

# **Lundin Petroleum AB's Communication on Progress 2010**

(Extracted from the 2010 Annual Report)





“ In my opinion our ability to grow our reserve base is the most important factor in increasing shareholder value.

C. ASHLEY HEPPESTALL

PRESIDENT AND CEO

### Dear fellow shareholders,

2010 was a very successful year for Lundin Petroleum. The fundamental cornerstone of our strategy is to create shareholder value through exploration and this delivered positive results in 2010 with the Avaldsnes and Apollo discoveries in the Greater Luno Area offshore Norway. We have already commenced in 2011 an additional five well drilling programme in the Greater Luno Area to appraise the Avaldsnes discovery as well as targeting additional exploration prospects. I believe that our Avaldsnes discovery has the potential to open up a new production hub on the Norwegian Continental Shelf and with Lundin Petroleum being one of the largest owners of acreage in this area which will be extremely positive for us.

We also crystallised the value of our United Kingdom business in 2010 through the spin-off of these assets into EnQuest plc, a new independent oil company with a particular focus on the United Kingdom Continental Shelf. This transaction has proved to be particularly successful resulting in a MUS\$ 358 profit for Lundin Petroleum and significant additional value for Lundin Petroleum shareholders who retained their shareholding in EnQuest.

I am pleased that we continue to increase our reserves and production. In 2010, our reserves increased by 18 percent and we achieved a reserve replacement ratio of close to 240 percent. In my opinion our ability to grow our reserve base is the most important factor in increasing shareholder value. Lundin Petroleum reserves are expected to increase further in 2011 as we book the reserves from our exploration discoveries such as Avaldsnes and Apollo. The increase to our reserve base will subsequently lead to increases in our production and operating cash flow as these reserves are developed and brought into production. Our production from non-divested assets is expected to increase in 2011 by approximately 10 percent and production is expected to double from current levels to over 60,000 boepd in the next five years from various development projects in Norway.

### Financial Performance

Lundin Petroleum produced a net result for the financial year of 2010 of MUS\$ 498 which includes the gain of MUS\$ 358 reported

on the spin-off of our UK business. Our remaining operations continue to produce strong operating cash flow, achieving MUS\$ 157 in the fourth quarter of 2010 to give a total operating cash flow for the reporting period of MUS\$ 599. The generation of strong operating cash flow is driven by our Norwegian production where the cost of operations is below USD 3.50 per barrel.

### Production

Production for 2010 averaged 32,700 boepd or 28,400 boepd if we exclude the contribution from our United Kingdom and Indonesian assets sold during the year. Strong production from our Norwegian fields, Alvheim and Volund contributed positively to our production figures which were at the high end of our guidance range. Our forecast 2011 production is 28,000 - 33,000 boepd.

### Development

Our production growth is expected to come from five development projects in Norway which are collectively forecast to double our current production to over 60,000 boepd within the next five years. I am confident that the net capital cost of these projects estimated at USD 2 billion can be funded from a combination of internally generated cash flow and bank borrowings without the requirement for further equity funding.

The largest project for Lundin Petroleum is the Luno field development where gross recoverable reserves increased in 2010 from 95 to 148 MMboe. Conceptual development planning for the Luno field is now complete and we are proceeding with front-end engineering prior to the submission of a plan of development in 2011.

We are making good progress with our other developments in Norway. The Gaupe field development is progressing well and first production, which is forecast to add an additional 5,000 boepd net to Lundin Petroleum, is still expected before year end 2011. We are finalising commercial terms with Shell for the tieback of the Nemo field to their Pierce production unit in the United Kingdom following which we will be ready to submit a

plan of development. Conceptual studies for the development of the Krabbe and Bøyla fields are progressing satisfactorily.

**Exploration**

Our exploration led growth strategy has yielded positive results particularly in Norway where we have been one of the most successful exploration companies in recent years. Following the successes in discovering Luno, Avaldsnes and Apollo we believe that our continued exploration driven strategy will lead to further discoveries. Lundin Petroleum's 2011 work programme involves the drilling of a further ten appraisal and exploration wells in Norway including five wells in the Greater Luno Area. We also expect to commence drilling in 2011 in the Barents Sea with two exploration wells. Our historical exploration finding costs in Norway are less than USD 0.65 per barrel after tax. The current value of these discovered resources has created significant value for our shareholders

Our intention is to replicate the Norway success story in South East Asia. We have over the last few years built a local team of professionals, acquired licences and invested in 3D seismic acquisition. I have high hopes that our planned five well exploration drilling programme in Malaysia in 2011 will yield positive results and act as the springboard to create a new core development and production area for Lundin Petroleum.

