

## **AGM SPEECH - May 7<sup>th</sup> 2015**

Ashley Heppenstall – President and CEO

**(1)**

Good afternoon everybody, and welcome to Lundin Petroleum's shareholders meeting for 2015. As usual, it is great that so many of you are able to join us at our annual meeting here in Stockholm.

**(2)**

The primary focus for me and our management team is to create value for you our shareholders. I hope you agree that we have done and continue to do a good job in that respect. Certainly our industry analysts seem to agree with their positive comments. "The Best explorer on the Norwegian Continental Shelf" from DNB of Norway and "You can't get too much of a good thing" from BMO Capital markets are a couple of examples. Since the company was formed in 2001 we have increased shareholder value by over forty times and are today regarded by industry analysts as one of the most respected companies from both a technical and financial perspective. Indeed a few months ago we became the largest upstream independent company in Europe measured by market capitalisation. Our market value today is over 40 billion Swedish krona making us one of the 27th largest companies in Sweden.

**(3)**

But it is not always easy. Since I spoke to you at this meeting last year when oil prices were above USD 100 per barrel we have seen prices fall by over 40 percent to today's levels of about USD 60 per barrel. Sweden is famous for the quality of its industrial companies but can you imagine the impact of such companies having to deal with a 40 per cent fall in their product prices. I think they would struggle.

**(4)**

The good news is that Lundin Petroleum has and will be able to deal with low oil prices. As our founder the late "Adolf Lundin" used to say "when the going gets tough the tough get going". We have solid production from Norway and Malaysia, low operating costs, pay limited cash taxes and therefore generate strong operating cash flow. The quality of our assets is excellent underpinned by the world class Johan Sverdrup project. We also have a strong balance sheet with conservative debt leverage which gives us continued access to liquidity as was shown last week with the signing of an additional NOK 4.5 billion loan facility with ten international banks. So even if low oil prices persist, we will be able to fund our ongoing development projects in Norway including Johan Sverdrup and to continue to explore. Unlike many of our peer companies we will not need to come back to our shareholders and ask for more money.

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Clearly the equity market agrees with me. Over the last year when oil prices fell by over 40 percent our market value has remained flat whilst a basket of 10 other peer group companies fell by over 40 %. So we have clearly performed very well this year on a relative basis to other oil and gas companies.

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But please don't get me wrong. Low oil prices have and will continue to create serious problems for our industry. Everyone is focusing on cutting or deferring costs, there are no new projects moving ahead (perhaps with the exception of Johan Sverdrup). So service providers, such as drilling, engineering, construction and seismic companies, all have less work and as a result many are facing

financial difficulty. And sadly the result is that people lose their jobs as part of this process and many unfortunately never to return to the industry.

**(7)**

Our industry every few years goes through these cycles. In fact this is the fourth oil price “correction” which I have witnessed in my career. Whilst of course taking nothing for granted and becoming complacent, we get quite used to how to deal with such situations. The good news is that oil prices will recover of that I am absolutely certain. The question is not “if” but “when”. Lower oil prices result in reduced investment, over time this impacts the supply of oil which eventually comes back into equilibrium with demand. The world still needs oil and as a result oil prices eventually rise to attract the investment to stimulate the investment required to increase the supply.

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I often hear people say that the “oil age” is finished and that as an oil and gas company we have no future. This could not be further from the truth. Don’t get me wrong, I am a supporter of the renewable energy industry which has made huge strides in terms of technology improvement and reduction of costs. Climate change is a very important issue facing mankind and irrespective of ones views on how carbon emissions are impacting the climate it is common sense to minimise such emissions. Lundin Petroleum fully supports this and is fully transparent in disclosing our greenhouse gas emissions to the Carbon Disclosure Project.

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Nevertheless the availability of cheap energy over the last century has been a major contributor to increasing economic growth and making the world a better place for us to live in. Basic necessities such as food, medicine, clothing and heating which we all today take for granted would not be as readily available had we not got access to cheap energy. With a world population of over 7 billion people expected to grow to 9 billion by 2050 energy consumption will continue to grow. Hydrocarbons will continue to be the primary source of energy in my lifetime and most probably the lifetime of my children. That means that our industry will continue to need to make the investments necessary to explore, develop and produce the world’s hydrocarbon resources. So the oil and gas industry is alive and kicking and I wouldn’t hesitate to encourage any of my children to go into the oil and gas business if that is what they wanted. We continue to need young engineers, geoscientists and economists to come into our industry.

