

# Corporate Governance

Lundin Petroleum reached major milestones in 2015 when first oil was achieved safely, on time and on budget from two of our operated fields, the Bertam field in Malaysia and the Edvard Grieg field in Norway. These are not just operational successes but also confirm that the corporate governance structure of Lundin Petroleum, and the practices that we apply throughout our organisation, are effective and contribute to generating sustainable long-term shareholder value. We remain convinced that good corporate governance practices are a requirement for any successful business and will continue to apply a solid corporate governance framework that mirrors Lundin Petroleum's current operations, vision and strategy.

Given the significant decline in oil prices that continued during the year, and the low oil price environment that we may face for some time, the Board placed great emphasis on monitoring the operations closely with a continued focus on ensuring access to sufficient liquidity to carry out our projects. The global economic and energy outlook were also discussed in detail with Group management at Board meetings to ensure Lundin Petroleum's activities remain on track despite the challenges that our industry is facing. To strengthen the Board's control function, a formal monthly operational report was further implemented summarising the exploration, appraisal, development and production activities of each month, and highlighting key HSE/CR and financial issues.

During the year, we also experienced several management changes and saw Ashley Heppenstall leave his position as CEO after thirteen successful years. I would like to thank Ashley for his commitment and outstanding performance and am pleased that he will continue to support the Company as a Board member. I would also like to wish our new CEO, Alex Schneider, all the best in taking over the helm of Lundin Petroleum. As the Chairman of the Board, I look forward to supporting Alex in his role and working closely with him and Group management to ensure that the Board's work will continue to run smoothly and efficiently for the benefit of the Company and all stakeholders.

I would finally like to extend my sincere thanks to all Board members, Group management and all our staff for their unquestionable professionalism and genuine dedication to Lundin Petroleum's corporate culture and commitment to operate in a responsible, transparent and sustainable manner. Although times are tough, I believe Lundin Petroleum will weather the storm thanks to all the great people that make the Company. Last but not least, I would like to thank all fellow shareholders for your continued support and trust.

## Corporate Governance Report

This Corporate Governance Report has been prepared in accordance with the Swedish Companies Act (SFS 2005:551), the Annual Accounts Act (SFS 1995:1554) and the Code of Corporate Governance (Code of Governance) and has been subject to a review by the Company's statutory auditor. Lundin Petroleum reports one deviation from the Code of Governance in 2015 in respect of the composition of the Nomination Committee as further described in the schedule on page 54.



We remain convinced that good corporate governance practices are a requirement for any successful business and will continue to apply a solid corporate governance framework that mirrors Lundin Petroleum's current operations, vision and strategy

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

## Highlights 2015

|   |   |   |   |
|---|---|---|---|
| Grace Reksten Skaugen appointed as a new Board member at the AGM on 7 May 2015 – 37.5 percent of the current Board members are women. | Alex Schneider appointed President and Chief Executive Officer and Nick Walker appointed Chief Operating Officer as per 1 October 2015. | Corporate Responsibility e-learning training course rolled out to all world-wide staff. | Ensuring adequacy of internal controls and best practice governance in light of declining oil prices. |
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### Guiding principles of corporate governance

Lundin Petroleum is an independent Swedish oil and gas exploration and production company with a focus on two core areas, Norway and Malaysia, and with assets in France, the Netherlands and Russia as well. Lundin Petroleum maintains an efficient Group structure that currently consists of approximately 30 companies in eight jurisdictions. The ultimate parent company of the Group is the Swedish public limited liability company Lundin Petroleum AB (publ). Lundin Petroleum currently employs worldwide approximately 600 highly experienced oil and gas professionals representing 24 nationalities.

Lundin Petroleum maintains an exploration focus seeking to generate long-term value for all shareholders, as well as other stakeholders, and has, since its creation in 2001, 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 activities competently and sustainably
- Sustain the well-being of local communities in areas of operation

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 NASDAQ Stockholm, Lundin Petroleum is subject to the Swedish Companies Act and the Annual Accounts Act, as well as the Rule Book for Issuers of NASDAQ Stockholm, which can be found on [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com). In addition, the Company abides by principles of corporate governance found in a number of internal and external documents.

Lundin Petroleum AB (publ), company registration number 556610-8055, has its corporate head office at Hovslagargatan 5, 111 48 Stockholm, Sweden and the registered seat of the Board of Directors is Stockholm, Sweden.

The Company's website is [www.lundin-petroleum.com](http://www.lundin-petroleum.com).

### Swedish Code of Corporate 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, the Annual Accounts Act and other regulations such as the Rule Book for Issuers and good practice on the securities market. A revised Code of Governance applies as of 1 November 2015 and this Corporate Governance report has been prepared in accordance with the principles included therein. The Code of Governance can be found on [www.bolagsstyrning.se](http://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 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 2015, other than in one instance as mentioned in the schedule on page 54 regarding the composition of the Nomination Committee. Furthermore, there were no infringements of applicable stock exchange rules during the year, nor any breaches of good practice on the securities market.

#### Main external rules and regulations for corporate governance at Lundin Petroleum

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

#### Main internal rules and regulations for corporate governance at Lundin Petroleum

- The Articles of Association
- The Code of Conduct
- Policies, Procedures and Guidelines
- 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

### Lundin Petroleum's Articles of Association

Lundin Petroleum's Articles of Association form the basis of the governance of the Company's operations. They 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 Shareholders' Meetings. The Articles of Association do not contain any limitations as to how many votes each shareholder may cast at Shareholders' Meetings, nor any provisions regarding the appointment and dismissal of Board members or amendments to the Articles of Association.

The Articles of Association are available on the Company's website.

### 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 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 to continuously improve its performance and to act in accordance with good oilfield practice and high standards of corporate citizenship. The Code of Conduct is 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 is available on the Company's website.

### Lundin Petroleum's policies, procedures, guidelines and management system

While the Code of Conduct provides Lundin Petroleum's ethical framework, dedicated Group policies, procedures and guidelines have been developed to outline specific rules and controls. The policies, guidelines and procedures cover areas such as Operations, Accounting and Finance, Health, Safety and Environment (HSE), Community Relations, Anti-Corruption, Human Rights, Stakeholder Engagement, Legal, Information Systems, Insurance & Risk Management, Human Resources and Corporate Communications and are continuously reviewed and updated as and when required.

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.

Corporate Responsibility (CR) and HSE policies are available on the Company's website.

### 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 are approved annually by the Board.

### Lundin Petroleum – governance structure

The object of Lundin Petroleum's business is to explore for, develop and produce oil and gas and to develop other energy resources, as laid down in the 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 stakeholders. To achieve this value creation, Lundin Petroleum applies 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.

