411** | **7,762,373** |

## 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.

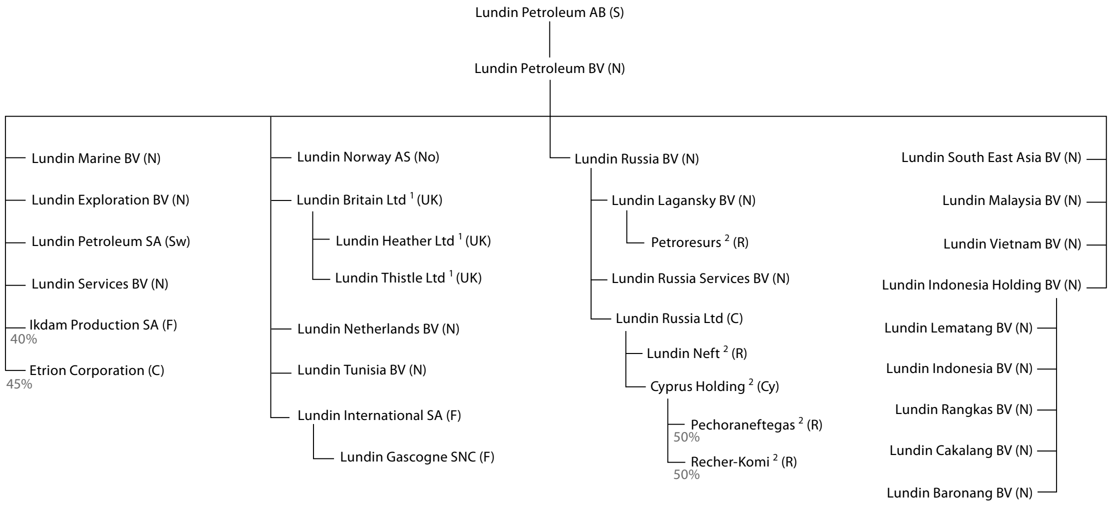
Lundin Petroleum aims to increase hydrocarbon reserves through exploration and acquisitions. Lundin Petroleum will fund acquisitions through a mixture of internally generated funds, third party debt and if necessary, through new equity.

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.

# DIRECTORS' REPORT

LUNDIN PETROLEUM AB (PUBL) REG NO. 556610-8055

### Group Structure as at 31 December 2009




JURISDICTION

| | | | |
|---|---|---|---|
| (C) | Canada | (No) | Norway |
| (Cy) | Cyprus | (R) | Russia |
| (F) | France | (S) | Sweden |
| (N) | Netherlands | (Sw) | Switzerland |
| | | (UK) | United Kingdom |

[1] Sold to EnQuest plc on 6 April 2010

[2] See Group Financial Statements Note 17 and Parent Company Financial Statements Note 6 for full legal names and all subsidiaries

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 (New Market) 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 (now NASDAQ OMX), Stockholm.

On 19 September 2002 the Company completed the acquisition of 95.3 percent of the outstanding shares of Lundin International SA (formerly Coparex International SA) from BNP Paribas. Subsequent acquisitions increased the Company's ownership to 99.86 percent.

On 13 January 2003 the Company completed the acquisition of 75.8 percent of OER oil AS. OER oil AS subsequently acquired interests in two producing fields offshore Norway and a 100 percent interest in OER energy AS (formerly called Aker Energy AS). On 23 November 2004, Lundin Petroleum divested its shareholding in OER oil AS to Endeavour International. On 13 February 2004, Lundin Petroleum completed the acquisition from DNO ASA of its United Kingdom and Irish oil and gas interests. On 17 June 2004, Lundin Petroleum completed the acquisition of certain Norwegian assets from DNO ASA.

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

In February 2008 Lundin Petroleum completed the sale of its wholly owned subsidiary Lundin Latina de Petróleos S.A. to PetroFalcon Corporation ("PetroFalcon") in exchange for approximately 57.3 million shares of PetroFalcon and the acquisition of approximately 6.7 million shares and 5.0 million warrants in PetroFalcon through a private placement. In April 2008, PetroFalcon entered into an agreement to acquire the Venezuelan assets of Anadarko Petroleum Corporation. Lundin Petroleum agreed to guarantee certain of PetroFalcon's obligations under that agreement and received 7.1 million shares of PetroFalcon as consideration. As a result, Lundin Petroleum has become the largest shareholder in PetroFalcon with a 45 percent interest. During the third quarter of 2009, PetroFalcon changed its name to Etrion Corporation (Etrion) and acquired a 90 percent interest in a renewable energy company (Solar Resources Holding Sarl) which will be Etrion's primary business focus going forward. Etrion is a public company listed on the Toronto Stock Exchange with proven and probable reserves of 30.0 MMboe as at 1 January 2010.

In April 2009, Lundin Petroleum completed the sale of its 100 percent owned subsidiaries Lundin Kenya B.V. and Lundin East Africa B.V., holding the Group's Kenyan and Ethiopian assets, to Africa Oil Corporation (AOC).

In July 2009, Lundin Petroleum sold its 50 percent shareholding in CJSC Oilgaztet (Oilgaztet), holding the Ashirovskoye field in the Orenburg region. In November 2009, Lundin Petroleum sold its 51 percent shareholding in CJSC Kalmeastern (Kalmeastern), the company holding the operated onshore production assets in Kalmykia, Russia.

The address of Lundin Petroleum AB's 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 United Kingdom 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. In 2007 further reserves were acquired through the acquisition of CARR.

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.

## EUROPE

### Norway

The net production to Lundin Petroleum for the twelve month period ended 31 December 2009 from the Alvheim field (Lundin Petroleum working interest (WI) 15%), offshore Norway, was 13,800 barrels of oil equivalent per day (boepd). The Alvheim field, which came onstream in June 2008, has performed above expectations for the period despite a number of unplanned shutdowns associated with various facilities related issues. Development drilling for Phase 1 of the Alvheim project was successfully completed and Phase 2 which involves the drilling of a further three multi-lateral wells will commence in 2010. The cost of operations for the Alvheim field averaged below USD 5 per barrel for the period and is expected to remain at approximately this level for 2010. Alvheim reserves again increased during the year primarily as a result of the excellent reservoir performance.

The first two development wells on the Volund field (WI 35%) have been successfully completed. The completed production well was cleaned up and successfully flow tested through the Alvheim FPSO facilities in September. Despite the expansion of capacity on the Alvheim FPSO, the outperformance of the Alvheim field is such that spare capacity on the Alvheim FPSO to accommodate Volund production is not expected until the first half of 2010. Phase 2 of Volund development drilling which involves a further two multilateral wells is currently ongoing. The Volund field is forecast to produce at a plateau rate of 8,700 boepd net to Lundin Petroleum.

In October 2009 a new oil discovery on the Marihøne prospect in PL340 (WI 15%) was announced. The discovery is estimated to contain gross resources of 20 to 30 million barrels of oil equivalent (MMboe) and will likely be developed as a further subsea tieback to the Alvheim FPSO.

In the fourth quarter of 2009, additional discoveries were announced in the Greater Alvheim Area with the drilling of the Viper and South Kneler prospects in PL203 (WI 15%). The Viper discovery is estimated to contain between 5 and 10 million barrels of gross recoverable oil and is also likely to be developed as a subsea tieback to the Alvheim FPSO. South Kneler was a gas discovery which will now be evaluated with the undeveloped Gekko gas discovery located in the same licence.

The Luno discovery in PL338 (WI 50%) was drilled in 2007. In January 2009 the first Luno appraisal well was successfully drilled confirming the extension of the Luno field to the north east. The well was tested at a flow rate of approximately 4,000 bopd. The results of this appraisal well were incorporated into a reserve assessment prepared by the independent reserve auditor Gaffney Cline & Associates (GCA). The reserves auditor has assigned 95 MMboe of gross proven and probable (2P) reserves to the Luno field. In the third quarter of 2009, the original Luno discovery well was re-entered and tested at 5,700 bopd. A second appraisal well on the Luno field was completed in January 2010 encountering an approximate 50 meter oil column with excellent reservoir characteristics. The results of this appraisal well are being incorporated into the reservoir model being used for development planning and will most likely result in an upgrade to the reserves previously assigned by GCA. Conceptual development studies are ongoing for the Luno field to select a development concept by the end of 2010 and a development plan submission in 2011.

An additional discovery in PL338 (WI 50%) was made during the third quarter of 2009 with the drilling of the Luno South prospect. The discovery made in fractured basement reservoir is potentially connected to large volumes of oil in place but will require further work to determine resource potential and commerciality.

Lundin Petroleum has a major exploration acreage position in the Greater Luno Area covering licences PL359 (WI 40%), PL409 (WI 70%), PL410 (WI 70%) and PL501 (WI 40%). In April 2009 a farm out agreement was signed with Statoil covering licences PL359, PL409 and PL410 whereby Statoil will pay a disproportionate share of the costs of the 3D seismic programme and exploration drilling to be carried out in PL359 and PL410. Exploration drilling is currently ongoing on PL359 with the drilling of the Luno High prospect and a further three exploration wells will be drilled in the Greater Luno Area in 2010.

In March 2009 Lundin Petroleum acquired a 40 percent interest in PL301 offshore Norway from Talisman Energy. The licence contains the undeveloped Krabbe oil discovery.

In December 2009 Lundin Petroleum acquired a 10 percent working interest in PL265 in the Greater Luno Area from Talisman Energy Norge AS. PL265 contains the Ragnarrock oil and gas discovery located close to the Luno field.

Exploration wells 2/5-14S in PL006c (WI 75%) targeting the Hyme prospect, 25/10-9 in PL304 (WI 50%) targeting the Aegis prospect, 25/5-6 in PL363 (WI 45%) targeting the Mon prospect, 25/9-3 in PL412 (WI 30%) targeting the Tasta prospect and 6507/11-10 in PL476 (WI 30%) have all been drilled and have all been plugged and abandoned as dry hole.

In January 2010 seven new exploration licences were awarded to Lundin Petroleum in the 2009 Awards in Predefined Areas (APA) round, four of which will be operated by Lundin Petroleum.

### United Kingdom

The net production to Lundin Petroleum averaged 10,200 boepd during the twelve month period ended 31 December 2009 which was above forecast.

Net production from the Broom field (WI 55%) averaged 4,600 boepd during the twelve month period ended 31 December 2009. The Broom reservoir has performed ahead of expectation during the period. However Broom production is currently restricted to one of two production export pipelines to the Heather platform which negatively affects Broom production by up to 1,500 bopd gross. A replacement pipeline will be installed during 2010. An additional Broom development well will be drilled in 2010.

Production from the Heather field (WI 100%) averaged 1,800 boepd during the twelve month period ended 31 December 2009. The Heather field has performed ahead of expectation as a result of gas compressor uptime with a sustained period of two compressor operations.

Net production from the Thistle field (WI 99%) averaged 3,800 boepd during the twelve month period ended 31 December 2009. Production during the period was positively impacted by good water injection performance as a result of improved facilities uptime. Damaged power generation facilities have now been successfully replaced and will ensure continued strong facilities uptime performance. The redevelopment of the Thistle field has commenced with one workover and three new production wells planned for 2010 utilising the rebuilt Thistle platform drilling rig. During 2009 Thistle agreed to provide facilities services to the nearby South West and West Don fields which both came onstream in the first half of 2009. Thistle is expected to receive first oil from the South West and West Don fields in the first quarter 2010 and will receive a tariff for the service which will materially reduce the net Thistle operating costs.

### France
The net production in the Paris Basin (WI 100%) averaged 2,700 boepd and in the Aquitaine Basin (WI 50%) averaged 700 boepd for the twelve month period ended 31 December 2009. Development drilling will commence on the Mimosa licence (WI 50%) in 2010. The Villeseneux exploration well, drilled in 2008 was successfully put on a long-term production test in 2009 and produced 150 boepd.

### The Netherlands
The net gas production from the Netherlands averaged 2,100 boepd for the twelve month period ended 31 December 2009.

The exploration well Vinkega-1 (WI 7.75%) was a discovery and tested flow rates in excess of 40 million cubic feet per day (MMcfd) gross. A development plan is currently under preparation.

The sale of Lundin Petroleum's 1.8 percent shareholding in Nogat B.V. to Venture Production plc for a cash consideration of MSEK 96.4 (MEUR 9.0) was completed in the third quarter 2009.

### Ireland
A licence extension was applied for and granted on Slyne basin licence 04/06, where work continues ahead of planned 3D seismic acquisition. In the fourth quarter of 2009, Lundin Petroleum decided not to enter into the next phase of the Donegal Basin frontier licence 03/06, and the licence was relinquished.

## SOUTH EAST ASIA
### Indonesia
*Salawati Island and Basin (Papua)*
The net production from Salawati (Salawati Island WI 14.5%, Salawati Basin WI 25.9%) was 2,400 boepd for the twelve month period ended 31 December 2009.

Following the successful drilling of the South East Walio-1 exploration well in Salawati Basin, three further appraisal wells have been completed in 2009 with results below expectation.

*Lematang (South Sumatra)*
The development of the Singa gas field (WI 25.9%) is ongoing and the facilities are substantially complete. The first of two production wells is expected to commence production in the first half of 2010. The original Singa gas sales agreement with PT PLN (Persoro), an Indonesian state owned electricity company, was amended in February 2010 incorporating an increased gas price at in excess of USD 5 per million British thermal units (MMbtu) and to allow PT PGN (Persoro), an Indonesian state owned gas distributor, to buy the first three years of Singa gas production. The expected plateau production from the Singa gas field, net to Lundin Petroleum, is approximately 12.5 million standard cubic feet per day (2,000 boepd).

*Rangkas (Java)*
During 2009 a 49 percent interest in the Rangkas block (WI 51%) was farmed out to Carnarvon Petroleum Limited and Tap Oil Limited. A 2D seismic acquisition programme will be completed in 2010.

### Malaysia
A 2,150 $km^2$ 3D seismic acquisition programme on Blocks PM308A (WI 35%), PM308B (WI 75%) and SB303 (WI 75%) was completed in 2009. The seismic data processing is at an advanced stage and will be followed by interpretation work to identify potential drilling targets for the 2011/2012 drilling campaign.

### Cambodia
The 3D seismic acquired in Block E (WI 34%), offshore Cambodia showed limited prospectivity and the licence was relinquished in the fourth quarter of 2009.

### Vietnam
In 2009, the first well of a three well exploration programme was drilled on Block 06/94 (WI 33.33%). However, the Tuong Vi prospect found non-commercial quantities of gas pay and was plugged and abandoned. Two further exploration wells will be drilled in 2010 the first of which will spud in the first half of 2010 on the Hoa Hong-1X prospect.

## RUSSIA
The net oil production from Russia for the twelve month period ended 31 December 2009 was 4,800 boepd after minority interest.

During the first quarter of 2009 an extension to the Lagansky Block licence until 2014 was agreed with the Russian Licensing agency Rosnedra.

During the third quarter of 2009 Lundin Petroleum completed the sale of its 50 percent interest in CJSC Oilgaztet which held the Ashirovskoya field in the Orenburg region, for a cash consideration of MUSD 4.0. During the fourth quarter of 2009 Lundin Petroleum completed the sale of its 51 percent interest in CJSC Kalmeastern which held the Kaspiskoya field in the Republic of Kalmykia, for a cash consideration of MUSD 0.5. Prior to the sales the fields contributed jointly approximately 500 bopd of net production after minority interest.

During the third quarter of 2009, Gunvor Cyprus Holding Ltd ("Gunvor") entered into an agreement to acquire a 30 percent interest in the Lagansky Block with Lundin Petroleum holding the remaining 70 percent interest. Under the terms of the transaction Gunvor becomes a full paying partner in the Lagansky Block from the commencement of the Petrovskaya exploration well. The consideration for the acquisition is USD 30 million plus an additional deferred consideration dependent upon future discoveries and reserves within the Lagansky Block. Lundin Petroleum retains the rights to recover historical costs expended on the Lagansky Block. The transaction is subject to various Russian government approvals.

In the fourth quarter of 2009 the Petrovskaya-1 exploration well was drilled and abandoned as a dry hole. Conceptual development studies are ongoing with respect to the Morskaya field and appraisal drilling will likely commence in 2011 along with further exploration drilling on the Lagansky Block. The results of the 3D seismic acquisition programme in 2009 covering parts of the Lagansky Block indicate further exploration potential.

## AFRICA
### Tunisia
The net oil production from the Oudna field (WI 40%) averaged 1,400 boepd for the twelve month period ended 31 December 2009. Oudna field production continues to outperform expectations.

### Congo (Brazzaville)
The Liyeke Marine-1 exploration well in Block Marine XI (WI 18.75%) drilled in the third quarter of 2009 encountered a heavy oil column and was plugged and abandoned. An appraisal well on the Viodo discovery was completed in the fourth quarter of 2009 as a further oil discovery. The results of the well are currently being reviewed with respect to the development potential of the Viodo field.

In Block Marine XIV (WI 21.55%) a 3D seismic survey was completed in 2009 and exploration drilling will commence in 2010.

### Sudan
In 2009 Lundin Petroleum decided not to enter the second phase of exploration for Block 5B and as a result, exited operations in Sudan.

### Ethiopia/Kenya

In April 2009 Lundin Petroleum completed the sale of its Kenyan and Ethiopian assets to Africa Oil Corporation for a consideration of a convertible loan of MUSD 23.7.

## FUTURE OUTLOOK

Lundin Petroleum is actively pursuing opportunities to further expand its oil and gas portfolio and increasing its reserves through organic growth of producing assets and exploration and exploitation of existing assets complemented by acquisitions. Reference is made to Note 44 in relation to the spin-off of the UK business in 2010.

## 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.

## FINANCIAL RESULT AND CONDITION OF THE GROUP

### Result

Lundin Petroleum reports a net result for the financial year ended 31 December 2009 of MSEK -3,790.0 (MSEK 310.3).

The reported result for the financial year ended 31 December 2009 was affected by the following non-recurring and non-cash items:

| Expressed in MSEK | Result before tax | Tax | Result after tax | Minority interest | Result attributable to Lundin Petroleum |
|---|---|---|---|---|---|
| Reported result | -3,376.5 | -413.5 | -3,790.0 | -899.5 | -2,890.5 |
| Impairment of Russian carrying value | 4,588.5 | -618.4 | 3,970.1 | 761.5 | 3,208.6 |
| Other one off items | | | | | |
| - Etrion impairment | 409.3 | – | 409.3 | – | 409.3 |
| - Sale of Lundin International BV | -211.2 | – | -211.2 | – | -211.2 |
| - Sale of NOGAT | -80.4 | – | -80.4 | – | -80.4 |
| - Sale of Russian onshore fields | 179.1 | – | 179.1 | – | 179.1 |
| Exploration costs | 1,051.0 | -544.1 | 506.9 | 59.8 | 447.1 |
| **Net Result before adjustments** | **2,559.8** | **-1,576.0** | **983.8** | **-78.2** | **1,062.0** |

Net result attributable to shareholders of the Parent Company for the financial year ended 31 December 2009 amounted to MSEK -2,890.5 (MSEK 560.0) representing earnings per share on a fully diluted basis of SEK -9.22 (SEK 1.77) for the financial year ended 31 December 2009.

Operating cash flow for the financial year ended 31 December 2009 amounted to MSEK 3,597.3 (MSEK 4,092.1) representing operating cash flow per share on a fully diluted basis of SEK 11.48 (SEK 12.96) for the financial year ended 31 December 2009.

Earnings before interest, tax, depletion and amortisation (EBITDA) for the financial year ended 31 December 2009 amounted to MSEK 3,678.5 (MSEK 3,878.4) representing EBITDA per share on a fully diluted basis of SEK 11.74 (SEK 12.29) for the financial year ended 31 December 2009.

### Changes in the Group

In April 2009, Lundin Petroleum completed the sale of its 100 percent owned subsidiaries Lundin Kenya B.V. and Lundin East Africa B.V., holding the Group's Kenyan and Ethiopian assets, to Africa Oil Corporation for a consideration of a convertible loan of MUSD 23.7 (MSEK 181.3).

In July 2009, Lundin Petroleum sold the 50 percent shareholding in CJSC Oilgaztet (Oilgaztet) for a cash consideration of MUSD 4.0 (MSEK 27.9). The result of Oilgaztet has been fully consolidated into the Lundin Petroleum consolidated accounts up to the completion of the sale.

In August 2009, Lundin Petroleum entered into an agreement to acquire the 30 percent interest in the Lagansky Block held by a minority partner for MUSD 30.0 (MSEK 209.6) and certain deferred consideration payable on future commercial discoveries and on certain levels of certified reserves within the Lagansky Block. The agreement is subject to applicable Russian government approval. Lundin has advanced the MUSD 30.0 acquisition price to the seller as an interest free loan pending the governmental approval.

In September 2009, Lundin Petroleum entered into an agreement to sell a 30 percent interest in the Lagansky Block to Gunvor Cyprus Holding Ltd (Gunvor) for MUSD 30.0 and certain deferred consideration payable on future commercial discoveries and on certain levels of certified reserves within the Lagansky Block. The agreement is subject to applicable Russian government approval. Lundin has received an advance of the MUSD 30.0 acquisition price from Gunvor as an interest free loan pending the governmental approval. As a result of this transaction, Gunvor will become a full paying partner in respect of its 30 percent interest from commencement of the preparations for drilling the Petrovskaya-1 well. Lundin Petroleum will retain its rights to recover the shareholder loan previously funded 100 percent by it into the Lagansky Block. As a result of the above two transactions Lundin Petroleum will continue to hold 70 percent of the Lagansky Block.

At the end of 2008, Lundin Petroleum owned approximately 45 percent of the issued and outstanding common shares of PetroFalcon Corporation (PetroFalcon). The shareholding in PetroFalcon was accounted for under the equity method whereby only the change in equity is accounted for in the income statement of the Group under the heading Result from share in associated company. During the third quarter of 2009, PetroFalcon changed its name to Etrion Corporation (Etrion) and acquired a 90 percent interest in a renewable energy company which will be Etrion's primary business focus going forward. At the same time, Lundin Petroleum gained control of the board of directors of Etrion, and this, along with the combined shareholding of Etrion by Lundin Petroleum and certain of its directors gave deemed control for accounting purposes to Lundin Petroleum. As a result of this deemed control, Lundin Petroleum is required to fully consolidate the results of Etrion into the Lundin Petroleum consolidated accounts and has done so with an effective date of 30 September 2009.

The effects of the consolidation of Etrion into the Lundin Petroleum accounts are shown in the table below.

| | TUSD | TSEK |
|---|---|---|
| **Carrying value 30 September 2009** | 14,899 | 104,103 |
| **Assigned values upon consolidation** | | |
| Other tangible assets | 460 | 3,217 |
| Other shares and participations | 10,000 | 69,876 |
| Other financial assets | 44 | 307 |
| Other intangible assets | 3,079 | 21,512 |
| Working capital | -418 | -2,909 |
| Goodwill | 674 | 4,708 |
| Cash and cash equivalents | 27,006 | 188,709 |
| Deferred tax provision | -840 | -5,873 |
| Other provisions | -111 | -777 |
| IFRS 2 reserve | -6,225 | -43,501 |
| Minority interest | -18,770 | -131,166 |
| **Total assigned value 30 September 2009** | **14,899** | **104,103** |

In November 2009, Lundin Petroleum sold its 51 percent shareholding in CJSC Kalmeastern, the company holding the operated onshore production assets in Kalmykia, Russia, for a cash consideration of MUSD 0.5 (MSEK 3.6). The result of CJSC Kalmeastern has been fully consolidated into the Lundin Petroleum consolidated accounts up to the date of the completion of the sale.