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Lundin Petroleum is in excellent health and the future looks very bright for our company. This is not just about a recovery in oil prices. The major reason for my optimism is the quality of our asset portfolio, that our production will triple by the end of this year to over 75,000 barrels of oil equivalent per day, that the Johan Sverdrup project is a moving forward and will ultimately double our production again to 150,000 barrels of oil equivalent per day and finally my belief that our exploration team will continue to find more oil. As a result the value of Lundin Petroleum will increase. We are also getting close to the point when Lundin Petroleum will become a dividend paying company. I clearly can’t make promises but with our production increasing and a recovery in oil prices a dividend will definitely be on the agenda.

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So let me explain to you how we will increase the value of Lundin Petroleum. Last year we spoke about four new projects which would triple our production by the end of this year to 75,000 barrels of oil equivalent per day. I am pleased to report that three of these have now been successfully and safely completed. Brynhild, offshore Norway achieved first oil on Christmas Day last year which was a great Christmas present for us all after the frustrating delays which we have had with this project. This was followed by first oil in January and April this year for the Boyla project, offshore Norway and the Bertam project offshore Malaysia. Both projects by the way delivered safely, on schedule and close to budget.

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I am particularly pleased with the success of the Bertam project in Malaysia. For some of you here today you will remember Lundin Oil our predecessor company whose success was built in Malaysia. Well we went back to Malaysia about 8 years ago as Lundin Petroleum. We have quietly grown our business so that today we have over 150 people in Kuala Lumpur, have an excellent relationship with state company Petronas and are the second largest owner of acreage in the country. The Bertam project was able to be completed so quickly because we took the Ikdam floating production and offloading vessel shown on here on the top right in Malaysia on a speculative basis after our Tunisian production finished. The vessel now named Bertam FPSO shown on the bottom right was upgraded in Singapore to enable it to be used on the Bertam field. You must agree the old lady received quite a facelift. Congratulations to all our Malaysian team on a job well done. I hope that Bertam is the first of many projects to come in South East Asia and that in this part of the world we can replicate our success in Norway.

**(13)**

On Monday this week, I visited the Kvaerner shipyard at Stord on the west coast of Norway for a celebration with all the workers who have recently completed the topside facilities for the Edvard Grieg project. It was a remarkable achievement that Kvaerner and our team have finished this work on schedule and within budget. The four topside units collectively weigh over 22,000 tonnes, 4000 workers have been involved in the construction at a cost of over 13 billion Swedish Krona. This is certainly a world class project.

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In the next few weeks the topsides will be taken out into the Norwegian North Sea on these barges. A heavy lift crane, one of only two in the world large enough to do the job, will then lift the topsides onto the jacket shown here on the left which was successfully installed last summer.

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This flotel will then arrive to accommodate up to 450 people who will this summer do all the final hook up and commissioning work prior to first oil from Edvard Grieg in the fourth quarter of this year.

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Just a few days ago Norway commemorated the 50<sup>th</sup> anniversary of the date in April 1965 when the first licence was awarded on the Norwegian continental shelf. It is amazing to think that our Edvard Grieg field was part of that original licence awarded to Exxon 50 years ago. Lundin Petroleum's first well in Norway in 2007 resulted in the Luno Oil discovery, now renamed Edvard Grieg. So eight years on we are close to the successful completion of Edvard Grieg which will be a fantastic fiftieth birthday present for the Norwegian oil industry. This will certainly be a proud moment for me and everyone at Lundin Petroleum.

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It is perhaps fitting at this time to recognise the remarkable achievements of our Norwegian team who have been responsible for discoveries such as Johan Sverdrup as well as the discovery and development of Edvard Grieg. We are today joined by key members of the Norway team. Lundin Norway has over the last ten years been led by Torstein Sanness who has taken the company from being just four men, a lady and a dog to our position today where we are one of the largest and most successful operators in Norway with over 350 people. Hans Christian Ronnevik is the Head of our Norway exploration business. He and his team have been unquestionably the most successful explorers in Norway in recent years with numerous discoveries which culminated in the discovery of the super-giant Johan Sverdrup in 2010. And Anders Henriksson is our Project Manager responsible for the development of the Edvard Grieg project. Anders is Swedish and I like to kid our Norwegian friends that it took the skills of a Swede to get this job done.

Last month Torstein stepped down from his position as Managing Director of Lundin Norway and whilst remaining our non-executive Chairman in Norway we hope he enjoys retirement. I think it is appropriate that we recognize the remarkable achievements of Torstein, Hans, Anders and their teams and the huge value that Norway has created for Lundin Petroleum shareholders.

All three of you please stand up and take a bow.

