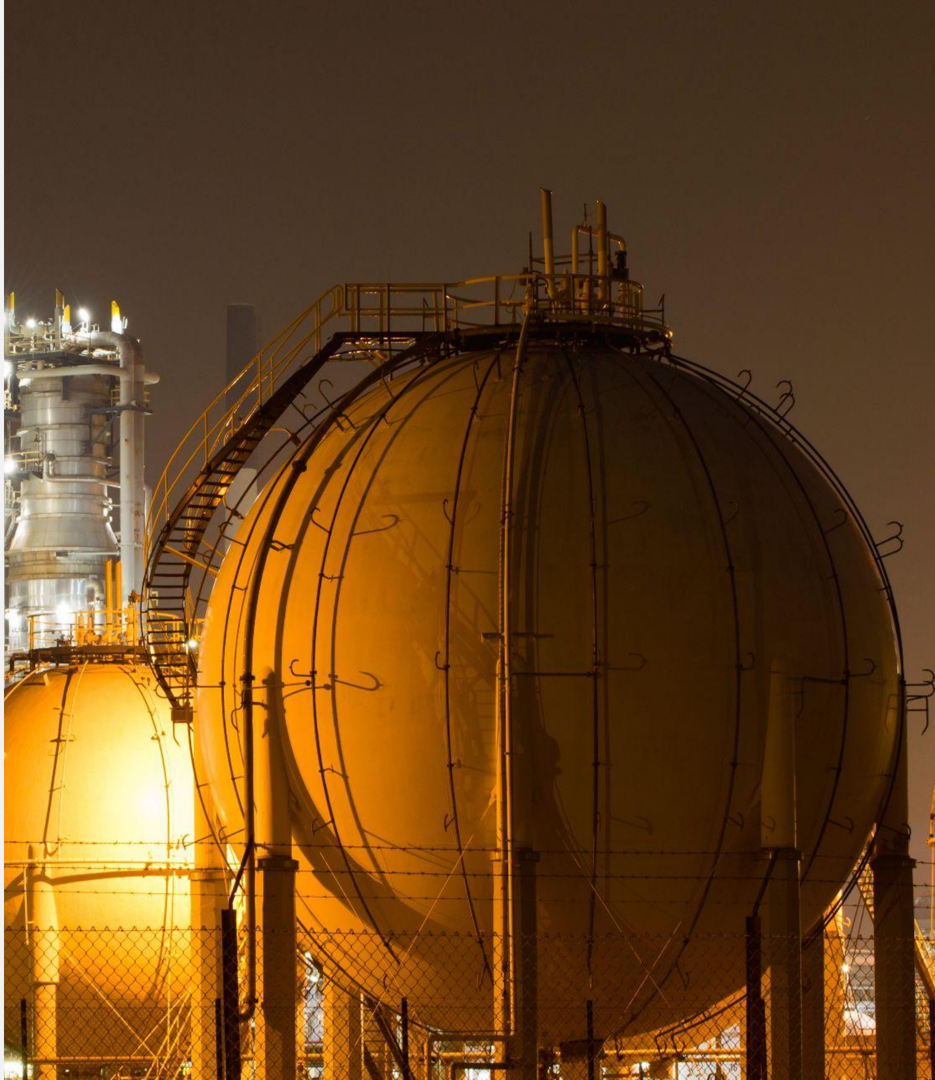
MARKET FORCES

Investor update

Santos Limited

Misguided strategy in the face of transition risks

MARCH 2024



Executive summary

- **Santos continues to reject investor demands for a genuine climate risk management strategy**.
    - Santos has exceedingly weak emissions targets and plans. Even assuming full implementation of these plans, which appears highly unlikely, Santos' overall **emissions are expected to rise 22% by 2028** from 2023 levels due to planned production growth.
- Santos is pursuing a **misguided oil and gas growth strategy** that has already cost shareholders through **significant underperformance**, while **exacerbating massive transition risk exposure**.
    - This **risky growth strategy is heavily incentivised through remuneration**, a practice abandoned by key global peers years ago.
- Santos' inadequate response to shareholder concerns and misguided growth strategy have been presided over by Chair Keith Spence and a **board appearing to mismanage the existential risks** posed by the energy transition that is rapidly gathering pace.