## Revenue

Net sales of oil and gas for the financial year ended 31 December 2009 amounted to MSEK 6,064.2 (MSEK 6,269.1) and are detailed in Note 1. Production for the financial year ended 31 December 2009 amounted to 14,093.9 (11,842.2) thousand barrels of oil equivalent (Mboe) representing 38.6 Mboe per day (Mboepd) (32.4 Mboepd). The average price achieved for a barrel of oil equivalent for the financial year ended 31 December 2009 amounted to USD 57.16 (USD 87.29). The average Dated Brent price for the financial year ended 31 December 2009 amounted to USD 61.67 (USD 97.26) per barrel.

Other operating income for the financial year ended 31 December 2009 amounted to MSEK 126.9 (MSEK 124.6). This amount includes tariff income from Norway, the United Kingdom, France and the Netherlands and income for maintaining strategic inventory levels in France.

Sales for the financial year ended 31 December 2009 were comprised as follows:

| **Sales**<br>Average price per boe expressed in USD | 2009 | 2008 |
|---|---|---|
| **United Kingdom** | | |
| - Quantity in Mboe | 3,630.8 | 3,523.3 |
| - Average price per boe | 62.83 | 96.41 |
| **France** | | |
| - Quantity in Mboe | 1,277.9 | 1,325.8 |
| - Average price per boe | 60.94 | 92.63 |
| **Norway** | | |
| - Quantity in Mboe | 5,200.1 | 2,385.0 |
| - Average price per boe | 60.48 | 90.45 |
| **Netherlands** | | |
| - Quantity in Mboe | 759.3 | 839.1 |
| - Average price per boe | 50.49 | 70.90 |
| **Indonesia** | | |
| - Quantity in Mboe | 609.4 | 483.4 |
| - Average price per boe | 60.58 | 92.92 |
| **Russia** | | |
| - Quantity in Mboe | 1,976.4 | 1,985.4 |
| - Average price per boe | 37.64 | 62.85 |
| **Tunisia** | | |
| - Quantity in Mboe | 465.5 | 441.0 |
| - Average price per boe | 54.72 | 116.22 |
| **Total** | | |
| - Quantity in Mboe | **13,919.4** | 10,983.0 |
| - Average price per boe | **57.16** | 87.29 |

The oil produced in Russia is sold on either the Russian domestic market or exported into the international market. 40 percent of Russian sales for the financial year ended 31 December 2009 were on the international market at an average price of USD 57.23 per barrel with the remaining 60 percent of Russian sales being sold on the domestic market at an average price of USD 24.67 per barrel.

## Production

| Production | 2009 | 2008 |
|---|---|---|
| **United Kingdom** | | |
| - Quantity in Mboe | 3,743.3 | 3,706.0 |
| - Quantity in Mboepd | 10.2 | 10.2 |
| **France** | | |
| - Quantity in Mboe | 1,249.2 | 1,394.1 |
| - Quantity in Mboepd | 3.4 | 3.8 |
| **Norway** | | |
| - Quantity in Mboe | 5,060.9 | 2,372.1 |
| - Quantity in Mboepd | 13.9 | 6.5 |
| **Netherlands** | | |
| - Quantity in Mboe | 759.3 | 839.1 |
| - Quantity in Mboepd | 2.1 | 2.3 |
| **Indonesia** | | |
| - Quantity in Mboe | 896.3 | 853.3 |
| - Quantity in Mboepd | 2.4 | 2.3 |
| **Russia** | | |
| - Quantity in Mboe | 1,890.0 | 2,091.2 |
| - Quantity in Mboepd | 5.2 | 5.7 |
| **Tunisia** | | |
| - Quantity in Mboe | 494.9 | 586.4 |
| - Quantity in Mboepd | 1.4 | 1.6 |
| **Total** | | |
| - Quantity in Mboe | **14,093.9** | 11,842.2 |
| - Quantity in Mboepd | **38.6** | 32.4 |
| **Minority interest in Russia** | | |
| - Quantity in Mboe | 162.2 | 239.9 |
| - Quantity in Mboepd | 0.4 | 0.7 |
| **Total excluding minority interest** | | |
| - Quantity in Mboe | **13,931.7** | 11,602.3 |
| - Quantity in Mboepd | **38.2** | 31.7 |

Lundin Petroleum has fully consolidated the subsidiaries in Russia over which it has control, with the portion not owned by Lundin Petroleum shown as a minority interest. The average production for Russia for the financial year ended 31 December 2009 adjusted for Lundin Petroleum's share of ownership is 4.8 Mboepd (5.0 Mboepd). Lundin Petroleum sold the two controlled Russian subsidiaries during 2009.

Production quantities in a period can differ from sales quantities for a number of reasons. Timing differences can arise due to inventory, storage and pipeline balances effects. Other differences arise as a result of paying royalties in kind as well as the effects from production sharing agreements.

## Production cost

Production costs for the financial year ended 31 December 2009 amounted to MSEK 2,299.9 (MSEK 2,378.7) and are detailed in Note 2. The reported cost of operations amounted to USD 16.40 per barrel (USD 21.44 per barrel) for the financial year ended 31 December 2009.

Production costs for the financial year ended 31 December 2009 expressed in US dollars were comprised as follows:

| Production cost and depletion in TUSD | 2009 | 2008 |
|---|---|---|
| Cost of operations | 231,089 | 253,933 |
| Tariff and transportation expenses | 31,149 | 32,590 |
| Royalty and direct taxes | 40,987 | 80,738 |
| Changes in inventory/overlift | -4,570 | -3,511 |
| Other | 3,082 | – |
| **Total production costs** | **301,737** | 363,750 |
| | | |
| Depletion | 169,907 | 157,823 |
| **Total** | **471,644** | 521,573 |

| Production cost and depletion in USD per boe | 2009 | 2008 |
|---|---|---|
| Cost of operations | 16.40 | 21.44 |
| Tariff and transportation expenses | 2.21 | 2.75 |
| Royalty and direct taxes | 2.91 | 6.82 |
| Changes in inventory/overlift | -0.32 | -0.30 |
| Other | 0.22 | – |
| **Total production costs** | **21.42** | 30.71 |
| | | |
| Depletion | 12.06 | 13.33 |
| **Total cost per boe** | **33.48** | 44.04 |

Actual cost of operations for the financial year ended 31 December 2009 was 7 percent under forecast in US Dollar terms. This variance in USD terms was mainly attributable to favourable currency exchange rates compared to the forecast. This had the largest impact on the United Kingdom operations where cost of operations was slightly above forecast in GBP terms but was 8 percent lower than forecast in USD terms.

The cost of operations per barrel for the financial year ended 31 December 2009 was significantly lower than for the comparable period of 2008 as a result of the Alvheim field contributing 36 percent of Lundin Petroleum's production for the financial year ended 31 December 2009 compared to 20 percent for the comparable period of 2008 at a cost of operations of less than USD 5 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 10.23 (USD 18.04) per barrel for the financial year ended 31 December 2009. The rate of export duty on Russian oil is revised by the Russian Federation monthly and is dependant on the average price obtained for Urals Blend for the preceding one month period. The export duty is levied on the volume of oil exported from Russia and averaged USD 21.42 (USD 49.73) per barrel for the financial year ended 31 December 2009. The royalty and direct taxes have decreased compared to the comparative period following the fall in crude prices impacting the cost of Russian MRET and export duty which makes up the majority of the overall expense.

As mentioned in the production section, there are both permanent and timing differences that result in sales volumes not being equal to production volumes during a period. Changes to the hydrocarbon inventory and under or overlift positions result from these timing differences.

### Depletion
Depletion of oil and gas properties for the financial year ended 31 December 2009 amounted to MSEK 1,295.1 (MSEK 1,032.1) and is detailed in Note 3. The depletion charge for the financial year ended 31 December 2009 is higher than the comparative period due to the higher production volumes produced in 2009.

The overall depletion rate per barrel in the financial year ended 31 December 2009 is slightly above forecast and is mainly due to the better production performance in the United Kingdom at a higher than average depletion rate per barrel.

### Exploration costs
Exploration costs for the financial year ended 31 December 2009 amounted to MSEK 1,051.0 (MSEK 901.7) and are detailed in Note 4. Exploration and appraisal costs are capitalised as they are incurred. When exploration drilling is unsuccessful the costs are immediately charged to the income statement as exploration costs. All capitalised exploration costs are reviewed on a regular basis and are expensed where there is uncertainty regarding the recoverability of the capitalised costs.

During 2009, the costs associated with drilling the Paris Basin exploration wells Dordives 1-D and Vaxy-1 were expensed amounting to MSEK 21.7.

During 2009, the costs associated with drilling the Tuong Vi-1X well on Block 6/94, Vietnam were expensed amounting to MSEK 60.1.

For our Norwegian operations, four unsuccessful exploration wells were drilled on licences PL006c, PL304, PL363 and PL412. The costs associated with these wells amounting to a total of MSEK 506.3 were expensed in the financial year ended 31 December 2009.

The costs of the Liyeke Marine-1 exploration well in Congo (Brazzaville) Block Marine XI were expensed in 2009 for an amount of MSEK 25.5.

The unsuccessful exploration well, Petrovskaya-1, drilled on the Lagansky Block in Russia was expensed for an amount of MSEK 249.1 in the financial year ended 31 December 2009.

Following the decision to withdraw from the block, capitalised costs for Cambodia Block E of MSEK 78.2 were expensed in 2009.

### Impairment costs
Lundin Petroleum reviews the carrying values of all of its assets at least annually and if necessary, an impairment cost is recorded to the income statement.

On 31 July 2006 Lundin Petroleum acquired 100 percent of the shares in Valkyries Petroleum Corp. (Valkyries) in an all share transaction. Lundin Petroleum recorded a purchase consideration of MSEK 5,067.6 being the value of the shares in Lundin Petroleum issued to complete the transaction and after accounting adjustments for deferred tax and minority interests, an amount of MSEK 7,683.5 was assigned to oil and gas properties.

Lundin Petroleum has drilled three wells on the Lagansky Block and whilst two wells were unsuccessful, the Morskaya well has provided gross contingent resource on block of 233 MMboe of which 213 MMbbls is oil. Whilst the valuation of these resources is extremely subjective and a range of values can be derived and supported, Lundin Petroleum has assessed the value of discoveries to date and impaired the carrying value of the Lagansky Block, net of deferred tax and minority interest, to MSEK 2,798.2. This has resulted in an impairment charge to the income statement for the financial year ended 31 December 2009 of MSEK 3,741.3. The impairment charge of MSEK 613.7 recorded in 2008 related primarily to the impairment of the operated onshore Russian production properties.

As part of the Valkyries acquisition, an amount of MSEK 862.1 (MUSD 119.0) was assigned to Goodwill, reflecting the excess of purchase consideration over the fair value of the acquired assets. The Lagansky Block still has exploration potential but following the results of the Petrovskaya and Laganskaya wells, a write off the Goodwill is appropriate in the circumstances, and as such, MSEK 847.2 (MUSD 119.0) was charged to the income statement for the financial year ended 31 December 2009.

The following table shows the effect of the impairment on the result for the financial year ended 31 December 2009.

| Expressed in MSEK | Result before impairment | Impairment | Net Result |
|---|---|---|---|
| Net result before tax | 1,212.0 | -4,588.5 | -3,376.5 |
| Tax | -1,031.9 | 618.4 | -413.5 |
| Net result after tax | 180.1 | -3,970.1 | -3,790.0 |
| Minority interest | 138.0 | 761.5 | 899.5 |
| **Net result attributable to shareholders of Lundin Petroleum** | **318.1** | **-3,208.6** | **-2,890.5** |

### Sale of assets
Sale of assets for the financial year ended 31 December 2009 amounted to MSEK 32.1 (MSEK 130.5) and related to the sales described below.

In October 2009, Lundin Petroleum received 50 million shares of ShaMaran Petroleum Corp. (ShaMaran) in consideration for the sale of Lundin International BV (LIBV), a 100 percent owned subsidiary, which had commenced negotiations for Production Sharing Contracts (PSCs) for three separate exploration and development blocks in Kurdistan. An accounting gain of MSEK 211.2 was recognised in 2009 based on the market value of the shares on completion of the transaction.

During 2009, an accounting loss of MSEK 96.1 was recorded relating to the sale of Lundin Petroleum's 51 percent interest in CJSC Kalmeastern and an accounting loss of MSEK 83.0 was recorded relating to the sale of Lundin Petroleum's 50 percent interest in CJSC Oilgaztet. The carrying value of the oil and gas properties in these companies had been written down to zero at the end of 2008 and the accounting losses represent the losses incurred on the residual equity in the sold companies.

The comparative period included the sale of the wholly owned subsidiary Lundin Latina de Petróleos S.A. to PetroFalcon in exchange for shares in PetroFalcon and the gain on the sale of the Jotun field in Norway.

### Other income
Other income for the financial year ended 31 December 2009 amounted to MSEK 9.3 (MSEK 3.0) and represents fees and costs recovered by Lundin Petroleum from third parties as well as a gain on the sale of some other fixed assets of MSEK 2.5 (MSEK -).

### General, administrative and depreciation expenses
General, administrative and depreciation expenses for the financial year ended 31 December 2009 amounted to MSEK 222.0 (MSEK 139.7). The costs for 2009 included one off costs for Etrion in support of its acquisition of the renewable energy company. Depreciation charges included in this amount totalled MSEK 26.1 (MSEK 24.9) for the financial year ended 31 December 2009.

### Financial income
Financial income for the financial year ended 31 December 2009 amounted to MSEK 494.2 (MSEK 488.8) and is detailed in Note 9. Interest income for the financial year ended 31 December 2009 amounted to MSEK 35.3 (MSEK 56.0) and includes interest received on bank accounts and on the Norwegian 2008 exploration tax refund totalling MSEK 31.4 (MSEK 51.5) as well as interest received on a loan to an associated company of MSEK 3.9 (MSEK 4.5).

Net exchange gains for the financial year ended 31 December 2009 amounted to MSEK 369.6 (MSEK -871.1). The net exchange gains for the financial year ended 31 December 2009 includes a net of a loss for the financial year ended 31 December 2009 of MSEK 171.5 (MSEK -) relating to the currency hedge contracts settled during 2009. Exchange rate variations result primarily from fluctuations in the value of the USD currency against a pool of currencies which includes, amongst others, EUR, NOK, GBP and the Russian Rouble (RUR). Lundin Petroleum has USD denominated debt recorded in subsidiaries using a functional currency other than USD.

Dividend income received for the financial year ended 31 December 2009 amounted to MSEK 4.5 (MSEK 12.0) and relates to distributions received from an unconsolidated investment in a company owning an interest in the Dutch gas processing and transportation infrastructure (NOGAT). Lundin Petroleum sold its shareholding in NOGAT during 2009 and realised an accounting gain of MSEK 80.4.

Included in financial income in the comparative year was an amount of MSEK 259.2 relating to the gain on sale of an investment in Revus Energy ASA and an amount of MSEK 131.8 relating to insurance proceeds in relation to the Thistle field facility.

### Financial expenses
Financial expenses for the financial year ended 31 December 2009 amounted to MSEK 452.4 (MSEK 1,038.4) and are detailed in Note 10. Interest expenses for the financial year ended 31 December 2009 amounted to MSEK 91.4 (MSEK 107.8) and mainly relates to the bank loan facility.

The amortisation of financing fees for the financial year ended 31 December 2009 amounted to MSEK 19.4 (MSEK 11.4). During the fourth quarter of 2007, Lundin Petroleum entered into two new credit facilities totalling USD one billion. Effective 31 December 2009, the MUSD 150 unsecured credit facility was cancelled and the remaining financing fees relating to this loan were charged to the income statement. The fees capitalised in relation to the MUSD 850 credit facility continue to be amortised over the anticipated usage of the facility.

Other financial expenses for the financial year ended 31 December 2009 amounted to MSEK 257.2 (MSEK 15.7). Included is an amount of MSEK 231.8 in relation to the impairment of the share in associated company for reasons as explained below.

### Result from share in associated company
The result from share in associated company for the financial year ended 31 December 2009 amounted to MSEK -194.4 (MSEK 29.3) and consists of the 44.81 percent equity share of the result of Etrion (formerly called PetroFalcon) owned by Lundin Petroleum and is detailed in Note 11.

During the third quarter of 2009, Etrion wrote down the value of its Venezuelan oil and gas assets. This has resulted in a write down of MSEK 409.3 recorded as result from share in associated company in the accounts of Lundin Petroleum for an amount of MSEK 177.5 and recorded in Other financial expenses for an amount of MSEK 231.8. The comparative period consists of the fair value adjustment to the investment in PetroFalcon arising from sale of Lundin Petroleum's subsidiary, Lundin Latina de Petroleos SA.

### Tax
The tax charge for the financial year ended 31 December 2009 amounted to MSEK 413.5 (MSEK 630.8) and is detailed in Note 12.

The current tax charge for the financial year ended 31 December 2009 amounted to MSEK 293.9 (MSEK -77.1) and comprises primarily of tax charges in countries with production operations.

The deferred tax charge for the financial year ended 31 December 2009 amounted to MSEK 119.6 (MSEK 707.9) and consists of corporation tax amounting to MSEK 165.1 (MSEK 691.9) and a petroleum tax credit amounting to MSEK 45.5 (MSEK -16.0). The deferred tax charge includes a deferred tax liability release on the Lagansky Block impairment for an amount of MSEK 618.4.

The Group operates in various countries and fiscal regimes where corporate income tax rates are different from the regulations in Sweden. Corporate income tax rates for the Group vary between 20 percent and 78 percent. The effective tax rate for the Group for the financial year ended 31 December 2009 is distorted by the impairment of the Russian assets and other one-off items. Taking out the effect of these items, the effective tax rate for the Group for the financial year ended 31 December 2009 amounts to approximately 62 percent.

### Minority interest
The net result attributable to minority interest for the financial year ended 31 December 2009 amounted to MSEK -899.5 (MSEK -249.7) and relates primarily to the minority interest's share in the Lagansky Block impairment.

## BALANCE SHEET
### Non-current assets
Oil and gas properties as at 31 December 2009 amounted to MSEK 18,078.3 (MSEK 20,996.2) and are detailed in Note 13. Development and exploration expenditure incurred for the financial year ended 31 December 2009 is as follows:

| **Development expenditures**<br>MSEK | 2009 | 2008 |
|---|---|---|
| United Kingdom | 484.2 | 1,027.0 |
| France | 48.2 | 123.3 |
| Norway | 671.7 | 853.5 |
| Netherlands | 40.5 | 63.0 |
| Indonesia | 266.2 | 96.0 |
| Russia | 77.2 | 158.0 |
| Tunisia | 0.1 | 6.3 |
| **Development expenditures** | **1,588.1** | 2,327.1 |

| **Exploration expenditure**<br>MSEK | 2009 | 2008 |
|---|---|---|
| United Kingdom | 17.8 | 175.2 |
| France | 23.6 | 45.7 |
| Norway | 1,513.2 | 932.5 |
| Indonesia | 73.8 | 58.6 |
| Russia | 344.9 | 541.7 |
| Sudan | -12.0 | 219.3 |
| Ethiopia | 7.8 | 16.8 |
| Vietnam | 70.5 | 47.3 |
| Cambodia | 9.5 | 63.2 |
| Congo (Brazzaville) | 105.5 | 22.5 |
| Kenya | 6.9 | 55.9 |
| Malaysia | 182.0 | 49.8 |
| Other | 23.5 | 36.1 |
| **Exploration expenditures** | **2,367.0** | 2,264.6 |

Other tangible assets as at 31 December 2009 amounted to MSEK 113.3 (MSEK 128.0) and represents office fixed assets and real estate and are detailed in Note 14.

Goodwill amounted to MSEK 4.8 (MSEK 929.8) as at 31 December 2009 and relates to Etrion's acquisition of the renewable energy company during 2009 and is detailed in Note 15. The goodwill of MSEK 929.8 as at 31 December 2008 related to Lundin Petroleum's acquisition of Valkyries in 2006 and was fully impaired during 2009.

Other intangible assets as at 31 December 2009 amounted to MSEK 36.4 (MSEK -) and represents licences to develop renewable energy projects and is detailed in Note 16.

Financial assets as at 31 December 2009 amounted to MSEK 608.0 (MSEK 895.3) and are detailed in Note 17 to 21. Share in associated company as at 31 December 2009 amounted to MSEK - (MSEK 505.7) and related to the 44.81 percent share in Etrion which was fully consolidated within the Lundin Petroleum AB Group accounts as from 30 September 2009. Other shares and participations amounted to MSEK 230.4 (MSEK 121.6) as at 31 December 2009 and primarily relate to the shares held in ShaMaran. Capitalised financing fees as at 31 December 2009 amounted to MSEK 53.5 (MSEK 75.7) and relate to the costs incurred in establishing the bank credit facility and are being amortised over the period of estimated usage of the facility. Long-term receivables as at 31 December 2009 amounted to MSEK 172.5 (MSEK 22.3) and mainly relate to the convertible loan provided to Africa Oil Corporation for an amount of MSEK 169.3 (MSEK -). Other financial assets as at 31 December 2009 amounted to MSEK 150.0 (MSEK 169.9) and mainly represent VAT paid on costs in Russia that is expected to be recovered.

The deferred tax asset as at 31 December 2009 amounted to MSEK 198.2 (MSEK 201.8).

### Current assets
Receivables and inventories amounted to MSEK 1,408.7 (MSEK 1,680.6) as at 31 December 2009 and are detailed in Note 22 - 25. Inventories include hydrocarbons and consumable well supplies. The short-term loan receivable relates to the short-term portion of the BNP Paribas funding amounting to MSEK 27.8 (MSEK 53.9) and the advance in relation to the acquisition of the 30 percent interest in the Lagansky Block to the minority partner for an amount of MSEK 213.5 (MSEK -). Corporation tax receivables as at 31 December 2009 amounted to MSEK 15.9 (MSEK 461.3) and relate primarily to tax refunds due in the Netherlands.

Cash and cash equivalents as at 31 December 2009 amounted to MSEK 550.4 (MSEK 448.9). Cash balances were held at 31 December 2009 to meet operational and investment requirements. Included in cash and cash equivalents is an amount of MSEK 166.9 held by Etrion.

### Non-current liabilities
Provisions as at 31 December 2009 amounted to MSEK 6,387.9 (MSEK 6,087.3) and are detailed in Note 12 and Notes 27 -29. This amount includes a provision for site restoration of MSEK 944.3 (MSEK 700.2).

The provision for deferred tax as at 31 December 2009 amounted to MSEK 5,292.1 (MSEK 5,266.6) and is arising on the excess of book value over the tax value of oil and gas properties. In accordance with IFRS the amounts for deferred tax asset have been offset against the deferred tax liability where offsetable. The net deferred tax liability includes tax losses carry forward relating primarily to Norway and United Kingdom of MSEK 1,012.1 and MSEK 401.9 respectively.

