Santos 2024 AGM briefing

March 2024

Gemma Yeates, Investor Engagement Lead, ACCR
gemma.yeates@accr.org.au

Alex Hillman, Lead Analyst - Energy, ACCR
alex.hillman@accr.org.au

Harriet Kater, Special Adviser, ACCR
harriet.kater@accr.org.au

Isaac Pang, Lead Analyst, ACCR
isaac.pang@accr.org.au

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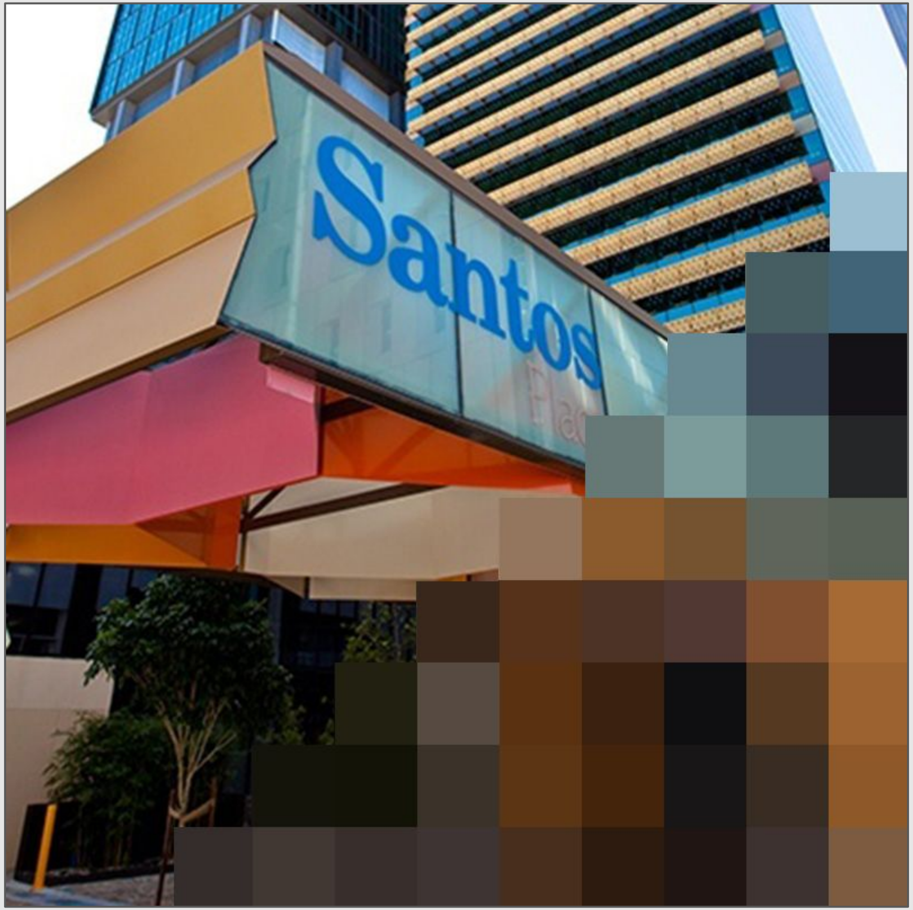
Members' Statement against Keith Spence



March 2024

Update on Santos v ACCR ‘greenwashing’ proceedings

ACCR is currently in litigation with Santos regarding its climate change disclosures.

We allege Santos misled or deceived investors by claiming:

- to have a clear and credible path to deliver on its 2040 net zero commitment
- it will produce zero emissions hydrogen
- that gas is a clean fuel

While this is being heard before the court, ACCR is restricted in how much it can discuss Santos’ climate change strategy and disclosures.

The trial date is confirmed for 28 October 2024.

Why we will vote against Keith Spence’s re-election

Keith Spence has chaired Santos’ board since 2018.

Under the direction of Mr Spence, the Santos board has failed to deliver a company strategy that maximises shareholder value.

In 2021 Santos pivoted from a low-cost operating model to a high capex ‘growth mode’ - leading to drastic underperformance compared to peers.

The company admits it has a problem, and appointed advisers to explore options. The board appears to have run out of ideas except for exploring the sale of assets or the company.

There have been a number of serious governance failings on Mr Spence’s watch, and questions about the board’s ability to hold management to account.

