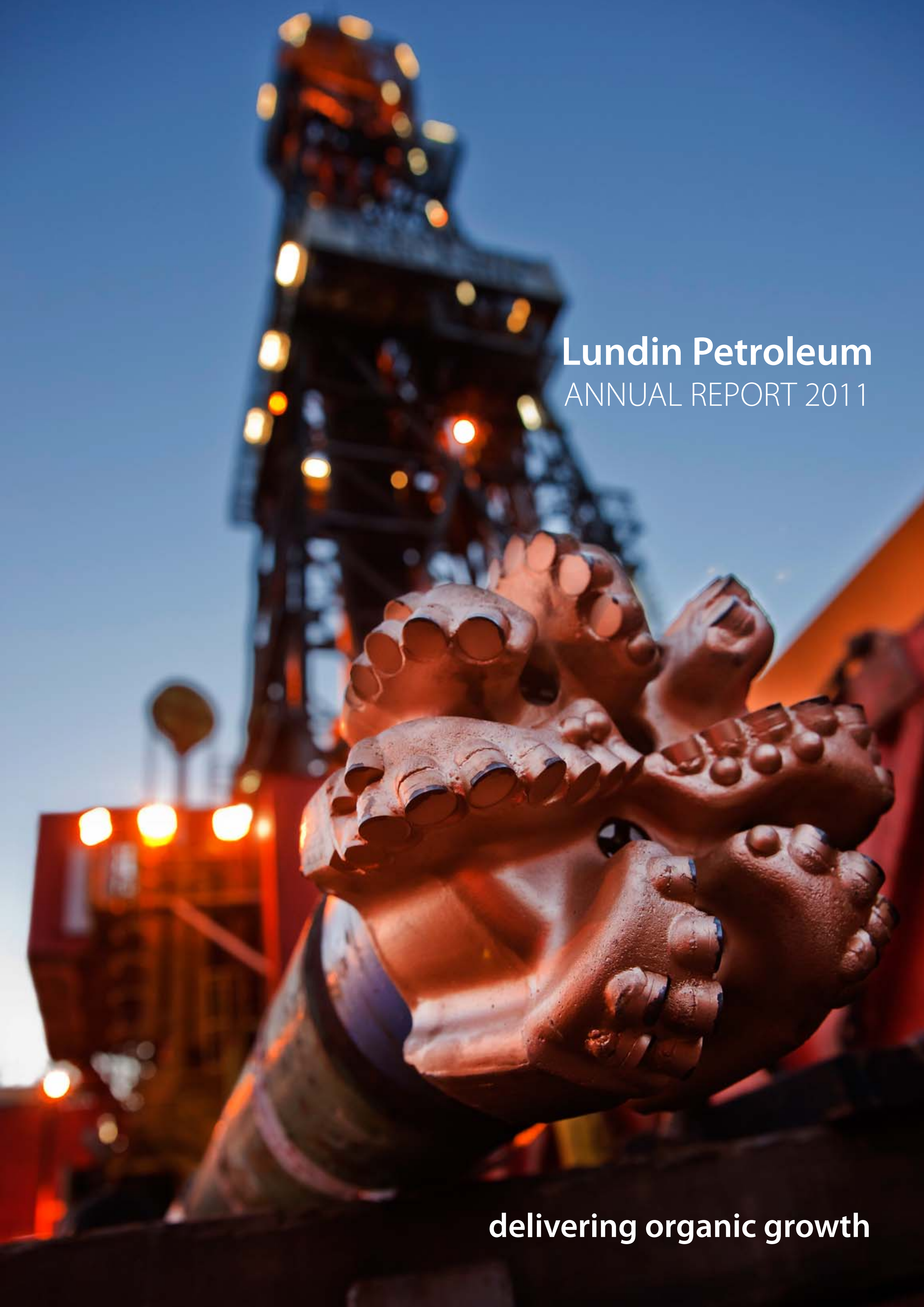


Lundin Petroleum
ANNUAL REPORT 2011

delivering organic growth

LUNDIN PETROLEUM

OPERATIONS

GOVERNANCE

FINANCIAL REPORT

ADDITIONAL INFORMATION

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.

Johan Sverdrup:
References in this Annual Report to gross estimated contingent resources of the Johan Sverdrup discovery of 1,700 to 3,300 MMboe, include 800 to 1,800 MMboe in PL501 (Lundin Petroleum working interest 40%) and 900 to 1,500 MMboe in PL265 (Lundin Petroleum working interest 10%). Lundin Petroleum's estimated contingent resources as at 31 December 2011 of 851.0 MMboe worldwide, 696.9 MMboe in Norway and 640.0 MMboe in the Johan Sverdrup discovery, include Lundin Petroleum's working interest share of the mid-range estimated contingent resources for the Johan Sverdrup discovery of 520.0 MMboe in PL501 and 120.0 MMboe in PL265. The contingent resource estimates in PL501 have been prepared by Lundin Petroleum, as operator of PL501, and have been audited by Gaffney, Cline & Associates on behalf of Lundin Petroleum. The contingent resource estimates in PL265 have been prepared by Statoil, as operator of PL265, and have not been audited on behalf of Lundin Petroleum. See Reserves and Resources on pages 28 to 30.

delivering organic growth

In the year of the Company's tenth anniversary, Lundin Petroleum experienced its most successful year.

The giant Johan Sverdrup oil discovery, offshore Norway, will be transformational for Lundin Petroleum and will likely be one of the most valuable discoveries ever made in the North Sea.

Ten years of growth

2001

The beginning

Lundin Petroleum comes into existence as a result of the SEK 4 billion takeover of Lundin Oil by Talisman Energy in the summer of 2001. As a part of this transaction, Lundin Oil shareholders receive SEK 36.50 in cash plus one share in Lundin Petroleum for each share held in Lundin Oil. On 6 September 2001 the shares of the new Company commence trading on the New Market at the Stockholm Stock Exchange.

2002

The first major acquisition

The major event of 2002 is the acquisition of Coparex International from BNP Paribas for USD 172.5 million. The acquisition of the French exploration and production company adds production in excess of 15,000 boepd from assets in France, Netherlands, Tunisia, Venezuela and Indonesia and reserves amounting to 55 MMboe to the existing portfolio. This acquisition transforms Lundin Petroleum from a pure exploration company into an important exploration and production (E & P) player.

2003

A second acquisition

In 2003, a second important transaction is made when Lundin Petroleum announces the acquisition of a portfolio of assets from DNO. The acquisition includes production assets in United Kingdom and Norway which will boost production to 28,900 boepd and increase reserves to 137 MMboe. Producing fields include Heather and Thistle in the United Kingdom and Jotun in Norway.

2004

Broom onstream

Lundin Petroleum completes the DNO acquisition and brings the Broom field, a satellite field to the Heather field, offshore United Kingdom, onstream with gross production reaching in excess of 25,000 boepd. An oil discovery is made on the Volund prospect in Norway, with further discoveries in France and Indonesia. The development plans for the Alvheim project in Norway and the Oudna field in Tunisia are approved.

2005

The consolidation

Following the two major acquisitions, 2005 is a year of consolidation. Production increases to an average of 33,190 boepd and reserves are certified at 142.6 MMboe. The development projects Alvheim, offshore Norway and Oudna, offshore Tunisia progress according to plan.

2011 – our most successful year to date

JOHAN SVERDRUP DISCOVERY
gross estimated contingent resources

1.7–3.3 billion boe[1]

PRODUCTION	END 2011 RESERVES
33,300 boepd	**211** MMboe

EBITDA	OPERATING CASH FLOW	NET RESULT
MUSD **1,012**	MUSD **676**	MUSD **155**

[1] includes Statoil estimate for Johan Sverdrup PL265 (900–1,500 MMboe)

2006

First oil from Oudna

Oil production commences from the Oudna field, offshore Tunisia, in November 2006. Production is from a single production well supported by a water injection well, reaching a plateau production of 20,000 bopd gross. With the addition of Oudna, Lundin Petroleum's production reaches 40,000 boepd. Lundin Petroleum enters Russia through the acquisition of Valkyries Petroleum Corp. Sadly, Adolf H. Lundin, the founder of Lundin Petroleum passes away.

2007

Organic strategy bears first fruit

A major new oil find is made on Lundin Petroleum's first operated well, offshore Norway. Initial gross resources of the Luno discovery are estimated between 65 and 190 MMboe. Lundin Petroleum's average production for 2007 was 34,000 boepd and reserves increased to 176.4 MMboe.

2008

Alvheim first oil

Following completion of the Alvheim FPSO and development drilling, first oil from the Alvheim field is produced in June 2008. The field is estimated to have a gross ultimate recovery of 215 MMboe and a gross plateau production in excess of 90,000 boepd. Oil discoveries are made on the Morskaya prospect in Russia and the Gaupe field, offshore Norway.

2009

Luno successfully appraised

Following the successful appraisal of the Luno discovery, offshore Norway, Gaffney, Cline & Associates confirm 95 MMboe of reserves. Reserves are further increased to 149 MMboe following a second appraisal well in 2010. Meanwhile, in PL150, the Volund field achieves first oil production. The Volund field is a subsea tieback to the Alvheim FPSO vessel. Capacity restrictions on the Alvheim FPSO postpone Volund commercial production until 2010.

2010

Avaldsnes discovered

A major discovery is made offshore Norway on the Avaldsnes (Johan Sverdrup PL501) prospect located to the east of the Luno field. Initial recoverable resources are estimated to be between 100 and 400 MMboe. Lundin Petroleum spins-off its UK business into EnQuest plc. EnQuest acquires the UK oil and gas production, development and exploration assets and operations of both Lundin Petroleum and Petrofac Limited. Lundin Petroleum receives 55 percent of the shares of EnQuest which are distributed to Lundin Petroleum shareholders. The distribution amounts to MUSD 718.

OPERATIONAL HIGHLIGHTS 2011

- Giant oil discovery on Johan Sverdrup in Norway
  - Estimated 1.7–3.3 billion boe gross contingent resources
- Six other discoveries in 2011
  - Caterpillar, Tellus and Skalle in Norway
  - Tarap, Cempulut and Janglau in Malaysia
- Strong production at upper guidance levels
- Reserves and contingent resources > 1 billion barrels
  - Reserves up 21 percent
  - Significant contingent resource increases

FINANCIAL HIGHLIGHTS 2011

- Net result of MUSD 155.2 up 20 percent from 2010
- EBITDA of MUSD 1,012.1 up 68 percent from 2010
- Operating cash flow of MUSD 676.2 up 18 percent from 2010
- Net debt of MUSD 133 down from MUSD 410 at 2010 year end

FORECAST 2012

- Major exploration/appraisal programme in Norway and Malaysia
- Further appraisal on Johan Sverdrup discovery
- Commence production from Gaupe field
- Brynhild field development ongoing
- Approval and commencement of Luno field development

LETTER TO SHAREHOLDERS

> "This makes the discovery one of the five largest discoveries ever made on the Norwegian Continental Shelf and the largest discovery since the mid-1980s
>
> C. ASHLEY HEPPENSTALL
> PRESIDENT AND CEO

Dear fellow shareholders,
It is a great pleasure to update you on developments at Lundin Petroleum following our exceptional performance in 2011. This year was transformational for the Company when it became clear that Avaldsnes/Aldous (now renamed Johan Sverdrup) is one of the largest discoveries ever made in the North Sea. Our strategy, which is predicated on organic exploration growth, has delivered excellent success which resulted in a 100 percent increase in the share price of Lundin Petroleum during 2011, equating to increased shareholder value of SEK 27 billion.

The major news in 2011 was clearly the announcement of increased contingent resources in the Avaldsnes discovery, offshore Norway. As we had previously indicated, the Avaldsnes structure extends to the west into the Statoil operated PL265 and this was confirmed with the Aldous Major South discovery. Avaldsnes and Aldous Major South, that have now been renamed Johan Sverdrup, are essentially one connected giant oil field. The Johan Sverdrup discovery is estimated to contain gross contingent resources of between 1.7 and 3.3 billion barrels of recoverable oil. This makes the discovery one of the five largest discoveries ever made on the Norwegian Continental Shelf and the largest discovery since the mid-1980s. Furthermore, the discovery is located in 115 metres of water depth, in a reservoir depth of less than 2,000 metres, close to existing infrastructure with spare capacity and with oil that is of excellent quality. It is truly remarkable that a discovery of this size and quality could be made by Lundin Petroleum, in the heart of the Norwegian North Sea, 45 years after the first exploration activity began in the area.

The priority in 2012 is to fully appraise the discovery to better define the resource range and to provide information for development planning. The results of the first 2012 appraisal well targeting the southern extension of the discovery were disappointing with the top reservoir coming in low to prognosis and below the oil water contact. Appraisal drilling will, however, continue with a further five to seven new wells likely to be drilled in PL501 and PL265 in 2012. In tandem with the appraisal programme we are working closely with Statoil and our partners to move the conceptual project development planning forward. The discovery will be a major contributor to North Sea production for years to come and due to its size, location and quality of reservoir, will be one of the most valuable discoveries ever made in the North Sea.

Financial Performance

Lundin Petroleum produced excellent financial results in 2011 with a net result for the year of MUSD 155.2. The strong production performance has continued and resulted in operating cash flow of MUSD 676.2 and EBITDA of MUSD 1,012.1 for the year. Our balance sheet remains very much under leveraged, with net debt of only MUSD 133.4, and an asset base which will support much higher leverage if required. We expect to continue to generate strong operating cash flow from our producing assets which will be the primary source of funding for our future development and exploration expenditures. As a result of the Luno field development project moving forward, we are likely to refinance our existing reserve based lending facility in 2012 to provide additional financial flexibility.

Lundin Petroleum has raised no cash equity since the initial USD 50 million equity raise when the Company was formed 10 years ago. Our growth has been funded from internally generated cash flow and the conservative utilisation of bank credit. This financial strategy will continue with the requirement for additional equity unlikely for the foreseeable future.

Resources

We have been very successful in increasing our resource base from exploration and appraisal drilling and this continued in 2011. Our reserves, which are independently audited by Gaffney, Cline & Associates, increased by 21 percent to 211 MMboe and again we have achieved an exceptional reserve replacement ratio of 264 percent.

In addition to our reserves, our contingent resources increased by over 200 percent to 851 MMboe primarily as a result of the Johan Sverdrup field. Lundin Petroleum, as a result, has increased its net reserves and contingent resources to over one billion barrels.

Production

During 2011, production averaged 33,300 barrels of oil equivalent per day (boepd) which was at the high end of our guidance range. Our forecast for 2012 is for production of between 32,000 and 38,000 boepd which represents an increase of five percent from 2011 if we assume the mid-point of our guidance range. The increase of production in 2012 will be driven by production start up from the Gaupe field, offshore Norway at the end of the first quarter as well as new development wells on both the Alvheim and Volund fields.

Development

We have made excellent progress with respect to our development projects and are on schedule to achieve our forecast of doubling production by the end of 2015. The 70,000 boepd production target will be driven principally by our various Norwegian development projects. Whilst it is premature to discuss production forecasts from the Johan Sverdrup field, it is, I believe, conservative to assume that our net production will at least double again after production start up from this field.

Exploration

Our view has always been that, despite being seen as a mature area, the Norwegian Continental Shelf represents an area with excellent exploration potential. The higher historical tax environment compared to the UK coupled with the fact that the independent sector was not active in Norway until 10 years ago meant that exploration drilling activity was much lower in Norway than in the UK. The geological setting is essentially the same and therefore the lower drilling activity in Norway creates an opportunity for aggressive exploration driven companies such as Lundin Petroleum. Our exploration success with the discovery of Volund, Luno, Apollo and now Johan Sverdrup clearly shows that this strategy has worked.

Nevertheless we believe there is more to be found. Despite the priority in respect of applying rig capacity to the appraisal of the Johan Sverdrup discovery, we will have an aggressive exploration programme in Norway in 2012 with eight new exploration wells. We will be drilling three new exploration wells in the southern Utsira High where we feel we have a very good understanding of the subsurface. The exploration drilling will continue in 2013. We will be drilling the Albert well in the Møre Basin in the northern North Sea close to where there have been interesting recent discoveries in the UK and Norway. In the Barents Sea, where we are one of the largest acreage owners, we have acreage close to Statoil's Skrugard and Havis discoveries where we will drill an exploration well in 2012.

Our exploration drilling campaign in Malaysia is proceeding well. The Tarap gas discovery announced in the second quarter of 2011 has been followed up with a further gas discovery at Cempulut. The two discoveries coupled with a third existing discovery in our licence means we have contingent resources of over 250 billion cubic feet (bcf) of gas in Block SB303 offshore Sabah, east Malaysia.

Happy Birthday

Lundin Petroleum celebrated its 10th birthday in 2011. After selling Lundin Oil to Talisman Energy and creating significant shareholder value, we started Lundin Petroleum in 2001 with about USD 50 million of cash equity. We are today one of the largest independent exploration and production companies in Europe. I am very proud that we have been able to grow the Company to a market value of USD 8 billion over the 10 years without asking our shareholders for any new cash equity. This success does not come without hard work and sacrifices from my management team and employees.

Ten years ago in my first Letter to Shareholders when we started Lundin Petroleum I talked about our late founder Adolf Lundin's life long quest to find the elusive elephant – or billion barrel oil field. My parting quote was 'Lundin Petroleum plans to deliver'. Well Adolf we delivered and I know you are looking down on us all a very proud man. We are looking forward to the next 10 years and intend to continue to deliver.

Yours sincerely,

C. Ashley Heppenstall
President and CEO

WORDS FROM THE CHAIRMAN

Dear fellow shareholders,

In 2011 Lundin Petroleum celebrated 10 years of success. Of course the vision of the founder is largely responsible for this outstanding success, but there is nothing like experience and plain hard work to produce results. This mixture of vision and experience supported by a hard working and dedicated management team has enabled Lundin Petroleum to achieve spectacular growth since its humble beginnings in 2001.

From an initial cash equity raise of USD 50 million and no producing assets, Lundin Petroleum today has a market value of USD 8 billion and production in excess of 33,000 boepd.

This is only the beginning. Lundin Petroleum has 851 million barrels of contingent resources in addition to its reserves of 211 million barrels of oil equivalents and we are the second largest oil company in Norway in terms of resources. The Company has also consistently replaced production and increased reserves during its first decade of existence. With a pipeline of new fields coming onstream in 2012, 2013, 2014 and 2015, the Company's production is forecast to double to 70,000 boepd by 2015 and it will probably more than double again when the Johan Sverdrup field comes onstream.

This is the type of growth that only very few companies can deliver and it is a particular trait of the oil exploration business. The Johan Sverdrup PL501 discovery (previously Avaldsnes) was first discovered in October 2010. After two successful appraisal wells and the discovery well of Johan Sverdrup PL265 (previously Aldous Major South) the new resource range was announced on 30 September 2011 indicating that Johan Sverdrup was one of the largest discoveries in the world in 2011.

> "We have demonstrated that it is possible to achieve substantial organic growth in the oil and gas business
>
> IAN H. LUNDIN
> CHAIRMAN

Even if repeating this type of extraordinary success seems unlikely, I would not be so sure. The 2012 exploration drilling campaign is targeting some very high potential prospects in Norway as well as in Malaysia. The Company's significant licence position on the Norwegian Continental Shelf (NCS) will ensure that this level of drilling activity will be maintained for a number of years.

Lundin Petroleum has established itself as a company that not only knows where to drill for oil but also delivers projects on time and on budget. The Luno field will be Lundin Petroleum's largest development project ever undertaken to date. With a gross budget of USD 4 billion and a design capacity of 120,000 bopd, the Luno field will be a major development project offshore Norway. This project will also have a significant impact on the Norwegian construction industry and I am very glad that the Company has already secured both yard space for the jacket and rig capacity for the Luno development which is forecasted to be onstream by the end of 2015.

I cannot talk about our success in Norway without mentioning our Norwegian team who has delivered beyond our wildest expectations. Led by Torstein Sanness and Hans Christen Rønnevik, Lundin Norway AS has demonstrated that the NCS is far from mature as an oil province. The only question that is being asked now is when and where will the next elephant be discovered.

In November 2011, Lundin Petroleum received the first prize for excellence among all the exploration companies in the industry and our CEO Ashley Heppenstall received the first prize for excellence among all the company leaders in the industry. These prizes were awarded by The Oil Council in London. In addition, Hans Christen Rønnevik, Exploration Manager Norway, was awarded the Norwegian Petroleum Society's highest honour for his and his team's achievements in Norway.

Lundin Petroleum's amazing growth has been achieved without any cash equity issue since the initial USD 50 million that was raised when the Company was formed 10 years ago. We have demonstrated that it is possible to achieve substantial organic growth in the oil and gas business and I expect Lundin Petroleum to grow further over the next 10 years doing what we do best – finding and producing oil.

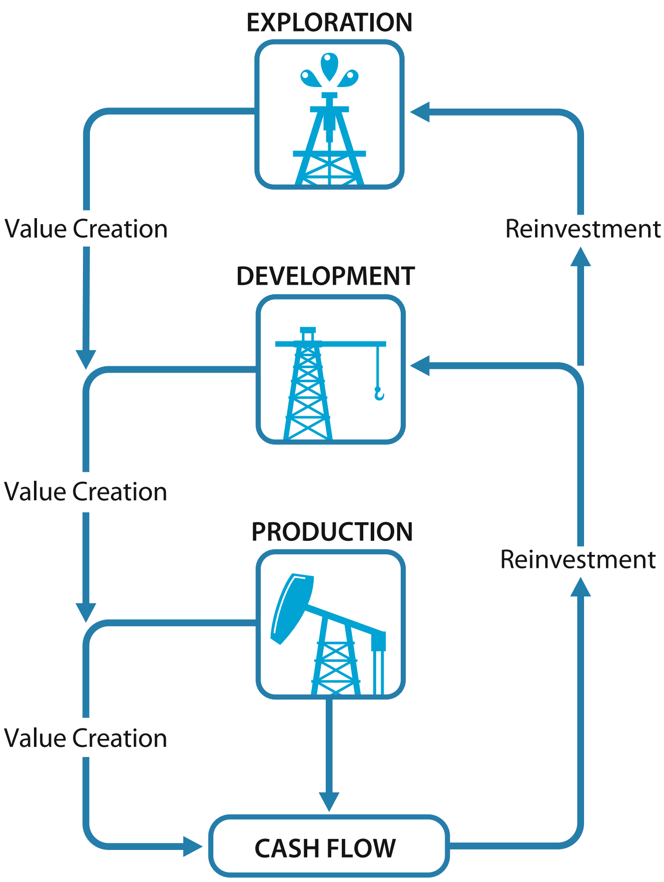
I would like to leave you with some parting thoughts about Adolf H. Lundin, my father and the founder of Lundin Petroleum. My father strongly believed in the efficient and responsible exploration and development of natural resources for the benefit of mankind. This outlook, combined with his unfailing sense of optimism, would come to define and motivate him throughout his life and career. Adolf was convinced that the economic benefit of responsibly developed natural resources would have a profound impact when it comes to alleviating poverty, war and disease. Over the past decade, Lundin Petroleum and my family have become targets of harsh and unfounded accusations regarding some of our past operations, especially Sudan. These allegations that Lundin Petroleum and its officers and directors were involved in, or complicit in, wrongdoings are completely false. We at Lundin Petroleum are proud of what we have achieved, and I am certain that Adolf would be proud of us and our accomplishments.

Yours sincerely,

Ian H. Lundin
Chairman of the Board

organic value creation

Lundin Petroleum's business model is to generate shareholder value through the exploitation of hydrocarbons. Lundin Petroleum's strategy of organic growth involves identifying core areas of focus and then establishing a team of professional technical staff with experience in those areas to use the latest technologies to explore for oil and gas. Commercial discoveries will be appraised and then, where they are deemed to be economic, progressed through the development phase to the production stage. The cash flow generated from production will be reinvested in the exploration and development stages. Lundin Petroleum believes that it is the development of this business model that has achieved success in the past and will continue to deliver results in the future.



OUR VISION

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

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

OUR STRATEGY

Lundin Petroleum is pursuing the following strategy:

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

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

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

delivering organic value through

exploration
– organic growth through the drill bit

reserves and production
– converting discoveries into cash flow

opportunistic value realisation
– unlocking value in our asset portfolio

exploration
– organic growth through the drill bit

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

Our objective is to continue to increase our resources through an exploration driven organic growth strategy. We will continue to allocate significant capital investment to our exploration activities and ultimately believe that this will lead to further value creation for Lundin Petroleum.

Over the ten years that Lundin Petroleum has been in existence it has explored in many countries but has narrowed the focus of its exploration activities into two core areas, Norway and South East Asia.

In Norway, our 2011 drilling programme followed on from the successes of 2010 with the drilling of two appraisal wells, with sidetracks, on the Avaldsnes field in PL501, first discovered in 2010. The successful appraisal of Avaldsnes enabled us to increase our contingent resource estimate from 100 to 400 MMboe to a range of 800 to 1,800 MMboe. Concurrent to the Avaldsnes appraisal, Statoil, as operator, drilled the Aldous Major South discovery on the neighbouring PL265. This discovery, ultimately acknowledged as being connected with Avaldsnes, was followed by an appraisal well that enabled Statoil to estimate contingent resources in PL265 of between 900 and 1,500 MMboe. The Avaldsnes and Aldous Major South discoveries have been recognised as one field and renamed Johan Sverdrup. Pre-unitisation discussions are ongoing between the PL265 and PL501 partners to agree how to take the field towards development.

Lundin Petroleum also enjoyed exploration success in the Tellus well on PL338, which has been incorporated within the Luno field development, and in the Skalle well on PL438 which was completed as a gas discovery with estimated gross contingent resources of between 88 and 283 billion cubic feet (bcf). The Skalle discovery is located approximately 25 km from the producing Snøvhit gas field.

Our licence position in Norway continues to grow with the addition of ten new licences awarded in January 2011 through the 2010 APA licensing round and a further ten licences awarded in January 2012 following success in the 2011 APA licensing round. We plan to drill eight exploration and six appraisal wells in Norway in 2012.

Lundin Petroleum's second core area for exploration activities is South East Asia. We completed our first five well drilling programme in Malaysia during 2011 with three exploration and one appraisal successes. The Tarap exploration well drilled in Block SB303, offshore Sabah, east Malaysia was completed in July 2011 as a gas discovery.

2011 EXPLORATION HIGHLIGHTS

Norway

- **Avaldsnes discovery appraisal programme**
  – Contingent resources 800–1,800 MMboe
- **Aldous Major South discovery and appraisal**
  – Contingent resources 900–1,500 MMboe[1]
- **Caterpillar discovery**
- **Tellus discovery**
- **Skalle discovery**

Malaysia

- **Three successful exploration wells**
- **Successful Bertam discovery appraisal**

[1] Statoil estimate

The gross contingent resources of the Tarap discovery are estimated at 171 bcf. The Cempulut exploration well, also in Block SB303, was also completed as a gas discovery. There is a third discovery named Titik Terang in the Block SB303 contract area. The three discoveries are in close proximity to one another and have an estimated gross contingent resource of more than 250 bcf. There are various options for the commercialisation of gas in the Sabah area and Lundin Petroleum is now evaluating the potential for a cluster development of the three discoveries. The exploration well in Block PM308A Janglau-1 completed in November 2011 was an oil discovery proving up a new play concept in Oligocene intra-rift sands. The discovery will require further appraisal drilling to determine commerciality.

In June 2011, Lundin Petroleum acquired a 75 percent working interest in Block PM307, offshore peninsular Malaysia. A 2,100 km^2 3D seismic acquisition programme was completed in 2011. In January 2012, the Bertam-2 appraisal well was successfully completed proving the continuity and quality of the oil bearing sandstone. Bertam field is likely to be a commercial oil field and studies are now progressing to review potential development concepts.

A further five exploration wells are planned to be drilled in Malaysia in 2012 offshore Sabah and offshore peninsular Malaysia, with drilling expected to commence in the second quarter of 2012.

reserves and production

– converting discoveries into cash flow

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

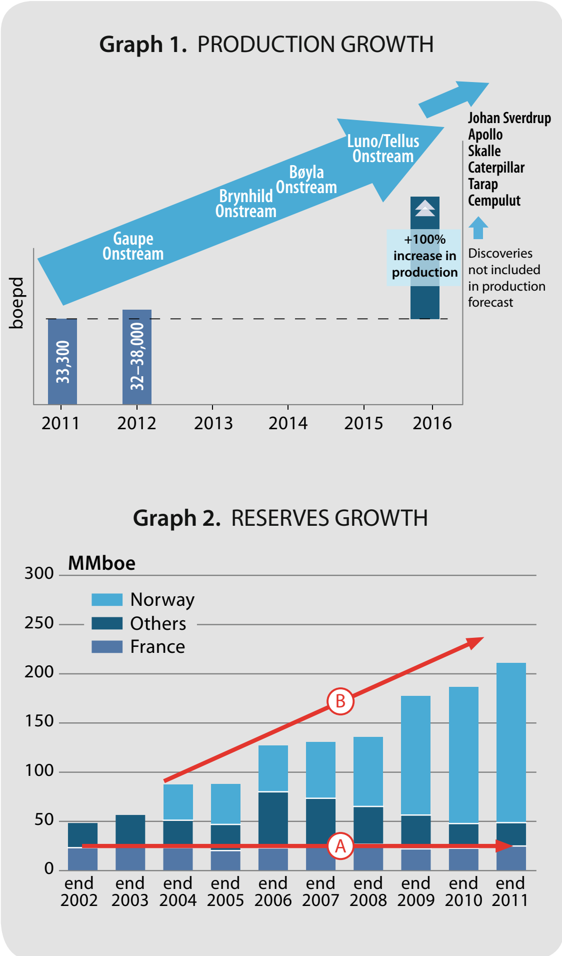
Our objective is to at least double our production by 2015 by formulating and executing development plans for our existing reserves. Furthermore, recent exploration successes, currently classified as contingent resources, will be appraised and further matured with the aim to move them into reserves as soon as possible. Development of these reserves will result in continued production increases for Lundin Petroleum. Graph 1 shows the near term developments and forecast production increases.

The success of this strategy can be illustrated by two examples. At the end of 2002, shortly after Lundin Petroleum was formed, we recognised approximately 23 MMboe of reserves for our French assets. At the end of 2011, our reserves in France stand at 25 MMboe, despite having produced approximately 13 MMboe from the same assets during the intervening years (as shown by line A in Graph 2). Put another way, Lundin Petroleum has, through its organic growth strategy, increased the French reserves base by 61 percent. This success translated into a very low decline in production; after 10 years we still produce over 3,000 bopd and production is forecast to increase in the coming years.

A second example is Norway where Lundin Petroleum first recognised reserves at the end of 2003. Through the successful development and operation of the Alvheim field and the discoveries of Volund, Luno and Gaupe, the reserves have increased to 162 MMboe at the end of 2011 (as shown by line B in Graph 2). Production from these fields followed, starting from zero in 2003 to 23,200 boepd in 2011 and is projected to more than double by the end of 2015 when the Luno field comes onstream.

In 2011, Lundin Petroleum continued its strong focus on turning discovered barrels into reserves and reserves into production. Reserves increased by 21 percent to 210.7 MMboe and production was about five percent above our initial forecast.

In Norway the strong performance of the Alvheim and Volund fields resulted in an annual production of 23,200 boepd, an increase of 27 percent when compared to 2010. Three new wells were drilled in Alvheim. Furthermore, the development of the Gaupe field was substantially completed with the drilling of two development wells and the installation of subsea facilities. First oil is expected at the end of the first quarter of 2012, when the field is tied back to the Armada field production facilities in the United Kingdom. Reserves were increased with, amongst others, the discovery of the Tellus field, north of the Luno field. The Tellus field has now been included in the Luno development plan, which was submitted in January 2012 and has a targeted first oil of the end of 2015.



In France the reserves increased by 13 percent, mostly as the result of the inclusion of the development plan for the Vert la Gravelle field. Full development of the Grandville field, which first started producing some 52 years ago in 1959, commenced in 2011 with the drilling of two wells and the construction of a production centre. A further six wells are planned for 2012 and first production through the production centre is expected in the second quarter of 2012.

Future reserves and production growth is expected from the Johan Sverdrup discovery in Norway. Total contingent resources net to Lundin Petroleum are estimated at 640 MMboe (520 MMboe in the Lundin Petroleum operated PL501 and 120 MMboe in the PL265 as estimated by PL265 operator Statoil).

opportunistic value realisation
– unlocking value in our asset portfolio

PAST VALUE REALISATION EXAMPLES

- » Spin-off of UK business into EnQuest and distribution of shares in 2010
- » Distribution of Etrion shares in 2010
- » Divestment of Salawati assets in Indonesia in 2010

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

Lundin Petroleum has created innovative solutions to generate value from its assets for its shareholders. Where it is determined that the full value of an asset can be realised through a sale, or when an asset is deemed to be non-core to Lundin Petroleum, then the asset may be put up for sale. In certain circumstances, however, it may be that the full value realisation of an asset can only be made over a period of time and this future value increase will not be fully reflected within a sale price. Lundin Petroleum saw this with its United Kingdom assets, packaged the assets under a separate, more focussed entity and distributed the shares in the entity to its shareholders in a tax efficient manner. This action has allowed the Lundin Petroleum shareholders to continue to hold the assets and participate in future value growth through a vehicle that will more effectively reflect the value generation.

Committed to value creation

Lundin Petroleum recognises that the quality of its employee base has been its single greatest factor in delivering its success. We have been fully committed to investing in our talented and experienced employee base and the rewards are evident in the results that the Company has delivered.

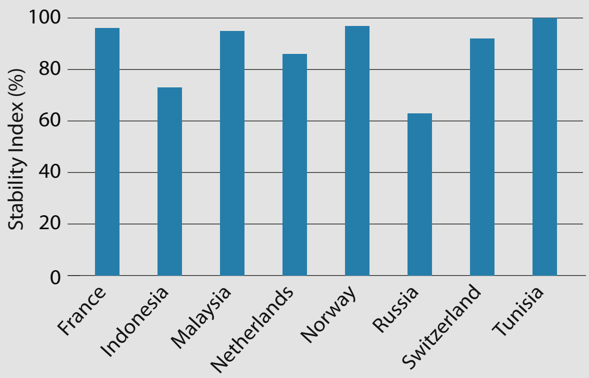
Over the last ten years, Lundin Petroleum has been very successful in attracting and retaining the best possible industry talent. This has been achieved in spite of the skills shortage facing the industry. This shortage will become more acute in the coming years.

Lundin Petroleum has been able to grow a sound employer branding and reputation in many of its areas of operation, making it the employer of choice in the current market place. The Company offers opportunities for personal growth and development across the range of professional disciplines that will continue to enable the Company to attract and retain a world class work force.

At the end of 2011 Lundin Petroleum directly employed approximately 300 people along with a further 200 consultants and contractors across our operations. This skill base of highly qualified and experienced industry professionals is without doubt the essential and driving factor in the collective achievements of our successes to date.

Lundin Petroleum continues to maintain a strong and enviable stability index that is a key driver of our ongoing success and future operating capabilities.

EMPLOYEE STABILITY INDEX 90 %



Stability Index (%) = Number of employees with service of one year or more x 100 / Total number of employees in post one year ago

LUNDIN PETROLEUM'S PEOPLE PRINCIPLES:

- Link reward and variable compensation to individual pre-determined performance objectives to encourage outstanding commitment and delivery, thereby enhancing value creation across all parts of Lundin Petroleum.
- Engagement, participation and involvement through our Performance Management Process.
- Support and encourage ongoing training and professional development.
- Pursue innovative recruitment and retention strategies.
- Promote a safe and respectful working environment for all employees where Health, Safety and Environment (HSE), diversity and equal opportunities are paramount to all and are enshrined in our Code of Conduct and the Lundin Petroleum Green Book.
- Continue to maintain a strong stability index across our people.

During the coming years Lundin Petroleum and the industry will continue to face major challenges:

- The ever aging workforce in the sector
- Too few new entrants to the geoscience/technical roles
- Intense competition from other upstream, exploration and production companies

This clearly recognised industry skills gap will be profoundly felt across the coming years as senior, highly skilled geoscience and technical specialists retire from the industry. Only those companies who are committed to employee retention and engagement will overcome this skills attraction and retention challenge. Lundin Petroleum will continue to recognise that its people will remain its most important asset for the delivery of future successes.

The Company's primary people strategy is to deliver value creation for all stakeholders through the alignment of pre-determined business goals and objectives for each employee through our Performance Management Process. This framework will enable us to achieve and exceed our stated corporate goals and objectives going forward. This strategy will concentrate on the following key elements:

- Remuneration and variable reward

  Ensure that we continue to remain competitive by offering remuneration packages that attract and retain the best skill, talent and leadership available, whilst enhancing shareholder value creation through the linking of fixed and variable remuneration to pre-determined, business focused performance criteria.

- Career development

  Promote the evolving and exciting progression opportunities that the employee base enjoys in the fast growing, entrepreneurial environment of Lundin Petroleum. As the Company evolves, so must the people.

OUR MARKET

OIL PRICE AND SUPPLY/DEMAND

At the start of 2011, most market commentators were predicting a fall in the oil price from the prevailing level of USD 110 as all market indicators pointed towards a slowing of the global economy. An expected reduction in China's growth rate, the threat of recession across Europe and the downgrade of sovereign credit ratings all supported the argument that the demand for oil would slow. But despite these recessionary concerns, oil demand remained strong throughout the year and Dated Brent achieved an average price of USD 111 for the year.

The market in 2011 supports Lundin Petroleum's view that the oil price will remain strong in the medium term. The short term price may be affected by various one off events but in the medium term, we believe that demand will continue to grow at a greater rate than the oil companies' ability to find, develop and produce new resources.