The provision for derivative instruments amounted to MSEK 22.2 (MSEK 54.9) as at 31 December 2009 and relates to the long-term portion of the fair value of the interest rate swap entered into in January 2008.

Other provisions amounted to MSEK 119.6 (MSEK 55.5) as at 31 December 2009 and relate to an exchange obligation of Etrion amounting to MSEK 40.5 (MSEK -), termination indemnity provisions in Indonesia and Tunisia amounting to MSEK 28.9 (MSEK 27.0) and other provisions amounting to MSEK 50.2 (MSEK 28.5).

Long-term interest bearing debt amounted to MSEK 3,883.7 (MSEK 4,339.8) as at 31 December 2009. The financing facility consists of a MUSD 850 revolving borrowing base and letter of credit facility with a seven year term expiring 2014. Under the MUSD 850 facility, MUSD 35 of Letters of Credit in support of future site restoration costs payable to former owners of the Heather field, offshore United Kingdom, have been issued. The cash drawings outstanding under the credit facility amounted to MUSD 544 (MSEK 3,871.4) as at 31 December 2009. The long-term interest bearing debt also includes the long-term portion of a bank loan drawn by a jointly controlled entity in Russia and the long-term bank loan drawn by Etrion.

### Current liabilities

Current liabilities as at 31 December 2009 amounted to MSEK 1,832.5 (MSEK 2,026.5) and are detailed in Note 33 and 34. The overlift position as at 31 December 2009 amounted to MSEK 9.2 (MSEK 106.8). Joint venture creditors as at 31 December 2009 amounted to MSEK 996.6 (MSEK 954.5) and relate to ongoing operational costs. Short-term loans as at 31 December 2009 amounted to MSEK 230.6 (MSEK 53.9) and relates to the current portion of a bank loan drawn by a jointly controlled entity in Russia for an amount of MSEK 17.1 (MSEK 53.9) and the advance in relation to the agreement with Gunvor for an amount of MSEK 213.5 (MSEK -). Tax payables as at 31 December 2009 amounted to MSEK 148.5 (MSEK 123.4). The short-term portion of the fair value of the interest rate swap entered into in January 2008 and the interest rate swap entered into in November 2009 by a renewable energy company included in current liabilities as at 31 December 2009 amounted to MSEK 50.3 (MSEK 304.5).

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held in Stockholm on 6 May 2010.

## REMUNERATION TO MANAGEMENT

The Board of Directors is of the opinion that the principles of the Policy on Remuneration applied by the Company in 2009 provide for adequate remuneration to Group Management and support the Company in attracting and retaining qualified executives needed to achieve the strategic objectives of the Group. It is therefore the intention of the Board of Directors to propose to the 2010 AGM the adoption of a Policy on Remuneration that follows the same principles as applied in 2009, and that contains the same elements of remuneration, i.e. basic salary, yearly variable salary, long-term incentive plan ("LTIP"), pension arrangements and non-financial benefits.

The proposed 2010 LTIP for Management other than senior executives is related to the Company's share price and includes cash payments related to the Company's share price and are payable over a three year period. Senior executives, being the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Senior Vice President Operations, will not participate in any proposed 2010 LTIP. Lundin Petroleum's undertaking under the proposed LTIP is a cash liability and will not include any dilution of the share capital. The details of the proposed LTIP are described in the Board of Directors' complete proposal provided in the AGM documentation.

The Board of Directors will further seek authorisation from the 2010 AGM to repurchase its own shares, inter alia, to secure its undertakings under the LTIP, if needed. In addition, the Board of Directors will seek authorisation to deviate from the Policy on Remuneration in case of special circumstances in a specific case.

For a detailed description of the remuneration policy applied in 2009 and the Management remunerations for the year ended 31 December 2009 refer to Note 42.

## SHARE INFORMATION

For the AGM resolution on issuance of new share capital share see page 41, The Lundin Petroleum Share and Shareholders.

## DIVIDEND

The Directors propose that no dividend be paid for the year. For details of the dividend policy refer to the share information page, page 42.

## PROPOSED DISPOSITION OF UNAPPROPRIATED EARNINGS

The Board of Directors propose that the unrestricted equity of the Parent Company of TSEK 6,976,267, including the net result for the year of TSEK -32,271 be brought forward.

## CHANGES IN BOARD

At the AGM of 13 May 2009 Dambisa F. Moyo was elected member of the Board of Directors of Lundin Petroleum. No changes are proposed at the 2010 AGM.

## FINANCIAL STATEMENTS

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

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 84–89.

# INCOME STATEMENT

## CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

| Expressed in TSEK | Note | 2009 | 2008 |
|---|---|---|---|
| **Operating income** | | | |
| Net sales of oil and gas | 1 | 6,064,210 | 6,269,130 |
| Other operating income | 1 | 126,859 | 124,607 |
| | | **6,191,069** | 6,393,737 |
| | | | |
| **Cost of sales** | | | |
| Production costs | 2 | -2,299,894 | -2,378,706 |
| Depletion of oil and gas properties | 3 | -1,295,061 | -1,032,068 |
| Exploration costs | 4 | -1,051,024 | -901,683 |
| Impairment costs for oil and gas properties | 5 | -3,741,279 | -613,693 |
| Impairment cost for goodwill | 6 | -847,196 | – |
| **Gross profit** | | **-3,043,385** | 1,467,587 |
| | | | |
| Gain on sale of assets | 7 | 32,098 | 130,547 |
| | | | |
| Other income | | 9,317 | 3,000 |
| General, administration and depreciation expenses | 8 | -221,984 | -139,665 |
| **Operating profit** | | **-3,223,954** | 1,461,469 |
| | | | |
| **Result from financial investments** | | | |
| Financial income | 9 | 494,242 | 488,774 |
| Financial expenses | 10 | -452,353 | -1,038,417 |
| | | **41,889** | -549,643 |
| | | | |
| **Result from share in associated company** | 11 | **-194,399** | 29,298 |
| **Profit before tax** | | **-3,376,464** | 941,124 |
| | | | |
| Corporation tax | 12 | -458,984 | -614,781 |
| Petroleum tax | 12 | 45,482 | -16,056 |
| | | -413,502 | -630,837 |
| | | | |
| **Net result** | | **-3,789,966** | 310,287 |
| Net result attributable to: | | | |
| Shareholders of the parent company | | -2,890,510 | 560,011 |
| Minority interest | | -899,456 | -249,724 |
| | | | |
| **Net result** | | **-3,789,966** | 310,287 |
| | | | |
| Earnings per share – SEK [1] | 37 | -9.22 | 1.77 |
| Diluted earnings per share – SEK [1] | 37 | -9.22 | 1.77 |

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

# STATEMENT OF COMPREHENSIVE INCOME

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

| Expressed in TSEK | Note | 2009 | 2008 |
|---|---|---|---|
| **Net result** | | **-3,789,966** | 310,287 |
| | | | |
| **Other comprehensive income** | | | |
| Exchange differences foreign operations | | -755,602 | 1,787,001 |
| Cash flow hedges | | 368,338 | -262,313 |
| Available-for-sale financial assets | | -136,340 | -20,917 |
| Income tax relating to other comprehensive income | 12 | -152,313 | 36,491 |
| Other comprehensive income, net of tax | | -675,917 | 1,540,262 |
| | | | |
| **Total comprehensive income** | | **-4,465,883** | 1,850,549 |
| | | | |
| Total comprehensive income attributable to: | | | |
| Shareholders of the parent company | | -3,359,778 | 1,800,021 |
| Minority interest | | -1,106,105 | 50,528 |
| | | **-4,465,883** | 1,850,549 |

FINANCIALS

# BALANCE SHEET

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

| Expressed in TSEK | Note | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Oil and gas properties | 13 | 18,078,331 | 20,996,161 |
| Other tangible fixed assets | 14 | 113,348 | 128,016 |
| Goodwill | 15 | 4,795 | 929,825 |
| Other intangible assets | 16 | 36,447 | – |
| Shares in jointly controlled entities and associated companies | 17 | 0 | 505,721 |
| Other shares and participations | 18 | 230,356 | 121,634 |
| Long-term receivable | | 172,498 | 22,255 |
| Deferred tax | 12 | 198,193 | 201,843 |
| Derivative instruments | 19 | 1,647 | – |
| Other financial assets | 20–21 | 203,517 | 245,676 |
| **Total non current assets** | | **19,039,132** | 23,151,131 |
| | | | |
| **Current assets** | | | |
| Inventories | 22 | 194,799 | 206,161 |
| Trade receivables | 23 | 574,452 | 581,978 |
| Prepaid expenses and accrued income | 24 | 69,973 | 77,746 |
| Short-term loan receivable | | 241,302 | 53,893 |
| Derivative instruments | 19 | – | 3,438 |
| Tax receivable | | 15,949 | 461,293 |
| Joint venture debtors | | 205,877 | 208,416 |
| Other receivables | 25 | 106,373 | 87,713 |
| Cash and cash equivalents | | 550,372 | 448,855 |
| **Total current assets** | | **1,959,097** | 2,129,493 |
| | | | |
| **TOTAL ASSETS** | | **20,998,229** | 25,280,624 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | 3,179 | 3,179 |
| Additional paid in capital | | 6,241,774 | 6,210,880 |
| Other reserves | 26 | 47,252 | 516,520 |
| Retained earnings | | 4,725,055 | 4,140,398 |
| Net Profit | | -2,890,510 | 560,011 |
| **Shareholders' equity** | | **8,126,750** | 11,430,988 |
| Minority interest | | 677,777 | 1,396,046 |
| **Total equity** | | **8,804,527** | 12,827,034 |
| | | | |
| **Non-current liabilities** | | | |
| Provision for site restoration | 27 | 944,339 | 700,206 |
| Pension provision | 28 | 9,635 | 10,140 |
| Provision for deferred tax | 12 | 5,292,142 | 5,266,552 |
| Provision for derivate instruments | 19 | 22,218 | 54,896 |
| Other provisions | 29 | 119,576 | 55,546 |
| Bank loans | 30 | 3,883,670 | 4,339,769 |
| Other non-current liabilities | | 89,656 | – |
| **Total non-current liabilities** | | **10,361,236** | 10,427,109 |
| | | | |
| **Current liabilities** | | | |
| Trade payables | | 145,792 | 276,443 |
| Tax liability | 12 | 148,523 | 123,429 |
| Derivate instruments | 19 | 50,342 | 304,459 |
| Accrued expenses and prepaid income | 33 | 117,225 | 102,837 |
| Short-term debt | 30 | 230,575 | 53,893 |
| Joint venture creditors | | 996,632 | 954,544 |
| Other liabilities | 34 | 143,377 | 210,876 |
| **Total current liabilities** | | **1,832,466** | 2,026,481 |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **20,998,229** | 25,280,624 |
| Pledged assets | 35 | 4,978,037 | 4,605,804 |
| Contingent liabilities | 36 | – | 183,549 |

# STATEMENT OF CASH FLOW

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

| Expressed in TSEK | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| Net result | | -3,789,966 | 310,287 |
| | | | |
| Adjustments to cash flow from operations | 38–39 | 7,523,255 | 3,820,673 |
| | | | |
| Interest received | | 25,769 | 50,151 |
| Interest paid | | -48,091 | -73,976 |
| Income taxes paid | | -200,502 | -408,895 |
| | | | |
| Changes in working capital: | | | |
| Increase in inventories | | -14,484 | -4,562 |
| Increase/decrease in underlift position | | -34,470 | 6,409 |
| Decrease in receivables | | 200,043 | 165,881 |
| Decrease in overlift position | | -94,456 | -64,805 |
| Increase in liabilities | | 126,774 | 163,801 |
| **Total cash flow from operations** | | **3,693,872** | 3,964,964 |
| | | | |
| **Cash flow used for investments** | | | |
| Investment in associated company | | – | -170,500 |
| Investment in other shares and participations | | – | -279,939 |
| Proceeds from sale of other shares and participations | | 96,389 | 539,178 |
| Change in other financial fixed assets | | 902 | 21,149 |
| Other payments | | -15,517 | -1,334 |
| Divestment of fixed assets | | – | 5,383 |
| Investment in intangible assets | | -15,070 | – |
| Investment in oil and gas properties | | -3,927,944 | -4,591,836 |
| Investment in office equipment and other assets | | -18,246 | -36,630 |
| **Total cash flow used for investments** | | **-3,879,486** | -4,514,529 |
| | | | |
| **Cash flow from financing** | | | |
| Proceeds from borrowings | | 8,716,825 | 1,570,732 |
| Repayments of borrowings | | -8,678,399 | -1,022,713 |
| Paid in financing fees | | -742 | -13,885 |
| Proceeds from share issues | | – | 142,072 |
| Purchase of own shares | | – | -234,103 |
| Dividend paid to minority | | -351 | -646 |
| **Total cash flow from financing** | | **37,333** | 441,457 |
| | | | |
| Change in cash and cash equivalents | | -148,281 | -108,108 |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 448,855 | 483,452 |
| Acquired on consolidation | | 184,531 | – |
| Currency exchange difference in cash and cash equivalents | | 65,267 | 73,511 |
| | | | |
| **Cash and cash equivalents at the end of the year** | | **550,372** | 448,855 |

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:**<br>Expressed in TSEK | Share capital [1] | Additional paid-in-capital | Other reserves [2] | Retained earnings | Net result | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2008** | **3,155** | **6,285,613** | **-723,490** | **3,183,718** | **956,953** | **1,346,164** | **11,052,113** |
| | | | | | | | |
| Transfer of prior year net result | – | – | – | 956,953 | -956,953 | – | – |
| | | | | | | | |
| **Total comprehensive income** | **–** | **–** | **1,240,010** | **–** | **560,011** | **50,528** | **1,850,549** |
| | | | | | | | |
| Issuance of shares | 24 | 142,048 | – | – | – | – | 142,072 |
| Purchase of own shares | – | -234,103 | – | – | – | – | -234,103 |
| Transfer of share based payments | – | 17,322 | – | -17,322 | – | – | – |
| Share based payments | – | – | – | 17,049 | – | – | 17,049 |
| Minority share in dividend | – | – | – | – | – | -646 | -646 |
| **Balance at 31 December 2008** | **3,179** | **6,210,880** | **516,520** | **4,140,398** | **560,011** | **1,396,046** | **12,827,034** |
| | | | | | | | |
| Transfer of prior year net result | – | – | – | 560,011 | -560,011 | – | – |
| | | | | | | | |
| **Total comprehensive income** | **–** | **–** | **-469,268** | **–** | **-2,890,510** | **-1,106,105** | **-4,465,883** |
| | | | | | | | |
| Acquired on consolidation | – | – | – | 44,311 | – | 132,847 | 177,158 |
| Divestments | – | – | – | – | – | 255,340 | 255,340 |
| Issuance of shares | – | – | – | – | – | – | – |
| Purchase of own shares | – | – | – | – | – | – | – |
| Transfer of share based payments | – | 30,894 | – | -30,894 | – | – | – |
| Share based payments | – | – | – | 11,229 | – | – | 11,229 |
| Minority share in dividend | – | – | – | – | – | -351 | -351 |
| **Balance at 31 December 2009** | **3,179** | **6,241,774** | **47,252** | **4,725,055** | **-2,890,510** | **677,777** | **8,804,527** |

[1] Lundin Petroleum AB's issued share capital at 31 December 2009 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each. Included in the number of shares issued at 31 December 2009 are 4,490,300 shares which Lundin Petroleum holds in its own name.

[2] Other reserves are described in detail in Note 26.

# KEY FINANCIAL DATA

| Data per share | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Shareholders' equity SEK per share [1] | 25.93 | 36.49 | 35.02 | 33.63 | 14.32 |
| Operating cash flow SEK per share [2] | 11.48 | 12.96 | 9.91 | 8.05 | 10.22 |
| Cash flow from operations SEK per share [3] | 11.79 | 12.56 | 9.97 | 7.35 | 9.89 |
| Earnings SEK per share [4] | -9.22 | 1.77 | 3.04 | 2.86 | 3.89 |
| Earnings SEK per share fully diluted [5] | -9.22 | 1.77 | 3.03 | 2.85 | 3.87 |
| EBITDA SEK per share fully diluted [6] | 11.74 | 12.29 | 9.67 | 9.68 | 10.83 |
| Dividend per share | – | – | – | – | – |
| Quoted price at the end of the financial year (regards the parent company), SEK | 56.60 | 41.00 | 67.50 | 79.50 | 85.00 |
| Number of shares issued at year end | 317,910,580 | 317,910,580 | 315,550,580 | 314,215,080 | 257,140,166 |
| Number of shares in circulation at year end | 313,420,280 | 313,420,280 | 315,550,580 | 314,215,080 | 257,140,166 |
| Weighted average number of shares for the year [7] | 313,420,280 | 315,682,981 | 315,020,401 | 280,867,805 | 255,685,730 |
| Weighted average number of shares for the year (fully diluted) [7] | 313,420,280 | 315,682,981 | 315,409,915 | 282,251,337 | 256,974,123 |

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 attributable to shareholders of the Parent Company divided by the weighted average number of shares for the year.

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

6 The Group's EBITDA divided by the weighted average number of shares for the year after considering the dilution effect of outstanding warrants. EBITDA is defined as operating profit before depletion of oil and gas properties, exploration costs, impairment costs and gain on sale of assets.

7 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 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Return on equity, % [8] | -35 | 3 | 9 | 11 | 33 |
| Return on capital employed, % [9] | -28 | 11 | 14 | 22 | 49 |
| Debt/equity ratio, % [10] | 40 | 35 | 21 | 12 | 9 |
| Equity ratio, % [11] | 42 | 51 | 52 | 51 | 47 |
| Share of risk capital, % [12] | 66 | 71 | 71 | 81 | 70 |
| Interest coverage ratio, % [13] | -2,613 | 973 | 2,203 | 4,010 | 4,231 |
| Operating cash flow/interest ratio [14] | 2,605 | 3,797 | 3,631 | 4,848 | 5,833 |
| Yield [15] | – | – | – | – | – |

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

9 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).

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

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

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

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

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

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

# ACCOUNTING PRINCIPLES

## Introduction

Lundin Petroleum's Annual Report for 2009 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 and the Annual Accounts Act (1995:1554). In addition RFR 1.1 "Supplementary Rules for Groups" has been applied as issued by the Swedish Financial Reporting Board.

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

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

A description of the Company's operations and registered office is made in the paragraphs "Formation" and "Operations" in the Directors' report on page 45.

## Accounting standards, amendments and interpretations effective in 2009 and adapted by the Group

*IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2009).* IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements.

*IFRIC 16, "Hedges of a net investment in a foreign operation" (effective from 1 October 2008)*. IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. IFRIC 16 is not relevant to the Group's operations.

*IFRS 2 (Amendment), "Share-based payment" (effective from 1 January 2009).* The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's financial statements.

*IFRS 7 (Amendment) "Financial instruments – Disclosures" (effective from 1 January 2009)*. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

*IFRS 8, "Operating segments" (effective from 1 January 2009). IFRS 8 replaces IAS 14*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This standard does not result in changes to the disclosures.

*IAS 1 (Amendment/Revised), "Presentation of financial statements" (effective from 1 January 2009)*. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The amendment does not have an impact on the Group's financial statements.

The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Both the income statement and the statement of comprehensive income are presented.

*IAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009)*. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. In addition the definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method as defined in IAS 39. The Group applies IAS 23 (Amended) prospectively from 1 January 2009.

*IAS 27 (Amendment), "Consolidated and separate financial statements" (effective from 1 January 2009)*. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current assets held-for-sale and discontinued operations', IAS 39 would continue to be applied. The amendment does not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

*IAS 28 (Amendment), "Investments in associates"(and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, "Financial instruments: Disclosures") (effective from 1 January 2009)*. Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement', only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment does not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the Group's consolidated accounts.

*IAS 32 (Amendment), "Financial Instruments: Presentation", IFRS 7, "Financial instruments: Disclosures") and IAS 1 (Amendment), "Presentation of financial statements"– "Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009)*. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group applies the IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

The amended standards also require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group applies the IAS 32 and IAS 1(Amendment) from 1 January 2009. They do not have any impact on the Group's financial statements.

*IAS 36 (Amendment), "Impairment of assets"(effective from 1 January 2009).* Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group applies the amendment and provide the required disclosure where applicable for impairment tests from 1 January 2009.

*IAS 38 (Amendment), "Intangible assets"(effective from 1 January 2009).* The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method and a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment does not have an impact on the Group's operations.

*IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).* This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments'. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker), but the Group will not formally document and test this relationship.

When redetermining the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

The Group applies the IAS 39 (Amendment) from 1 January 2009. It does not have an impact on the Group's income statement.

## 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 purchase method of accounting is used to account for the acquisition of subsidiaries. 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 accounting for the excess of the cost of an acquisition over the fair value of the assets acquired refer to "Goodwill".

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. 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.

## Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

## Jointly controlled entities

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

*Associated companies*

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's percentage in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

*Other shares and participations*
Investments where the shareholding is less than 20 percent of the voting rights are treated as available for sale financial assets. If the value of these assets have declined significantly or has lasted for a longer period, an impairment charge is recognised in the income statement. If the event causing the impairment no longer exists, the impairment charge can be reversed in the income statement unless it involves an equity instrument. Dividend received attributable to these assets is recognised in the income statement as part of net financial items.

## 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 is the currency the Group has elected to use as the presentation currency.

IAS 21 states that a company may present its financial statements in any currency. The generally accepted currency of the oil industry is United States dollars and as such the Board of Directors of Lundin Petroleum has resolved that Lundin Petroleum will present its financial statements in United States dollars with effect from 1 January 2010. The Board believes that presenting the financial statements in this currency will further assist readers in understanding the underlying financial position of the company and its results.

*Transactions and balances*
Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date and foreign exchange currency differences are recognised in the income statement. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in Financial income/expenses in the income statement except when deferred in equity as qualifying cash flow hedges. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the balance sheet rate of exchange.

*Presentation currency*
The balance sheets and income statements of foreign subsidiary companies are translated for consolidation purposes 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 average rates of exchange for the year, except for transactions where it is more relevant to use the rate of the day of the transaction. The translation differences which arise are recorded directly in the foreign currency translation reserve within shareholders' equity. Upon disposal of a foreign operation the translation differences relating to that operation will be transferred from equity to the income statement and included in the result on sale. Translation differences arising from net investments in subsidiaries, used for financing exploration activities, are recorded directly in 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 | 10.6200 | 10.2520 |
| 1 USD equals SEK | 7.6223 | 7.1165 |
| 1 NOK equals SEK | 1.2166 | 1.2352 |
| 1 RUR equals SEK | 0.2406 | 0.2376 |

## 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.

## 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 at least annually. If the carrying value exceeds its recoverable amount 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 subsequently not reversed.

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

## Other intangible assets
Permitted projects and licences acquired in a business combination are recognised at fair value at the acquisition date. Permitted projects and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate of permitted projects and licences over their estimated useful lives which are usually determined according to the term of the energy supply contract signed with the local grid operator for the solar power projects.

## 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 assessed for impairment, and any impairment loss recognised, and accounted for as a producing asset. If it is determined that a commercial discovery has not been achieved these exploration 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 percent probability that the quantities actually recovered will equal or exceed the estimates.