As Chair, Mr Spence is ultimately responsible for the company's underperformance and strategic failings.

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Santos knows it has a problem

"We're very frustrated at our share price .... it's stalled, and we need to unstall it.[1]"

Photo: Mark Brake

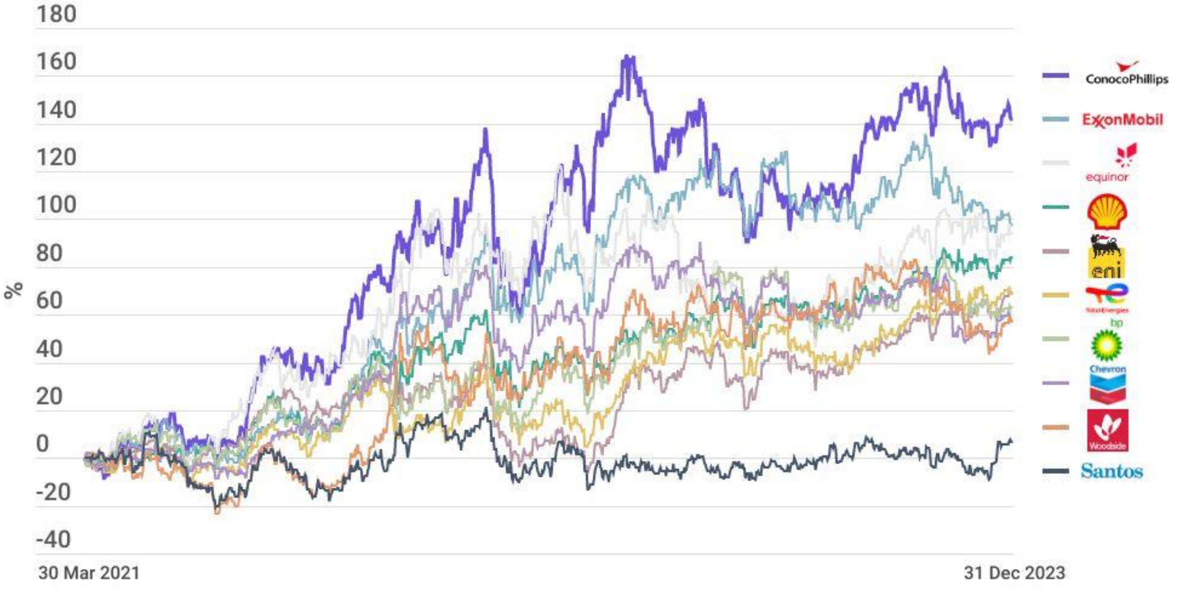
[1] Santos 2023 Investor Briefing Day November 2023.

Since the growth pivot, Santos' TSR has been below peers and benchmarks

Since the 'growth pivot' in 30 March 2021, Santos has delivered a 7% TSR which drastically underperformed its peers and benchmarks.

- TSR is only 7% compared to a peer average of 82%
- MSCI World Energy Index was 76%
- ASX200 was 18%

TSR: Santos v peers (30 Mar 2021 - 31 Dec 2023)[1]



[1] Bloomberg Finance L.P.; Used with permission of Bloomberg Finance L.P.
31 March 2021 has been chosen to coincide with Barossa FID

Santos' history of underperformance in growth mode

Our industry has got a habit of blowing themselves up when they go into *growth mode*.

But we've spent so much effort putting in place a disciplined operating model to ensure we do not drop the ball on our operations.[1]

Photo: The Australian

[1] Santos 2018 Investor Day.

Santos tends to underperform when growing

Santos’ low TSR during periods of growth is consistent with previous performance.

In the 9 years prior to Mr Gallagher starting as CEO (2007-2016):

- capex was US$2.3 billion pa (nominal), driven in part by Gladstone LNG
- Santos’ TSR was 10% p.a below than the MSCI World Energy Sector Index.

From Mr Gallagher’s appointment until the Barossa FID (2016-2021):

- annual capex was cut by 69% (nominal), with the CEO driving a ‘disciplined low-cost operating model’
- Santos' TSR was 20% p.a above the MSCI World Energy Sector Index.

