

Good result at \$72 per barrel

Company/ASX Code	Santos Limited (STO)
AGM date	Friday 3 April 2020
Time and location	10am Adelaide Oval – William Magarey Room
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items: electronic
Monitor	Bob Ritchie assisted by James Hahn and Malcolm Holden
Pre AGM Meeting?	Yes with Chairman Keith Spence and Amanda Devish

Votes have been lodged - COVID 19 related (27/03/2020):

The COVID 19 pandemic and consequent restriction to physical meeting attendance has meant Santos is requiring all voting on AGM resolutions to be lodged prior to the meeting.

ASA would prefer to lodge votes at the meeting, after hearing the matters discussed at the AGM (as in a hybrid meeting) but are pleased to advise we have voted the open proxies in our name as noted below.

The Share registry for Santos, Boardroom, has confirmed that the voting instructions submitted by company monitor, Bob Ritchie, as delegate for ASA will be executed for open proxies donated to ASA.

- FOR re-election of Mr Guy Cowan (item 2a)
- FOR re-election of Ms Yasmin Allen (item 2b)
- FOR election of Mr Yu Guan (item 2c)
- FOR election of Ms Janine McArdle (item 2d)
- AGAINST adoption of remuneration report (item 3)
- AGAINST approval of LTI grant for Mr Kevin Gallagher, Managing Director (item 4)
- AGAINST amendment to the constitution (item 5a)
- AGAINST Paris goal and agreement (item 5b)
- AGAINST climate-related lobbying (item 5c)

Proxy votes must be lodged before 10 am SA time (post daylight saving) Wednesday 1st April; that is 9:30 am EST.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Given the current spot price of oil being in the order of \$30, compared to the average price of \$72 obtained in 2019, financial results have to be considered somewhat flexibly. Production costs continue to decrease but P2 reserves have decreased. A question which arises is how much more P2 expansion can be achieved by the cheap development process of horizontal drilling.

Governance and culture

A focus on reduction in cost of production, declared by the board three years back, is clearly in evidence. Nevertheless, any 'good feeling' at the highest levels ought in our opinion to be tempered by 8.8% ROE and total equity less than shareholder contributions by one and a half billion USD.

Financial performance including dividends and shareholder returns

Disruptive variation in oil price makes it difficult to evaluate future bottom line financial performance. Such disruption also affects future value estimates for reserves; not only estimated value per barrel but also the total volume, as a major fall in price below production cost for some fields could render those assets impaired.

When evaluating performance, the 674m USD NPAT is in our minds adjustable downwards by say 200m to adjust for impairments in years 2016 and 2017, totalling 2,000m.

Key events such as restructures, acquisitions, buy backs and capital raisings

Management of assets since close of books includes linked acquisition and disposal of assets north of Darwin; presently with status of agreed but conditional.

Key Board or senior management changes

Following the resignation of Eugene Shi, two new NEDs have been appointed, bring the number of board members to nine: Yu Guan and Janine McArdle.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m USD)	674	630	- 360	-1,047	-1,953
UPAT (\$m USD)	719	727	336	63	49
Share price (\$ AUD)	8.18	5.48	5.45	4.02	3.68
Dividend (cents US / AU)	11 /	9.7 / 13	zero	5	30
TSR (%)	56%	3%	36%	10%	-51%
EPS (cents US / AU)	32 / 35	30 / 40	-17.3	-58	-170
CEO total remuneration, actual (\$m AUD)	11.26	4.5	3.63	0.45	0.61

For 2019, the CEO's total actual remuneration was **132 times** the Australian Full time Adult Average Weekly Total Earnings. The shares component, however, is mostly in escrow and the present market value is considerably lower than at vesting.

Item 2a	Re-election of Mr Guy Cowan
ASA Vote	For

Summary of ASA Position

Our position has undergone a last minute change from uncertain to for because we have to lodge our vote ahead of the AGM rather than when it is in progress. We were seeking more information and wished to hear from Mr Cowan before finalizing our position, although our leaning was in support.

Item 2b	Re-election of Ms Yasmin Allen
ASA Vote	For

Summary of ASA Position

We had reservation about workload; one of the subjects for which we sought more information. Our position has undergone a last minute change from uncertain to for because we have to lodge our vote ahead of the AGM rather than when it is in progress.

Item 2c	Election of Mr Yu Guan
ASA Vote	For

Summary of ASA Position

Mr Guan is a nominee of a substantial shareholder. We have been assured that proper arrangements are in place to cover material change in the substantial shareholding or the relationship of that shareholder with Santos.

Item 2d	Election of Ms Janine McArdle
ASA Vote	For

Summary of ASA Position

Our position has undergone a last minute change from uncertain to for because we have to lodge our vote ahead of the AGM rather than when it is in progress. We were seeking more information before finalizing our position, and would have appreciated the benefit of hearing from Ms McArdle speak to her election, although our leaning was in support.