Oil demand is forecast to continue to grow in the medium term as shown in Graph 1. The graph demonstrates that whilst OECD demand is flattening off, overall demand is still increasing through growth in the non-OECD, led by China and India. GDP growth in China in the fourth quarter of 2011 was higher than analysts' expectations, coming in at nine percent, and forecast to continue at high levels. Indian GDP growth averaged over seven percent for the year.

Market strategists continue to forecast increased supplies to meet this demand through the utilisation of spare capacity and through greater investment in new production. Firstly, the ability to utilise this spare capacity has not been tested, in terms of the time it takes to bring this spare capacity onstream, whether it is the right quality to satisfy the market needs, transportation limitations and current refinery structures. Secondly, any investment decision in new production will depend ultimately on the economic viability of the project. The marginal cost of any additional production provided through new investment has increased, both through a higher cost of discovering and developing frontier and unconventional producing areas, and through governments using greater oil royalties and taxation to fund national budgets.

CAPITAL AND DEBT MARKETS

Equity Markets

Lundin Petroleum raised an initial USD 50 million through the equity markets when it was first established in 2001. This was followed in 2006 when Lundin Petroleum issued new shares at a value of approximately USD 600 million to fund the Valkyries acquisition. In 2010 Lundin Petroleum distributed shares in subsidiaries to shareholders valued at approximately USD 750 million, which is in excess of all the equity raised up to that point. Graph 2 shows the share price of Lundin Petroleum over the ten years the Company has been in existence reflecting the success of Lundin Petroleum's growth strategy.

Graph 3 shows Lundin Petroleum amongst a peer group predominantly composed of European independent oil and gas companies. Lundin Petroleum is now one of the largest European independent oil and gas companies. In 2011, the Lundin Petroleum share price increased by 100 percent as shown in Graph 4. This increase is due to exploration success, particularly the appraisal of the Johan Sverdrup discovery, and the continuation of momentum gained through reserve replacement and value growth.

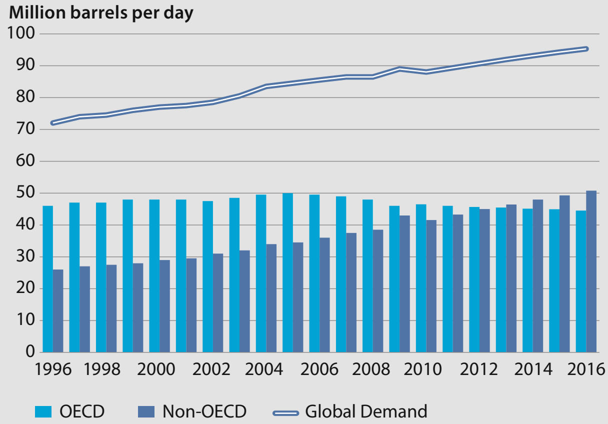
DEBT FUNDING

As its principal source of external funding, Lundin Petroleum has always utilised secured revolving credit lines, in the form of reserve based lending. In 2002, a reserve based lending facility of USD 130 million was raised to fund the Coparex acquisition, subsequently repaid in 2003. A new reserve based lending facility of USD 385 million was raised in 2004 for the DNO acquisition. This facility was subsequently increased to USD 500 million to fund Lundin Petroleum's organic growth programme. In 2007, Lundin Petroleum took advantage of prevailing positive market conditions to increase the facility to USD 850 million, complemented by a USD 150 million corporate facility providing liquidity for the Company to quickly respond to growth opportunities.

The success of Lundin Petroleum's organic growth strategy has resulted in a need, in 2012, to secure a new loan facility to fund development activities over the coming five years. Lundin Petroleum is seeking this funding in a time of unpredictability in the economy and with serious liquidity issues being experienced by many banks.

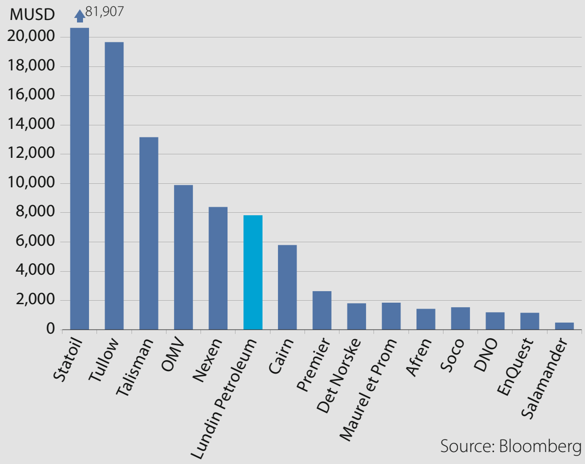
Even though Lundin Petroleum's proposed refinancing represents a significant increase over previous funding levels, based on an extensive market sounding and initial discussions with banks, we believe there is sufficient depth and appetite in the bank market, both through existing lenders and new banks, to support our development project funding requirements.

Graph 1. OIL DEMAND



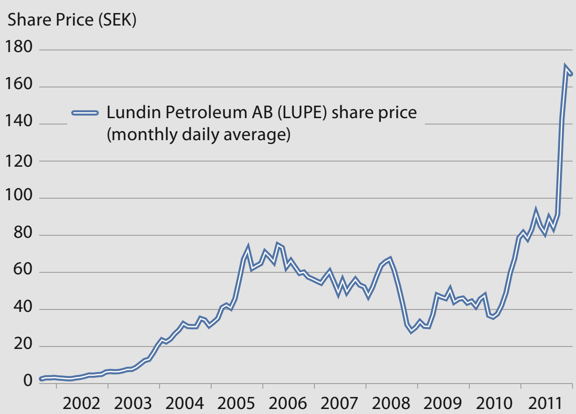
Source: OECD/IEA

Graph 3. PEER MARKET CAPS 1 JANUARY 2012



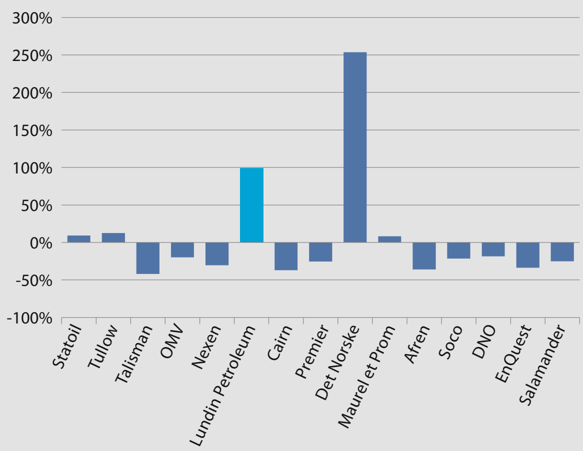
Source: Bloomberg

Graph 2. LUNDIN PETROLEUM 10 YEAR SHARE PRICE



Source: Bloomberg

Graph 4. MARKET CAP INCREASE OVER 2011



Source: Bloomberg

OUR AREAS OF OPERATION

Lundin Petroleum has active exploration and production assets in nine countries across the globe. At this point in time Lundin Petroleum is concentrating its efforts in two specific core areas, Norway and South East Asia where most of the exploration and development programme has been focussed in 2011 and will continue to be so in the near term.

Norway is the principal area of operation for Lundin Petroleum having grown substantially from the Company's entry in 2003 to the present position of having interests in over 50 licences. It dominates the overall asset portfolio in terms of reserves, resources and production and has a busy development pipeline and exploration programme over the coming years.

Since 2006 Lundin has grown its asset base in South East Asia four-fold to 12 exploration and production licences in Malaysia and Indonesia. Lundin Petroleum commenced a exploration drilling programme in 2011 resulting in oil and gas discoveries offshore Malaysia. The success will be followed up with an exploration and appraisal drilling programme in

COUNTRY MANAGEMENT

Torstein Sanness
Norway

Mike Nicholson
South East Asia, Malaysia

Valéry Da Silva
France

Andrew Harber
Netherlands

Cherif Ben Khelifa
Tunisia

Daniil Schedrov
Russia

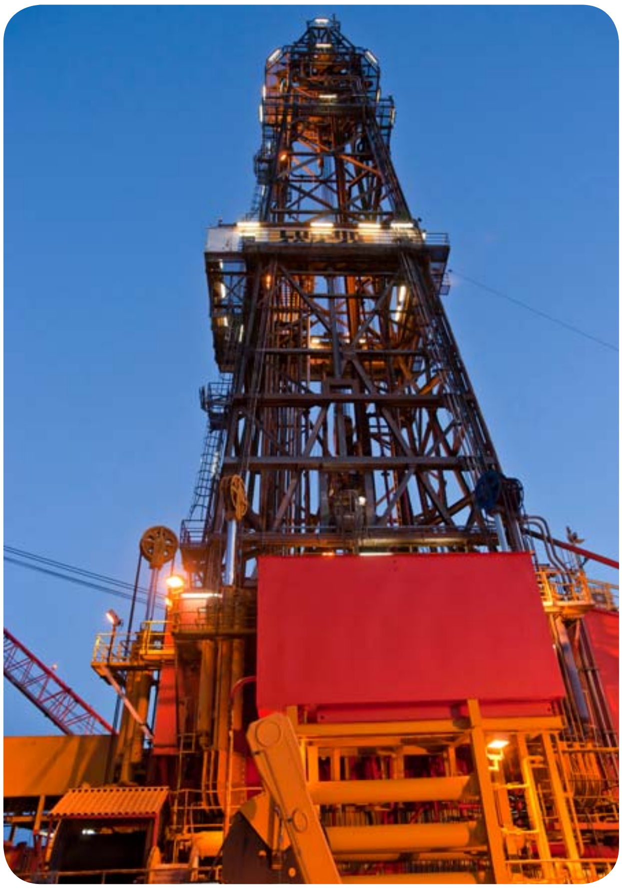
Jan Rijs
Indonesia

Malaysia in 2012 with plans to commence the Indonesian exploration drilling programme in 2013.

Further stable production is provided from assets in France, Netherlands, Russia and Tunisia where there remains upside potential from undeveloped oil and gas discoveries and ongoing exploration programmes.

One of Lundin Petroleum's key strengths is its employees. Lundin Petroleum employs professionals across a range of technical disciplines who are led by a team of experienced managers. The local operational general managers have the responsibility to ensure operations are carried out in accordance with Lundin Petroleum's goals and objectives.

Norway forecast to double production



Norway continues to grow in significance to Lundin Petroleum, contributing approximately 70 percent of production in 2011 as well as 77 percent of the reserves and 82 percent of the contingent resources at the end of 2011. Lundin Petroleum's strategy of organic growth has led to a portfolio of licences comprising the full spectrum of exploration and appraisal, development and production assets.

PRODUCTION

The Alvheim field (WI 15%) has been on production since June 2008 and continues to perform above expectations. The net production for 2011 from the Alvheim field was 11,200 boepd. The excellent reservoir performance has resulted in Lundin Petroleum recognising increased gross ultimate recoverable reserves of 282 MMboe representing a 69 percent increase in ultimate recovery from when the Alvheim plan of development was completed in 2005. Two development wells began production in October 2011 with a third well starting production in January 2012. A phase III development well will be drilled in 2012. The cost of operations for the Alvheim field in 2011 was approximately USD 5.00 per barrel.

First production from the Volund field (WI 35%) commenced in April 2010 and production increased during the year to the plateau production as development drilling was successfully completed. The Volund field produced at a rate of 12,000 boepd net to Lundin Petroleum for 2011 and significantly exceeded forecast. This production was above the 8,700 boepd net Volund field firm capacity on the Alvheim FPSO as it took advantage of additional spare capacity. An additional Volund development well will be drilled in 2012.

NORWAY KEY DATA	2011	2010
Reserves (MMboe)	162	139
Contingent resources (MMboe)	697 [1,2]	87 [1]
Average net production per day (Mboepd)	23	18
Net turnover (MUSD)	975	523
Sales price achieved (USD/boe)	110	78
Cost of operations (USD/boe)	4	3
Operating cash flow contribution (USD/boe)	64	70

[1] Excludes Ragnarrock and Luno South discoveries

[2] Includes Statoil estimate (120 MMboe) for Johan Sverdrup PL265

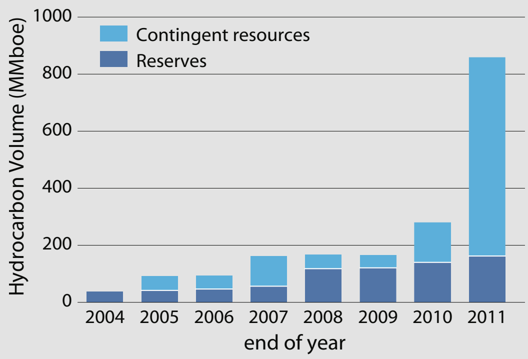
DEVELOPMENT

Gaupe

The plan of development for the Gaupe field in PL292 (WI 40%) was approved in June 2010, and first production is expected at the end of the first quarter of 2012. The Gaupe field operated by BG Group has estimated gross reserves of approximately 31 MMboe and is estimated to produce at a plateau production rate net to Lundin Petroleum of 5,000 boepd. The Gaupe field development wells are drilled and the facilities are substantially complete. Bad weather in the North Sea has delayed the arrival of the pipe-laying vessel needed to allow completion of the development.

Brynhild

A plan of development of the Brynhild field (formerly called Nemo) in PL148 (WI 70%) was approved by the Norwegian Ministry of Petroleum and Energy in November 2011. The Brynhild field contains gross reserves of 20 MMboe and is



NORWAY DEVELOPMENT PROJECTS

Field	Resources MMboe (net)	Forecast Plateau Production boepd (net)	Forecast First Oil
Gaupe	13	5,000	2012
Brynhild [1]	14	8,400	2013
Bøyla	3	3,000	2014
Luno	93	50,000	2015

[1] based on WI 70%

GREATER LUNO AREA

Luno PL338 (WI 50%)
» Luno discovery in 2007.
» Successfully appraised in 2009 and 2010.
» Luno South discovery in 2009.
» Apollo discovery in 2010. Appraisal in 2012.
» Tellus discovery in 2011.
» Luno/Tellus gross reserves 186 MMboe.
» Luno/Tellus PDO submission in January 2012.
» 3 further exploration wells to be drilled in the Greater Luno Area in 2012.

Johan Sverdrup PL501 (WI 40%) & **PL265** (WI 10%)
» Avaldsnes discovery in 2010.
» Aldous Major South discovery in 2011.
» Following appraisal programme in 2011 combined contingent resources estimated at 1.7–3.3 billion boe.
» Avaldsnes/Aldous Major South discoveries renamed Johan Sverdrup.
» 5 to 7 further appraisal wells to be drilled on Johan Sverdrup in 2012.

BARENTS SEA AREA

PL438 (WI 25%)
» Skalle gas discovery made in 2011.

PL533 (WI 20%)
» Pulk (Salinas) prospect to be drilled in 2012. On trend with Skrugard and Havis discoveries.

GREATER ALVHEIM AREA

Alvheim field (WI 15%)
» Gross ultimate recovery 282 MMboe.
» Phase II development drilling completed. Phase III drilling to commence in 2012.
» FPSO – 150,000 boepd capacity currently achieved.

Volund field (WI 35%)
» Gross ultimate recovery 54 MMboe.
» 2011 net production 12,000 boepd.

Bøyla PL340 (WI 15%)
» Bøyla discovery in 2009.
» Caterpillar discovery in 2011.
» PDO to be submitted in 2012.
» To be developed as a tieback to Alvheim FPSO.

OTHER AREAS

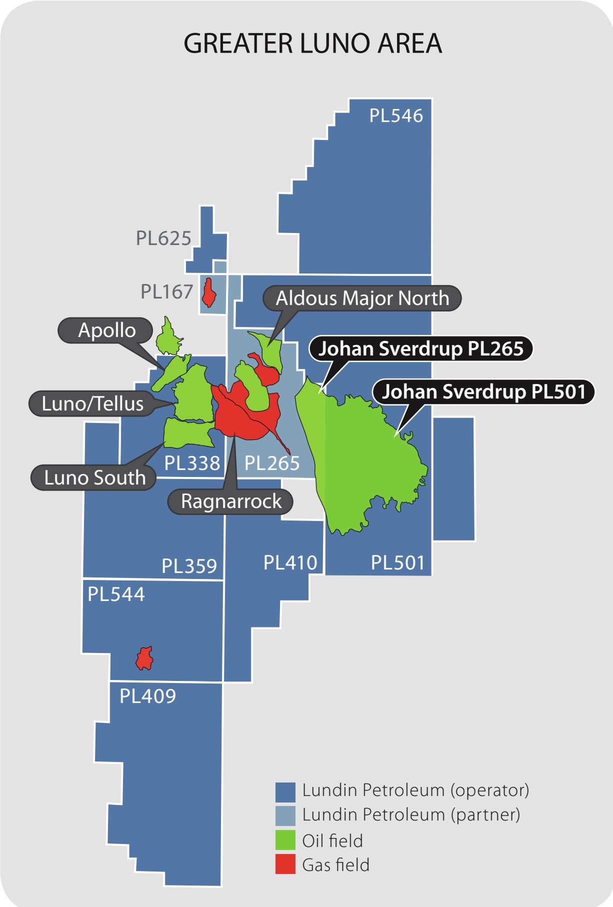
Gaupe PL292 & PL292b (WI 40%)
» Field development approval received in 2010 with first oil expected in early 2012.

Brynhild PL148 (WI 70%)
» PDO approved in 2011, first oil planned for late 2013.

Southern NCS Area
» 3 exploration wells scheduled to be drilled in 2012 (Carlsberg, Ogna and Clapton).

Møre Basin
» 1 exploration well scheduled for 2012 (Albert).

OPERATIONS – NORWAY



expected to produce at an estimated plateau production rate net to Lundin Petroleum of 8,400 boepd with first oil forecast in late 2013. The development involves the drilling of four wells tied back to the existing Shell operated Pierce field infrastructure in the UK sector of the North Sea. In March 2012, Lundin Petroleum announced that it had agreed to acquire the remaining 30 percent interest in PL148 from Talisman Energy subject to the approval of the Norwegian authorities.

Luno

The Luno field located in PL338 (WI 50%) was discovered in 2007 and subsequently appraised by two further wells supporting a gross reserves estimate of 148 MMboe.

In April 2011, the Tellus exploration well in PL338 was completed as an oil discovery. The Tellus discovery is a northern extension of the Luno field and will be incorporated in the Luno field development.

In January 2012, a plan of development was submitted for the Luno field to the Norwegian Ministry of Petroleum and Energy. The development plan incorporates the provision for a coordinated development solution of the Luno field with the nearby Draupne field located in PL001B and operated by Det norske oljeselskap ASA. An agreement with Det norske oljeselskap ASA with respect to a coordinated development solution has been completed in March 2012. First production from the Luno field is expected in late 2015 with forecast gross peak production of approximately 90,000 boepd. The Luno platform design capacity will accommodate in excess of 120,000 boepd when Draupne production is combined with that from the Luno field. The gross capital cost of the Luno field development is estimated at USD 4 billion to include platform, pipelines and 15 wells. The Luno field is estimated to contain 186 MMboe of gross reserves. A contract has been awarded to Kværner ASA covering engineering, procurement and construction of the jacket for the Luno platform. A contract has been awarded to Rowan Companies Inc. for a jack up rig to drill the Luno development wells.

EXPLORATION

In 2010, an exploration well on the Avaldsnes structure in PL501, found and tested good quality oil bearing sandstones. Initial estimates indicated that the discovery contained gross resources of between 100 and 400 MMboe on licence. In 2011, two Avaldsnes appraisal wells were successfully completed and confirmed the extension of the Avaldsnes discovery. In August 2011, Statoil, the operator of PL265, announced the discovery of Aldous Major South and an appraisal well was successfully completed in October 2011. As a result of the appraisal drilling on Avaldsnes and Aldous Major South, it was confirmed that the two discoveries are one connected giant oil field which in January 2012 was named the Johan Sverdrup field. Lundin Petroleum announced a range of gross recoverable contingent resources for the Avaldsnes discovery in PL501 of between 800 million and 1.8 billion barrels which have been audited by Gaffney, Cline & Associates. Statoil has announced a range of gross recoverable contingent resources in PL265 of between 900 million and 1.5 billion barrels of oil. The Johan Sverdrup discovery is therefore estimated to contain contingent gross resources of between 1.7 and 3.3 billion barrels of recoverable oil which is one of the largest ever discoveries on the Norwegian continental shelf and the largest since the mid-1980s.

In January 2012, the third appraisal well 16/5-2S located in PL501 was completed. The well, despite encountering good Jurassic sandstone reservoir, was deep to prognosis and as a result the reservoir was below the oil water contact. The impact of the well will most likely reduce current resource estimates in the southern area of the Avaldsnes discovery.

In July 2011, the Skalle exploration well in PL438 (WI 25%), approximately 25 km from the producing Snøvhit gas field, was completed as a gas discovery with estimated gross contingent resources of between 88 and 283 billion cubic feet (bcf).

In January 2011, Lundin Petroleum was awarded ten exploration licences in the 2010 APA licensing round of which six licences are operated by Lundin Petroleum. In April 2011, Lundin Petroleum was awarded licence PL609 as operator in the 21st Norwegian licensing round. PL609 (WI 40%) is located in the Barents Sea to the east of Statoil's large new Skrugard and Havis oil discoveries. In January 2012, Lundin Petroleum was awarded a further ten exploration licences in the 2011 APA licensing round of which four will be operated by Lundin Petroleum.

Lundin Petroleum continues its active exploration and appraisal programmes with eight exploration and six appraisal wells in 2012. The key areas of activity are exploration and appraisal wells on the Johan Sverdrup discovery, the Apollo discovery and the Greater Luno area.

How did Lundin Petroleum make the giant Johan Sverdrup discovery?

An interview with HANS CHRISTEN RØNNEVIK

Lundin Petroleum made a world class oil discovery, Johan Sverdrup, in an area most people in the industry considered uninteresting. With the appraisal wells in 2011 and confirmation that the discovery stretched into the Statoil operated neighbouring licence, the Johan Sverdrup discovery is considered one of the largest discoveries ever made in Norway. Lundin Petroleum's Exploration Manager in Norway, Hans Christen Rønnevik has gained much recognition in recent months. He is considered the mastermind behind Lundin Petroleum's incredible exploration success on the Norwegian Continental Shelf.

How did you assess the potential on the Norwegian Continental Shelf?

Our general philosophy was that the oil was not finished on the Norwegian Continental Shelf – there was more to find. I have the advantage that I've grown up with the development of the Norwegian Continental Shelf. Starting off in the Norwegian Petroleum Directorate was useful for acquiring an overall view. During the last 40 years we have seen a step change in the technology used to find oil. New 3D seismic and an array of other tools have provided more certainty when identifying prospects today.

For a long period of time, Norway was only open to the supermajors who focused on easily identifiable structures. This resulted in a drilling density in Norway far less than the United Kingdom, where the sector opened up to independents far earlier. There were still large areas offshore, Norway that were largely unexplored. The Norwegian Continental Shelf has opened up to new players with a different risk appetite who are pursuing new opportunities.

How would you describe the evolution of the activities on the Norwegian Continental Shelf?

The trend in the 1990s was that oil companies became bigger and bigger and consequently there were fewer operators on the Norwegian Continental Shelf. Their view that there was no more oil to be found became a self-fulfilling prophecy when large companies began to buy other companies to meet reserve replacements rather than find it themselves. Production began to decline because exploration drilling was reduced in the belief that the time for making large discoveries was over.

How did the Norwegian government manage to stop the decline?

They opened the shelf for new players. Today 40 new companies are involved in the Norwegian oil industry which has led to 15 separate development projects and more than 20 discoveries that are close to existing infrastructure. Lundin Petroleum entered the Norwegian shelf in 2003 and currently has more than 50 licences with an exploration programme in Norway of eight exploration wells in 2012 and this level of activity is expected to continue.

The licensing process of awards in predefined areas (APA) took its present form in 2003 and is designed to encourage companies to work or relinquish their licences to stimulate activity in mature areas. This has made new acreage available and encourages completion of work programmes.

Another initiative of the government that stimulated activity was to make cash reimbursement of tax losses incurred through exploration, thereby funding a large proportion of the cost of exploration.

An important feature regarding our exploration is that it is self-supporting. We have a 15 percent stake in the Alvheim field and 35 percent in the satellite Volund field providing cash flow. Our exploration expenditure is deductible against the tax due on this cash flow and is therefore funded largely by the government.

When geologists make unexpected discoveries they often say that they have succeeded with a new geological model. What is a geological model?

A geological model is a conceptual four-dimensional map obtained from the tools such as 3D seismic showing the structural development of the rocks in the area you are focusing on. The geophysical model is supplemented by a diversity of geological data that is needed to discriminate the critical aspects of various structures. It is in unfolding these details that you must have a well-knitted team with respect for knowledge, development of new methods and new technology.

What is the background to the incredible Johan Sverdrup discovery?

Several companies have previously "sniffed" around the area in which Lundin Petroleum made the giant discovery, Johan Sverdrup. Esso was given the exploration licence for the area in the first licensing round in 1965. The licence has been relinquished several times, and in addition to Esso, Statoil and Elf also held the licence.

The Johan Sverdrup discovery followed on from the Luno discovery, we made in 2007, when we found the key to unlocking the Southern Utsira High. The Luno discovery was an unconventional play, discovered by utilising new technology and coupled with Lundin Petroleum's corporate mentality to assume exploration risk.

It is easier to achieve such success in a small company. Lundin Petroleum benefits because its management team can use new technology and adopt new theories which do not have to be checked by others since the team continuously creates them itself. This cocktail has proven to deliver excellent exploration success.

Ashley Heppenstall said at a press conference that you promised several new discoveries. Will you and your team be able to make further big discoveries?

Only the future can tell, but I am convinced that there is much more oil to be found.

Successful start to the Malaysian exploration programme

Following a period of block signing, seismic acquisition, processing and sub-surface evaluation, the first drilling campaign started in 2011. Four exploration wells and one appraisal well were drilled using the Offshore Courageous drilling rig.

The drilling programme commenced in Block SB303 in the Sabah region where the Tarap-1 and Cempulut-1 wells both found gas bearing reservoirs. Together with additional gas volumes in the nearby Titik Terang structure, Lundin Petroleum has contingent resources of 250 bcf in this area. Lundin Petroleum is exploring opportunities for a gas development project for these discoveries. The drilling campaign then shifted to peninsular Malaysia, and Block PM308A. The Batu Hitam-1 well encountered carbon dioxide bearing reservoirs at the target level and was plugged and abandoned. The Janglau-1 well, which targeted a different play, encountered oil-bearing sands in a thick interval of intra-rift sandstones and shales. Studies are ongoing to assess the quality of this relatively deep and moderate reservoir quality discovery. The final well of the campaign was the Bertam-2 well which was drilled as an appraisal of the Bertam discovery in Block PM307. The well proved the continuity and quality of the oil bearing sandstone to the northeast of the Bertam-1 discovery well. Lundin Petroleum believes that the Bertam discovery could be a commercial development

Exploration 2012

In parallel with the 2011 drilling operations, sub-surface technical studies continued ahead of the 2012 drilling campaign. A further five well programme is planned in 2012. The drilling programme consists of two Sabah area wells, and three peninsular Malaysia wells. In the Sabah area, drilling will target the oil prone Berangan prospect, located in a different geological setting to the gas discoveries of 2011. The other well will be an exploration well next to the Tiga Papan oil discovery, with a vertical hole and a deviated side-track planned in order to evaluate the reservoir properties of the two main fault compartments of the structure. The programme will then move to peninsular Malaysia where three wells will be drilled. On Block PM308B, the Beserah prospect, which is in a similar geological setting to the Janglau-1 well, will be drilled.

A 3D seismic acquisition and processing project was undertaken on Block PM307 (containing the Bertam discovery). Based on early results of the processing, a range of interesting prospects similar to the Bertam structure have been identified, which will form the basis of future drilling activity.

OFFSHORE SABAH - EAST MALAYSIA

SB303 (WI 75%)

» 3D seismic acquired in 2009.
» Tarap gas discovery in 2011.
» Cempulut gas discovery in 2011.
» Gross contingent resources of Tarap, Cempulut plus existing discovery, Titik Terang, is more than 250 bcf.
» 1 exploration well planned in 2012.

SB307/308 (WI 75%)

» 3D seismic acquired in 2009/2010.
» 1 exploration well scheduled for 2012 adjacent to the existing discovery, Tiga Papan.

OFFSHORE PENINSULAR MALAYSIA

PM308A (WI 35%)

» 3D seismic acquired 2009–2011.
» Batu Hitam exploration well plugged and abandoned as a dry hole in 2011.
» Janglau oil discovery in 2011.
» 2 exploration wells planned for 2012.

PM308B (WI 75%)

» 3D seismic acquired 2009–2011.
» 1 exploration well scheduled for 2012.

PM307 (WI 75%)

» 3D seismic acquired in 2011.
» Successful appraisal of Bertam discovery in early 2012 - development concept studies ongoing.

OPERATIONS – OTHER AREAS

FRANCE

The French fields are mature production assets which have been onstream for many years. In the Paris Basin (WI 43–100%) and Aquitaine Basin (WI 50%), cost effective drilling intervention and work over activities are ongoing to maintain production levels. Capital investment has been made 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 exhibit low decline and predictable long-term production for Lundin Petroleum.

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

Paris Basin

Lundin Petroleum operates ten production licences and six exploration licences.

The Grandville development plan was approved in 2010 and comprises an eight well drilling programme, a new gathering system and a new production centre. Two wells have been drilled in 2011 and production facilities are substantially completed. Six further wells and commissioning of production facilities are planned for 2012. A further assessment of the development may lead to four additional wells being drilled to access contingent resources in this area.

Development studies in other Paris Basin fields are ongoing.

Two conventional exploration wells are planned for 2012 in the Est Champagne and Val des Marais exploration permits.

FRANCE KEY DATA	2011	2010
Reserves (MMboe)	25	22
Contingent resources (MMboe)	10	7
Average net production per day (Mboepd)	3	3
Net turnover (MUSD)	129	94
Sales price achieved (USD/boe)	111	79
Cost of operations (USD/boe)	19	17
Operating cash flow contribution (USD/boe)	65	42

Aquitaine Basin

Lundin Petroleum has a 50 percent non-operated interest in five production licences.

One of the largest fields in Aquitaine is the Courbey field with a current recovery factor of less than ten percent. Seismic reprocessing has been completed and further field development studies are ongoing and scheduled for completion in 2012.

Studies to identify the potential for infill drilling in the Les Mimosas and Les Tamaris fields are ongoing. The installation of a pipeline in 2011 to export oil from Les Mimosas to the Les Arbousiers facilities has been deferred to 2012.

RUSSIA

Lagansky Block

The Lagansky Block (WI 70%) is 2,000 km^2 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 contingent resources of 110 MMboe net to Lundin Petroleum.

The discovery is deemed to be strategic, due to its offshore location, by the Russian Government under the Foreign Strategic Investment Law. As a result, a 50 percent ownership by a state owned company is required.

Further exploration potential

A new 3D seismic survey was acquired in 2010, and was interpreted in 2011. The new data shows the continuation of the Morskaya structure trend towards the northwest, along which a series of additional prospects are identified. In addition, new 2D seismic data and a number of electromagnetic lines were acquired in 2011 to fulfil the block's seismic data commitment. These data have been processed and interpreted and have led to the identification of additional prospectivity off the currently explored trend.

Komi

Lundin Petroleum has a 50 percent interest in three producing fields in the Komi region. Production comes from Devonian carbonate reservoirs. Since 2009, when infill drilling had successfully increased production, the fields have been in decline and in 2011, gross production averaged approximately 6,200 boepd. Oil is exported via the nearby Transneft pipeline system and about 60–65 percent is sold domestically.

RUSSIA KEY DATA	2011	2010
Reserves (MMboe)	16	17
Contingent resources (MMboe)	110	110
Average net production per day (Mboepd)	3	4
Net turnover (MUSD)	80	67
Sales price achieved (USD/boe)	70	52
Cost of operations (USD/boe)	11	9
Operating cash flow contribution (USD/boe)	10	8

NETHERLANDS

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

The produced gas is primarily sold to Gasterra under a long-term contract in accordance with the Dutch government's small gas field policy. Gas from the E17 field is sold separately.

Following 2009 and 2010 exploration successes in the onshore Gorredijk licence, two more wells were drilled in 2011. Both found gas in the Vlieland and Zechstein secondary reservoirs, but in both cases the primary Slochteren sandstone target was water wet. Testing and reservoir studies are ongoing on the Langezwaag-1 and Nieuwehorne-1 wells to assess their commerciality. A third exploration well, Wommels-1 was drilled in the Leeuwarden licence which was a dry hole. Additional exploration and appraisal activity is planned for 2012.

First gas from the De Hoeve field is expected in early 2012.

NETHERLANDS KEY DATA	2011	2010
Reserves (MMboe)	4	4
Average net production per day (Mboepd)	2	2
Net turnover (MUSD)	45	35
Sales price achieved (USD/boe)	61	44
Cost of operations (USD/boe)	15	11
Operating cash flow contribution (USD/boe)	40	26

IRELAND

Lundin Petroleum has one non-operated exploration licence offshore Ireland in the Slyne Basin (Inishmore licence 50%). A one year licence extension was granted in late 2010. A 3D seismic survey was acquired in 2010, and was interpreted during 2011. The partnership is seeking a further licence extension in order to assess further opportunities.

OPERATIONS – OTHER AREAS

CONGO (Brazzaville)

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).

One year licence extensions were requested and granted for both blocks during 2010. The decision to enter Phase II and commit to an additional well was made on Block Marine XI based upon technical studies.

The Phase II commitment well on Block XI was drilled in September 2011 targeting a sub-salt play and it was dry. The Phase I commitment well on Block XIV was drilled in December 2011 and found uncommercial volumes of oil. The operator is currently reviewing the well results and a decision regarding future activities in the blocks will be taken in 2012.

TUNISIA

The Oudna field (WI 40%) began production in November 2006. During 2011, the field produced at stable rates of over 1,500 bopd gross. 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 SA and the shareholders are Lundin Petroleum (40%), Teekay-Petrojarl Production AS (40%) and Gezina AS (20%).

TUNISIA KEY DATA	2011	2010
Reserves (MMboe)	0.3	0.5
Average net production per day (Mboepd)	1	1
Net turnover (MUSD)	25	30
Sales price achieved (USD/boe)	125	77
Cost of operations (USD/boe)	64	39
Operating cash flow contribution (USD/boe)	45	26

VIETNAM

Lundin Petroleum had a 33.33 percent working interest in Block 06/94 in the Nam Con Son Basin, offshore southern Vietnam. Three wells were drilled in the exploration period to the end of October 2011. However, with the exception of very thin uncommercial gas pay, the wells were unsuccessful and were plugged and abandoned. The Block was relinquished in 2011.

INDONESIA

Lematang Block

The Singa Gas field in the Lematang Block began production in April 2010. During 2011, the field has been producing at approximately 27 MMscfd of gross sales gas. The Singa-3 well is scheduled to undergo a christmas tree retrofit in the first quarter of 2012 to remove operating temperature constraints and thereafter it is anticipated that production levels will increase to approximately 47 MMscfd gross sales gas. Net working interest reserves are estimated at 3.9 MMboe.

Gas sales agreements are in place with PLN and PGN, Indonesian gas distributors, for the term of the Production Sharing Contract. Lundin Petroleum's working interest in the Lematang Block is 25.88 percent.

Further exploration potential

Acquisition of 1,500 km of 2D seismic data in the offshore Cakalang Block has been completed and interpretation has led to the identification of a series of oil prospects. In the neighbouring Baronang Block, planning for the drilling of two exploration wells in 2013 is ongoing. 2,400 km of 2D seismic data was also acquired in the South Sokang Block in East Natuna and processing of the data will be completed early 2012.

In April 2011, Lundin Petroleum was awarded a PSC for the Gurita Block (WI 100%). A geochemical survey was carried out in the third quarter of 2011 which supported the presence of a working petroleum system in the southern part of the Block. Sub-surface studies are ongoing with the aim of identifying drillable prospects for a combined offshore Indonesia drilling campaign in 2013/2014.