**Oil and gas industry**

During 2010, the oil and gas industry has been prominent in the media. The unfortunate events of the Macondo oil spill in the Gulf of Mexico highlighted the increasing challenges facing our industry as we operate in ever harsher environments and drill deeper to produce the planet's oil resources. Lundin Petroleum and our industry have certainly made major advances in terms of safety and environmental focus over recent years. I believe that whilst we continually strive to improve our performance the negative portrayal by the media of the oil and gas industry has been unjustified and does not reflect the advances that have been made.

The availability of cheap energy has over recent decades been the primary catalyst for world economic growth which has improved the lives of the majority of the world's population. As many of the world's economies have come out of recession in recent months, focus has returned to the question of oil supply. Despite the investment in alternative forms of renewable energy, which we support, hydrocarbons will remain the primary provider of the world's energy for the foreseeable future. Our industry faces the challenge in an escalating cost and increasingly regulated market to meet this continually increasing demand for hydrocarbon resources whilst balancing the need for improved environmental and safety performance.

**Corporate Responsibility**

In 2010, we decided to join the Global Compact as a means to reconfirm our commitment to ethical business practice. In joining the Global Compact, we committed to make the ten principles on human rights, labour, environment and anti-corruption an integral part of our business strategy, day-to-day operations and organisational culture; to incorporate the principles in our decision making process; to contribute to broad development objectives through partnerships to advance the Global Compact and responsible business practices through active outreach to stakeholders and the public at large; and to publish a Communication on Progress (COP). A number of initiatives were undertaken in 2010 in furtherance of this commitment; they are detailed in the Corporate Responsibility section of our Annual Report. Lundin Petroleum is firmly committed to the Global Compact and intends to continue to honor its commitments thereto in 2011 and beyond.

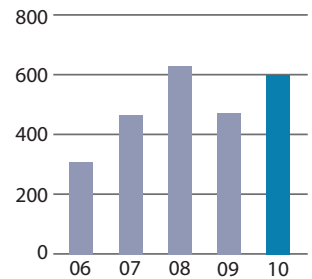
I am very proud that we have grown our resource base and as a result created value for our loyal shareholders. The future will be more of the same and in this respect I believe we have the asset base and team to deliver.

Yours sincerely,



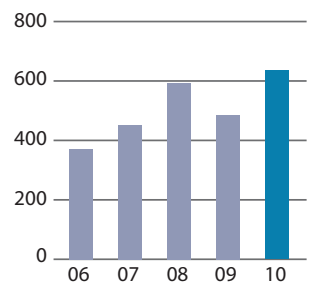
C. Ashley Heppenstall  
President and CEO

CASH FLOW (MUSD)



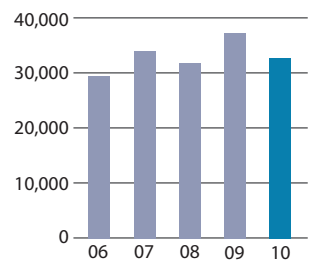
**MUSD 599**

EBITDA (MUSD)



**MUSD 636**

PRODUCTION (boepd)



**32,700 boepd**

Strong production performance from Alvheim and Volund fields.

“ In 2010, we decided to join the Global Compact as a means to reconfirm our commitment to ethical business practice

10 PRINCIPLES OF THE UN GLOBAL COMPACT

HUMAN RIGHTS	
»	<b>Principle 1:</b> Businesses should support and respect the protection of internationally proclaimed human rights; and
»	<b>Principle 2:</b> make sure that they are not complicit in human rights abuses.
LABOUR STANDARDS	
»	<b>Principle 3:</b> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
»	<b>Principle 4:</b> the elimination of all forms of forced and compulsory labour;
»	<b>Principle 5:</b> the effective abolition of child labour; and
»	<b>Principle 6:</b> the elimination of discrimination in respect of employment and occupation.
ENVIRONMENT	
»	<b>Principle 7:</b> Businesses should support a precautionary approach to environmental challenges;
»	<b>Principle 8:</b> undertake initiatives to promote greater environmental responsibility; and
»	<b>Principle 9:</b> encourage the development and diffusion of environmentally friendly technologies.
ANTI-CORRUPTION	
»	<b>Principle 10:</b> Businesses should work against corruption in all its forms, including extortion and bribery.