Photo: www.glng.com

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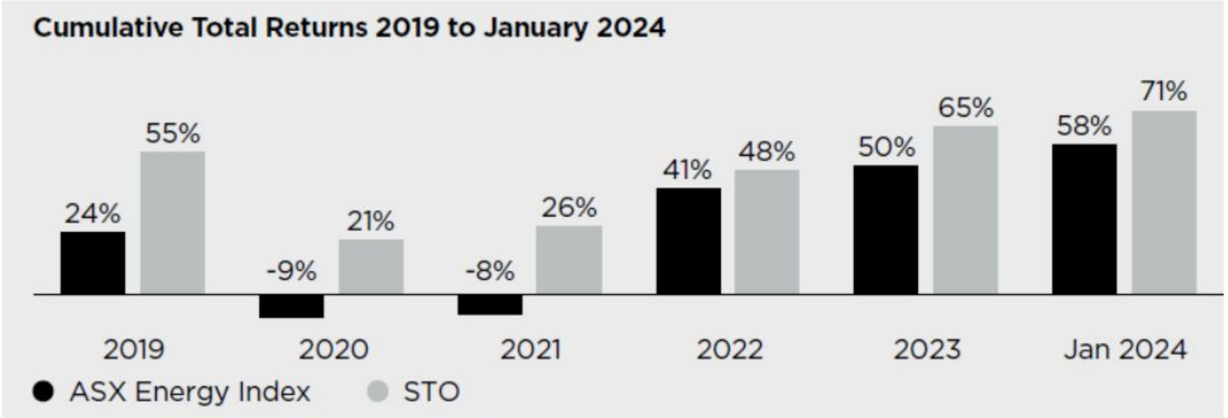
Notice of Meeting: Santos' TSR chart has the effect of concealing the company's performance since pivoting to a growth strategy

Santos NoM: "During Mr Spence's tenure, Santos has delivered total shareholder returns of more than 70 per cent".

ACCR view: the majority of this was delivered in 2019 before the growth pivot.

Chart 1: The Santos board's response to shareholder return performances (A$)



Source: Santos, [2024 AGM Notice of Meeting](), p25.

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Santos' performance against multiple benchmarks since 2020

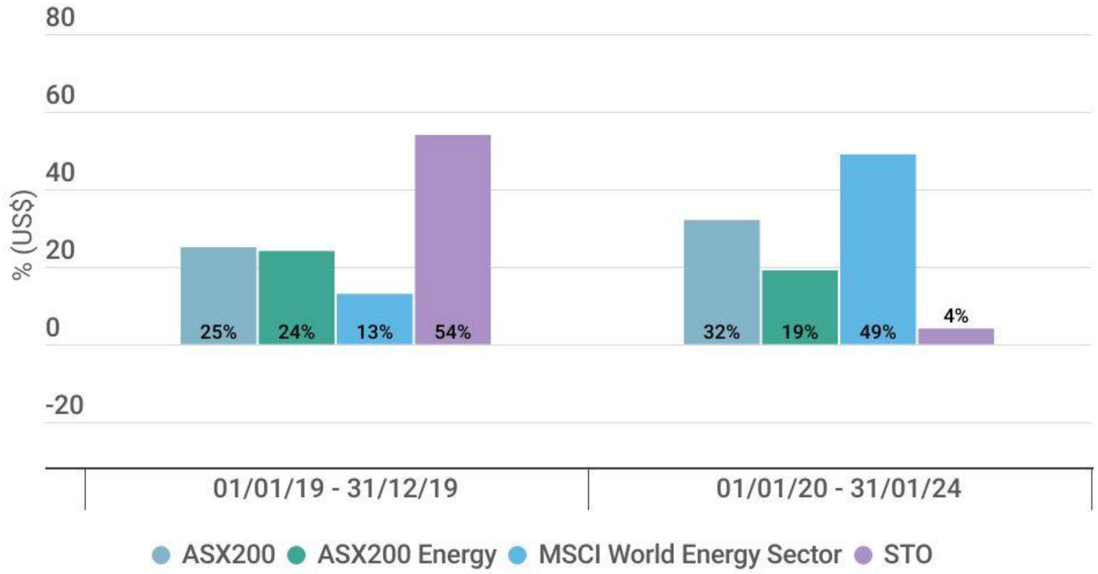
Since 2020 Santos has underperformed the:

- ASX200
- ASX200 energy index
- MSCI world energy sector

This suggests the decisions made during Mr Spence's tenure have led to chronic underperformance.