INDONESIA KEY DATA	2011	2010
Reserves (MMboe)	4	4
Contingent resources (MMboe)	2	2
Average net production per day (Mboepd)	1	2
Net turnover (MUSD)	13	40
Sales price achieved (USD/boe)	32	65
Cost of operations (USD/boe)	13	24
Operating cash flow contribution (USD/boe)	15	11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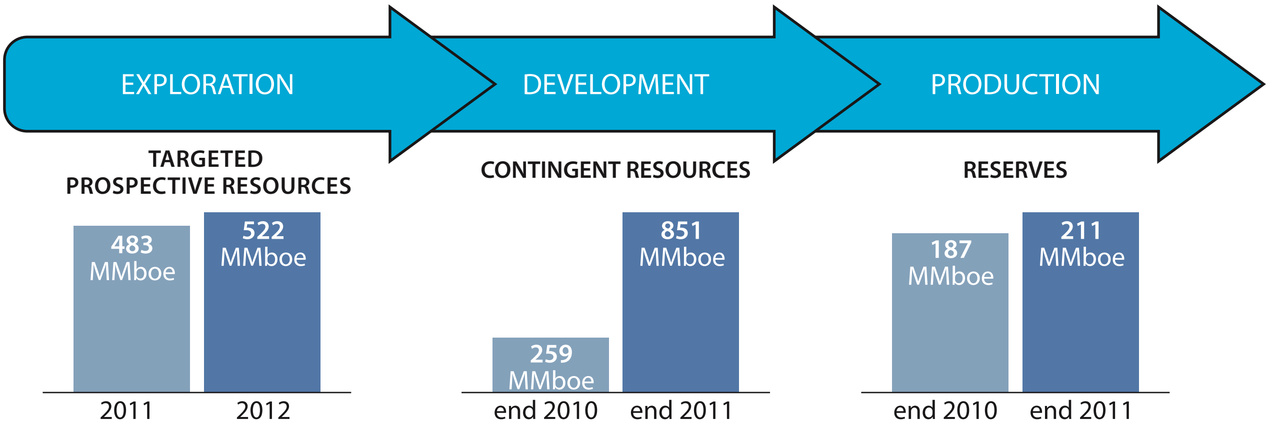
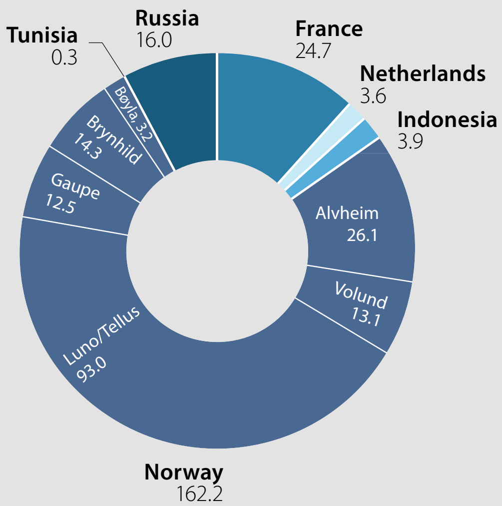
SCOPETRA

RESERVES AND RESOURCES



RESERVES **211** MMboe

INCREASE IN RESERVES **21**%



RESERVES SUMMARY	MMboe
End 2010	**186.7**
– Produced (excluding sales/acquisitions)	-12.1
+ New Reserves (excluding sales/ acquisitions)	+32.0
– Sales/ + Acquisitions	+4.1
End 2011	**210.7**

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

[1] In March 2012, Lundin Petroleum announced that it had agreed to acquire the remaining 30 percent interest in PL148 from Talisman Energy subject to the approval of the Norwegian authorities.

Significant increases in reserves and resources

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 reserves.

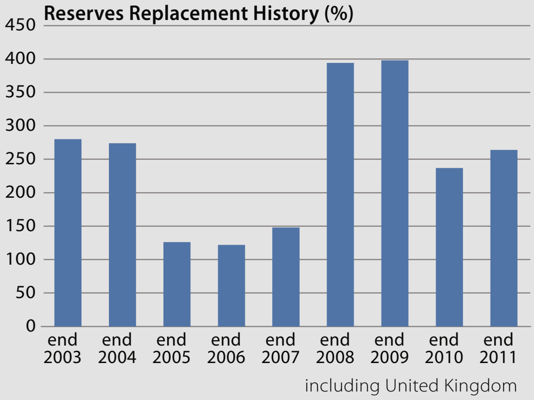
RESERVES

At the end of 2011, Lundin Petroleum has 210.7 million barrels oil equivalent (MMboe) of reserves. This is an increase of 21 percent when compared to 2010, taking into account production of 12.1 MMboe in 2011 and the acquisition of an extra 20 percent of the Brynhild field [1] in Norway. The reserves replacement ratio, which is calculated by dividing the increase in reserves at the end of 2011 by the production in 2011, is 264 percent. Of the 210.7 MMboe of reserves, 84 percent is related to oil reserves and 98 percent of the total reserves are situated in tax-royalty regimes. Lundin Petroleum is quoting all of its reserves in working interest barrels of oil equivalent. All reserves are independently audited by Gaffney, Cline & Associates (GCA).

Lundin Petroleum reported strong reserves replacement. Every barrel produced in 2011 has been replaced by more than 2.6 barrels of reserves, which continues to provide a strong reserves base for future production growth.

In Norway, Lundin Petroleum's reserves increased from 139.2 MMboe to 162.2 MMboe. This is mainly as a result of the inclusion of the Tellus discovery made in the second quarter of 2011. The Tellus field is now deemed a continuous part of the Luno field and has been included in the Luno Plan for Development and Operations (PDO) which was submitted to the Norwegian government in January 2012. This combined with technical updates for the main part of the Luno field resulted in an increase in the Luno reserves from 74 MMboe to 93 MMboe. Furthermore, reserves increased in the producing Alvheim and Volund fields. Additional drilling is planned in both fields in 2012. The PDO for the Bøyla field is well advanced and is planned to be submitted mid-2012. As a result 3.2 MMboe were moved from contingent resources to reserves. Finally, an additional 20 percent interest in the Brynhild field [1] was acquired during 2011, contributing to the reserves increase.

2011 RESERVES REPLACEMENT RATIO 264%



In France, reserves increased from 21.9 MMboe to 24.7 MMboe, mainly due to increased reserves in the Vert La Gravelle field. As with the Grandville field last year, continuous subsurface evaluation work has resulted in the formulation of a development plan for the Lundin Petroleum operated field in the Paris Basin.

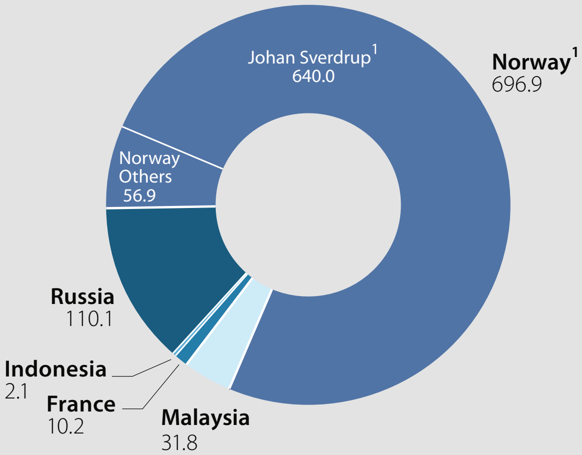
A small reserves increase was booked in the Netherlands, more than replacing the 2011 production.

CONTINGENT RESOURCES

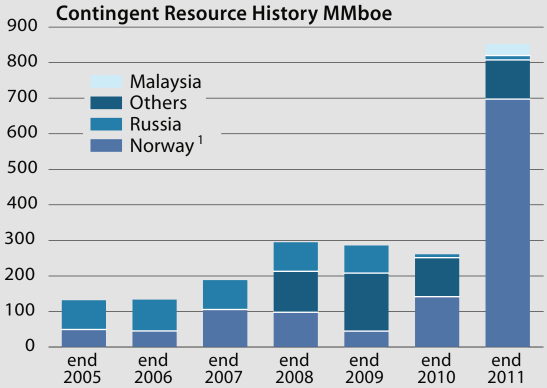
In addition to its certified reserves, Lundin Petroleum has a number of discovered oil and gas resources which classify as contingent resources. Contingent resource estimates have been independently audited by GCA.

During 2011 Lundin Petroleum has significantly increased its contingent resources from 259.2 MMboe to 851.1 MMboe. This is mostly related to a resource revision in the Johan Sverdrup field (formerly Avaldsnes/Aldous) as a result of the ongoing appraisal campaign. Gross contingent resources in the PL501 part of Johan Sverdrup (WI 40%) have been estimated at 800 to 1,800 MMboe (as audited by GCA). PL265 operator Statoil has estimated gross contingent resources of 900 to 1,500 MMboe in the PL265 part of Johan Sverdrup (WI 10%). The Statoil estimates have not been audited by GCA. This results in combined mid-range net contingent resources of 640 MMboe, an increase from last year's estimate of 80 MMboe.

CONTINGENT RESOURCES 851 MMboe[1]



2011 INCREASE IN CONTINGENT RESOURCES 229%

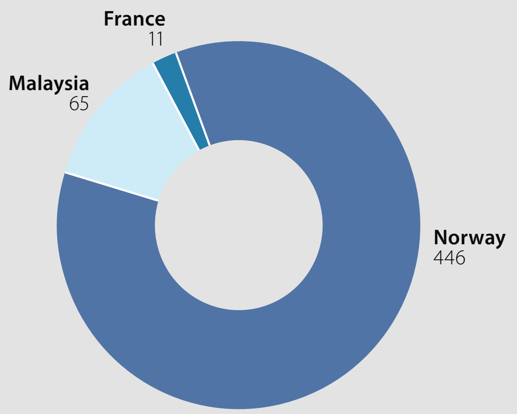


[1] Includes Statoil estimate (120 MMboe) for Johan Sverdrup PL265

RESERVES AND RESOURCES

TARGETED PROSPECTIVE RESOURCES DURING 2012

522 MMboe



PROSPECTIVE RESOURCES

Lundin Petroleum has a substantial portfolio of exploration licences. In 2012 Lundin Petroleum is planning to drill (operated and non-operated) 18 exploration wells targeting in total 522 MMboe of net unrisked prospective resources and a further six appraisal wells. 14 of these exploration and appraisal wells are expected to be drilled in Norway and five are planned to be drilled as part of the drilling campaign in Malaysia. Two further wells are planned in France. Three exploration wells are planned to be drilled in the Netherlands (2 onshore, 1 offshore).

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) and in compliance with the Canadian Oil and Gas Evaluation Handbook (COGE Handbook) and the Canadian National Instrument 51–101 Standards of Disclosure for Oil and Gas Activities. Lundin Petroleum's reserves are audited by Gaffney, Cline & 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 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

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

RESOURCES DEFINED

Contingent resources

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be commercially viable for the Company to produce any portion of the contingent resources.

Prospective resources

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and chance of development. There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.

Strong production in 2011

PRODUCTION 2011

Lundin Petroleum produced 12.1 MMboe during 2011 at an average rate of 33,300 boepd. Three new development wells were drilled on the Alvheim field in 2011 and brought into production in the fourth quarter of 2011 and early 2012. The Alvheim FPSO was designed with a production processing capacity of 126,000 boepd but subsequent improvements to the FPSO have meant the capacity has increased to around 150,000 boepd. The enhanced production capacity has enabled the Volund field to produce at higher than the initial contracted levels of 8,700 boepd net to Lundin Petroleum and as such, the Volund field contributed 12,000 boepd net to Lundin Petroleum during 2011. A further development well will be drilled on each of Alvheim and Volund fields in 2012.

SALES

Lundin Petroleum sold 12.4 MMboe during 2011 at an average price of USD 101.04 per barrel resulting in net sales of MUSD 1,257.7. Sales volumes for 2011 were 14 percent higher and the achieved oil price was 40 percent higher than in 2010 and this has resulted in oil and gas revenues being 60 percent higher. The average Dated Brent price for 2011 amounted to USD 111.26 per barrel.

VARIANCES

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

PRODUCTION FORECAST

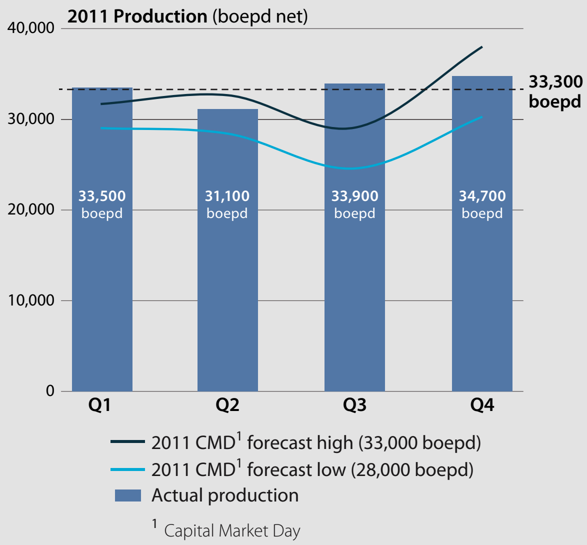
Lundin Petroleum's production forecast for 2012 is in the range of 32,000 to 38,000 boepd. The mid-point of 35,000 boepd represents a five percent increase over the production in 2011.

PRODUCTION INCREASES

Lundin Petroleum's internal growth strategy entails converting exploration discoveries into cash flow through the successful development of resources. Lundin Petroleum's production is expected to double over the coming four years through a number of developments.

2011 PRODUCTION PERFORMANCE

33,300 boepd



2012 PRODUCTION FORECAST

32,000–38,000 boepd

Production from the Gaupe field is anticipated at the end of the first quarter 2012, further increasing production for Lundin Petroleum. The Gaupe field has estimated gross reserves of approximately 31 MMboe and is estimated to produce at a plateau production rate net to Lundin Petroleum of 5,000 boepd. Further production increases to production will derive from the Brynhild field for which development plan approval was received in November 2011. The Brynhild field (WI 70%), operated by Lundin Petroleum, has gross reserves of approximately 20 MMboe and will produce at an estimated 8,400 boepd net to Lundin Petroleum.

Ten years of Corporate Responsibility at Lundin Petroleum

In its first annual report in 2001, Lundin Petroleum defined Corporate Responsibility (CR) as "more than words, it is an attitude and a commitment translated into action". This statement remains true today; what is critical for Lundin Petroleum is that throughout the Group, at all echelons of the organisation, from the Board of Directors to staff on the drill floor, CR is integrated in decisions and work execution.

Lundin Petroleum fully endorses the definition of Social Responsibility developed by the International Organisation for Standardisation in ISO 26000: "the responsibility of an organisation for the impact of its decision and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, takes into account the expectations of stakeholders, complies with applicable law and is consistent with international norms of behaviour and is integrated throughout the organisation and practised in its relationships".

In practice it means seeking to achieve social, environmental and economic benefits simultaneously. As Lundin Petroleum has evolved as a company, so has its CR approach. In the early days, CR meant ensuring that the Company remained true to its values and principles while working in challenging socio-political environments. The development of a Code of Conduct, stakeholder engagement and local community development projects were the key CR achievements at the time. As the Company's geographical focus shifted to Europe and South East Asia, Lundin Petroleum further elaborated policies, processes and procedures to preserve the health and safety of its staff and contractors and to protect the environment, managing its risks while maintaining an open dialogue with its stakeholders, carrying out community development projects and making sustainable investments.

Lundin Petroleum's commitment to its staff, shareholders, host governments and communities, and society to act as a responsible corporate citizen takes place by making the right choices in the board room and on the ground, day after day.

The Corporate Responsibility section of the Annual Report is an important way for Lundin Petroleum to communicate to its stakeholders on CR issues it has addressed during the year. It is also submitted as part of its Communication on Progress to the United Nations Global Compact since 2010. The section below provides an overview of the CR actions highlighted in the Company's Annual Reports over the past ten years.

TEN YEARS OF CORPORATE RESPONSIBILITY REPORTING AT LUNDIN PETROLEUM

2001	Lundin Petroleum's Code of Conduct and CR Commitment translate into concrete projects under the Company's Community Development and Humanitarian Assistance Programme in Sudan.
2002	Lundin Petroleum's Policies on Health, Safety and Environment (HSE) are implemented in its newly acquired Coparex assets in France, Indonesia, the Netherlands and Tunisia.
2003	Lundin Petroleum develops its company-wide HSE Management System (the Green Book) modelled after ISO 14001.
2004	Lundin Petroleum introduces tracking of HSE Key Performance Indicators (KPIs), i.e. Fatalities, Lost Time Accidents and Oil Spills/Gas Leaks. The Norwegian Petroleum Safety Authority reviews the Company's corporate HSE culture and Management Framework and visits its operations in France, prior to agreeing to Lundin Petroleum's acceptance as an operator in Norway.
2005	Internal HSE reporting is expanded to include actions taken in furtherance of Green Book requirements; third party HSE audits are conducted in France, Tunisia and the UK.
2006	CR analyses and stakeholder engagement take place prior to the initiation of operations in new areas and HSE issues are further streamlined in the conduct of worldwide operations. Projects are carried out under Lundin Petroleum's Corporate Donations Programme.
2007	In view of the expansion of Lundin Petroleum's activities in Africa, Europe and South East Asia, the Company aligns its CR framework with international initiatives, such as the United Nations Global Compact (UNGC), the United Nations Framework Convention on Climate Change and the Kyoto Protocol, the Extractive Industry Transparency Initiative, the Voluntary Principles for Security and Human Rights and the United Nations Millennium Development Goals.
2008	Lundin Petroleum initiates a comprehensive review of its HSE framework requirements to align them with international standards like ISO 14001 and OHSAS 18001.
2009	The management of HSE issues at corporate and operational levels is systematised through the establishment of HSE Plans, the holding of regular HSE Teleconferences and Management Meetings, the elaboration of HSE Management System Requirements and the introduction of leading HSE KPIs and greenhouse gas emissions' reporting.
2010	Lundin Petroleum formally becomes a member of the UNGC; the CR section of the Annual Report is submitted as a Communication on Progress and describes the steps the Company has taken to integrate the Principles in its strategy and day to day operations.

"In the past ten years, Lundin Petroleum has revised its CR framework on a continuous basis to ensure it addresses relevant issues in its current and prospective areas of operations; the process has involved defining internal values, principles, systems and procedures, integrating external standards and initiatives, maintaining active local and international stakeholder engagement and making contributions to support environmental, social and governance causes.

CHRISTINE BATRUCH
VICE PRESIDENT CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY

THE CR FRAMEWORK

The Code of Conduct

Lundin Petroleum's Code of Conduct, which is at the core of its CR commitment details the Vision, Values and Principles by which the Company is guided, as well as Responsibilities towards its shareholders, staff, host countries, host communities and the environment.

A formal review of the Code of Conduct was conducted in 2011, on the occasion of Lundin Petroleum's 10th anniversary. The Values, Principles and Responsibilities remain essentially the same as they continue to reflect Lundin Petroleum's CR commitment. The Code now includes endorsement of the United Nations Global Compact's (UNGC) Ten Principles on Human Rights, Labour Standards, Environment and Anti-Corruption, as well as a statement regarding Climate Change.

The new version of the Code of Conduct was approved by the Board of Directors in May 2011 and can be found on the Company's website under Corporate Responsibility.

In order to familiarise staff with the Code of Conduct and provide them with the necessary tools to exercise CR leadership in relation to other staff, contractors and stakeholders, Lundin Petroleum conducts staff inductions and provides staff with an induction presentation and an Employee Handbook, which detail requirements under the Code and Policies.

The Staff Induction documentation was amended in 2011 to reflect CR framework document updates.

THE POLICIES

Health & Safety

Lundin Petroleum's Health & Safety Policy commits to conduct all operations in a manner that protects people and property and complies with applicable legislation. The principal health and safety objective is to provide a safe working environment for employees, contract personnel and members of the general public.

Environment

Lundin Petroleum's Environmental Policy commits to protect the environment and to ensure that exploration, development, and production operations are conducted in compliance with applicable environmental laws and regulations and meet company-specified environmental requirements.

Community Relations

Lundin Petroleum's Community Relations Policy commits to enhance the living standards and well-being of the people in the areas it operates by, for example, hiring local staff and/or participating in community projects.

Whistleblowing

Lundin Petroleum's Whistleblowing Policy and Procedure provides an avenue for employees and contracted personnel in the Group to raise concerns about improper, unethical or illegal conduct in the workplace and to obtain reassurance that they will be protected from reprisals or victimisation for whistleblowing in good faith.

Anti-Corruption

Lundin Petroleum's Anti-Corruption Policy elaborates on Lundin Petroleum's Code of Conduct commitment to "act in an honest way" and to "refrain from accepting or offering improper payments, gifts or engaging in bribery or corrupt business practices". The Policy was issued together with Anti-Corruption Guidelines (see below The Corporate Guidelines) as part of its UNGC commitment.

The Anti-Corruption Policy and Guidelines were adopted by the Board of Directors in December 2011.

THE HSE MANAGEMENT SYSTEM

The Green Book

Health, Safety and Environmental (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. It aims to achieve continuous improvement of HSE performance through a pro-active management process covering planning, implementation, monitoring and review activities.

The HSE Goals

In order to reinforce commitments made in Lundin Petroleum's Code of Conduct, HSE Policies and the Green Book and to avoid potential negative impacts on people, assets and the environment, the Company promotes the following high level HSE goals throughout its operations:

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

The HSE Goals have been communicated throughout the Group, together with suggested "Promote, Prevent & Reduce" actions.

The Corporate HSE Plan

Lundin Petroleum issues a Corporate HSE Plan on a yearly basis. The purpose of the Plan is to have a systematic approach to HSE management, to increase HSE awareness among staff within the Company and involve them in planned activities, to promote a sound HSE culture at corporate management level and to reinforce the Company's corporate HSE goals. The Corporate HSE Plan is developed in relation to the Company's activities throughout the Group.

The Corporate HSE Plan covers actions required in relation to general, management system, audit and verification, as well as office activities; it is reported on to senior management and the Board of Directors at least quarterly.

A key 2011 HSE Plan activity was the carrying out of HSE Management System audits of all Lundin Petroleum's operated assets, namely France, Indonesia, Malaysia, Norway, Russia and Tunisia. The audits were conducted against corporate Management System Requirements (MSR) and Self-Assessment Forms. All assets were found to generally conform to corporate

expectations in terms of HSE management systems, processes and procedures and to meet the eight MSR requirements on: leadership and commitment, responsibility, local management, planning and implementation, contractor management, communication and training, risks assessments, emergency response and audits, monitoring and evaluation. Audit findings of "best practice" processes and procedures were shared throughout the Group. Recommendations for improvement measures issued for each asset will form the basis of further audits in 2012.

The Country HSE Plans

Country management is required under the Green Book to have country and/or asset HSE Plans as a means to manage HSE issues on a pro-active basis, setting HSE goals and objectives, and ensuring that HSE issues are addressed by line management. Corporate Group management keeps track of progress against country HSE Plans through operations' monthly reporting and through the yearly audits/reviews conducted in 2011.

The Corporate Guidelines

The purpose of the Guidelines is to assist country operations in addressing CR/HSE issues in line with corporate expectations.

The Guidelines for HSE Managers for the Budgeting Process assist HSE managers, through a series of questions, to ensure themselves that HSE issues have been properly addressed and integrated in operational budgets. HSE managers are required to report to corporate that they are satisfied with the operational budgets prior to their submission for approval to the Investment Committee.

The Guidelines on Oil Spill Preparedness constitute an additional control mechanism to ensure that Group companies have the proper response equipment, plans, capability and third party arrangements in place. All operated drilling and production activities are covered under a corporate contract with Oil Spill Response Ltd. HSE managers are required to report on conformity with the Guidelines at minimum each year end.

The Guidelines on Sustainable Investments assist country management to determine ways in which they can positively impact the people and the environment in their areas of operations either through community development projects or donations to sustainable organisations and causes. General Managers are required to submit their suggestions to the Vice President Corporate Responsibility (VPCR) prior to their budget submissions to the Investment Committee.

The newly issued Guidelines on Anti-Corruption provide guidance on identifying and dealing with potential corruption issues; they are a means to reinforce Lundin Petroleum's anti-corruption commitment and to assess, monitor and ensure compliance with the law and the Company's Policy. The Guidelines were presented to the Board, senior corporate management, General and HSE Managers in 2011. They will be presented to the staff in all Group companies in the course of 2012.

The Corporate HSE Procedures

Lundin Petroleum's corporate requirements and procedures are in place to ensure that operations are conducted in a safe and responsible manner throughout the Group. The HSE Management System Requirements (MSR) provides guidance on the specific requirements on operations under the Green Book. In 2011, the HSE MSR Self-Assessment Form was used as a basis for the formal HSE Management System audits conducted in all operated assets.

The corporate HSE Reporting Template which, in accordance with the HSE Reporting Requirements, all operated assets submit to Group management on a monthly basis, were updated in 2011 to include Progress against HSE Plans, Changes to Country Major Risks, and yearly environmental indicators (oil in water discharges and waste segregation) for operated drilling and/or producing assets. This enables Lundin Petroleum to track HSE performance on a monthly basis and obtain yearly environmental data which it can aggregate and compare against previous years.

Lundin Petroleum's Emergency Response Plan (ERP), in place to ensure business continuity in the event of a problem either in a country of operations or at Group level was fully revised in 2011, to provide further guidance to operations in managing and reporting emergencies. It was rolled out to the Group at an HSE teleconference. In 2011 all Group companies carried out at least one emergency drill involving corporate management, in order to test the effectiveness of the ERP and of communications between Group and country management during emergency situations.

The Country HSE Procedures

There are operational HSE procedures in place for operations conducted by every Group company covering the full spectrum of exploration and production activities, as required, from environmental, risk, security or social studies and assessments, to permit-to-work systems, Job Safety Analyses, 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 local drills as well as internal, external and/or regulatory audits.

In addition, it is a corporate requirement for all operated assets to have a personal behaviour safety system in place such as DuPont's Safety Training Observation Programme, STOP and to pro-actively analyse their content to prevent incidents.

THE HSE STRUCTURE

The HSE Board Representative

Lundin Petroleum's Board of Directors has an overall supervisory role regarding HSE issues. It also has a dedicated CR/HSE Board Representative. In addition to regular contacts between the Board's CR/HSE Representative and the VPCR, as of mid-2011 a report which reviews HSE performance, progress against the HSE Plan, updates on stakeholder issues and sustainable investments is submitted to the Board on a quarterly basis.

The HSE Quarterly Management Meeting

Lundin Petroleum's HSE Quarterly Management Meetings convene Group senior, HSE and operational management to review HSE performance in the Group, progress against HSE Plan, and discuss HSE implications of planned operational activities and other matters of interest. Two formal meetings were held in 2011. HSE management and performance issues were also addressed in individual meetings between the Vice President Corporate Responsibility (VPCR) and the CEO, COO, the Senior Vice President Operations and/or the Group Human Resources Manager as well as in HSE teleconference meetings.

The HSE Committee

Lundin Petroleum's HSE Committee, consisting of the Senior Vice President Operations, the VPCR and Human Resource Manager, is tasked with addressing HSE matters on a needs basis. Meetings can cover a number of issues such as KPIs, the implication of an accident, the HSE implications of planned or current operations, including human resources implications and training requirements, and potential problem areas. In 2011, meetings focussed on means to improve HSE performance in France, the only country which recorded Lost Time Incidents in the Group in 2011.

The HSE Network

Lundin Petroleum gathers the HSE Network on a bi-monthly basis at an HSE teleconference. Initially destined as to be a forum for HSE managers, in view of the interest the Network generated, it was extended in 2011 to senior Group and country management.

Each HSE teleconference includes a review of main concerns/issues of the month, a status and discussion of HSE KPIs, lessons learned, and a presentation by Group corporate or country management. Seven teleconferences were held in 2011.

The topics of country presentations were:
» HSE Plan Development (Malaysia)
» Storage Tank Cleaning (France)
» HSE Workshop for Contractors (Malaysia)
» Near Misses (Norway)
» HSE Management System (Indonesia)
» Emergency Response and Lessons Learned (Tunisia)

The topics of corporate presentations were:
» United Nations Global Compact Principles
» Climate Change
» Lundin Petroleum's Anti-Corruption Policy and Guidelines
» Oil Spill Preparedness

All HSE corporate, operational and industry documents as well as teleconference materials including presentations are posted on a dedicated HSE web forum, accessible by General, Operations, Drilling and HSE managers throughout the Group.

LUNDIN PETROLEUM'S 2011 HSE PERFORMANCE

The HSE KPIs

The Company tracks a number of HSE Key Performance Indicators (KPIs) for its operated assets as a means to monitor the status of performance throughout the Group and establish HSE priority areas. At minimum, all incidents with a high impact or high potential are the subject of thorough investigations and follow up measures.

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

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

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

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

4 Lost Time Incident Rate and Total Recordable Incident Rate are calculated on the basis of 200,000 hours.

Health & Safety KPIs

The Health & Safety indicators tracked on an ongoing basis throughout the Group and reported on a monthly basis to corporate are Fatalities, Lost Time Incidents (LTI), Restricted Work Incidents (RWI) and Medical Treatment Incidents (MTI) among staff and contractors. Coupled with the number of hours worked, these indicators enable the Company to determine its Total Recordable Incident Rate (TRIR) per 200,000 hours worked. In addition to these lagging indicators (reporting incidents that have occurred), the Company also tracks leading indicators such as Near Misses with High Potential. The importance of leading indicators is that they throw a light on potential problems areas and enable the Company to take pro-active measures to avoid them from developing into incidents.

Environmental KPIs

Up to 2011, the environmental indicators reported included oil and chemical spills over 1 m^3, hydrocarbon leaks above 1 kg on a monthly basis and greenhouse gas emissions (CO_2, NOX, SOX, CO, N_2O, CH_4, nmVOC) on a yearly basis for producing assets.

In 2011, two additional environmental indicators were introduced: oil in water discharges (for producing assets) and waste segregation (for drilling and producing assets). These indicators will be used in the future to set further targets.

HSE 2011 Key Performance Indicators (KPIs)

There were no major incidents in the Group in 2011, and none of any kind in Malaysia, Russia and Tunisia.

There were incidents of minor gravity in France, Indonesia and Norway, but none had a lasting impact on the individuals concerned or on the environment nor represented any risks to the pursuit of operations. In accordance with Lundin Petroleum's HSE reporting requirements, LTIs, Near Misses with High Potential and Oil Spills were investigated upon and gave rise to immediate and long term corrective measures.

Even if the level of activities was greater than in previous years, Group management is not satisfied with 2011 KPIs; it has identified specific measures which will be implemented in 2012 to improve HSE performance.

Group HSE KPIs in 2011 were as follows:

Fatalities: zero

There have been no work related fatalities to date in any of Lundin Petroleum's operations.

Lost Time Incidents (LTI): six

All the LTIs occurred in France; they involved three staff and three contractors. No serious injuries resulted from these incidents.

Restricted Work Incidents (RWI): three

Two RWIs involved seismic contractors in Indonesia and one involved a drilling contractor in France. The incidents temporarily restricted the ability of the injured person from carrying out all their routine tasks, but were of minor gravity.

Medical Treatment Incidents (MTI): five

Four MTIs occurred in Norway and one in France; they involved four contractors and one staff. All incidents resulted in minor injuries and did not stop the persons from performing their tasks.

Oil Spills: seven

A total of 33 m^3 of oil spilled, of which 23 m^3 in France and 10 m^3 in Norway. The spills were managed according to respective Oil Spill Response Plans and thus had no permanent impact on the environment.

Chemical Spills: two

Both chemical spills occurred in Norway due to leaks on the acoustic BOP control system (total volume of 3.5 m^3). The cause of the leaks was identified and the problem repaired.

Hydrocarbon leaks: zero

Near Misses with High Potential (NMHP): three

The three NMHP which occurred in Norway involved falling objects; one at Lundin Petroleum's offices and two on the

Bredford Dolphin. They were reported due to the potential damage they could have caused if they had fallen on a person.

Non-conformances with permits/consents: zero

TRANSPARENCY

Lundin Petroleum believes that open dialogue with stakeholders not only helps the Company in identifying and addressing CR issues but also enables stakeholders to better understand the reality of its activities and its way of dealing with its CR challenges. Stakeholder engagement takes, among others, the following forms:

- participation in international or country initiatives (UNGC, Petronas HSE Forum)
- participation in workshops (Business and Humanitarian Forum, Institute of Graduate Studies)
- participation in surveys (Carbon Disclosure Project, Sustainalytics, Sustainable Value Creation, Trucost, Vigeo, etc.)
- CR presentations in academic institutions (University of Geneva, IMD Lausanne, IMI-Kyiv, Institute of Graduate Studies, etc.)
- individual meetings with shareholders, NGOs and media on CR issues, etc.
- responses to individual inquiries from media, NGOs, students, etc.
- reporting in Extractive Industry Transparency Initiative compliant country (Norway)

EMPLOYMENT PRACTICE

In accordance with its Code of Conduct commitment, Lundin Petroleum seeks to ensure equal opportunity without discrimination on the basis of age, culture, disability, gender, race, religion, etc.; the overriding criterion is the person's competence and qualifications to perform the job.

Other than gender, which the Company reports on under the Financial Statements for the Group of its Annual Report, the Company does not distinguish employees based on any of the above listed attributes.

The percentage of women working for Lundin Petroleum Group wide in 2011 was 32 percent (versus 30 percent in 2010), with country percentages ranging from 19 to 57 percent (versus 16 to 57 percent in 2010).

SUSTAINABLE INVESTMENTS

From its inception Lundin Petroleum has been committed to finding oil and gas in a responsible way and to positively impact people and the environment.

Its main contribution to the people in the area it operates is through the economic windfall oil represents; the Johan Sverdrup discovery in 2011 in Norway, for example, is expected to produce significant revenues in the decades to come for the Norwegian government and its people in the form of taxes.

Lundin Petroleum's main contribution to the environment is to limit its footprint by using environmental friendly equipment and products. Lundin Petroleum, however, also contributes by funding or taking part in projects which promote environmental protection, positive values and welfare in society (see below).

As part of its operations in Sudan and to respond to the precarious socio-economic conditions of the local community in its concession area, Lundin Petroleum elaborated a Community Development and Humanitarian Assistance Programme (CDHAP) which included projects in the field of freshwater supply, health, education and capacity building. CDHAP projects were carried out by dedicated and qualified staff. The Company also put in place an extensive stakeholder engagement programme in order to learn from others' experience and expertise and to promote a peaceful resolution of the conflict. The commitment to have a positive impact on society continued as Lundin Petroleum's activities shifted to Europe and Southeast Asia. In 2004 the Company devised a Donations' Policy which elaborated on the criteria to follow in selecting projects, and in 2010 it issued Sustainable Investment Guidelines which outlined two categories for contributions: community development projects and corporate donations.

Community development projects take place in countries of operations; they are part of the assets' work programme and budget and their extent is related to the country's socio-economic context and the level of the Company's activities. Corporate donations are issue, rather than geographically, based; they are an expression of Lundin Petroleum's commitment to positively impact societal issues of global concern, as expressed in the United Nations Global Compact and the Millennium Development Goals.

The projects described below reflect the types of issues which Lundin Petroleum has addressed through community projects, donations or personal participation during the course of 2011.

Child Welfare

Children represent the future; their welfare is an important sustainability issue: Lundin Petroleum has supported SOS Children's Villages, Sweden (SOS) from the start of its Corporate Donations Program in 2006. Over the years, the Company has contributed to children's villages in operated (Indonesia, Tunisia) as well as non-operated (Vietnam, Cambodia) areas. The uniqueness of SOS's approach and its evident impact on the welfare of children has been recognised by visiting Group and country-based staff. In 2011, Lundin Petroleum continued to support SOS Villages in Indonesia and Tunisia, affording staff the possibility to get personally involved with the organisation and the children.

Through its subsidiary in Norway, the Company contributed to Save the Children Norway, whose mission is to provide emergency relief and long term aid to children.

Through its subsidiary in Russia, the Company contributed to the running costs of the Sasykol orphanage in 2011, an orphanage it had helped refurbish in 2009 and 2010.

Lundin Petroleum also made a financial contribution to Stockholm's International Women's Club's fund-raiser for the World Childhood Foundation.

Social Welfare

Lundin Tunisia contributes on an annual basis to the Association des Amis du Belvedère which maintains a park situated in the heart of Tunis. In addition to protecting flora from the five continents, the association has initiated a number of renewable energy projects, from solar to wind energy, and has introduced environmental protection projects such as the planting of trees and the recycling of waste. In 2011, Lundin Petroleum provided seed money to establish family plots for neighbouring communities and training them in environmentally friendly farming techniques.

Lundin Indonesia upgraded a 1.2 km water pipeline and the existing water supply system, and drilled four water wells in three villages in the Padeglang region where its Rangkas Block is situated. It contributed 1,500 milk boxes for pregnant woman in the Natuna region where its South Sokang Block is situated. In the Anambas Island region where the Baronang, Cakalang and Gurita blocks are situated, Lundin Indonesia donated food, milk and vitamins for infants and pregnant women, as well as two dental chairs with sets of dental tools and a sterilising cabinet.

Lundin Petroleum made a financial contribution to Situation Stockholm, a Swedish journal for the homeless.

Environmental Protection

Preservation of the environment is a key policy goal for Lundin Petroleum and is embedded in its daily operations through, amongst others, its zero discharge goal, emergency and oil spill preparedness, the use of environmentally friendly technologies and products. Environmental protection was also promoted through community development projects in 2011.

The Company reiterated its support in Astrakhan, Russia to "Operation Delta" consisting in a group of 20 students who collect over a period of three weeks rubbish left by tourists and local residents on river banks of the Volga Delta. For the first time, Lundin Petroleum's Astrakhan staff took part in the initiative by spending a day helping the students and participating in a meeting focusing on means to protect the environment.

Preservation of biodiversity is also part of Lundin Petroleum's environmental commitments. In France, the commitment consisted in planting trees on a former well site. In Russia, the Company continued its support to two projects, one involving the artificial breeding of sturgeons, whose population in the Volga Delta area is decreasing due to poaching activities and the other involving the nesting of Siberian cranes, a critically threatened species according to the International Union for Conservation of Nature.

Climate Change remains an important consideration for Lundin Petroleum, which tracks greenhouse gas emissions throughout its operations. Lundin Petroleum participated for the third time in the Carbon Disclosure Project obtaining the best disclosure score among Nordic oil and gas companies.

Capacity Building

Lundin Petroleum considers that one of the best ways to contribute to the improvement of local conditions is through capacity building. In 2011, the Company's capacity building projects included:

- covering part of the fee for a Master's Degree in Community Development student (South Sudan)
- covering the costs of the internship of a Petroleum Engineering student (Malaysia)
- covering the cost of the internship of a Petroleum Engineering student (France)
- establishing two scholarships at the Bandung Institute of Technology (Indonesia)
- contributing to the retraining of pirates from the Gulf of Aden (Norway)
- covering the cost of training students in a natural reserve (Russia)

Staff Contributions

Lundin Petroleum's commitment to positively impact society includes promoting personal implication of Company staff, by matching their personal contributions and by supporting their participation in charitable or environmental events.