Corporate Responsibility (CR) is Lundin Petroleum’s way of integrating sustainable social, environmental and economic development in its exploration and production activities. Over the years Lundin Petroleum’s CR department has, in consultation with Operations, Finance & Administration put in place systems, processes and procedures to carry out activities in accordance with good oilfield practice and with due regard for the health and safety of its staff and contractors, for the preservation of the environment, and for the socio-economic development of areas of operations.

In May 2010, Lundin Petroleum confirmed its CR commitment by formally joining the United Nations Global Compact (UNGC). The UNGC is a voluntary initiative that aims to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation<sup>1</sup>.

Specifically, the UNGC asks companies to embrace, support and enact, within their sphere of influence, the ten principles of the UNGC.

By joining the UNGC, Lundin Petroleum pledged to make the ten principles an integral part of the Company’s business strategy, day-to-day operations and organizational culture, to incorporate the principles in the decision making process of the Board of Directors, to contribute to broad development objectives through partnerships, to advance the Global Compact and responsible business practices through active outreach to stakeholders and the public at large and to publish a Communication on Progress (COP).

Below is a review of the current CR framework documents and management structure, as well as a report on the CR/HSE actions undertaken in 2010. This report is also submitted as Lundin Petroleum’s UNGC COP.

<sup>1</sup> For further information on the UNGC, please refer to [www.unglobalcompact.org](http://www.unglobalcompact.org).



## THE CR FRAMEWORK

### The Code of Conduct

Lundin Petroleum's Code of Conduct, which is at the core of its Corporate Responsibility commitment details the Vision, Values and Principles by which the Company is guided, as well as the Responsibilities it has towards its stakeholders: shareholders, staff, host countries, host communities and the environment. The Company commits, inter alia, to uphold generally accepted principles on the protection of human rights and the environment, to refrain from engaging in bribery or corrupt business practices and to respect and promote employees rights, as per the UNGC principles.

The Code of Conduct has remained unchanged since its adoption in 2001 as it continues to reflect the views of Lundin Petroleum's directors, management and staff. A formal review of the Code of Conduct and Global Compact implementation will take place at Board level in the spring of 2011 to mark Lundin Petroleum's first year of membership in the UNGC.

## THE POLICIES

### Health & Safety

Lundin Petroleum's Health & Safety Policy sets the aim to conduct all operations in a manner that protects people and property and complies with applicable legislation. The principal health and safety objective is to provide a safe working environment for employees, contract personnel and members of the general public.

### Environment

Lundin Petroleum's Environmental Policy sets the aim to protect the environment and to ensure that exploration and production operations are conducted in compliance with applicable environmental laws and regulations and meet company-specified environmental procedures and programmes.

### Community Relations

Lundin Petroleum's Community Relations Policy sets the aim to enhance the living standards and well being of the people in the areas it operates by, for example, hiring local staff and/or participating in community projects.

These Policies have remained unchanged, as they continue to represent Lundin Petroleum's high level commitment to Health, Safety, Environment (HSE) and Communities.

## THE HSE MANAGEMENT SYSTEM

### The Green Book

Lundin Petroleum's HSE Management System, the Green Book, sets corporate requirements for the systematic and comprehensive integration of HSE issues in the management of the Company's worldwide operations. It aims to achieve continuous improvement of HSE performance through a pro-active management process covering planning, implementation, monitoring and review activities.

No changes were made to the Green Book in 2010, as the document was revised in 2009; it has, however, been strengthened through the adoption of three corporate HSE Guidelines (see below The Corporate Guidelines).

### The HSE goals

In order to reinforce the commitments made in Lundin Petroleum's Code of Conduct, HSE Policies and the Green Book and to avoid potential negative impacts on people, assets and the environment, the Company promotes the following high level HSE goals throughout its operations:

- » Zero fatalities
- » Zero incidents
- » Zero harm to the environment

## CORPORATE RESPONSIBILITY

These goals have been communicated to General and HSE managers in the Group, together with suggested "Promote, Prevent & Reduce" actions from the Health, Safety and Environment perspectives.

