

# LUNDIN PETROLEUM AB'S POLICY ON REMUNERATION

## PRINCIPLES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR MANAGEMENT 2010

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 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 executives are rewarded fairly for their contribution to the Group's performance.

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

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

### **Compensation Committee**

The Compensation Committee is to receive information on, and to determine matters regarding the compensation of Group Management. The Committee meets regularly and is responsible for reviewing the Policy on Remuneration and the compensation of executives and for making recommendations thereon to the Board of Directors. The Committee also has access to external advisors to ensure that salary and benefit packages are competitive and appropriate.

The proposed compensation level, criteria for variable salary and other employment terms for the CEO are submitted by the Compensation Committee to the Board for approval. For other executives, the CEO is responsible for proposing appropriate terms of compensation for approval to the Compensation Committee and for reporting to the Board.

### **Elements of Remuneration**

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

- a) basic salary;
- b) yearly variable salary;
- c) long-term incentive plan;
- 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 executive. The basic salary shall be reviewed annually to ensure that it remains competitive. In order to assess the competitiveness of the salary and benefit 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 within the oil and gas sector shall also be undertaken to ensure that compensation packages remain in line with current market conditions.

## **Yearly variable salary**

The Company considers that a yearly 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 CEO will make a recommendation to the Compensation Committee regarding the payment of the yearly 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 CEO's recommendations, the Compensation Committee will recommend to the Board of Directors for approval the level of the yearly variable salary of the CEO, and of all other executives and employees, to the extent that such award is in excess of USD 10,000 per employee. The yearly variable salary shall normally be within the range of 1 - 10 monthly salaries, 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.

## **Long-term Incentive Plan 2010**

- a) Management other than senior executives

The 2010 Long-term Incentive Plan (LTIP) for Management other than senior executives is designed to align management incentives with shareholder interests and entails a remuneration plan related to the Company's share price. Senior executives, being the CEO, the COO, the Chief Financial Officer (CFO) and the Senior Vice President Operations, will not participate in any proposed 2010 LTIP (for a description of the 2009 LTIP for senior executives approved by the 2009 AGM, please refer to b) below).

The LTIP for Management other than senior executives includes the granting of units that are converted into a cash award related to the Company's share price. The LTIP will be payable over a period of three years from award in order to aid in the retention of staff.

The LTIP consists of an annual grant of units that will be converted into a cash payment at vesting. The cash payment will be determined at the end of each vesting period by multiplying the number of units by the share price. The LTIP has a three year duration whereby the initial grant of units vests equally in three tranches: one third after one year; one third after two years; and the final third after three years. The cash payment is conditional upon the holder of the units remaining an employee of the Lundin Petroleum Group at the time of the payment. The units may not be assigned to any third party.

The Compensation Committee recommends to the Board of Directors a total number of units to be allocated each year for the following three years, together with a recommendation for the individual allocations. The respective individual allocations shall be based on both the position within the Company 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 total number of units to be granted in 2010 for the whole Group, including Management other than senior executives, will be approximately 720'000. In comparison to unit awards in previous years, the number of units for 2010 takes into account the effect of the spin-off of the Company's UK business into EnQuest plc and the subsequent distribution of the EnQuest plc shares to Lundin Petroleum's shareholders.

b) Senior Executives

The 2009 LTIP for senior executives approved by the 2009 AGM includes the issuance by Lundin Petroleum of phantom options exercisable after five years from the date of grant. The exercise of these options does not entitle the recipient to acquire shares of Lundin Petroleum, but to receive a cash payment based on the appreciation of the market value of such shares.

The senior executives were granted phantom options with an exercise price equal to 110 per cent of the average of the closing prices of the Company's shares on the NASDAQ OMX Stockholm for the ten trading days immediately following the 2009 AGM, which exercise price is equal to SEK 72.76. Such options will vest on the fifth anniversary of the date of grant. The recipient will be entitled to receive a cash payment equal to the average closing price of Lundin Petroleum's shares during the fifth year following grant, less the exercise price.

Payment of the award under these phantom options will occur in two equal instalments: (i) first on the date immediately following the fifth anniversary of the date of grant, and (ii) second on the date which is one year following the date of the first payment.

The total number of phantom options granted to senior executives is 4,000,000. No senior executive who receives an award of phantom options will be eligible for a grant of awards under the LTIP for Management other than senior executives described in a) above during the five year vesting period of the phantom options.

If the recipient of an award of phantom options resigns from the Group or if the recipient's employment is terminated for cause or similar during the five year vesting period, the award of phantom options will immediately terminate. If the recipient's employment is terminated for any other reason during such period, the award of phantom options will vest and become immediately payable, based on the average closing price of Lundin Petroleum's shares during the 90 day period prior to such termination. If a third party acquires more than 50 per cent of the then outstanding Lundin Petroleum shares, the award of phantom options will vest and become immediately payable based on the value per Lundin Petroleum share paid by such third party.

c) General

From an accounting perspective the 2009 LTIP for senior executives and the 2010 LTIP for Management other than senior executives are regarded as compensation for services provided and will, under IFRS 2, result in accounting costs which will be distributed over the three or five year vesting period. Lundin Petroleum's liability under the LTIP will be measured at fair market value and will be revalued at each reporting period (quarterly). The changes in value will be recognized in the income statement over the three or five year period so that the accumulated cost over the period corresponds to the value of the LTIP on the final date.

Lundin Petroleum's Board of Directors will seek an authorization by the AGM to repurchase shares on the NASDAQ OMX Stockholm Exchange. The purpose with the share repurchase is, inter alia, to fix the undertaking under the LTIP, including any applicable social charges. The repurchased shares could be sold in the market in conjunction with the payments under the LTIP, meaning that the actual cash payment by Lundin Petroleum under the LTIP would correspond to the total price paid for the repurchased shares. An increase of the undertaking under the LTIP due to a rise of the stock price would thus be secured by the corresponding increase of the value of the repurchased shares.

### **Pension Arrangements**

The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions in relation to the basic salary are dependent upon the age of the executive.

### **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 one month and six 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 in the event of termination of employment due to a change of control of the Company.

The Compensation Committee shall approve termination packages that exceed USD 150,000 in value per individual.

### **Authorization for the Board**

The Board of Directors is proposed to be authorized 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.