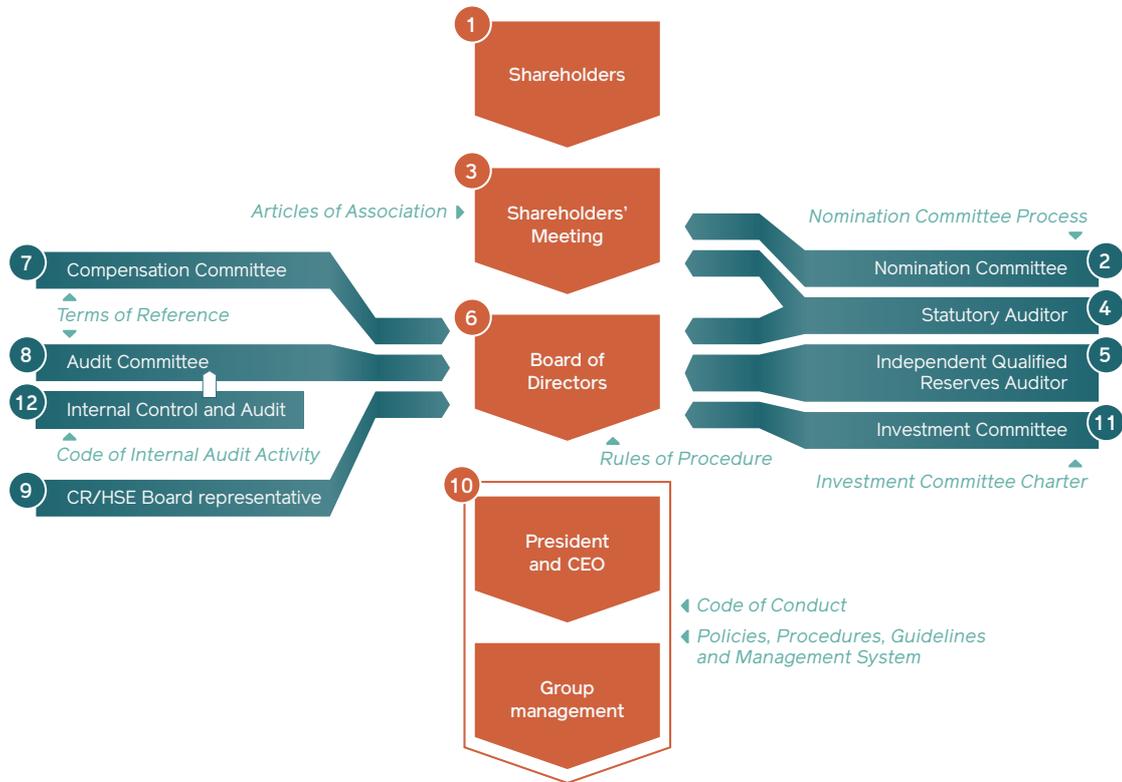
### Share capital and shareholders 1

The shares of Lundin Petroleum are listed on the Large Cap list of NASDAQ Stockholm. The total number of shares is 311,070,330 shares with a quota value of SEK 0.01 each (rounded-off). The Company holds 2,000,000 own shares, representing 0.6 percent of the share capital, acquired for an average purchase price of SEK 65.16. All shares of the Company carry the same voting rights and the same rights to a share of the Company's assets and net result. The Board has been authorised by previous Annual General Meetings (AGMs) to decide upon repurchases and sales of the Company's own shares as an instrument to optimise the Company's capital structure and to secure the Company's obligations under its incentive plans. No own shares were acquired or sold during 2015.

Lundin Petroleum had at the end of 2015 a total of 37,254 shareholders listed with Euroclear Sweden, which represents a decrease of 8,414 shareholders compared to 2014, i.e. a decrease of approximately 18 percent. As at 31 December 2015, 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 28 percent of the shares. In addition, Landor Participations Inc., an investment company wholly owned by a trust whose settler is Ian H. Lundin, held 3.4 percent of the shares. Statoil ASA furthermore announced on 14 January 2016 that it had acquired 11.9 percent of the shares of the Company.

Further information regarding the shares and shareholders of Lundin Petroleum in 2015, as well as the Company's dividend policy, can be found on pages 14–15.

## Lundin Petroleum – Governance Structure



### Nomination Committee <sup>2</sup>

The Nomination Committee is formed in accordance with the Company's Nomination Committee Process, which the shareholders approved at the 2014 AGM as applicable for all future AGMs, until a change is proposed by a Nomination Committee. According to the Process, the Company shall invite four of the larger shareholders of the Company based on shareholdings as per 1 August each year to form the Nomination Committee, however, the members are, regardless of how they are appointed, required to promote the interests of all shareholders of the Company.

The tasks of the Nomination Committee include making recommendations to the AGM regarding the election of the Chairman of the AGM, election of Board members and the Chairman of the Board, remuneration of the Chairman and other Board members, including remuneration for Board Committee work, election of the statutory auditor and remuneration of the statutory auditor. Shareholders may submit proposals to the Nomination Committee by e-mail to [nomcom@lundin.ch](mailto:nomcom@lundin.ch).

### Nomination Committee for the 2016 AGM

The Nomination Committee for the 2016 AGM consists of members appointed by four of the larger shareholders of the Company based on shareholdings as per 1 August 2015. The names of the members were announced and posted on the Company's website on 20 October 2015, i.e. within the timeframe of six months before the AGM as prescribed by the Code of Governance. The Company's Vice President Legal, Jeffrey Fountain, acts as the secretary of the Nomination Committee.

The Nomination Committee has held three meetings during its mandate and informal contacts have taken place between such meetings. To prepare the Nomination Committee for its tasks and duties and to familiarise the members with the Company, the Chairman of the Board, Ian H. Lundin, who is also a member of the Nomination Committee, commented at the meetings on the Company's business operations and future outlook, as well as on the oil and gas industry in general.

The full Nomination Committee report, including the final proposals to the 2016 AGM, are published on the Company's website together with the notice of the 2016 AGM.

**Nomination Committee for the 2016 AGM**

| Member           | Appointed by  | Meeting attendance | Shares represented as at 1 Aug 2015 | Shares represented as at 31 Dec 2015 | Independent of the Company and Group management | Independent of the Company's major shareholders |
|------------------|---|--------------------|-------------------------------------|--------------------------------------|---|---|
| Åsa Nisell       | Swedbank Robur fonder   | 3/3                | 5.8 percent                         | 6.3 percent                          | Yes   | Yes   |
| Ulrika Danielson | Andra AP-fonden   | 3/3                | 0.9 percent                         | 0.4 percent                          | Yes   | Yes   |
| Knut Gezelius    | SKAGEN Funds  | 3/3                | 1.7 percent                         | 1.7 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 | 3/3                | 31.4 percent                        | 31.4 percent                         | Yes   | No <sup>1</sup>                                 |
| Magnus Unger     | Non-executive Board member of Lundin Petroleum who acts as the Chairman of the Nomination Committee   | 3/3                | —                                   | —                                    | Yes   | Yes   |
|                  |   |                    | Total 39.8 percent                  | Total 39.8 percent                   |   |   |

**Summary of the Nomination Committee's work during their mandate**

- Considering a report regarding the Board's work, as well as the results of the evaluation of the Board's work.
- Assessing the independence of the Board members under the rules of the Code of Governance.
- Considering and discussing the size and composition of the Board, including gender distribution, age, origin, educational and professional backgrounds and the proposed Board members' individual and collective qualifications, experiences and capabilities in view of the Company's current position and expected development.
- Considering succession planning matters and proposal for election of the Company's CEO Alex Schneider as a new Board member at the 2016 AGM, combined with a reappointment of the current Board members and the Chairman of the Board. William A. Rand declined to stand for re-election.
- Considering the recommendation received through the Company's Audit Committee regarding the election of statutory auditor at the 2016 AGM.
- Considering Board and statutory auditor remuneration issues and proposals to the 2016 AGM.
- Considering a proposal to appoint an external independent Chairman for the 2016 AGM.
- Considering the Nomination Committee Process and that no changes should be proposed.
- Members of the Nomination Committee, who are not members of the Company's Board, met with two current Board members, Cecilia Vieweg and Grace Reksten Skaugen, to discuss the work and functioning of the Board.

**Other requirements**

- The Nomination Committee fulfills 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, this deviation was considered justified both by the Company and the Nomination Committee given Magnus Unger's experience and expertise within the field.

<sup>1</sup> For details, see schedule on pages 66–67.

**2016 Annual General Meeting**

The 2016 AGM will be held on 12 May 2016 at 1 p.m. in Vinterträdgården at the Grand Hôtel, Södra Blasieholmshamnen 8, in Stockholm. Shareholders who wish to attend the meeting must be recorded in the share register maintained by Euroclear Sweden on 6 May 2016 and must notify the Company of their intention to attend the AGM no later than 6 May 2016. Further information about registration to the AGM, as well as voting by proxy, can be found in the notice of the AGM, available on the Company's website.

### Shareholders' meetings **3**

The Shareholders' Meeting is the highest decision-making body of Lundin Petroleum where the shareholders exercise their voting rights and influence the business 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 held each year before the end of June at the seat of the Board in Stockholm. The notice of the AGM is announced in the Swedish Gazette (Post- och Inrikes Tidningar) and on the Company's website no more than six and no less than four weeks prior to the meeting. 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 statutory auditor, the remuneration of the Board, management and the statutory auditor, including approval of the Policy on Remuneration, 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.