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

Proceeds from the sale or farm-out of oil and gas concessions in the exploration stage are offset against the related capitalised costs of each cost centre with any excess of net proceeds over all costs capitalised included in Result on sale of assets in the income statement. In the event of a sale in the exploration stage any deficit is included in Result on sale of assets in the income statement. A gain or loss is recognised on the sale or farm-out of producing field when the depletion rate is materially changed.

Impairment tests are carried out at least annually and when there are facts and circumstances that suggest that the net book value of capitalised costs within each field area cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is higher than the anticipated future net 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 carrying value, according to the above, exceeds the recoverable amount, which is the higher of value in use and fair value less costs to sell, determined through estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting. If there is no decision to continue with a field specific exploration programme, the costs will be expensed at the time the decision is made.

### Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is based on cost and is calculated on a straight line basis over the estimated economic life of 20 years for real estate and 3 to 5 years for office equipment and other assets.

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

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

### Non-current assets held for sale

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

### Impairment of assets excluding goodwill and oil and gas properties

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

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

### Financial instruments

Assets and liabilities are recognised initially at fair value 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.

Lundin Petroleum recognises the following financial instruments:

» Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment. Translation differences are reported in the income statement except for the translation differences arising from long-term loans to subsidiaries, used for financing exploration activities and for which no fixed terms of repayment exists, which are recorded directly in 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 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 remains in shareholders' equity until the forecast transaction no longer is expected to occur, at which point it is being transferred to the income statement.
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 not 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 weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories of hydrocarbons are stated at the lower of cost and net realisable value. Under- or overlifted positions of hydrocarbons are valued at market prices prevailing at the balance sheet date. An underlift of production from a field is included in the current receivables and valued at the reporting date spot price or prevailing contract price and an overlift of production from a field is included in the current liabilities and valued at the reporting date spot price or prevailing contract price.

## 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.

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

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

Retained earnings contain the accumulated results attributable to the shareholders of the parent company.

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

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

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

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

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

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

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

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

### 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.

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

*Pension obligations*
Pensions are the most common long-term employee 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.

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

### Income taxes
The 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 values 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 provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Movements in deferred tax assets and liabilities are reported in the income statement unless they relate to items recorded directly in shareholders' equity.

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
Operating segments are reported in a manner consistent with the internal reporting provided to management, which, due to the unique nature of each country's operations, commercial terms or fiscal environment, is at a country level. Information for segments is only disclosed when applicable.

### 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, directly or indirectly, controlled by key management personnel or of its family or of any individual that controls, or has joint control or significant influence over the entity.

### 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. For 2009, impairment charges were recorded for oil and gas properties based upon the value in use from those assets.

*Investments in associated companies*
The Group determines if the carrying value for investments in associated companies has suffered any impairment where any objective evidence of impairment exists. This assessment is performed to identify where the carrying value exceeds its recoverable amount. The recoverable amounts

have been determined based on value in use calculations. Assessments used in these calculations include judgement of the future cash flows, discount rates and exchange rates. For 2009, impairment charges were recorded for investments in associated companies based upon the value in use from those assets.

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

*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 net 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. For 2009, impairment charges were recorded for goodwill based upon the value in use from the underlying assets.

*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 both relating to approved and not yet approved developments by the EU and are not mandatory for the 2009 financial statements and have not been early adopted. They related to the Group's accounting periods beginning on or after 1 January 2010 or later periods:

*IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009).* This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

*IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'.* In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

*IFRS 3 (Revised), "Business combinations" (effective from 1 July 2009).* The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

*IFRS 5 (amendment), 'Measurement of non-current assets (or disposal Groups) classified as held-for-sale'.* The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal Groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group and Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

*IAS 1 (amendment), 'Presentation of financial statements'.* The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

*IAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009).* The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

*IAS 38 (amendment), 'Intangible Assets'.* The Group and Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group or Company's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS OF THE GROUP

## NOTE 1 – SEGMENTAL INFORMATION (TSEK)

| | 2009 | 2008 |
|---|---|---|
| **Operating income** | | |
| Net sales of: | | |
| Crude oil | | |
| - United Kingdom | 1,725,095 | 2,200,178 |
| - France | 593,548 | 803,075 |
| - Norway | 2,257,930 | 1,330,259 |
| - Indonesia | 279,102 | 290,979 |
| - Russia | 567,074 | 816,039 |
| - Tunisia | 194,130 | 335,153 |
| - Netherlands | 1,058 | 4,561 |
| | **5,617,937** | 5,780,244 |
| Condensate | | |
| - United Kingdom | 13,610 | 21,197 |
| - Netherlands | 6,465 | 7,442 |
| - Indonesia | 942 | 2,327 |
| | **21,017** | 30,966 |
| Gas | | |
| - Norway | 139,158 | 80,475 |
| - Netherlands | 284,717 | 377,026 |
| - Indonesia | 1,381 | 419 |
| | **425,256** | 457,920 |
| | | |
| | **6,064,210** | 6,269,130 |
| | | |
| Other income: | | |
| - United Kingdom | 45,016 | 59,457 |
| - France | 11,378 | 15,960 |
| - Norway | 48,745 | 36,131 |
| - Netherlands | 9,360 | 9,186 |
| - Russia | 431 | 295 |
| - Other | 11,929 | 3,578 |
| | **126,859** | 124,607 |
| | | |
| **Total operating income** | **6,191,069** | 6,393,737 |
| | | |
| **Operating profit contribution** | | |
| - United Kingdom | 273,837 | 646,034 |
| - France | 276,156 | 548,519 |
| - Norway | 1,166,552 | 1,102,027 |
| - Netherlands | 115,291 | 218,066 |
| - Russia | -4,982,568 | -564,822 |
| - Indonesia | 27,729 | 15,120 |
| - Tunisia | 24,077 | 34,795 |
| - Sudan | 12,057 | -482,965 |
| - Vietnam | -54,907 | – |
| - Congo (Brazzaville) | -19,246 | – |
| - Other | -62,932 | -55,305 |
| **Total operating profit contribution** | **-3,223,954** | 1,461,469 |

Revenues are derived from various external customers. Intercompany sales amounts to TSEK nil (TSEK nil) and intercompany purchases amounts to TSEK nil (TSEK nil) and therefore there are no reconciling items towards the amounts stated in the income statement.

| | 2009 SEK | 2009 USD | 2008 SEK | 2008 USD |
|---|---|---|---|---|
| **Average crude sales price, per barrel or boe** | | | | |
| - United Kingdom | 478.88 | 62.83 | 630.49 | 96.41 |
| - France | 464.49 | 60.94 | 605.73 | 92.63 |
| - Norway | 460.97 | 60.48 | 591.48 | 90.45 |
| - Netherlands | 384.88 | 50.49 | 463.61 | 70.90 |
| - Indonesia | 461.79 | 60.58 | 607.64 | 92.92 |
| - Russia | 286.93 | 37.64 | 411.02 | 62.85 |
| - Tunisia | 417.06 | 54.72 | 760.03 | 116.22 |
| **Consolidated** | **435.67** | **57.16** | 570.80 | 87.29 |
| | | | | |
| **Average depletion cost, per barrel or boe** | | | | |
| - United Kingdom | 105.42 | 13.83 | 110.78 | 16.94 |
| - France | 78.20 | 10.26 | 59.44 | 9.09 |
| - Norway | 98.33 | 12.90 | 107.90 | 16.50 |
| - Netherlands | 127.75 | 16.76 | 107.31 | 16.41 |
| - Indonesia | 62.35 | 8.18 | 33.94 | 5.19 |
| - Russia | 34.76 | 4.56 | 33.74 | 5.16 |
| - Tunisia | 174.32 | 22.87 | 158.84 | 24.29 |
| **Consolidated** | **91.92** | **12.06** | 87.17 | 13.33 |

| | Assets | | Equity and Liabilities | |
|---|---|---|---|---|
| | 2009 TSEK | 2008 TSEK | 2009 TSEK | 2008 TSEK |
| United Kingdom | 4,521,248 | 4,911,488 | 3,527,534 | 4,224,200 |
| France | 1,730,232 | 1,844,737 | 654,420 | 781,315 |
| Norway | 7,150,303 | 5,663,022 | 3,233,155 | 4,876,864 |
| Netherlands | 1,165,039 | 1,649,250 | 3,116,681 | 355,935 |
| Russia | 4,710,221 | 9,904,608 | 963,750 | 1,599,842 |
| Indonesia | 643,682 | 363,913 | 200,988 | 186,052 |
| Tunisia | 121,124 | 166,832 | 185,524 | 142,039 |
| Sudan | 2,681 | 28,809 | 6,885 | 78,959 |
| Congo (Brazzaville) | 218,095 | 147,372 | 47,320 | 26,797 |
| Ethiopia | – | 98,398 | – | 22,491 |
| Kenya | – | 82,999 | – | 17,406 |
| Vietnam | 125,437 | 129,549 | 34,492 | 33,284 |
| Cambodia | 1,116 | 76,291 | 4,320 | 16,906 |
| Malaysia | 239,261 | 64,653 | 64,679 | 21,735 |
| Venezuela | 83,999 | – | 14,701 | – |
| Other | 285,791 | 148,703 | 139,253 | 69,765 |
| **Assets/Liabilities per country** | **20,998,229** | 25,280,624 | **12,193,702** | 12,453,590 |
| | | | | |
| Shareholders' equity | N/A | N/A | 8,126,750 | 11,430,988 |
| Minority interest | N/A | N/A | 677,777 | 1,396,046 |
| **Total equity for the Group** | **N/A** | N/A | **8,804,527** | 12,827,034 |
| | | | | |
| **Group total** | **20,998,229** | 25,280,624 | **20,998,229** | 25,280,624 |

See also Note 13 for detailed information of the oil and gas properties per country. There are no reconciling items towards the balance sheet totals.

## NOTE 2 – PRODUCTION COSTS (TSEK)

| Production costs comprise: | 2009 | 2008 |
|---|---|---|
| Cost of operations | 1,760,988 | 1,660,573 |
| Tariff and transportation expenses | 237,421 | 213,116 |
| Direct production taxes | 312,408 | 527,978 |
| Change in lifting position | 3,917 | -25,527 |
| Inventory movement – hydrocarbons | -39,824 | -2,389 |
| Inventory movement – well supplies | 1,076 | 4,955 |
| Other | 23,908 | – |
| | **2,299,894** | 2,378,706 |

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

| Depletion of oil and gas properties per country: | 2009 | 2008 |
|---|---|---|
| United Kingdom | 394,666 | 410,523 |
| France | 97,726 | 82,867 |
| Norway | 497,737 | 255,894 |
| Netherlands | 97,010 | 90,048 |
| Indonesia | 55,901 | 28,968 |
| Russia | 65,758 | 70,620 |
| Tunisia | 86,263 | 93,148 |
| | **1,295,061** | 1,032,068 |

## NOTE 4 – EXPLORATION COSTS (TSEK)

| Exploration costs were as follows: | 2009 | 2008 |
|---|---|---|
| United Kingdom | 46,872 | 134,984 |
| France | 23,842 | – |
| Russia | 249,077 | 234,071 |
| Indonesia | 28,293 | 4,078 |
| Norway | 530,077 | – |
| Albania | – | 45 |
| Singapore | 27,349 | 8,844 |
| Vietnam | 54,905 | – |
| Congo (Brazzaville) | 19,223 | – |
| Cambodia | 78,203 | – |
| Sudan | -12,041 | 482,738 |
| Netherlands | 312 | 10,135 |
| Other – project appraisal | 4,912 | 26,788 |
| | **1,051,024** | 901,683 |

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.

During 2009, the costs associated with drilling the Paris Basin exploration wells Dordives 1-D and Vaxy-1 in France and drilling the Tuong Vi-1X well on Block 6/94, Vietnam were expensed amounting to respectively MSEK 21.7 and MSEK 54.9.

For our Norwegian operations, four unsuccessful exploration wells were drilled on licences PL006c, PL304, PL363 and PL412. The costs associated with these wells amounting to a total of MSEK 506.3 were expensed in the financial year ended 31 December 2009.

The costs of the Liyeke Marine-1 exploration well in Congo (Brazzaville) Block Marine XI and the unsuccessful exploration well, Petrovskaya-1, drilled on the Lagansky Block in Russia were expensed in 2009 for an amount of respectively MSEK 19.2 and MSEK 249.1.

Following the decision to withdraw from the block, capitalised costs for Cambodia Block E of MSEK 78.2 were expensed in 2009. Other exploration costs are new venture projects.

## NOTE 5 – IMPAIRMENT COSTS FOR OIL AND GAS PROPERTIES (TSEK)

| Impairment costs for oil and gas properties were as follows: | 2009 | 2008 |
|---|---|---|
| Russia | 3,741,279 | 396,396 |
| Tunisia | – | 150,586 |
| Indonesia | – | 66,711 |
| | **3,741,279** | 613,693 |

Until 31 December 2009, Lundin Petroleum has drilled three wells on the Lagansky Block and whilst two wells were unsuccessful, the Morskaya well has provided gross contingent resource on block of 233 MMboe of which 213 MMbbls is oil. Whilst the valuation of these resources is extremely subjective and a range of values can be derived and supported, Lundin Petroleum has assessed the value of discoveries to date and impaired the carrying value of the Lagansky Block, net of deferred tax and minority interest, to MSEK 2,798.2. This has resulted in an impairment charge to the income statement for the financial year ended 31 December 2009 of MSEK 3,741.3. The impairment charge of MSEK 613.7 recorded in 2008 followed a downward revision of reserves for the Russian fields in Kalmeastern and Oilgaztet and the lower oil price assumptions for the Salawati Island production in Indonesia.

## NOTE 6 – IMPAIRMENT COSTS FOR GOODWILL (TSEK)

As part of the Valkyries acquisition on 31 July 2006, Lundin Petroleum assigned an amount of TSEK 862,137 (TUSD 119,047) to goodwill, reflecting the excess of purchase consideration over the fair value of the acquired assets. The Lagansky Block still has exploration potential but following the results of the Petrovskaya and Laganskaya wells, a write off of the goodwill to the value in use is appropriate in the circumstances, and as such, TSEK 847,196 (TUSD 119,047) was charged to the income statement in the financial year ended 31 December 2009.

## NOTE 7 – GAIN ON SALE OF ASSETS (TSEK)

| Sale of assets were as follows: | 2009 | 2008 |
|---|---|---|
| Lundin International B.V. | 211,195 | – |
| Russian onshore fields | -179,097 | – |
| Lundin Latina de Petróleos S.A. | – | 89,822 |
| Jotun field, Norway | – | 39,472 |
| Solan field, UK | – | 1,211 |
| Other | – | 42 |
| | **32,098** | 130,547 |

For further detail regarding the sale of assets, reference is made to the paragraph "Sale of assets" in the Directors' report on page 51.

## NOTE 8 – REMUNERATION TO THE GROUP'S AUDITORS (TSEK)

| Remuneration to the Group's auditors for | 2009 | 2008 |
|---|---|---|
| **Audit fees** | | |
| - PricewaterhouseCoopers | 8,336 | 7,572 |
| - Other | 1,508 | 840 |
| | **9,844** | 8,412 |
| **Other** | | |
| - PricewaterhouseCoopers | 388 | 434 |
| - Other | 537 | – |
| | **925** | 434 |
| | | |
| **Total** | **10,769** | 8,846 |

## NOTE 9 – FINANCIAL INCOME (TSEK)

| Interest income | 2009 | 2008 |
|---|---|---|
| Interest income | 35,265 | 55,988 |
| Dividends received | 4,471 | 12,022 |
| Foreign currency exchange gain, net | 369,649 | – |
| Insurance proceeds | 4 | 131,814 |
| Gain on sale of shares | 80,376 | 259,239 |
| Guarantee fee | 869 | 25,674 |
| Fair value adjustment on pension | -967 | 815 |
| Release provision for bad debt | 4,575 | 3,222 |
| | **494,242** | 488,774 |

Net exchange gains for the financial year ended 31 December 2009 amounted to TSEK 369,649 (TSEK -871,053). The net exchange gains for the financial year ended 31 December 2009 includes a net of a loss of TSEK 171,467 (TSEK -) relating to the currency hedge contracts settled during 2009. Exchange rate variations result primarily from fluctuations in the value of the USD currency against a pool of currencies which includes, amongst others, EUR, NOK, GBP and the Russian Rouble (RUR). Lundin Petroleum has USD denominated debt recorded in subsidiaries using a functional currency other than USD.

The gain on sale of shares amounting to TSEK 80,376 (TSEK 259,239) relates to the investment in NOGAT. Last year the gain on sale of shares related to an investment in Revus Energy ASA.

The guarantee fee amounting to TSEK 869 (TSEK 25,674) relates to a fee received from Africa Oil Corp. for the issuance of a corporate guarantee by Lundin Petroleum AB to BNP Paribas for the obligations of AOC under its parent company guarantees issued to BNP Paribas. The comparative amount related to the external portion of the value of the shares received from PetroFalcon for providing a guarantee in 2008. The income reported was after eliminating the portion equal to Lundin Petroleum's ownership percentage in PetroFalcon.

## NOTE 10 – FINANCIAL EXPENSES (TSEK)

| Financial expenses comprise: | 2009 | 2008 |
|---|---|---|
| Loan interest expenses | 91,420 | 107,774 |
| Change in market value of interest rate hedge | 3,443 | – |
| Result on interest rate hedge settlement | 43,207 | 1,236 |
| Foreign currency exchange loss, net | – | 871,053 |
| Unwind site restoration discount | 41,208 | 31,263 |
| Amortisation of deferred financing fees | 19,354 | 11,415 |
| Impairment of share in associated company | 231,820 | – |
| Other financial expenses | 21,901 | 15,676 |
| | **452,353** | 1,038,417 |

For a further detail of the impairment charges of TSEK 231,820 (TSEK -) reference is made to note 11.

## NOTE 11 – RESULT FROM SHARE IN ASSOCIATED COMPANY (TSEK)

| Result from share in associated company was as follows: | 2009 | 2008 |
|---|---|---|
| Negative goodwill upon acquisition | – | 52,170 |
| Group's share of net result | -194,399 | -22,872 |
| | **-194,399** | 29,298 |

During 2009, Etrion wrote down the value of its Venezuelan oil and gas assets. As Etrion has not received any dividends over the last 12 months and after discussions held with representatives of the mixed enterprise companies in Venezuela it seems unlikely to receive any dividends in the near future, it was appropriate to write down the value of the investments. This has resulted in a write down of TSEK 409,274 recorded as result from share in associated company for an amount of TSEK 177,454 and recorded in Other financial expenses for an amount of TSEK 231,820. The negative goodwill amounting to TSEK 52,170 for the comparative period related to the acquisition of shares in PetroFalcon.

## NOTE 12 – TAXES (TSEK)

| Tax charge | Corporation tax | | Petroleum tax | |
|---|---|---|---|---|
| The tax charge comprises: | 2009 | 2008 | 2009 | 2008 |
| **Current** | | | | |
| - United Kingdom | 49,893 | 16,754 | – | – |
| - France | 68,499 | 189,000 | – | – |
| - Norway | 16,669 | -457,607 | – | – |
| - Netherlands | 42,139 | 78,441 | – | – |
| - Indonesia | 19,096 | 38,351 | – | – |
| - Russia | 16,450 | 20,379 | – | – |
| - Tunisia | 60,427 | 35,351 | – | – |
| - Singapore | 139 | – | – | – |
| - Sweden | 17,600 | – | – | – |
| - Switzerland | 2,997 | 2,224 | – | – |
| | **293,909** | -77,107 | **–** | – |
| | | | | |
| **Deferred** | | | | |
| - United Kingdom | 17,051 | 349,110 | -45,482 | 16,056 |
| - France | 7,681 | 8,780 | – | – |
| - Norway | 847,891 | 698,343 | – | – |
| - Netherlands | 27,100 | -80,362 | – | – |
| - Indonesia | 742 | -21,602 | – | – |
| - Russia | -721,788 | -298,807 | – | – |
| - Tunisia | -26,195 | 21,333 | – | – |
| - Congo (Brazzaville) | 11,960 | 4,921 | – | – |
| - Kenya | -16,050 | 13,047 | – | – |
| - Vietnam | 6,739 | 11,451 | – | – |
| - Ethiopia | -17,765 | 5,538 | – | – |
| - Malaysia | 47,170 | 12,915 | – | – |
| - Cambodia | -16,052 | 13,772 | – | – |
| - Singapore | -3,409 | 171 | – | – |
| - Sudan | – | -46,722 | – | – |
| | **165,075** | 691,888 | **-45,482** | 16,056 |
| | | | | |
| **Total tax** | **458,984** | 614,781 | **-45,482** | 16,056 |

The total tax charge amounts to TSEK 413,502 (TSEK 630,837). Included in this amount is a deferred tax release on the Lagansky Block impairment amounting to TSEK 618,395. Included in the total tax charge for the comparative period is a deferred tax release following the reduction in the Russian tax rate from 24% to 20% amounting to TSEK 228,500.

