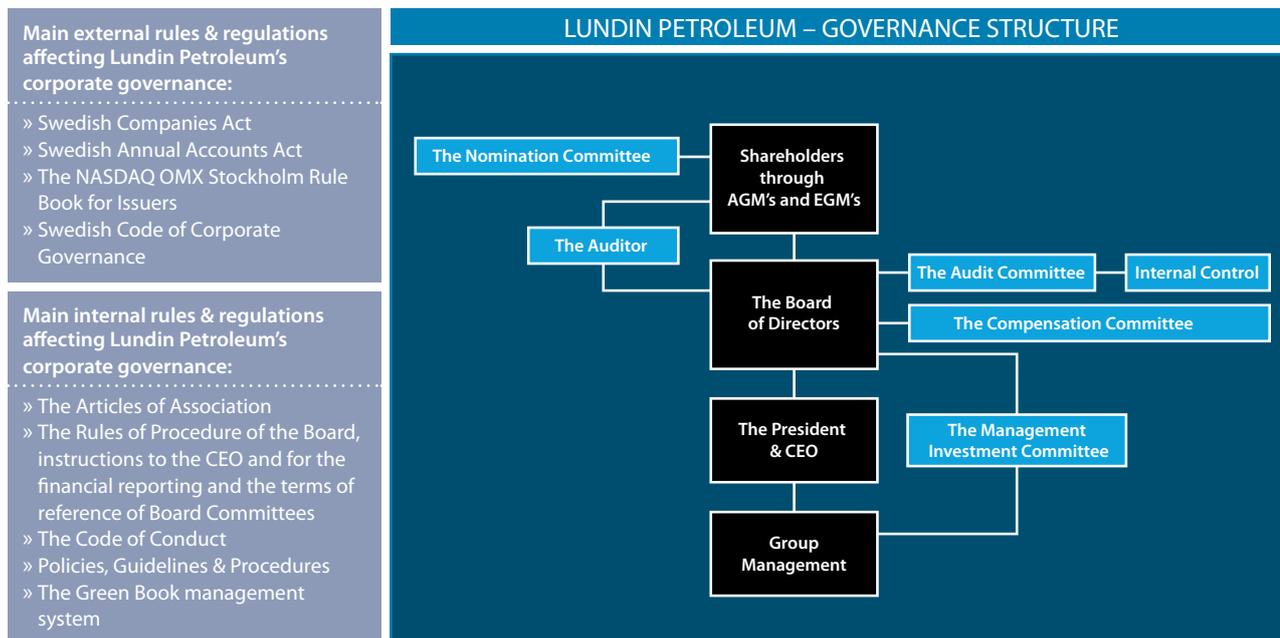


# CORPORATE GOVERNANCE REPORT



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

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

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

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

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

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

### The Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") is based on the tradition of self-regulation and acts as a complement to the corporate governance rules contained in the Swedish Companies Act, the Annual Accounts Act and other regulations such as the Rule Book for Issuers and good stock market practice. The Code first entered into force on 1 July 2005 and has since its introduction been subject to two major revisions. The first revised Code entered into force on 1 July 2008 and the second revised

Code, adapted to new EU and Swedish regulations, entered into force on 1 February 2010. Certain rules regarding remuneration and independence of directors, as well as audit committees, will become applicable in stages during the course of 2010.

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

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

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

### Lundin Petroleum's Articles of Association

Lundin Petroleum's Articles of Association form the basis of the governance of the Company's operations. The Articles of Association set forth the Company's name, the seat of the Board, the object of the business activities, the shares and share capital

## CORPORATE GOVERNANCE REPORT

of the Company and contain rules with respect to the general meetings of shareholders. The Articles of Association can be found on the Company's website [www.lundin-petroleum.com](http://www.lundin-petroleum.com).

### Lundin Petroleum's Code of Conduct

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

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

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

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

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

### LUNDIN PETROLEUM'S SHARE CAPITAL AND SHAREHOLDERS

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

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

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

### THE GENERAL MEETING OF THE SHAREHOLDERS

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

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

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

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

### The 2009 AGM

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

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

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

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

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

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

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

#### **THE NOMINATION COMMITTEE**

The tasks of the Nomination Committee include making recommendations to the AGM regarding the election of the Chairman and other Board members, fees for the Chairman and other the Board members, including fees for Board committee

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

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

#### **The Nomination Committee for the 2010 AGM**

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

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

#### **THE BOARD OF DIRECTORS**

##### **Composition of the Board**

According to the Articles of Association, the Board shall consist of a minimum of three and a maximum of ten directors with a maximum of three deputies. As mentioned above, seven board members were elected at the 2009 AGM and no deputy directors. The CEO of the Company, C. Ashley Heppenstall, is also

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a member of the Board. There are no members appointed by employee organisations. The Board members are appointed for a one year period until the next AGM.

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

### The Functions of the Board

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

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

The Board ensures that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general include satisfactory systems of internal control. The Board further ensures that there is systematic and structured evaluation of its work on an annual basis.

### The Rules of Procedure of the Board

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

### Board Meetings and Work

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

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

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

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

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

### Evaluation of the Board's Work

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

## » Board structure:

The Board as a whole possesses the right skills and background for addressing issues facing the Company and the existing composition of the Board, including the current Committee structure, is appropriate.

## » Board meetings:

The number of Board meetings is sufficient, the meetings are chaired effectively and the time at the meetings is used efficiently, the meetings are well planned and the Board receives adequate materials in advance of the meetings.