Resolutions at Shareholders' Meetings generally require a simple majority to pass, unless the Swedish Companies Act requires a higher proportion of shares represented and votes cast at the Meeting. The results of each Shareholders' Meeting are press released promptly after the Shareholders' Meeting and the approved minutes are published on the Company's website at the latest two weeks after the Shareholders' Meeting.

#### 2015 AGM

The 2015 AGM was held on 7 May 2015 at Grand Hôtel in Stockholm. The AGM was attended by 155 shareholders, personally or by proxy, representing 49.4 percent of the share capital. The Chairman of the Board, all of the 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 2015 AGM. The members of the Nomination Committee for the 2015 AGM were Åsa Nisell (Swedbank Robur fonder), Arne Lööv (Fjärde AP-fonden) and Pehr-Olof Malmström (Danske Capital AB), 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). All proceedings were simultaneously translated from Swedish to English and from English to Swedish and all AGM materials were provided both in Swedish and English.

The resolutions passed by the 2015 AGM include:

- Election of advokat Klaes Edhall as Chairman of the AGM.
- Re-election of Peggy Bruzelius, C. Ashley Heppenstall, Ian H. Lundin, Lukas H. Lundin, William A. Rand, Magnus Unger and Cecilia Vieweg as Board members and election of Grace Reksten Skaugen as a new Board member. Asbjørn Larsen had declined re-election.
- 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 2014.
- 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 2014.

- Re-election of the registered accounting firm PricewaterhouseCoopers AB as the Company's statutory auditor until the 2016 AGM, authorised public accountant Johan Rippe being the designated auditor in charge.
- Approval of the remuneration of the Board members and the statutory auditor.
- Approval of the Company's Policy on Remuneration for Group management.
- Approval of LTIP 2015 for members of Group management and a number of key employees.
- Authorisation for the Board to issue new shares and/or convertible debentures corresponding to in total not more than 34 million new shares, with or without the application of the shareholders pre-emption rights.
- Authorisation for the Board to decide on repurchases and sales of the Company's own shares on NASDAQ 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.

An electronic system with voting devices was used for voting. The minutes of the 2015 AGM and all AGM materials, in Swedish and English, are available on the Company's website, together with the CEO's address to the AGM.

### External auditors of the Company

#### Statutory auditor **4**

Lundin Petroleum's statutory 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 reports on the Corporate Governance Report. The auditor also performs a review of the Company's half year report and issues a statement regarding the Company's compliance with the Policy on Remuneration approved by the AGM. The Board of Directors meets at least once a year with the auditor without any member of Group management present at the meeting. In addition, the auditor participates regularly in Audit Committee meetings, in particular in connection with the Company's half year and year end reports. Group entities outside of Sweden are audited in accordance with local rules and regulations.

At the 2015 AGM, the audit firm PricewaterhouseCoopers AB was re-elected as the auditor of the Company for a period of one year until the 2016 AGM. The auditor in charge is the authorised public accountant Johan Rippe.

The auditor's fees are described in the notes to the financial statements, see Note 25 on page 116 and Note 7 on page 120. 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 and require prior approval of the Company's Audit Committee.

#### Independent qualified reserves auditor **5**

Lundin Petroleum's independent qualified reserves auditor certifies annually the Company's oil and gas reserves and certain contingent resources, i.e. the Company's core assets, although such assets are not included in the Company's balance sheet. The current auditor is ERC Equipoise Ltd. For further information regarding the Company's reserves and resources, see the Production, Reserves and Resources section on pages 18–21.

## Board of Directors 6

The Board of Directors of Lundin Petroleum is responsible for the organisation of the Company and management of the Company's operations. The Board 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. To achieve this, the Board should at all times have an appropriate composition considering the current and expected development of the operations, with Board members from a wide range of backgrounds that possess both individually and collectively the necessary experience and expertise. The Code of Governance recommends that an even gender distribution should be pursued.

### Composition of the Board

The Board of Lundin Petroleum 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 period of one year.

The Nomination Committee for the 2015 AGM considered that a Board size of eight members would be appropriate taking into account the nature, size, complexity and geographical scope of the Company's business. The 2015 AGM approved the proposal and re-elected Peggy Bruzelius, C. Ashley Heppenstall, at the time also CEO of the Company, Ian H. Lundin, also Chairman of the Board, Lukas H. Lundin, William A. Rand, Magnus Unger and Cecilia Vieweg as Board members, and elected Grace Reksten Skaugen as a new Board member, for a period until the 2016 AGM. Asbjørn Larsen had declined re-election. There are no deputy members and no members appointed by employee organisations. In addition, the Board is supported by a corporate secretary who is not a Board member. The appointed corporate secretary is Jeffrey Fountain, the Company's Vice President Legal.

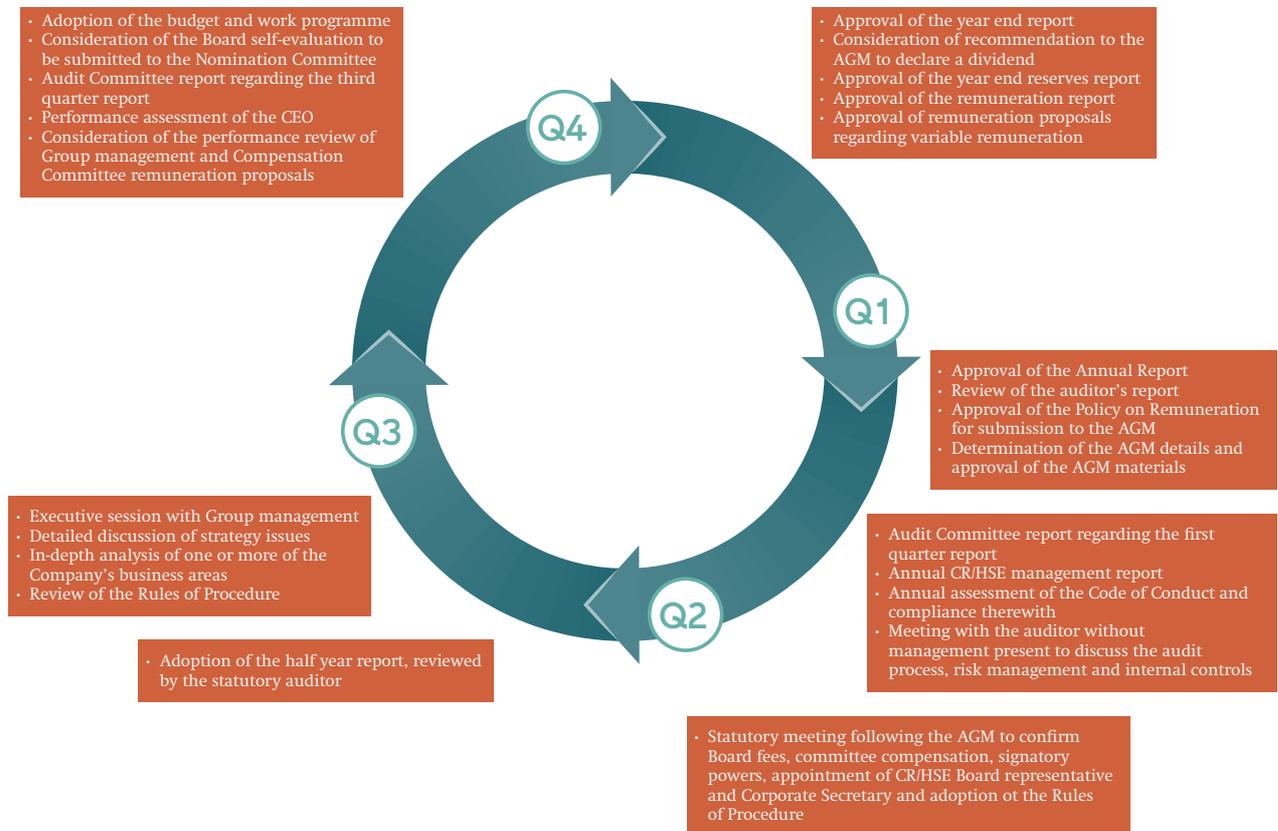
The Nomination Committee considered that the Board as proposed and elected by the 2015 AGM is a versatile group of knowledgeable and skilled individuals who are motivated and prepared to undertake the tasks required of the Board in today's challenging international business environment. The Board members possess substantial expertise and experience relating to the oil and gas industry in Norway and internationally and in particular in relation to Lundin Petroleum's core areas of operations, public company financial matters, Swedish practice, compliance and CR/HSE matters. Gender balance was also specifically discussed and the Nomination Committee noted that following the election of Grace Reksten Skaugen, 37.5 percent of the Board members are women and that the Company meets the recommendation of the Swedish Corporate Governance Board that larger listed Swedish companies should strive to achieve 35 percent female Board representation by 2017.