Item 3	Adoption of Remuneration Report
ASA Vote	Against

Summary

The remuneration report has many good features but there are two significant issues of concern.

Although this has been the second good year in a row, compared to performance of a string of prior years, and many people have contributed to this vastly improved performance, ROE is only 8.8% and does not support a 13% pay rise which, while mentioned in the report, was not easily discovered, certainly was not flagged and was introduced with no explanation or attempt at justification.

There is no gate of positive absolute TSR for relative TSR LTI incentives. This is a previous criticism which could well come home to roost in 2020 with 100% pay-out when absolute TSR is negative. In our conversation with the Chairman, we agreed that the relative TSR for a peer group in the hydrocarbons industry is the one more likely to be a problem and we noted the board has discretion. Our position nevertheless is that we recommend a gate for each of the relative TSR measures.

Report presentation, completeness & transparency

There is a table of actual take home pay for 2018, page 47. Effect of growth in share price on value of incentive payments received in the year is clearly presented on page 48.

A comprehensive and clear description of short term incentive (STI) framework and actual for 2019 for all executive KMP appears on pages 40 to 43.

A comprehensive and clear description of long term incentive (LTI) framework for both 2019 and 2020 appears on pages 44 to 46 and actual for the CEO and senior executives appears on page 47. However, while a pay rise can be discovered therein, on our reading of the report it was not easy to find. For the two quarters measured by different **relative TSR**, we recommend **a gate, requiring positive absolute TSR**. For the quarter measured by **free cash flow breakeven point**, ASA was initially critical that, 'this KPI could result in under investment in onshore drilling.' We stated last year that, 'development and exploration activity has increased and the board has signalled intention for that to continue in support of a doubling of production in the medium term.' While we continue to criticise the \$40 target and \$35 stretch figures for 2019 as too easy, we are pleased to note the stretch figure for 2020 will be \$30 (page 45). For the quarter measured by **return on average capital employed**, ASA last year praised the raising of the bar so that WACC is the threshold. While the results and WACC are held confidential, we note that these figures are subject to audit, including the audit certificate for the remuneration report.

There also is a matter of increases in executive pay in a situation of performance, while remarkably improved in recent times, still produced ROE of only 8.8% and that after impairments of two billion in the period 2016 through 2017. We have assessed the increases as shown in the following table.

\$000	2019	2020	difference	percentage
FAR	1,956	2,010	54	2.76
target	5,477	6,191	714	13.4
max	7,834	8,985	1,151	14.69

Salary framework

Fixed annual remuneration (FAR) for the CEO is \$2.01 million.

LTI of up to 180% of FAR has a four year performance testing period and is increased from 150%.

STI is up to 167% of FAR and half STI payment is in shares deferred in two tranches over two years.

Share allocation is based on market price at the beginning of the period: \$8.18.

More detail is calculated in the table below.

CEO rem. framework	Target* \$000	% of Total	Max. Opportunity \$000	% of Total
Fixed Remuneration	2,010	32%	2,010	22%
STI - Cash	1,005	16%	1,678	19%
STI - Equity	1,005**	16%	1,678**	19%
LTI	2,171**	35%	3,618**	40%
Total	6,191	100%	8,985	100%

The amounts in the table above are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

**Shares-based figures are based on share price of \$8.18 and this affects total also. Minimum remuneration, in the event of zero incentive payments, would be fixed remuneration only; ie \$2,010,000. Therefore the range is \$2 million to \$9 million with the maximum depending on share price in years 2021 and 2022 for STI and 2024 for LTI. On the present share price below \$5, the maximum would be about \$6 million.

Incentive remuneration for other executive KMP is based on lesser portion of fixed remuneration. These also have been increased from last year, along the lines depicted for the CEO two tables above. A current offsetting consideration, on the basis of a significantly reduced share price, is that the incentive component would be a much lesser amount, although what it will be in four years time is not determinable.

Item 4	Approval of LTI grant for MD
ASA Vote	Against

Summary of ASA Position

We wish to be clear that the MD has performed well. Our concern about two of the four tranches is described above. We believe there should be a gate of positive absolute TSR for each of the relative TSR measures. And we are protesting the 13% pay rise for reasons also given above. We would support decent incentive payment for the MD. Our protest is about the structural elements we have identified in the framework and its presentation, not about the performance of the MD.

Item 5a	Amendment to constitution
ASA Vote	Against

Summary of ASA Position

ASA position is that changes to a constitution should be well thought out and should be brought forward by the board. We note that the board has offered to converse with the proponents of these resolutions.

Item 5b	Paris goals and agreement
ASA Vote	Against

Summary of ASA Position

We appreciate that information requested in this resolution had to be formulated before the Santos Climate Change report 2019 had been published. Much of the information requested has in fact been provided.

Item 5c	Climate-related lobbying
ASA Vote	Against

Summary of ASA Position

This proposal suggests too great a burden on the company.

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

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