

CORPORATE GOVERNANCE REPORT

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

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

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

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

The Code of Governance is based on the tradition of self-regulation and acts as a complement to the corporate governance rules contained in the Swedish Companies Act and other regulations. This document was issued in late 2004 by the Code Group on behalf of the Swedish Government (ref: SOU 2004:130) and is, since 1 July 2005, integrated into the listing agreement with the OMX Nordic Exchange Stockholm. The Code of Governance has been subject to a review and a revised Code of Governance applies as of 1 July 2008. Among other things, the Code of Governance has been simplified and its application has been extended to all companies whose shares are traded on a regulated market in Sweden.

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

The Exchange Rules

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

The Listing Agreement is an agreement between the OMX and the Company regarding the requirements of being listed at the OMX.

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

The Code is a set of principles formulated by the Board to give overall guidance to employees, contractors and partners on how the Company is to conduct its business. The Code was adopted at the formation of Lundin Petroleum in 2001. Compliance with the Code is reviewed on an annual basis by

the Board. The Code can be found on the Company's website www.lundin-petroleum.com.

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

Lundin Petroleum's policies & Management System

While the Code provides the Company's ethical framework, dedicated policies have been developed internally to provide specific guidelines applicable in the different business areas. The Company has policies covering Communication, Finance, HSE (Health, Safety and Environment) Information Technology, Internal Control and Personnel. It also has a dedicated Health, Safety and Environmental Management System ("Green Book"), modelled after the ISO 14001 standard, which gives guidance to Management regarding the Company's intentions and expectations in HSE matters.

The Board ensures the quality of the financial reports through a system of internal controls, as outlined in the Board's report on Internal Control for 2008 on page 35–37, and maintains appropriate communication with the Company's auditors through its Audit Committee, as further described on page 27.

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

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

THE ANNUAL GENERAL MEETING

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

NOMINATION PROCESS

Election to the Board

In accordance with the principles resolved by the 2008 AGM, the Nomination Committee consists of a total of five members, representing four of the larger shareholders; KG Lindvall of Swedbank Robur, Ossian Ekdahl of the First Swedish National Pension Fund, Carl Rosén of the Second Swedish National Pension Fund, Ian H. Lundin of Landor Participations Inc. and Lorito Holdings Ltd, also Chairman of Lundin Petroleum, and Magnus Unger (non-executive Board member) who acts as Chairman of the Committee. Magnus Unger was unanimously chosen as the Chairman as it was determined that he had the most thorough knowledge both of the Company and the Swedish requirements and could thus best represent the shareholders' interests. The names of the members of the Nomination Committee were

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announced and posted on the Company's website on 26 September 2008.

In addition to proposing members to the Board of Directors, the Nomination Committee makes recommendations to the AGM regarding fees for the Chairman and other Board members and regarding fees for Board Committee work. The Nomination Committee further presents proposals on the election and remuneration of auditors, and on the election of the Chairman of the AGM.

In furtherance of the Nomination Committee's responsibility to propose members to the Board to the 2009 AGM, the Chairman of the Board undertook in 2008 an evaluation of the work of the Board and its members through a questionnaire, and presented the results and conclusions to the Nomination Committee.

No remuneration was paid to the Chairman or any other Committee member for their work on the Nomination Committee. There were two Nomination Committee meetings during the year.

Election of auditors

Klas Brand (elected 2001) and Bo Hjalmarsson (elected 2006) of PricewaterhouseCoopers AB are auditors for the period until the end of the 2009 AGM. Bo Karlsson (elected 2006) of PricewaterhouseCoopers AB is deputy auditor for the period until the end of the 2009 AGM. The Nomination Committee has proposed that PricewaterhouseCoopers AB be elected auditor of the Company, with Bo Hjalmarsson as the auditor in charge, at the 2009 AGM for the period until the 2013 AGM.

THE BOARD OF DIRECTORS Composition of the Board

According to the Articles of Association, the Board shall consist of a minimum of three and a maximum of ten directors. Six board members were elected at the 2008 AGM. The AGM also appointed the Chairman. No deputy directors have been appointed and the CEO is a member of the Board. There are no members appointed by employee organisations. The composition of the Board meets the independence requirements of both the OMX and the Code of Governance. The Chairman of the Board is not employed by the Company, does not receive any salary from the Company and is not eligible for participation in the Company's incentive programmes. The Chairman upholds the reporting instructions for the Management, as drawn up by the CEO and as approved by the Board of Directors, however, he does not take part in the day-to-day decision-making concerning the operations of the Company.

The Board adheres to a set of rules and procedures, the Rules of Procedure, which conform to the terms of the Code

of Governance and which are updated on a regular basis to take into account changes in legislation, as well as the structure and business of the Company.

Remuneration of Board members

The remuneration of the Chairman of the Board and other Board members follows the resolution adopted by the AGM. The remuneration of the Board of Directors is stated in the notes to the Annual Report – see Note 41, Remuneration to Board of Directors and Management.

Rules of Procedure of the Board

The Rules of Procedure are adopted annually and reviewed when deemed necessary. The last comprehensive revision took place in 2005 in order for the rules to be in full conformity with the Code of Governance.

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

The functions of the Board

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

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

The Board of Directors ensures that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general include satisfactory systems of internal control.