Matching contributions

At a corporate level, the Company in 2011 matched the following staff contributions:

- financial support to Libya SOS, whose mission was to provide medical equipment to civilians during the uprising in Libya
- financial support to the Red Cross' mission in New Zealand as a result of the earthquake in Christchurch
- financial support towards the purchase of tents to accommodate refugees from Libya in Tunisia

At country level, the Company in 2011 matched the following staff contributions:

- financial support equivalent to one to three days' salary of onshore and offshore staff in Tunisia, to purchase tents to accommodate refugees from Libya

Personal participation

Lundin Petroleum covered the costs related to staff participation in:

- "Courir pour Aider", a run for charity, whose benefits were donated to a Swiss association helping children with cancer
- "Bike to Work", a Swiss environmental initiative intended to encourage people to bike to work
- "Operation Delta", the clean-up of Volga river banks

Governance

Lundin Petroleum has elected to contribute to the debate on governance in the oil sector by funding academic research. As a result of the research and workshop it funded at the Institute of Graduate Studies in Geneva in 2010 on "Global and local governance in the energy sector", a special issue was published by the Journal of Global Governance in April 2011 on "the Governance of Extractive Resources". As a follow up, Lundin Petroleum funded another research project on "The Impact of Natural Resource-Richness and Governance on Sustainable Development as Measured by ANS". The results of the research will be presented in a conference and published in an academic journal in 2012.

CORPORATE GOVERNANCE REPORT 2011

INTRODUCTION – GOVERNANCE STRUCTURE

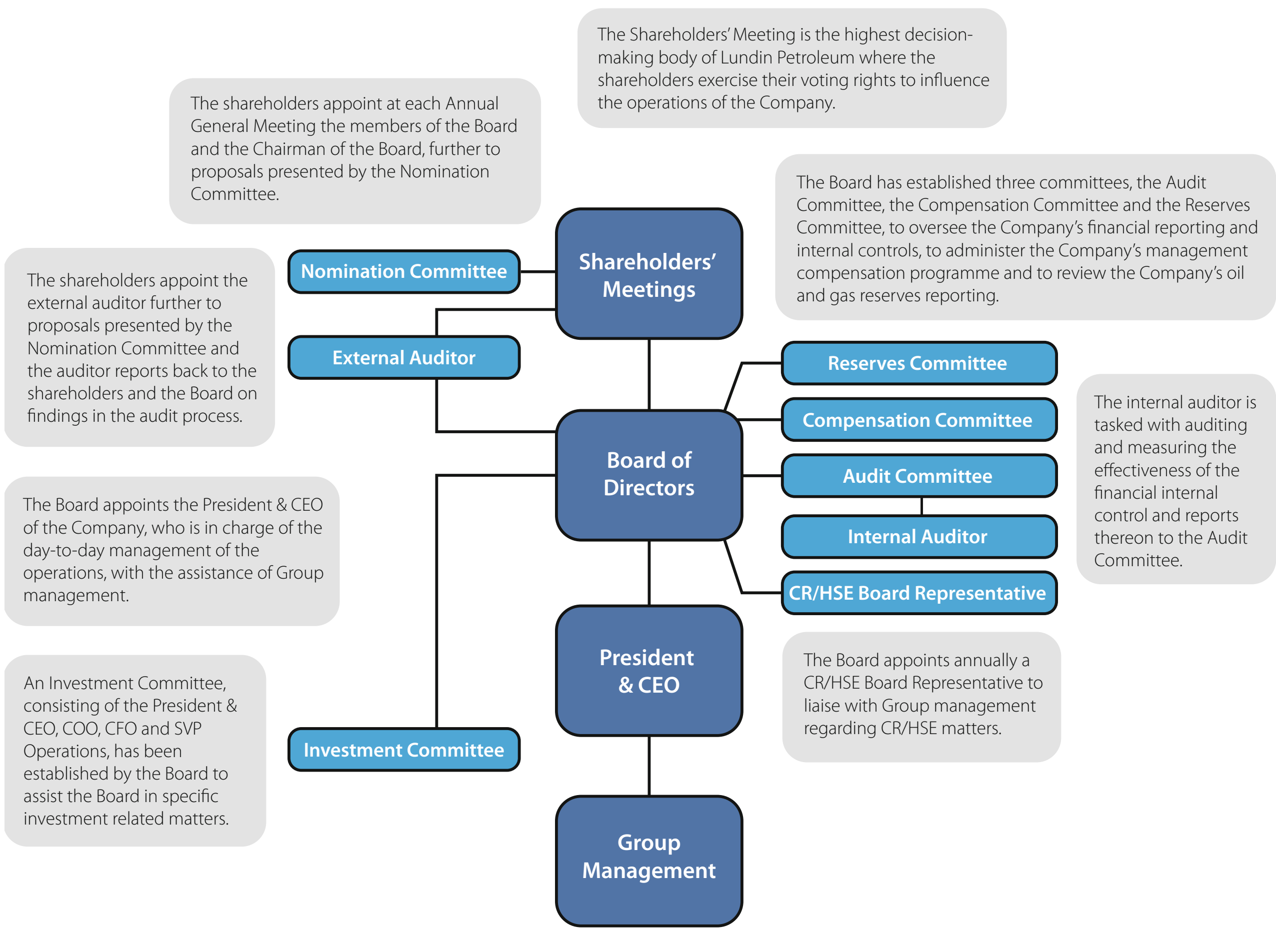
The object of Lundin Petroleum's business is to explore, develop and produce oil and gas and to develop other energy resources, as laid down in its Articles of Association. The Company aims to create value for its shareholders through exploration and organic growth, while operating in an economically, socially and environmentally responsible way for the benefit of all its stakeholders. To achieve this value creation, Lundin Petroleum has, during its ten year history applied, and continues to apply, a governance structure that favours straightforward decision making processes, with easy access to relevant decision makers, while nonetheless providing the necessary checks and balances for the control of the activities, both operationally and financially.

Internal governance instruments and practices, such as the Code of Conduct and the Rules of Procedure of the Board, have existed since the creation of the Company in 2001, however the governance structure has continuously evolved following internal developments as well as changes to applicable legislation, stock exchange rules and other regulations. In particular, the introduction of a Swedish Code of Corporate Governance on 1 July 2005, and its revised versions, have led to developments in the corporate governance structure of Lundin Petroleum, e.g. the creation of a Nomination Committee, implementation of more detailed Rules of Procedure, in-depth consideration of independence requirements and improved governance routines and practices in general.

After ten years of corporate governance at Lundin Petroleum, the Company remains committed to applying good corporate governance practices that are best suited for the Company and its activities, to ensure that the Company is managed in an effective manner, in the best interests of all shareholders, for continued delivery of value creation for shareholders.

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

LUNDIN PETROLEUM – GOVERNANCE STRUCTURE



GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

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 Swedish Companies Act (SFS 2005:551) and the Annual Accounts Act (SFS 1995:1554), as well as the Rule Book for Issuers of the NASDAQ OMX Stockholm (which rules can be found on the website www.nasdaqomx.com). Lundin Petroleum is also listed on the Toronto Stock Exchange since 24 March 2011 and is as a result subject to Canadian securities regulations as well.

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

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

The Swedish Code of Corporate Governance

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

The Code of Governance is based on the "comply or explain principle", which entails that a company may choose to apply another solution than the one provided by the Code of Governance if it finds an alternative solution to be more appropriate in a particular case. The company must however explain why it did not comply with the rule in question and describe the company's preferred solution, as well as the reasons for it. Lundin Petroleum complied with all the rules of the Code of Governance in 2011, other than in one instance as mentioned below regarding the composition of the Nomination Committee.

Lundin Petroleum's Articles of Association

Lundin Petroleum's Articles of Association, which form the basis of the governance of the Company's operations, set forth the Company's name, the seat of the Board, the object of the business activities, the shares and share capital of the Company and contain rules with respect to the Shareholders' Meetings. The Articles of Association 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 in an economically, socially and environmentally responsible way, for the benefit of all its stakeholders, including shareholders, employees, business partners, host and home governments and local communities. The Company applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements and strives continuously to improve its performance and to act in accordance with good oilfield practice and high standards of corporate citizenship.

To mark the ten year anniversary of Lundin Petroleum, a revised Code of Conduct was approved by the Board in 2011 to confirm the Company's continued commitment to the values and principles expressed in it and to carrying out activities in an efficient and responsible way. The Code of Conduct remains an integral part of the Company's contracting procedures and any violations of the Code of Conduct will be the subject of an inquiry and appropriate remedial measures. Performance under the Code of Conduct is assessed on an annual basis by the Board. The Code of Conduct can be found on the Company's website www.lundin-petroleum.com.

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

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

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

Lundin Petroleum's Rules of Procedure of the Board

The Rules of Procedure of the Board contain the fundamental rules regarding the division of duties between the Board, the Committees, the Chairman of the Board and the Chief Executive Officer (CEO). The Rules of Procedure also include instructions to the CEO, instructions for the financial reporting to the Board and the terms of reference of the Board Committees and the Investment Committee. The Rules of Procedure, which are approved annually by the Board, were reviewed in the spring of 2011 as a result of the new Code of Governance that entered into force in 2010. The amended Rules of Procedure were adopted by the Board in May 2011.

SHARE CAPITAL AND SHAREHOLDERS

The shares of Lundin Petroleum are listed on the Large Cap list of the NASDAQ OMX Stockholm and on the Toronto Stock Exchange. At the end of 2011, the issued share capital of Lundin Petroleum amounted to SEK 3,179,106 divided into 317,910,580 shares with a quota value of SEK 0.01 each. All shares carry the same voting rights and the same rights to a share of the Company's assets and net result.

Lundin Petroleum had at the end of 2011 a total of 36,897 shareholders listed with Euroclear Sweden. Lundin Petroleum AB itself held 6,882,638 of its own shares, as a result of share repurchases in previous years, representing 2.2 percent of the share capital. As per 31 December 2011, the major shareholders of the Company, which held more than ten percent of the shares (and votes), were Lorito Holdings (Guernsey) Ltd. and Zebra Holdings and Investment (Guernsey) Ltd., two investment companies wholly owned by Lundin family trusts, which together held 27.4 percent of the shares. In addition, Landor Participations Inc., an investment company wholly owned by a trust whose settler is Ian H. Lundin, held 3.6 percent of the shares. More detailed information regarding the shares and shareholders of Lundin Petroleum in 2011 can be found on pages 58–59.

NOMINATION COMMITTEE

The shareholders of the Company decide how the Nomination Committee is to be formed at each Annual General Meeting (AGM). 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 the other Board members, including fees for Board Committee work, election of auditor, fees for the auditor, 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.

Further to 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 presents the results and conclusions to the Nomination Committee. No remuneration is paid to the Chairman or any other member of the Nomination Committee for their work on the Nomination Committee.

Nomination Committee for the 2012 AGM

In accordance with the principles resolved by the 2011 AGM, the Nomination Committee for the 2012 AGM consists of the representatives for four of the larger shareholders of the Company based on shareholdings as per 1 August 2011, see schedule below.

Nomination Committee for the 2012 AGM

Member	Representing	Shares represented as at 1 August 2011	Shares represented as at 31 December 2011	Independent of the Company and the Group management	Independent of the Company's major shareholders
Kerstin Stenberg	Swedbank Robur fonder	3.6 percent	3.4 percent	Yes	Yes
Ulrika Danielson	Andra AP-fonden	1.2 percent	1.0 percent	Yes	Yes
Anders Algotsson	AFA Försäkring	1.4 percent	1.0 percent	Yes	Yes
Ian H. Lundin	Lorito Holdings (Guernsey) Ltd., Zebra Holdings and Investment (Guernsey) Ltd. and Landor Participations Inc., also non-executive Chairman of the Board of Lundin Petroleum	32.0 percent	31.0 percent	Yes	No[1]
Magnus Unger	Non-executive Board member of Lundin Petroleum who acts as the Chairman of the Nomination Committee			Yes	Yes
		Total 38.2 percent	Total 36.4 percent		

[1] For details, please see schedule on pages 54–55.

The Nomination Committee fulfils the independence requirements of the Code of Governance and no member of Group management is a member of the Committee. Magnus Unger was again unanimously elected as Chairman, a function that he has held since the Nomination Committee formed for the 2006 AGM. The fact that he is the Chairman of the Nomination Committee and a Board member of Lundin Petroleum constitutes a deviation from rule 2.4 in the Code of Governance, however, as in previous years, he was considered by the Nomination Committee to be best suited for the task.

The names of the members of the Nomination Committee were announced and posted on the Company's website on 24 October 2011, i.e. within the time frame of six months before the AGM as prescribed by the Code of Governance. The Nomination Committee held three meetings during the year and informal contacts took place between such meetings. The Nomination Committee received a report regarding the Board's work, as well as the results of the evaluation of the Board's work. A comparison of directors' fees in Europe was also undertaken by the Chairman of the Committee and the findings thereof were presented to the full Committee. The Committee further considered the independence of the Board members under the rules of the Code of Governance. The full report of the Nomination Committee regarding its work and proposals for the 2012 AGM will be published on the Company's website together with the notice of the AGM.

SHAREHOLDERS' MEETINGS

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

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

2011 AGM

The 2011 AGM was held on 5 May 2011 at Grand Hotel in Stockholm. The AGM was attended by 303 shareholders, personally or by proxy, representing 48.9 percent of the share capital. The Chairman of the Board, all Board members and the CEO were present, as well as the Company's auditor and the majority of the members of the Nomination Committee for the 2011 AGM[2]. In order for all participants to be able to follow the AGM, all proceedings were simultaneously translated from Swedish to English and from English to Swedish.

The resolutions passed by the 2011 AGM include:

- Re-election of Ian H. Lundin, Magnus Unger, William A. Rand, Lukas H. Lundin, C. Ashley Heppenstall, Asbjørn Larsen and Dambisa F. Moyo as Board members and election of Kristin Færøvik as a new Board member.
- Re-election of Ian H. Lundin as Chairman of the Board.
- Discharge of the Board and the CEO from liability for the administration of the Company's business for 2010.
- Adoption of the Company's income statement and balance sheet and the consolidated income statement and balance sheet and deciding that no dividend was to be declared for 2010.
- Approval of the remuneration of the Board members and the auditor.
- Approval of the Company's Policy on Remuneration.
- Authorisation for 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.
- Authorisation for the Board to decide on repurchases and sales of the Company's own shares on the NASDAQ OMX Stockholm or the Toronto Stock Exchange, where the number of shares held in treasury from time to time shall not exceed five percent of all outstanding shares of the Company.
- Approval of the nomination process for the 2012 AGM.

The minutes of the 2011 AGM are available in Swedish and English on the Company's website www.lundin-petroleum.com.

EXTERNAL AUDITOR OF THE COMPANY

Lundin Petroleum's external auditor audits annually the Company's financial statements, the consolidated financial statements, the Board's and the CEO's administration of the Company's affairs and the Corporate Governance Report. In addition, the auditor performs a review of the Company's half year report. The Board of Directors meets at least once a year with the auditor without any member of Group management present at the meeting. The auditor is elected for a period of four years to provide for continuity in the audit process. At the 2011 AGM, no election of auditor took place as the audit firm PricewaterhouseCoopers AB was elected at the 2009 AGM as the auditor of the Company for the period until the 2013 AGM. The auditor in charge is the authorised public accountant Bo Hjalmarsson. The auditor's fees are described in the notes to the financial statements – see Note 36 on page 95 and Note 10 on page 100. The auditor's fees also detail payments made for assignments outside the regular audit mandate. Such assignments are kept to a minimum to ensure the auditor's independence towards the Company.

[2] The members of the Nomination Committee for the 2011 AGM were KG Lindvall (Swedbank Robur fonder), Ossian Ekdahl (Första AP-fonden), Anders Algotsson (AFA Försäkring), Ian H. Lundin (Lorito Holdings (Guernsey) Ltd., Zebra Holdings and Investment (Guernsey) Ltd. and Landor Participations Inc. as well as non-executive Chairman of the Board of Lundin Petroleum) and Magnus Unger (non-executive Board member of Lundin Petroleum and Chairman of the Nomination Committee).

CORPORATE GOVERNANCE REPORT 2011

BOARD OF DIRECTORS

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

Composition of the Board

The Board shall, according to the Articles of Association, consist of a minimum of three and a maximum of ten directors with a maximum of three deputies, and the AGM decides the final number each year. The Board members are elected for a term of one year and as mentioned previously, Ian H. Lundin, also Chairman of the Board, Magnus Unger, William A. Rand, Lukas H. Lundin, C. Ashley Heppenstall, also CEO of the Company, Asbjørn Larsen and Dambisa F. Moyo were re-elected, and Kristin Færøvik was elected as a new Board member, at the 2011 AGM for the period until the next AGM. There are no deputy members and no members appointed by employee organisations. The Board members, with the exception of the CEO, are not employed by the Company, do not receive any salary from the Company and are not eligible for participation in the Company's incentive programmes. In addition, the Board is supported by a corporate secretary who is not a Board member. The appointed corporate secretary is as of March 2011 Jeffrey Fountain, the Company's Vice President Legal.

The Chairman of the Board, Ian H. Lundin, is responsible for ensuring that the Board's work is well organised and conducted in an efficient manner. He upholds the reporting instructions for management, as drawn up by the CEO and as approved by the Board, however, he does not take part in the day-to-day decision-making concerning the operations of the Company. The Chairman further maintains close contact with the CEO to ensure the Board is at all times sufficiently informed of the Company's operations and financial status and meets, at various occasions during the year, shareholders of the Company to discuss shareholder questions and ownership issues in general.

All Board members elected at the 2011 AGM have extensive experience from the world of business and several members are also highly experienced within the oil and gas field. The Nomination Committee for the 2011 AGM considered, taking into account the business operations of Lundin Petroleum and its current phase of development, that the Board is composed of multi-faceted individuals who are well-suited for the job with breadth in expertise, experience and background. Further, in preparation of the elections at the 2011 AGM, the Nomination Committee considered the independence of each (proposed) Board member and determined that the composition of the (proposed) Board met the independence requirements of the Code of Governance both in respect of independence towards the Company and the Group management and towards the Company's major shareholders. The independence of each Board member is presented in the schedule on pages 54–55.

The principal tasks of the Board of Directors include:

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

Board Meetings and Work

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

Board Meetings and Work in 2011

During 2011, nine board meetings took place, including the statutory meeting. To develop the Board's knowledge of the Company and its operations, a yearly field trip is in general carried out by the Board to one of the Company's operational locations and in 2011, the Board visited the French operations. In addition, the Board members were invited to attend a working session in Norway for a detailed review of the Luno field development project and one executive session, together with Group management, was held in France in connection with a Board meeting. At the executive session, an in-depth operations report regarding the Group's exploration and development activities was given, as well as a reserves and production update. A financial overview of the Group was presented and a CR/HSE report, with a particular focus on anti-corruption initiatives undertaken by the Company, was given. Group management further attended a number of Board meetings during the year to present and report on specific questions, as and when required.

In 2011, the work of the Board included the following:

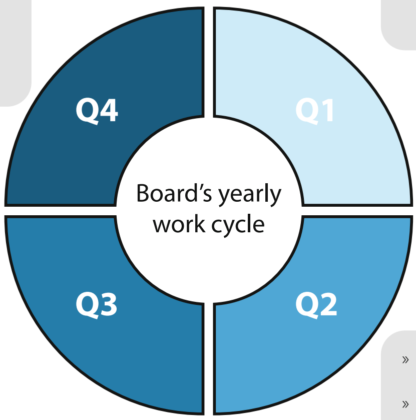
- Review and approval of the report for the financial year ended 31 December 2010.
- Strategic discussions regarding the current operations and future exploration and development projects.
- Consideration of asset disposals and acquisitions.
- Consideration of non-budgeted financial commitments following operational needs, e.g. additional wells/ side-tracks, Front End Engineering Design (FEED) costs, development plan (PDO) preparation costs, etc.
- Consideration of substantial projects and commitments including drilling rig and seismic survey arrangements, revisions to drilling programmes, development plan (PDO) submissions, parent company guarantees, etc.
- Consideration of new licence applications.
- Discussions with the Company's auditor regarding the audit process and the Company's reporting, internal control and risk management.
- Meeting with the Company's auditor without management present at the meeting.
- Constitution of a Reserves Committee in connection with the Company's listing on the Toronto Stock Exchange in March 2011.
- Review and approval of the materials and proposals for the 2011 AGM, including the Company's 2010 Annual Report.
- Consideration and approval of a revised Code of Conduct.
- Review and approval of the Company's six month report as per 30 June 2011, based on the recommendations of the Audit Committee.
- Review and approval of up-dated Rules of Procedure for the Board, including instructions to the CEO, instructions for the financial reporting to the Board and terms of reference of the Board Committees and the Investment Committee.
- Review and approval of reserves statements required under Canadian securities regulation.
- Review and approval of the Anti-Corruption Policy and Guidelines.
- Review and approval of the 2012 budget and work programme.
- In addition, the Board continuously received management reports and updates regarding the ongoing operations, the Company's financial status and CR/HSE matters to enable the Board to duly monitor the Company's operations and financial position.

The Board is also responsible for evaluating the work of the CEO on a continuous basis and shall at least once a year, without management present at the meeting, specifically consider this issue. In 2011, the Compensation Committee, on behalf of the Board, undertook a review of the work and performance of Group management, including the CEO, and presented the results of the review at a Board meeting, including proposals regarding the compensation of the CEO and other Group management. Neither the CEO nor other Group management were present at the Board meetings when such discussions took place.

Evaluation of the Board's Work

A formal review of the work of the Board was conducted in November 2011 through a questionnaire submitted to all Board

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



Q1:
- Approval of the year end report.
- Approval of the year end reserves report.
- Approval of the remuneration report.
- Approval of remuneration proposals regarding variable remuneration.

Q2:
- Approval of the Annual Report.
- Review of the auditor's report.
- Approval of the Policy on Remuneration for submission to the AGM.
- Determination of the AGM details and approval of the AGM materials.

- Audit Committee report regarding the first quarter report.
- Annual CR/HSE management report.
- Annual assessment of the Code of Conduct.
- Meeting with the auditor without management present.
- Statutory meeting following the AGM.

Q3:
- Adoption of the half year report, reviewed by the auditor.

- Executive session with Group management.
- Detailed discussion of strategy issues.
- In-depth analysis of one or more of the Company's business areas.
- Review of the Rules of Procedure.

Q4:
- Adoption of the budget and work programme.
- Consideration of the Board self-evaluation to be submitted to the Nomination Committee.
- Audit Committee report regarding the third quarter report.
- Performance assessment of the CEO.
- Consideration of Compensation Committee remuneration proposals.

members. Several aspects of the Board's work were considered and individual feedback from all of the Board members was received. The overall conclusions were the following:

- Board structure
  The composition of the Board as a whole is appropriate to the Company's operations, phase of development and for addressing issues facing the Company; the Board members collectively exhibit diversity and breadth in respect of expertise, experience and background and have sufficient knowledge of the Company, its operations, organisation and industry; the composition of the Board Committees is appropriate; the duties and decision-making powers of the Board Committees are clear and well-defined; there should be no term limits or a fixed retirement policy.
- Board meetings
  The number of Board meetings is appropriate; the meetings are well planned with clear agendas; the Board receives adequate materials in advance of the meetings; the Board's work is well organised, the meetings are chaired effectively and the time at the meetings is used efficiently with sufficient time for presentations and discussions; the members prepare for meetings and participate constructively; the Board focuses properly on competitive, financial and other challenges to promote the interests of the Company and is adequately involved in determination of the Company's overall goals and strategy; the Board is effective in monitoring the Company's operational performance and implementation of the strategy.
- Other
  Information received between meetings is adequate and timely; the staff and related support for Board and Committee meetings is adequate; there is sufficient time/opportunity for Committee meetings; the Committees report to the Board in an effective and sufficient manner; there are sufficient contacts with the Company's auditor to ensure the financial reporting and internal controls are in compliance with rules and regulations; the CEO performance review process is adequate; the Board is well organised to handle a potential crisis situation; holding Board meetings in various operational locations is beneficial; the Board focuses on activities that will help maximise shareholder value.

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

Remuneration of Board Members

The remuneration of the Chairman and other Board members follows the resolution adopted by the AGM. The 2011 AGM decided that the Board shall receive a total compensation of not more than SEK 4,200,000. 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 1,000,000 for Committee work. In addition, the 2011 AGM approved an amount of SEK 2,500,000 to be paid to Board members for special assignments outside the directorship.

The remuneration of the Board of Directors is detailed further in the schedule on pages 54–55 and in the notes to the financial statements – see Note 34 on pages 93–94.

BOARD OF DIRECTORS

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

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

Kristin Færøvik
Director since 2011
Member of the Compensation Committee

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

For more information see pages 54–55

BOARD COMMITTEES AND THE CR/HSE REPRESENTATIVE

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

Compensation Committee

The Compensation Committee assists the Board in Group management remuneration matters and receives information and prepares the Board's and the AGM's decisions on matters relating to the principles of remuneration, remunerations and other terms of employment of Group management. The objective of the Committee in determining compensation for Group management is to provide a compensation package that is based on market conditions, competitive and takes into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the individual. The Committee's tasks also include monitoring and evaluating programmes for variable remuneration, the application of the Policy on Remuneration as well as the current remuneration structures and levels in the Company. For further information regarding Group remuneration matters, see the remuneration sections of this report on pages 50–51.

Audit Committee

The Audit Committee assists the Board in ensuring that the Company's financial reports are prepared in accordance with International Financial Reporting Standards (IFRS), the Swedish Annual Accounts Act and accounting practices applicable to a company incorporated in Sweden and listed on the NASDAQ OMX Stockholm and the Toronto Stock Exchange. The Audit Committee supervises the Company's financial reporting and the efficiency of the Company's financial internal controls, internal audit and risk management and its primary objective is to provide support to the Board in the decision making processes regarding such matters. In addition, the Committee is empowered by the Committee's terms of reference to make decisions on certain issues delegated to it, such as review and approval of the Company's first and third quarter interim financial statements on behalf of the Board. The Audit Committee also regularly liaises with the Group's external auditor as part of the annual audit process and reviews the audit fees and the auditor's independence and impartiality. The Audit Committee further assists the Company's Nomination Committee in the preparation of proposals for the election of auditor at the AGM, as and when required.

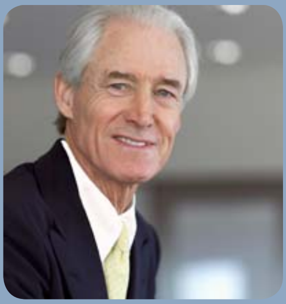
Reserves Committee

The Reserves Committee was created in connection with the listing of Lundin Petroleum's shares on the Toronto Stock Exchange in 2011 and reviews and reports to the Board on matters relating to the Company's policies and procedures for

BOARD OF DIRECTORS

Lukas H. Lundin
Director since 2001

Dambisa F. Moyo
Director since 2009
Member of the Compensation Committee



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

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

For more information see pages 54–55

reporting oil and gas reserves and related information as per National Instrument 51–101 (NI 51–101) issued under applicable Canadian securities regulation. The Reserves Committee reports to the Board on the Company's procedures for disclosing oil and gas reserves and other related information, on the appointment of the independent qualified reserves auditor and on the Company's procedures for providing information to the independent qualified reserves auditor. The Reserves Committee also meets with management and the independent qualified reserves auditor to review, and determine whether to recommend that the Board approve, the statement of reserves and other oil and gas information required to be submitted annually under NI 51–101.

The CR/HSE Board Representative

The Board of Directors has a leadership and supervisory role in all CR and HSE matters within the Group and appoints yearly one non-executive Director to act as the CR/HSE Board Representative. The tasks of the CR/HSE Board Representative include to liaise with Group management regarding CR and HSE related matters and to regularly report on such matters to the Board of Directors. The current CR/HSE Board Representative is Asbjørn Larsen. More information about the Company's CR/HSE activities can be found in the Corporate Responsibility section on pages 32–39.

Audit Committee 2011			
Members	Meeting attendance	Audit Committee work during the year	Other requirements
William A. Rand, Chairman Magnus Unger Asbjørn Larsen	6/6 6/6 6/6	– Assessment of the 2010 year end report and the 2011 half year report for completeness and accuracy and recommendation for approval to the Board. – Assessment and approval of the first and third quarter reports 2011 on behalf of the Board. – Evaluation of accounting issues in relation to the assessment of the financial reports. – Three meetings with the external auditor to discuss the financial reporting, internal controls, etc. – Evaluation of the audit performance and the independence and impartiality of the external auditor. – Follow-up and evaluation of the results of the internal audit of the Group.	– The composition of the Audit Committee fulfilled the independence requirements of the Code of Governance. – William A. Rand has chaired the Audit Committee since its inception in 2002 and all Audit Committee members have financial/legal management expertise. In addition, Asbjørn Larsen's previous assignments include the position of CFO and CEO of a Norwegian listed upstream petroleum company and he has extensive experience in accounting and audit matters.
Compensation Committee 2011			
Members	Meeting attendance	Compensation Committee work during the year	Other requirements
William A. Rand, Chairman Magnus Unger Dambisa F. Moyo Lukas H. Lundin[3] Kristin Færøvik[4]	4/4 4/4 3/4 1/1 3/3	– Review of the performance of the CEO, the other members of Executive Management and other Group management as per the Performance Management Process. – Preparing a report regarding the Board's evaluation of remuneration of the Executive Management in 2010. – Continuous monitoring and evaluation of remuneration structures, levels, programmes and the Policy on Remuneration. – Preparing a proposal for the 2011 Policy on Remuneration for Board and AGM approval. – Preparing a proposal for remuneration and other terms of employment for the CEO for Board approval. – Review of the CEO's proposals for remuneration and other terms of employment of the other members of Executive Management and VP level employees for Board approval. – Review and approval of the CEO's proposals for the principles of compensation of other Group management and employees. – Review and approval of the CEO's proposals for 2011 LTIP awards. – Approval of severance arrangements. – Undertaking a remuneration benchmark study and engaging the HayGroup to assist with the study.	– The composition of the Compensation Committee fulfilled the independence requirements of the Code of Governance. – William A. Rand has chaired the Compensation Committee since its inception in 2002 and thus possesses extensive experience in compensation matters. In addition, considering the varied backgrounds and experience of the Committee members in general, the Compensation Committee has ample knowledge and experience of management remuneration issues.
Reserves Committee 2011			
Members	Meeting attendance	Reserves Committee work during the year	Other requirements
Ian H. Lundin, Chairman Asbjørn Larsen	1/1 1/1	– General review of the Company's oil and gas reserves procedures and practices. – Review of the Company's procedures for assembling and reporting other information associated with oil and gas activities. – Meeting with management and Gaffney, Cline & Associates, the independent qualified reserves auditor, to discuss the reserves reporting. – Review of reserves data.	– The composition of the Reserves Committee fulfilled the independence requirements of Canadian securities regulation as per NI 51-101.

[3] Lukas H. Lundin was a member of the Compensation Committee until 5 May 2011.
[4] Kristin Færøvik has been a member of the Board and the Compensation Committee since 5 May 2011.

MANAGEMENT

C. Ashley Heppenstall
President & Chief Executive Officer, Director

Alexandre Schneiter
Executive Vice President & Chief Operating Officer

Geoffrey Turbott
Vice President Finance & Chief Financial Officer

Chris Bruijnzeels
Senior Vice President Operations

Christine Batruch
Vice President Corporate Responsibility

Jeffrey Fountain
Vice President Legal

MANAGEMENT

Management structure

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

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

» The Investment Committee, which in addition to the CEO includes
  - the Chief Operating Officer (COO), Alexandre Schneiter, who is responsible for Lundin Petroleum's worldwide exploration and production operations;
  - the Chief Financial Officer (CFO), Geoffrey Turbott, who is responsible for the financial reporting, internal audit, risk management, IT, HR, tax and treasury function; and
  - the Senior Vice President Operations (SVP Operations), Chris Bruijnzeels, who is responsible for operations, reserves and the optimum development of Lundin Petroleum's asset portfolio.

» The Vice President Corporate Responsibility, Christine Batruch, who is responsible for the Group's CR and HSE strategy, and the Vice President Legal, Jeffrey Fountain, who is responsible for all legal matters pertaining to the Group.

» The General Managers/Managing Directors who are responsible for the day-to-day activities of the local operational entities.

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

Investment Committee

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

REMUNERATION

Group Principles of Remuneration

Lundin Petroleum aims to offer all its employees compensation packages that are competitive and in line with market conditions to ensure it can recruit, motivate and retain highly skilled individuals, in a manner that nonetheless enhances shareholder value. The principles of remuneration within the Group are therefore made up of four elements, being (i) basic salary; (ii) yearly variable salary; (iii) long-term incentive plans; and (iv) other benefits. As part of the yearly assessment process, the Company has established a Performance Management Process to align individual and team performance to the strategic and operational goals and objectives of the overall business. Individual performance measures are formally agreed and key elements of variable remuneration are clearly linked and defined to the achievement of stated and agreed performance measures. To ensure compensation packages within the Group remain competitive and in line with market conditions, the Compensation Committee undertakes regular benchmarking studies and may request the advice and assistance of external reward consultants, which it did in 2011 through the HayGroup. The HayGroup did not perform any other assignments for the Company or the Executive Management.

Remuneration of Executive Management

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

The tasks of the Compensation Committee include monitoring and evaluating the application of the Policy on Remuneration approved by the AGM, and to fulfil this task, the Compensation Committee prepares a yearly report, for approval by the Board, on the evaluation of remuneration of the Executive Management. The external auditor of the Company also verifies on a yearly basis whether the Company has complied with the Policy on Remuneration. Both reports are available on the Company's website and the Policy on Remuneration approved by the 2011 AGM is included in this Corporate Governance Report. Further details regarding the remuneration of Executive Management in 2011 can be found in the notes to the financial statements – see Notes 34 –35 on pages 93–95.

For information regarding the Board's proposal for remuneration to the Executive Management to the 2012 AGM, please see page 71.

LUNDIN PETROLEUM AB'S 2011 POLICY ON REMUNERATION FOR THE EXECUTIVE MANAGEMENT (AS APPROVED BY THE 2011 AGM)

Application and Objectives of the Policy

In this Policy on Remuneration, the terms "Executive Management" or "Executives" refers to the President and Chief Executive Officer (CEO), the Executive Vice President and Chief Operating Officer, the Vice President Finance and Chief Financial Officer, and the Senior Vice President Operations.

It is the aim of Lundin Petroleum to recruit, motivate and retain high calibre Executives capable of achieving the objectives of the Group, and to encourage and appropriately reward performance in a manner that enhances shareholder value. Accordingly, the Group operates this Policy on Remuneration to ensure that there is a clear link to business strategy and a close alignment with shareholder interests and current best practice, and aims to ensure that the Executive Management is rewarded fairly for its contribution to the Group's performance.

Compensation Committee

The Board of Directors of Lundin Petroleum has established the Compensation Committee to, among other things, administer this Policy on Remuneration. The Compensation Committee is to receive information and prepare the Board of Directors' and the Annual General Meeting's decisions on matters relating to the principles of remuneration, remunerations and other terms of employment of the Executive Management. The Compensation Committee meets regularly and its tasks include monitoring and evaluating programmes for variable remuneration for the Executive Management and the application of this Policy on Remuneration, as well as the current remuneration structures and levels in the Company.

Elements of Remuneration

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

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

Basic Salary

The Executive's basic salary shall be based on market conditions, shall be competitive and shall take into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the Executive. The Executive's basic salary, as well as the other elements of the Executive's remuneration, shall be reviewed annually to ensure that such remuneration remains competitive and in line with market conditions. As part of this assessment process, the Company, as well as the Compensation Committee, periodically undertakes benchmarking comparisons in respect of its remuneration policy and practices. In such circumstances, the comparator group is chosen with regard to:

a) companies both within and outside the oil and gas industry;
b) the size of the company (turnover, profits and employee numbers);
c) the diversity and complexity of the company's business;
d) the geographical nature of the company's business; and
e) the company's growth, expansion and change profile.

The advice and assistance of specialised consultants may be requested in connection with these comparisons and the Compensation Committee shall ensure that there is no conflict of interest regarding other assignments such consultants may have for the Company and the Executive Management.

Yearly variable salary

The Company considers that yearly variable salary is an important part of the Executive's remuneration package where associated performance targets reflect the key drivers for value creation and growth in shareholder value. Through its Performance Management Process, the Company sets predetermined and measurable performance criteria for each Executive, aimed at promoting long term value creation for the Company's shareholders.

At the end of each year, the CEO will make a recommendation to the Compensation Committee regarding the payment of the yearly variable salary to the other Executives based upon the achievement of their respective performance criteria. After consideration of the CEO's recommendations, the Compensation Committee will recommend to the Board of Directors for approval the level of the yearly variable salary of the CEO and of the other Executives.

The yearly variable salary shall, in the normal course of business, be based upon a predetermined limit, being within the range of 1–12 monthly salaries. However, the Compensation Committee may recommend to the Board of Directors for approval yearly variable salary outside of this range in circumstances or in respect of performance which the Compensation Committee considers to be exceptional.

Long-term Incentive Plan

The Company believes that it is appropriate to structure the long-term incentive plan (LTIP) to align Executive Management's incentives with shareholder interests. Therefore, the Company's LTIP for Executive Management is an incentive plan related to the Company's share price.

The LTIP for Executive Management approved by the 2009 AGM provided for the issuance by Lundin Petroleum of phantom options exercisable after 13 May 2014, being five years from the date of grant. The exercise of these options does not entitle the recipient to acquire shares of Lundin Petroleum, but to receive a cash payment based on the appreciation of the market value of such shares.