The Nomination Committee also 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 Group management and towards the Company's major shareholders. The independence of each Board member is presented in the schedule on pages 66–67.

### Principal tasks of the Board of Directors

- Establishing the overall goals and strategy of the Company
- Making decisions regarding the supply of capital
- Appointing, evaluating and, if necessary, dismissing the CEO
- Defining necessary guidelines to govern the Company's conduct in society, with the aim of ensuring its long-term value creation capability
- Ensuring that there is an appropriate system for follow-up and control of the Company's operations and the risks to the Company that are associated with its 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, as well as the application of internal guidelines
- 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
- Continuously evaluating the Company's and the Group's economic situation

## Board's Yearly Work Cycle



### Board meetings and work

In addition to applicable rules and regulations such as the Swedish Companies Act and the Code of Governance, the Board is guided by the Rules of Procedure, which set out how the Board is to conduct its work. 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 maintains close contacts with the CEO to ensure the Board is at all times sufficiently informed of the Company's operations and financial status, and to provide support to the CEO in his tasks and duties. The Chairman further meets, at various occasions during the year, shareholders of the Company to discuss shareholder questions and ownership issues in general, as well as other Company stakeholders. In addition, the Chairman actively promotes the Company and its interests in the various operational locations and in respect of potential new business opportunities.

In addition to the statutory meeting following the AGM, the Board normally holds at least six ordinary meetings per calendar year to ensure all areas of responsibility are duly addressed and that adequate focus is placed on strategic and important issues. At the meetings, the CEO reports on the status of the business, prospects and the financial situation of the Company. The Board also receives management updates and presentations on the business and operations of the Company, financial

status, CR/HSE matters, insurance and risk management, legal questions and investor relations matters, to enable the Board to duly monitor the Company's operations and financial position. Furthermore, the Board receives regular reports from the Company's Audit Committee, Compensation Committee and the CR/HSE Board representative on issues delegated to, or considered by, the Committees and the CR/HSE Board representative. A monthly operational report is also circulated to the Board members.

### Board meetings and work in 2015

During 2015, nine Board meetings were held, including the statutory meeting. To continue developing the Board's knowledge of the Company and its operations, at least one Board meeting per year is held in an operational location and is combined with visits to the operations, industry partners and other business interests. In September 2015, the Board visited the Malaysian operations, and an executive session with Group management was held in connection with the Board meeting. At the executive session, an overview of the Company's general strategy and operations was given, as well as a financial update discussing the Company's current and future financing needs. In-depth operations reviews were given regarding the Group's exploration and development activities, with a continued focus on the Norwegian and South East Asian operations, as well as a reserves and production update. The impact of the low oil price environment was considered throughout the discussions. Group management also attended a number of Board meetings during the year to present and report on specific questions.

**Board of Directors**



**Ian H. Lundin**

Chairman since 2002  
 Director since 2001  
 Member of the Nomination Committee  
 Member of the Compensation Committee

**Peggy Bruzelius**

Director since 2013  
 Chair of the Audit Committee

**C. Ashley Heppenstall**

Director since 2001

**Lukas H. Lundin**

Director since 2001

**Evaluation of the Board's work**

A formal review of the work of the Board was conducted in November 2015 through a questionnaire submitted to all Board members, with the objective of ensuring that the Board functions in an efficient manner and to enable the Board to strengthen its focus on matters which may be raised. The topics considered included several aspects of the Board's structure, work, meetings and general issues such as support and information given to the Board.

Individual feedback from all Board members was received and the overall conclusions were very positive and showed that the structure and composition of the Board is appropriate and that the Board members have relevant experience, which enables the Board to function as an effective governing body. The Board Committees' duties and decision-making powers within the Board are clear and the Committees report to the Board in an appropriate manner. The Board meetings are well planned and prepared, with high quality presentations, and enable the Board to effectively monitor the Company's activities and performance. Board meetings in connection with site visits to the operational areas were considered very helpful, as were the monthly operational reports summarising the activities and main events of each month. The additional meeting in person that has been implemented as a result of comments received in the previous year's review is appreciated. Individual suggestions received included that an external speaker could be invited to present an interesting topic in view of the Company's operations and as in previous years, that more time should be given to discussions regarding the Company's overall strategy rather than very detailed operational matters. 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 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.

At the 2015 AGM, the Chairman was awarded an amount of SEK 1,050,000 and each other Board member, with the exception of the CEO, an amount of SEK 500,000. The AGM further decided to award SEK 100,000 for each ordinary Board Committee assignment and SEK 150,000 for each assignment as Committee Chairman, however, limited to a total of SEK 900,000 for Committee work. In addition, the 2015 AGM approved an amount of SEK 1,500,000 to be paid to the Chairman of the Board for special assignments outside the directorship.

The Board has implemented a policy for share ownership by Board members and each Board member is expected to own, directly or indirectly, at least 5,000 shares of the Company. The level shall be met within three years of appointment and during such period, Board members are expected to allocate at least 50 percent of their annual Board fees towards purchases of the Company's shares.

The remuneration of the Board of Directors is detailed further in the schedule on pages 66–67 and in the notes to the financial statements, see Note 23 on pages 113–114.



More information on the Board members can be found on pages 66–67 and on [www.lundin-petroleum.com](http://www.lundin-petroleum.com)



### William A. Rand

Director since 2001  
Member of the  
Compensation Committee  
and Audit Committee



### Grace Reksten Skaugen

Director since 2015  
CR/HSE Board representative



### Magnus Unger

Director since 2001  
Chairman of the Nomination  
Committee  
Member of the Audit Committee



### Cecilia Vieweg

Director since 2013  
Chair of the Compensation  
Committee

## Board of Directors work during the year

In addition to the topics covered by the Board as per its yearly work cycle, the following significant matters were addressed by the Board during the year.