### The Corporate HSE Plan

Lundin Petroleum elaborates a corporate HSE Plan on a yearly basis. The purpose of this Plan is to have a systematic approach to HSE management, to increase HSE awareness among staff and involve them in planned activities, to promote a sound HSE culture at corporate management level as well as reinforce the Company's corporate HSE goals. The corporate HSE Plan describes the Company's main operations and the HSE activities which will be undertaken to ensure that operations are carried out in accordance with HSE best practice. The Plan is developed by the VP Corporate Responsibility (VPCR) in consultation with the CEO and Chief Operating Officer (COO), and is checked for progress at minimum on a quarterly basis. The Plan covers general, management system, audit and verification, as well as office activities.

In 2010 most activities were carried out per, or above, the corporate HSE Plan, except for the frequency of HSE Quarterly Management Meetings, and for the corporate reviews of the HSE Management Systems Requirements, which were carried out as follows:

- » France: a revised HSE Management System was in the process of introduction and the subject of an informal review; an audit is planned for 2011.
- » Indonesia: a new HSE Management System is planned and will be reviewed in 2011.
- » Malaysia: a new HSE Management System was in the process of development and was the subject of an informal review; an audit is planned for 2011.
- » Norway: HSE management practice rather than system was reviewed; an audit is planned for 2011.
- » Russia: the formal review was postponed to 2011 in view of the level of activity in 2010.
- » Tunisia: a formal corporate audit was undertaken.

### The Country HSE Plans

Country management are required under the Green Book to have their own country and/or asset HSE Plans as a means to manage HSE issues on a pro-active basis, setting HSE goals and objectives and ensuring that HSE issues are addressed by line management.

A new corporate reporting requirement has been set for 2011 whereby country operations will report monthly on progress against their HSE Plan in order for corporate to have regular and auditable information regarding every country's HSE management activities.

### The Corporate Guidelines

A new feature in Lundin Petroleum's CR framework in 2010 has been the development of corporate Guidelines. The purpose of the Guidelines is to assist country operations in focussing

on specific CR & HSE issues which corporate has identified as requiring special attention in view of developments within the Company or industry. In 2010, the following Guidelines were issued:

- » Guidelines for HSE Managers for the Budgeting Process.
- » Guidelines on Oil Spill Preparedness.
- » Guidelines on Sustainable Investments.

The Guidelines for HSE Managers for the Budgeting Process assists HSE managers, through a series of questions, to ensure that HSE issues have been properly addressed and integrated in operational budgets. HSE managers are required to report to corporate that they are satisfied with the operational budgets.

The Guidelines on Oil Spill Preparedness were issued following the Deepwater Horizon accident as an additional control mechanism to ensure that Group companies have the proper response equipment, plans, capability and third party arrangements in place. Emergency preparedness is part of the Green Book and since 2004 all offshore operated drilling and production activities are covered under corporate contract with Oil Spill Response Ltd, the Guidelines are thus a reinforcement of existing practice.

The Guidelines on Sustainable Investments replace the former Corporate Donations Policy; the document was revised to reflect Lundin Petroleum's management of stakeholder issues such as community relations and environmental protection, in view of its new focus areas, i.e. Europe and South East Asia (see below under Sustainable Investments).

### The Corporate HSE Procedures

Lundin Petroleum has corporate requirements and procedures that aim to ensure that operations are conducted in a safe and respectful manner throughout the Group; these include the HSE Management System Requirements (MSR), which provide guidance on the specific requirements on operations under the Green Book. In 2010 the HSE MSR Self-Assessment Form was used as a basis for formal HSE MS audits (Tunisia) and reviews (France, Indonesia and Malaysia). In 2011 the same document will be relied upon to carry out formal audits of all operated assets.

The corporate HSE Reporting Requirements, modified in 2009 to align with the Occupational Safety and Health Administration standards (OSHA 1904), remained unchanged in 2010. The Company is thus building a track record of HSE performance to carry out multi-year comparisons of HSE performance (see below under Comparison 2009-2010 HSE KPIs).

Crisis management procedures are also in place to ensure business continuity in the event of a problem either at operations or corporate. Operated country operations are required to carry out at least one emergency drill involving corporate, in order to test the effectiveness of the emergency response procedure and communications between corporate and operations during emergency situations. The requirement was fulfilled by all operated assets in 2010.

## OUR PEOPLE

**BERNT RUDFJORD****HSE Manager  
Oslo, Norway**

Bernt has 25 years experience as a petroleum engineer. He joined Lundin Petroleum in 2006 and is responsible for health, safety and environment regarding drilling and development projects.