The Executives were granted phantom options with an exercise price equal to 110 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. In accordance with the terms of the 2009 LTIP, the exercise price was adjusted in connection with the distribution by Lundin Petroleum to its shareholders of shares of EnQuest plc and Etrion Corporation, and such adjusted exercise price is equal to SEK 52.91. The total number of phantom options granted to Executive Management is 5,500,928, following adjustments in connection with such distributions of shares of EnQuest plc and Etrion Corporation.

Such options will vest on 13 May 2014, being the fifth anniversary of the date of grant. The Executive will be entitled to receive a cash payment equal to the average closing price of Lundin Petroleum's shares during the fifth year following grant, less the exercise price, multiplied by the number of options then held by the Executive. Payment of the award under these phantom options will occur in two equal instalments: (i) first on the date immediately following the fifth anniversary of the date of grant (May 2014), and (ii) second on the date which is one year following the date of the first payment (May 2015).

No Executive who received an award of phantom options will be eligible for a grant of awards under the Company's unit bonus plan during the five year vesting period of the phantom options.

If the recipient of an award of phantom options resigns from the Group or if the recipient's employment is terminated for cause or similar during the five year vesting period, the award of phantom options will immediately terminate. If the recipient's employment is terminated for any other reason during such period, the award of phantom options will vest and become immediately payable, based on the average closing price of Lundin Petroleum's shares during the 90 day period prior to such termination. If a third party acquires more than 50 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.

From an accounting perspective the 2009 LTIP for Executive Management is regarded as compensation for services provided and will, under IFRS 2, result in accounting costs which will be distributed over the five year vesting period. Lundin Petroleum's liability under the LTIP will be measured at fair market value and will be revalued at each reporting period. The changes in value will be recognised in the income statement over the five year period so that the accumulated cost over the period corresponds to the value of the LTIP on the final date.

Other Benefits

Other benefits shall be based on market terms and shall facilitate the discharge of each Executive's duties. Such benefits include statutory pension benefits comprising a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions in relation to the basic salary are dependent upon the age of the Executive.

Severance Arrangements

A mutual termination period of between one month and six months applies between the Company and Executives, depending on the duration of the employment with the Company. In addition, severance terms are incorporated into the employment contracts for Executives that give rise to compensation, equal to two years' basic salary, in the event of termination of employment due to a change of control of the Company.

The Compensation Committee shall approve termination packages that exceed USD 150,000 in value per individual.

Authorisation for the Board

The Board of Directors is authorised to deviate from the Policy on Remuneration in accordance with Chapter 8, section 53 of the Swedish Companies Act in case of special circumstances in a specific case.

INTERNAL CONTROL AND RISK MANAGEMENT FOR THE FINANCIAL REPORTING

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

Lundin Petroleum's Financial Reporting Internal Control System consists of five key components, as described below and is based upon the Committee of Sponsoring Organisations of the Treadway Commission (COSO) model.

Internal control system for financial reporting

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

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 is an ongoing process that involves internal and external benchmarking, as well as improvement and development of control activities.

1. Control Environment

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

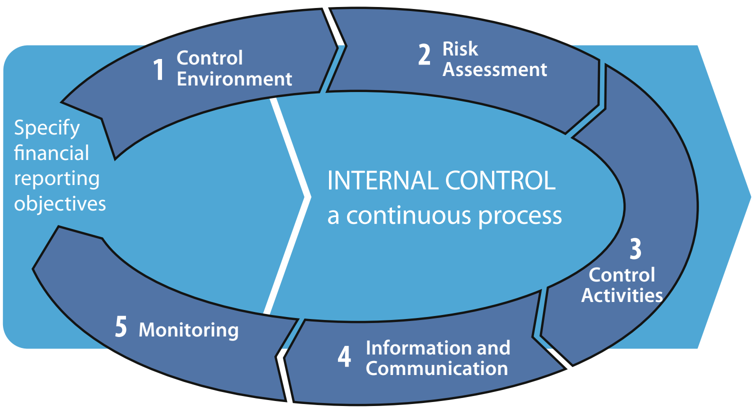
The CEO is responsible for maintaining in the daily operations an effective control environment and for operating the system of internal control and risk management in the Group and is assisted by Group management at varying levels. Lundin Petroleum further has an internal auditor whose main responsibility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

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

2. Risk Assessment

Risk assessment is an integrated part of the internal control framework and is performed on an ongoing basis at Lundin Petroleum. Risk assessment is a process that identifies, sources and measures the risk of material error in the financial reporting and accounting systems of the Group. This process is the basis for designing control activities to mitigate identified risks. For further details on the different risks, see the Risks and Risk Management section on pages 60–61.

Lundin Petroleum's Financial Reporting Internal Control System
The Five Key Components



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

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

As part of the risk assessment for 2011, 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. When risks are identified and evaluated, control activities are implemented to minimise the risks in the financial reporting process. Those risks are documented in a Group-wide risk map. Conclusions of the risk assessment are reported to management and the Board through the Audit Committee. Identified risk areas are mitigated through business processes with incorporated risk management, policies and procedures, segregation of duties and delegation of authority.

3. Control Activities

The finance department of each Group company is responsible for the regular analysis of the financial results and for reporting thereon to the finance department at Group level. Various other control activities are also incorporated into the financial reporting process to ensure that the financial reporting gives a true and fair view at any reporting date and that business is conducted efficiently. Developed control activities within Lundin Petroleum include processes for approval of business transactions, reconciliations, reviews of operating performance, segregation of duties, policies and procedures and information systems. The choice of control activities depends on the nature of the risk identified and the results of a materiality analysis.

Further, the Investment Committee was established by the Board to assist the Board in overseeing the Group's investment decisions such as annual budgets, investment proposals, etc. and to make recommendations to the Board as required. The Investment Committee meets at least twice per month and its review and approval process constitutes an important control activity within the Group.

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

4. Information and Communication

Communicating relevant information throughout all levels of the Group, as well as to external parties, in a complete, correct and timely manner is an important part of the internal control framework. The communications policy that has been approved by the Board of Directors defines how external information is to be issued, by whom and the way in which the information should be given.

Financial information is published by Lundin Petroleum in the following forms:

- The Annual Report
- Quarterly reports
- Press releases for news and events that may have an impact on the share price
- Presentations, webcasts and audiocasts for analysts, investors and media
- Lundin Petroleum's website

Policies and procedures, such as the Group Accounting Principles Manual, the Authorisation Policy and the Finance and Administration Manual are also communicated on a regular basis to all employees and are accessible through the information system network.

5. Monitoring

Monitoring of the financial reporting of Lundin Petroleum is carried out by the Board of Directors, the CEO, Group management, the internal auditor and the finance department of each Group company. To ensure that the Board receives sufficient and accurate information, the Rules of Procedures of the Board include detailed instructions regarding the type of financial reports that shall be submitted to the Board 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 the external auditor.

Financial monitoring activities are conducted by local management and the finance department of each Group company, and the finance department at Group level, and include monthly and quarterly follow-up of results against budget and forecast. Further, an important monitoring activity carried out by the internal auditor is to follow-up on the results of the previous years' internal audits and risk assessments to ensure that the appropriate corrective measures have been implemented.

CORPORATE GOVERNANCE REPORT 2011

BOARD OF DIRECTORS

Name	Ian H. Lundin	C. Ashley Heppenstall	Kristin Færøvik[4]	Asbjørn Larsen
Function	Chairman (since 2002)	President and CEO, Director	Director	Director
Elected	2001	2001	2011	2008
Born	1960	1962	1962	1936
Education	Bachelor of Science degree in Petroleum Engineering from the University of Tulsa.	Bachelor of Science degree in Mathematics from the University of Durham.	Master of Science degree in Petroleum Engineering from the University of Trondheim.	Norwegian School of Economics and Business Administration (NHH).
Experience	Ian H. Lundin was previously CEO of International Petroleum Corp. during 1989–1998, of Lundin Oil AB during 1998–2001 and of Lundin Petroleum during 2001–2002.	C. Ashley Heppenstall has worked with public companies where the Lundin family has a major shareholding since 1993. He was CFO of Lundin Oil AB during 1998–2001 and of Lundin Petroleum during 2001–2002.	Kristin Færøvik is currently the Executive Vice President Offshore of Bergen Group. She worked with Marathon Petroleum Company 2003–2010 and with BP 1986–2003.	Asbjørn Larsen was CFO of Saga Petroleum during 1978–1979 and President and CEO during 1979–1998.
Other board duties	Chairman of the board of Etrion Corporation and Bukowski Auktioner AB.	Member of the board of Etrion Corporation, Vostok Nafta Investment Ltd. and Gateway Storage Company Limited.	None.	Vice chairman of the board of Saga Fjordbase AS, member of the board of Selvaag Gruppen AS, GreenStream Network Oyj, The Montebello Cancer Rehabilitation Foundation and The Tom Wilhelmsen Foundation.
Shares in Lundin Petroleum (as at 31 December 2011)	Nil[1]	1,391,283	9,000	12,000
Board Attendance	9/9	9/9	5/5	9/9
Audit Committee Attendance				6/6
Compensation Committee Attendance			3/3	
Reserves Committee Attendance	1/1			1/1
Remuneration for Board and Committee work	SEK 800,000	Nil	SEK 250,000	SEK 500,000
Remuneration for special assignments outside the directorship[8]	SEK 1,170,000	Nil	Nil	Nil
Independent of the Company and the Group management	Yes[2]	No[3]	Yes	Yes
Independent of the Company's major shareholders	No[1]	No[3]	Yes	Yes

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

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

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

Name	Lukas H. Lundin	Dambisa F. Moyo	William A. Rand	Magnus Unger
Function	Director	Director	Director	Director
Elected	2001	2009	2001	2001
Born	1958	1969	1942	1942
Education	Graduate from the New Mexico Institute of Mining, Technology and Engineering.	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.	Commerce degree (Honours Economics) from McGill University, Law degree from Dalhousie University, Master of Laws degree in International Law from the London School of Economics and Doctorate of Laws from Dalhousie University (Hon.).	MBA from the Stockholm School of Economics.
Experience	Lukas H. Lundin has held several key positions within companies where the Lundin family has a major shareholding.	Dambisa F. Moyo worked as a consultant for the World Bank during 1993–1995 and at Goldman Sachs during 2001–2008.	William A. Rand practised law in Canada until 1992, after which he co-founded an investment company and pursued private business interests.	Magnus Unger was an Executive Vice President within the Atlas Copco group during 1988–1992.
Other board duties	Chairman of the board of Lundin Mining Corp., Vostok Nafta Investment Ltd., Denison Mines Corp., Lucara Diamond Corp., NGEx Resources Inc., Sirocco Mining Inc. and Lundin Foundation, member of the board of Fortress Minerals Corp. and Bukowski Auktioner AB.	Member of the board of SABMiller, Barclays plc, Barclays Bank plc and Barrick Gold Corp.	Member of the board of Lundin Mining Corp., Vostok Nafta Investment Ltd., Denison Mines Corp., New West Energy Services Inc. and NGEx Resources Inc.	Chairman of the board of CAL-Konsult AB and member of the board of Black Earth Farming Ltd.
Shares in Lundin Petroleum (as at 31 December 2011)	788,331[5]	10,000	120,441	50,000
Board Attendance	8/9	8/9	9/9	9/9
Audit Committee Attendance			6/6	6/6
Compensation Committee Attendance	1/1[6]	3/4	4/4	4/4
Reserves Committee Attendance				
Remuneration for Board and Committee work	SEK 450,000	SEK 500,000	SEK 600,000	SEK 600,000
Remuneration for special assignments outside the directorship [8]	Nil	Nil	Nil	SEK 100,000
Independent of the Company and the Group management	Yes	Yes	Yes	Yes
Independent of the Company's major shareholders	No[5]	Yes	No[7]	Yes

4 Kristin Færøvik has been a member of the Board and the Compensation Committee since 5 May 2011.

5 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.

6 Lukas H. Lundin was a member of the Compensation Committee until 5 May 2011.

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

8 The remuneration paid during 2011 relates to fees paid for special assignments undertaken on behalf of the Group. The payment of such fees was in accordance with fees approved by the 2011 AGM.

INVESTMENT COMMITTEE/EXECUTIVE MANAGEMENT

Name	C. Ashley Heppenstall	Alexandre Schneiter	Geoffrey Turbott	Chris Bruijnzeels
Function	President and Chief Executive Officer, Director	Executive Vice President and Chief Operating Officer	Vice President Finance and Chief Financial Officer	Senior Vice President Operations
With Lundin Petroleum since	2001	2001	2001	2003
Born	1962	1962	1963	1959
Education	Bachelor of Science degree in Mathematics from the University of Durham.	Graduate from the University of Geneva with a degree in Geology and a Masters degree in Geophysics.	Member of the Institute of Chartered Accountants of New Zealand.	Graduate from the University of Delft with a degree in Mining Engineering.
Experience	C. Ashley Heppenstall has worked with public companies where the Lundin family has a major shareholding since 1993. He was CFO of Lundin Oil AB during 1998–2001 and of Lundin Petroleum during 2001–2002.	Alexandre Schneiter has worked with public companies where the Lundin family has a major shareholding since 1993.	Geoffrey Turbott has worked with public companies where the Lundin family has a major shareholding since 1995.	Chris Bruijnzeels worked with Shell International during 1985–1998 in several reservoir engineering functions and with PGS Reservoir Consultants during 1998-2003 as Principal Reservoir Engineer and Director Evaluations.
Board duties	Member of the board of Etrion Corporation, Vostok Nafta Investment Ltd. and Gateway Storage Company Limited.	Member of the board of ShaMaran Petroleum Corp., EnQuest plc and Swiss Sailing Team AG.	None.	None.
Shares in Lundin Petroleum (as at 31 December 2011)	1,391,283	223,133	45,000	21,333
Phantom options	2,062,848	1,512,755	962,662	962,662

Stockholm, 11 April 2012

The Board of Directors of Lundin Petroleum AB (publ)

Auditor's report on the Corporate Governance Statement

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

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2011 on pages 40-56 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 11 April 2012

PricewaterhouseCoopers AB

Bo Hjalmarsson
Authorized Public Accountant
Lead Auditor

Bo Karlsson
Authorized Public Accountant

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. On 24 March 2011, Lundin Petroleum's shares were also listed on the Toronto Stock Exchange (TSX).

Trading and market capitalisation

Trading of Lundin Petroleum shares takes place on the OMX and on the TSX. Lundin Petroleum's market capitalisation as at 31 December 2011 was MSEK 52,626.

Liquidity

During the year a total of 521.1 million shares were traded on the OMX to a value of approximately MSEK 57,061. A daily average of 2.0 million Lundin Petroleum shares were traded on the OMX in Stockholm. 3.3 million shares were traded on the TSX to a value of approximately CAD 57.9 million. A daily average of 18,405 Lundin Petroleum shares were traded on the TSX.

Share capital and voting rights

The registered share capital at 31 December 2011 amounts to SEK 3,179,106 represented by 317,910,580 shares of quota value SEK 0.01 each and representing one vote each. All outstanding shares are common shares and carry equal rights to participation in Lundin Petroleum's assets and earnings.

Own purchased shares

The Annual General Meeting (AGM) of Lundin Petroleum held on 5 May 2011 resolved to authorise the Board of Directors to decide on the repurchase and sale of Lundin Petroleum shares on the OMX and TSX during the period until the next AGM. The maximum number of shares that can be repurchased and held in treasury from time to time cannot exceed five percent of all shares of Lundin Petroleum. The purpose of the authorisation is to provide the Board of Directors with a means to optimise Lundin Petroleum's capital structure and to secure Lundin Petroleum's costs in relation to the LTIP.

The total number of repurchased shares held by Lundin Petroleum at 31 December 2011 amounted to 6,882,638.

AGM resolution

During the AGM in 2011 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 shareholder's pre-emption rights, in order to enable the Company to raise capital for the Company's business operations and business acquisitions. If the authorisation is fully utilised the dilution effect on the share capital will amount to ten percent.

Dividend policy

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

Since Lundin Petroleum was incorporated in May 2001 and up to 31 December 2011 the Parent Company share capital has developed as shown below.

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

Number of shares in circulation

	2011
Number of shares issued	317,910,580
Number of shares repurchased by Lundin Petroleum	-6,882,638
Number of shares in circulation	**311,027,942**

Distribution of shareholdings

Distribution of shareholdings in Lundin Petroleum as provided by Euroclear Sweden as at 31 December 2011.

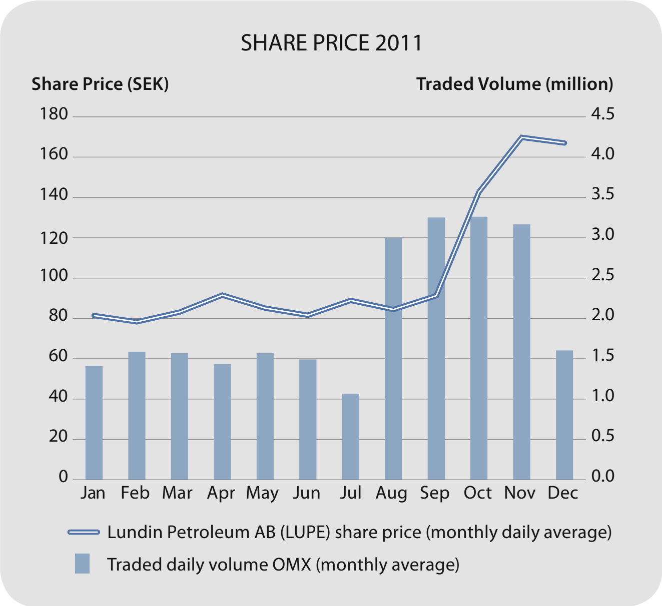
Size categories as at 31 Dec 2011	Numbers of shareholders	Percentage of shares,%
1–500	25,503	1.35
501–1,000	4,981	1.31
1,001–10,000	5,412	5.10
10,001–50,000	656	4.47
50,001–100,000	99	2.23
100,001–500,000	155	11.05
500,001–	91	74.49
Total	**36,897**	**100.00**

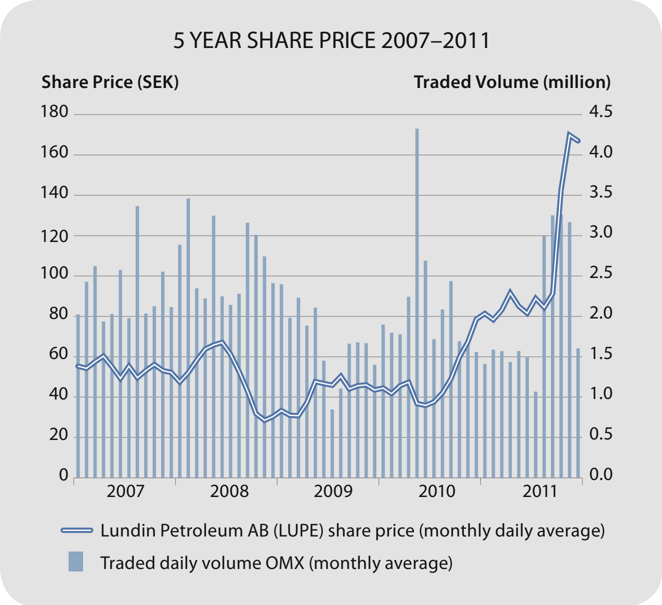
Share ownership structure

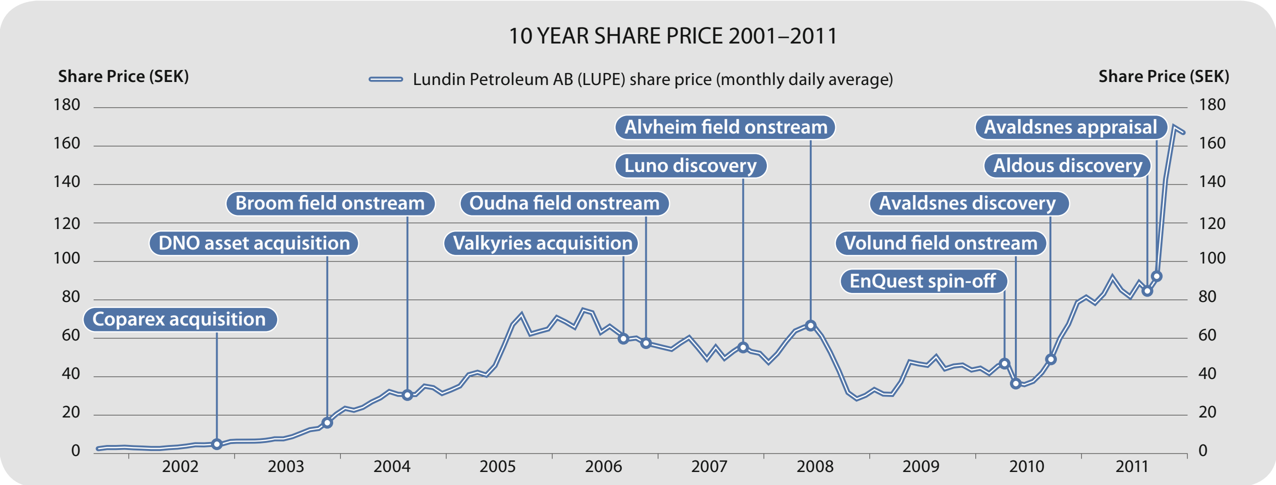
Lundin Petroleum had 36,897 shareholders as at 31 December 2011. The proportion of shares held by Swedish retail investors amounted to 11.0 percent. Foreign investors held 66.0 percent of the shares.

The 15 largest shareholders provided by Euroclear Sweden as at 31 Dec 2011	Number of shares	Subscription capital/votes,%
Lorito Holdings (Guernsey) Ltd.[1]	76,342,895	24.01
Landor Participations Inc.[2]	11,538,956	3.63
Swedbank Robur fonder	10,858,863	3.42
Zebra Holdings and Investment (Guernsey) Ltd.[1]	10,844,643	3.41
SIX sis AG	9,817,821	3.09
AMF Försäkring Fonder	7,113,547	2.24
Lundin Petroleum AB	6,882,638	2.16
Clearstream banking S.A.	5,957,698	1.87
JPM Chase NA	5,072,452	1.60
SSB CL Omnibus AC OM03	4,340,188	1.37
SEB Investment Management	4,324,938	1.36
SSB CL Omnibus AC OM07	4,248,595	1.34
LGT Bank in Liechtenstein Ltd.	4,050,383	1.27
BNP Paribas securities services	3,722,727	1.17
Fjärde AP-fonden	3,590,898	1.13
Other shareholders	149,203,338	46.93
Total	**317,910,580**	**100.00**

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



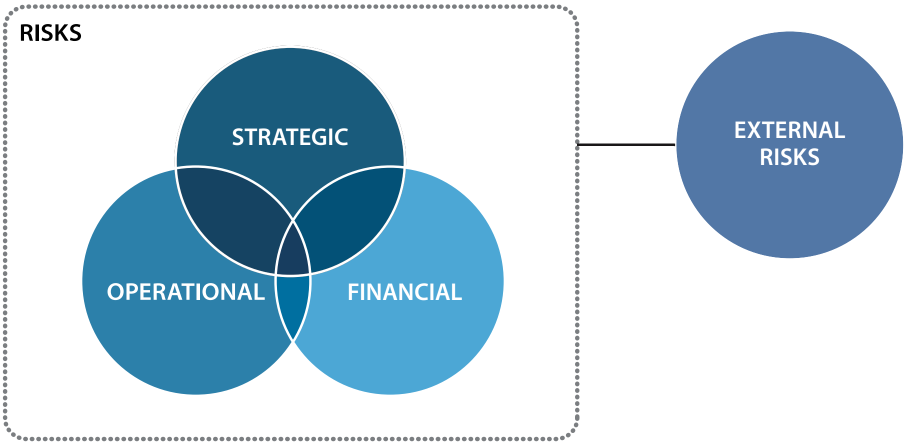




RISKS AND RISK MANAGEMENT

Business risk management

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



Lundin Petroleum has identified the following principal risks relative to the Group's performance.

Description of risk	Mitigation – Risk management
STRATEGIC RISK	
Failure to create shareholder value and meet shareholder expectations A strategy that is ineffective and poorly communicated or executed may lead to a loss of investor confidence and a reduction in the share price.	Lundin Petroleum's business model clearly defines the vision and strategy of the Company. Throughout all stages of the business cycle, Lundin Petroleum seeks to generate shareholder value by proactively investing in exploration to organically grow the reserve base, exploiting the existing asset base and acquiring new or disposing of reserves, as well as through an opportunistic approach. Strong communication channels are coupled with effective leadership in order to maintain creativity and an entrepreneurial spirit. This ensures that the entire organisation works towards the same goal.
Inadequate asset portfolio management Ineffective management may lead to a failure to understand and unlock the full value of an asset which could negatively impact shareholder value.	Lundin Petroleum continually reviews the economic value of the existing asset portfolio in order to ensure that the value of each asset within the portfolio is well understood, communicated and fully reflected within the share price.
Lack of corporate responsibility and environmental awareness A real or perceived lack of corporate responsibility and environmental awareness can have an adverse impact on the people we work with, on the environment in which the Company operates and as well as on our reputation. Any such impact on the Company's reputation could in turn impact the Company's license to operate, financing or access to new opportunities.	Lundin Petroleum's Corporate Responsibility Framework is applied to all its activities and includes monitoring of risk mitigation measures, reporting and investigation of all incidents. Communication plans and management of stakeholder relations are designed to maintain good and effective relationships. (Refer to the corporate responsible section page 32–39 for more details). The Company's aim is to explore for and produce oil & gas in an economically, socially and environmentally responsible way, for the benefit of all its stakeholders, including shareholders, employees, business partners, host and home governments and local communities.
Ineffective recruitment, retention and management of human capital An inability to attract and retain key employees could cause short and medium term disruption to the business.	The Lundin Petroleum recruitment and compensation strategy is aligned with corporate goals and objectives and takes into consideration industry trends. The Performance Management process is designed to drive engagement and create a philosophy of ownership at all levels of the Company.

Description of risk	Mitigation – Risk management
OPERATIONAL RISK	
Increase in production costs Production costs are affected by the normal economic drivers of supply and demand as well as by various field operating conditions.	Effective procurement and cost control management processes are essential in ensuring that reasonable cost levels are achieved relative to business plans. Diligent operations management and effective maintenance planning help to ensure efficiency during operations. Production delays and declines from normal field operating conditions cannot be eliminated and may adversely affect revenue and cash flow levels to varying degrees.
Availability of operational equipment Oil and gas exploration and development activities are dependent on the availability of drilling and related equipment. An inability to procure equipment on a timely basis may delay exploration and development activities.	Advanced planning of the Company's operational programme includes ensuring that the contracting strategy and procurement process is in place. Regular engagement with contractors and suppliers as well as consideration for equipment as part of the licence application process mitigates the risk.
Reserve and resources estimates In general, estimates of economically recoverable oil and gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved.	Reserves and resource calculations undergo a comprehensive internal peer review process and adhere to industry standards. All reserves are independently audited by Gaffney, Cline & Associates as part of the annual reserves audit process unless otherwise stated. (See also pages 28–31 Reserves, Resources and Production for more information.)
Inability to replace and grow reserves The ability to increase reserves will depend not only on the ability to explore and develop the Company's present portfolio of opportunities, but also on the ability to select and acquire suitable producing assets or prospects.	The use of effective peer review for subsurface analysis and well site selection together with a well-defined strategy for recruitment and retention of talented personnel mitigates the risk. (See also pages 28–31 Reserves, Resources and Production for more information.)
Health, safety and environment (HSE) A major operational HSE event could have a negative impact on the people and environment in which the Company works. This in turn can have an adverse impact on valuation.	Lundin Petroleum promotes active management of HSE issues throughout the Company. HSE policies, goals and objectives and an HSE management system in compliance with statutory requirements are an integral part of operations. (See also pages 32–39 Corporate Responsibility for more information.)
Ineffective systems to prevent bribery and corruption Corruption can occur in any country of operation. Incidents of non-compliance with anti-bribery and anti-corruption laws could be damaging to Lundin Petroleum, its reputation and shareholder value.	A consistent application of Lundin Petroleum's Code of Conduct, together with policies and procedures that clearly define levels of authority and internal control requirements help to mitigate risk. In 2010 Lundin Petroleum joined the UN Global Compact to further confirm the Company's commitment to ethical business practice and the Board of Directors adopted in 2011 an anti-corruption policy and guidelines. (See also pages 32–39 Corporate Responsibility for more information.)
FINANCIAL RISK [1]	
Fluctuation in the price of oil and gas The price of oil and gas are affected by the normal economic drivers of supply and demand as well as the financial investors and market uncertainty.	Lundin Petroleum's policy is to adopt a flexible approach towards oil price hedging based on an assessment of the benefits of the hedge contract in specific circumstances.
Fluctuation in currency rates Crude oil prices are generally set in US dollars, whereas costs may be in a variety of currencies. Fluctuation in exchange rates can therefore give rise to foreign exchange exposures.	Lundin Petroleum's policy on currency rate hedging is, in case of currency exposure, to consider setting the rate of exchange for known costs in non-US Dollar currencies to US Dollars in advance so that future US Dollar cost levels can be forecasted with a reasonable degree of certainty. The functional currencies of the companies in the Group are reviewed annually.
Liquidity risk The risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price, could lead to inability to fund exploration and development work programmes.	Lundin Petroleum monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs. The economics and planning department continuously monitors the macro and micro economic environment impacting the Group's business so as to ensure that management is informed of developments impacting capital decision making. Liquidity and funding risks and related processes and policies are overseen by management who maintain a market awareness.
Credit risk The risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposure to customers.	Lundin Petroleum's policy is to limit credit risk by limiting the customers and partners to major oil companies and only use major banks. If there is a credit risk for oil and gas sales, the policy is to require an irrevocable letter of credit for the full value of the sale.
Interest rate risk The uncertainty in future interest rates could have an impact on the Company's earnings. The Group's interest rate risk arises from long-term borrowings.	Lundin Petroleum regularly assesses the benefits of interest rate hedging on borrowings.
Financial reporting risk The risk that material misstatements in financial reporting and failure to accurately report financial data could lead to regulatory action, legal liability and damage to the Company's reputation.	The internal control system for financial reporting is in place to ensure the Group's objective for financial reporting is fulfilled (See also page 52–53).
EXTERNAL RISK	
Geopolitical Risk The Company is, and will be, actively engaged in oil and gas operations in various countries. Changes to laws within these countries may lead to negative consequences such as but not limited to the expropriation of property, cancellation of or modification of contract rights, and or increased taxation.	The Company reviews its portfolio of assets in relation to its financial performance on a regular basis. The consideration of political risk elements is a key component driving investment decisions for the Company as a whole. Local laws are monitored and the Company strives to ensure comprehensive interpretation and compliance with any changes that may impact the business.

[1] For more detailed information regarding financial risks see also Note 14 in notes to the financial statements, pages 89–90.
More information on the internal control is found in the Corporate Governance Report, pages 40–56.

FINANCIAL REPORT

DIRECTORS' REPORT

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

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

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

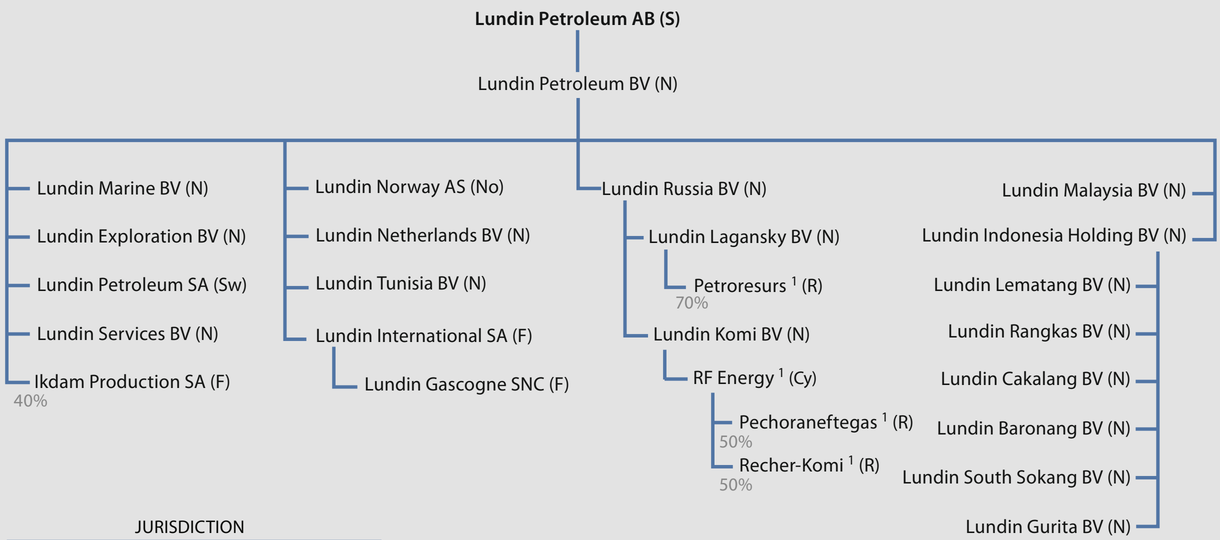
The Group does not carry out any research and development. The Group maintains branches in most of its areas of operation. The Parent Company has no foreign branches.

CHANGES IN THE GROUP

There are no significant changes to the Group for the year.

The prior year includes the results of Etrion Corporation up to 12 November 2010, the date of distribution of the shares held in Etrion Corporation to Lundin Petroleum's shareholders, and the Salawati Basin and Salawati Island assets which were sold on 29 December 2010. The results of the United Kingdom operations are included under discontinued operations up to 6 April 2010, the date of the spin-off of the UK business.

Group Structure as at 31 December 2011



JURISDICTION

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

[1] See Group Financial Statements Note 12 and Parent Company Financial Statements Note 11 for full legal names and all subsidiaries

Note: The Group structure shows significant subsidiaries only

OPERATIONAL REVIEW

PRODUCTION

Production for the financial year 2011 amounted to 33.3 million barrels of oil equivalent per day (Mboepd) (30.5 Mboepd) and was comprised as follows:

Production	2011	2010
Norway		
- Quantity in Mboe	8,477.1	6,629.8
- Quantity in Mboepd	23.2	18.2
France		
- Quantity in Mboe	1,119.2	1,160.8
- Quantity in Mboepd	3.1	3.2
Netherlands		
- Quantity in Mboe	725.0	756.7
- Quantity in Mboepd	2.0	2.1
Indonesia		
- Quantity in Mboe	423.6	887.1
- Quantity in Mboepd	1.2	2.4
Russia		
- Quantity in Mboe	1,139.4	1,321.2
- Quantity in Mboepd	3.1	3.6
Tunisia		
- Quantity in Mboe	267.2	372.2
- Quantity in Mboepd	0.7	1.0
Total from continuing operations		
- Quantity in Mboe	**12,151.5**	11,127.8
- Quantity in Mboepd	**33.3**	30.5
Discontinued operations – United Kingdom		
- Quantity in Mboe	–	812.2
- Quantity in Mboepd	–	2.2
Total excluding non-controlling interest		
- Quantity in Mboe	**12,151.5**	11,940.0
- Quantity in Mboepd	**33.3**	32.7

EUROPE

Norway

The net production in Norway to Lundin Petroleum for the financial year 2011 was 23.2 Mboepd.

The net production for the year from the Alvheim field (Lundin Petroleum working interest (WI) 15%), offshore Norway, was 11.2 Mboepd. The Alvheim field has been on production since June 2008 and continues to perform above expectations. The excellent reservoir performance has resulted in increased gross ultimate recovery during 2011 to 282 million barrels of oil equivalent (MMboe) representing a 69 percent increase in ultimate recovery from when the Alvheim plan of development was completed in 2005. Phase II of Alvheim development drilling commenced in 2010 and has been completed. Two development wells began production in October 2011. A third well started production in January 2012. A phase III development well will be drilled in 2012. The cost of operations for the Alvheim field in 2011 was approximately USD 5.00 per barrel.

The net production from the Volund field (WI 35%) amounted to 12.0 Mboepd for the year and significantly exceeded forecast. First production from the Volund field commenced in April 2010 and production increased during the year to the plateau production as development drilling was successfully completed. Volund field production during the reporting period was above the 8.7 Mboepd net Volund field firm capacity on the Alvheim FPSO as it took advantage of additional spare capacity. An additional Volund development well will be drilled in 2012.
In October 2009, a new oil discovery on the Bøyla prospect in PL340 (WI 15%) was announced. The Bøyla field contains gross recoverable contingent resources of 21 MMboe and will be developed as a subsea tieback to the Alvheim FPSO. A plan of development will be submitted for the Bøyla field in the first half of 2012 with first oil expected in 2014. During the first quarter of 2011, the Caterpillar exploration well in PL340BS was completed as an additional new oil discovery. Caterpillar, located close to the Bøyla field, will now most likely be developed through the Bøyla subsea development facilities.

The Luno field located in PL338 (WI 50%) was discovered in 2007 and has subsequently been appraised by two further wells.

In April 2011, the Tellus exploration well in PL338 was completed as an oil discovery. The Tellus discovery is a northern extension of the Luno field. Two reservoir tests were completed in the Tellus well, the first of which, in the fractured basement, was the first successful full scale basement test on the Norwegian Continental Shelf. The potential commercial production from the fractured basement has positive implications to add resources from this interval in the Luno South discovery and in the surrounding area.