The 'ASX Energy Index' is not a meaningful benchmark because:

- WDS and STO makeup more than half of it
- of the other 7 companies, only one is an upstream oil and gas company.



Source: Bloomberg Finance L.P.; Used with permission of Bloomberg Finance L.P.

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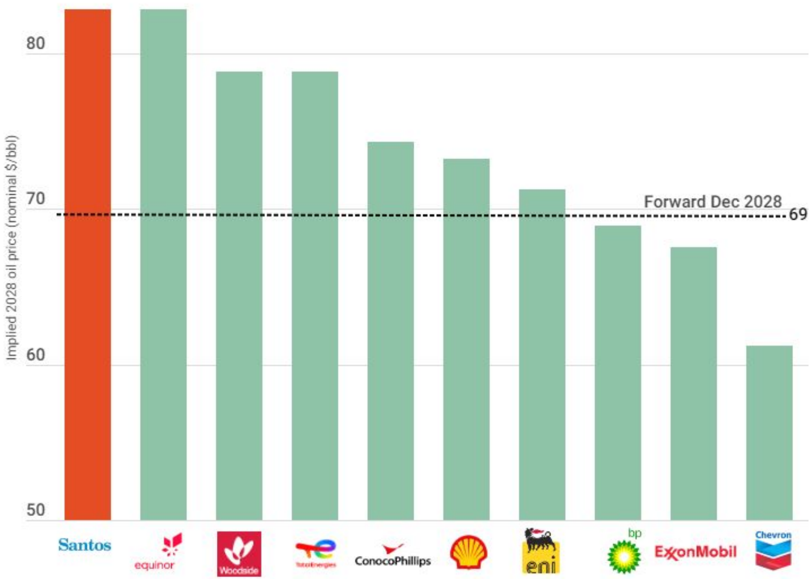
Santos’ key investment assumptions are either growth-aligned, or opaque

Santos current growth mode is consistent with its bullish oil price assumptions, which are 22% higher than forward price.

Its lack of a disclosed investment hurdle rate is inconsistent with many of its peers.

In the Notice of Meeting, Santos noted it discloses a ROACE target, but this is not an investment hurdle rate.

Santos has a higher oil price assumption than its peers



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Board approved CEO growth bonus that is not linked to shareholder returns

April 2021, two weeks after Barossa FID, the Board authorised A$ 6m Growth Projects Incentive for the CEO which was widely criticised as misaligned with accepted governance norms - and led to a first strike in 2022.

"Vasili Kolesnikoff, executive director at proxy advisor ISS, was critical of incentives to deliver on future projects that have yet to deliver earnings and value for shareholders… Mr Gallagher could still get his bonus if the board subjectively determines performance hurdles have been achieved, even if they don't generate shareholder value."[1]

The Australian Shareholder Association also expressed concerns regarding the absence of "a hurdle set to ensure shareholders had a good outcome."[2]

