Lundin Petroleum

Letter to shareholders

Stockholm 23 March 2020

Dear Shareholders, colleagues and friends,

We are living in extraordinarily challenging times with the spread of the coronavirus, its economic impact and the recent oil price collapse. Our focus is of course on reducing the risk of spreading the virus and safeguarding the well-being of our employees and contractors, whilst at the same time minimising the impact on our business.

Detailed contingency plans have been established to mitigate the risk and as the situation evolves, we will react as necessary to take whatever appropriate action is required to minimise the risk to our people and operations.

As we are all presently restricted from travelling, and it is clearly not "business as usual", I wanted to share with you some facts and thoughts about the Company today and some of the measures we have implemented.

Let me begin by saying that today the Company is more resilient than ever to a low oil price environment. There are many reasons for this but perhaps, the best way to illustrate our resilience against a low oil price is by looking at our average breakeven oil price to achieve free cash flow neutrality before debt repayment and dividends for the next seven years. This stands at about USD 17 per barrel of oil equivalent (boe) based on our 2P profile. This low breakeven price is the result of our producing fields having one of the lowest Operating Costs in our industry with a long-term guidance of USD 3.2 to 4.2 per boe, coupled with world class assets such as Johan Sverdrup and Edvard Grieg. Together, these two assets account for more than ninety percent of our production. It is also worth noting that our remaining capital spend to produce out our proven plus probable reserves is less than USD 3 per barrel.

The Company is in good health with a robust balance sheet and although the Board of Directors has made the decision to amend its dividend proposal, this has been done in order to maintain financial prudence and provide us with further liquidity flexibility in this challenging market. We are now clearly benefitting from our strong production growth, capital discipline and efficiency focus over the recent years. But despite our world class assets we must not become complacent and must continue to pro-actively take the necessary action to reduce risk, protect our business and operations and to ensure our Company remains robust in the long-term. We have been here before and we have an experienced team that know how to manage adversity.

The current oil price downturn has been exacerbated by the OPEC+ organisation not reaching an agreement to reduce production output and we are not expecting the parties to get back to the negotiating table anytime soon. A likely scenario is that the market will eventually reach a balance between demand and supply as a result of drastic capital spend reductions and certain fields having to shut-down production because of negative operating netbacks. Only then can we expect a recovery in the oil prices. It is difficult to predict when that moment will occur, but it will. On the demand side, the IEA's latest oil demand growth forecast for 2020 is expected to contract for the first time since the global recession of 2009, but to sharply rebound in 2021 to over +2 million barrels per day. It is not unreasonable to expect a strengthening of the oil prices when we move into 2021. Until then we need to demonstrate that the Company will remain resilient to a lower price environment, keep a strong financial foundation and maintain a leadership position. We are coming from a position of strength and this is exactly what we will do.

But back to the actions we are taking in this challenging environment:

- The coronavirus measures we are taking are aligned with the advice from the health authorities in each of the countries where we have people – these involve multiple actions to reduce risk as well as allowing everyone to work from home and continue to be able to operate efficiently.

- For our offshore operations we are engaged in a strong coordinated industry response, that revolves around minimising the risk of coronavirus infected personnel travelling offshore, and, in the case of a suspected infection offshore, to isolate and transport to shore as soon as possible. In parallel, the Norwegian authorities have introduced certain exceptional measures to help deal with the situation. I am very impressed at how the authorities, the unions, the companies and our employees are dealing with the situation.

- Beyond the risk to our people, the most significant risk to the Company is a potential shutdown of production due to a coronavirus infection amongst the offshore workforce at one of our two key producing sites, Johan Sverdrup and Edvard Grieg. To minimise this risk, we are down-manning offshore personnel where possible. The objective here is to mitigate any potential shutdown risk while maintaining a minimum level of activity which will allow us to produce, maintain and plan the anticipated and most important activities on the platform.

- Specifically, Edvard Grieg personnel will be kept at the minimum level required, whilst preserving the infill drilling programme and installation of the Solveig/Rolvsnes subsea equipment, which form the main parts of the programme as presented at the Company's Capital Market Day in January 2020. Similar actions are being taken at Alvheim and Johan Sverdrup, preserving key activities and reorganising the phasing of the activities.

