Santos Ltd
February 2017

Resolution 1 – Amendment to the Constitution

To amend the constitution to insert at the end of clause 25 ‘Notice of general meetings’ the following new sub-clause 25(e) “The company in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised. However such a resolution must relate to an issue of material relevance to the company or the company's business and cannot either advocate action which would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the directors or the company.

(Note that an accompanying ordinary resolution seeking more information on Santos’s approach to managing climate-related risks is also included on the Santos Ltd’s Notice of 2017 Annual General Meeting. Shareholders who vote by proxy will be able to lodge a vote on both resolutions.)

Supporting Statement

Shareholder resolutions are a healthy part of corporate democracy in many jurisdictions other than Australia. For example, in the UK shareholders can consider resolutions seeking to explicitly direct the conduct of the board. In the US, New Zealand and Canada shareholders can consider resolutions seeking to advise their board as to how it should act. As a matter of practice, typically, unless the board permits it, Australian shareholders can follow the example of none of their UK, US, New Zealand nor Canadian cousins in this respect.

A board of Directors is a steward for shareholders and accountability for the discharge of that stewardship is essential to long-term corporate prosperity.

In rare situations the appropriate course of action for shareholders dissatisfied with the conduct of board members is to seek to remove them. But in many situations such a personality-focused approach is unproductive and unwarranted. In those situations a better course of action is to formally and publicly allow shareholders the opportunity at shareholder meetings such as the AGM to alert board members they seek more information or favour a particular approach to corporate policy.

The Constitution of Santos is not conducive to the right of shareholders to place resolutions on the agenda of a shareholder meeting.

In our view, whilst this may be to the short-term ‘scrutiny avoidance’ benefit of the Santos board members; it is contrary to the long-term interests of Santos, the Santos board and all Santos shareholders.

Passage of this resolution – to amend the Santos constitution – will simply put Santos in a similar position in regard shareholder resolutions as any listed company in the UK, US, Canada or New Zealand.

Resolution 2 – Strategic Resilience for 2035 and Beyond

That in order to address our interest in the longer term success of the company, given the recognised risks and opportunities associated with climate change, we as shareholders of the company request that routine annual reporting includes further information describing: (a) Governance: the roles of the board and management in the oversight, assessment and management of climate-related risks; (b) Strategy: the climate-related risks and opportunities and asset portfolio resilience of the company's businesses, operational strategy and financial planning to various climate scenarios, including both 1.5°C and 2°C pathways; (c) Risk Management: how climate-related risks are incorporated into the company's risk management framework; (d) Metrics and Targets: the targets used by the company to manage climate-related risks and performance against those targets; (e) Public Policy: the company's public policy positions related to climate change, including those of industry bodies of which it is a member.

Supporting Statement

We move this resolution with the intention to increase our company's resilience to regulatory and market changes that can be foreseen as international action is taken to limit global warming in accordance with the climate goals established by the Paris Agreement. In November 2016, the Paris Agreement entered into force, thereby committing 195 countries to holding the increase in the global average temperature to well below 2°C above pre-industrial levels, with an ambition to pursue efforts to limit warming to 1.5°C[1].

This resolution seeks to incorporate the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). In describing the transition risks posed by the Paris Agreement, the TCFD stated, "rapidly declining costs and increased deployment of clean and energy-efficient technologies could have significant, near-term financial implications for organisations dependent on extracting, producing, and using coal, oil and natural gas"[2].

Shareholders are concerned whether or not Santos is adequately managing the risks posed to its long-term viability by the ongoing transition in the energy sector. Capital allocation decisions made today will determine the company's long-term strategic position; hence new capital

[1] The Paris Agreement, UN Framework Convention on Climate Change
[2] Recommendations of the Task Force on Climate-related Financial Disclosures, December 2016

expenditure should take into account the complete spectrum of climate-related risks.

Although Santos has acknowledged the validity of climate change science, and that "globally we must reduce greenhouse gas emissions to limit the temperature rise to no more than two degrees"[3], the company ignores that, according to BHP Billiton, "in the long run, emissions from the use of natural gas will also need to decline in the 2°C world"[4].