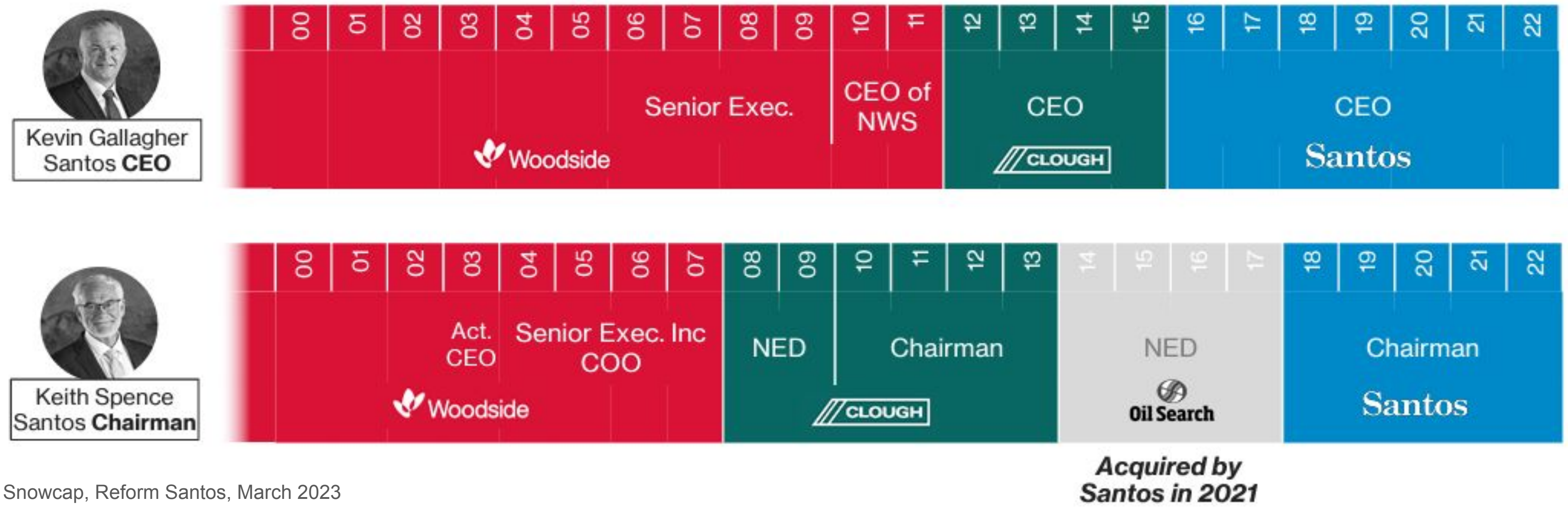
The absence of any clear linkage between shareholder returns and the CEO's growth incentive bonus was an error of judgement by the Santos board that investors are now paying for.

Santos has not responded to this chief concern in the 2024 Notice of Meeting but instead included significant commentary on the linkage of sustainability metrics to remuneration.

Note 1: AFR, $6m golden handcuffs take Santos CEO off Woodside field
Note 2: CapitalIQ, Santos 2021 AGM transcript, p20

Governance concerns: Can the board hold management to account?

The longstanding partnership between the Chair and CEO over decades raises questions about whether the board can hold management to account.



Snowcap, Reform Santos, March 2023

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Further questions on Board's ability to hold management to account

The Board permitted the extraordinary appointment of CEO Kevin Gallagher as a Mineral Resources NED in March 2022, amid Santos' A$22 billion merger with Oil Search, despite the obvious conflicts with respect to Gallagher's availability and prioritisation of Santos, in addition to potential business conflicts of interest. The appointment was reversed following public shareholder discontent.

In 2022, Board approved $3.3m lease of private jet for CEO and board use - uncovered by media, not disclosed to shareholders, deemed a "terrible look" by institutional investors, not in 2023 CEO remuneration

Staff satisfaction with management is persistently low:

- an internal 2021 survey indicated that 'trust in leadership' and belief among staff that Santos was 'effectively managed and well run' was 'well below benchmarks'
- CEO approval among staff has been as low as 23%, according to Glassdoor, whilst Woodside Origin and AGL's CEOs all scored above 88%.

Other directors facing re-election or election at 2024 AGM

While the Chair holds ultimate responsibility for the underperformance, the board shares this responsibility.

ACCR will therefore vote against both incumbent directors.

Two new candidates were nominated in 2024 following retirement of Peter Hearl and Eileen Doyle.

Keith Spence
Incumbent
6.5 years 2024
9.5 years 2027

Vanessa Guthrie
Incumbent
7 years 2024
10 years 2027

John Lydon
nominated 2024

Questions over Climate Leaders Coalition and transition skills

Vickki McFadden
nominated 2024

Chair at GPT, NED at Allianz Australia

Santos' growth strategy: will it deliver for shareholders?

Santos' current capex-heavy production growth strategy,
in an industry that is in long-term structural decline,
is not the optimal strategy to maximise shareholder returns.

There are other options.

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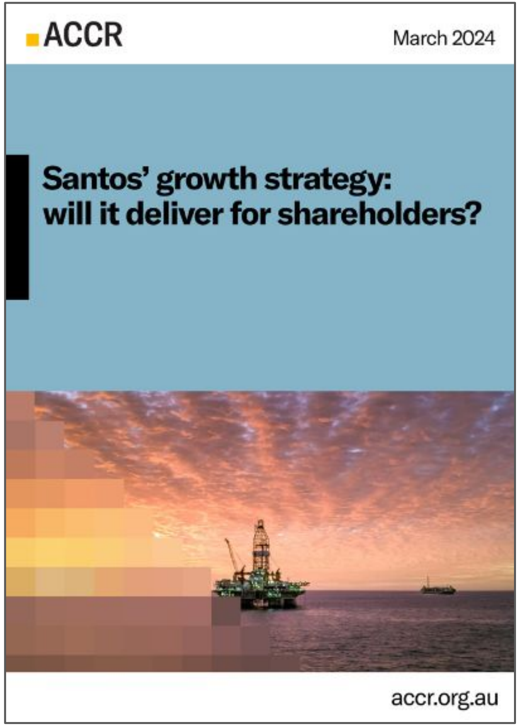
A strategic opportunity for the board to consider