- In response to the oil price downturn we have taken swift action to identify areas we can improve our near-term cash flow without causing long-term disruption. Cost reductions of approximately USD 170 million (including G&A) have already been identified and will be implemented for 2020 through freezing and or postponing activities, as well as other cost mitigation exercises. This is a 12% saving on our previous Capex. We are also looking at other measures to further strengthen our liquidity position such as deferring further non-committed projects.

Overall, I am very pleased with how our organisation has responded to these challenging times and our team is focused on swiftly adapting to this changing environment. I am very grateful to them all, the onshore and offshore staff, for their extraordinary team spirit and professionalism. As the founder of our Company, Adolf Lundin, used to tell us: "*when the going gets tough, the tough get going*". This has never been truer than today.

On the operational side, Edvard Grieg continues to outperform both below and above surface, and we continue to see limited water production. At Johan Sverdrup we continue to be very pleased with the progress achieved on the field ramp-up and drilling activities as well as the Johan Sverdrup Phase 2 project. Progress on Solveig and the Rolvsnes extended well test projects is currently on plan and the offshore installation of the pipelines and subsea equipment has just commenced. Should we see slippage in the Edvard Grieg Area projects it will not impact 2021 production guidance as we have excess well capacity on the Edvard Grieg field. Based on today's performance our 2020, as well as our long-term production, guidance remains unchanged and firmly on track.

We also continue to be active in our organic growth strategy and I was very pleased with the recent announcement of the "Iving/Evra" discoveries where we hold a 40 percent interest. Our organic growth strategy has delivered, is delivering and will continue to deliver value to shareholders. In today's environment, and going forward, we will focus our efforts on new projects that deliver strong double-digit rates of return with low project break-even oil prices and are in line with our Decarbonisation Strategy that targets carbon neutrality by 2030.

On the finance side, the current environment will clearly impact our Operating Cash Flow, EBITDA and resulting Free Cash Flow. Importantly, as I mentioned above, our average breakeven to achieve free cash flow neutrality for the next seven years stands at USD 17 per boe which will allow us to continue to fund our committed projects at low oil price levels while utilising our existing reserves base lending facility, which today is drawn at approximately USD 3.8 billion. In relation to dividends and considering the short to medium term uncertainties in today's world, the Board of Directors have decided to reduce the current dividend proposal from USD 1.80 per share to USD 1.00 per share. I believe this is a prudent approach in these uncertain times that will further strengthen our balance sheet and give us more flexibility in how we deploy our capital. Nevertheless, should the current macroeconomic environment change the Board of Directors will further review the situation and, as required, revisit our existing dividend policy. Our ability to distribute cash to our shareholders in a sustainable way will continue to be based upon our Free Cash Flow generation, debt gearing levels and the medium to long-term macroeconomic outlook.

While we remain vigilant and prepared for many different eventualities, today, our strategy remains broadly unchanged and our firm intention is to deliver on our 2020 work programme as presented at our last Capital Market Day in January 2020 whilst deferring non-committed projects. We will, along the way, continue to apply very strict capital discipline on the business to preserve our liquidity position and further reduce and re-phase our capital spend without disrupting our business plans.

Over the last ten years we have transformed Lundin Petroleum through high quality organic growth driven by highly efficient operations, strong safety performance, top quartile ESG ratings and world class assets with record low operating costs along with one of the lowest carbon intensities per barrel produced. This has resulted in a significant strengthening of the Company's financial position which now offers significant resilience in a lower oil price environment. Whilst the current state of affairs has a significant impact on the world economies and oil demand, it is not without precedent. We have a highly experienced team that know how to deal with adversity, we are taking the necessary action to lead Lundin Petroleum from strength to strength and to maintain its leadership position.

To my colleagues I am immensely grateful for the work accomplished and for the way you are responding to these challenging times. I feel truly privileged to work with such a great team. To you, my fellow shareholders, thank you for your confidence and continued support. I am convinced that we will come out stronger than ever from this latest storm. Above all, stay healthy and together we will prevail!

Alex Schneiter
President & CEO of Lundin Petroleum