

## The Board of Directors' proposal for establishing a long-term, performance-based incentive plan (LTIP 2014)

### Background

The Board of Directors proposes that the Annual General Meeting resolve to establish a long-term, performance-based incentive plan ("**LTIP 2014**") in respect of Group Management and a number of key employees of Lundin Petroleum AB (publ) ("**Lundin Petroleum**" or the "**Company**") as set forth below.

The primary reason for establishing LTIP 2014 is to align the interests of Group Management and other key employees with the interests of the shareholders, and to provide market appropriate reward reflecting performance and commitment. The Board of Directors also believes that the proposed LTIP 2014 will provide Lundin Petroleum with a crucial component to a competitive total compensation package to attract and retain executives who are critical to Lundin Petroleum's on-going success. Participants in the LTIP 2014 will not be entitled to receive any new awards under any of the Company's other long term incentive ("**LTI**") plans in the same year.

The Board of Directors intends to propose to future Annual General Meetings to establish LTI plans based on principles corresponding to the currently proposed LTIP 2014. In order to be eligible to participate in such future LTI plans, each participant needs to build towards a meaningful shareholding in Lundin Petroleum, meaning that a certain portion of any allotted shares pursuant to LTIP 2014 (and any future LTI plans) shall be retained until the required level of shareholding has been met.

### Implementation of LTIP 2014

The Board of Directors proposes that the Annual General Meeting 2014 resolves on the implementation of the LTIP 2014 in accordance with the terms and conditions set out below.

#### *Terms and conditions*

- (a) Awards under LTIP 2014 are proposed to be made to approximately 20 permanent employees of the Lundin Petroleum Group (the "**Participants**"), comprising the CEO and other members of Group Management as well as certain other key employees within the Lundin Petroleum Group. The Board of Directors may, within the total number of shares available under LTIP 2014, invite a limited number of additional Participants in LTIP 2014 following recruitment to the Lundin Petroleum Group.
- (b) LTIP 2014 gives the Participants the possibility to receive shares in Lundin Petroleum subject to uninterrupted employment and to the fulfilment of a performance condition over a three year performance period normally commencing on 1 July 2014 and expiring on 30 June 2017 (the "**Performance Period**"). The performance condition (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 (the "**Peer Group**"). At the beginning of the Performance Period, the Participants will, free of charge be granted awards ("**LTIP Awards**") which, provided that i.a. the Performance Condition is met, entitle the Participant to be allotted, also free of charge, shares in Lundin Petroleum ("**Performance Shares**") as soon as reasonably practicable following the end of the Performance Period.

- (c) The LTIP Award (i.e. the number of Performance Shares that a Participant may be allotted following the expiration of the Performance Period, provided that i.a. the Performance Condition is met) to be awarded to each Participant shall be calculated as follows:

LTIP Award = A multiplied by B divided by C, where

A is the Participant's monthly gross base salary applicable as at the date of grant of the LTIP Award;

B is a number of months as determined by the Board of Directors in respect of each Participant, taking into account such factors as industry benchmarking and the Participant's position within the Lundin Petroleum Group (but in any case, not exceeding 36 months); and

C is the average closing price of the Lundin Petroleum share on the NASDAQ OMX Stockholm for the three month period immediately prior to the Performance Period (the "**Initial Share Price**").

Fractions of Performance Shares shall be rounded-off to the immediate lower whole number.

Assuming a share price of the Lundin Petroleum share as of 10 April 2014 of SEK 132.90, the total number of Performance Shares that may be allotted under LTIP 2014 as at the date of award (assuming 100 per cent vesting) is approximately 600,000, corresponding to approximately 0.2 per cent of the current total number of shares and votes in Lundin Petroleum. Since LTIP Awards are intended to be awarded in July 2014 and the share price of the Lundin Petroleum share may fluctuate until the Initial Share Price is determined, and considering additional Participants following recruitment, the total number of Performance Shares under LTIP 2014 as at the date of award may not exceed 700,000.

- (d) Allotment of Performance Shares will be determined by the Board of Directors after the expiration of the Performance Period on the basis of LTIP Awards made and is conditional on (i) the Participant retaining his or her uninterrupted employment in the Lundin Petroleum Group until the expiry of the Performance Period and (ii) the Performance Condition having been met. The Board of Directors may reduce (including reduce to zero) 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 health and safety performance.
- (e) A minimum and a maximum level for the Performance Condition to be fulfilled have been established by the Board of Directors. In order for the LTIP Awards to give entitlement to the maximum number of Performance Shares, the maximum level for the Performance Condition must have been fulfilled. The Performance Condition calculation will be made based on a comparison of Total Shareholder Return of the Lundin Petroleum share to the Peer Group, comparing the period of three months prior to the commencement of the Performance Period with the period of three months prior to the end of the Performance Period. The LTIP Awards will vest based on the comparative Total Shareholder Return of the Lundin Petroleum share, on a straight line basis from no vesting at the 37.5<sup>th</sup> percentile performance (or below) to 100 per cent vesting at the 75<sup>th</sup> percentile performance (or above). The Performance Condition calculation will be performed by the Board of Directors. Lundin Petroleum intends to present the level of fulfilment of the LTIP 2014 Performance Condition in the 2017 Annual Report.