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:

| | 2009 | 2008 |
|---|---|---|
| **Profit before tax** | -3,376,464 | 941,124 |
| Tax calculated at the corporate tax rate in Sweden (26.3%/28%) | 888,010 | -263,515 |
| Effect of foreign tax rates | -1,028,569 | -145,728 |
| Tax effect of expenses non-deductible for tax purposes | -628,270 | -892,982 |
| Tax effect of deduction for petroleum tax | 242,671 | 61,941 |
| Tax effect of income not subject to tax | 134,125 | 180,201 |
| Tax effect of utilisation of unrecorded tax losses | 21,727 | 122,007 |
| Adjustments to prior year deferred taxes | – | 226,571 |
| Adjustments to prior year tax assessments | -43,196 | 80,668 |
| | **-413,502** | -630,837 |

## continued – NOTE 12

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

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Before tax | Tax charge/credit | After tax | Before tax | Tax charge/credit | After tax |
| Exchange differences on foreign operations | -755,602 | – | -755,602 | 1,787,001 | – | 1,787,001 |
| Cash flow hedges | 368,338 | -166,610 | 201,728 | -262,313 | 36,491 | -225,822 |
| Available for sale financial assets | -136,340 | 14,297 | -122,043 | -20,917 | – | -20,917 |
| Other comprehensive income | **-523,604** | **-152,313** | **-675,917** | 1,503,771 | 36,491 | 1,540,262 |
| | | | | | | |
| Current tax | | – | | | – | |
| Deferred tax | | -152,313 | | | 36,491 | |
| | | **-152,313** | | | 36,491 | |

The deferred tax charge amounting to TSEK 152,313 (TSEK -36,491) has been recorded directly in equity.

| Tax liability - current and deferred | Current tax liability | | Deferred tax liability | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Corporation tax** | | | | |
| - United Kingdom | 11,420 | 4,272 | 1,389,834 | 1,936,341 |
| - France | 7,172 | 68,308 | 277,631 | 269,291 |
| - Norway | 12,666 | – | 2,374,304 | 1,351,973 |
| - Netherlands | 38,247 | 33,701 | 53,846 | 72,638 |
| - Indonesia | 13,797 | 8,938 | 99,875 | 108,857 |
| - Russia | -6,379 | -6,776 | 555,515 | 1,400,036 |
| - Tunisia | 53,348 | 14,986 | 15,580 | 17,896 |
| - Sweden | 17,600 | – | – | – |
| - Switzerland | 652 | – | – | – |
| - Italy | – | – | 5,884 | – |
| - Congo (Brazzaville) | – | – | 30,117 | 20,799 |
| - Kenya | – | – | – | 16,447 |
| - Vietnam | – | – | 28,772 | 24,672 |
| - Ethiopia | – | – | – | 18,204 |
| - Malaysia | – | – | 58,095 | 15,425 |
| - Cambodia | – | – | – | 16,449 |
| - Singapore | – | – | 1,885 | 5,560 |
| **Total corporation tax liability** | **148,523** | 123,429 | **4,891,338** | 5,274,588 |
| | | | | |
| **Petroleum tax** | | | | |
| - United Kingdom | – | – | 400,804 | -8,036 |
| **Total petroleum tax liability** | – | – | **400,804** | -8,036 |
| | | | | |
| **Total tax liability** | **148,523** | 123,429 | **5,292,142** | 5,266,552 |

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 tax authorities (Skatteverket) conducted a tax audit of Lundin Petroleum AB for the financial years 2002 to 2003. The tax authorities disallowed a portion of expenses recharged to Lundin Petroleum AB by Group companies for costs associated with management services and certain other fees. 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 charged penalties on the value of the taxable effect of the disallowed costs amounting to TSEK 5,038.1. The decision was appealed to the County Administrative Court in Stockholm and an extension for the payment of the penalty tax was obtained. In its decision of 15 December 2008, the County Administrative Court partly overruled the decision of the tax authorities. However, the full deduction of management fees and certain other fees was rejected. The decision has been appealed to the Administrative Court of Appeal with regard to the deduction of management fees and the penalty tax as the Company believes that the management costs are a valid charge to the parent company of the Lundin Petroleum Group and that penalty tax should not be levied. An extension for the payment of the penalty tax, which following the decision of the County Administrative Court now amounts to TSEK 4,906.6, has been granted and as such, Lundin Petroleum has not made a provision in the accounts for the penalty tax charged.

| Specification of deferred tax assets and tax liabilities | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Deferred tax assets** | | |
| Unused tax loss carry forwards | 1,549,665 | 1,438,240 |
| Fair value of financial instruments | 33,244 | 41,397 |
| Other deductible temporary differences | 26,064 | 11,192 |
| | **1,608,973** | 1,490,829 |
| | | |
| **Deferred tax liabilities** | | |
| Accelerated allowances | 6,116,511 | 5,127,565 |
| Fair value of derivative instruments | – | 151 |
| Capitalised acquisition cost | 8,349 | 8,852 |
| Deferred tax on excess values | 559,893 | 1,400,512 |
| Other taxable temporary differences | 18,169 | 18,458 |
| | **6,702,922** | 6,555,538 |

The deferred tax asset is primarily relating to tax loss carried forwards in Norway for an amount of TSEK 1,012,112 (TSEK 823,031) and United Kingdom for an amount of TSEK 401,911 (TSEK 439,895). Deferred tax assets in relation to tax loss carried forwards are only recognised in so far that there is a reasonable certainty as to the timing and the extent of their realisation.

The deferred tax 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.

### Unrecognised tax losses

The Group has Dutch tax loss carry forwards, including tax losses in the current financial year, of MSEK 295.6 which in part are not yet assessed. The majority of the tax losses can be utilised up to 9 years. A deferred tax asset relating to the tax loss carry forwards has not been recognised as at 31 December 2009 due to the uncertainty as to the timing and the extent of their utilisation. This treatment is consistent with the comparative year's accounts.

## NOTE 13 – OIL AND GAS PROPERTIES (TSEK)

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Production cost pools | 8,707,284 | 9,162,955 |
| Non-production cost pools | 9,371,047 | 11,833,206 |
| | **18,078,331** | 20,996,161 |

| **2009 production cost pools** | UK | France | Norway | Netherlands | Indonesia | Russia | Tunisia | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| 1 January | 5,997,869 | 1,801,356 | 2,999,408 | 678,305 | 476,164 | 1,099,301 | 810,422 | 13,862,825 |
| Additions | 484,197 | 48,198 | 121,263 | 40,517 | 12,134 | 76,785 | 112 | 783,206 |
| Disinvestments | – | – | – | – | – | -473,941 | – | -473,941 |
| Change in estimates | 24,103 | -471 | 110,302 | 45,570 | – | – | 15,953 | 195,457 |
| Reclassifications | 82,780 | – | – | – | 9,491 | – | – | 92,271 |
| Currency translation difference | -565,907 | -104,578 | 325,470 | -41,140 | -46,131 | -67,428 | -64,465 | -564,179 |
| 31 December | 6,023,042 | 1,744,505 | 3,556,443 | 723,252 | 451,658 | 634,717 | 762,022 | 13,895,639 |
| | | | | | | | | |
| **Depletion** | | | | | | | | |
| 1 January | -2,158,864 | -527,164 | -228,378 | -211,174 | -240,024 | -594,563 | -739,703 | -4,699,870 |
| Depletion charge for the year | -394,666 | -97,726 | -497,737 | -97,010 | -55,901 | -65,758 | -86,263 | -1,295,061 |
| Impairment | – | – | – | – | – | – | – | – |
| Disinvestments | – | – | – | – | – | 463,477 | – | 463,477 |
| Reclassifications | – | – | – | – | – | – | – | – |
| Currency translation difference | 211,447 | 33,870 | -32,221 | 16,539 | 28,152 | 21,368 | 63,944 | 343,099 |
| 31 December | -2,342,083 | -591,020 | -758,336 | -291,645 | -267,773 | -175,476 | -762,022 | -5,188,355 |
| | | | | | | | | |
| **Net book value** | **3,680,959** | **1,153,485** | **2,798,107** | **431,607** | **183,885** | **459,241** | **0** | **8,707,284** |

| **2008 production cost pools** | UK | France | Norway | Netherlands | Indonesia | Russia | Tunisia | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| 1 January | 4,023,862 | 1,442,567 | 258,340 | 826,792 | 369,358 | 850,687 | 639,285 | 8,410,891 |
| Additions | 1,027,021 | 123,319 | 1,008 | 63,019 | 18,836 | 157,954 | 6,299 | 1,397,456 |
| Disinvestments | – | – | -242,829 | -306,899 | – | -855 | – | -550,583 |
| Change in estimates | – | 298 | – | – | – | 3,307 | 42,907 | 46,512 |
| Reclassifications | – | – | 2,983,985 | 66 | – | – | – | 2,984,051 |
| Currency translation difference | 946,986 | 235,172 | -1,096 | 95,327 | 87,970 | 88,208 | 121,931 | 1,574,498 |
| 31 December | 5,997,869 | 1,801,356 | 2,999,408 | 678,305 | 476,164 | 1,099,301 | 810,422 | 13,862,825 |
| | | | | | | | | |
| **Depletion** | | | | | | | | |
| 1 January | -1,368,736 | -375,787 | -93,627 | -394,580 | -110,914 | -98,962 | -409,707 | -2,852,313 |
| Depletion charge for the year | -410,523 | -82,867 | -255,894 | -90,048 | -28,968 | -70,620 | -93,148 | -1,032,068 |
| Impairment | – | – | – | – | -66,711 | -396,396 | -150,586 | -613,693 |
| Disinvestments | – | – | 110,126 | 306,899 | – | – | – | 417,025 |
| Reclassifications | – | – | – | – | 1,595 | – | – | 1,595 |
| Currency translation difference | -379,605 | -68,510 | 11,017 | -33,445 | -35,026 | -28,585 | -86,262 | -620,416 |
| 31 December | -2,158,864 | -527,164 | -228,378 | -211,174 | -240,024 | -594,563 | -739,703 | -4,699,870 |
| | | | | | | | | |
| **Net book value** | **3,839,005** | **1,274,192** | **2,771,030** | **467,131** | **236,140** | **504,738** | **70,719** | **9,162,955** |

## continued – NOTE 13

| 2009 non-production cost pools | 1 January | Additions | Disposals | Write-offs | Changes in estimate | Reclassification | Currency translation difference | 31 December |
|---|---|---|---|---|---|---|---|---|
| Norway | 2,123,046 | 2,063,584 | – | -530,077 | 63,241 | – | 255,461 | 3,975,255 |
| United Kingdom | 672,077 | 17,850 | – | -46,872 | – | -82,780 | -50,444 | 509,831 |
| France | 51,682 | 23,627 | – | -23,842 | – | – | -2,931 | 48,536 |
| Netherlands | 1,276 | 6,592 | – | -312 | – | – | -290 | 7,266 |
| Indonesia | 229,915 | 341,842 | – | -55,642 | – | -9,491 | -38,876 | 467,748 |
| Russia | 8,187,200 | 344,844 | -574 | -3,990,356 | – | – | -739,583 | 3,801,531 |
| Tunisia | 1,589 | 105 | – | – | – | – | -150 | 1,544 |
| Ireland | 6,372 | 2,748 | – | -3,372 | – | – | -339 | 5,409 |
| Sudan | – | -12,041 | – | 12,041 | – | – | – | – |
| Congo (Brazzaville) | 144,350 | 105,496 | – | -19,223 | – | – | -18,552 | 212,071 |
| Ethiopia | 87,619 | 7,422 | -92,885 | – | – | – | -2,156 | – |
| Kenya | 77,175 | 6,536 | -81,830 | -2 | – | – | -1,879 | – |
| Vietnam | 113,383 | 70,499 | – | -54,905 | – | – | -11,101 | 117,876 |
| Cambodia | 76,085 | 9,511 | – | -78,203 | – | – | -7,393 | – |
| Malaysia | 59,663 | 181,965 | – | – | – | – | -17,648 | 223,980 |
| Other | 1,774 | 857 | – | -1,538 | – | – | -1,093 | – |
| **Net book value** | **11,833,206** | **3,171,437** | **-175,289** | **-4,792,303** | **63,241** | **-92,271** | **-636,974** | **9,371,047** |

| 2008 non-production cost pools | 1 January | Additions | Disposals | Write-offs | Changes in estimate | Reclassification | Currency translation difference | 31 December |
|---|---|---|---|---|---|---|---|---|
| Norway | 3,638,524 | 1,784,987 | -14,690 | – | – | -2,983,983 | -301,792 | 2,123,046 |
| United Kingdom | 513,784 | 175,205 | -1,647 | -134,984 | – | 414 | 119,305 | 672,077 |
| France | – | 45,724 | – | – | – | – | 5,958 | 51,682 |
| Netherlands | – | 11,264 | – | -10,135 | – | – | 147 | 1,276 |
| Indonesia | 60,689 | 145,204 | – | -12,922 | – | -2,270 | 39,214 | 229,915 |
| Russia | 6,554,659 | 541,703 | – | -234,071 | – | 4,481 | 1,320,428 | 8,187,200 |
| Tunisia | 703 | 609 | – | – | – | – | 277 | 1,589 |
| Ireland | 2,659 | 7,020 | – | -4,086 | – | – | 779 | 6,372 |
| Sudan | 222,967 | 219,344 | – | -482,738 | – | – | 40,427 | – |
| Congo (Brazzaville) | 96,477 | 22,488 | – | – | – | – | 25,385 | 144,350 |
| Ethiopia | 55,251 | 16,797 | – | – | – | – | 15,571 | 87,619 |
| Kenya | 8,394 | 55,932 | – | – | – | – | 12,849 | 77,175 |
| Vietnam | 46,707 | 47,307 | – | – | – | – | 19,369 | 113,383 |
| Cambodia | 454 | 63,240 | – | – | – | – | 12,391 | 76,085 |
| Malaysia | – | 49,819 | – | – | – | – | 9,844 | 59,663 |
| Other | 16,278 | 7,734 | – | -22,747 | – | – | 509 | 1,774 |
| **Net book value** | **11,217,546** | **3,194,377** | **-16,337** | **-901,683** | **–** | **-2,981,358** | **1,320,661** | **11,833,206** |

In 2008 the reclassification from Non-Production cost pools to Production cost pools related to the production start on the Alvheim field.

**Impairment testing**

Lundin Petroleum carried out its annual impairment tests at 31 December 2009 in conjunction with the annual reserves certification process. Lundin Petroleum used an oil price deck of a fixed price of USD 75 per barrel and a discount rate of 10% to calculate the future pre-tax cash flows. Impairment testing for the Lagansky Block was carried out using an oil price deck of a fixed price of USD 70 per barrel and a discount rate of 8% to calculate post-tax cash flows. Refer to Note 5 on page 68 for detailed information relating to the impairment costs for the financial year ended 31 December 2009.

**Capitalised interest**

The capitalised interest costs included within the costs of oil and gas properties amounts to MSEK 22.1 (MSEK 67.3) 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 1,802.2 (MSEK 2,749.8) of which third parties who are joint venture partners have contractually agreed to contribute approximately MSEK 587.5 (MSEK 572.0).

## NOTE 14 – OTHER TANGIBLE FIXED ASSETS (TSEK)

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| **Other tangible fixed assets:** | Real estate | Office equipment and other assets | Total | Real estate | Office equipment and other assets | Total |
| Cost | | | | | | |
| 1 January | 82,296 | 115,217 | 197,513 | 65,649 | 77,859 | 143,508 |
| Acquired on consolidation | – | 7,559 | 7,559 | – | – | – |
| Disinvestments | -551 | -3,316 | -3,867 | – | – | – |
| Additions | 241 | 23,254 | 23,495 | 3,177 | 33,454 | 36,631 |
| Write-off | – | -9,330 | -9,330 | – | -5,014 | -5,014 |
| Reclassification | – | – | – | – | -2,035 | -2,035 |
| Currency translation difference | -7,328 | -5,669 | -12,997 | 13,470 | 10,953 | 24,423 |
| 31 December | 74,658 | 127,715 | 202,373 | 82,296 | 115,217 | 197,513 |
| | | | | | | |
| Depreciation | | | | | | |
| 1 January | -7,749 | -61,748 | -69,497 | -2,615 | -37,127 | -39,742 |
| Acquired on consolidation | – | -4,342 | -4,342 | – | – | – |
| Disinvestments/disposals | 55 | 6,978 | 7,033 | – | 2,135 | 2,135 |
| Depreciation charge for the year | -2,131 | -23,917 | -26,048 | -4,828 | -20,087 | -24,915 |
| Reclassification | – | – | – | – | -2,251 | -2,251 |
| Currency translation difference | 845 | 2,984 | 3,829 | -306 | -4,418 | -4,724 |
| 31 December | -8,980 | -80,045 | -89,025 | -7,749 | -61,748 | -69,497 |
| | | | | | | |
| **Net book value** | **65,678** | **47,670** | **113,348** | 74,547 | 53,469 | 128,016 |

Acquired on consolidation includes the values assigned to the other tangible fixed assets upon first consolidation of Etrion at 30 September 2009.

Disinvestments includes the values of other tangible fixed assets of companies sold during the year ended 31 December 2009.

Depreciation charge for the year reflects depreciation according to plan which is based on cost and an estimated useful life of 20 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.

## NOTE 15 – GOODWILL

| **Goodwill comprises:** | 2009 | 2008 |
|---|---|---|
| 1 January | 929,825 | 763,521 |
| Acquired on consolidation | 4,708 | – |
| Impairment | -847,196 | – |
| Currency translation difference | -82,542 | 166,304 |
| 31 December | **4,795** | 929,825 |

Acquired on consolidation represents the values assigned to goodwill upon first consolidation of Etrion at 30 September 2009. This goodwill reflects the excess of purchase consideration over the fair value of an acquired solar power project.

The book amount for goodwill recorded at 31 December 2008 is in relation to the acquisition of Valkyries per 31 July 2006. The goodwill was created upon the acquisition of Valkyries in 2006 and is primarily assigned to the Lagansky exploration block and associated areas and activities. The goodwill related to the Valkyries acquisition has been fully written off in 2009. The goodwill is tested for impairment on an annual basis by reference to the underlying assets from which it originates. For more detail on the impairment cost of the goodwill reference is made to note 6.

## NOTE 16 – OTHER INTANGIBLE ASSETS (TSEK)

| | 2009 | 2008 |
|---|---|---|
| **Other intangible assets:** | Licences | Licences |
| Cost | | |
| 1 January | – | – |
| Acquired on consolidation | 21,512 | – |
| Investments | 15,052 | – |
| Currency translation difference | -117 | – |
| 31 December | **36,447** | – |

The licences relate to solar power projects held with affiliates of Etrion. Upon completion of the development of the projects in 2010 the licences will be amortised over their useful life.

## NOTE 17 – 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 2009 | Book amount 31 December 2008 |
|---|---|---|---|---|---|
| PetroFalcon Corp. | Equity | 71,020,500 | 44.81 | – | 505,721 |
| Ikdam Production SA | Equity | 1,600 | 40.00 | 0 | 0 |
| Oil Service [1] | Proportional consolidation | 2 | 50.00 | – | – |
| RF Energy Investments Ltd. | Proportional consolidation | 11,540 | 50.00 | – | – |
| - CJSC Pechoraneftegas [2] | | 20,000 | Direct 100.00, indirect 50.00 | – | – |
| - LLC Zapolyarneftegas [2] | | 1 | Direct 100.00, indirect 50.00 | – | – |
| - LLC NK Recher-Komi [2] | | 1 | Direct 100.00, indirect 50.00 | – | – |
| - Geotundra BV [2] | | 20,000 | Direct 100.00, indirect 50.00 | – | – |
| | | | | **0** | 505,721 |

[1] Sold in November 2009.

[2] Through the proportional consolidation of RF Energy Investments Ltd. the subsidiaries of RF Energy Investments Ltd. are also proportionally consolidated in the Lundin Petroleum accounts.

"Direct" refers to RF Energy's ownership percentage, "indirect" refers to the Group's ultimate ownership percentage.

On 1 February 2008, following the receipt of Venezuelan Ministry of Energy and Petroleum approval, Lundin Petroleum completed the sale of its wholly owned subsidiary, Lundin Latina de Petróleos S.A., holding a 5% interest in Baripetrol SA, to PetroFalcon Corporation ("PetroFalcon") and the acquisition of shares and warrants in PetroFalcon through a private placement. As a result of these transactions, Lundin Petroleum has become the largest shareholder in PetroFalcon with a shareholding of approximately 64 million shares of PetroFalcon, representing 42% of the issued and outstanding common shares of PetroFalcon. The fair value of the 64 million shares received amounted to TSEK 481,264 upon initial measurement resulting in a gain on sale of assets of TSEK 89,822 and a negative goodwill of TSEK 52,170. Lundin Petroleum has also acquired warrants of PetroFalcon, which may be exercised at any time during the two year period following issuance to acquire up to 5,000,000 shares of PetroFalcon at an exercise price of CDN 1.20 per share. In April 2008, PetroFalcon entered into an agreement to acquire the Venezuelan assets of Anadarko Petroleum Corporation. Lundin Petroleum agreed to guarantee certain of PetroFalcon's obligations under that agreement and in part consideration, received 7.1 million shares of PetroFalcon, which together with Lundin Petroleum's existing shares of PetroFalcon, represent approximately 45% of the issued and outstanding common shares of PetroFalcon. The agreement with Anadarko did not receive governmental approval and, as a result, Lundin Petroleum has no remaining guarantee outstanding. During the third quarter of 2009, PetroFalcon changed its name to Etrion Corporation (Etrion) and acquired a 90% interest in a renewable energy company which will be Etrion's primary business focus going forward. At the same time, Lundin Petroleum gained control of the board of directors of Etrion, and this, along with the combined shareholding of Etrion by Lundin Petroleum and certain of its directors gave deemed control for accounting purposes to Lundin Petroleum. As a result of this deemed control, Lundin Petroleum is required to fully consolidate the results of Etrion into the Lundin Petroleum consolidated accounts and has done so with an effective date of 30 September 2009. Etrion Corporation is also still holding its oil and gas operations in Venezuela with existing proven and probable reserves before royalties of 30.0 million barrels of oil equivalent (MMboe) as of 1 January 2010. Etrion is listed on the Toronto Stock Exchange (ticker symbol "ETX") .

Lundin Petroleum is holding the following direct and indirect investments in Etrion:

| **Company** | Country of registration | Percentage |
|---|---|---|
| Etrion Corporation | Canada | 44.81 |
| - Solar Resources Holding Sarl | Luxembourg | 90.00 |
| - Etrion SA | Switzerland | 100.00 |
| - Etrion Italia Srl | Italy | 100.00 |
| - SVE Srl | Italy | 100.00 |
| - PetroFalcon Oil and Gas SA | Venezuela | 100.00 |
| - PetroCumarebo SA | Venezuela | 40.00 |
| - Baripetrol SA | Venezuela | 5.00 |

The amounts included below for the jointly controlled entities and associated companies represent 100% of the reported accounts.

| **Income statement per 31 December 2009** | Etrion Corp. | Ikdam Productions SA | Oil Service | RF Energy consolidated |
|---|---|---|---|---|
| Revenue | – | 20,868 | 1,799 | 1,006,634 |
| Operating cost | – | 31,021 | -1,921 | -858,109 |
| Net result | -507,378 | -18,139 | -408 | 76,173 |

| **Balance Sheet per 31 December 2009** | Etrion Corp. | Ikdam Production SA | Oil Service | RF Energy consolidated |
|---|---|---|---|---|
| Non-current assets | 125,628 | 49,835 | 4,571 | 916,703 |
| Current assets | 176,326 | 12,026 | 1,159 | 147,284 |
| Total assets | 301,954 | 61,861 | 5,730 | 1,063,987 |
| Equity | 212,897 | -76,603 | 1,415 | 588,199 |
| Non-current liabilities | 61,111 | 134,547 | 704 | 331,913 |
| Current liabilities | 27,946 | 3,917 | 3,611 | 143,875 |
| Total liabilities | 301,954 | 61,861 | 5,730 | 1,063,987 |

## NOTE 18 – OTHER SHARES AND PARTICIPATIONS (TSEK)

| **Other shares and participation comprise:** | Number of shares | Share % | Book amount 31 Dec 2009 | Book amount 31 Dec 2008 |
|---|---|---|---|---|
| ShaMaran Petroleum Corp. | 50,000,000 | 10.01 | 152,482 | – |
| Baripetrol SA | 30,026 | 5.00 | 57,644 | – |
| PetroCumarebo SA | 497,080 | 40.00 | 13,521 | – |
| Noorderlijke Aardgas Transportmij B.V. (NOGAT) | – | – | – | 112,109 |
| Cofraland B.V. | 31 | 7.75 | 3,100 | 3,287 |
| Island Oil and Gas plc | 4,000,000 | 3.62 | 3,579 | 6,205 |
| Maison de la géologie | 2 | 1.25 | 30 | 33 |
| | | | **230,356** | 121,634 |

In October 2009, Lundin Petroleum received 50 million shares of ShaMaran Petroleum Corp. (ShaMaran) in consideration for the sale of Lundin International BV (LIBV), a 100% owned subsidiary, which had commenced negotiations for Production Sharing Contracts (PSCs) for three separate exploration and development blocks in Kurdistan. An accounting gain of TSEK 211,195 was recognised in the financial year ended 31 December 2009 based on the market value of the shares on completion of the transaction. Lundin Petroleum will receive an additional 50,000,000 shares of ShaMaran upon the approval of a development plan for the PSC covering the Pulkhana Block, Kurdistan.

