

LUNDIN PETROLEUM AB POLICY ON REMUNERATION

PRINCIPLES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR SENIOR MANAGEMENT

It is the aim of Lundin Petroleum AB to recruit, motivate and retain high calibre executives capable of achieving the objectives of the Group, and to encourage and appropriately reward superior performance in a manner that enhances shareholder value. Accordingly, the Group operates a Policy on Remuneration which ensures 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 senior executives are rewarded fairly for their contribution to the Group's performance.

This document sets out the Policy on Remuneration for the Company's senior executives, including the Executive Directors. The term 'executives' refers to the President and Chief Executive Officer, and other members of the Management Group that includes the Executive Vice President and Chief Operating Officer, and other executive officers at Vice President level.

The Board of Directors' proposal outlined herein complies with the principles for compensation previously awarded to the Management Group and is based on agreements made between the Company and each executive.

Compensation Committee

The Compensation Committee is responsible for receiving information on, and determining matters regarding executive compensation. The Committee meets regularly and is responsible for reviewing the Policy on Remuneration, the emoluments of the Executive Directors and other executives and for making recommendations thereon to the Board. The Committee also has access to external advisors to provide assistance in ensuring that salary and benefit packages are competitive and appropriate.

Correspondingly, compensation levels, criteria for variable salary and other employment terms for the President and Chief Executive Officer are proposed by the Compensation Committee to be approved by the Board. For other Vice Presidents, the President and Chief Executive Officer is responsible for proposing appropriate terms to be subject to approval by the Compensation Committee and reported to the Board.

Elements of Remuneration

There are five key elements to the remuneration package of senior executives in the Group:

- a) Basic salary;
- b) Variable salary;
- c) Share option incentives;
- d) Pension arrangements; and
- e) Non-financial benefits.

Basic Salary:

The basic salary shall be based on market conditions, be competitive, and will take into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the incumbent. In addition, the basic salary shall be reviewed annually to ensure that it remains representative. In order to assess the competitiveness of the pay and benefits packages offered by the Group, comparisons may be made to those offered by similar companies. In such circumstances, the comparator group is chosen with regard to:

- a) companies in the same industry;
- b) the size of the Company (turnover, profits and employee numbers);
- c) the diversity and complexity of their businesses;
- d) the geographical spread of their businesses; and
- e) their growth, expansion and change profile.

Periodic benchmarking activities incorporating industries and markets in the oil and gas sector shall be undertaken to ensure that compensation packages remain in line with current market conditions.

Variable Salary:

The Company considers that variable salary is an important part of the remuneration package where associated performance targets reflect the key drivers for value creation and growth in shareholder value. At the end of each year the President and Chief Executive Officer will make a recommendation to the Compensation

Committee regarding the payment of Variable Salary to employees based upon their individual contribution to the Company's performance. This includes the achievement of the Company's strategic objective of growth and enhancement of shareholder value through increases in the stock price resulting from increased reserves, production, cash flow and profit.

After consideration of the President & CEO's recommendations the Compensation Committee will recommend to the Board of Directors for their approval the level of payment of Variable Salary for the President & CEO in addition to that of all other employees to the extent that such award is in excess of US\$10,000 per employee.

Pension Arrangements:

The pension benefit shall comprise a defined contribution scheme with premiums calculated on the full basic salary. The ratio of pension provision to basic salary is dependent upon the age of the executive.

For Geneva based senior executives the employee has the option of requesting the Company to contribute all or part of any Variable Salary to an additional pension/savings scheme called the VIP scheme. The VIP Scheme provides a lump sum payment of between 1 and 3 times salary on retirement, and a life insurance element. In the event the employee receives no Variable Salary award the Company is under no obligation to fund the VIP scheme.

Share Option Scheme:

The Lundin Petroleum AB Global Share Option Plan represents a significant element of the total remuneration for executives and other employees. The Plan facilitates the granting of share options to employees in recognition of the part they play in the future of the Group, and is designed to align management incentives with shareholder interests.

Each year the respective individual allocations shall be based on both position and the achievement of the Company's strategic objective of growth and enhancement of shareholder value through increases in the stock price resulting from increased reserves, production, cash flow and profit. The combined number granted to the President and Chief Executive Officer and the Executive Vice President and Chief Operating Officer shall not exceed 30% of the total granted. The Global Share Option Plan will adopt the structure of a three-year term inclusive of a one-year blocking period, and the exercise price of the options will be at a 10 percent premium to the average price of Lundin Petroleum AB shares over the 10 days following the AGM.

The Compensation Committee will recommend to the Board of Directors for their consideration a total number of options to be allocated in accordance with the Option Plan together with a recommendation for the individual allocation. The Board of Directors will then recommend for the approval of the shareholders the issuance of such options.

Non-Financial Benefits:

Non-financial benefits shall be based on market terms and shall facilitate the discharge of each executive's duties.

Severance Arrangements:

A mutual termination period of between 1 month and 6 months applies between the Company and senior executives and is contingent upon the employee's length of continuous service with the Company. There are no other formal termination provisions.

The Compensation Committee is responsible for the approval of termination packages that exceed US\$ 150,000 in value per individual.

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