Lundin Petroleum's whistleblowing procedure, adopted in 2008 to provide an avenue for all the employees in the Group to raise concerns about improper, unethical or illegal conduct in the workplace and to obtain reassurance that they will be protected from reprisals or victimisation for whistleblowing in good faith has not resulted in any allegation of misconduct.

**The Country HSE Procedures**

There are operational HSE procedures in every country of operations covering the full spectrum of exploration and production activities, from environmental, security and risk studies and assessments, to permit-to-work systems, Job Safe Analyses, oil spill and emergency response preparedness as well as HSE and business continuity plans. All procedures are tested and verified on an ongoing basis, through drills as well as internal, external and/or regulatory audits.

**THE HSE STRUCTURE****The HSE Board Representative**

Lundin Petroleum's Board of Directors has a supervisory role regarding HSE issues. In 2009, it was decided that the Board would have a member acting as focal point for HSE issues. In 2010 a dialogue has taken place between management and the Board member to review HSE management and performance issues on an ongoing basis.

**The HSE Quarterly Management Meeting**

Lundin Petroleum HSE Quarterly Management Meeting, initiated end 2009, convenes senior and operational management to review HSE performance in the Group, progress against HSE Plan and discuss HSE implications of planned operational activities and other matters of interest. In 2010 only one of the four scheduled meetings was held, although HSE management and performance issues were addressed in individual meetings between the VPCR and the CEO, COO, the Senior VP Operations (SVPO) and/or the Group Human Resources Manager (HR Manager). The topics covered at the quarterly meeting were:

- » Review of Group's HSE performance.
- » Comparison of Group's HSE Key Performance Indicators relative to peers.
- » Contribution of Lundin Petroleum's to the Climate Change Disclosure Project.
- » Implication of Lundin Petroleum accession to the Global Compact.
- » Presentation on the two first principles on human rights of the Global Compact.

**The HSE Committee**

Lundin Petroleum's corporate HSE Committee, consisting of the SVPO, VPCR and HR Manager, is tasked with addressing HSE matters on a needs basis. Meetings focus on a single issue or review a number of issues such as KPIs, the HSE implications of planned or current operations, the implication of the Deepwater Horizon accident, and potential problem areas, etc. In 2010 the Committee met informally on a monthly basis and held four formal meetings.

**The HSE Network**

Lundin Petroleum gathers on a bi-monthly basis Group HSE and General Managers in a conference call. Each HSE Teleconference includes a review of main concerns/issues of the month, a status and discussion of HSE Key Performance Indicators (KPIs), lessons learned, and a presentation by one of the assets about a specific HSE issue. Five teleconferences were held in 2010. The topics of the presentations were:

- » HSE Management (Aberdeen, UK).
- » Oil Spill Preparedness (Astrakhan, Russia).
- » Contractor Management (Indonesia).
- » Sustainable Investments (Moscow, Russia).
- » Risk Management (Oslo, Norway).

All HSE corporate, operational and industry documents as well as teleconference materials including presentations are posted on a dedicated HSE web forum, accessible by GMs, Operations and HSE managers throughout the Group.

**LUNDIN PETROLEUM 2010 HSE PERFORMANCE****The HSE KPIs**

The Company tracks a number of HSE Key Performance Indicators (KPIs) for its operated assets as a means to monitor the status of performance throughout the Group. In doing so it also fulfils its UNGC commitments regarding labour and the environment.

**Health & Safety KPIs**

The Health & Safety indicators tracked on an ongoing basis throughout the Group and reported on a monthly basis to corporate are Fatalities, Lost Time Incidents, Restricted Work Incidents (RWI) and Medical Treatment Incidents (MTI) among staff and contractors. Coupled with the number of hours worked, these indicators enable the Company to determine its Total Recordable Incident Rate (TRIR) per 200'000 hours worked. In addition to these lagging indicators (reporting incidents that

## CORPORATE RESPONSIBILITY

have occurred), the Company also tracks leading indicators such as Near Misses with High Potential. The importance of leading indicators is that they throw a light on potential problems areas and enable the Company to take pro-active measures to avoid them from developing into incidents.

### Environmental KPIs

The environmental indicators that have been reported on a monthly basis since 2004 are oil spills beyond 1 barrel and, since 2009, chemical and hydrocarbon leaks over 1m<sup>3</sup>. In addition, operated assets report greenhouse gas emissions (CO<sub>2</sub>, NO<sub>x</sub>, SO<sub>x</sub>, CO, N<sub>2</sub>O, CH<sub>4</sub>, nmVOC) on a yearly basis.