- (f) The Participants will not be entitled to transfer, pledge or dispose of the LTIP Award or any rights or obligations under LTIP 2014, or exercise any shareholders' rights regarding the LTIP Awards during the Performance Period. Any cash dividends declared and paid by the Company during the Performance Period will be accumulated and paid to the Participant, following and to the extent of vesting of the Performance Shares.
- (g) Shares allotted under LTIP 2014 (or any future LTI plans) shall be subject to certain disposition restrictions meaning that the Participants shall be building towards a meaningful shareholding in Lundin Petroleum. The required level of shareholding will be either 50 per cent or 100 per cent (200 per cent for the CEO) of the Participant's annual gross base salary based on the Participant's position within the Lundin Petroleum Group. Notwithstanding this requirement, the Company may pay part of the allotment of Performance Shares in cash in order to facilitate the payment of the Participant's tax liabilities. However, a minimum of 50 per cent of the allotted Performance Shares (after taxes and social security charges) under LTIP 2014 will be required to be retained until the required level of shareholding has been met.
- (h) Recalculation of the Performance Condition and the LTIP Awards, including the number of Performance Shares allotted, shall take place in the event of an intervening dividend in kind, bonus issue, split, preferential rights issue and/or other similar corporate events.

#### *Structure and administration*

The Board of Directors of Lundin Petroleum will be responsible for the structure and administration of LTIP 2014, as well as for the detailed terms and conditions applicable between Lundin Petroleum and the Participants. The detailed terms and conditions will be adopted within the scope of the terms and conditions and guidelines stated herein. In connection therewith, the Board of Directors will be entitled to adopt different terms and conditions for LTIP 2014 regarding, among other things, the Performance Period and allotment of Performance Shares in the event of commencement or termination of employment during the Performance Period, e.g. due to new recruitments, illness, disability, death, redundancy, contractual retirement and other exceptional circumstances determined by the Board of Directors.

The Board of Directors will be entitled to make adjustments in order to comply with special rules or market conditions abroad. In the event delivery of Performance Shares to Participants cannot take place under applicable law or at a reasonable cost and employing reasonable administrative measures, the Board of Directors will be entitled to decide that Participants may, instead, be offered a cash settlement. In the event of a change of control, the vesting of any LTIP Awards under LTIP 2014 will be accelerated, based upon performance up to such time.

#### **Delivery of shares, costs etc.**

The LTIP Awards entitle Participants to acquire already existing Lundin Petroleum shares. To ensure delivery of the required number of shares under LTIP 2014, the Board of Directors will consider means to secure the Company's commitment. One method would be to enter into an equity swap agreement with a third party on terms in accordance with market practice, whereby the third party in its own name shall be entitled to acquire and transfer shares in Lundin Petroleum to the Participants. The Company will further hold, after the proposed cancellation of shares as per item 23 in the Notice of the Annual General Meeting, 2,000,000 own shares, which mitigate the Company's financial exposure under LTIP 2014.

The LTIP 2014 will be accounted for in accordance with the accounting standard IFRS 2 and the costs will be charged to the income statement over the Performance Period.

The maximum cost for granting LTIP Awards under LTIP 2014 (assuming 100 per cent vesting), excluding costs related to delivery of the Performance Shares, is approximately USD 14.7 million (approximately SEK 95.0 million), excluding social security charges. The maximum cost for social security charges is estimated to be approximately USD 1.77 million (approximately SEK 11.5 million) assuming 100 per cent vesting and an annual share price increase of 10 per cent during the Performance Period.

### **Effects on key figures**

Under the assumptions set out in item (c) above and upon full allotment of Performance Shares, the number of shares under LTIP 2014 amounts to approximately 600,000 shares in Lundin Petroleum (subject to final determination of the Initial Share Price), corresponding to approximately 0.2 per cent of the current total number of shares and votes in the Company. LTIP 2014 is expected to have only marginal effects on Lundin Petroleum's key figures.

### **Preparation of the proposal**

The proposal for LTIP 2014 has been prepared by the Compensation Committee and resolved on by the Board of Directors.

### **Other incentive schemes in Lundin Petroleum**

For a description of the Company's other LTI plans, reference is made to the Company's Annual Report for 2013, note 32, and the Company's website, [www.lundin-petroleum.com](http://www.lundin-petroleum.com). In addition to the plans described there, no other LTI plans have been implemented in Lundin Petroleum.

### **Majority requirement**

The Board of Directors proposes that the Annual General Meeting resolves in accordance with the Board of Directors proposal to establish LTIP 2014. A valid resolution requires a simple majority of the votes cast.

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Stockholm, April 2014  
**Lundin Petroleum AB (publ)**  
*The Board of Directors*