- Considering the Company's production performance, forecasts and future outlook.
- Considering and discussing in detail the major Johan Sverdrup development project, as well as the on-going developments of the Edvard Grieg (first oil in November 2015), Brynhild (first oil in December 2014), Bøyla (first oil in January 2015), Ivar Aasen and Bertam (first oil in April 2015) fields, and the associated project risks, cost overruns, schedule delays and the sharp oil price decline and its implications on these operations.
- Approving the development of the Viper/Kobra field offshore Norway.
- Considering the granted production license for the Morskaya field in the Lagansky Block in Russia and strategy going forward.
- Discussing the Company's worldwide exploration activities and strategy, including the environmental aspects of operating in the southern Barents Sea and potential new areas of operation.
- Assessing the Company's oil and gas reserves and resources positions.
- Considering in detail the Company's current and future financing needs and strategy, in particular given the significant oil price decline, including the Company's financial risk management, cash flows, sources of funding, foreign exchange movements, hedging strategy and liquidity position.
- Approving a Norwegian exploration refund facility in an amount up to NOK 4.5 billion to provide additional financial capacity to fund the Norwegian operations.
- Discussing in detail the world economic and energy outlook and the low oil price environment and its impact on the Company's operations, as well as the related downward trend in industry costs and the effect of the economic conditions on industry partners and the drilling rig and contractor market, cost control measures within the Company and hedging of upcoming development costs.
- Considering the Company's risk management and insurance policies and procedures.
- Assessing and discussing the Company's HSE performance as well as CR matters, including the Company's partnership with the Lundin Foundation and its projects, and appointing Grace Reksten Skaugen as the new Board CR/HSE representative.
- Considering the Group's marketing arrangements and strategy and approving to establish an internal marketing organisation to optimise hydrocarbon sales.
- Considering and approving potential asset and licence disposals and acquisitions, including the sale of the Company's Indonesian operations.
- Considering the proposal for a performance based LTIP 2015, following the same principles as the 2014 LTIP approved by the 2014 AGM, including continued stakeholder engagement discussions and meetings held with Swedish and foreign investors, revising the applicable peer group, approving participants, allocating individual awards and approving the detailed plan rules, subject to 2015 AGM approval.
- Dissolving the Reserves Committee and assuming together with management the functions not related to compliance with Canadian securities regulations, which no longer apply as a result of delisting from the Toronto Stock Exchange.
- Considering management changes, including the appointment of Alex Schneiter as the new CEO and Nick Walker as the new COO as per 1 October 2015, and approving terms and conditions in relation thereto.
- Discussing the tender process for the Company's auditor.

### Board Committees and the CR/HSE Representative

To maximise the efficiency of the Board's work and to ensure a thorough review of specific issues, the Board has established a Compensation Committee and an Audit 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 **7**

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, is 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. In addition, the Compensation Committee may request advice and assistance of external reward consultants. For further information regarding Group remuneration matters, see the remuneration section of this report on pages 63–65.

#### Audit Committee **8**

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 NASDAQ Stockholm. The Audit Committee itself does not perform audit work, however, it supervises the Company's financial reporting and assesses the efficiency of the Company's financial internal controls, internal audit and risk management, with the primary objective of providing 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 statutory 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 the statutory auditor at the AGM.

#### CR/HSE Board representative **9**

The Board has a leadership and supervisory role in all CR/ 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/HSE related matters and to regularly report on such matters to the Board of Directors. The current CR/HSE Board representative is Grace Reksten Skaugen. More information about the Company's CR/HSE activities can be found in the Responsible Transformation section on pages 38–49.

#### Management **10**

##### Management structure

The Company's previous President and CEO, C. Ashley Heppenstall, stepped down from his position after 13 years and was succeeded by Alex Schneider on 1 October 2015, the Company's Executive Vice President and Chief Operating Officer (COO) since inception in 2001. At the same time, Nick Walker was appointed as COO of the Company.

The CEO is responsible for the management of the day-to-day operations of Lundin Petroleum. He is appointed by, and reports to, the Board. He in turn appoints the other members of Group management, who assist the CEO in his functions and duties, and in the implementation of decisions taken and instructions given by the Board, with the aim of ensuring that the Company meets its strategic objectives and continues to deliver responsible growth and long-term shareholder value.

Lundin Petroleum's Group and local management consists of highly experienced individuals with worldwide oil and gas experience and in addition to the CEO, comprises:

- The Investment Committee, which in addition to the CEO includes:
  - the COO, Nick Walker, who is responsible for Lundin Petroleum's worldwide exploration, development and production operations; and
  - the Chief Financial Officer (CFO), Mike Nicholson, who is responsible for the financial reporting, internal audit, risk management, tax, treasury function and economics.
- The Vice President Corporate Responsibility, Christine Batruch, who is responsible for the Group's CR and HSE strategy, the Vice President Legal, Jeffrey Fountain, who is responsible for all legal matters within the Group, the Vice President Corporate Planning and Investor Relations, Teitur Poulsen, who is responsible for Group investor relations as well as all matters relating to the corporate planning and development of Lundin Petroleum and the Vice President Corporate Finance, Christophe Nerguararian, who is responsible for managing the Company's financing and commercial matters.
- The General Managers/Managing Directors who are responsible for the day-to-day activities of the local operational entities.

Another management change occurred as per the end of January 2015 as the Company's former Senior Vice President Development, Chris Bruijnzeels, decided to step down following twelve years with the Company.

## Audit Committee 2015

| Members                             | Meeting attendance | Audit Committee work during the year  | Other requirements   |
|-------------------------------------|--------------------|---|--|
| Peggy Bruzelius, Chair <sup>1</sup> | 6/6                | <ul style="list-style-type: none"> <li>– Assessment of the 2014 year end report and the 2015 half year report for completeness and accuracy and recommendation for approval to the Board.</li> <li>– Assessment and approval of the first and third quarter reports 2015 on behalf of the Board.</li> <li>– Evaluation of accounting issues in relation to the assessment of the financial reports.</li> <li>– Follow-up and evaluation of the results of the internal audit and risk management of the Group.</li> <li>– Three meetings with the statutory auditor to discuss the financial reporting, internal controls, risk management, etc. The committee met with the statutory auditor without management present at these meetings.</li> <li>– Evaluation of the audit performance and the independence and impartiality of the statutory auditor.</li> <li>– Review and approval of statutory auditor's fees.</li> <li>– Undertaking and considering the results of a tender process to evaluate whether to propose a change in statutory auditor and recommending the Nomination Committee to propose the current statutory auditor for re-election at the 2016 AGM.</li> </ul> | <ul style="list-style-type: none"> <li>– The composition of the Audit Committee fulfils the independence requirements of the Swedish Companies Act and the Code of Governance.</li> <li>– The Audit Committee members have extensive experience in financial, accounting and audit matters. William A. Rand chaired the Audit Committee since its inception in 2002 until May 2015, when Peggy Bruzelius took over. Peggy Bruzelius' current and previous assignments include high level management positions in financial institutions and companies and she has chaired Audit Committees of other companies. Magnus Unger has previously been a member of the Company's Audit Committee and has extensive knowledge of financial matters.</li> </ul> |
| William A. Rand <sup>1</sup>        | 6/6                |   |  |
| Asbjørn Larsen <sup>2</sup>         | 3/3                |   |  |
| Magnus Unger <sup>2</sup>           | 3/3                |   |  |

## Compensation Committee 2015

| Members                    | Meeting attendance | Compensation Committee work during the year  | Other requirements   |
|----------------------------|--------------------|--|--|
| Cecilia Vieweg, Chair      | 3/3                | <ul style="list-style-type: none"> <li>– Review of and strengthening the Performance Management Process.</li> <li>– Review of the performance of the CEO and Group management as per the Performance Management Process.</li> <li>– Preparing a report regarding the Board's evaluation of remuneration in 2014.</li> <li>– Continuous monitoring and evaluation of remuneration structures, levels, programmes and the Policy on Remuneration.</li> <li>– Preparing a proposal for the 2015 Policy on Remuneration for Board and AGM approval.</li> <li>– Consultation with Company stakeholders, including institutional investors, regarding the proposed LTIP 2015.</li> <li>– Preparing a proposal for LTIP 2015 for Board and AGM approval.</li> <li>– Preparing a proposal for remuneration and other terms of employment for the CEO for Board approval.</li> <li>– Review of the CEO's proposals for remuneration and other terms of employment of the other members of Group management for Board approval.</li> <li>– Review and approval of the CEO's proposals for the principles of compensation of other employees.</li> <li>– Review and approval of the CEO's proposals for 2015 LTIP awards.</li> <li>– Undertaking a remuneration benchmark study.</li> </ul> | <ul style="list-style-type: none"> <li>– The composition of the Compensation Committee fulfils the independence requirements of the Code of Governance.</li> </ul> |
| William A. Rand            | 3/3                |  |  |
| Magnus Unger <sup>3</sup>  | 2/2                |  |  |
| Ian H. Lundin <sup>3</sup> | 1/1                |  |  |

1 William A. Rand was the Chairman of the Audit Committee until 7 May 2015 and Peggy Bruzelius is the Chair of the Audit Committee as of 7 May 2015.