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

Board meetings and work

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

- ▶ Review and approval of the minutes from the preceding meeting
- ▶ Report of the CEO regarding:
 - status of the business
 - prospects
 - economic and commercial report
 - financial report
- ▶ Reports from the Committees of the Board of Directors
- ▶ Items related to decisions (e.g. concerning investments, acquisition and sale of assets, formation of subsidiaries and increases in capital of subsidiaries, loans and guarantees and structural and organisational matters)
- ▶ Miscellaneous issues of material importance to the Company

During 2008, ten board meetings took place, including the statutory meeting. One executive session was held, whereby the Board was given the opportunity to interact directly with the Management and visit the Alvheim FPSO, offshore Norway. In addition to the matters mentioned above, the Board's work in 2008 included strategic discussions on proposed asset disposals and acquisitions and on new licence applications and production sharing agreements. The Board monitors the Company's operations and financial positions on continuous basis. The Board was regularly updated on 2008 operations and financial issues and reviewed and approved the 2009 budget and work programme. The Board further decided on repurchases of the Company's shares, in accordance with the approval granted of the 2008 AGM, to optimise Lundin Petroleum's capital structure and to secure Lundin Petroleum's costs in relation to its share price related remuneration obligations.

Committees

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

Compensation Committee

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

The remuneration of the Management is further described in Note 41 on page 72.

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

Audit Committee

The function of the Audit Committee is to review on behalf of the Board the Company's quarterly (Q1 and Q3) interim financial statements, review and make recommendations to the Board in relation to the Company's six month and yearly financial statements, review the audit fees, ensure maintenance of and compliance with the Company's internal control systems and liaise with the Group's external auditors as part of the annual audit process. The work of the Audit Committee is also described in the Internal Control report on pages 35–37.

Members: William A. Rand (Chairman), Magnus Unger and Asbjørn Larsen

Meeting attendance

Name	Board of Directors	Audit Committee	Compensation Committee
Ian H. Lundin ¹	10/10	2/4	
C. Ashley Heppenstall	10/10		
Lukas H. Lundin	10/10		2/2
William A. Rand	10/10	5/6	2/2
Magnus Unger	9/10	6/6	2/2
Asbjørn Larsen ¹	5/5	2/2	

¹ Ian H. Lundin was a member of the Audit Committee until 7 November 2008. Asbjørn Larsen was a member of the Board as from 13 May 2008 and the Audit Committee as from 7 November 2008.

Evaluation of the Board's work

A formal review of the work of the Board of Directors was conducted in 2008. Through a questionnaire submitted to all Board members, different aspects of the Board of Directors' work were considered including working procedures, working climate, need of special competence and information. The results and conclusions were presented to the Nomination Committee. The overall conclusions from the review process were the following:

- ▶ Existing composition of the Board, including the current Committee structure, is good for the tasks at hand
- ▶ Presentation materials and Board meetings are of professional quality
- ▶ Positive atmosphere during Board meetings conducive to open, constructive and frank discussions during meetings

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

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THE MANAGEMENT AND AUDITORS

Management and Company structure

The President and CEO of the Company, who is a member of both the Board of Directors and Management, is responsible for managing the day-to-day operations of the Lundin Petroleum Group. In addition, he is responsible for informing the Board of Directors to ensure that the Board's decisions are well-founded. The President and CEO is assisted in his functions by the Management. All managers of the Company are responsible for working in compliance with the Company's policies and the Code of Conduct.

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

Auditors

PricewaterhouseCoopers AB
Lilla Bommen 2
Gothenburg, Sweden

Klas Brand
Born 1956
Authorised Public Accountant, PricewaterhouseCoopers AB

Bo Hjalmarsson
Born 1960
Authorised Public Accountant, PricewaterhouseCoopers AB

Bo Karlsson
Born 1966
Deputy Auditor, PricewaterhouseCoopers AB

Name	Function	Elected	Audit Committee	Compensation Committee	Independent of the Company and the executive Management	Independent of the Company's major shareholders
Ian H. Lundin	Chairman	2001	Yes ¹		Yes ²	No ³
C. Ashley Heppenstall	President & CEO	2001			No ⁴	Yes ⁵
Lukas H. Lundin	Director	2001		Yes	Yes	No ⁶
William A. Rand	Director	2001	Yes	Yes	Yes	No ⁷
Magnus Unger	Director	2001	Yes	Yes	Yes	Yes
Asbjørn Larsen	Director	2008	Yes ¹		Yes	Yes
<i>Dambisa F. Moyo⁸</i>	<i>Proposed Director</i>	<i>2009</i>			Yes	Yes

¹ Ian H. Lundin was a member of the Audit Committee until 7 November 2008. Asbjørn Larsen was a member of the Board as from 13 May 2008 and the Audit Committee as from 7 November 2008

² Ian H. Lundin has been regularly retained by the Management to perform remunerated work duties which fall outside the scope of the regular work of the Board, e.g. in connection with the Company's major transactions. It is the Nomination Committee's opinion that despite his work, he remains independent of the Company and the executive Management.

³ Ian H. Lundin is the settler of a trust that owns Landor Participations Inc., an investment company that holds 13,538,956 shares in the Company, and he is a member of the Lundin family that holds through a family trust Lorito Holdings Ltd., which holds 76,342,895 shares in the Company and Zebra Holdings Inc, which holds 10,844,643 shares in the Company.

⁴ C. Ashley Heppenstall is the President & CEO of Lundin Petroleum.

⁵ C. Ashley Heppenstall has no other business relations with the Company's major shareholders. The Nomination Committee's opinion is that he should be deemed independent of the Company's major shareholders.

⁶ Lukas H. Lundin is a member of the Lundin family that holds through a family trust Lorito Holdings Ltd., which holds 76,342,895 shares in the Company and Zebra Holdings Inc, which holds 10,844,643 shares in the Company.

⁷ William A. Rand is in the Nomination Committee's opinion deemed not independent of the Company's major shareholders since he holds directorships in a number of listed companies in which the Lundin family, through a family trust, holds ten per cent or more of the share capital and voting rights.

⁸ Lundin Petroleum's Nomination Committee will propose to the 2009 AGM that Dambisa F. Moyo be elected as a new member of the Board of Directors.

All shareholdings are as at 31 December 2008.