The Luno and Tellus discoveries will be developed as one field. In January 2012, a plan of development was submitted for the Luno field to the Norwegian Ministry of Petroleum and Energy. The development plan incorporates the provision for a coordinated development solution of the Luno field with the nearby Draupne field located in PL001B and operated by Det norske oljeselskap ASA. An agreement for a coordinated development solution was concluded in March 2012. First production from the Luno field is expected in late 2015 with forecast gross peak production of approximately 90.0 Mboepd. The Luno platform design capacity will accommodate in excess of 120.0 Mboepd when Draupne production is combined with that from the Luno field. The gross capital cost of the Luno field development is estimated at USD 4 billion to include platform, pipelines and 15 wells. The Luno field is estimated to contain 186 MMboe of gross proved and probable reserves. A contract has been awarded to Kvæner ASA covering engineering, procurement and construction of the jacket for the Luno platform. A contract has been awarded to Rowan Companies Inc. for a jack up rig to drill the Luno development wells.

An exploration well in PL501 (WI 40%) targeting the Avaldsnes prospect was successfully completed in the third quarter of 2010 as an oil discovery. After the discovery well, it was estimated that the Avaldsnes discovery contained gross recoverable contingent resources of 100 to 400 MMboe within PL501 and that the fault controlled structure extended to the west into PL265 (WI 10%).

During 2011, two Avaldsnes appraisal wells 16/3-4 and 16/2-7, both of which were sidetracked, have been successfully completed. The appraisal wells confirmed the extension of the Avaldsnes discovery to the south-east and south. Both wells confirmed excellent quality Jurassic reservoir characteristics following comprehensive coring and logging programmes. The wells encountered oil bearing reservoir of thickness and quality better than the discovery well and the first appraisal well tested at an average production rate in excess of 5.5 Mboepd through a restricted choke. In August 2011, Statoil, the operator of PL265, announced the discovery of Aldous Major South with the well 16/2-8 encountering a gross oil column of 65 metres of excellent quality Jurassic sandstone reservoir. An appraisal of the Aldous Major South discovery was successfully completed in October 2011 with well 16/2-10. As a result of the appraisal drilling on Avaldsnes and Aldous Major South it is now confirmed that the two discoveries are one connected giant oil field which in January 2012 has been named the Johan Sverdrup field. Following the 2011 appraisal drilling programme, Lundin Petroleum announced a range of gross recoverable contingent resources for the Avaldsnes discovery in PL501 of between 800 million and 1.8 billion barrels which have been audited by Gaffney, Cline & Associates. Similarly, Statoil has announced a range of gross recoverable contingent resources in PL265 of between 900 million and 1.5 billion barrels of oil. The

Johan Sverdrup discovery is therefore estimated to contain contingent resources of between 1.7 and 3.3 billion barrels of recoverable oil which is one of the largest ever discoveries on the Norwegian Continental Shelf and the largest since the mid-1980s. The discovery is located in 115 metres water depth, the reservoir is at a depth of less than 2,000 metres and the field is located 35 km from the Grane field pipeline infrastructure with significant spare capacity. The discovered oil is approximately 28 degree API and is of excellent quality.

In January 2012, the third appraisal well 16/5-2S located in PL501 was completed. The objective of the well was to delineate the southern flank of the Avaldsnes discovery. The well despite encountering good Jurassic sandstone reservoir was deep to prognosis and as a result the reservoir was below the oil water contact. The impact of the well will most likely reduce current resource estimates in the southern area of the Avaldsnes discovery.

During the third quarter of 2011, Statoil, as operator, also completed the drilling of the Aldous Major North prospect in PL265. The well encountered an oil column in the Upper Jurassic reservoir which was thinner and of lesser quality than anticipated. Further appraisal drilling will be required to determine the commerciality of Aldous Major North.
At least a further three appraisal wells will be drilled in PL501 in 2012 and Statoil will likely drill two further appraisal wells in PL265 in 2012. The appraisal programme will define the recoverable resource and assist with the development planning strategy. The Avaldsnes and Aldous Major South discoveries will be unitised and Lundin Petroleum as operator of PL501 and Statoil as operator of PL265 are jointly committed to moving forward the development as a top priority.

There will be further exploration drilling in 2012 in the Southern Utsira High area with the drilling of the Luno II prospect in PL359 (WI 40%), Jorvik prospect in PL338 (WI 50%) and Biotitt prospect in PL544 (WI 70%). Additional prospectivity has been identified in the area where further exploration drilling will continue in 2013.

The plan of development for the Gaupe field in PL292 (WI 40%) was approved in June 2010, and first production is expected at the end of the first quarter of 2012. The Gaupe field operated by BG Group has estimated gross proven plus probable reserves of approximately 31 MMboe and is estimated to produce at a plateau production rate net to Lundin Petroleum of 5.0 Mboepd.

A plan of development of the Brynhild field (formerly called Nemo) in PL148 (WI 70%) was approved by the Norwegian Ministry of Petroleum and Energy in November 2011. The Brynhild field contains gross proven plus probable reserves of 20 MMboe and is expected to produce at an estimated plateau gross production rate of 12.0 Mboepd with first oil forecast in late 2013. The development involves the drilling of four wells tied back to the existing Shell operated Pierce field infrastructure in the UK sector of the North Sea. In November 2011, Lundin Petroleum increased its working interest in PL148 containing the Brynhild field from 50 percent to 70 percent. In March 2012, Lundin Petroleum announced that it has agreed to acquire the remaining 30 percent interest in PL148 from Talisman Energy subject to the approval of the Norwegian authorities.

In January 2011, Lundin Petroleum was awarded ten exploration licences in the 2010 APA Licensing Round of which six licences are operated by Lundin Petroleum. In April 2011, Lundin Petroleum was awarded PL609 as operator in the 21st Norwegian Licensing Round. PL609 (WI 40%) is located in the Barents Sea to the east of Statoil's large new Skrugard oil discovery which is estimated by Statoil to contain between 150 and 250 MMboe. In January 2012, Lundin Petroleum was awarded a further ten exploration licences in the 2011 APA Licensing Round of which four will be operated by Lundin Petroleum.

In July 2011, the Skalle exploration well in PL438 (WI 25%) was completed as a gas discovery with estimated gross contingent resources of between 88 and 283 billion cubic feet (bcf). The Skalle discovery is located approximately 25 km from the producing Snøvhit gas field. Additional prospectivity for further hydrocarbons exists in the Skalle substructure and in additional prospects in PL438.

In July 2011, Lundin Petroleum completed the drilling of well 25/10-11 on the Earb South prospect in PL505 (WI 30%). The well encountered three separate hydrocarbon bearing Jurassic sandstones sequences with poor reservoir quality. The well was tested and flowed oil and gas to surface but the reservoir was tight. It is unlikely that the discovery can currently be commercialised despite the large in place hydrocarbon volumes.

In May 2011, Lundin Petroleum acquired a 30 percent interest in PL330 located in the northern Norwegian Sea.

France

The net production in the Paris Basin (WI 100%) averaged 2.4 Mboepd and in the Aquitaine Basin (WI 50%) averaged 0.7 Mboepd for the year. The redevelopment of the Grandville field in the Paris Basin involving the drilling of eight new development wells and the installation of new production facilities has commenced. Grandville field development drilling is continuing in 2012. The year end 2011 independent reserves audit resulted in estimated reserves of 25 MMboe, an increase of 16 percent, mainly related to the redevelopment of the Vert La Gravelle field.

The Netherlands

The net gas production to Lundin Petroleum from the Netherlands averaged 2.0 Mboepd for the year.

Ireland

Interpretation of the 3D seismic acquired in 2010 on the Slyne Basin licence 04/06 (WI 50%) has been completed.

SOUTH EAST ASIA

Indonesia

Lematang (South Sumatra)

The net production to Lundin Petroleum from the Singa gas field (WI 25.9%) during the year amounted to 1.2 Mboepd. Production from the Singa field commenced in 2010. Current gross production from the two Singa production wells is in excess of 30 million standard cubic feet per day (MMscfd) of sales gas.

Rangkas (Java)

A 474 km 2D seismic acquisition programme has been completed on the Rangkas Block (WI 51%).

Baronang/Cakalang (Natuna Sea)

A 975 km^2 3D seismic acquisition programme on the Baronang and Cakalang Blocks (WI 100%) was completed in 2010. Exploration drilling will now commence in 2013. In addition, a 1,500 km 2D seismic acquisition programme was completed on Cakalang Block in 2011.

South Sokang (Natuna Sea)

A new Production Sharing Contract for the South Sokang Block was signed in December 2010 (WI 60%). A 2,400 km 2D seismic acquisition programme was completed in 2011.

Gurita (Natuna Sea)

A new Production Sharing Contract for the Gurita Block was signed in March 2011 (WI 100%). A 3D seismic acquisition programme in excess of 400 km^2 will be completed in 2012.

Malaysia

The 2009 3D seismic data programme identified numerous drilling targets for the 2011/2012 drilling campaign. Five exploration and appraisal wells were drilled in 2011.

The Tarap exploration well drilled in Block SB303 (WI 75%), offshore Sabah, east Malaysia was completed in July 2011 as a gas discovery. The well encountered gas in each of the five independently sealed Miocene sands targeted finding gross vertical pay of approximately 150 metres. The gross contingent resources of the Tarap discovery are 171 bcf. The Cempulut exploration well also in Block SB303 was also completed as a gas discovery. The well encountered a Miocene reef with 50 metres of gross vertical pay. There is a third discovery named Titik Terang in the Block SB303 contract area. The three discoveries are in close proximity to one another and have an estimated gross contingent resource (best estimate) of more than 250 bcf. Lundin Petroleum is now evaluating the potential for a cluster development. There are various options for the commercialisation of gas in the Sabah area.

The first exploration well Batu Hitam-1 drilled in Block PM308A (WI 35%), offshore peninsular Malaysia was plugged and abandoned as a dry hole after encountering good reservoir but with high concentrations of carbon dioxide. The second exploration well in Block PM308A Janglau-1 completed in November 2011 was an oil discovery proving up a new play concept in Oligocene intra-rift sands. The discovery will require further appraisal drilling to determine commerciality.

In June 2011, Lundin Petroleum acquired a 75 percent working interest in Block PM307 offshore Peninsula Malaysia. A 2,100 km^2 3D seismic acquisition programme was completed in 2011. In January 2012, the Bertam-2 appraisal well was successfully completed proving the continuity and quality of the K10 oil reservoir sandstone. Bertam is likely a commercial oil field and studies are now progressing to review potential development concepts.

A further five exploration and/or appraisal wells will be drilled in Malaysia in 2012 offshore Sabah and offshore peninsular Malaysia. Drilling is expected to commence mid-year.

RUSSIA

The net production to Lundin Petroleum from Russia for the year was 3.1 Mboepd.

In the Lagansky Block (WI 70%) in the northern Caspian a major oil discovery was made on the Morskaya field in 2008. The discovery is deemed to be strategic, due to its offshore location, by the Russian Government under the Foreign Strategic Investment Law. As a result a 50 percent ownership by a state owned company is required prior to appraisal and development. During 2010, 103 km^2 of new 3D seismic was acquired on the Lagansky Block which has identified further exploration prospects in the Lagansky Block.

AFRICA

Tunisia

The net production to Lundin Petroleum from the Oudna field (WI 40%) was 0.7 Mboepd for the year.

Congo (Brazzaville)

The drilling of the exploration wells Mindou Marine-1 on Block Marine XI (WI 18.75%) and the Makoula Marine-1 on Block Marine XIV (WI 21.55%) was completed in the fourth quarter of 2011. Both wells were plugged and abandoned as dry holes. All exploration drilling commitments have been fulfilled on the two Blocks and no further exploration drilling is forecast in 2012.

FINANCIAL REVIEW

FINANCIAL RESULT

Result

The net result from continuing operations for the financial year ended 2011 (reporting period) amounted to MUSD 155.2 (MUSD 129.5). The net result attributable to shareholders of the Parent Company from continuing operations for the reporting period amounted to MUSD 160.1 (MUSD 142.9) representing earnings per share on a fully diluted basis of USD 0.51 (USD 0.46).

Earnings before interest, tax, depletion and amortisation (EBITDA) for the reporting period amounted to MUSD 1,012.1 (MUSD 603.5) representing EBITDA per share on a fully diluted basis of USD 3.25 (USD 1.93). Operating cash flow for the reporting period amounted to MUSD 676.2 (MUSD 573.4) representing operating cash flow per share on a fully diluted basis of USD 2.17 (USD 1.84).

Operating income

Net sales of oil and gas for the reporting period amounted to MUSD 1,257.7 (MUSD 785.2) and are detailed in Note 1. Sales volumes for the reporting period were 14 percent higher and the achieved oil price was 40 percent higher than the comparative period and this has resulted in oil and gas revenues being 60 percent higher than the comparative period. The average price achieved by Lundin Petroleum for a barrel of oil equivalent amounted to USD 101.04 (USD 71.92) and is detailed in the following table. The premium over Dated Brent on Norwegian crude oil sold during the reporting period averaged USD 3.87 per barrel. The average Dated Brent price for the reporting period amounted to USD 111.26 (USD 79.50) per barrel.

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

Sales Average price per boe expressed in USD	2011	2010
Norway		
– Quantity in Mboe	8,843.2	6,712.5
– Average price per boe	109.57	77.93
France		
– Quantity in Mboe	1,155.5	1,168.0
– Average price per boe	110.59	79.35
Netherlands		
– Quantity in Mboe	725.0	756.7
– Average price per boe	60.74	44.37
Indonesia		
– Quantity in Mboe	387.7	607.7
– Average price per boe	32.43	65.31
Russia		
– Quantity in Mboe	1,138.4	1,290.0
– Average price per boe	69.85	51.65
Tunisia		
– Quantity in Mboe	198.2	382.6
– Average price per boe	125.12	77.15
Total from continuing operations		
– Quantity in Mboe	**12,448.0**	10,917.5
– Average price per boe	**101.04**	71.92
Discontinued operations – United Kingdom		
– Quantity in Mboe	–	814.4
– Average price per boe	–	76.82
Total		
- Quantity in Mboe	**12,448.0**	11,731.9
- Average price per boe	**101.04**	72.26

The sales figures for Indonesia include the contributions of the Salawati assets for the full year 2010.

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

Oil produced in Tunisia is only lifted when the Ikdam FPSO is near to full. An Oudna cargo was lifted in April 2011 and was the only Tunisian lifting during 2011.

The oil produced in Russia is sold on either the Russian domestic market or exported into the international market. 37 percent (40 percent) of Russian sales for the reporting period were on the international market at an average price of USD 109.92 per barrel (USD 76.17 per barrel) with the remaining 63 percent (60 percent) of Russian sales being sold on the domestic market at an average price of USD 46.45 per barrel (USD 34.98 per barrel).

Other operating income amounted to MUSD 11.8 (MUSD 13.4) for the reporting period and includes MUSD 5.8 (MUSD –) of income relating to a quality differential compensation adjustment payable from the Vilje field owners to the Alvheim and Volund field owners. All three fields produce to the Alvheim FPSO vessel and the oil is commingled to produce an Alvheim crude blend which is then sold. This adjustment for the comparative period amounted to MUSD 3.2 and was netted off against production costs. Also included in other operating income is tariff income from France and the Netherlands and income for maintaining strategic inventory levels in France. Other operating income for the comparative period includes MUSD 9.3 relating to Etrion's solar business.

Production costs

Production costs for the reporting period amounted to MUSD 193.1 (MUSD 157.1) and are detailed in Note 2. The production and depletion costs per barrel of oil equivalent produced from continuing oil and gas operations are detailed in the table below.

Production cost and depletion in USD per boe	2011	2010
Cost of operations	8.43	8.63
Tariff and transportation expenses	1.88	1.57
Royalty and direct taxes	4.31	3.74
Changes in inventory/lifting position	1.08	-0.31
Other	0.18	0.38
Total production costs	**15.88**	14.01
Depletion	13.59	12.85
Total cost per boe	**29.47**	26.86

The total cost of operations for the reporting period was MUSD 102.5 compared to MUSD 97.2 for the comparative period. The reporting period includes costs of the Volund field, Norway and Singa field, Indonesia, for a full twelve month period whereas the Volund and Singa fields contributed costs partially in the comparative period having commenced production in the second quarter of 2010. In addition, in the reporting period there have been certain one-off costs associated with the unplanned shutdown of the Alvheim FPSO during the second quarter of 2011 and expenditures related to the FPSO used on the Oudna field. The increases are partly offset following the disposal of the Salawati assets, Indonesia in December 2010. The total cost of operations per barrel for the reporting period was USD 8.43 per barrel which was below the original 2011 forecast of USD 8.60 per barrel.

The tariff and transportation expenses for the reporting period amounted to MUSD 22.9 compared to MUSD 17.4 for the comparative period. The increase is mainly due to the increased production contribution from the Volund field, Norway, which pays a tariff to the Alvheim field owners and commenced production in April 2010. Lundin Petroleum has a 15 percent working interest in the Alvheim field and a 35 percent interest in the Volund field and the self-to-self element of the tariff is eliminated for accounting purposes leaving a net 20 percent cost for Volund in tariff and transportation expenses.

Royalty and direct taxes includes Russian Mineral Resource Extraction Tax (MRET) and Russian Export Duties. The rate of MRET is levied on the volume of Russian production and varies in relation to the international market price of Urals blend and the Rouble exchange rate. MRET averaged USD 21.21 (USD 13.83) per barrel of Russian production for the reporting period. The rate of export duty on Russian oil is revised by the Russian Federation monthly and is dependent on the average price obtained for Urals Blend for the preceding one month period. The export duty is levied on the volume of oil exported from Russia and averaged USD 57.52 (USD 37.59) per barrel for the reporting period. The royalty and direct taxes have increased compared to prior year following the rise in crude prices impacting the cost of Russian MRET and export duty.

There are both permanent and timing differences that result in sales volumes not being equal to production volumes during a period. Changes to the hydrocarbon inventory and under or overlift positions result from these timing differences and a net amount of MUSD 13.1 (MUSD -3.4) was charged to the income statement for the reporting period. The Norway fields, Alvheim and Volund, went from a net underlift position at the start of 2011 to a net overlift position as at 31 December 2011 resulting in a charge of MUSD 18.4 to production costs for the reporting period. This charge was partly offset by a build-up of hydrocarbon inventory from the Oudna field on the Ikdam FPSO, Tunisia, resulting in a MUSD 5.3 credit to production costs for the reporting period.

Depletion costs

Depletion costs for the reporting period amounted to MUSD 165.1 (MUSD 145.3) and are detailed in Note 3. The main increase from the comparative period is in Norway where the depletion cost expensed has increased by 28 percent in line with the increase in production. Norway contributed approximately 80 percent of the total depletion charge for the reporting period at a rate of USD 15.34 per barrel and this increases the overall rate from the comparative period.

Exploration costs

Exploration costs for the reporting period amounted to MUSD 140.0 (MUSD 127.5) 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 their recoverability.

During 2011, Lundin Petroleum expensed MUSD 74.1 (MUSD 94.5) of exploration costs relating to Norway. In the third quarter of 2011, MUSD 52.2 of costs associated with the Earb South well in PL505 was expensed. Other Norwegian expensed exploration costs in the reporting period relate to the expensing of capitalised costs following technical reviews and include licence relinquishments.

During the third quarter of 2011, the Batu Hitam exploration well drilled on Block PM308A, offshore Malaysia, was plugged and abandoned as a dry well. The costs associated with the well were expensed in the third quarter and amounted to MUSD 11.0.

During the fourth quarter of 2011, following the drilling of two unsuccessful wells in Congo (Brazzaville), MUSD 51.3 of well costs and associated capitalised licence costs were expensed.

General, administrative and depreciation expenses

The general, administrative and depreciation expenses for the reporting period amounted to MUSD 67.0 (MUSD 41.0) of which MUSD 44.9 (MUSD 10.3) related to non-cash charges in relation to the Group's Long-term Incentive Plan (LTIP) scheme. The comparative reporting period includes an amount of MUSD 11.7 relating to Etrion.

The cost for the reporting period increased due to the increase in the LTIP provision as a result of a higher Lundin Petroleum share price at the balance sheet date. The value of the LTIP awards, based on Lundin Petroleum's share price at the balance sheet date, is applied to the vested portion of all outstanding LTIP awards. The charge to the income statement for the reporting period includes the revaluation of the provision relating to prior reporting periods. Lundin Petroleum has mitigated the exposure of the LTIP by purchasing 6,882,638 of its own shares. For more detail refer to Note 35.

Financial income

Financial income for the reporting period amounted to MUSD 46.5 (MUSD 21.0) and is detailed in Note 6.

Interest income for the reporting period amounted to MUSD 4.1 (MUSD 3.4). The interest income in the reporting period includes an amount of MUSD 1.5 relating to a loan to Etrion Corporation which is no longer eliminated on consolidation, following the distribution of the shares held in Etrion in November 2010. The Etrion loan was repaid during the second quarter of 2011. In the comparative reporting period, there is MUSD 0.6 of interest income on a tax refund.

Foreign exchange gains for the reporting period amounted to MUSD 8.9 (MUSD 13.4). The US Dollar strengthened against the Euro and the Norwegian Kroner during the reporting period giving rise to exchange gain movements on the intercompany loans and working capital balances.

In March 2011, Lundin Petroleum converted MUSD 13.0 of the MUSD 23.8 convertible loan receivable from Africa Oil Corporation (AOC) loan into 14 million shares in AOC at a conversion price of Canadian Dollars (CAD) 0.90 per share. The shares were subsequently sold on the open market for CAD 2.00 per share realising a gain of MUSD 15.6. In April 2011, the remainder of the loan was converted into 11.85 million shares at a conversion price of CAD 0.90 per share and the shares were sold on the open market for CAD 2.10 per share realising a further gain of MUSD 14.3.

Financial expenses

Financial expenses for the reporting period amounted to MUSD 21.0 (MUSD 33.5) and are detailed in Note 7.

Interest expenses for the reporting period amounted to MUSD 5.4 (MUSD 10.0). Included in the comparative period is MUSD 3.6 of interest expenses relating to Etrion's loan facilities.

In January 2008, the Group entered into an interest rate hedging contract to fix the LIBOR rate of interest at 3.75 percent per year on MUSD 200 of the Group's USD borrowings for the period from January 2008 until January 2012. An amount of MUSD 7.0 (MUSD 7.0) was charged to the income statement for the reporting period for settlements under the hedging contracts.

A provision for the costs of site restoration is recorded in the balance sheet at the discounted value of the estimated future cost. The effect of the discount is unwound each year and charged to the income statement. An amount of MUSD 4.5 (MUSD 4.0) has been charged to the income statement for the reporting period.

Tax

The tax charge for the reporting period amounted to MUSD 574.4 (MUSD 251.9) and is detailed in Note 8.

The current tax charge for the reporting period amounted to MUSD 400.2 (MUSD 68.2) of which MUSD 365.6 (MUSD 36.1) relates to Norway. The increase in the Norway current tax charge from the comparative period is mainly due to the utilisation of the tax losses in 2010, as well as higher production and higher oil prices in 2011.

The deferred tax charge for the reporting period amounted to MUSD 174.2 (MUSD 183.7) and arises primarily where there is a difference in depreciation for tax and accounting purposes and tax losses have offset the current tax charge. MUSD 166.2 (MUSD 183.3) of the deferred tax charge is attributable to Norway.

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 reporting period amounted to 79 percent. This effective rate is calculated from the face of the income statement and does not reflect the effective rate of tax paid within each country of operation. The effective rate of tax is driven by Norway where the tax rate is 78 percent reduced by the effect of uplift for tax purposes on development expenditure. The effective rate is increased due to a number of non-tax adjusted items in the reporting period including the exploration costs of Congo (Brazzaville) and Malaysia, certain general and administrative costs and certain financial items. Excluding the impact of the exploration costs relating to Congo (Brazzaville) and Malaysia the operational effective tax rate would be 69 percent for the reporting period.

Non-controlling interest

The net result attributable to non-controlling interest for the reporting period amounted to MUSD -4.9 (MUSD -13.4) and mainly relates to the non-controlling interest's share in a Russian subsidiary which is fully consolidated.

Discontinued operations

The net result from discontinued operations for the reporting period amounted to MUSD – (MUSD 369.0). The amount in the comparative period is attributable to the net result for the United Kingdom up to 6 April 2010, the date of the UK spin-off. For more detail refer to Note 9.

BALANCE SHEET

Non-current assets

Oil and gas properties amounted to MUSD 2,329.3 (MUSD 1,999.0) and are detailed in Note 10.

Development and exploration expenditure incurred for the reporting period was as follows:

Development expenditure in MUSD	2011	2010
Norway	186.8	106.3
France	30.9	13.2
Netherlands	4.1	4.5
Indonesia	6.4	10.2
Russia	4.2	6.6
Development expenditures from continuing operations	**232.4**	140.8
Discontinued operations – United Kingdom	–	17.1
Development expenditures	**232.4**	157.9

During the reporting period, an amount of MUSD 186.8 of development expenditure was incurred in Norway, primarily on the Gaupe field development and the Phase II drilling on the Alvheim field. MUSD 106.3 was spent on development projects in Norway in the comparative period, predominantly on the Volund field development and Alvheim field drilling.

Exploration expenditure in MUSD	2011	2010
Norway	288.6	160.8
France	1.7	1.0
Indonesia	16.4	13.5
Russia	10.0	18.3
Malaysia	98.7	10.6
Congo (Brazzaville)	19.0	2.5
Vietnam	0.4	15.3
Other	2.7	4.4
Exploration expenditures from continuing operations	**437.5**	226.4
Discontinued operations – United Kingdom	–	0.2
Exploration expenditures	**437.5**	226.6

During the reporting period, exploration expenditure of MUSD 288.6 was incurred in Norway mainly on the Tellus discovery well in PL338, the Caterpillar discovery well in PL340, the Earb South well in PL505, the Skalle well in PL438 and the Johan Sverdrup appraisal wells (combined Avaldsnes/Aldous Major South) in PL501 and PL265. MUSD 98.7 was incurred in Malaysia primarily for the drilling and testing of the Tarap and Cempulut wells on Block SB303, drilling the Batu Hitam and Janglau wells on Block PM308A and drilling the Bertam appraisal well on Block PM307. Two wells were drilled in Congo (Brazzaville) in the fourth quarter of 2011.

Other tangible assets amounted to MUSD 16.1 (MUSD 15.3) and represent office fixed assets and real estate and are detailed in Note 11.

Other shares and participations amounted to MUSD 17.8 (MUSD 68.6) and predominantly relate to the shares held in ShaMaran Petroleum which are reported at market price. Long-term receivables amounted to MUSD – (MUSD 23.8) following the conversion to shares of the MUSD 23.8 convertible loan to Africa Oil Corporation and their subsequent sale. Other financial assets amounted to MUSD 13.5 (MUSD 22.5), see Note 15, and include Etrion Corporation bonds of MUSD 9.6 (MUSD –) held by Lundin Petroleum. The comparative period for other financial assets included MUSD 16.5 of recoverable VAT in Russia of which MUSD 14.2 of Russian VAT was received during the reporting period and the outstanding receivable was reclassified to current assets at 31 December 2011.

Deferred tax asset amounted to MUSD 15.3 (MUSD 15.1) and mainly relates to unutilised tax losses in the Netherlands.

Current assets

Trade receivables amounted to MUSD 145.0 (MUSD 94.2). A higher number of cargoes lifted in December 2011 and higher oil prices have resulted in the value of the trade receivables being higher at 31 December 2011.

Short-term loan receivables amounted to MUSD – (MUSD 74.5) following repayment of the Etrion loan during the second quarter of 2011.

Other receivables amounted to MUSD 23.1 (MUSD 19.8), see Note 19, and included an amount of MUSD 11.2 (MUSD –) for a carried interest in PL148 Brynhild, Norway, under the terms of an option agreement. In the first quarter of 2012, the seller exercised the option to sell its 30 percent working interest in the licence to Lundin Petroleum and the amount will be transferred to oil and gas properties in the first quarter of 2012 subject to completion of the deal.

Cash and cash equivalents amounted to MUSD 73.6 (MUSD 48.7). Cash balances are held to meet operational and investment requirements.

Non-current liabilities

Non-current liabilities amounted to MUSD 1,216.8 (MUSD 1,240.3).

Provision for site restoration amounted to MUSD 119.3 (MUSD 93.8), see Note 22, and relates to future decommissioning obligation liabilities. The increase compared to the comparative period results from the change in estimate of the decommissioning costs at 31 December 2011 and the inclusion of the decommissioning liability associated with the Gaupe development.

Provision for deferred taxes amounted to MUSD 803.5 (MUSD 650.7) and is arising on the excess of book value over the tax value of oil and gas properties. Deferred tax assets are netted off against deferred tax liabilities where they relate to the same jurisdiction in accordance with International Financial Reporting Standards (IFRS).

Other provisions amounted to MUSD 63.7 (MUSD 17.8), and are detailed in Note 24. Included in this amount is the non-current portion of the provision for Lundin Petroleum's LTIP scheme amounted to MUSD 58.1 (MUSD 12.8).

Long-term interest bearing debt amounted to MUSD 207.0 (MUSD 458.8) and relates to the outstanding loan under the Group's MUSD 850 revolving borrowing base facility.

Other non-current liabilities amounted to MUSD 21.8 (MUSD 17.8) and mainly represent funding advances made by a non-controlling interest entity in relation to LLC PetroResurs, Russia.

Current liabilities

Current liabilities amounted to MUSD 402.8 (MUSD 191.0).

Tax payables amounted to MUSD 240.1 (MUSD 39.7) of which MUSD 223.0 (MUSD 20.9) relates to Norway.

Joint venture creditors amounted to MUSD 88.4 (MUSD 100.9) and relate to ongoing operational costs.

Other liabilities amounted to MUSD 29.1 (MUSD 13.4) and included an amount of MUSD 11.0 (MUSD –) payable to Noreco in relation to Lundin Petroleum's acquisition of Noreco's 20 percent working interest in PL148 Brynhild, Norway.

The current portion of the provision for Lundin Petroleum's LTIP scheme amounted to MUSD 12.2 (MUSD 6.0).

ANNUAL GENERAL MEETING

The Annual General Meeting will be held in Stockholm on 10 May 2012.

BOARD'S PROPOSAL FOR REMUNERATION TO THE EXECUTIVE MANAGEMENT

The intention of the Board of Directors is to propose to the 2012 AGM the adoption of a Policy on Remuneration for 2012 that follows the same principles as applied in 2011 and that contains similar elements of remuneration for the Executive Management as the 2011 Policy on Remuneration being basic salary, yearly variable salary, Long-term Incentive Plan (LTIP) and other benefits. An LTIP for the Executive Management consisting of a phantom option plan was approved by the 2009 AGM. No new LTIP for the Executive Management for 2012 will be included in the Board's proposal. In addition, as in previous years, the Board of Directors will further seek authorisation to deviate from the Policy on Remuneration in case of special circumstances in a specific case.

For a detailed description of the Policy on Remuneration applied in 2011, refer to pages 50–51 of the Corporate Governance report. The remuneration to Board and Executive Management is detailed in Note 34 of the consolidated financial statements.

SHARE INFORMATION

For the AGM resolution on issuance of new share capital see page 58, The Lundin Petroleum Share and Shareholders.

DIVIDEND

The Directors propose that no dividend be paid for the year. For details of the dividend policy refer to the dividend policy, page 58, The Lundin Petroleum Share and Shareholders.

PROPOSED DISPOSITION OF UNAPPROPRIATED EARNINGS

The Board of Directors propose that the unrestricted equity of the Parent Company of TSEK 6,305,492, including the net result for the year of TSEK -182,399 be brought forward.

CHANGES IN BOARD

At the AGM held on 5 May 2011 Kristin Færøvik was elected member of the Board of Directors of Lundin Petroleum. At the 2012 AGM, all of the current members of the Board of Directors will be proposed for re-election, except Dambisa F. Moyo who has declined re-election.

FINANCIAL STATEMENTS

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

The Parent Company's income statement, balance sheet, statement of cash flow, statement of changes in equity and related notes presented in Swedish Kroner can be found on pages 96–101.

CORPORATE GOVERNANCE REPORT

Lundin Petroleum has issued a Corporate Governance report which is separate from the financial statements. The Corporate Governance report is included in this document, on the pages 40–56.

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2011	2010
Continuing operations			
Operating income			
Net sales of oil and gas	1	1,257,691	785,162
Other operating income	1	11,824	13,437
		1,269,515	798,599
Cost of sales			
Production costs	2	-193,104	-157,065
Depletion costs	3	-165,138	-145,316
Exploration costs	4	-140,027	-127,534
Gross profit		**771,246**	368,684
Gain on sale of assets	5	–	66,126
General, administration and depreciation expenses		-67,022	-40,960
Operating profit	1	**704,224**	393,850
Result from financial investments			
Financial income	6	46,455	20,956
Financial expenses	7	-21,022	-33,463
		25,433	-12,507
Profit before tax		**729,657**	381,343
Income tax expence	8	-574,413	-251,865
Net result from continuing operations		**155,244**	129,478
Discontinued operations			
Net result from discontinued operations	9	–	368,992
Net result		**155,244**	498,470
Net result attributable to the shareholders of the Parent Company:			
From continuing operations		160,137	142,883
From discontinued operations		–	368,992
		160,137	511,875
Net result attributable to non-controlling interest:			
From continuing operations		-4,893	-13,405
From discontinued operations		–	–
		-4,893	-13,405
Net result		**155,244**	498,470
Earnings per share – USD [1]			
From continuing operations		0.51	0.46
From discontinued operations		–	1.18
Earnings per share – USD [1]	30	0.51	1.64
Diluted earnings per share – USD [1]			
From continuing operations		0.51	0.46
From discontinued operations		–	1.18
Diluted earnings per share – USD [1]	30	0.51	1.64

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2011	2010
Net result		**155,244**	498,470
Other comprehensive income			
Exchange differences foreign operations		-37,525	-43,972
Cash flow hedges		6,971	-378
Available-for-sale financial assets		-50,210	53,128
Income tax relating to other comprehensive income	8	-1,743	-1,771
Other comprehensive income, net of tax		-82,507	7,007
Total comprehensive income		**72,737**	505,477
Total comprehensive income attributable to:			
Shareholders of the Parent Company		80,466	510,165
Non-controlling interest		-7,729	-4,688
		72,737	505,477

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

Expressed in TUSD	Note	2011	2010
ASSETS			
Non-current assets			
Oil and gas properties	10	2,329,270	1,998,971
Other tangible assets	11	16,084	15,271
Other shares and participations	13	17,775	68,613
Long-term receivables		–	23,791
Deferred tax	8	15,345	15,066
Other financial assets	15	13,466	22,474
Total non-current assets		**2,391,940**	2,144,186
Current assets			
Inventories	16	31,589	20,039
Trade receivables	17	144,954	94,190
Prepaid expenses and accrued income	18	4,522	6,351
Short-term loan receivables		–	74,527
Joint venture debtors		20,252	21,389
Other receivables	19	23,090	19,751
Cash and cash equivalents	20	73,597	48,703
Total current assets		**298,004**	284,950
TOTAL ASSETS		**2,689,944**	2,429,136
EQUITY AND LIABILITIES			
Equity			
Share capital		463	463
Additional paid in capital		483,565	483,565
Other reserves	21	-145,806	-66,135
Retained earnings		502,523	-9,352
Net result		160,137	511,875
Shareholders' equity		**1,000,882**	920,416
Non-controlling interest		69,424	77,365
Total equity		**1,070,306**	997,781
Non-current liabilities			
Provision for site restoration	22	119,341	93,766
Pension provision	23	1,460	1,421
Provision for deferred tax	8	803,493	650,695
Other provisions	24	63,699	17,790
Bank loans	25	207,000	458,835
Other non-current liabilities		21,830	17,836
Total non-current liabilities		**1,216,823**	1,240,343
Current liabilities			
Trade payables		16,546	16,031
Tax liabilities	8	240,052	39,679
Derivative instruments	14	168	6,866
Accrued expenses and deferred income	26	16,227	7,667
Short-term debt	25	–	450
Joint venture creditors		88,417	100,931
Other liabilities	27	29,190	13,373
Other provisions	24	12,215	6,015
Total current liabilities		**402,815**	191,012
TOTAL EQUITY AND LIABILITIES		**2,689,944**	2,429,136
Pledged assets	28	519,624	459,220
Contingent liabilities and assets	29	–	–

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TUSD	Note	2011	2010
Cash flow from operations			
Net result		155,244	498,470
Gain on sale of assets		–	-424,196
Adjustments for non-cash related items	31	915,174	575,955
Interest received		1,457	589
Interest paid		-1,597	-2,937
Income taxes paid		-183,870	-25,029
Changes in working capital:			
Change in inventories		-11,550	2,611
Change in underlift position		11,601	-12,068
Change in receivables		36,605	52,885
Change in overlift position		5,909	712
Change in liabilities		-32,037	-109,874
Total cash flow from operations		**896,936**	557,118
Cash flow from investments			
Investment in subsidiary assets		–	-22,553
Investment in associated company		–	235
Proceeds from sale of other shares and participations		53,938	446
Change in other financial fixed assets		1,908	39
Other payments		-1,168	-3,085
Divestments		–	-65,808
Investment in intangible assets		–	-200
Investment in oil and gas properties		-670,032	-348,819
Investment in solar power properties		–	-21,210
Investment in office equipment and other assets		-3,786	-4,853
Total cash flow from investments		**-619,140**	-465,808
Cash flow from financing			
Loans provided [1]		–	-75,324
Proceeds from borrowings		175,000	369,308
Repayments of borrowings		-427,238	-418,917
Paid financing fees		–	-51
Purchase of own shares		–	-10,712
Proceeds from share issuance subsidiary company		–	15,191
Dividend paid to non-controlling interest		-212	–
Total cash flow from financing		**-252,450**	-120,505
Change in cash and cash equivalents		**25,346**	-29,195
Cash and cash equivalents at the beginning of the year		48,703	77,338
Currency exchange difference in cash and cash equivalents		-452	560
Cash and cash equivalents at the end of the year		**73,597**	48,703
Cash flow from operations			
From continuing operations		896,936	880,394
From discontinued operations		–	-323,276
		896,936	557,118
Cash flow from investments			
From continuing operations		-619,140	-423,422
From discontinued operations		–	-42,386
		-619,140	-465,808
Cash flow from financing			
From continuing operations		-252,450	-120,505
From discontinued operations		–	–
		-252,450	-120,505

[1] Loan provided to Etrion

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Total Equity comprises: Expressed in TUSD	Share capital [1]	Additional paid-in-capital	Other reserves [2]	Retained earnings	Net result	Non-controlling interest	Total equity
Balance at 1 January 2010	**463**	**909,214**	**-68,836**	**712,085**	**-411,268**	**95,555**	**1,237,213**
Transfer of prior year net result	–	–	–	-411,268	411,268	–	–
Net result	–	–	–	–	511,875	-13,405	498,470
Currency translation difference	–	–	-52,938	249	–	8,717	-43,972
Cash flow hedges	–	–	-378	–	–	–	-378
Available for sale financial assets	–	–	53,128	–	–	–	53,128
Income tax relating to other comprehensive income	–	–	-1,771	–	–	–	-1,771
Total comprehensive income	**–**	**–**	**-1,959**	**249**	**511,875**	**-4,688**	**505,477**
Transactions with owners							
Acquired on consolidation	–	–	–	–	–	94	94
Divestments	–	–	4,660	-10,520	–	-13,596	-19,456
Distributions	–	-419,316	–	-298,288	–	–	-717,604
Purchase of own shares	–	-10,712	–	–	–	–	-10,712
Transfer of share based payments	–	4,379	–	-4,379	–	–	–
Share based payments	–	–	–	2,769	–	–	2,769
Total transactions with owners	**–**	**-425,649**	**4,660**	**-310,418**	**–**	**-13,502**	**-744,909**
Balance at 31 December 2010	**463**	**483,565**	**-66,135**	**-9,352**	**511,875**	**77,365**	**997,781**
Transfer of prior year net result	–	–	–	511,875	-511,875	–	–
Net result	–	–	–	–	160,137	-4,893	155,244
Currency translation difference	–	–	-34,689	–	–	-2,836	-37,525
Cash flow hedges	–	–	6,971	–	–	–	6,971
Available for sale financial assets	–	–	-50,210	–	–	–	-50,210
Income tax relating to other comprehensive income	–	–	-1,743	–	–	–	-1,743
Total comprehensive income	**–**	**–**	**-79,671**	**–**	**160,137**	**-7,729**	**72,737**
Transactions with owners							
Distributions	–	–	–	–	–	-212	-212
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**-212**	**-212**
Balance at 31 December 2011	**463**	**483,565**	**-145,806**	**502,523**	**160,137**	**69,424**	**1,070,306**

[1] Lundin Petroleum AB's issued share capital at 31 December 2011 amounted to SEK 3,179,106 represented by 317,910,580 shares with a quota value of SEK 0.01 each, the USD equivalent of the issued share capital is TUSD 463. Included in the number of shares issued at 31 December 2011 are 6,882,638 shares which Lundin Petroleum holds in its own name.