### HSE 2010 Key Performance Indicators (KPIs)

Lundin Petroleum had an ambitious work programme in 2010 with sustained exploration and production activities throughout the Group. In accordance with Lundin Petroleum's HSE Reporting Requirements, accidents and incidents involving people or the environment were noted, investigated and reported to corporate, both on an ad hoc basis, for cases requiring immediate attention, and on a monthly basis. The severity of the incidents was limited insofar as none had a permanent impact on the injured party or on the environment, however, their number has given rise to concern and action by corporate and country management in the relevant areas, as per below.

Group HSE KPIs were as follows:

#### Zero fatality among operated and non-operated assets

There have been no fatalities among staff or contractors in Lundin Petroleum's operated and non-operated assets since the Company's creation in 2001.

#### Four Lost Time Incidents (LTI, two staff, two contractors)

- » France (2 LTIs): a recently hired staff injured his hand while trying to recover tubing; he was granted five days off. The second LTI involved the driver of a trucking contractor who injured his ankle while stepping out of the truck; he was off work for 32 days.
- » Russia (1 LTI): a company driver was involved in a car accident through no fault of his own and was granted 5 days off.
- » Indonesia (1 LTI): twelve contractor staff in the Rangkas seismic camp suffered from abdominal pain. One was held overnight at the hospital (LTI), while eleven were given medical treatment at the camp clinic (MTIs). The investigation showed that the water well in the field camp was contaminated with e-coli. Further incidents occurred in relation to the seismic acquisition in the Rangkas Block which prompted a full review and field trip by corporate and country management in order to redress the campaign's poor HSE practice and performance (see below under Comparison 2009-2010 HSE KPIs).

#### Seven Restricted Work Incidents (RWI, all contractors)

- » France (1 RWI): an operator injured his hand during the cleaning of tubing. Medical assistance was provided and the operator was able to perform other tasks on the following day.
- » Indonesia (6 RWI): three contractor staff used the wrong tool to repair a piece of equipment; they received medical treatment and were given alternative tasks, though the wounds were minor. The second incident involved water contamination in a camp in the Rangkas Block.

#### Seventeen Medical Treatment Incidents (MTI, all contractors)

- » UK (2 MTIs): one was a knee injury (on the Thistle platform) and the second an ankle injury (on the Heather platform); both staff were able to resume their normal activities after medical treatment.
- » Indonesia (15 MTIs): fourteen cases were due to the water contamination events described above while one was due to the improper handling of tools.

#### One oil spill (10 m<sup>3</sup>)

- » France (1 oil spill): the cause of the spill in the Soudron production site was a disconnected 4" fiber pipe at the elbow level. The spill was fully contained on the production site by the intervention of the personnel on call, and was fully cleaned up with the help of Company and contracted personnel within the week. Several controls conducted in the following months confirmed the absence of hydrocarbons.

#### One chemical spill (7.7 m<sup>3</sup>)

- » UK (1 chemical spill): the case involved an ongoing leak on the Broom pipeline system that resulted in discussions with the regulator to find an appropriate solution.

#### Three Near Misses with High Potential

- » Tunisia (1 NMHP): a person took a sip from a half-litre water bottle filled with anti-freeze that had been left unlabeled. No liquid was swallowed and thus no injury sustained.
- » France (2 NMHPs): flexible tubing detached from the pipe installation during the start-up of a new water injection system. A thorough investigation took place which identified three causes, all of which were related to the malfunction of equipment. A security cable prevented this NMHP from resulting in a personal injury. The second case involved the partial disconnection of a trailer vehicle, which was retained by the security cable. All trailer vehicles were later inspected for fitness.

#### Six Non-Compliance with Permits (all UK)

- » UK (6 NCwP): the first was in relation to the use of a chemical whose permit had expired the other five were in relation to the oil in water concentration which slightly exceeded the permit level (i.e. 118 mg versus 110 permitted). These non-compliances were the subject of communications with the regulator.



### Comparison 2009–2010 HSE KPIs

Despite the various actions taken at corporate and country level to track and improve HSE performance throughout the Group, the record is mixed. There are reasons for concern in some areas and there are clear improvements in others.