## » Other:

Information provided between meetings is adequate and timely and the staff and related support to the Board and the Committees functions adequately.

### Remuneration of Board Members

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

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

### THE BOARD COMMITTEES

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

#### Compensation Committee

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

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

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

#### Audit Committee

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

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

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

### Board and Committee Meeting Attendance and Remuneration

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

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

<sup>2</sup> Dambisa F. Moyo has been a member of the Board and the Compensation Committee as from 13 May 2009.

## THE MANAGEMENT AND THE AUDITOR

### Management and Company structure

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

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

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

### Management Investment Committee

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

### Auditor Elected at the 2009 AGM

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

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

## Board of Directors

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

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

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

<sup>3</sup> C. Ashley Heppenstall is the President & CEO of Lundin Petroleum.

<sup>4</sup> 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.

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

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

<sup>7</sup> Dambisa F. Moyo has been a member of the Board and the Compensation Committee as from 13 May 2009.

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

## INTERNAL CONTROL AND RISK MANAGEMENT OF FINANCIAL REPORTS

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

The internal control system for financial reporting has been created to ensure the Group's objective for financial reporting is fulfilled. Lundin Petroleum's objective for financial reporting is as follows:

*"The financial reporting objective of Lundin Petroleum is to provide reliable and relevant information for internal and external purposes, in compliance with existing laws and regulations, on a timely and accurate manner."*

An internal control system can only provide reasonable and not absolute assurance against material misstatement or loss, and is designed to manage rather than eliminate the risk of failure to achieve the financial reporting objectives.

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

### Control Environment

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

- » Integrity and ethical values
- » Commitment to the development of financial reporting competencies
- » Management's philosophy and operating style
- » Organisational structure
- » Assignment of authority and responsibility
- » Human resources policies and procedures
- » Participation by those charged with governance (i.e. Board of Directors, Audit Committee)

Through the Code of Conduct adopted by the Board in 2001, the Board has stated the Group's vision and values and the standards of integrity, ethical value and competence at which the Group's employees shall operate. The Board has further approved an anti-fraud policy in 2005 outlining the employees' responsibilities with regard to fraud prevention, what to do if fraud is suspected and what action will be taken by Management in the case of suspected or actual fraud. The inclusion of independent directors within the Board of Directors provides an objective view and monitoring of the Company's processes and application thereof. The Company is constantly reviewing and

developing the existing delegation of authority levels to ensure that they reflect the realisation of the current business needs and objectives. A whistleblowing policy was adopted during 2008 to complement the anti-fraud policy through the provision of a mechanism whereby suspected fraud or other impropriety could be identified. The development and implementation of a Group-wide framework of consistent policies, guidelines and procedures, as part of a strengthening of the management and control function of the Group, has continued in 2009.

The responsibility for maintaining an effective control environment and for operating the system of internal control and risk management is delegated to the CEO and the Group Management at varying levels. All employees are accountable for compliance with these guidelines, principles and values within their areas of control and risk management. Together with laws and external regulations, these internal guidelines form the control environment which is the foundation of the internal control and risk-management process.

### Risk Assessment

Risk assessment includes identifying, sourcing and measuring the risk of material error in the financial reporting and accounting systems in the Group. For further details on the different risks, see the Risk Factors section on page 40.

Lundin Petroleum has reviewed and analysed the risks that exist within the financial reporting process and has structured its internal control systems around the risks identified. The risks have been assessed through a standardised methodology based on likelihood and impact and have been Grouped based on the following main categories; revenue and receivables, procurement and payables, production and inventory, capitalised expenditure and fixed assets, tax, treasury and cash management, financial reporting and Information Systems. Following the identification and evaluation of a risk, a control activity is implemented to minimise the risks in the financial reporting process.

### Control Activities

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

The choice of control activities depends on the nature of the risk identified and the results of a cost-benefit analysis. Developed control activities within Lundin Petroleum include processes for approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets, segregation of duties, policies, guidelines and procedures and Information Systems. The degree of compliance with these control activities indicates the level of risk that exists within the financial reporting process. There are monthly, quarterly and annual financial reporting timetables in place to ensure timely information is made available to Management, enabling them to carry out their responsibilities adequately and efficiently.

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

## CORPORATE GOVERNANCE REPORT

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

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

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

### Information and Communication

Communicating relevant information throughout all levels of the Group and to the appropriate external parties is an important part of internal control. Management has focused on understanding the systems and processes that are important in the accumulation of financial data, including the system of controls that safeguard information, the processes for authorising transactions and the system for maintaining records. Lundin Petroleum believes that an awareness of the COSO Framework throughout the organisation stimulates an environment of self control and constant improvement. Information and documentation regarding the financial reporting is communicated to employees, for example, by ensuring that all policies, guidelines and procedures are published and accessible internally.

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

### Monitoring

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

#### *The Board of Directors*

The Board reviews and evaluates comprehensive financial information regarding the Group as a whole and the entities it comprises. The Board also reviews, primarily through the Audit Committee, the most important accounting principles applied by the Group in the financial reporting, as well as changes to

these principles. Minutes are taken at all meetings of the Audit Committee and are provided to all Board members and the auditors. The working procedures determined by the Board include detailed instructions regarding the type of internal financial reports that shall be submitted to the Board.

The Board reviews and approves the interim reports for the second and fourth quarter and the annual report. The first and third quarterly reports are reviewed and approved by the Audit Committee.

#### *External Auditing*

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

#### *External communications*

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

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

#### *Internal Control Auditor/Internal audit function*

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

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

### Improving on a continuous basis

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