[2] Other reserves are described in detail in Note 21.

ACCOUNTING POLICIES

Company information

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

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

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

Basis of preparation

Lundin Petroleum's annual report has been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Committee (IFRIC) interpretations adopted by the EU Commission and the Swedish Annual Accounts Act (1995:1554). In addition RFR 1 "Supplementary Rules for Groups" has been applied as issued by the Swedish Financial Reporting Board. The Parent Company applies the same accounting policies as the Group, except as specified in the Parent Company accounting policies on page 96.

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

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

Accounting standards, amendments and interpretations

There have not been any new and revised standards or interpretations issued, that have had a material impact to the Group's financial statements for the financial year 2011.

The following new standards, effective from 1 January 2013, are not yet approved by the EU, are not mandatory for the 2011 financial statements and have not been adopted early. These standards might lead to significant changes in the accounting and standard practice for the industry. Careful consideration will be required to assess the practical implication.

IFRS 9, 'Financial instruments' The standard is issued as part of a wider project to replace IAS 39 and retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value.

IFRS 10, 'Consolidated financial statements' The objective of the standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It defines the principle of control, and establishes control as the basis for consolidation. It is common in the oil and gas industry for one of the parties to be appointed as the operator of the joint arrangement, to whom some of the decision making powers might be delegated. Careful consideration will be required to assess whether an operator control the joint arrangement or not to determine the impact.

IFRS 11, 'Joint arrangements' The standard is focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. Joint arrangements have always been, and continue to be, a common structure in the oil and gas industry.

IFRS 12, 'Disclosures of interests in other entities' The standard introduces a range of new and expanded disclosure requirements. These will require the disclosure of significant judgements and assumptions made by management in determining whether there is joint control and if there is a joint venture, a joint operation or another form of interest.

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. 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 non-controlling interest. The accounting for the excess of the cost of an acquisition over the fair value of the assets acquired refer to "Goodwill".

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

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 non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling 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 non-controlling interests are also recorded in equity.

ACCOUNTING POLICIES

Jointly controlled entities

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

Jointly controlled assets

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

Associated companies

An investment in an associated company is an investment in an undertaking where the Group exercises significant influence but not control, generally accompanying a shareholding of at least 20 percent but not more than 50 percent of the voting rights. Such investments are accounted for in the consolidated financial statements in accordance with the equity method and are initially recognised at cost. 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 other comprehensive income of the associated company are recognised directly in other comprehensive income of the Group. 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 has declined significantly or has lasted for a longer period, the cumulative loss is removed from equity and an impairment charge is recognised in the income statement. 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.

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 United States Dollars, 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.

Transactions and balances

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

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

	2011 Average	2011 Period end	2010 Average	2010 Period end
1 USD equals NOK	5.5998	5.9927	6.0345	5.8564
1 USD equals Euro	0.7185	0.7729	0.7537	0.7484
1 USD equals Rouble	29.3738	32.2784	30.3570	30.5493
1 USD equals SEK	6.4867	6.8877	7.1954	6.7097

Classification of assets and liabilities

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

Oil and gas properties

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

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

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

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

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

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

Other tangible fixed assets

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

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

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

Goodwill

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

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.

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. There are no non-current assets held-for-sale at the balance sheet date.

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. When the recoverable amount is less than the carrying value an impairment loss is recognised with the expensed charge to the income statement. If indications exist that previously recognised impairment losses no longer exist or are decreased, the recoverable amount is estimated. When a previously recognised impairment loss is reversed the carrying amount of the asset is increased to the estimated recoverable amount but the increased carrying amount may not exceed the carrying amount after depreciation that would have been determined had no impairment loss been recognised for the asset in prior years.

ACCOUNTING POLICIES

Financial instruments

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

Lundin Petroleum recognises the following financial instruments:

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

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

» Derivative instruments. 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 also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the income statement.

The Group categorises derivatives which qualify for hedge accounting 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. If a hedging does no longer fulfil the criteria for the hedge accounting, the value of the hedged asset or liability for which the effective interest rate method has been used will be amortised in the income statement over the remaining life. There are no fair value hedges at the balance sheet date.
2. Cash flow hedge
   The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are transferred to the income statement in the period when the hedged item will affect the income statement. When a hedging instrument no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in other comprehensive income remains in shareholders' equity until the forecast transaction no longer is expected to occur, at which point it is being transferred to the income statement.
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 other comprehensive income is transferred to the income statement at the time the foreign operation is disposed of. There are no net investment hedges at the balance sheet date.

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

Equity

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

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

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

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

Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a 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 benefits. The pension schemes are funded through payments to insurance companies. The Group's pension obligations consist mainly of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense when they are due.

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

Share-based payments

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

Income taxes

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

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

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

ACCOUNTING POLICIES

Deferred tax assets are offset against deferred tax liabilities in the balance sheet where they relate to the same jurisdiction in accordance with IAS 12.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to Executive Management, which, due to the unique nature of each country's operations, commercial terms or fiscal environment, is at a country level. Information for segments is only disclosed when applicable. Segmental information is presented in Notes; Note 1 segment information, Note 3 depletion costs, Note 4 exploration costs, Note 8 taxes and Note 10 oil and gas properties.

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

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. Changes in estimates in oil and gas reserves could for example result from additional drilling, observation of long-term reservoir performance or changes in economic factors.

Impairment of oil and gas properties

Key assumptions in the impairment models relate to prices and costs that are based on forward curves and the long-term corporate assumptions. Lundin Petroleum carried out its annual impairment tests at 31 December 2011 in conjunction with the annual reserves audit process.

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.

Events after the balance sheet date

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

NOTE 1 – SEGMENT INFORMATION

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

The following tables present segment information regarding; operating income, average sales price, operating profit contribution profit and certain asset and liability information regarding the Group's business segments. In addition segment information is reported in the following notes; Note 3 depletion costs, Note 4 exploration costs, Note 8 taxes, Note 10 oil and gas assets.

TUSD	2011	2010
Operating income		
Net sales of:		
Crude oil		
Norway	911,072	490,390
France	127,789	92,681
Netherlands	228	128
Indonesia	3	34,994
Russia	79,515	66,624
Tunisia	24,795	29,517
	1,143,402	714,334
Condensate		
Netherlands	1,314	1,088
Indonesia	–	200
	1,314	1,288
Gas		
Norway	57,909	32,687
Netherlands	42,496	32,357
Indonesia	12,570	4,496
	112,975	69,540
Net sales from continuing operations	**1,257,691**	785,162
Net sales from discontinued operations – United Kingdom	–	62,567
Total net sales	**1,257,691**	847,729
Other income:		
Norway	5,848	–
France	1,566	1,423
Netherlands	1,397	1,315
Other	3,013	10,699
Other income from continuing operations	**11,824**	13,437
Other income from discontinued operations – United Kingdom	–	1,983
Total other income	**11,824**	15,420
Total operating income from continuing operations	**1,269,515**	798,599
Total operating income from discontinued operations – United Kingdom	–	64,550
Total operating income	**1,269,515**	863,149

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

TUSD	2011	2010
Operating profit contribution		
Norway	703,711	303,892
France	85,334	52,309
Netherlands	18,868	7,273
Indonesia	168	18,203
Russia	7,715	4,734
Tunisia	13,476	11,500
Malaysia	-11,010	–
Congo (Brazzaville)	-51,273	–
Vietnam	–	-31,906
Other	-62,765	27,845
Operating profit contribution from continuing operations	**704,224**	393,850
Total operating profit contribution from discontinued operations – United Kingdom	–	20,774
Total operating profit contribution	**704,224**	414,624

	Assets		Equity and Liabilities	
TUSD	2011	2010	2011	2010
Norway	1,447,945	1,145,846	1,037,651	675,995
France	207,894	187,991	70,581	73,749
Netherlands	96,643	203,941	300,139	511,118
Indonesia	106,123	93,795	16,400	10,883
Russia	652,168	644,913	114,179	106,761
Tunisia	21,703	11,065	21,416	19,471
Malaysia	138,697	45,105	39,987	12,613
Congo (Brazzaville)	7,677	34,093	9,012	672
Other	11,094	62,387	10,273	20,093
Assets/Liabilities per country	**2,689,944**	2,429,136	**1,619,638**	1,431,355
Shareholders' equity	N/A	N/A	1,000,882	920,416
Non-controlling interest	N/A	N/A	69,424	77,365
Total equity for the Group	**N/A**	N/A	**1,070,306**	997,781
Total consolidated	**2,689,944**	2,429,136	**2,689,944**	2,429,136

See also Note 10 for detailed information of the oil and gas properties including depletion per country. There are no reconciling items towards the balance sheet totals.

NOTE 2 – PRODUCTION COSTS

TUSD	2011	2010
Cost of operations [1]	102,476	97,179
Tariff and transportation expenses	22,863	17,438
Direct production taxes	52,390	41,624
Change in lifting position	18,419	-6,717
Inventory movement	-5,290	3,308
Other	2,246	4,233
Production costs from continuing operations	**193,104**	157,065
Production costs from discontinued operations – United Kingdom	–	32,030
Total production costs	**193,104**	189,095

[1] Cost of operations in 2010 included TUSD 1,108 relating to solar properties.

NOTE 3 – DEPLETION COSTS

TUSD	2011	2010
Norway	130,011	101,643
France	12,174	14,623
Netherlands	11,939	16,490
Indonesia	6,250	4,218
Russia	4,764	6,002
Tunisia	–	6
Depletion of oil and gas properties	**165,138**	142,982
Depletion of solar properties – Italy	–	2,334
Depletion from continuing operations	**165,138**	145,316
Depletion from discontinued operations – United Kingdom	–	11,362
Total depletion costs	**165,138**	156,678

	2011	2010
Average depletion cost, USD per boe		
Norway	15.34	15.33
France	10.88	12.60
Netherlands	16.47	21.79
Indonesia	14.76	4.75
Russia	4.18	4.54
Tunisia	–	0.02
Consolidated from continued operations	13.59	12.85
Total from discontinued operations – United Kingdom	–	13.99
Total consolidated	**13.59**	12.93

NOTE 4 – EXPLORATION COSTS

TUSD	2011	2010
Norway	74,060	94,526
Malaysia	11,015	–
Congo (Brazzaville)	51,263	–
Vietnam	–	31,906
Other	3,689	1,102
Exploration costs from continuing operations	**140,027**	127,534
Exploration costs from discontinued operations – United Kingdom	–	61
Total exploration costs	**140,027**	127,595

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

The exploration costs in Norway include an amount of MUSD 52.2 associated with the Earb South well in PL505 completed at the end of July 2011 and of MUSD 12.9 relating to PL301. The Earb South well was a discovery but was deemed unlikely to be commercial and therefore the costs associated with PL505 have been expensed. Other Norwegian exploration costs expensed during the reporting period amounted to MUSD 9.0.

During the third quarter of 2011 the Batu Hitam exploration well drilled on Block PM308A, offshore Malaysia was plugged and abandoned as a dry well and an amount of MUSD 11.0 associated with this well was expensed.

In Block Marine XI and Block Marine XIV, Congo (Brazzaville) a total of MUSD 51.3 was expensed in the reporting period relating to two unsuccessful wells and the associated seismic, study and licence costs.

Other includes exploration costs of new ventures and other projects.

NOTE 5 – GAIN ON SALE OF ASSETS

TUSD	2011	2010
Etrion Corporation	–	57,760
Salawati assets	–	8,366
Total gain on sale of assets	–	66,126

The gain on sale from the spin-off of the UK business in 2010 is shown under discontinued operations – see Note 9.

NOTE 6 – FINANCIAL INCOME

TUSD	2011	2010
Interest income	4,138	3,409
Foreign currency exchange gain, net	8,945	13,360
Gain on sale of shares	29,974	–
Insurance proceeds	1,734	377
Guarantee fees	998	2,348
Other financial income	666	1,462
Financial income from continuing operations	**46,455**	20,956
Financial income from discontinued operations – United Kingdom	–	360
Total financial income	**46,455**	21,316

Exchange rate variations result primarily from fluctuations in the value of the USD currency against a pool of currencies which includes, amongst others, EUR, NOK and the Russian Rouble (RUR). Lundin Petroleum has USD denominated debt recorded in subsidiaries using a functional currency other than USD.

NOTE 7 – FINANCIAL EXPENSES

TUSD	2011	2010
Loan interest expenses	5,390	10,047
Result on interest rate hedge settlement	6,995	6,990
Change in market value of interest rate hedge	–	3,872
Unwinding of site restoration discount	4,494	3,989
Amortisation of deferred financing fees	2,181	2,360
Loss on sale of shares	–	3,879
Other financial expenses	1,962	2,326
Financial expenses from continuing operations	**21,022**	33,463
Financial expenses from discontinued operations – United Kingdom	–	1,224
Total financial expenses	**21,022**	34,687

NOTE 8 – INCOME TAXES

Tax charge TUSD	Corporation tax 2011	Corporation tax 2010	Petroleum tax 2011	Petroleum tax 2010
Current tax				
Norway	365,615	36,115	–	–
France	27,149	19,116	–	–
Netherlands	3,014	5,211	–	–
Indonesia	760	3,661	–	–
Russia	1,360	1,469	–	–
Tunisia	1,634	2,178	–	–
Other	678	402	–	–
Continuing operations	**400,210**	68,152	**–**	–
Discontinued operations – United Kingdom	–	7,315	–	–
Total current tax	**400,210**	75,467	**–**	–
Deferred tax				
Norway	166,190	183,309	–	–
France	2,149	1,254	–	–
Netherlands	-981	-382	–	–
Indonesia	3,177	3,739	–	–
Russia	1,604	520	–	–
Tunisia	-1,937	1,576	–	–
Malaysia	5,149	2,545	–	–
Congo (Brazzaville)	–	-4,232	–	–
Vietnam	–	-4,043	–	–
Other	-1,148	-573	–	–
Continuing operations	**174,203**	183,713	**–**	–
Discontinued operations	–	4,014	–	-2,341
Total deferred tax	**174,203**	187,727	**–**	-2,341
Total Tax				
Continuing operations	574,413	251,865	–	–
Discontinued operations – United Kingdom	–	11,329	–	-2,341
Total tax	**574,413**	263,194	**–**	-2,341

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

TUSD	2011	2010
Profit before tax	729,657	381,343
Tax calculated at the corporate tax rate in Sweden (26.3%)	-191,900	-100,293
Effect of foreign tax rates	-371,884	-163,218
Tax effect of expenses non-deductible for tax purposes	-21,002	-15,063
Tax effect of deduction for petroleum tax	15,770	12,394
Tax effect of income not subject to tax	8,751	20,605
Tax effect of utilisation of unrecorded tax losses	6,669	2,700
Tax effect of creation of unrecorded tax losses	-23,155	-7,896
Adjustments to prior year tax assessments	2,338	-1,094
Tax charge	**-574,413**	-251,865

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

	2011			2010		
TUSD	Before tax	Tax charge/credit	After tax	Before tax	Tax charge/credit	After tax
Exchange differences on foreign operations	-37,525	–	-37,525	-43,972	–	-43,972
Cash flow hedges	6,971	-1,743	5,228	-378	238	-140
Available for sale financial assets	-50,210	–	-50,210	53,128	-2,009	51,119
Other comprehensive income	**-80,764**	**-1,743**	**-82,507**	8,778	-1,771	7,007
Current tax		–			–	
Deferred tax		-1,743			-1,771	
		-1,743			-1,771	

The deferred tax charge amounting to TUSD 1,743 (TUSD 1,771) has been recorded directly in other comprehensive income.

continued – NOTE 8

Corporation tax liability - current and deferred TUSD	Current		Deferred	
	2011	2010	2011	2010
Corporation tax				
Norway	222,971	20,856	660,643	517,962
France	6,656	9,049	33,691	32,594
Netherlands	7,733	6,042	3,326	4,512
Indonesia	1,021	260	7,688	4,698
Russia	152	7	80,334	78,317
Tunisia	1,519	1,934	1,823	658
Malaysia	–	–	15,857	10,708
Other	–	1,531	131	1,246
Total tax liability	**240,052**	39,679	**803,493**	650,695

Specification of deferred tax assets and tax liabilities [1] TUSD	2011	2010
Deferred tax assets		
Unused tax loss carry forwards	12,714	29,183
Overlift position	3,842	–
Fair value of financial instruments	42	1,716
Other deductible temporary differences	6,524	2,790
	23,122	33,689
Deferred tax liabilities		
Accelerated allowances	736,834	581,788
Capitalised acquisition cost	155	1,088
Deferred tax on excess values	74,281	77,936
Other taxable temporary differences	–	8,506
	811,270	669,318

[1] The specification of deferred tax assets and tax liabilities agree to the face of the balance sheet due to the netting off of balances in the balance sheet when they relate to the same jurisdiction.

The deferred tax asset is primarily relating to tax loss carried forwards in the Netherlands for an amount of TUSD 12,329 (TUSD 12,732). The balance for the comparative period also includes unused tax loss carry forwards in Norway of TUSD 15,828. 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 accelerated allowances, being the difference between the book and 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 MUSD 87.3. 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 2011 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 9 – DISCONTINUED OPERATIONS

TUSD	2011	2010
Net sales	–	62,567
Other operating income	–	1,983
Operating income	**–**	64,550
Production costs	–	-32,030
Depletion costs	–	-11,362
Exploration costs	–	-61
General, administration and depreciation expenses	–	-323
Operating profit	**–**	20,774
Financial income	–	360
Financial expense	–	-1,224
Profit before tax	**–**	19,910
Tax	–	-8,988
Net result from discontinued operations	**–**	10,922
Gain on sale of assets	–	358,070
Net result from discontinued operations	**–**	368,992

On 6 April 2010, Lundin Petroleum completes the spin-off of the United Kingdom business in exchange for shares in the newly incorporated company, EnQuest. The EnQuest shares received were distributed to Lundin Petroleum shareholders on 9 April 2010. The results of the UK business are included in the Lundin Petroleum accounts up until the end of the first quarter of 2010 and are shown as discontinued operations.

NOTE 10 – OIL AND GAS PROPERTIES

TUSD	31 December 2011	31 December 2010
Production cost pools	792,446	879,921
Non-production cost pools	1,536,824	1,119,050
	2,329,270	1,998,971

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

2010 production cost pools TUSD	Norway	France	Netherlands	Indonesia	Russia	Tunisia	UK	Total
Cost								
1 January	499,741	245,136	101,634	63,455	89,482	105,870	845,424	1,950,742
Additions	79,755	13,189	4,458	10,246	6,633	6	17,125	131,412
Disposals	–	–	–	-68,003	–	–	-862,549	-930,552
Change in estimates	6,790	3,162	3,683	–	–	–	–	13,635
Reclassifications	188,378	–	–	55,216	–	–	–	243,594
Currency translation difference	-7,477	-17,526	-6,995	1,378	-550	–	–	-31,170
31 December	767,187	243,961	102,780	62,292	95,565	105,876	–	1,377,661
Depletion								
1 January	-106,554	-83,050	-40,985	-37,616	-24,950	-105,870	-328,179	-727,204
Depletion charge for the year	-101,643	-14,623	-16,490	-4,218	-6,002	-6	-11,362	-154,344
Disposals	–	–	–	39,658	–	–	339,541	379,199
Currency translation difference	-1,710	5,770	2,514	-1,965	–	–	–	4,609
31 December	-209,907	-91,903	-54,961	-4,141	-30,952	-105,876	–	-497,740
Net book value	**557,280**	**152,058**	**47,819**	**58,151**	**64,613**	**–**	**–**	**879,921**

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

continued – NOTE 10

2010 non-production cost pools TUSD	1 January	Additions	Disposals	Write-offs	Changes in estimate	Reclassification	Currency translation difference	31 December
Norway	558,599	188,058	–	-94,526	–	-188,378	-2,504	461,249
France	6,821	997	–	-214	–	–	-491	7,113
Netherlands	1,021	948	–	-	–	–	-67	1,902
Indonesia	65,727	13,486	-3,115	-604	–	-55,216	-23	20,255
Russia	534,186	18,252	–	-	–	–	-2,319	550,119
Tunisia	217	38	–	-255	–	–	–	–
Malaysia	31,474	10,627	–	–	–	–	-44	42,057
Congo (Brazzaville)	29,800	2,456	–	–	–	–	–	32,256
United Kingdom	71,641	249	-71,829	-61	–	–	–	–
Other	17,324	18,741	–	-31,935	–	–	-31	4,099
Net book value	**1,316,810**	**253,852**	**-74,944**	**-127,595**	**–**	**-243,594**	**-5,479**	**1,119,050**

In 2010, the reclassification from Non-Production cost pools to Production cost pools related to the production startup on the Volund field, Norway and Singa field, Indonesia.

Impairment
Lundin Petroleum carried out its annual impairment tests at 31 December 2011 in conjunction with the annual reserves audit process. Lundin Petroleum used an oil price deck of USD 100 per bbl inflating at 2% per annum, a future cost inflation factor of 2% per annum and a discount rate of 10% to calculate the future pre-tax cash flows.

Capitalised interest
During 2011, MUSD 1.5 (MUSD 1.9) of capitalised interest costs were added to oil and gas properties and relate 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 commitments as at 31 December 2011 are estimated to be MUSD 629.8 (MUSD 588.0) of which third parties who are joint venture partners will contribute approximately MUSD 279.8 (MUSD 220.3).

NOTE 11 – OTHER TANGIBLE ASSETS

	2011			2010		
TUSD	Real estate	Office equipment and other assets	Total	Real estate	Office equipment and other assets	Total
Cost						
1 January	11,182	15,174	26,356	10,491	17,302	27,793
Disposals	–	-655	-655	–	-5,405	-5,405
Additions	–	3,786	3,786	708	4,145	4,853
Write-off	–	–	–	–	-1,352	-1,352
Reclassification	-53	–	-53	–	–	–
Currency translation difference	–	-369	-369	-17	484	467
31 December	11,129	17,936	29,065	11,182	15,174	26,356
Depreciation						
1 January	-1,337	-9,748	-11,085	-1,262	-11,248	-12,510
Disposals	–	530	530	–	4,838	4,838
Depreciation charge for the year	-95	-2,579	-2,674	-92	-2,785	-2,877
Currency translation difference	57	191	248	17	-553	-536
31 December	-1,375	-11,606	-12,981	-1,337	-9,748	-11,085
Net book value	**9,754**	**6,330**	**16,084**	9,845	5,426	15,271

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

NOTE 12 – SHARES IN JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

TUSD	Consolidation method	Number of shares	Share %	Book amount 31 December 2011	Book amount 31 December 2010
Ikdam Production SA	Equity	1,600	40.00	0	0
RF Energy Investments Ltd.	Proportional consolidation	11,540	50.00	–	–
– CJSC Pechoraneftegas [1]		20,000	Direct 100.00, indirect 50.00	–	–
– LLC Zapolyarneftegas [1]		1	Direct 100.00, indirect 50.00	–	–
– LLC NK Recher-Komi [1]		1	Direct 100.00, indirect 50.00	–	–
– Geotundra BV [1]		20,000	Direct 100.00, indirect 50.00	–	–
				0	0

[1] 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.

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

Income statement per 31 December 2011 TUSD	Ikdam Production SA	RF Energy consolidated
Revenue	2,610	159,481
Operating cost	-4,946	-149,348
Net result	-2,336	10,133

Balance Sheet per 31 December 2011 TUSD	Ikdam Production SA	RF Energy consolidated
Non-current assets	–	122,381
Current assets	775	39,428
Total assets	775	161,809
Equity	-13,934	97,015
Non-current liabilities	14,213	47,220
Current liabilities	496	17,574
Total liabilities	775	161,809

NOTE 13 – OTHER SHARES AND PARTICIPATIONS

Other shares and participation comprise:	31 December 2011			31 December 2010
TUSD	Number of shares	Share %	Book amount	Book amount
ShaMaran Petroleum Corp.	50,000,000	6.19	17,380	68,205
Cofraland B.V.	31	7.75	391	404
Maison de la géologie	2	1.25	4	4
			17,775	68,613

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. The investment was booked at the fair value of the shares at the date of acquisition and under accounting rules, any subsequent movement in the fair value of the shares is being recorded in the consolidated statement of comprehensive income.

The fair value of ShaMaran is calculated using the quoted share price at the Toronto Stock Exchange.

As at 31 December 2011, the other shares and participations include TUSD 395.0 recognised at cost because their fair value cannot be measured reliably since there is no quoted share price and due to the uncertainty of the timing of the future cash flows from these companies.

NOTE 14 – FINANCIAL RISKS, SENSITIVITY ANALYSIS AND DERIVATIVE INSTRUMENTS

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

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 Lundin Petroleum's subsidiaries are Norwegian Kroner (NOK), Euro (EUR) and Russian Rouble (RUR), as well as US Dollar, making Lundin Petroleum sensitive to fluctuations of these currencies against the US Dollar, the presentation currency.

As at 31 December 2011 and 2010, no foreign exchange forward contracts were entered into.

Conversion exposure

The following table summarises the effect that a change in these currencies against the US Dollar would have on operating result through the conversion of the income statements of the Group's subsidiaries from functional currency to the presentation currency US Dollar for the year ended at 31 December 2011.

Operating profit in the financial statements (MUSD)	704.2	704.2
Shift of currency exchange rates to:	10% USD weakening	10% USD strengthening
EUR/USD	0.6532	0.7904
NOK/USD	5.0907	6.1598
RUR/USD	26.7035	32.3112
Total effect on operating result (MUSD)	**68.0**	**-68.0**

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 Group will take into account the current rates of exchange and market expectations in comparison to historic trends and volatility in making the decision to hedge.

Price of oil and gas

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

The table below summarises the effect that a change in the oil price would have had on the net result at 31 December 2011:

Net result in the financial statements (MUSD)	155.2	155.2
Change in oil price (USD/boe)	-5	5
Total effect on net result (MUSD)	**-18.9**	**18.9**

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 2011, the Group did not enter into oil price hedging contracts. There are no oil price hedging contracts outstanding as at 31 December 2011.

Interest rate risk

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

The table below summarises the effect that an change in the interest rate for the credit facility would have had on the net result for the year ended 31 December 2011:

Net result in the financial statements (MUSD)	155.2	155.2
Possible shift (%)	-10%	10%
Total effect on net result (MUSD)	**0.4**	**-0.4**

In January 2008, the Group 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

continued – NOTE 14

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 2011, the Group's trade receivables amounted to MUSD 145.0 (MUSD 94.2). There is no recent history of default. Other long-term and short-term receivables are considered recoverable. The provision for bad debt as at 31 December 2011 amounted to MUSD – (MUSD –). Cash and cash equivalents are maintained with banks having strong long-term credit ratings.

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

Lundin Petroleum has a secured revolving borrowing base facility of MUSD 850 with a seven year term expiring in 2014, of which MUSD 207.0 was drawn in cash as at 31 December 2011. The MUSD 850 facility is a revolving borrowing base facility secured against certain cash flows generated by the Group. The amount available under the facility is recalculated every six months based upon the calculated cash flow generated by certain producing fields at an oil price and economic assumptions agreed with the banking syndicate providing the facility. As part of the semi-annual redetermination process under the facility, a new borrowing base amount of approximately MUSD 885 was calculated effective 1 January 2012, however the facility has reached a stage where availability reduces every six months. The maximum amount that can be drawn under the facility has been reduced to MUSD 630 and will continue to reduce until maturity of the facility. Lundin Petroleum is in the process of arranging a new financing facility to meet the funding requirements of its future development projects. See also Note 25 for more information regarding the Group's credit facility.

Lundin Petroleum has, through its subsidiary Lundin Malaysia BV, entered into four Production Sharing Contracts (PSC) with Petroliam Nasional Berhad, the oil and gas company of the Government of Malaysia ("Petronas"), in respect of the Blocks PM308A, PM308B, SB307 and SB308, 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 91.2. In addition, BNP Paribas have issued additional bank guarantees to cover work commitments in Indonesia amounting to MUSD 2.4.

It is expected that the Group's ongoing development and exploration expenditure requirements will be funded by the Group's operating cash flow and the loan facility. No loan repayments are required for the credit facility in 2012.

Capital management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to meet its committed work programme requirements in order to create shareholder value. The Group may put in place new credit facilities, repay debt, or other such restructuring activities as appropriate. Group management continuously monitors and manages the Group's net debt position in order to assess the requirement for changes to the capital structure to meet the objectives and to maintain flexibility.

No significant changes were made in the objectives, policies or processes during the year ended 31 December 2011.

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

31 December 2011 TUSD	Loan receivables and other receivables	Available-for-sale	Derivatives used for hedging	Financial liabilities valued at amortised cost
Assets				
Other shares and participations	–	17,775	–	–
Other financial assets	9,588	–	–	–
Other receivables	11,176	–	–	–
Trade receivables	144,954	–	–	–
Cash and cash equivalents	73,597	–	–	–
	239,315	**17,775**	**–**	**–**
Liabilities				
Trade payables	–	–	–	16,546
Bank loans	–	–	–	207,000
Other non-current liabilities	–	–	–	21,830
Derivative instruments	–	–	168	–
Other liabilities	–	–	–	10,979
	–	**–**	**168**	**256,355**

31 December 2010 TUSD	Loan receivables and other receivables	Available-for-sale	Derivatives used for hedging	Financial liabilities valued at amortised cost
Assets				
Other shares and participations	–	68,613	–	–
Long-term receivables	23,791	–	–	–
Trade receivables	94,190	–	–	–
Short-term loan receivable	74,527	–	–	–
Cash and cash equivalents	48,703	–	–	–
	241,211	**68,613**	**–**	**–**
Liabilities				
Trade payables	–	–	–	16,031
Bank loans	–	–	–	458,835
Other non-current liabilities	–	–	–	17,836
Derivative instruments	–	–	6,866	–
Short-term debt	–	–	–	450
	–	**–**	**6,866**	**493,152**

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 2011 TUSD	Level 1	Level 2	Level 3
Assets			
Available for sale financial assets			
– Equity securities	17,380		395
	17,380		**395**
Liabilities			
Derivatives used for hedging		168	
		168	

The outstanding derivative instruments can be specified as follows:

Fair value of outstanding derivative instruments in the balance sheet (TUSD):	31 December 2011		31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	–	168	–	6,866
Non-current	–	–	–	–
Current	–	168	–	6,866
Total	**–**	**168**	–	6,866

The fair value of the interest rate swap is calculated using the forward interest rate curve applied to the outstanding portion of the swap transaction. The effective proportion of the interest rate swap as at 31 December 2011 amounted to TUSD 168 (TUSD 6,866).

For risks in the financial reporting see the section Internal control and risk management for the financial reporting in the Corporate governance report on pages 52–53 and risks and risk management on pages 60–61 for more information.

NOTE 15 – OTHER FINANCIAL ASSETS

TUSD	31 December 2011	31 December 2010
Long-term VAT receivable	–	16,474
Capitalised financing fees	2,506	4,650
Etrion bond	9,588	–
Other	1,372	1,350
	13,466	22,474

NOTE 16 – INVENTORIES

TUSD	31 December 2011	31 December 2010
Hydrocarbon stocks	16,307	11,128
Drilling equipment and consumable materials	15,282	8,911
	31,589	20,039

Drilling equipment and consumable material comprise (TUSD):	2011	2010
1 January	8,911	11,456
Disposals	–	-2,417
Purchase	12,026	5,538
Used in production	-5,312	-5,375
Currency translation difference	-235	-417
	15,390	8,785
Provisions	-108	126
31 December	**15,282**	8,911

NOTE 17 – TRADE RECEIVABLES

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 18 – PREPAID EXPENSES AND ACCRUED INCOME

TUSD	31 December 2011	31 December 2010
Prepaid rent	521	791
Prepaid insurances	1,675	1,925
Accrued income	885	–
Other	1,441	3,635
	4,522	6,351

NOTE 19 – OTHER RECEIVABLES

TUSD	31 December 2011	31 December 2010
Underlift	1,851	13,452
Short-term VAT receivable	5,699	2,951
Other	15,540	3,348
	23,090	19,751

Included in other of TUSD 15,540 (TUSD 3,348) is an amount of TUSD 11,176 (TUSD –) relating to a receivable from Talisman Energy under an option agreement, to sell 30% working interest in PL148 Brynhild, Norway. The option was exercised in the first quarter of 2012.

NOTE 20 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include only cash at hand or on bank. No short term deposits are held as at 31 December 2011.

NOTE 21 – OTHER RESERVES

TUSD	Available-for-sale reserve	Hedge reserve	Currency translation reserve	Total Other reserves
1 January 2010	-10,096	-7,076	-51,664	-68,836
Total comprehensive income	51,119	373	-53,451	-1,959
Divestments	–	1,554	3,106	4,660
31 December 2010	41,023	-5,149	-102,009	-66,135
Total comprehensive income	-50,210	5,228	-34,689	-79,671
31 December 2011	**-9,187**	**79**	**-136,698**	**-145,806**

NOTE 22 – PROVISION FOR SITE RESTORATION

TUSD	2011	2010
1 January	93,766	132,698
Acquired on consolidation	–	162
Disposals	–	-53,827
Unwinding of site restoration discount	4,494	4,717
Payments	-1,168	-930
Changes in estimates	24,771	13,635
Currency translation difference	-2,522	-2,689
31 December	**119,341**	93,766

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 2011, 75% of the total amount is expected to be settled after more than 20 years.

NOTE 23 – PENSION PROVISION

TUSD	2011	2010
1 January	1,421	1,354
Fair value adjustment	192	85
Instalments paid	-155	-138
Currency translation difference	2	120
31 December	**1,460**	1,421

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

Up to October 2006 the pension amount agreed consisted of monthly payments totalling an annual amount of TCHF 206 (TUSD 232) and thereafter of monthly payments totalling an annual amount of TCHF 138 (TUSD 155) 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 (TUSD 1,916).

NOTE 24 – OTHER PROVISIONS

TUSD	LTIP	Termination indemnity provision	Other	Total
1 January 2011	18,821	2,902	2,082	23,805
Additions	63,537	615	44	64,196
Payment	-9,994	–	–	-9,994
Currency translation difference	-2,070	–	-23	-2,093
31 December 2011	**70,294**	**3,517**	**2,103**	**75,914**
Non-current	58,079	3,517	2,103	63,699
Current	12,215	–	–	12,215
Total	**70,294**	**3,517**	**2,103**	**75,914**

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

For details of the LTIP see Note 35.