At the upcoming Santos Ltd AGM, **shareholders are urged to vote:**

- **AGAINST** the re-election of Keith Spence
- **AGAINST** the adoption of the company's remuneration report

Inadequate response to investor concerns

Investor concerns

APRIL 2020
43% of shareholders voted for scope 1, 2 and 3 emissions targets, and exploration and capital expenditure plans aligned with the Paris Agreement

MAY 2022
37% of shareholders voted against the company's climate action plan

25% of shareholders voted against Remuneration report

APRIL 2023
18% of shareholders voted for the company to disclose plans to manage down oil and gas production in line with a net zero emissions by 2050 scenario

Santos' response

MARCH 2021
FID on $4.6bn Barossa Project

APRIL 2021
$6m CEO growth incentive announced

Weak emissions targets set

AUGUST 2022
FID on US$2.6bn Pikka project

NOVEMBER 2023
Confirmed Papua LNG in FEED, targeting FID in 2024

FEBRUARY 2024
Failed to update corporate scorecard. Remuneration structure still incentivises new oil and gas growth projects + production metrics

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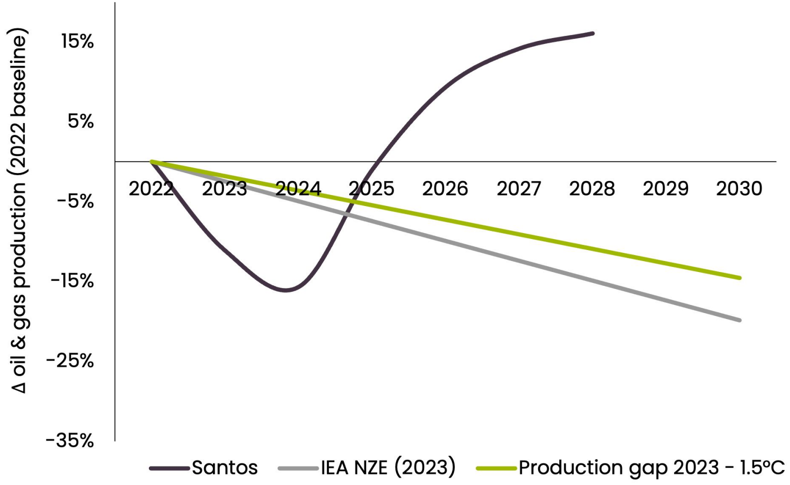
Increasing production

STO oil and gas production vs climate scenarios



Source: IEA Net Zero Roadmap, Production Gap 2023 report, Santos November 2023 Investor Briefing

IEA: In the "most technically feasible, cost-effective and socially acceptable" pathway to net zero emissions by 2050:

- Oil and gas **demand falls 20%** by 2030 from 2022 levels.
- "**No new long-lead time upstream oil and gas projects** are needed".

Santos:

- Plans to **increase production 16%** by 2028 from 2022 levels with 2 new projects coming online.
- Targeting FID on at least 3 other new projects.