2 Asbjørn Larsen was a member of the Audit Committee until 7 May 2015 and Magnus Unger is a member of the Audit Committee as of 7 May 2015.

3 Magnus Unger was a member of the Compensation Committee until 7 May 2015 and Ian H. Lundin is a member of the Compensation Committee as of 7 May 2015.

## Group management



**Alex Schneider**

President and  
Chief Executive Officer



**Mike Nicholson**

Chief Financial Officer



**Nick Walker**

Chief Operating Officer

### Group management tasks and duties

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. Furthermore, the CEO maintains regular contacts with the Company's stakeholders, including shareholders, the financial markets, business partners and public authorities. 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 matters.

Under the leadership of the CEO, Group management is responsible for ensuring that the operations are conducted in compliance with all Group policies, procedures and guidelines procedures in a professional, efficient and responsible manner. Regular management meetings are held to discuss all commercial, technical, CR/HSE, financial, legal and other issues within the Group to ensure the established short- and long-term business objectives and goals will be met. A detailed weekly operations report is further circulated to Group management summarising the operational events, highlights and issues of the week in question. Group management also travels frequently to oversee the ongoing operations, seek new business opportunities and meet with various stakeholders, including business partners, suppliers and contractors, government representatives and financial institutions. In addition, Group management liaises continuously with the Board, and in particular the Board Committees and the CR/HSE Board representative, in respect of ongoing matters and issues that may arise, and meets with the Board at least once a year at the executive session held in connection with a Board meeting in one of the operational locations.

### Investment Committee **11**

The Company's Investment Committee, which consists of the CEO, CFO and COO, assists the Board in discharging its responsibilities in overseeing the Company's investment portfolio. The role of the Investment 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 regularly scheduled meetings and meets more frequently if required by the operations.

### Major topics addressed by Group management in 2015

- Lundin Petroleum's organic growth strategy.
- The low oil price environment and its effect on the current operations and future projects.
- Management of the on-going development projects and production operations.
- Considering external sources of funding as well as appropriate asset disposals to optimise the Group asset portfolio.
- Internal cost control measures.
- Monitoring industry cost reductions and ensuring the Group takes advantage thereof.
- Stakeholder engagement initiatives.
- Implementing a Group-wide CR e-learning training course and monitoring closely HSE performance in relation to the development projects.
- Reviewing the Group's insurance and risk management policies.



More information on Group management can be found on [www.lundin-petroleum.com](http://www.lundin-petroleum.com)



**Christine Batruch**  
Vice President Corporate  
Responsibility



**Jeffrey Fountain**  
Vice President Legal



**Christophe Nerguararian**  
Vice President Corporate  
Finance



**Teitur Poulsen**  
Vice President Corporate  
Planning and Investor  
Relations

## Remuneration

### Group principles of remuneration

Lundin Petroleum aims to offer all employees compensation packages that are competitive and in line with market conditions. These packages are designed to ensure that the Group can recruit, motivate and retain highly skilled individuals and reward performance that enhances shareholder value.

The Group's compensation packages consist of four elements, being (i) base salary; (ii) yearly variable salary; (iii) long-term incentive plan (LTIP); and (iv) other benefits. As part of the yearly assessment process, a Performance Management Process has been established 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 to the achievement of such stated and agreed performance measures.

To ensure compensation packages within the Group remain competitive and in line with market conditions, the Compensation Committee undertakes yearly benchmarking studies. For each study, a peer group of international oil and gas companies of similar size and operational reach is selected, against which the Group's remuneration practices are measured. The levels of base salary, yearly variable salary and long-term incentives are set at the median level, however, in the event of exceptional performance, deviations may be authorised. As the Group continuously competes with the peer group to retain and attract the very best talent

in the market, both at operational and executive level, it is considered important that the Group's compensation packages are determined primarily by reference to the remuneration practices within this peer group.

### Policy on Remuneration for Group management

The remuneration of Group management follows the principles that are applicable to all employees, however, these principles must be approved by the shareholders at the AGM. The Compensation Committee therefore prepares yearly for approval by the Board and for submission for final approval to the AGM, a Policy on Remuneration for Group 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. The CEO, in turn, proposes to the Compensation Committee, for approval by the Board, the remuneration and other terms of employment of the other members of Group management.

### LTIP 2015

The 2015 AGM resolved to approve a performance based LTIP 2015, that follows the same principles as the previously approved LTIP 2014, for Group management and a number of key employees of Lundin Petroleum, which gives the participants the possibility to receive shares in Lundin Petroleum subject to the fulfilment of a performance condition under a three year performance period commencing on 1 July 2015 and expiring on 1 July 2018. The performance condition is based on the share price growth and dividends (Total Shareholder Return) of the Lundin Petroleum share compared to the Total Shareholder Return of a peer group of companies.

## Alex Schneiter, President and CEO

Alex Schneiter was born in 1962 and is a graduate from the University of Geneva with a degree in Geology and a masters degree in Geophysics. He has worked with public companies associated with the Lundin family since 1993 and was the Executive Vice President and Chief Operating Officer of Lundin Petroleum from the Company's inception in 2001 up to his appointment as the Company's President and Chief Executive Officer on 1 October 2015. He holds 223,133 shares in the Company as per 31 December 2015.

At the beginning of the performance period, the participants were granted awards which, provided that among others the performance condition is met, entitle the participant to be allotted shares in Lundin Petroleum at the end of the performance period. The number of performance shares that may be allotted to each participant is limited to a value of three times his/her annual gross base salary for 2015 and the total LTIP award made in respect of 2015 was 705,406.

The Board of Directors may reduce (including reduce to zero) the allotment of performance shares at its discretion, should it consider the underlying performance not to be reflected in the outcome of the performance condition, for example, in light of operating cash flow, reserves and HSE performance. The participants will not be entitled to transfer, pledge or dispose of the LTIP awards or any rights or obligations under LTIP 2015, or perform any shareholders' rights regarding the LTIP awards during the performance period.

The LTIP awards entitle participants to acquire already existing shares. Shares allotted under LTIP 2015 are further subject to certain disposition restrictions to ensure participants build towards a meaningful shareholding in Lundin Petroleum. The level of shareholding expected of each participant is either 50 percent or 100 percent (200 percent for the CEO) of the participant's annual gross base salary based on the participant's position within the Group.

#### Performance monitoring and review

The Board is responsible for monitoring and reviewing on a continuous basis the work and performance of the CEO and shall carry out at least once a year a formal performance review. In 2015, the Compensation Committee undertook on behalf of the Board a review of the work and performance of Group management, including the CEO. The results were presented to the Board, together with 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.

The tasks of the Compensation Committee also include monitoring and evaluating the general application of the Policy on Remuneration, as approved by the AGM, and the Compensation Committee prepares in connection therewith a yearly report, for approval by the Board, on the application of the Policy on Remuneration and the evaluation of remuneration of Group management. As part of its review process, the statutory 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.

#### Permitted deviations to the 2015 Policy on Remuneration

The Board of Directors agreed on permitted deviations from the 2015 Policy on Remuneration for the approval of consultancy fees to members of the Board of Directors, for work performed or to be performed outside of the directorship. The 2015 Policy on Remuneration referred only to Group management remuneration and did not refer to consultancy fees to members of the Board of Directors. Further information regarding these permitted deviations can be found in Note 23 on pages 113 – 114.

## POLICY ON REMUNERATION FOR GROUP MANAGEMENT AS APPROVED BY THE 2015 AGM

### Application and objectives of the Policy

In this Policy on Remuneration, the term "Group management" refers to the President and Chief Executive Officer, the Executive Vice President and Chief Operating Officer, the Chief Financial Officer, the Senior Vice President Development and other Vice President level employees. Group management will be comprised of seven executives in 2015.

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 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 Group 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 Group management. The Compensation Committee meets regularly and its tasks include monitoring and evaluating programmes for variable remuneration for Group management and the application of this Policy on Remuneration, as well as the current remuneration structures and levels in the Company.