**(18)**

I also want to give a warm welcome to our new Managing Director of Lundin Norway Kristin Faerovik. Kristin has had a successful and distinguished career in the oil and gas business and she was formerly a non-executive director of Lundin Petroleum. We have excellent assets in Norway, good relationships with the Norwegian Government and a strong team. I have full confidence that Kristin will be able to lead Lundin Norway to even greater success over the forthcoming years. I am sure you all join me in wishing her the best in this very important role.

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And that leads very nicely onto Johan Sverdrup. In February this year the Johan Sverdrup phase 1 development plan was submitted to the Norwegian Oil and Gas Minister Tord Lien for approval by the Norwegian Government. As the Minister pointed out this was a truly historic day for Norway. It was indeed also a very important milestone for Lundin Petroleum. Johan Sverdrup was discovered by Lundin Petroleum in 2010 and was that year the largest oil discovery in the world. The field is the largest to be developed in the North Sea in decades. On plateau production it will produce approximately 600,000 barrels of oil equivalent per day representing about 40 percent of total forecast Norwegian oil production. It will certainly be one of the five largest fields ever on the Norwegian Continental shelf and if its reserves are at the upper end of the current range it could certainly be the largest. There is a saying in our industry that big oil fields get bigger. I certainly believe that this will be the case for Johan Sverdrup.

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I hope you had an opportunity to see the impressive model sitting over there of what Johan Sverdrup phase 1 will look like. If you haven't, I would encourage you to take a look and speak to one of our people who can answer your questions. As you can see we have four large bridge linked platforms, a drilling, accommodation, processing and riser platform. The cost of phase 1 is estimated at NOK 117 billion and we expect first oil in late 2019. As an indication of the importance to both the Norwegian and international oil industries, phase 1 alone of this project is expected to create around 51,000 man years of work. In terms of size, location and quality it doesn't really get much better than Johan Sverdrup. This asset will be the cornerstone of our company for many years to come.

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I constantly say that the way to create value in the oil and gas business is through access to resources. And the best way to get access is through successful exploration. This is fundamentally why we have been the best performing company in our sector in the last 14 years. We have found lots of oil, but funnily enough the stock market gives us no value for this part of our business. In fact at times such as today when oil prices are low it is viewed by some as a liability.

We clearly do not share this view. The world will continue to need oil, we have some of the best explorationists in the world working for us and we are confident they will continue to deliver success. In our industry you need to take a long term view. We will drill unsuccessful exploration wells along the way but when we make further discoveries like we did with Edvard Grieg and Johan Sverdrup the value will be recognized and our share price will increase.

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We are particularly excited about the potential of the Southern Barents Sea. I emphasize "Southern" because some people portray this area with images of icebergs and polar bears. In fact there is no ice in our area of operation and the conditions are very similar to the North Sea. Over the last few years we have made oil discoveries at Gohta and Alta. We are one of the most active explorers in this area , our exploration team are very knowledgeable and I believe that they will find more oil in this region.

This will result in the necessary production infrastructure being developed and the Southern Barents Sea becoming another material producing area in Norway. And Lundin Petroleum will be very much part of the process.

**(23)**

Before I finish I want to touch on two more topics. The first is to reemphasise our commitment to Corporate Social Responsibility and to Health, Safety and Environmental best practice. As I said last year, this has become embedded in our culture and everyone at Lundin Petroleum across the world is unquestionably aware of the importance of these issues and our ongoing commitment. We continue to support the UN Global Compact, are a supporting member of the Extractives Industries Transparency Initiative to promote anti-corruption and we disclose our greenhouse gas emissions to the Carbon Disclosure Project. We also continue to focus upon ensuring that corporate sustainability is integrated within our organisation and throughout our business cycles.

**(24)**

Finally I want to recognise all the employees of Lundin Petroleum around the world. I really believe that our people are our most important asset. From the very beginning the Lundin Family developed a corporate culture which still remains today. "The glass is half full, not half empty", "nobody is criticized for making the wrong decision, but you will be criticized for making no decision". "All stakeholders and employees should have a financial stake in the success of the company" and "a can do attitude-aim high because anything is possible in this world". All these statements epitomise the culture within Lundin Petroleum.

As we have grown over recent years, I have always tried to retain this culture so that everyone feels part of this corporate family. It's not always easy but despite the need to build policies and procedures around our corporate structure, we have kept this entrepreneurial spirit. This has been the single most important reason for the success of our company. So I want to thank all the employees at Lundin Petroleum for all their hard work and contribution in making this possible.

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To the Board and Lundin family for their confidence in me and continued support, and to you our loyal shareholders for being part of this great journey. Lundin Petroleum is a very special company with a very exciting future. Thank you.