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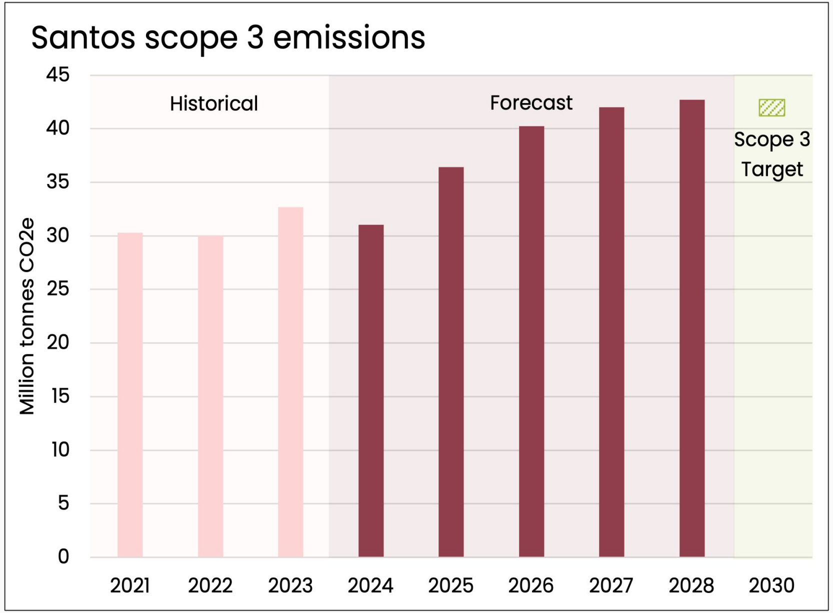
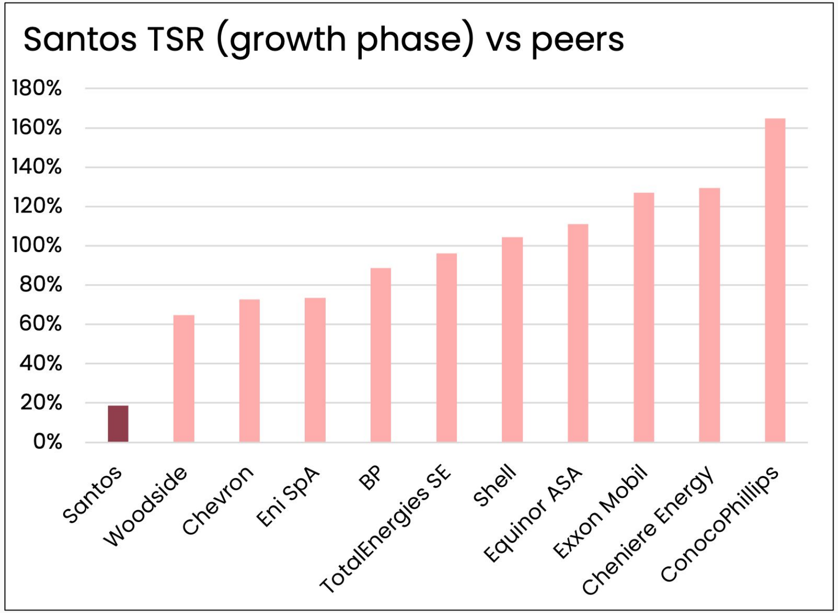
Increasing emissions

- Increasing production will increase emissions.
- Even assuming all emissions targets are implemented, we estimate **scope 1-3 emissions would increase 22% by 2028** from 2023 levels.
- Scope 1 & 2 targets would abate just 2.1% of Santos' total emissions, and rely heavily on increasingly expensive offsets and uncommercial, unproven CCS.
- Commitment to help customers reduce their Scope 1 and 2 emissions by 1.5Mtpa by 2030 would **represent just 4.6% of Santos' 2023 Scope 3 emissions**.



Source: Santos Annual reporting, Emissions are assumed to scale with forecast calculated from Santos' production forecast in November 2023 Investor Briefing.