#### The following 2010 KPIs compare unfavourably with 2009:

- » Two Lost Time Incidents among contractors compared to one in 2009.
- » Seven Restricted Work Incidents among contractors compared to none in 2009.
- » Seventeen Medical Treatment Incidents among contractors compared to seven in 2009.
- » A Lost Time Incident Rate of 0.55 for staff compared to 0.44 in 2009 and 0.17 for contractors compared to 0.06 in 2009.
- » A Total Recordable Incident Rate of 2.23 for contractors compared to 0.46 in 2009.

#### The following 2010 KPIs compare favourably with 2009:

- » No Restricted Work Incidents among staff compared to one in 2009.
- » No Medical Treatment Incidents among staff compared to two in 2009.
- » A Total Recordable Incident Rate for staff of 0.55 compared to 1.10 in 2009.
- » An oil spill of 10m<sup>3</sup> compared to one of 40 m<sup>3</sup> in 2009.
- » A chemical spill of 7.7 m<sup>3</sup> compared to one of 129.775 in 2009 (represents a decrease notwithstanding sale of asset).
- » No hydrocarbon leaks compared to one in 2009.
- » Three Near-Misses with High Potential compared to 24 in 2009.
- » Six Non-Compliances with Permits compared to 19 in 2009.

The figures above and in the Table below indicate that there have been clear improvements in staff HSE performance, but a deterioration in contractor performance. This is mainly attributable to the onshore seismic campaign which was carried out in the second half of 2010 in Indonesia. While the HSE track record and management system of the main contractor was assessed and reviewed prior to contract allocation, the capacity of subcontractors was not sufficiently taken into consideration. This coupled with the fact that the campaign involved approximately 1200 mostly unskilled personnel operating in unfavourable weather conditions resulted in an overall unsatisfactory HSE performance. Lundin Petroleum corporate and country management carried out a number of field inspections which resulted in a series of recommendations and demands, which the main contractor started to address forthwith. These involved HSE management system measures, such as timely reporting and investigation of incidents, equipment upgrades, improvement to the number and capacity of field personnel, etc. As a result there was an improved HSE performance towards the end of the year; however, as the campaign is ongoing in 2011, additional management time and resources have been dedicated to this project to ensure the positive trend continues.

On a positive note, despite Norway's extensive exploration and production activity, there were no reportable incidents in 2010.

### HSE INDICATOR DATA

		2010	2009
Exposure Hours	Employees	731,793	905,166
	Contractors	2,336,409	3,454,980
Fatalities	Employees	0	0
	Contractors	0	0
Lost Time Incidents <sup>1</sup>	Employees	2	2
	Contractors	2	1
Restricted Work Incidents <sup>2</sup>	Employees	0	1
	Contractors	7	0
Medical Treatment Incidents <sup>3</sup>	Employees	0	2
	Contractors	17	7
Lost Time Incident Rate <sup>4</sup>	Employees	0.55	0.44
	Contractors	0.17	0.06
Total Recordable Incident Rate <sup>4</sup>	Employees	0.55	1.10
	Contractors	2.23	0.46
Oil Spills	No.	1	1
	Vol. (m <sup>3</sup> )	10	40
Chemical Spills	No.	1	2
	Vol. (m <sup>3</sup> )	7.7	129.775
Hydrocarbon Leaks	No.	0	1
	Mass (kg)	0	4
Near Misses with High Potential	No.	3	24
Non-compliance with Permits/Consents	No.	6	19

<sup>1</sup> Lost Time Incident (LTI) is an incident which results in a person having at least one day away from work.

<sup>2</sup> Restricted Work Incident (RWI) is an incident which results in keeping a person from performing one or more routine functions.

<sup>3</sup> Medical Treatment Incident (MTI) is a work related injury or illness that does not result in a job restriction or days away from work.

<sup>4</sup> Lost Time Incident Rate and Total Recordable Incident Rate are calculated on the basis of 200'000 hours.

Figures include UK to end April 2010.

### SUSTAINABLE INVESTMENTS

Lundin Petroleum's mission is to find and produce oil and gas, a valuable source of energy required for global economic development, in an efficient and responsible way. It fulfils this mission by having in place the CR framework and structure described above, providing staff and contractors with the necessary support and guidance in terms of training, procedures, equipment and tools, etc. to carry out activities competently and with minimal disturbance to people and the environment. Lundin Petroleum has set the additional goal of having a positive impact on people and the environment by initiating or participating in projects which promote social welfare, environmental protection and good governance.