In July 2009 Lundin Petroleum sold its shareholding in NOGAT for a cash consideration of TSEK 96,387 (TEUR 9,000) and realised an accounting gain of MSEK 80.4.

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

As at 31 December 2009, the other shares and participations include MSEK 3.1 recognised at cost because their fair value cannot be measured reliably since there is no quoted share price and due to the uncertainty of the timing of the future cash flows from these companies.

## NOTE 19 – FINANCIAL RISKS, SENSITIVITY ANALYSIS AND 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.

### Currency fluctuations
Lundin Petroleum is a Swedish company which is operating globally and therefore attracts substantial foreign exchange exposure, both transactional as well as conversion from functional currency to presentation currency. The functional currency of the majority of Lundin Petroleum's subsidiaries are the USD, NOK, EUR and RUR, making Lundin Petroleum sensitive for fluctuation of these currencies against the Swedish Krona (SEK), the presentation currency.

### Conversion exposure
The following table summarises the effect a shift of these currencies against the SEK would have on operating result through the conversion of the income statements of the Groups subsidiaries from functional currency to the presentation currency SEK for the year ended at 31 December 2009.

| **Operating result in the financial statements (MSEK)** | **-3,224** | **-3,224** |
|---|---|---|
| Shift of currency exchange rates to: | | |
| EUR/SEK | 9.5580 | 11.6820 |
| USD/SEK | 6.8601 | 8.3845 |
| NOK/SEK | 1.0950 | 1.3383 |
| RUR/SEK | 0.2165 | 0.2647 |
| **Total effect on operating result (MSEK)** | **320.8** | **-320.8** |

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

### Transaction exposure
Lundin Petroleum's policy on currency rate hedging is, in case of currency exposure, to consider setting the rate of exchange for known costs in non-US dollar currencies to US dollars in advance so that future US dollar cost levels can be forecasted with a reasonable degree of certainty. The 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.

As at 31 December 2008, the Group had entered into the following foreign exchange forward contracts for 2009 fixing the rate of exchange from USD into GBP, EUR, NOK and CHF, in order to limit the foreign exchange rate exposure from operational costs in foreign subsidiaries.

| Buy | Sell | Average contractual exchange rate | Settlement period |
|---|---|---|---|
| MGBP 78.0 | MUSD 139.8 | USD 1.79: 1 GBP | 2 Jan 2009 – 16 Dec 2009 |
| MEUR 21.6 | MUSD 31.6 | USD 1.47: 1 EUR | 2 Jan 2009 – 1 Dec 2009 |
| MNOK 192.0 | MUSD 33.7 | NOK 5.70: 1USD | 2 Jan 2009 – 1 Dec 2009 |
| MCHF 12.0 | MUSD 11.2 | CHF 1.07: 1 USD | 2 Jan 2009 – 16 Dec 2009 |

As at 31 December 2009, no foreign exchange forward contracts were entered into.

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

The table below summarises the effect a shift in the oil price would have had on the net result at 31 December 2009:

| **Net result in the financial statements (MSEK)** | **-3,790.0** | **-3,790.0** |
|---|---|---|
| Possible shift (USD/boe) | -5 | 5 |
| **Total effect on net result (MSEK)** | **-205.6** | **205.6** |

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

For the year ended 31 December 2009, the Group did not enter into oil price hedging contracts. There are no oil price hedging contracts outstanding as at 31 December 2009.

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

The table below summarises the effect an increase/decrease in the interest rate for the credit facility would have had on the net result for the year ended 31 December 2009:

| **Net result in the financial statements** | **-3,790.0** | **-3,790.0** |
|---|---|---|
| Possible shift (%) | -10 | 10 |
| **Total effect on net result** | **6.3** | **-6.3** |

As at 31 December 2009 the Group had entered into an interest hedging contract, fixing the LIBOR rate of interest at 3.75% p.a. on MUSD 200 of the Group's USD borrowings for the period January 2008 to January 2012.

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

As at 31 December 2009 the Group's trade receivables amounted to MSEK 574.5 (MSEK 582.0). For the customers involved there is no recent history of default and the provision for bad debt as at 31 December 2009 amounted to MSEK – (MSEK -). Cash and cash equivalents are maintained with banks having a long-term credit rating of no lower than A from Standard and Poor's.

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

Following last year's financial crisis, putting pressure on the Group's liquidity position through the generation of lower cash flows and a tightening of the credit markets, the world economy showed positive signs indicating the start of a recovery. During 2009, Lundin Petroleum generated strong operating cash flow which fully funded the Company's major capital expenditures programme. For a more detailed explanation refer to the Market Overview section on page 9.

Lundin Petroleum has a secured revolving borrowing base facility of MUSD 850, of which MUSD 544 has been drawn in cash and MUSD 35 has been drawn as Letters of Credit as at 31 December 2009. In addition Lundin Petroleum had an unsecured corporate facility for an amount of MUSD 150, which had an expiry date of 26 October 2010, and had remained undrawn. This facility was cancelled by Lundin Petroleum with an effective date of 31 December 2009. The MUSD 850 facility is a revolving borrowing base facility secured against certain cash flows generated by the company. The amount available under the facility is recalculated every six months based upon the calculated cash flow generated by certain producing fields at an oil price and economic assumptions agreed with the banking syndicate providing the facility. As part of the semi-annual redetermination process under the MUSD 850 secured facility, a new borrowing base amount of approximately USD 1.1 billion was calculated effective 1 January 2010. See also note 30.

## continued – NOTE 19

Lundin Petroleum has, through its subsidiary Lundin Malaysia BV, entered into three Production Sharing Contracts (PSC) with Petroliam Nasional Berhad, the oil and gas company of the Government of Malaysia ("Petronas"), in respect of the licences PM308A, PM308B and SB303 in Malaysia. BNP Paribas, on behalf of Lundin Malaysia BV has issued bank guarantees in support of the work commitments in relation to these PSCs amounting to MUSD 101.9 In addition, BNP Paribas have issued additional bank guarantees to cover work commitments in Indonesia amounting to MUSD 15.0.

It is expected that the Group's ongoing development and exploration expenditure requirements will be funded by the Group's operating cash flows and loan facility. No loan repayments are required for the credit facility in 2010 and 2011.

Financial instruments by category

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

| 31 December 2009<br>Expressed in TSEK | Loan receivables and other receivables | Available-for-sale | Derivatives used for hedging | Financial liabilities valued at amortised cost |
|---|---|---|---|---|
| **Assets** | | | | |
| Other shares and participations | | 230,356 | | |
| Long-term receivable | 172,498 | | | |
| Trade receivables | 574,452 | | | |
| Short-term loan receivable | 241,302 | | | |
| Derivative instruments | | | 1,647 | |
| Cash and cash equivalents | 550,372 | | | |
| | **1,538,624** | **230,356** | **1,647** | |
| | | | | |
| **Liabilities** | | | | |
| Trade Payables | | | | 145,792 |
| Bank loans | | | | 3,883,670 |
| Other non-current liabilities | | | | 89,656 |
| Derivative instruments | | | 72,560 | |
| Short-term debt | | | | 230,575 |
| | | | **72,560** | **4,349,693** |

| 31 December 2008<br>Expressed in TSEK | Loan receivables and other receivables | Available -for-sale | Derivatives used for hedging | Financial liabilities valued at amortised cost |
|---|---|---|---|---|
| **Assets** | | | | |
| Other shares and participations | | 121,634 | | |
| Long-term receivable | 22,255 | | | |
| Trade receivables | 581,978 | | | |
| Short-term loan receivable | 53,893 | | | |
| Derivative instruments | | | 3,438 | |
| Cash and cash equivalents | 448,855 | | | |
| | **1,106,981** | **121,634** | **3,438** | |
| | | | | |
| **Liabilities** | | | | |
| Trade Payables | | | | 276,443 |
| Bank loans | | | | 4,339,769 |
| Derivative instruments | | | 359,355 | |
| Short-term debt | | | | 53,893 |
| | | | **359,355** | **4,670,105** |

For financial instruments measured at fair value in the balance sheet, the following fair value measurement hierarchy is used:

- Level 1: based on quoted prices in active markets;
- Level 2: based on inputs other than quoted prices as within level 1, that are either directly or indirectly observable;
- Level 3: based on inputs which are not based on observable market data.

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

| **31 December 2009**<br>Expressed in TSEK | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Available for sale financial assets | | | |
| - Equity securities | 156,061 | | 74,295 |
| Derivatives used for hedging | | 1,647 | |
| | **156,061** | **1,647** | **74,295** |
| | | | |
| **Liabilities** | | | |
| Derivatives used for hedging | | 72,560 | |
| | | **72,560** | |

The outstanding derivative instruments can be specified as follows:

| **Fair value of outstanding derivative instruments in the balance sheet:** | 31 December 2009 Assets | 31 December 2009 Liabilities | 31 December 2008 Assets | 31 December 2008 Liabilities |
|---|---|---|---|---|
| Interest rate swaps | 1,647 | 72,560 | – | 94,282 |
| Foreign exchange forward contracts | – | – | 3,438 | 265,073 |
| **Total** | **1,647** | **72,560** | 3,438 | 359,355 |
| | | | | |
| Non-current | 1,647 | 22,218 | – | 54,896 |
| Current | – | 50,342 | 3,438 | 304,459 |
| **Total** | **1,647** | **72,560** | 3,438 | 359,355 |

For risks in the financial reporting see the section Internal control and risk management of financial reports in the Corporate Governance report on pages 36–37 for more information and for operational risk factors see page 40 for more information.

## NOTE 20 – DEFERRED FINANCING FEES

The deferred financing fees amounted to TSEK 53,475 (TSEK 75,748) and related to the costs incurred for establishing the bank credit facility and are being amortised over the estimated usage of the facility. In 2009 amortisation expenses amounted to TSEK 19,354 (TSEK 11,415). See also Note 10.

## NOTE 21 – OTHER FINANCIAL ASSETS

Other financial assets amount to TSEK 150,042 (TSEK 169,928) and mainly represent VAT paid on exploration and development costs in Russia that is expected to be recovered from VAT received on future project revenues.

## NOTE 22 – INVENTORIES (TSEK)

| **Inventories comprise:** | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Hydrocarbon stocks | 113,272 | 103,735 |
| Drilling equipment and consumable materials | 81,527 | 102,426 |
| | **194,799** | 206,161 |

| **Drilling equipment and consumable material comprises:** | 2009 | 2008 |
|---|---|---|
| 1 January | 102,426 | 98,424 |
| Disposals | -3,365 | – |
| Purchase | 42,658 | 22,671 |
| Used in production | -51,405 | -28,522 |
| Currency translation difference | -6,706 | 10,252 |
| | **83,608** | 102,825 |
| Provisions | -2,081 | -399 |
| | | |
| 31 December | **81,527** | 102,426 |

## NOTE 23 – TRADE RECEIVABLES (TSEK)

The trade receivables relate to a number of independent customers from whom there is no recent history of default. The provisions for bad debt is therefore nil.

## NOTE 24 – PREPAID EXPENSES AND ACCRUED INCOME (TSEK)

| Prepaid expenses and accrued income comprises: | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Prepaid rent | 2,213 | 7,797 |
| Joint venture balances | 12,332 | 14,250 |
| Prepaid insurances | 2,673 | 5,377 |
| Accrued income | 827 | 120 |
| Other | 51,928 | 50,202 |
| | **69,973** | 77,746 |

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

## NOTE 25 – OTHER RECEIVABLES (TSEK)

| Other receivables comprises: | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Underlift | 61,554 | 32,236 |
| VAT receivable | 21,353 | 43,875 |
| Other receivables | 23,466 | 11,602 |
| | **106,373** | 87,713 |

## NOTE 26 – 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 2008 | 67,672 | – | -791,162 | -723,490 |
| Total comprehensive income | -12,569 | -256,145 | 1,508,724 | 1,240,010 |
| **Balance at 31 Dec 2008** | 55,103 | -256,145 | 717,562 | 516,520 |
| Total comprehensive income | -126,940 | 205,790 | -548,118 | -469,268 |
| **Balance at 31 Dec 2009** | **-71,837** | **-50,355** | **169,444** | **47,252** |

## NOTE 27 – PROVISION FOR SITE RESTORATION (TSEK)

| | 2009 | 2008 |
|---|---|---|
| 1 January | 700,206 | 700,763 |
| Unwinding of discount (Note 10) | 41,208 | 31,263 |
| Payments | -1,531 | -1,410 |
| Changes in estimates | 258,698 | 46,512 |
| Disposals/Disinvestments | -5,971 | -64,973 |
| Currency translation difference | -48,271 | -11,949 |
| **31 December** | **944,339** | 700,206 |

In calculating the present value of the site restoration provision, a pre-tax discount rate of 5.5% (5.5%) was used. Based on the estimates used in calculating the site restoration provision as at 31 December 2009, 70% of the total amount is expected to settle after more than 20 years.

## NOTE 28 – PENSION PROVISION (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 totaling an annual amount of TCHF 206 (TSEK 1,236) and thereafter of monthly payments totalling an annual amount of TCHF 138 (TSEK 925) 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 12,438).

| Pension provision | 2009 | 2008 |
|---|---|---|
| 1 January | 10,140 | 9,478 |
| Fair value adjustment | 967 | -815 |
| Instalments paid | -925 | -833 |
| Currency translation difference | -547 | 2,310 |
| **31 December** | **9,635** | 10,140 |

## NOTE 29 – OTHER PROVISIONS (TSEK)

| Other provisions comprises: | Termination indemnity provision | Other | Total |
|---|---|---|---|
| 1 January 2009 | 26,987 | 28,559 | 55,546 |
| Acquired on consolidation | – | 777 | 777 |
| Disposals | – | -609 | -609 |
| Additions | 4,633 | 83,457 | 88,090 |
| Release | – | -18 | -18 |
| Payments | – | -13,986 | -13,986 |
| Reclassification | – | -2,098 | -2,098 |
| Currency translation difference | -2,705 | -5,421 | -8,126 |
| **31 December 2009** | **28,915** | **90,661** | **119,576** |

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

## NOTE 30 – BANK LOANS AND SHORT-TERM DEBT (TSEK)

In relation to bank loans, the following amounts were outstanding:

| Bank loans comprises: | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Current** | | |
| Repayment within 6 months | 13,877 | 26,947 |
| Repayment between 6–12 months | 3,202 | 26,946 |
| **Long term** | | |
| Repayment within 2–5 years | 3,875,822 | 4,339,769 |
| Repayment after five years | 7,848 | – |
| | **3,900,749** | 4,393,662 |

The table above analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. 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 Lundin Petroleum's credit facility was floating at LIBOR + 1.1% until 26 October 2007 and after that at LIBOR + 0.9%.

In November 2009 Etrion signed a credit facility agreement for an amount of EUR 17.2 million with Centrobanca for the construction of solar power plants in southern Italy. The facility has a term of 17.5 years and bears interest at six-month EURIBOR plus a margin of 250 basis points during the first five years, 270 basis points during the second five years and 300 basis points thereafter.

Fair value on bank loans as at 31 December 2009 has been estimated to book value as the loans had floating interest rate.

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

As at 31 December 2009 an amount of TSEK 213,496 (TSEK -) was outstanding as short-term debt regarding the advance in relation to the agreement with Gunvor.

## NOTE 31 – FINANCE LEASE (TSEK)

There are no finance leases within the Group.

## NOTE 32 – OPERATING LEASE (TSEK)

Operating lease payments excluding rents in the income statement amounts to MSEK - (MSEK 15.6). Operating lease payments in 2008 related to the sale and leaseback transaction of a vessel employed on the Jotun field offshore Norway. On 31 July 2008 the sale of the Jotun field was completed due to which no operating lease payments were outstanding as at 31 December 2009.

## NOTE 33 – ACCRUED EXPENSES AND PREPAID INCOME (TSEK)

| **Accrued expenses and prepaid income comprises:** | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Holiday pay | 15,398 | 11,180 |
| Operating costs | 52,604 | 39,163 |
| Social security charges | 11,058 | 8,409 |
| Salaries and wages | 4,193 | 2,652 |
| Other | 33,972 | 41,433 |
| | **117,225** | 102,837 |

## NOTE 34 – OTHER LIABILITIES (TSEK)

| **Other liabilities comprises:** | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Overlift | 9,161 | 106,844 |
| Acquisition liabilities | 42,167 | 44,708 |
| Joint venture partners | 44,836 | 17,714 |
| VAT payable | 8,691 | 13,893 |
| Social charges payable | 8,866 | 4,873 |
| Other liabilities | 29,656 | 22,844 |
| | **143,377** | 210,876 |

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 (TEUR 4,113) 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.

The liability to Joint venture partners amounted to TSEK 44,836 (TSEK 17,714) and primarily relates to a unitisation settlement and settlements following joint liftings.

## NOTE 35 – PLEDGED ASSETS

On 26 October 2007 the Group entered into a new credit facility under which an amount of MUSD 544.0 was outstanding as at 31 December 2009. The financing facilities consist of a MUSD 850 revolving borrowing base and letter of credit facility. 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 4,978,037 (TSEK 4,605,804) as at 31 December 2009, represents the net asset book values of the pledged companies.

## NOTE 36 – CONTINGENT LIABILITIES

At the time of the acquisition by Lundin Petroleum, Valkyries had four contingent liabilities outstanding. Two of the contingent liabilities related to the Lagansky Block and amounted 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. During 2009, these contingent liabilities were replaced, subject to completion of the agreement to acquire the 30 percent interest held by the minority partner, by the agreement of Lundin Petroleum to pay to the former owner of the Lagansky Block a contingency fee to be based on USD 0.30 per barrel of oil in respect of 30% of the proven and probable reserves in the Lagansky Block as at the date a decision is made to proceed to a development.

An additional MUSD 1 was due to the vendor of the Ashirovskoye Field, following the first calendar year in which production from this field exceeds 100,000 metric tons. With the sale during 2009 of CJSC Oilgaztet, this contingent liability has been transferred to the new owner. Valkyries had also 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 was a contingent liability from the Oilgaztet acquisition which, with the sale during 2009 of CJSC Oilgaztet, has been transferred to the new owner.

**Contingent Asset**

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

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

## NOTE 37– EARNINGS PER SHARE

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

| | 2009 | 2008 |
|---|---|---|
| Net result attributable to shareholders of the Parent Company (in SEK) | -2,890,510,000 | 560,011,000 |
| Weighted average number of shares for the year | 313,420,280 | 315,682,981 |
| **Earnings per share** (in SEK) | **-9.22** | 1.77 |

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 net result attributable to shareholders of the Parent Company by the diluted weighted shares.

| | 2009 | 2008 |
|---|---|---|
| Net result attributable to shareholders of the Parent Company (in SEK) | -2,890,510,000 | 560,011,000 |
| Weighted average number of shares for the year | 313,420,280 | 315,682,981 |
| Dilution effect of outstanding warrants | – | – |
| Weighted average number of shares for the year after considering the dilution effect of outstanding warrants. | 313,420,280 | 315,682,981 |
| **Earnings per share (diluted)** (in SEK) | **-9.22** | 1.77 |

## NOTE 38 – ADJUSTMENT TO CASH FLOW FROM OPERATIONS (TSEK)

| | Note | 2009 | 2008 |
|---|---|---|---|
| Other provisions | | 1,425 | 13,718 |
| Impairment cost for goodwill | 6 | 847,196 | – |
| Impairment of oil and gas properties | 5 | 3,741,279 | 613,693 |
| Exploration costs | 4 | 1,051,024 | 901,683 |
| Depletion, depreciation and amortisation | 13/14 | 1,321,114 | 1,056,980 |
| Amortisation of deferred financing fees | 10 | 19,354 | 11,415 |
| Interest income in Income Statement | 9 | -35,262 | -55,988 |
| Current tax in Income Statement | 12 | 293,909 | -77,107 |
| Interest expense in Income Statement | 10 | 91,422 | 107,774 |
| Other non-cash items | 39 | 673,966 | 711,044 |
| Unrealised exchange gains | 9 | -369,649 | 871,052 |
| Gain on sale of assets | 7 | -112,523 | -333,591 |
| **Adjustment to cash flow from operations** | | **7,523,255** | 3,820,673 |

## NOTE 39 – CASH FLOW ANALYSIS – OTHER NON CASH ITEMS (TSEK)

| | 2009 | 2008 |
|---|---|---|
| Deferred tax | 119,593 | 707,944 |
| Site restoration discount | 41,208 | 31,263 |
| Share based payments | 83,503 | 27,271 |
| Result from associated company | 426,219 | -6,031 |
| Financial income from associated company | – | -46,558 |
| Other non-cash items | 3,443 | -2,845 |
| | **673,966** | 711,044 |

## NOTE 40 – RELATED PARTY TRANSACTIONS

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

The Group paid TSEK 96 (TSEK -) to Vostok Nafta Investment Ltd for the rent of an office in Stockholm. Vostok Nafta is considered a related party because the major shareholder is Lorito Holdings (Guernsey) Ltd which also is the major shareholder in Lundin Petroleum.

The Group received TSEK 576 (TSEK -) from ShaMaran for the provision of office and other services and TSEK 2,426 (TSEK -) for the provision of technical services. Lundin Petroleum holds approximately 10% of the shares in ShaMaran.

The Group received TSEK 4,352 (TSEK -) from AOC being interest on a loan provided to AOC at an arm's length transaction basis and TSEK 229 (TSEK -) for the provision of technical services. As at 31 December 2009, the loan provided to AOC amounted to TSEK 169,294 (TSEK -).

In the financial year ended 31 December 2008, the Group paid TSEK 170 to Namdo Management Services Ltd., a private corporation owned by Lukas H. Lundin, a director of the Company, 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 service agreement was terminated during 2008. There was no outstanding payable amount at 31 December 2008.

In the financial year ended 31 December 2008, the Group received TSEK 198 from Vostok Nafta Investment Ltd and related companies, for the provision of office and accounting services. There was no outstanding receivable at 31 December 2008.