Financial underperformance



Source: Refinitiv

- **Santos' growth strategy has failed to generate shareholder value.**
- Since the announcement of the CEO growth incentive in April 2021 and prioritisation of growth **Santos' TSR has been the lowest compared to all its global peers.**
- Santos' significantly lower total returns compared to its global peers highlights the material costs of its growth strategy.
- See ACCR and Snowcap for further similar analysis

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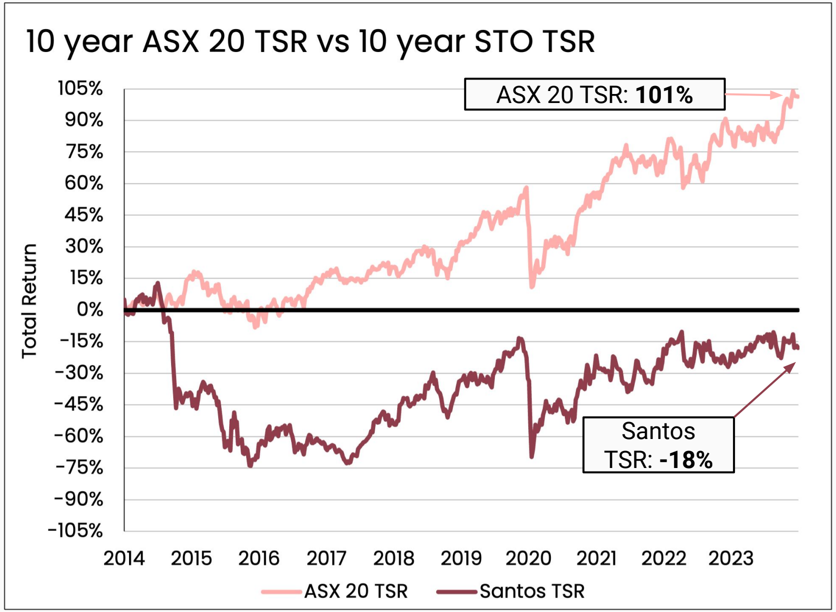
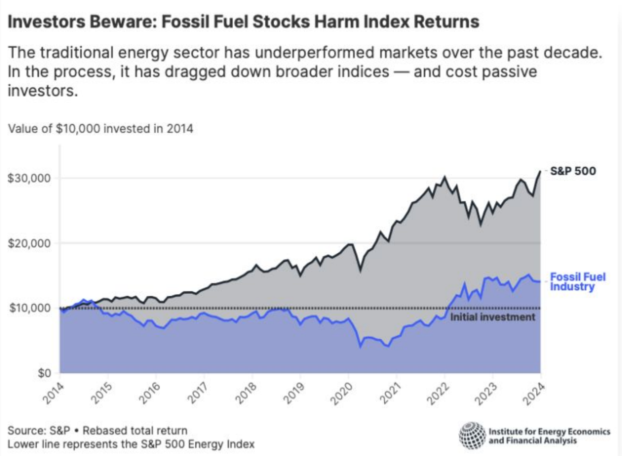
Financial underperformance continued



Source: Refinitiv Workspace

Similar underperformance emerges when comparing Santos' 10 year TSR to the ASX 20. Santos was the **second worst performer** of the current ASX 20.



Source: IEEFA, Passive investing in a warming world

Far from justifying further costly growth plans, "a few high-profit quarters have been unable to reverse a decade of [fossil fuel industry] underperformance"- IEEFA.

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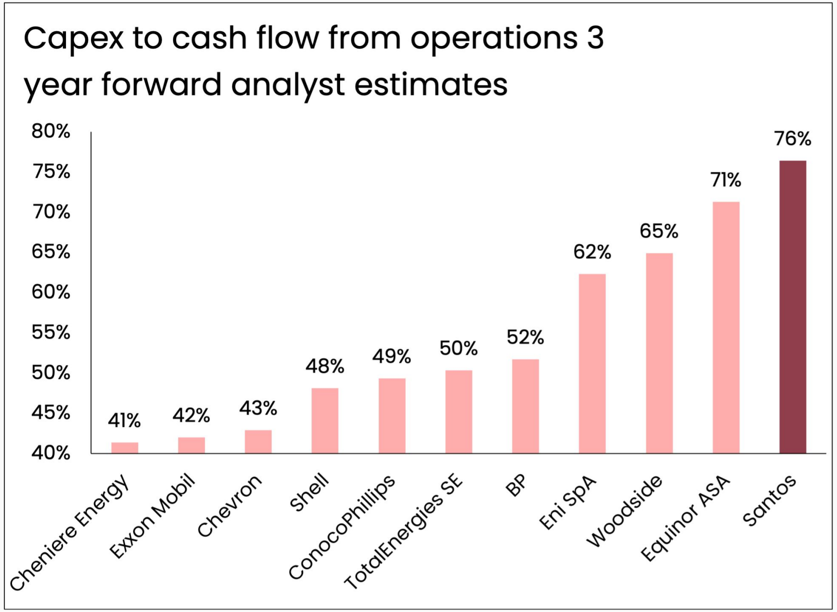
Expensive growth plans increase financial risk