After joining the UN Global Compact in 2010, Lundin Petroleum issued new Guidelines on Sustainable Investments to encourage and assist country management within the Group to reflect upon the types of activities they are engaged in and determine ways in which they could positively impact the people and the environment in their areas of operations. The Guidelines were presented within the Group in an HSE Teleconference and discussed with GMs and/or HSE officers of each country individually.

There are two mechanisms for contributions under the Guidelines: community development projects and corporate donations. Community development projects are elaborated as part of Lundin Petroleum's and/or operating partners' licence commitments in economically challenged areas; they are part and parcel of the operations and are done on a scale that reflects the extent and nature of the operational activities. Corporate donations take place in areas where Lundin Petroleum has limited interface with local communities, either because the activities are offshore or because they are partner-operated.

Sustainable investments have taken place in fields which both the United Nations' Global Compact and the Millennium Development Goals promote namely social welfare, environment and governance. Below is a sample of the projects which Lundin Petroleum funded in 2010.

#### Social Welfare Projects

Poverty is a social plague which affects children in a disproportionate way. Since 2006, Lundin Petroleum has been a partner of SOS Children's Village, Sweden and has supported a number of children's villages in operated (Indonesia, Tunisia) and non-operated (Vietnam, Cambodia) areas. This support has continued in 2010 through direct contributions from Indonesian and Tunisian offices to their respective Villages and a corporate contribution via Sweden to Vietnam, a non-operated area.

Improving access to basic health is another goal which Lundin Petroleum promotes. In 2010, it organised a fundraiser among its staff and matched raised amounts to fund health projects carried out by Partners in Health further to the earthquake that took place in Haiti on January 12, 2010. In Indonesia, as part of its onshore 472 km 2D seismic campaign, the Company funded a medical campaign for children carried out by the Hope Foundation.

Lundin Petroleum continued to support the Southern Sudan's Older People's Organization's (SSOPO) Project of Vocational

Training in Food Processing, which helps women from the Juba area to acquire vocational skills. The Company decided to maintain its support to this project even though it no longer has operational interests in Sudan, as its contribution enables SSOPO to get co-funding from other organisations.

#### Environment Projects

Preservation of the environment is included in Lundin Petroleum's day-to-day operations and was also the subject of sustainable investments in 2010. The Company sponsored an environmental protection initiative in the Volga Delta area whereby volunteers collected rubbish from river banks and camping sites, and sensitised local residents and tourists to the principles of preservation of the environment and eco-tourism. The initiative was recognised by the Governor of Astrakhan as having great value to the area and was reported in multiple local media.

Biodiversity was another aspect covered by Lundin Petroleum's sustainable investments. The Company supported a research project in relation to the artificial breeding of sturgeons, whose population in the Volga Delta area is decreasing due to poaching activities. It also facilitated the nesting of Siberian cranes, a critically threatened species according to the International Union for Conservation of Nature (IUCN). In France, the Company sponsored posters identifying rare fauna and flora species in the swamps areas and the need to preserve them.

Climate Change remains an important consideration for Lundin Petroleum, which tracks green house gas emissions in the course of its operations. In 2010 it participated again in the Carbon Disclosure Project and for the second consecutive year featured in the Nordic 200 Carbon Disclosure Leadership Index (CDLI). The Company ranked first among Nordic oil and gas companies and third among all Swedish companies rated by the Carbon Disclosure Project. Lundin Petroleum was commended for its approach to corporate governance in respect of climate change disclosure practice, its good internal data management and understanding of climate change issues.

#### Governance Projects

Lundin Petroleum addressed the issue of governance both internally and externally. Internally the Company prepared a presentation on the UNGC's two first principles on human rights (i.e. support and respect the protection of human rights and avoid complicity in human rights abuses). The presentation was made to senior corporate management at the HSE Quarterly Meeting in 2010 and at the HSE Teleconference with Group General and HSE Managers in Q1 2011. A copy of the presentation as well as Lundin Petroleum's Human Rights Primer are posted on Lundin Petroleum's internal HSE web forum.

In addition, Lundin Petroleum has sponsored research and a workshop at the Institute of Graduate Studies, Geneva, Switzerland on "Global and local governance in the energy sector". The workshop, held over two days in February 2010, gathered academics and representatives from the non-governmental and private sectors, who presented and discussed the issue of governance from a macro societal level to a micro company level. Every participant, including Lundin Petroleum, contributed an article which will be published by the Journal of Global Governance in the second half of 2011.