## NOTE 41 – AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS (TSEK)

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **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 | 34 | 23 | 37 | 26 |
| France | 55 | 44 | 54 | 44 |
| Norway | 56 | 38 | 42 | 28 |
| Netherlands | 7 | 4 | 7 | 3 |
| Indonesia | 20 | 14 | 18 | 13 |
| Russia | 182 | 143 | 281 | 223 |
| Tunisia | 9 | 6 | 8 | 5 |
| Singapore | 4 | 3 | 7 | 6 |
| Malaysia | 16 | 11 | 6 | 4 |
| Ethiopia | 4 | 3 | 11 | 7 |
| Kenya | 2 | 1 | 5 | 3 |
| United Arab Emirates | 3 | 2 | 2 | 1 |
| Venezuela | 4 | 2 | – | – |
| Switzerland | 43 | 30 | 46 | 33 |
| **Total subsidiary companies** | **439** | **324** | 524 | 396 |
| | | | | |
| **Total Group** | **439** | **324** | 524 | 396 |

For the Group, a total of 26 persons held senior management and board positions (2008: 21, 2007-2005: 20, 2004: 19, 2003: 15 persons). One woman is included in these positions in 2009 (2008: one, 2007-2005: two, 2004-2003: one).

| **Salaries, other remuneration and social security costs per country** | 2009 Salaries and other remuneration | 2009 Social security costs | 2008 Salaries and other remuneration | 2008 Social security costs |
|---|---|---|---|---|
| **Parent company** | | | | |
| Sweden | 4,927 | 908 | 4,213 | 720 |
| **Total parent company** | **4,927** | **908** | 4,213 | 720 |
| | | | | |
| **Subsidiary companies in Sweden** | **–** | **–** | – | – |
| | | | | |
| **Subsidiary foreign companies** | | | | |
| United Kingdom | 42,901 | 7,581 | 37,170 | 7,533 |
| France | 30,768 | 16,445 | 26,351 | 13,072 |
| Norway | 98,161 | 25,671 | 60,764 | 10,421 |
| Netherlands | 6,924 | 756 | 4,746 | 964 |
| Indonesia | 9,154 | 236 | 6,121 | 857 |
| Russia | 44,919 | 3,623 | 50,272 | 4,722 |
| Tunisia | 6,454 | 486 | 4,257 | 425 |
| Singapore | 11,575 | 21 | 10,672 | 987 |
| Malaysia | 22,361 | 13 | 4,695 | – |
| Ethiopia | 1,573 | 32 | 1,923 | – |
| Kenya | 800 | 36 | 2,066 | – |
| United Arab Emirates | 1,552 | – | 1,161 | – |
| Venezuela | 1,008 | 175 | – | – |
| Switzerland | 149,849 | 12,553 | 68,494 | 10,770 |
| **Total subsidiary companies** | **427,999** | **67,628** | 278,692 | 49,751 |
| | | | | |
| **Total Group** | **432,926** | **68,536** | 282,905 | 50,471 |
| | | | | |
| of which defined contribution plan cost | | 21,732 | | 16,994 |
| of which defined benefit plan cost | | 970 | | 833 |

| **Salaries, other remuneration per country split between the Board of Directors/MD and other employees** | 2009 Board of Directors and MD | 2009 Other employees | 2008 Board of Directors and MD | 2008 Other employees |
|---|---|---|---|---|
| **Parent company** | | | | |
| Sweden | 4,927 | – | 4,213 | – |
| **Total parent company** | **4,927** | **–** | 4,213 | – |
| | | | | |
| **Subsidiary companies in Sweden** | **–** | **–** | – | – |
| | | | | |
| **Subsidiary foreign companies** | | | | |
| United Kingdom | 16,245 | 26,656 | 13,471 | 23,699 |
| France | – | 30,768 | – | 26,351 |
| Norway | 8,271 | 89,890 | 5,407 | 55,357 |
| Netherlands | 2,570 | 4,354 | 1,675 | 3,071 |
| Indonesia | 3,108 | 6,046 | 2,590 | 3,531 |
| Russia | 15,815 | 29,104 | 17,681 | 32,591 |
| Tunisia | 2,801 | 3,653 | 1,981 | 2,276 |
| Singapore | 3,747 | 7,828 | 2,989 | 7,684 |
| Malaysia | 4,104 | 18,257 | 1,072 | 3,623 |
| Ethiopia | 1,280 | 293 | 1,635 | 288 |
| Kenya | 351 | 449 | 902 | 1,164 |
| United Arab Emirates | – | 1,552 | – | 1,160 |
| Venezuela | – | 1,008 | – | – |
| Switzerland | 69,303 | 80,546 | 6,751 | 61,743 |
| **Total subsidiary companies** | **127,595** | **300,404** | 56,154 | 222,538 |
| | | | | |
| **Total Group** | **132,522** | **300,404** | 60,367 | 222,538 |

Amounts for Switzerland also contain related cost for personnel of Etrion SA.

## NOTE 42 – REMUNERATION TO BOARD OF DIRECTORS AND MANAGEMENT

It is the aim of Lundin Petroleum to recruit, motivate and retain high calibre executives capable of achieving the objectives of the Group, and to encourage and appropriately reward 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 executives are rewarded fairly for their contribution to the Group's performance.

The Company's Policy on Remuneration for executives, approved by the 2009 AGM, is described here below. The term 'executives' refers to the President and Chief Executive Officer (CEO), and other members of Group Management that includes the Executive Vice President and Chief Operating Officer (COO), and other executive officers at Vice President level.

The Policy on Remuneration complies with the principles for compensation previously awarded to Group Management and is based on individual agreements concluded between the Company and each executive.

### Compensation Committee

The Compensation Committee is to receive information on, and to determine matters regarding the compensation of Group Management. The Committee meets regularly and is responsible for reviewing the Policy on Remuneration and the compensation of executives and for making recommendations thereon to the Board of Directors. The Committee also has access to external advisors to ensure that salary and benefit packages are competitive and appropriate.

The proposed compensation level, criteria for variable salary and other employment terms for the CEO are submitted by the Compensation Committee to the Board for approval. For other executives, the CEO is responsible for proposing appropriate terms of compensation for approval to the Compensation Committee and for reporting to the Board.

### Elements of Remuneration

There are five key elements to the remuneration package of executives in the Group:

a) basic salary;
b) yearly variable salary;
c) long-term incentive plan;
d) pension arrangements; and
e) non-financial benefits.

### Basic Salary

The basic salary shall be based on market conditions, be competitive, and shall take into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the executive. The basic salary shall be reviewed annually to ensure that it remains competitive. In order to assess the competitiveness of the salary and benefit packages offered by the Group, comparisons may be made to those offered by similar companies. In such circumstances, the comparator group is chosen with regard to:

a) companies in the same industry;
b) the size of the company (turnover, profits and employee numbers);
c) the diversity and complexity of their businesses;
d) the geographical spread of their businesses; and
e) their growth, expansion and change profile.

Periodic benchmarking activities within the oil and gas sector shall also be undertaken to ensure that compensation packages remain in line with current market conditions.

### Yearly Variable Salary

The Company considers that a yearly 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 CEO will make a recommendation to the Compensation Committee regarding the payment of the yearly variable salary to employees based upon their individual contribution to the Company's performance. This includes 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.

After consideration of the CEO's recommendations, the Compensation Committee will recommend to the Board of Directors for approval the level of the yearly variable salary of the CEO, and of all other executives and employees, to the extent that such award is in excess of USD 10,000 per employee. The yearly variable salary shall normally be within the range of 1 - 10 monthly salaries.

### Long-term Incentive Plan 2009

The Company operates a Long-term Incentive Plan (LTIP), in which the Management, including the CEO, and certain other employees are entitled to participate. The LTIP has previously included share and option based plans where, among other features, certain performance conditions were attached to the vesting of the options or shares. For further information regarding these plans, please see Note 43.

A revised LTIP was presented to and approved by the 2009 AGM. The LTIP is related to the Company's share price and is divided into one plan for senior executives (being the CEO, the COO, the Chief Financial Officer (CFO) and the Senior Vice President Operations) and one plan for other Management. The LTIP is designed to align management incentives with shareholder interests.

a) Senior Executives

The LTIP for senior executives includes the issuance by Lundin Petroleum of phantom options exercisable after five years from the date of grant. The exercise of these options does not entitle the recipient to acquire shares of Lundin Petroleum, but to receive a cash payment based on the appreciation of the market value of such shares.

The senior executives were granted phantom options with an exercise price equal to 110 per cent of the average of the closing prices of the Company's shares on the NASDAQ OMX Stockholm for the ten trading days immediately following the 2009 AGM, which exercise price is equal to SEK 72.76. Such options will vest on the fifth anniversary of the date of grant. The recipient will be entitled to receive a cash payment equal to the average closing price of Lundin Petroleum's shares during the fifth year following grant, less the exercise price.

Payment of the award under these phantom options will occur in two equal instalments: (i) first on the date immediately following the fifth anniversary of the date of grant, and (ii) second on the date which is one year following the date of the first payment.

The total number of phantom options granted to senior executives is 4,000,000. No senior executive who received an award of phantom options is eligible for a grant of awards under the LTIP described in b) below during the five year vesting period of the phantom options.

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

b) Other Management

The LTIP for Management other than senior executives includes the granting of units that are converted into a cash award related to the Company's share price. The LTIP will be payable over a period of three years from award in order to aid in the retention of staff.

The LTIP consists of an annual grant of units that will be converted into a cash payment at vesting. The cash payment will be determined at the end of each vesting period by multiplying the number of units by the share price. The LTIP has a three year duration whereby the initial grant of units vests equally in three tranches: one third after one year; one third after two years; and the final third after three years. The cash payment is conditional upon the holder of the units remaining an employee of the Lundin Petroleum Group at the time of the payment. The units may not be assigned to any third party.

The Compensation Committee recommends to the Board of Directors a total number of units to be allocated each year for the following three years, together with a recommendation for the individual allocations. The respective individual allocations shall be based on both the position within the Company and 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. The total number of units granted in 2009 was approximately 675,000 for the whole Group, including Management other than senior executives.

c) General

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

Lundin Petroleum's Board of Directors received an authorization by the 2009 AGM to repurchase shares on the NASDAQ OMX Stockholm. The purpose of the share repurchases is, inter alia, to fix the undertaking under the LTIP, including any applicable social charges. The repurchased shares could be sold in the market in conjunction with the payments under the LTIP, meaning that the actual cash payment by Lundin Petroleum under the LTIP would correspond to the total price paid for the repurchased shares. An increase of the undertaking under the LTIP due to a rise of the stock price would thus be secured by the corresponding increase of the value of the repurchased shares. No shares were repurchased during the financial year ended 31 December 2009.

### Pension Arrangements
The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions in relation to the basic salary are dependent upon the age of the executive.

### Non-Financial Benefits
Non-financial benefits shall be based on market terms and shall facilitate the discharge of each executive's duties.

### Severance Arrangements
A mutual termination period of between one month and six months applies between the Company and executives, depending on the duration of the employment with the Company. In addition, severance terms are incorporated into the employment contracts for executives that give rise to compensation in the event of termination of employment due to a change of control of the Company.

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

### Authorisation for the Board of Directors
The Board of Directors is, following the decision of the 2009 AGM, authorised to deviate from the Policy on Remuneration in accordance with Chapter 8, section 53 of the Swedish Companies Act in case of special circumstances in a specific case. No such deviations were made in 2009.

Please see page 53 for further information on the Board of Directors' proposal regarding the remuneration policy for 2010.

| Salaries and other remuneration to non-executive directors (TSEK) | Fees | Other[1] | Total 2009 | Total 2008 |
|---|---|---|---|---|
| Ian H. Lundin | 800 | 1,470 | 2,270 | 2,219 |
| Magnus Unger | 600 | 157 | 757 | 702 |
| Lukas H. Lundin | 558 | – | 558 | 400 |
| William A. Rand | 600 | – | 600 | 600 |
| Asbjørn Larsen | 450 | – | 450 | 292 |
| Dambisa Moyo | 292 | – | 292 | – |
| **Total** | **3,300** | **1,627** | **4,927** | 4,213 |

[1] Other remuneration paid during 2009 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 2009 AGM.

There are no severance pay agreements in place for any non-executive directors.

| Salaries and other remuneration to Executive Management (TSEK) | Salary | Bonuses[4] | Benefits[1] | Total 2009 | Total 2008 | Pensions 2009[2] | Pensions 2008 |
|---|---|---|---|---|---|---|---|
| C. Ashley Heppenstall | 4,924 | 1,641 | 844 | 7,409 | 7,299 | 465 | 389 |
| Alexandre Schneiter | 3,376 | 1,125 | 352 | 4,853 | 4,494 | 290 | 252 |
| Chris Bruijnzeels | 2,363 | 788 | 277 | 3,428 | 3,276 | 188 | 165 |
| Other Management[3] | 7,288 | 1,910 | 516 | 9,714 | 10,929 | 468 | 561 |
| **Total** | **17,951** | **5,464** | **1,989** | **25,404** | 25,998 | **1,411** | 1,367 |

1 Benefits paid include school fees and health insurance.
2 Pension contributions relate to payments to non-contributory pension funds in excess of the minimum Swiss statutory levels.
3 Other Management comprise the four Vice Presidents in office during the year until 30 April 2009 and three thereafter following the resignation of the VP Operations.
4 Included in the bonus expense for 2009 is also an amount of TSEK 4,032 (TSEK 6,733) relating to bonuses awarded in January 2009 relating to 2008. In December 2009 the Compensation Committee awarded a bonus for 2009 of one month's salary to the CEO and to the Vice Presidents. In January 2010 the Compensation Committee met and reassessed the bonus payments made for 2009 considering the employees' contributions to the results of the Company and the achievement of personal targets. The committee awarded C. Ashley Heppenstall an additional bonus of TSEK 2,872 equal to seven months salary and awarded bonuses to Alexandre Schneiter and Chris Bruijnzeels of TSEK 1,969 and TSEK 1,182 respectively and the other Vice Presidents a total of TSEK 2,324 equal to between two and seven months salary. The additional bonus is not included in the table above.

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 terms 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 two years' basic salary for Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Senior Vice President Operations and one year's basic salary for other Executive Management.

The following incentive warrants have been issued to the Executive Management. The Board of Directors have no outstanding incentive warrants.

| 2007 Programme | Allocated | Granted[1] | Conditional award of shares under Performance Share Plan[2] | Incentive warrants and shares outstanding 31 December 2009 | |
|---|---|---|---|---|---|
| **Executive Management** | Incentive warrants | Incentive warrants | Shares | Incentive warrants | Shares[2] |
| C. Ashley Heppenstall | 400,000 | 200,000 | – | 200,000 | – |
| Alexandre Schneiter | 350,000 | 175,000 | – | 175,000 | – |
| Chris Bruijnzeels | 100,000 | 25,000 | 5,732 | 25,000 | 5,732 |
| Other management | 300,000 | 140,000 | 2,293 | 115,000 | 2,293 |
| **Total** | **1,150,000** | **540,000** | **8,025** | **515,000** | **8,025** |

[1] after Company performance condition and net of shares elected to be taken under the Performance Share Plan.
[2] maximum number of shares. Award will be 50% to 100% of the maximum shares based on the Company achieving a further performance condition.

For incentive warrants, see also Note 43.

## NOTE 43 – 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 2005 until 2007 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 cannot be exercised within the first year of issue. Issued warrants to employees leaving the Company within the first year of issue, are forfeited.

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 converted acquired incentive warrants and the incentive warrants issued after the date of acquisition amounted to 275,000 and had an exercise price of SEK 97.40 with an exercise period up to 31 May 2009.

At the AGM held on 16 May 2007, the shareholders of Lundin Petroleum approved the implementation of a Long-Term Incentive Plan (LTIP) consisting of a Share Option Plan and a Performance Share Plan. Employees had the choice to select either the Share Option Plan or the Performance Share Plan or a 50/50 allocation of both.

The Share Option Plan includes the conditional granting of options with a vesting period of 18 months and subject to the achievement of a performance condition measuring Total Shareholder Return (TSR) relative to a peer group of companies. The options were issued at a 10% premium to the average closing price of Lundin Petroleum shares for the ten days after the AGM. Employees will earn between 0 and 100% of the options depending upon the Company's performance measured using a relative TSR. The period for the performance condition expired on 30 November 2008 at which time 50% of the options awarded were issued as incentive warrants.

The Performance Share Plan includes a conditional award of Lundin Petroleum shares with a vesting period of three years and subject to the achievement of a performance condition relative to TSR. The number of shares awarded under the Performance Share Plan is based on the value of the options granted under the Share Option Plan. The employees will earn between 50 and 100% of the award of shares depending upon the Company's performance measured using a relative TSR. Under the Performance Share Plan, Lundin Petroleum made a conditional award of 67,751 shares subject to the achievement of performance criteria. In June 2007, Lundin Petroleum acquired 68,000 of its own shares to fully hedge its potential obligation under the Performance Share Plan.

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | 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 | 90.87 | 4,921,750 | 80.64 | 9,300,000 |
| Granted | – | – | – | – |
| Not vested | – | – | 78.05 | -1,675,750 |
| Exercised | – | – | 60.20 | -2,360,000 |
| Lapsed | 96.02 | -3,511,000 | 87.23 | -342,500 |
| **At 31 December** | **78.05** | **1,410,750** | 90.87 | 4,921,750 |

The weighted average share price relating to the incentive warrants exercised during 2009 amounted to SEK – (SEK 88.22) per share. As at 31 December 2009 1,410,750 (4,921,750) options were exercisable.

The related total expense accounted for during the period amounted to TSEK 221 (TSEK 17,049). See also The Lundin Petroleum Share and Shareholders, page 41–43, for details on exercise price and vesting period.

At the AGM on 13 May 2008, the shareholders of Lundin Petroleum approved the implementation of an LTIP which is related to the Company's share price and consists of an annual grant of units that will be converted into a cash payment at vesting. The cash payment will be determined at the end of each vesting period by multiplying the number of units by the share price. The 2008 LTIP has a three year duration whereby the initial grant of units vests equally in three tranches: one third after one year; one third after two years; and the final third after three years. The cash payment is conditional upon the holder of the units remaining an employee of the Lundin Petroleum Group at the time of payment. The total costs related to the 2008 LTIP amounted to TSEK 10,329 for the financial year ended 31 December 2008 and TSEK 18,596 for the financial year ended 31 December 2009. The total number of units granted under the 2008 LTIP was approximately 700,000, out of which 403,106 were outstanding on 31 December 2009.

At the AGM on 13 May 2009, the shareholders of Lundin Petroleum approved the implementation of an LTIP which is related to the Company's share price and is divided into one plan for senior executives (being the CEO, the COO, the Chief Financial Officer (CFO) and the Senior Vice President Operations) and one plan for other Management and certain other employees.

The 2009 LTIP for senior executives consists of a grant of phantom options exercisable after five years from the date of grant. The exercise of these options entitles the recipient to receive a cash payment based on the appreciation of the market value of such shares. Payment of the award under these phantom options will occur in two equal instalments: (i) first on the date immediately following the fifth anniversary of the date of grant, and (ii) second on the date which is one year following the date of the first payment. The exercise price for the phantom options is SEK 72.76. The total costs related to the 2009 LTIP for senior executives amounted to TSEK 4,675 for the financial year ended 31 December 2009.

The 2009 LTIP for Management other than senior executives and certain other employees follows the sample principles as the 2008 LTIP and consists of an annual grant of units that will be converted into a cash payment at vesting. The cash payment will be determined at the end of each vesting period by multiplying the number of units by the share price. This LTIP has a three year duration whereby the initial grant of units vests equally in three tranches: one third after one year; one third after two years; and the final third after three years. The cash payment is conditional upon the holder of the units remaining an employee of the Lundin Petroleum Group at the time of payment. The total costs related to the 2009 LTIP for Management other than senior executives and certain other employees amounted to TSEK 13,155 for the financial year ended 31 December 2009. The total number of units granted under this LTIP was approximately 675,000, out of which 661,900 were outstanding on 31 December 2009.

For further details regarding these LTIPs, please see Note 42.

Etrion maintains a stock option plan, whereby options can be granted to officers and certain employees. Stock options have a term of between five and ten years. All stock options vest over three years and are exercisable at the market prices for the Etrion shares on the dates that the stock options were granted. Under particular circumstances, Etrion's Compensation Committee may authorise different vesting periods for particular stock options granted.

Movements in the number of outstanding Etrion stock options and their related weighted average exercise price are as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Average weighted exercise price in CAD per share | Stock options outstanding | Average weighted exercise price in CAD per share | Stock options outstanding |
| At 1 January | 1.77 | 9,333,660 | 1.81 | 10,796,494 |
| Granted | 0.48 | 4,510,000 | 1.24 | 450,000 |
| Exercised | – | – | 0.85 | -330,000 |
| Lapsed | 2.20 | -2,460,020 | 1.99 | -1,582,834 |
| **At 31 December** | **1.17** | **11,383,640** | 1.77 | 9,333,660 |

As at 31 December 2009 7,571,972 (8,883,660) options were exercisable. The related total expense accounted for during the period amounted to TSEK 1,074 (TSEK -).

Etrion has entered into a shareholders agreement with the shareholder of the remaining 10% interest in the renewable energy company of which Etrion holds a 90% interest. This agreement provides for issuance of further at the money options to prevent dilution to the 10% shareholder in relation to the first MEUR 100 of value from investments by Etrion. These options are viewed as being granted, subject to a performance condition relating to future investments. It is estimated that the performance condition is likely to be met over a remaining period of 3.5 years from 31 December 2009 and therefore the company has recorded a non-cash compensation expense of TSEK 9,934 (TUSD 1,195). The total fair value of the stock options will be expensed over the vesting period, being the period from the grant date until the funds are estimated to be invested.

Etrion is fully consolidated in the Lundin Petroleum accounts due to which the related equity reserve for an amount of TSEK 55,311 is included within the Group's shareholders' equity. Of this amount TSEK 46,848 relates to the outstanding stock options and TSEK 8,463 relates to the mentioned shareholders agreement.

## NOTE 44 – SUBSEQUENT EVENTS

In February 2010, the exploration well 6507/11-10 targeting the Frusalen prospect in Norway licence PL476 (WI 30%) was plugged and abandoned as a dry hole. The costs associated with this well will be expensed during the first quarter of 2010.

Spin-off UK business and distribution of EnQuest shares to shareholders
On 6 April 2010, Lundin Petroleum announced completion of the spin-off its business in the United Kingdom (UK) into the newly formed UK company called EnQuest plc (EnQuest), in exchange for shares of EnQuest. The shares of EnQuest received by Lundin Petroleum were then distributed to Lundin Petroleum shareholders.

*Proposed Transaction Structure*
EnQuest acquired the UK oil and gas production, development and exploration assets and operations of both Lundin Petroleum and Petrofac Limited, a London Stock Exchange-listed company. EnQuest was recently incorporated for these transactions and is an independent oil and gas production and development company whose initial activities will be focussed on the United Kingdom Continental Shelf (UKCS).

Lundin Petroleum received fifty-five percent (55%) of the outstanding shares of EnQuest in consideration for the sale of the UK business and proposes to distribute its EnQuest shares to Lundin Petroleum shareholders. Lundin Petroleum shareholders will continue to hold their shares of Lundin Petroleum and will also receive new shares of EnQuest. The shareholders of Petrofac will hold the remaining forty-five percent (45%) of the outstanding shares of EnQuest. It is expected that entities associated with the Lundin family will be the largest shareholder in EnQuest. EnQuest will apply for admission and primary listing on London Stock Exchange, with a secondary listing on NASDAQ OMX Stockholm.

On 22 March 2010 the Extraordinary Meeting of Shareholders resolved to approve the sale of Lundin North Sea B.V. to EnQuest. Lundin North Sea B.V. is the holding company for all of Lundin Petroleum's UK oil and gas production, development and exploration assets and operations.

The transaction is expected to be completed early in the second quarter of 2010. The financial result of the spin-off of the UK business on the Group's result is depending on the first listing price of the EnQuest shares.