Source: Refinitiv

- Analysts estimate **Santos will spend 76% of cash flow** from operations on capex over the coming 3 years. This is compared to a global peer average of only 52%.
- Instead of returning it to shareholders, Santos is burning capital on growth projects that are incompatible with global climate goals and won't create long-term value.
- Shareholders must demand a shift in strategy that scraps new growth projects and instead returns capital to shareholders.

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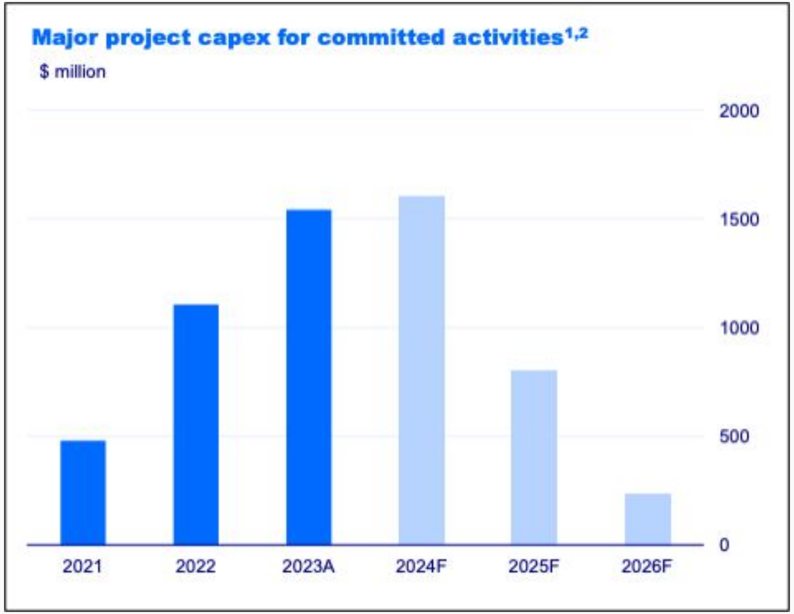
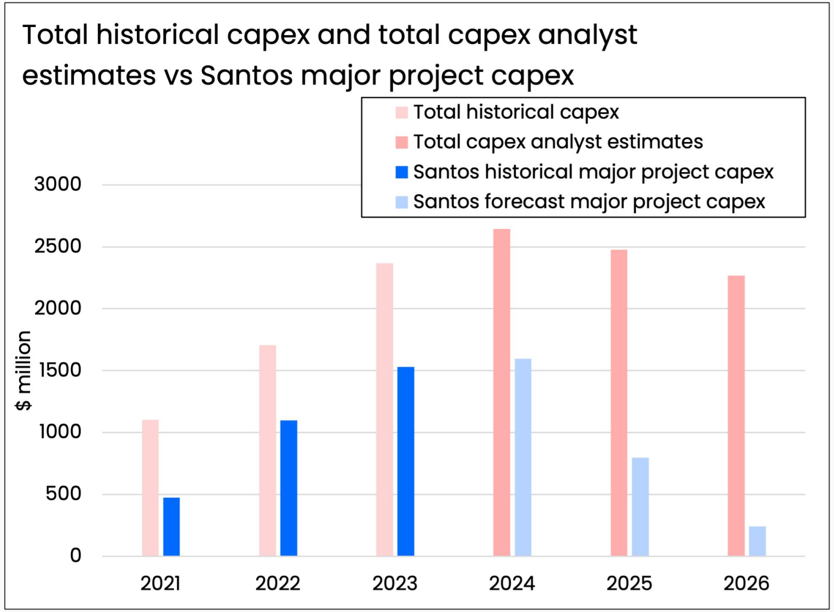
Capital allocation optionality a mirage

Santos presents *major project* capex in its financial reporting (left), rather than its much higher total capex.