The Compensation Committee may request the advice and assistance of external reward consultants, however, it shall ensure that there is no conflict of interest regarding other assignments that such consultants may have for the Company and Group management.

### Elements of remuneration

There are four key elements to the remuneration of the Group management:

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

#### Board's Proposal for Remuneration to Group Management to the 2016 AGM

For information regarding the Board's proposal for remuneration to Group management to the 2016 AGM, including a similar LTIP as approved by the 2014 and 2015 AGMs, see the Directors' report, page 84.

#### Base salary

The executive's base 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 base 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 Compensation Committee undertakes yearly benchmarking studies in respect of the Company's remuneration policy and practices.

#### 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.

The yearly variable salary shall, in the normal course of business, be based upon a predetermined limit, being within the range of one to twelve monthly salaries (if any). 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.

The cost of yearly variable salary for 2015 is estimated to range between no payout at minimum level and MSEK 25.7 (excluding social costs) at maximum level, based on the current composition of Group management.

#### Long-term Incentive Plan

The Company believes that it is appropriate to structure its long-term incentive plans (LTIP) to align Group management's incentives with shareholder interests. Remuneration which is linked to the share price results in a greater personal commitment to the Company. Therefore, the Board believes that the Company's LTIP for Group management should be related to the Company's share price.

Information on the principal conditions of the proposed 2015 LTIP for Group management, which follows the same principles as the LTIP approved by the 2014 Annual General Meeting, is available as part of the documentation for the Annual General Meeting on [www.lundin-petroleum.com](http://www.lundin-petroleum.com).

The cost at grant of the proposed 2015 LTIP is estimated to range between no payout at minimum level and MSEK 65.5 (excluding social costs) at maximum level, based on the current composition of Group management.

#### 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 base salary. The pension contributions in relation to the base salary are dependent upon the age of the executive.

#### Severance arrangements

A mutual notice period of between one and twelve 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, up to two years' base salary, in the event of termination of employment due to a change of control of the Company. The Board of Directors is further authorised, in individual cases, to approve severance arrangements, in addition to the notice periods and the severance arrangements in respect of a change of control of the Company, where employment is terminated by the Company without cause, or otherwise in circumstances at the discretion of the Board. Such severance arrangements may provide for the payment of up to one year's base salary; no other benefits shall be included. Severance payments in aggregate (i.e. for notice periods and severance arrangements) shall be limited to a maximum of two years' base salary.

#### 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.

#### Outstanding remunerations

Information regarding previously approved remunerations to Group management, which remain outstanding (if any), is available in note 33 of the Company's Annual Report (2014).

## Sudan

In June 2010, the Swedish International Public Prosecution Office commenced an investigation into alleged violations of international humanitarian law in Sudan during 1997–2003. The Company has cooperated extensively and proactively with the Prosecution Office by providing information regarding its operations in Block 5A in Sudan during the relevant time period. As repeatedly stated, Lundin Petroleum categorically refutes all allegations of wrongdoing and will cooperate with the Prosecution Office's investigation. Lundin Petroleum strongly believes that it was a force for good in Sudan and that its activities contributed to the improvement of the lives of the people of Sudan.

**Board of Directors**

| Name   | Ian H. Lundin   | Peggy Bruzelius  | C. Ashley Heppenstall   | Lukas H. Lundin   |
|--|---|--|---|---|
| Function   | Chairman (since 2002)   | Director   | Director  | Director  |
| Elected  | 2001  | 2013   | 2001  | 2001  |
| Born   | 1960  | 1949   | 1962  | 1958  |
| Education  | Bachelor of Science degree in Petroleum Engineering from the University of Tulsa.   | Master of Science (Economics and Business) from the Stockholm School of Economics.   | Bachelor of Science degree in Mathematics from the University of Durham.  | Graduate from the New Mexico Institute of Mining, Technology and Engineering.   |
| 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. | Peggy Bruzelius has worked as Managing Director of ABB Financial Services AB and has headed the asset management division of Skandinaviska Enskilda Banken AB. | 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 and was CEO of Lundin Petroleum during 2002–September 2015. | Lukas H. Lundin has held several key positions within companies where the Lundin family has a major shareholding.   |
| Other board duties   | Chairman of the board of Etrion Corporation and member of the board of Bukowski Auktioner AB.   | Chair of the board of Lancelot Asset Management AB, member of the board of Axfood AB, Diageo PLC, Akzo Nobel NV and Skandia Liv.                               | Member of the board of Etrion Corporation, ShaMaran Petroleum Corp., Africa Energy Corp., Lundin Gold Inc. and Gateway Storage Company Limited.   | Chairman of the board of Lundin Mining Corp., Lucara Diamond Corp., NGEx Resources Inc., Lundin Gold Inc. and Lundin Foundation, Executive Chairman of the board of Denison Mines Corp and a board member of Bukowski Auktioner AB. |
| Shares in Lundin Petroleum (as at 31 December 2015)                        | Nil <sup>1</sup>  | 8,000  | 1,391,283   | 788,331 <sup>5</sup>  |
| Board Attendance   | 9/9   | 9/9  | 9/9   | 9/9   |
| Audit Committee Attendance   | –   | 6/6  | –   | –   |
| Compensation Committee Attendance  | 1/1 <sup>2</sup>  | –  | –   | –   |
| Remuneration for Board and Committee work                                  | SEK 1,100,000   | SEK 625,000  | SEK 83,333  | SEK 500,000   |
| Remuneration for special assignments outside the directorship <sup>9</sup> | SEK 1,500,000   | Nil  | Nil   | Nil   |
| Independent of the Company and the Group management                        | Yes <sup>3</sup>  | Yes  | No <sup>4</sup>   | Yes   |
| Independent of the Company's major shareholders                            | No <sup>1</sup>   | Yes  | No <sup>4</sup>   | No <sup>5</sup>   |

1 Ian H. Lundin is the settler of a trust that owns Landor Participations Inc., an investment company that holds 10,638,956 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 is a member of the Compensation Committee as of 7 May 2015.

3 Ian H. Lundin and Magnus Unger have been 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 this work, they remain independent of the Company and the Group management.

4 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 was the President and CEO of Lundin Petroleum until September 2015, and not of the Company's major shareholders since he is a director of companies in which entities associated with the Lundin family hold ten percent or more of the share capital and voting rights.

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.

| William A. Rand  | Grace Reksten Skaugen  | Magnus Unger  | Cecilia Vieweg  |
|--|--|---|---|
| Director   | Director, CR/HSE representative  | Director  | Director  |
| 2001   | 2015   | 2001  | 2013  |
| 1942   | 1953   | 1942  | 1955  |
| 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 BI Norwegian School of Management, Bachelor of Science (Honours Physics) and Doctorate in laser physics from Imperial College of Science and Technology at the University of London.  | MBA from the Stockholm School of Economics.   | Master of Law from the University of Lund.  |
| William A. Rand practised law in Canada until 1992, after which he co-founded an investment company and pursued private business interests.  | Grace Reksten Skaugen has been a director of Corporate Finance with SEB Enskilda Securities in Oslo and has worked in several roles within private equity and venture capital in Oslo and London. She is currently a member of HSBC European Senior Advisory Council and Norway country advisor to Proventus AB. | Magnus Unger was an Executive Vice President within the Atlas Copco group during 1988–1992. | Cecilia Vieweg is General Counsel and member of the Executive Management of AB Electrolux since 1999. She previously worked as legal advisor in senior positions within the AB Volvo Group and as a lawyer in private practice. |
| Member of the board of Lundin Mining Corp., Denison Mines Corp., New West Energy Services Inc. and NGEx Resources Inc.   | Chair of the board of NAXS Nordic Access Buyout A/S, Deputy Chair of the board of Orkla ASA and member of the board of Investor AB, founder and Chair of the Norwegian Institute of Directors and council member of the International Institute for Strategic Studies in London.                                 | –   | Member of the board of the Association of Swedish Engineering Industries and the Swedish Securities Council.  |
| 117,441  | –  | 250,000   | 3,500   |
| 9/9  | 4/5 <sup>7</sup>   | 9/9   | 9/9   |
| 6/6  | –  | 3/3 <sup>8</sup>  | –   |
| 3/3  | –  | 2/2 <sup>8</sup>  | 3/3   |
| SEK 725,000  | SEK 250,000  | SEK 600,000   | SEK 650,000   |
| Nil  | Nil  | SEK 150,000   | Nil   |
| Yes  | Yes  | Yes <sup>3</sup>  | Yes   |
| No <sup>6</sup>  | Yes  | Yes   | Yes   |

<sup>6</sup> 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.