New research from ACCR available as a document or slide deck.

Santos' current capex-heavy growth strategy, in an industry that is in structural decline, is not the optimal strategy to maximise shareholder returns.

We found that:

- over the last 30 years, Santos' TSR is not positively correlated with production growth.
- Santos is targeting FID by 2025 for three projects that are neither Paris-aligned nor low cost.
- a share buyback generates more value than executing these projects, whilst reducing risk and avoiding emissions.
- ceasing all fossil fuel development will further reduce costs and risk. This upside can be quantified.



Net Present Value

Santos' projects targeting FID by 2025 appear to generate modest value.

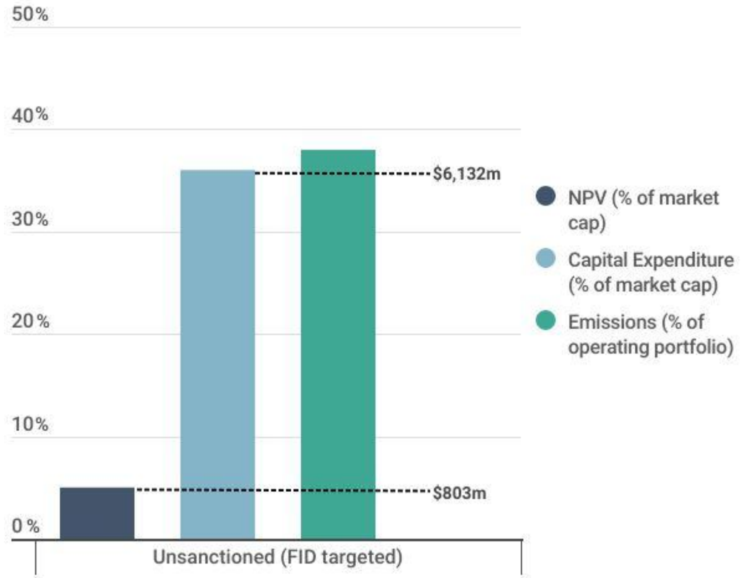
The aggregate NPV of Santos' unsanctioned projects is $0.8bn, equivalent to just 5% of market capitalisation, despite an estimated capex cost of over $6bn.[1]

These projects are forecast to emit 136 MtCO_2e of greenhouse gases, equivalent to 38% of the operating portfolio.

Unsanctioned Project	Location	Capex ($m)	Discount rate	Project NPV ($m)	Lifetime Emissions (MtCO_2e)
Narrabri	Australia	$1,348	12.4%	$215	33
Papua LNG	PNG	$2,073	15.2%	-$74	40
Dorado	Australia	$2,711	10%	$662	62
Total		**$6,132**		**$803**	**136**

Source: Rystad data, ACCR analysis

NPV and capex of Santos' unsanctioned projects with FID date announced



Source: Rystad data

[1] For methodology and assumptions see: https://www.accr.org.au/downloads/accr_santosgrowthstrategy_march2024.pdf