This shareholder resolution is modelled on the recommendations of the TCFD, which have already been adopted in some way by several large institutional investors, including Aviva Investors[5] and Swiss Re[6]. Institutional investors will soon demand further disclosure from the companies in which they are invested, and in the case of Aviva Investors, will vote against resolutions at companies where disclosure is not forthcoming. Furthermore, the impetus for greater disclosure will only develop further should financial regulators make the TCFD recommendations mandatory.

This resolution incorporates the four key issues of the TCFD recommendations, in addition to further disclosure around public policy.

(a) Governance

The company should report on the board's oversight of climate-related risks and opportunities. Governance responsibility for climate change issues currently rests with the Environment, Health, Safety and Sustainability Committee (EHSS) yet its charter does not mention climate change. By demoting climate-related risks to simply an environmental issue, the company ignores the systemic threat that regulatory and technology risks pose to the energy sector.

The company should report on management's role in assessing and managing climate-related risks and opportunities. The company should consider whether executives are appropriately incentivised to manage climate-related risks. Senior executives are currently remunerated for "reserve replacement and resource add"[7]. Shareholders must be assured that such remuneration structures are tenable under various climate and policy pathways.

(b) Strategy

The company should report on the climate-related risks and opportunities the organization has identified over the short, medium and long term. The risks and opportunities identified by the company in its submission to the CDP[8] do not sufficiently address long-term changes in policy

---

[3]Sustainability Report 2015, Santos Ltd
[4]Climate Change: Portfolio Analysis, BHP Billiton Ltd, 2015
[5]http://www.businessgreen.com/bg/news/3001276/aviva-aims-to-use-shareholder-power-to-drive-climate-risk-disclosure
[6]http://www.swissre.com/media/news_releases/Swiss_Re_adopts_climate_related_financial_disclosure_recommendations.html
[7]2015 Annual Report, Santos Ltd
[8]CDP Climate Change 2016 Information Request, Santos Ltd

and technology.

The company should report on the impact of climate-related risks and opportunities on its businesses, operational strategy and financial planning. The company discloses limited analysis of international climate policies, despite the export of much of its production to Asia. The Company should report on the impacts of regulatory and technology change globally.

The company should report on the potential impact of different scenarios - including both 1.5°C and 2°C scenarios – on its businesses, strategy, and financial planning. The company refers to the IEA's World Energy Mix Scenario 2040, which will "put the world on a path consistent with a global temperature increase of over 4°C"[9]. The company should conduct multiple scenario analyses, including those based on the most aggressive policy frameworks, in addition to business as usual.

(c) Risk Management

The company should report on its processes for identifying and assessing climate-related risks.

The company should report on its processes for managing climate-related risks.

The company should report how on its processes for identifying, assessing and managing climate-related risks are integrated into its overall risk management.

Further information should be provided on how the company's risk management processes influence capital investment decisions. In addition, such disclosures should be included in mainstream financial reporting, as per TCFD guidance[10].

(d) Metrics and Targets

The company should report on the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management processes. The company currently discloses no information in this regard.

The company should disclose their Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the related risks. All emissions data should be incorporated into mainstream financial reporting. All GHG emissions should be reported on both aggregate and ownership basis; Scope 3 emissions should include those from sold products. Finally, as the oil and gas sector has been identified as the single largest source of methane[11], it should be explicitly addressed.

The company should report on the targets used to manage climate-related risks and

[9] 2015 Sustainability Report, Santos Ltd
[10] Recommendations of the Task Force on Climate-related Financial Disclosures, December 2016
[11] Global Methane Emissions and Mitigation Opportunities, Global Methane Initiative, December 2015

opportunities, and performance against those targets. Other than its flaring intensity target, the company currently discloses no information in this regard.

(e) Public Policy

The company should report on its approach to climate-related public policies, including those of industry bodies, of which it is a member. Investors are interested in the company's public policy programme, including positions on key climate-related policy measures, especially for the next five years.