Analyst estimates show total capex is expected to remain well above US$2bn over the coming 3 years. Free cash flow will be significantly lower than Santos' graphic implies.



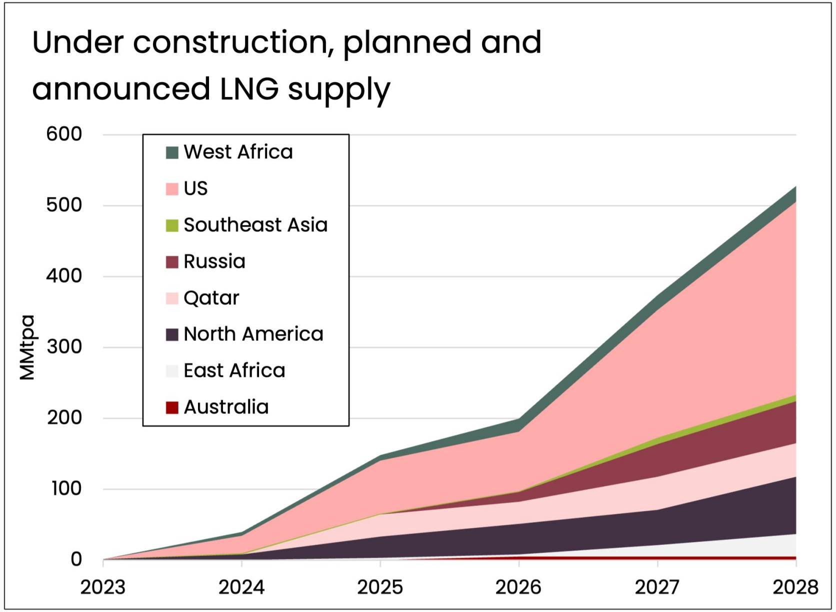
Source: February 2024 Full-Year results presentation.



Source: Refinitiv Workspace, February 2024 Full-Year results presentation.

Late 2020s LNG glut squeezes growth strategy

- This shift in the global energy mix has resulted in numerous forecasts of an LNG supply glut forming in the late 2020s.
- Bloomberg states "the market is expected to shift to a glut in 2025 with the start of new projects from the US to Qatar"
- Santos will be competing against far cheaper supply. Qatar plans an 85% expansion in LNG output from its North Field, with an estimated supply cost of just US$0.3/MMBtu.
- IEEFA highlights that accordingly to Shell's latest LNG outlook, LNG demand peaked in Japan and South Korea - Santos' key markets - last decade.