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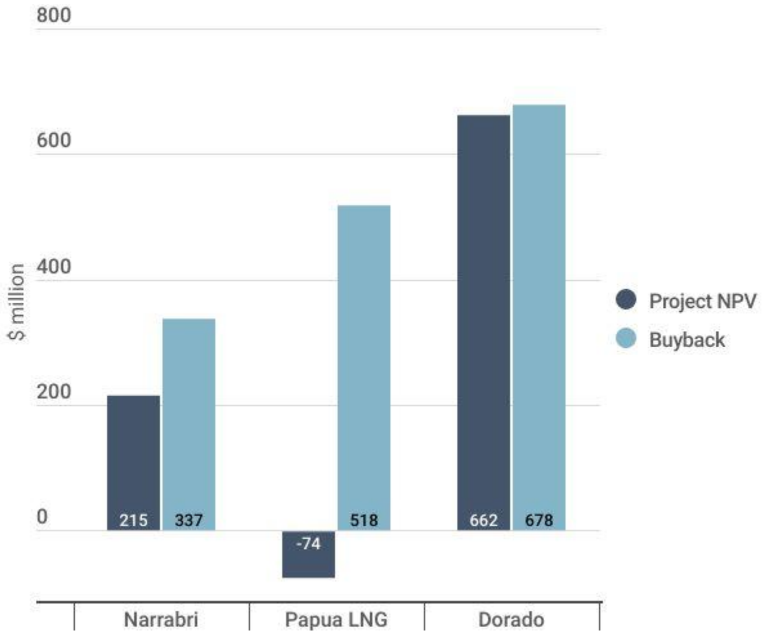
A buyback strategy appears to offer more value than delivering these projects

Share buybacks appear to offer modestly higher returns (US$1.5bn; or US$730m upside to delivering the projects), less risk and fewer emissions, than a production growth strategy.

Even before considering the higher value of a share buyback:

- Papua LNG is due to startup during a sustained period of global LNG oversupply
- Dorado and Narrabri appear to offer mediocre returns and are struggling to progress. These projects are not Paris-aligned.

We estimate that buybacks deliver more value than Santos' unsanctioned projects



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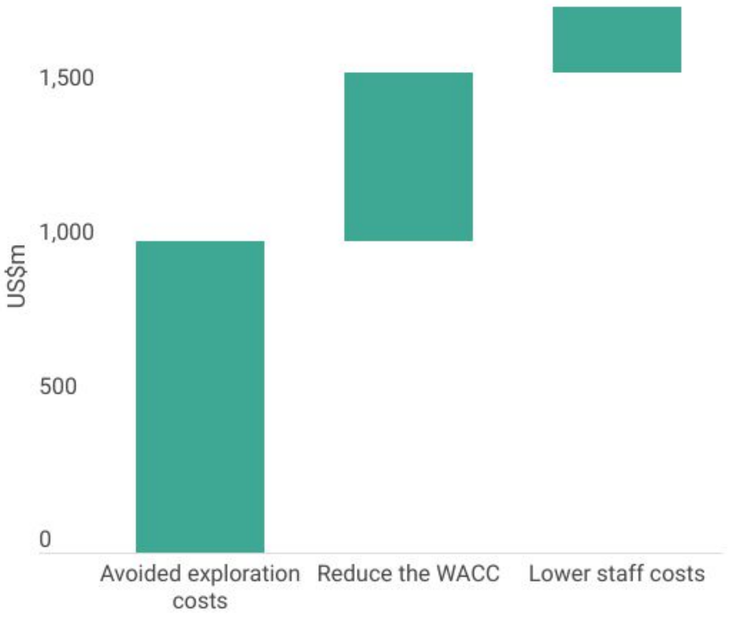
There is additional value for ceasing fossil fuel expansion

As well as the direct opportunity to return capex to shareholders, we estimate other sources of value from a capital return strategy, that ceases developing new fossil fuel projects:

1. **Avoided exploration costs ($1bn):** Ceasing new developments avoids exploration costs.
2. **Reduce the WACC ($0.5bn):** Ceasing expansion results in less volatile free cash flow and avoids entire risk categories, such as greenfields project execution risk. We have modelled this by assuming a gearing increase from Santos' current 20% target, to 25%.
3. **Lower staff costs ($0.2bn):** Ceasing these activities allows for a much leaner and simpler organisation, with fewer staff and associated overheads.

Ceasing oil and gas development offers a $1.7bn upside



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Summary of ACCR's voting intention

Against the re-election of Mr Spence
During Mr Spence's tenure as chair, Santos has pivoted to a high-capex growth model.
Santos has since chronically underperformed its peers and several market indices.
There have been a series of governance issues, such as implementing an excessive bonus structure that rewards growth, without a clear linkage to shareholder returns.
The Chair carries ultimate responsibility for the company's direction, and therefore it is the Chair who must be held accountable for Santos' performance.
Our research shows a share buyback is higher value and lower risk than executing Santos' growth portfolio. This does not appear to have been considered by the Santos board.

Thank you