The following table provides a summary of the segment reporting for the Group's UK business.

| | 1 Jan 2009 - 31 Dec 2009 12 months | 1 Jan 2008 - 31 Dec 2008 12 months |
|---|---|---|
| Production in Mboepd, net | 10.2 | 10.2 |
| Average crude sales price in USD /boe | 62.83 | 96.41 |
| Average depletion cost in USD/boe | 13.83 | 16.94 |
| Operating income in MSEK | 1,783.7 | 2,280.8 |
| Operating profit contribution in MSEK | 273.8 | 646.0 |

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Oil and gas properties in MSEK | 4,190.8 | 4,511.1 |
| Total assets in MSEK | 4,521.2 | 4,911.5 |
| Total liabilities in MSEK | 3,527.5 | 4,224.2 |

# ANNUAL ACCOUNTS OF THE PARENT COMPANY

### Parent company

The business of the Parent Company is investment in and management of oil and gas assets. The net result for the parent company amounted to MSEK -32.3 (MSEK 62.8) for the financial year ended 31 December 2009.

The result included general and administrative expenses of MSEK 49.3 (MSEK 25.6) for the year ended 31 December 2009. Interest income derived from loans to subsidiary companies amounted to MSEK 7.7 (MSEK 8.7). Included in financial income for the comparative period is an amount of MSEK 113.3 relating to the Parent Company's portion of the gain on the sale of an investment in Revus Energy ASA. For the financial year ended 31 December 2009 there is a tax charge of MSEK 17.6 (MSEK 36.4) and this relates to Swedish taxes on the results of Controlled Foreign Companies being Cyprus entities within the Group.

### Accounting Principles

The financial statements of the Parent Company are prepared in accordance with accounting principles generally accepted in Sweden, applying RFR 1.2 issued by the Swedish Financial Reporting Board and the Annual Accounts Act (1995: 1554). RFR 1.2 requires the Parent Company to use similar accounting principles as for the Group, i.e. IFRS to the extent allowed by RFR 1.2. The Parent Company's accounting principles do not in any material respect deviate from the Group principles, see page 60–66.

# PARENT COMPANY INCOME STATEMENT

## PARENT COMPANY INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

| Expressed in TSEK | Note | 2009 | 2008 |
|---|---|---|---|
| **Operating income** | | | |
| Other operating income | 1 | 33,154 | 21,406 |
| | | | |
| **Gross profit** | | **33,154** | **21,406** |
| | | | |
| General, administration and depreciation expenses | 2 | -49,281 | -25,638 |
| | | | |
| **Operating profit** | | **-16,127** | **-4,232** |
| | | | |
| **Result from financial investments** | | | |
| Financial income | 3 | 8,589 | 126,276 |
| Financial expenses | 4 | -7,133 | -22,863 |
| | | **1,456** | **103,413** |
| | | | |
| **Profit before tax** | | **-14,671** | **99,181** |
| | | | |
| Corporation tax | 5 | -17,600 | -36,403 |
| | | | |
| **Net result** | | **-32,271** | **62,778** |

# PARENT COMPANY BALANCE SHEET

## PARENT COMPANY BALANCE SHEET AT 31 DECEMBER

| Expressed in TSEK | Note | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Shares in subsidiaries | 6 | 7,871,812 | 7,739,716 |
| Receivables from Group companies | 7/12 | 19,950 | 160,806 |
| **Total non current assets** | | **7,891,762** | 7,900,522 |
| | | | |
| **Current assets** | | | |
| Prepaid expenses and accrued income | | 448 | 495 |
| Other receivables | 8 | 4,917 | 9,433 |
| Cash and cash equivalents | 12 | 532 | 1,184 |
| **Total current assets** | | **5,897** | 11,112 |
| | | | |
| **TOTAL ASSETS** | | **7,897,659** | 7,911,634 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Restricted equity** | | | |
| Share capital | | 3,179 | 3,179 |
| Statutory reserve | | 861,306 | 861,306 |
| **Total restricted equity** | | **864,485** | 864,485 |
| | | | |
| **Unrestricted equity** | | | |
| Other reserves | | 5,120,750 | 5,089,856 |
| Retained earnings | | 1,887,788 | 1,855,683 |
| Net profit | | -32,271 | 62,778 |
| **Total unrestricted equity** | | **6,976,267** | 7,008,317 |
| | | | |
| **Total equity** | | **7,840,752** | 7,872,802 |
| | | | |
| **Non-current liabilities** | | | |
| Other provisions | 9 | 36,403 | 36,403 |
| **Total non-current liabilities** | | **36,403** | 36,403 |
| | | | |
| **Current liabilities** | | | |
| Trade payables | 12 | 87 | 233 |
| Tax liability | 10/12 | 17,600 | – |
| Accrued expenses and prepaid income | 11 | 2,484 | 1,873 |
| Other liabilities | | 333 | 323 |
| **Total current liabilities** | | **20,504** | 2,429 |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **7,897,659** | 7,911,634 |
| | | | |
| Pledged assets | 13 | 4,978,037 | 4,605,804 |
| Contingent liabilities | 13 | – | 183,549 |

# PARENT COMPANY STATEMENT OF CASH FLOW

## PARENT COMPANY STATEMENT OF CASH FLOW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

| Expressed in TSEK | 2009 | 2008 |
|---|---|---|
| **Cash flow used for operations** | | |
| Net result | -32,271 | 62,778 |
| | | |
| *Adjustments for* | | |
| Tax per income statement | 17,600 | 36,403 |
| Other non-cash items | 5,132 | -76,925 |
| Interest income received | – | -257 |
| Interest expenses paid | 3 | 112 |
| Unrealised exchange gains | 1,356 | -3,944 |
| | | |
| *Changes in working capital* | | |
| Decrease in current assets | 6,970 | 2,775 |
| Decrease in current liabilities | -359 | -38,765 |
| **Total cash flow used for operations** | **-1,569** | -17,823 |
| | | |
| **Cash flow from investments** | | |
| Long-term receivables granted | -34,100 | -833,831 |
| Repayments received on long-term receivables | 34,838 | 820,018 |
| Investment in other shares and participations | – | -172,907 |
| Proceeds from sale of other shares and participations | – | 286,235 |
| **Total cash flow from investments** | **738** | 99,515 |
| | | |
| **Cash flow used for financing** | | |
| Purchase of own shares | – | -234,103 |
| Proceeds from share issues | – | 142,072 |
| **Total cash flow used for financing** | **–** | -92,031 |
| | | |
| Change in cash and bank | -831 | -10,339 |
| Cash and bank at the beginning of the year | 1,184 | 8,861 |
| Currency exchange difference in cash and bank | 179 | 2,662 |
| | | |
| **Cash and bank at the end of the year** | **532** | 1,184 |

# 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 2008** | 3,155 | 861,306 | 5,157,307 | 1,821,289 | 34,667 | 7,877,724 |
| Transfer of prior year net result | – | – | – | 34,667 | -34,667 | – |
| New share issuance | 24 | – | 142,048 | – | – | 142,072 |
| Purchase of own shares | – | – | -234,103 | – | – | -234,103 |
| Transfer of share based payments | – | – | 17,322 | -17,322 | – | – |
| Share based payments | – | – | – | 17,049 | – | 17,049 |
| Currency translation difference | – | – | 7,282 | – | – | 7,282 |
| Net result | – | – | – | – | 62,778 | 62,778 |
| **Balance at 31 December 2008** | **3,179** | **861,306** | **5,089,856** | **1,855,683** | **62,778** | **7,872,802** |
| | | | | | | |
| Transfer of prior year net result | – | – | – | 62,778 | -62,778 | – |
| New share issuance | – | – | – | – | – | – |
| Purchase of own shares | – | – | – | – | – | – |
| Transfer of share based payments | – | – | 30,894 | -30,894 | – | – |
| Share based payments | – | – | – | 221 | – | 221 |
| Currency translation difference | – | – | – | – | – | – |
| Net result | – | – | – | – | -32,271 | -32,271 |
| **Balance at 31 December 2009** | **3,179** | **861,306** | **5,120,750** | **1,887,788** | **-32,271** | **7,840,752** |

[1] Lundin Petroleum AB's issued share capital at 31 December 2009 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each. Included in the number of shares issued at 31 December 2009 are 4,490,300 shares which Lundin Petroleum holds in its own name.

[2] From 1 January 2006 the additional paid in capital has been included in Other reserves as well as currency differences on loans to subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

## NOTE 1 – OTHER OPERATING INCOME PER COUNTRY (TSEK)

| | 2009 | 2008 |
|---|---|---|
| Norway | 12,937 | – |
| United Kingdom | 11,047 | 13,360 |
| Tunisia | 4,718 | 4,403 |
| Malaysia | 3,546 | 1,299 |
| Ethiopia | 1,063 | 1,498 |
| Indonesia | 590 | 95 |
| Ireland | – | 4 |
| Kenya | -747 | 747 |
| | **33,154** | 21,406 |

## NOTE 2 – REMUNERATION TO THE AUDITORS (TSEK)

The auditors of the parent company are PricewaterhouseCoopers.

| **Remuneration to the Group's auditors** | 2009 | 2008 |
|---|---|---|
| Audit fees | 1,260 | 1,407 |
| Other | 378 | 241 |
| | **1,638** | 1,648 |

## NOTE 3 – FINANCIAL INCOME (TSEK)

| **Financial income comprise:** | 2009 | 2008 |
|---|---|---|
| Interest income | 7,720 | 9,006 |
| Gain on sale of investment | – | 113,328 |
| Foreign exchange gain, net | – | 3,942 |
| Other | 869 | – |
| | **8,589** | 126,276 |

Included in the interest income for the Parent Company is an amount of TSEK 7,720 (TSEK 8,749) received from Group companies.

The result on the sale in investment relates to the gain on the sale of an investment in Revus Energy ASA.

## NOTE 4 – FINANCIAL EXPENSES (TSEK)

| **Financial expenses comprise:** | 2009 | 2008 |
|---|---|---|
| Other financial expenses group | 5,717 | 22,717 |
| Foreign exchange losses, net | 1,356 | – |
| Other | 60 | 146 |
| | **7,133** | 22,863 |

Other financial expenses group related to a provision for bad debt in relation to a loan provided to a subsidiary.

## NOTE 5 – TAXES (TSEK)

| | 2009 | 2008 |
|---|---|---|
| Profit before tax | -14,671 | 99,181 |
| Tax calculated at the corporate tax rate in Sweden (26.3% - prior year 28%) | 3,858 | -27,771 |
| Tax effect of Controlled Foreign Companies | -23,225 | – |
| Tax effect of expenses non-deductible for tax purposes | -1,623 | -8,632 |
| Tax effect of utilisation of unrecorded tax losses | 3,390 | – |
| | **-17,600** | -36,403 |

## NOTE 6 – SHARES IN SUBSIDIARIES (TSEK)

Note 6 appears on the following page (page 89).

## NOTE 7 – RECEIVABLES FROM GROUP COMPANY (TSEK)

| **Receivables from Group company:** | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Receivables from Group company | 19,950 | 160,806 |
| | **19,950** | 160,806 |

Long-term receivables due from subsidiaries amounting to TSEK 19,950 (TSEK 160,806) represents funding of operations within the subsidiaries for which repayment is not foreseen within an agreed repayment schedule.

## NOTE 8 – OTHER RECEIVABLES (TSEK)

| **Other receivables comprises:** | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Due from Group companies | 4,190 | 9,326 |
| VAT receivable | 727 | 107 |
| | **4,917** | 9,433 |

## NOTE 9 – OTHER PROVISIONS (TSEK)

Other provisions as at 31 December 2009 amounted to TSEK 36,403 (TSEK 36,403) and related to corporate income tax.

## NOTE 10 – TAX LIABILITY (TSEK)

Tax liability as at 31 December 2009 amounted to TSEK 17,600 (TSEK -) and related to corporate income tax.

## NOTE 11 – ACCRUED EXPENSES AND PREPAID INCOME (TSEK)

| **Accrued expenses and prepaid income comprises:** | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Social security charges | 442 | 342 |
| Other | 2,042 | 1,531 |
| | **2,484** | 1,873 |

## NOTE 12 – FINANCIAL INSTRUMENTS BY CATEGORY

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

| Expressed in TSEK | Loan receivables and other receivables | Financial liabilities valued at amortised cost |
|---|---|---|
| **Assets** | | |
| Receivables from Group companies | 24,140 | |
| Cash and cash equivalents | 532 | |
| | | |
| **Liabilities** | | |
| Trade Payables | | 87 |
| Tax liability | | 17,600 |
| | **24,672** | **17,687** |

## NOTE 13 – PLEDGED ASSETS AND CONTINGENT LIABILITIES

Please see Group Note 35 and 36 for details.

## NOTE 6 – SHARES IN SUBSIDIARIES (TSEK)

| | Registration number | Registered office | Number of shares | Percentage | Nominal value per share | Book amount 31 December 2009 | Book amount 31 December 2008 |
|---|---|---|---|---|---|---|---|
| **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 | 0 | 585 |
| Lundin Petroleum BV | BV 1216140 | The Hague, Netherlands | 180 | 100 | EUR 100.00 | 7,871,712 | 7,739,031 |
| | | | | | | **7,871,812** | 7,739,716 |
| **Indirectly owned** | | | | | | | |
| Lundin North Sea BV | BV 1397514 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| - Lundin Britain Ltd | 3628497 | London, United Kingdom | 24,265,203 | 100 | GBP 1.00 | | |
| - Lundin Heather Ltd | 2748866 | London, United Kingdom | 9,701,000 | 100 | GBP 1.00 | | |
| - Lundin Thistle Ltd | 4487223 | London, United Kingdom | 100 | 100 | GBP 1.00 | | |
| - Lundin UK Ltd | 1006812 | London, United Kingdom | 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 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 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 Vietnam BV | BV 1272860 | The Hague, Netherlands | 180 | 100 | EUR 100.00 | | |
| Lundin Cambodia BV | BV 1397919 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| Lundin Data Services BV | BV 1458414 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| Lundin Malaysia BV | BV 1458418 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| Lundin Netherlands Facilities BV | BV 1509030 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| Lundin Ventures XIV BV | BV 1509028 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| Lundin Ventures XV BV | BV 1509027 | 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 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 BV | BV 1140222 | The Hague, Netherlands | 182 | 100 | EUR 100.00 | | |
| - Natuna Ventures BV | BV 1408196 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| - Lundin Rangkas BV | BV 1479636 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| - Lundin Cakalang BV | BV 1479547 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| - Lundin Baronang BV | BV 1479551 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| 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 Russia Ltd. | 656565-4 | Vancouver, Canada | 55,855,414 | 100 | CAD 1.00 | | |
| - Lundin Lagansky BV | BV 1397745 | The Hague, Netherlands | 18,000 | 100 | EUR 1.00 | | |
| - Mintley Caspian Ltd | 160901 | Limassol, Cyprus | 5000 | 70 | CYP1.00 | | |
| - LLC PetroResurs | 1047796031733 | Moscow Reg., Russia | 1 | 100 | RUR 10,000 | | |
| - LundinNeft LLC | 1057747770002 | Moscow, Russia | 1 | 100 | USD 100,000 | | |
| - Valkyries Cyprus Ltd | 148699 | Nicosia, Cyprus | 3736 | 100 | CYP 1.00 | | |
| - Valkalm Holding Ltd | 162301 | Nicosia, Cyprus | 1000 | 100 | CYP 1.00 | | |
| - Culmore Holding Ltd | 162316 | Nicosia, Cyprus | 1000 | 100 | CYP 1.00 | | |

During 2009 the 100% investment in Lundin East Africa BV, Lundin Kenya BV, Lundin International, Valkalm II Holding Ltd and Mintley Cyprus Ltd were sold. Lundin Investment Ltd and Lundin Sudan (Halaib) Ltd were under liquidation as at 31 December 2009.

Lundin North Sea BV and subsidiaries were sold to EnQuest plc on 6 April 2010.

# BOARD ASSURANCE

At 8 April 2010, the Board of Directors and the President of Lundin Petroleum AB have adopted this annual report for the financial year ended 31 December 2009.

## BOARD ASSURANCE

The Board of Directors and the President & CEO certify that the annual financial report for the Parent Company has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the financial position and profit of the Company and the Group and provides a fair review of the performance of the Group's and Parent Company's business, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm, 8 April 2010

Lundin Petroleum AB (publ) Org. Nr. 556610-8055

| | | | |
|---|---|---|---|
| **Ian H. Lundin**<br>Chairman | **C. Ashley Heppenstall**<br>President & CEO | **Lukas H. Lundin**<br>Board Member | **William A. Rand**<br>Board Member |
| **Magnus Unger**<br>Board Member | **Asbjørn Larsen**<br>Board Member | **Dambisa F. Moyo**<br>Board Member | |

# FINANCIAL DATES

## FINANCIAL REPORTING DATES

Lundin Petroleum will publish the following interim reports:

| | |
|---|---|
| » 5 May 2010 | Three month report (January – March 2010) |
| » 6 May 2010 | AGM 2010 |
| » 4 August 2010 | Six month report (January – June 2010) |
| » 3 November 2010 | Nine month report (January – September 2010) |
| » February 2011 | Year End report 2010 |

The reports are available on Lundin Petroleum's website, www.lundin-petroleum.com in Swedish and English directly after public announcement.

## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is held within six months from the close of the financial year. All shareholders who are registered in the shareholders' registry and who have duly notified their intention to attend the AGM may do so and vote in accordance with their level of shareholding. Shareholders who cannot participate personally may be represented by proxy.

The Annual General Meeting of the shareholders is to be held on Thursday, 6 May 2010 at 13.00 (Swedish time). Location: Biografen Skandia, Drottninggatan 82 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 29 April 2010; and
» notify Lundin Petroleum of their intention to attend the meeting no later than Thursday the 29 April 2010.

### Confirmation of attendance

» in writing to Lundin Petroleum AB, c/o Computershare AB, P.O.Box 610, SE 182 16 Danderyd, Sweden.
» by telephone:+46-8-518 01 554,
» by fax: +46 -8-588 04 201
» by e-mail: info@computershare.se

When registering please give your name, personal social security 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 the 29 April 2010.

# 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 president & CEO of Lundin Petroleum AB (publ) for the year 2009. The company's annual accounts and the consolidated accounts are included in the printed version on pages 40–90. The board of directors and the President & CEO 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 president & CEO and significant estimates made by the board of directors and the president & CEO 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 president & CEO. We also examined whether any board member or the president & CEO 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 president & CEO be discharged from liability for the financial year.

Stockholm, 8 April 2010

Bo Hjalmarsson
Lead Partner
Authorised Public Accountant
PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
PricewaterhouseCoopers AB

| **Proved and probable oil reserves** | Total Mbbl | UK Mbbl | France Mbbl | Netherlands Mbbl | Tunisia Mbbl | Norway Mbbl | Indonesia Mbbl | Russia Mbbl |
|---|---|---|---|---|---|---|---|---|
| **1 January 2008** | 169,828 | 50,077 | 25,779 | – | 1,921 | 44,128 | 10,432 | 37,491 |
| | | | | | | | | |
| **Changes during the year** | | | | | | | | |
| - acquisitions | – | – | – | – | – | – | – | – |
| - sales | -860 | – | – | – | – | -860 | – | – |
| - revisions | 19,924 | 30,677 | 2,053 | 100 | -973 | 1,829 | -40 | -13,722 |
| - extensions and discoveries | 11,048 | – | – | – | – | 11,048 | – | – |
| - production | -10,884 | -3,706 | -1,394 | -6 | -586 | -2,257 | -844 | -2,091 |
| **31 December 2008** | 189,056 | 77,048 | 26,438 | 94 | 362 | 53,888 | 9,548 | 21,678 |
| | | | | | | | | |
| **2009** | | | | | | | | |
| **Changes during the year** | | | | | | | | |
| - acquisitions | – | – | – | – | – | – | – | – |
| - sales | -5,974 | – | – | – | – | – | – | -5,974 |
| - revisions | 684 | 440 | -3,227 | -29 | 394 | 730 | -698 | 3,074 |
| - extensions and discoveries | 50,246 | – | – | – | – | 50,246 | – | – |
| - production | -12,932 | -3,743 | -1,249 | -2 | -495 | -4,678 | -875 | -1,890 |
| **31 December 2009** | 221,080 | 73,745 | 21,962 | 63 | 261 | 100,186 | 7,975 | 16,888 |

| **Proved and probable gas reserves** | Total MMscf[1] | UK MMscf | Netherlands MMscf | Norway MMscf | Indonesia MMscf |
|---|---|---|---|---|---|
| **1 January 2008** | 162,548 | 22,427 | 28,877 | 77,423 | 33,821 |
| | | | | | |
| **Changes during the year** | | | | | |
| - acquisitions | – | – | – | – | – |
| - sales | -226 | – | – | -226 | – |
| - revisions | 31,891 | 8,183 | 586 | 23,146 | -24 |
| - extensions and discoveries | 963 | – | 963 | – | – |
| - production | -5,747 | – | -5,000 | -693 | -54 |
| **31 December 2008** | 189,429 | 30,610 | 25,426 | 99,650 | 33,743 |
| | | | | | |
| **2009** | | | | | |
| **Changes during the year** | | | | | |
| - acquisitions | – | – | – | – | – |
| - sales | – | – | – | – | – |
| - revisions | -8,554 | -3 | -988 | -7,985 | 422 |
| - extensions and discoveries | 34,797 | – | – | 34,797 | – |
| - production | -6,933 | – | -4,541 | -2,299 | -93 |
| **31 December 2009** | 208,739 | 30,607 | 19,897 | 124,163 | 34,072 |

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

Of the total proved and probable oil and gas reserves at 31 December 2009, 42 Mbbl are attributable to minority shareholders of other subsidiaries of the Group.

The reserves as at 31 December 2009 have been certified by Gaffney, Cline & Associates.

## DEFINITIONS

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

### Abbreviations

| | |
|---|---|
| CHF | Swiss franc |
| EUR | Euro |
| GBP | British pound |
| NOK | Norwegian krona |
| RUR | Russian rouble |
| SEK | Swedish krona |
| USD | US dollar |
| TCHF | Thousand CHF |
| TSEK | Thousand SEK |
| TUSD | Thousand USD |
| 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 m3) |
| Bn | Billion |
| boe | Barrels of oil equivalents |
| boepd | Barrels of oil equivalents per day |
| bopd | Barrels of oil per day |
| Bn boe | Billion barrels of oil equivalents |
| Mbbl | Thousand barrels (in Latin mille) |
| Mbo | Thousand barrels of oil |
| Mboe | Thousand barrels of oil equivalents |
| Mboepd | Thousand barrels of oil equivalents per day |
| MMbo | Million barrels of oil |
| MMboe | Million barrels of oil equivalents |
| MMbpd | Million barrels per day |
| MMbopd | Million barrels of oil per day |
| Mcf | Thousand cubic feet |
| Mcfpd | Thousand cubic feet per day |
| MMscf | Million standard cubic feet |

### 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 percent probability that the quantities actually recovered will equal or exceed the estimates.

### 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 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Design Keith Laurie
Printed in Sweden 2010
Landsten Reklam – Vindspelet Grafiska

**Corporate Head Office**
Lundin Petroleum AB (publ)
Hovslagargatan 5
SE-111 48 Stockholm
Sweden
Telephone: 46-8-440 54 50
Telefax: 46-8-440 54 59
E-mail: info@lundin.ch

www.lundin-petroleum.com