NOTE 25 – BANK LOANS AND SHORT-TERM DEBT

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

TUSD	31 December 2011	31 December 2010
Non-current		
Repayment within 2–5 years	207,000	458,835
Repayment after 5 years	–	–
Current		
Repayment within 6 months	–	450
Repayment between 6–12 months	–	–
	207,000	459,285

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 interest rate on Lundin Petroleum's credit facility is floating and is currently LIBOR + 0.9% per annum.

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

NOTE 26 – ACCRUED EXPENSES AND DEFERRED INCOME

TUSD	31 December 2011	31 December 2010
Holiday pay	3,909	2,721
Operating costs	6,456	235
Social security charges	2,316	1,554
Salaries and wages	91	159
Other	3,455	2,998
	16,227	7,667

NOTE 27 – OTHER LIABILITIES

TUSD	31 December 2011	31 December 2010
Overlift	7,670	1,761
Acquisition liabilities	10,979	5,680
Salaries	4,770	2,898
VAT payable	1,899	1,075
Social charges payable	633	610
Other	3,239	1,348
	29,190	13,373

Acquisition liabilities at 31 December 2011 represent the amount payable to Noreco in relation to Lundin Petroleum's acquisition of Noreco's 20% working interest in PL148 Brynhild, Norway.

NOTE 28 – PLEDGED ASSETS

On 26 October 2007, the Group entered into a credit facility under which an amount of MUSD 207.0 was outstanding as at 31 December 2011. 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 certain asset holding companies of the Group and future cash flows generated from the pledged companies.

The amount stated for pledged assets of MUSD 520 (MUSD 459) as at 31 December 2011 represents the net asset book values of the pledged companies.

NOTE 29 – CONTINGENT LIABILITIES AND ASSETS

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

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

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

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

NOTE 30 – 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.

	2011	2010
Net result attributable to shareholders of the Parent Company (in USD)	160,136,792	511,875,000
Weighted average number of shares for the year	311,027,942	312,096,990
Earnings per share (in USD)	**0.51**	1.64

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. There was no dilution for the years 2011 and 2010.

NOTE 31 – ADJUSTMENT FOR NON CASH RELATED ITEMS

TUSD	Note	2011	2010
Other provisions		638	1,719
Exploration costs	4	140,027	127,595
Depletion, depreciation and amortisation	10/11	167,812	159,555
Amortisation of deferred financing fees	7	2,181	2,360
Interest income	6	-4,138	-3,416
Current tax	8	400,210	75,467
Deferred tax	8	174,203	185,385
Interest expense	7	5,390	10,495
Exchange gains	6	-8,945	-13,712
Gain on sale of assets		–	3,879
Gain on sale of shares		-29,974	-1,712
Unwinding of site restoration discount	7/22	4,494	4,717
Long-term incentive plan		63,443	19,522
Other non-cash items		-167	4,101
Adjustment to cash flow from operations		**915,174**	575,955

NOTE 32 – RELATED PARTY TRANSACTIONS

During the reporting period, the Group has entered into transactions with related parties on an arm's length basis as described below:

The Group received MUSD 0.4 (MUSD 0.3) from ShaMaran Petroleum for the provision of office and other services and MUSD 0.9 (MUSD 2.0) for supporting certain financial obligations.

The Group received MUSD 0.2 (MUSD 0.9) from Africa Oil Corporation being interest on a loan that was converted into shares in the reporting period.

The Group paid MUSD 0.7 (MUSD 0.4) to other related parties in respect of aviation services received.

In May 2011, Etrion reimbursed a Euro loan provided by the Group which amounted to MUSD 83.0 at the time of the reimbursement. Interest of MUSD 1.5 (MUSD 0.5) was charged on the loan in the reporting period.

NOTE 33 – AVERAGE NUMBER OF EMPLOYEES

	2011		2010	
Average number of employees per country	Total employees	of which men	Total employees	of which men
Parent Company in Sweden	**–**	**–**	–	–
Subsidiaries abroad				
Norway	100	72	70	49
France	57	46	58	46
Netherlands	7	3	7	3
Indonesia	22	12	21	15
Russia	46	28	60	38
Tunisia	10	6	10	7
Malaysia	32	21	19	16
Switzerland	39	24	53	36
Other [1]	3	2	38	26
Total subsidiaries abroad	**316**	**214**	336	236
Total Group	**316**	**214**	336	236

[1] Other in the comparative period includes employees employed in the United Kingdom business that was spun off in 2010 and employees employed by Etrion in Venezuela and Italy.

	2011		2010	
Board members and Executive Management	Total at year end	of which men	Total at year end	of which men
Parent Company in Sweden				
Board members [1]	7	5	6	5
Subsidiaries abroad				
Executive Management [1]	4	4	4	4
Total Group	**11**	**9**	10	9

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

NOTE 34 – REMUNERATION TO THE BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND OTHER EMPLOYEES

	2011		2010	
Salaries, other remuneration and social security costs TUSD	Salaries and other remuneration	Social security costs	Salaries and other remuneration	Social security costs
Parent Company in Sweden				
Board members	570	116	486	39
Subsidiaries abroad				
Executive Management	5,105	337	4,816	318
Other employees	62,312	13,436	49,769	11,177
Total Group	**67,987**	**13,889**	55,071	11,434
of which pension costs		**4,344**		3,435

continued – NOTE 34

Salaries and other remuneration for the Board members and Executive Management[1] TUSD	Fixed Board remuneration/ fixed salary and other benefits[2]	Short-term variable salary[3]	2008 Unit Bonus Plan (third tranche)	Remuneration for Committee work[2]	Board remuneration for special assignments[4]	Pension	Total 2011	Total 2010
Parent Company in Sweden								
Board members								
Ian H. Lundin	123	–	–	–	180	–	303	345
Magnus Unger	62	–	–	31	15	–	108	97
Lukas H. Lundin	62	–	–	8	–	–	70	70
William A. Rand	62	–	–	31	–	–	93	83
Asbjørn Larsen	62	–	–	15	–	–	77	69
Dambisa F. Moyo	62	–	–	15	–	–	77	69
Kristin Færøvik	31	–	–	8	–	–	39	–
Total Board members	**464**	**–**	**–**	**108**	**195**	**–**	**767**	**733**
Subsidiaries abroad								
Executive Management								
C. Ashley Heppenstall	975	685	298	–	–	91	2,049	1,888
Alexandre Schneiter	579	469	238	–	–	59	1,345	1,247
Chris Bruijnzeels	473	379	149	–	–	47	1,048	929
Geoffrey Turbott	513	419	149	–	–	51	1,132	948
Total Executive Management	**2,540**	**1,952**	**834**	**–**	**–**	**248**	**5,574**	**5,012**

[1] Salaries and other remuneration have been expensed during the reporting period.
[2] Other benefits include school fees and health insurance.
[3] In December 2011, the Compensation Committee awarded a bonus for 2011 of one month's salary to Executive Management (included in the bonus expense for 2011). In January 2012 the Compensation Committee reassessed the bonus payments made for 2011 considering the employees' contributions to the results of the Group and the achievement of personal targets and awarded additional bonuses payable in January 2012. The same reassessment was made in January 2011 for 2010 and the amounts are included in the cost of 2011.
[4] Other remuneration paid during 2011 relates to fees paid for special assignments undertaken by Board members on behalf of the Group. The payment of such fees was in accordance with fees approved by the 2011 AGM.

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

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

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

A mutual termination period of between one month and six months applies between the Company and Executive Management, depending on the duration of the employment with the Company, where the maximum applies as of the tenth year of employment. In addition, severance terms are incorporated into the employment contracts for Executives that give rise to compensation, equal to two years' basic salary, in the event of termination of employment due to a change of control of the Company.

Please see page 50–51 of the Corporate Governance report for further information on the Company's principles of remuneration and the Policy on Remuneration for the Executive Management for 2011.

NOTE 35 – LONG-TERM INCENTIVE PLANS

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

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

In 2009, 2010 and 2011, LTIPs that follow the same principles as the 2008 LTIP have been implemented for employees other than Executive Management.

The following table shows the number of units issued under the LTIPs, the amount outstanding as at 31 December 2011 and the year in which the units will vest.

Unit Bonus Plan	Total units	Outstanding 31 Dec 2011	Year of vesting				
			2010	2011	2012	2013	2014
2009	670,400	219,984	232,437	219,980	219,984	–	–
2010	723,950	470,169	–	236,299	235,085	235,084	–
2011	425,850	418,400	–	–	139,467	139,467	139,466

The total number of units vesting do not necessarily equal the units awarded due to the recalculation following distributions by Lundin Petroleum offsetting units that have lapsed following employees leaving the Group.

The costs associated with the Unit Bonus Plans are as given in the following table.

Unit Bonus Plan TUSD	2011	2010
2008	786	1,625
2009	3,851	2,901
2010	7,379	3,070
2011	4,350	–
	16,366	7,596

The costs for 2010 also included an amount of TUSD 218 relating to employees of the UK operations that were shown as discontinued items.

Phantom Option Plan

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

The LTIP for Executive Management includes 5,500,928 phantom options with an exercise price of SEK 52.91 (rebased from 4,000,000 phantom options and SEK 72.76 respectively following the distribution of the shares of EnQuest Plc and Etrion Corporation, made in 2010). The phantom options will vest in May 2014 being the fifth anniversary of the date of grant. The recipients will be entitled to receive a cash payment equal to the average closing price of the Company's shares during the fifth year following grant, less the exercise price, multiplied by the number of phantom options. The participants of the phantom option plan are not entitled to receive new awards under the Unit Bonus Plan whilst the phantom options are still outstanding.

Lundin Petroleum holds 6,882,638 of its own shares acquired at an average cost of SEK 46.51 per share which mitigates the exposure of the LTIP. The Lundin Petroleum share price at 31 December 2011 was SEK 169.20. The provision for LTIP amounted to MUSD 70.3 as at 31 December 2011 and the market value of the shares held at 31 December 2011 was MUSD 169.1. The gain in the value of the own shares held can not be offset against the cost for the LTIP in accordance with accounting rules.

The cost for the 2009 LTIP for Executive Management amounted to TUSD 41,604 (TUSD 8,894) for the financial year ended 31 December 2011.

For further details regarding the Phantom Option Plan, please see the pages 50–51 of the Corporate Governance report.

NOTE 36 – REMUNERATION TO THE GROUP'S AUDITORS

TUSD	2011	2010
PricewaterhouseCoopers		
Audit fees	1,065	995
Audit related	75	82
Tax advisory services	179	–
Other fees	26	36
Total	**1,345**	1,113
Remuneration to other auditors than PricewaterhouseCoopers	**305**	213
Total	**1,650**	1,326

Audit fees include the review of the 2011 half year report. Audit related costs include special assignments such as licence audits, PSC audits and internal control audits.

NOTE 37 – SUBSEQUENT EVENTS

Lundin Petroleum owns 50 million shares in ShaMaran Petroleum which it acquired in 2009 in a non-cash transaction. The investment was booked at the fair value of the shares at the date of acquisition and under accounting rules, any subsequent movement in the fair value of the shares is being recorded in the consolidated statement of comprehensive income. In January 2012, ShaMaran Petroleum announced that it had relinquished its working interests in its operated Production Sharing Contract licences and, as such, there has been a permanent diminution in the fair value of the shares of ShaMaran Petroleum. The cumulative loss recognised in other comprehensive income will be reclassified from equity and recognised in the income statement in the first quarter of 2012. The accounting loss in value is estimated to amount to MUSD 19.

In the first quarter of 2012, Talisman Energy exercised their option to sell Lundin Petroleum a 30% working interest in PL148 Brynhild, Norway, subject to applicable government approvals.

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 -182.4 (MSEK 3,936.1) for the financial year 2011.

The result includes general and administrative expenses of MSEK 206.1 (MSEK 72.2), financial income of MSEK 5.9 (MSEK 15.3) for supporting certain financial obligations for ShaMaran Petroleum and interest expense of MSEK 25.3 (MSEK 28.1). The main part of the increase in the general and admnistrative expenses relates to the Group's LTIP. The comparative result for 2010 includes a dividend received from a subsidiary of MSEK 3,995.2.

The distributions of the shares in EnQuest and Etrion in 2010, were recorded at the book value of the shares in Lundin Petroleum AB and amounted to MSEK 3,949.7 for the distribution of the EnQuest shares and MSEK 391.7 for the distribution of the Etrion shares.

Accounting Policies
The financial statements of the Parent Company are prepared in accordance with accounting policies generally accepted in Sweden, applying RFR 2 issued by the Swedish Financial Reporting Board and the Annual Accounts Act (1995: 1554). RFR 2 requires the Parent Company to use similar accounting policies as for the Group, i.e. IFRS to the extent allowed by RFR 2. The Parent Company's accounting policies do not in any material respect deviate from the Group policies, see pages 77–82.

PARENT COMPANY INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2011	2010
Operating income			
Other operating income	1	42,644	25,822
Gross profit		**42,644**	25,822
General, administration and depreciation expenses		-206,108	-72,222
Operating loss		**-163,464**	-46,400
Result from financial investments			
Financial income	2	6,560	4,012,086
Financial expenses	3	-25,495	-36,928
		-18,935	3,975,158
Profit before tax		**-182,399**	3,928,758
Income tax expense	4	–	7,328
Net result		**-182,399**	3,936,086

PARENT COMPANY COMPREHENSIVE INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	Note	2011	2010
Net result		-182,399	3,936,086
Other comprehensive income		–	–
Total comprehensive income		**-182,399**	3,936,086
Total comprehensive income attributable to:			
Shareholders of the Parent Company		**-182,399**	3,936,086
		-182,399	3,936,086

PARENT COMPANY BALANCE SHEET

AT 31 DECEMBER

Expressed in TSEK	Note	2011	2010
ASSETS			
Non-current assets			
Shares in subsidiaries	11	7,871,947	7,871,947
Total non-current assets		**7,871,947**	7,871,947
Current assets			
Prepaid expenses and accrued income		1,144	456
Other receivables	5	7,810	6,719
Cash and cash equivalents		3,849	6,735
Total current assets		**12,803**	13,910
TOTAL ASSETS		**7,884,750**	7,885,857
EQUITY AND LIABILITIES			
Restricted equity			
Share capital		3,179	3,179
Statutory reserve		861,306	861,306
Total restricted equity		**864,485**	864,485
Unrestricted equity			
Other reserves		2,551,805	2,551,805
Retained earnings		3,936,086	–
Net profit		-182,399	3,936,086
Total unrestricted equity		**6,305,492**	6,487,891
Total equity		**7,169,977**	7,352,376
Non-current liabilities			
Provisions	6	36,403	36,403
Payables to Group companies		673,988	482,281
Total non-current liabilities		**710,391**	518,684
Current liabilities			
Trade payables		1,171	993
Tax liability		–	10,272
Accrued expenses and prepaid income	7	2,742	3,125
Other liabilities		469	407
Total current liabilities		**4,382**	14,797
TOTAL EQUITY AND LIABILITIES		**7,884,750**	7,885,857
Pledged assets	9	3,579,013	3,081,228
Contingent liabilities	9	–	–

PARENT COMPANY STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

Expressed in TSEK	2011	2010
Cash flow used for operations		
Net result	-182,399	3,936,086
Tax per income statement	–	-7,328
Dividend	–	-3,995,158
Other non-cash items	207,410	82,514
Interest expenses paid	-332	-542
Unrealised exchange losses	138	623
Changes in working capital:		
Change in current assets	-1,779	286
Change in current liabilities	-10,118	–
Total cash flow from operations	**12,920**	16,481
Cash flow from investments		
Proceeds from sale of associated company	–	1,590
Total cash flow from investments	**–**	1,590
Cash flow from financing		
Change in long-term liabilities	-15,702	71,870
Purchase of own shares	–	-83,157
Total cash flow from financing	**-15,702**	-11,287
Change in cash and cash equivalents	**-2,782**	6,784
Cash and cash equivalents at the beginning of the year	6,735	532
Currency exchange difference in cash and cash equivalents	-104	-581
Cash and cash equivalents at the end of the year	**3,849**	6,735

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

	Restricted Equity		Unrestricted equity			
Expressed in TSEK	Share capital [1]	Statutory reserve	Other reserves [2]	Retained earnings	Net result	Total equity
Balance at 1 January 2010	3,179	861,306	5,120,750	1,887,788	-32,271	7,840,752
Transfer of prior year net result	–	–	–	-32,271	32,271	–
Total comprehensive income	–	–	–	–	3,936,086	3,936,086
Transactions with owners						
Dividend	–	–	-2,515,168	-1,826,272	–	-4,341,440
Purchase of own shares	–	–	-83,157	–	–	-83,157
Transfer of share based payments	–	–	29,380	-29,380	–	–
Share based payments	–	–	–	135	–	135
Total transactions with owners	–	–	-2,568,945	-1,855,517	–	-4,424,462
Balance at 31 December 2010	**3,179**	**861,306**	**2,551,805**	**–**	**3,936,086**	**7,352,376**
Transfer of prior year net result	–	–	–	3,936,086	-3,936,086	–
Total comprehensive income	**–**	**–**	**–**	**–**	**-182,399**	**-182,399**
Balance at 31 December 2011	**3,179**	**861,306**	**2,551,805**	**3,936,086**	**-182,399**	**7,169,977**

[1] Lundin Petroleum AB's issued share capital at 31 December 2011 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 2011 are 6,882,638 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	2011	2010
Norway	19,401	14,642
Indonesia	2,270	2,029
Tunisia	4,827	4,595
Malaysia	15,601	1,680
United Kingdom	–	2,876
Other	545	–
	42,644	25,822

NOTE 2 – FINANCIAL INCOME

TSEK	2011	2010
Dividend	–	3,995,158
Guarantee fees	6,472	16,900
Other	88	28
	6,560	4,012,086

The guarantee fees relate mainly to amounts received for supporting certain financial obligations of ShaMaran Petroleum.

NOTE 3 – FINANCIAL EXPENSES

TSEK	2011	2010
Interest expenses Group	24,979	30,789
Interest expense non-Group	332	542
Foreign exchange losses, net	138	624
Tax penalty	–	4,907
Other	46	66
	25,495	36,928

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.

The decision was appealed. In 2010 the Administrative Court of appeal maintained the ruling of the County Administrative Court. Following the decision of the court a penalty tax of TSEK 4,907 was paid during 2010. In 2011, Lundin Petroleum appealed to the Supreme Administrative Court and the court maintained the ruling.

NOTE 4 – INCOME TAXES

TSEK	2011	2010
Net result before tax	-182,399	3,928,758
Tax calculated at the corporate tax rate in Sweden (26.3%)	47,971	-1,033,263
Tax effect of received dividend	–	1,050,727
Tax effect of Controlled Foreign Companies	–	-3,705
Tax effect of expenses non-deductible for tax purposes	-35,674	-1,590
Increase unrecorded tax losses	-12,297	-12,169
Tax effect on adjustment tax calculation 2008 and 2009	–	7,328
Tax credit/charge	**–**	7,328

NOTE 5 – OTHER RECEIVABLES

TSEK	31 December 2011	31 December 2010
Due from Group companies	7,291	5,139
VAT receivable	267	504
Others	252	1,076
	7,810	6,719

NOTE 6 – PROVISIONS

Provisions as at 31 December 2011 amounted to TSEK 36,403 (TSEK 36,403) and related to corporate income tax.

NOTE 7 – ACCRUED EXPENSES AND PREPAID INCOME

TSEK	31 December 2011	31 December 2010
Social security charges	349	276
Directors fees	194	169
Board remuneration for special assignments	–	900
Audit	942	1,212
Travel	575	–
Other	682	568
	2,742	3,125

NOTE 8 – FINANCIAL INSTRUMENTS BY CATEGORY

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

TSEK	Loan receivables and other receivables	Financial liabilities valued at amortised cost
Assets		
Other receivables due from Group companies	7,291	
Cash and cash equivalents	3,849	
Liabilities		
Payables to Group companies		673,988
Trade Payables		1,171
	11,140	**675,159**

NOTE 9 – PLEDGED ASSETS, CONTINGENT LIABILITIES AND ASSETS

Please see Group Note 28 and 29 for details.

NOTE 10 – REMUNERATION TO THE AUDITOR

TSEK	2011	2010
PricewaterhouseCoopers		
Audit fees	1,424	1,296
Audit related	–	80
	1,424	1,376

There has been no remuneration to other auditors than PricewaterhouseCoopers.

NOTE 11 – SHARES IN SUBSIDIARIES

TSEK	Registration number	Registered office	Total number of shares issued	Percentage owned	Nominal value per share	Book amount 31 December 2011	Book amount 31 December 2010
Directly owned							
Lundin Energy AB (under liquidation)	556619-2299	Stockholm, Sweden	10,000,000	100	SEK 0.01	100	100
Lundin Petroleum BV	27254196	The Hague, Netherlands	181	100	EUR 100.00	7,871,847	7,871,847
						7,871,947	7,871,947
Indirectly owned							
Lundin Norway AS	986 209 409	Lysaker, Norway	4,930,000	100	NOK 100.00		
Lundin Netherlands BV	24106565	The Hague, Netherlands	6,000	100	EUR 450.00		
Lundin Tunisia BV	27284355	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Exploration BV	27273727	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Marine BV	27275508	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	27290262	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Ventures BV	27290568	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Vietnam BV (under liquidation)	27266083	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Cambodia BV (under liquidation)	27292990	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Malaysia BV	27306815	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Netherlands Facilities BV	27324007	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Petroleum SA	1731/1999	Collonge-Bellerive, Switzerland	1,000	100	CHF 100.00		
Lundin Services BV	27260264	The Hague, Netherlands	180	100	EUR 100.00		
Lundin Ventures XVII BV	53732855	The Hague, Netherlands	18,000	100	EUR1.00		
Lundin Holdings SA	442423448	Montmirail, France	1,853,700	100	EUR 10.00		
– Lundin International SA	572199164	Montmirail, France	1,721,855	99.86	EUR 15.00		
– Lundin Gascogne SNC	419619077	Montmirail, France	100	100	EUR 152.45		
Lundin Indonesia Holding BV	27290577	The Hague, Netherlands	18,000	100	EUR 1.00		
– Lundin Lematang BV	24262562	The Hague, Netherlands	40	100	EUR 450.00		
– Lundin Oil & Gas BV	24262561	The Hague, Netherlands	40	100	EUR 450.00		
– Lundin Sareba BV	24278356	The Hague, Netherlands	40	100	EUR 450.00		
– Lundin Rangkas BV	27314247	The Hague, Netherlands	18,000	100	EUR 1.00		
– Lundin Cakalang BV	27314288	The Hague, Netherlands	18,000	100	EUR 1.00		
– Lundin Baronang BV	27314235	The Hague, Netherlands	18,000	100	EUR 1.00		
– Lundin South Sokang BV	27324012	The Hague, Netherlands	18,000	100	EUR 1.00		
– Lundin Gurita BV	27296469	The Hague, Netherlands	18,000	100	EUR 1.00		
Lundin Russia BV	27290574	The Hague, Netherlands	18,000	100	EUR 1.00		
– Lundin Russia Services BV	27292018	The Hague, Netherlands	18,000	100	EUR 1.00		
– Lundin Russia Ltd.	656565-4	Vancouver, Canada	55,855,414	100	CAD 1.00		
– Culmore Holding Ltd	162316	Nicosia, Cyprus	1,002	100	CYP 1.00		
– Lundin Lagansky BV	27292984	The Hague, Netherlands	18,000	100	EUR 1.00		
– Mintley Caspian Ltd	160901	Nicosia, Cyprus	5,000	70	CYP 1.00		
– LLC PetroResurs	1047796031733	Moscow, Russia	1	100	RUR 10,000		
– Lundin Komi BV	53732561	The Hague, Netherlands	18,000	100	EUR1.00		

During 2011 the 100% investment in Lundin Netherlands Holding BV, Lundin Banyumas BV, Lundin Nigeria Ltd and LundinNeft LLC were liquidated. Lundin Data Services BV was sold during 2011.

Lundin Energy AB, Lundin Vietnam BV and Lundin Cambodia BV were under liquidation as at 31 December 2011.

BOARD ASSURANCE

At 11 April 2012, the Board of Directors and the President of Lundin Petroleum AB have adopted this annual report for the financial year ended 31 December 2011.

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, 11 April 2012

Lundin Petroleum AB (publ) Org. Nr. 556610-8055

Ian H. Lundin Chairman	**C. Ashley Heppenstall** President & CEO	**Lukas H. Lundin** Board Member	**William A. Rand** Board Member
Magnus Unger Board Member	**Asbjørn Larsen** Board Member	**Dambisa F. Moyo** Board Member	**Kristin Færøvik** Board Member

pwc

Auditor's report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Lundin Petroleum AB (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 64 - 102.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards , as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Lundin Petroleum AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President are liable to the company. We also examined whether any member of the Board of Directors or the President have, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 11 April 2012

PricewaterhouseCoopers AB

Bo Hjalmarsson	Bo Karlsson
Authorized Public Accountant	Authorized Public Accountant
Lead Auditor	

FIVE YEAR FINANCIAL DATA

Income Statement Summary (TUSD)	2011	2010	2009	2008	2007
Continuing operations					
Operating income	1,269,515	798,599	571,835	628,939	435,898
Production costs	-193,104	-157,065	-155,311	-198,269	-151,228
Depletion	-165,138	-145,316	-118,128	-95,046	-83,228
Exploration costs	-140,027	-127,534	-134,792	-110,023	-29,218
Impairment costs	–	–	-644,766	-78,572	–
Gross profit	**771,246**	**368,684**	**-481,162**	**147,029**	**172,224**
Gain on sale of assets	–	66,126	4,589	20,481	–
General, administration and depreciation expenses	–67,022	-40,960	-27,619	-19,684	-24,595
Operating profit/(loss)	**704,224**	**393,850**	**-504,192**	**147,826**	**147,629**
Result from financial investments	25,433	-12,507	29,559	-110,121	24,644
Result from share in associated company	–	–	-25,504	4,480	–
Profit/(loss) before tax	**729,657**	**381,343**	**-500,137**	**42,185**	**172,273**
Tax	-574,413	-251,865	-45,669	-40,824	-83,015
Net result from continuing operations	**155,244**	**129,478**	**-545,806**	**1,361**	**89,258**
Discontinued operations					
Net result from discontinued operations	–	368,992	8,737	59,042	51,828
Net result	**155,244**	**498,470**	**-537,069**	**60,403**	**141,086**
Net result attributable to the shareholders of the Parent Company:	160,137	511,875	-411,268	93,958	141,750
Net result attributable to non-controlling interest:	-4,893	-13,405	-125,801	-33,555	-664
NET RESULT	**155,244**	**498,470**	**-537,069**	**60,403**	**141,086**

Balance Sheet Summary (TUSD)	2011	2010	2009	2008	2007
Tangible fixed assets	2,345,354	2,014,242	2,556,275	2,704,556	2,631,890
Other non-current assets	46,586	129,944	119,093	259,515	334,685
Current assets	298,004	284,950	275,290	272,619	316,021
TOTAL ASSETS	**2,689,944**	**2,429,136**	**2,950,658**	**3,236,690**	**3,282,596**
Shareholders' equity	1,000,882	920,416	1,141,658	1,462,442	1,513,340
Non-controlling interest	69,424	77,365	95,555	179,793	209,893
Total equity	**1,070,306**	**997,781**	**1,237,213**	**1,642,235**	**1,723,233**
Provisions	987,306	769,687	897,622	779,370	856,547
Interest bearing debt	228,830	476,671	558,327	555,626	427,243
Current liabilities	402,815	184,997	257,496	259,459	275,573
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	**2,689,944**	**2,429,136**	**2,950,658**	**3,236,690**	**3,282,596**

KEY FINANCIAL DATA

Key financial data is based on continuing operations.

Financial data (TUSD)	2011	2010	2009	2008	2007
Operating income	1,269,515	798,599	571,835	628,939	435,898
EBITDA	1,012,063	603,450	392,324	414,794	260,076
Net result	155,244	129,478	-545,806	1,361	89,258
Operating cash flow	676,201	573,380	384,511	444,923	273,389

Data per share (USD)					
Shareholders' equity per share	3.22	2.96	3.64	4.67	4.80
Operating cash flow per share	2.17	1.84	1.23	1.41	0.87
Cash flow from operations per share	2.88	1.79	1.56	1.92	1.49
Earnings per share	0.51	0.46	-1.34	0.11	0.28
Earnings per share fully diluted	0.51	0.46	-1.34	0.11	0.28
EBITDA per share fully diluted	3.25	1.93	1.25	1.31	0.82
Dividend per share	–	2.30	–	–	–
Quoted price at the end of the financial period	24.57	12.47	7.95	5.25	10.52
Number of shares issued at period end	317,910,580	317,910,580	317,910,580	317,910,580	315,550,580
Number of shares in circulation at period end	311,027,942	311,027,942	313,420,280	313,420,280	315,550,580
Weighted average number of shares for the period	311,027,942	312,096,990	313,420,280	315,682,981	315,020,401
Weighted average number of shares for the period (fully diluted)	311,027,942	312,096,990	313,420,280	315,682,981	315,409,915

Key ratios (%)					
Return on equity	15	12	-38	–	5
Return on capital employed	53	24	-28	9	8
Net debt/equity ratio	15	36	40	35	21
Equity ratio	40	41	42	51	52
Share of risk capital	69	67	66	71	71
Interest coverage ratio	5,919	1,860	-3,671	734	2,456
Operating cash flow/interest ratio	5,460	2,742	2,561	5,069	4,642
Yield	–	18	–	–	–

KEY RATIO DEFINITIONS

Shareholders' equity per share: Shareholders' equity divided by the number of shares in circulation at period end.

Operating cash flow per share: Operating income less production costs and less current taxes divided by the weighted average number of shares for the period.

Cash flow from operations per share: Cash flow from operations in accordance with the consolidated statement of cash flow divided by the weighted average number of shares for the period.

Earnings per share: Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period.

Earnings per share fully diluted: Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the period after considering the dilution effect of outstanding warrants.

EBITDA per share fully diluted: 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, depreciation of other assets and gain on sale of assets.

Quoted price at the end of the financial period: The quoted price in USD is based on the quoted price in SEK converted in USD against the closing rate of the period.

Weighted average number of shares for the period: The number of shares at the beginning of the period with changes in the number of shares weighted for the proportion of the period they are in issue.

Return on equity: Net result divided by average total equity.

Return on capital employed: 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).

Net debt/equity ratio: Net interest bearing liabilities divided by shareholders' equity.

Equity ratio: Total equity divided by the balance sheet total.

Share of risk capital: The sum of the total equity and the deferred tax provision divided by the balance sheet total.

Interest coverage ratio: Result after financial items plus interest expenses plus/less exchange differences on financial loans divided by interest expenses.

Operating cash flow/interest ratio: Operating income less production costs and less current taxes divided by the interest charge for the period.

Yield: dividend per share in relation to quoted share price at the end of the financial period.

RESERVE QUANTITY INFORMATION

Proved and probable oil reserves	Total Mbbl	United Kingdom Mbbl	France Mbbl	Netherlands Mbbl	Tunisia Mbbl	Norway Mbbl	Indonesia Mbbl	Russia Mbbl
1 January 2010	221,080	73,745	21,962	63	261	100,186	7,975	16,888
Changes during the year								
– acquisitions	–	–	–	–	–	–	–	–
– sales	-80,175	-72,933	–	–	–	–	-7,242	–
– revisions	26,653	–	1,509	25	625	23,368	–	1,126
– extensions and discoveries	–	–	–	–	–	–	–	–
– production	-10,477	-812	-1,161	-2	-372	-6,076	-733	-1,321
31 December 2010	157,081	–	22,310	86	514	117,478	–	16,693
2011								
Changes during the year								
– acquisitions	4,037	–	–	–	–	4,037	–	–
– sales	–	–	–	–	–	–	–	–
– revisions	19,194	–	2,253	-9	-117	16,578	–	489
– extensions and discoveries	12,934	–	1,314	–	120	11,500	–	–
– production	-10,238	–	-1,119	–	-267	-7,713	–	-1,139
31 December 2011	183,008	–	24,758	77	250	141,880	–	16,043

Proved and probable gas reserves	Total MMscf[1]	United Kingdom MMscf	Netherlands MMscf	Norway MMscf	Indonesia MMscf
1 January 2010	208,739	30,607	19,897	124,163	34,072
Changes during the year					
– acquisitions	–	–	–	–	–
– sales	-32,108	-30,607	–	–	-1,501
– revisions	9,582	–	5,859	9,459	-5,736
– extensions and discoveries	–	–	–	–	–
– production	-8,780	–	-4,530	-3,324	-926
31 December 2010	177,433	–	21,226	130,298	25,909
2011					
Changes during the year					
– acquisitions	–	–	–	–	–
– sales	–	–	–	–	–
– revisions	-9,955	–	1,141	-11,182	86
– extensions and discoveries	10,230	–	3,130	7,100	–
– production	-11,479	–	-4,350	-4,587	-2,542
31 December 2011	166,229	–	21,148	121,629	23,453

[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 2011, 37 Mbbl (33 Mbbl) are attributable to non-controlling shareholders of other subsidiaries of the Group.

The reserves as at 31 December 2011 have been audited by Gaffney, Cline & Associates.

ANALYST COVERAGE

Bank/Broker	Analyst	Contact
ABG Sundal Collier	Anders Holte	anders.holte@abgsc.no
Arctic Securities	Magnus Berg	magnus.berg@arcticsec.no
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Collins Stewart	Thomas Martin	tmartin@collinsstewart.com
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Swedbank/First Securities	Teodor Nilsen	teodor.nilsen@first.no

SHAREHOLDER INFORMATION

FINANCIAL REPORTING DATES

Lundin Petroleum will publish the following interim reports:

» 9 May 2012	Three month report (January – March 2012)
» 10 May 2012	AGM 2012
» 1 August 2012	Six month report (January – June 2012)
» 31 October 2012	Nine month report (January – September 2012)
» February 2013	Year End report 2012

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' register and who have duly notified their intention to attend the AGM may do so and vote in accordance with their level of shareholding. Shareholders may also attend the AGM through a proxy and a shareholder shall in such a case issue a written and dated proxy. A proxy form is available on the website www.lundin-petroleum.com.

Lundin Petroleum's AGM of the shareholders is to be held on Thursday, 10 May 2012 at 13.00 (Swedish time). Location: Vinterträdgården, Grand Hotel, Södra Blasieholmshamnen 8 in Stockholm.

Attendance at the meeting

Shareholders wishing to attend the meeting shall:

» be recorded in the share register maintained by Euroclear Sweden AB on Friday 4 May 2012; and
» notify Lundin Petroleum of their intention to attend the meeting no later than Friday 4 May 2012.

Confirmation of attendance

» in writing to Lundin Petroleum AB, c/o Computershare AB, P.O. Box 610, SE 182 16 Danderyd, Sweden
» by telephone: +46-8-51 80 15 54
» by e-mail: info@computershare.se
» via the website www.lundin-petroleum.com

When registering please indicate your name, social security number/ company registration number, registered shareholding, address and day time telephone number.

Shareholders whose shares are registered in the name of a nominee must temporarily register the shares in their own names in the shareholders' register to be able to attend the meeting and exercise their voting rights. Such registration must be effected by Friday 4 May 2012.

OIL RELATED MEASUREMENTS

bbl	Barrel (1 barrel = 159 litres)
bcf	Billion cubic feet (1 cubic foot = 0.028 m^3)
Bn	Billion
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
Bn boe	Billion barrels of oil equivalents
Mbbl	Thousand barrels (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
MMscfd	Million standard cubic feet per day
MMbtu	Million British thermal units

CURRENCY ABBREVIATIONS

CHF	Swiss Franc
EUR	Euro
GBP	British Pound
NOK	Norwegian Kroner
RUR	Russian Rouble
SEK	Swedish Kroner
USD	US Dollar
TCHF	Thousand CHF
TSEK	Thousand SEK
TUSD	Thousand USD
MSEK	Million SEK
MUSD	Million USD

This information has been made public in accordance with the Securities Market Act (SFS 2007:528) and/or the Financial Instruments Trading Act (SFS 1991:980).

FORWARD-LOOKING STATEMENTS

Certain statements made and information contained herein constitute "forward-looking information" (within the meaning of applicable securities legislation). Such statements and information (together, "forward-looking statements") relate to future events, including the Company's future performance, business prospects or opportunities. Forward-looking statements include, but are not limited to, statements with respect to estimates of reserves and / or resources, future production levels, future capital expenditures and their allocation to exploration and development activities, future drilling and other exploration and development activities. Ultimate recovery of reserves or resources are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

All statements other than statements of historical fact may be forward-looking statements. Statements concerning proven and probable reserves and resource estimates may also be deemed to constitute forward-looking statements and reflect conclusions that are based on certain assumptions that the reserves and resources can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements". Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations and assumptions will prove to be correct and such forward-looking statements should not be relied upon. These statements speak only as on the date of this release and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. These forward-looking statements involve risks and uncertainties relating to, among other things, operational risks (including exploration and development risks), productions costs, availability of drilling equipment, reliance on key personnel, reserve estimates, health, safety and environmental issues, legal risks and regulatory changes, competition, geopolitical risk, and financial risks. These risks and uncertainties are described in more detail under the heading "Risks and Risk Management" and elsewhere in the Company's annual report. Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements included in this new release are expressly qualified by this cautionary statement.

RESERVES AND RESOURCES

Unless otherwise stated, Lundin Petroleum's reserve and resource estimates are as at 31 December 2011, and have been prepared and audited in accordance with National Instrument 51–101 Standards of Disclosure for Oil and Gas Activities ("NI 51–101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). Unless otherwise stated, all reserves estimates in this Annual Report are the aggregate of "Proved Reserves" and "Probable Reserves", together also known as "2P Reserves". For further information on reserve and resource classifications, see "Reserves and Resources" on pages 28 to 30.

BOEs

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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