<sup>7</sup> Grace Reksten Skaugen is a member of the Board as of 7 May 2015.

<sup>8</sup> Magnus Unger was a member of the Compensation Committee until 7 May 2015 and is a member of the Audit Committee as of 7 May 2015.

<sup>9</sup> The remuneration paid during 2015 relates to fees paid for work performed outside of the directorship. For information regarding a permitted deviation approved by the Board in relation to this remuneration, see Note 23 on pages 113–114.

Asbjørn Larsen declined re-election at the AGM on 7 May 2015. During the period 1 January to 7 May 2015, he attended all four Board meetings held and all three Audit Committee meetings held. For additional information regarding Asbjørn Larsen, please see the Company's Annual Report 2014, and for remuneration paid to him, please refer to Note 23 on pages 113–114.

# Internal Control and Audit

The objective for internal control over financial reporting is to provide reliable and relevant information in compliance with applicable laws and regulations

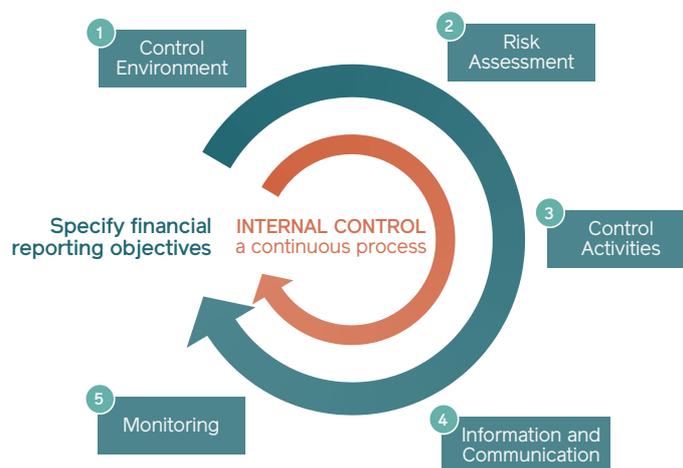
## Introduction

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 regarding financial reporting and describes how internal control over the financial reporting is organised, but does not comment on its effectiveness.

## Internal control system for financial reporting

An internal control system for financial reporting 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 internal control system for financial reporting consists of five key objectives, as described below and in the section on risk management on pages 34–37. The key objectives are based on the principles of the Committee of Sponsoring Organisation (COSO) that set out the guiding principles of internal control. The internal control of financial reporting is a continuous evaluation of the risks and control activities within the Company. The evaluation work is an ongoing process that involves internal and external benchmarking.



## Control environment 1

The control environment of Lundin Petroleum encompasses the “tone at the top” provided by the Board and it influences the Company’s governance processes and the risk and control consciousness of its employees. The Board is responsible for ensuring that the Company has an adequate internal control system. The Audit Committee assists the Board to ensure that the Company has formalised routines that support the principles for financial reporting and internal controls, and that the Company’s financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies.

By setting the objectives for the Company, the Board provides the management with the ability to set up the strategy and the performance goals for the Company. The internal control processes are structured accordingly to identify risk events that could arise in the context of financial reporting, compliance and the Company’s operational objectives.

## Risk assessment 2

When risks are identified and evaluated, control activities are implemented to minimise the risks in the financial reporting process. Conclusions of the risk assessment are reported to the Group Risk Manager, Group 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.

## Control activities 3

The Group management presents recommendations to the Board, which then provides direction to ensure there is a programme to select and develop control activities that contribute to mitigate risks to acceptable levels. The Investment Committee oversees the Company’s investment decisions through the annual budget process, supplementary budget requests submitted during the year and makes recommendations to the Board as required. The finance department of each company within the

## Joint operations audits

The oil and gas industry is based upon companies sharing costs and risks through joint operations arrangements. One joint operations partner is appointed to be the operator and is responsible for managing the operations, including the joint operations accounting, on behalf of the joint operations partners. Joint operations partners have audit rights over the joint operations to ensure that accounting procedures are followed and costs are incurred in accordance with the joint operating agreement.



Group is responsible for the regular analysis of the financial results and for reporting thereon to the finance department at Group level. The Company also selects and develops general control activities with the support of information systems improvement and development of control activities following a “Three lines of defence” approach.

#### Information and communication **4**

The Company communicates financial information internally, including objectives and responsibilities for internal control, which are necessary to support the functioning of internal controls. Communicating relevant information throughout all levels of the Company in a complete, correct and timely manner is an important part of the financial internal control framework. Internal policies and procedures relating to the financial reporting, such as the Authorisation Policy, the Company Accounting Principles Manual and the Finance and Accounting Manual, are updated and communicated on a regular basis to all affected employees and are accessible through the information system network.

#### Monitoring **5**

The Board’s measures for monitoring that the internal control related to financial reporting and reporting to the Board function adequately include among others; ensuring that relevant internal policies and procedures are in place and are respected, that regular meetings are held with Group management to follow-up on the financial status and activities of the Company, that internal and external audits are performed, that audit reports are reviewed and followed-up on, that continuous reporting is made to the Board and that the financial reporting is prepared in accordance with applicable rules and regulations and show a true and fair view of the financial status of the Company. These measures are implemented and continuously monitored under the direction of the Audit Committee, with the assistance of Group management at all levels of the Company, including the Company’s CFO. In this respect, the Internal Audit and the Company’s finance department monitor financial compliance with internal policies, procedures and other corporate policy documents. The Audit Committee monitors the efficiency of the internal auditing, internal control and financial reporting, reviews all interim and annual financial reports and reports regularly thereon to the Board.

### Three lines of defence

#### 1. First line of defence – Local Operations

This is provided by local staff and management who own and manage risk and control through adequate design of internal control processes managerial and supervisory controls to ensure compliance with processes and to manage unexpected events. All employees in the Company are accountable for compliance with the policies and procedures within their areas of control and risk management.

#### 2. Second line of defence – Group Management

This is provided by the oversight functions within the Company, including amongst other financial control, risk management and information security. The Company’s policies, procedures, guidelines and management system constitute the framework to add value to the business with regard to risk and compliance.

#### 3. Third line of defence – Internal Audit

This is provided by internal audit, providing the Board and Group management independent assurance regarding the Groups internal control, risk management and governance.

#### Internal audit **12**

Internal Audit provides independent and objective appraisal of the control environment thereby adding value to the organisation through a continuous improvement process. The internal audit is concerned with the adequacy and effectiveness of systems of control and whether they are managed, maintained, complied with and function effectively. The Group Internal Audit Manager has a primary reporting line to Lundin Petroleum’s Audit Committee.

Internal Audit performs regular audits according to a risk based internal audit plan which is approved by the Audit Committee twice per year. In addition, the internal audit coordinates and monitors joint operations audits that are undertaken by Lundin Petroleum.

Further, an important activity carried out by Internal Audit 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.

Stockholm, 7 April 2016

The Board of Directors of Lundin Petroleum AB (publ)

### Auditor's report on the Corporate Governance Statement

To the annual meeting of the shareholders of 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 2015 on pages 50–69 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, 8 April 2016

PricewaterhouseCoopers AB

Johan Rippe  
Authorised Public Accountant  
Lead Partner

Johan Malmqvist  
Authorised Public Accountant