Source: Bloomberg Intelligence

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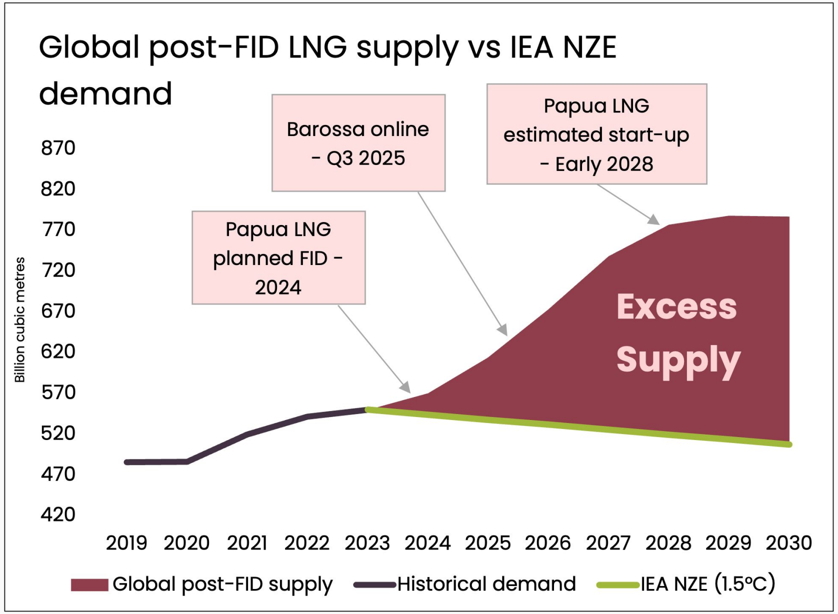
Growth projects face dire market



Source: Refinitiv historical and forecast LNG supply/demand. IEA Net Zero 2023 intraregional LNG demand forecast interpolated. Estimated start-up of Papua LNG according to Papua LNG website.

- The Barossa project will face a highly challenging operating environment, particularly as Santos is looking to increase spot price exposure to 25% by 2030.
- Supply figures in this chart are post-FID, meaning this is supply above the NZE demand profile that is already committed.
- Refinitiv estimates another 26.1 Mtpa of non-US supply is planned for FID in 2024, with another 119.5 Mtpa (21.7% of 2023 supply) of US projects held up by the Biden administration's permitting pause. This potential further supply and Papua LNG's lack of contracted sales will result in an even more dire operating environment for Papua LNG.

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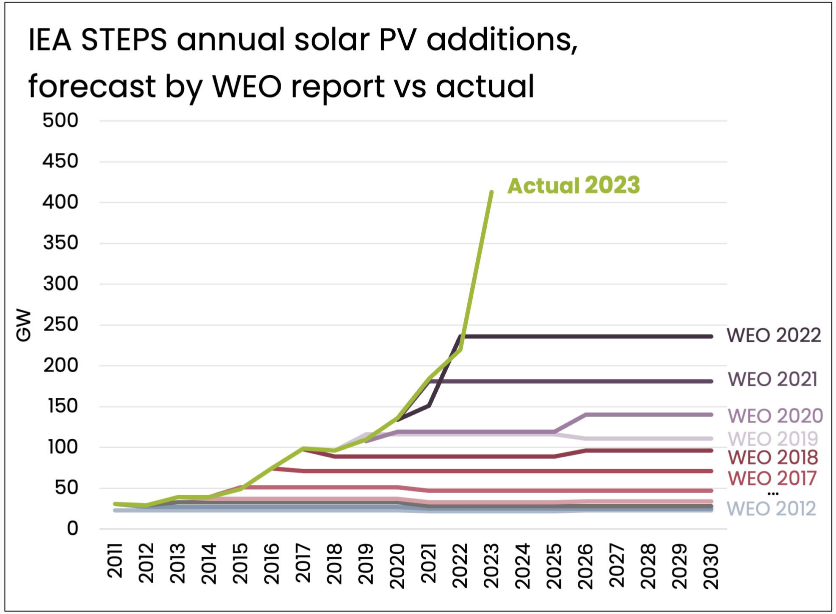
Growth of renewables smashing expectations

- Santos continues to progress new gas export projects despite renewables investment jumping to US$1.8 trillion in 2023.
- Every year the IEA has predicted solar growth will flatline - and every year it blows that forecast out of the water.
- Expectations of major gas demand growth alongside this renewables boom is unreasonable and extremely risky.
- According to the IEA's latest World Energy Outlook, **peak gas demand this decade is already locked in purely from current policy settings and market dynamics.**



Source: IEA, BNEF (2023 estimate)
Refers to the NPS scenario in 2011-2018. Credit to Auke Hoekstra for original graphic concept.

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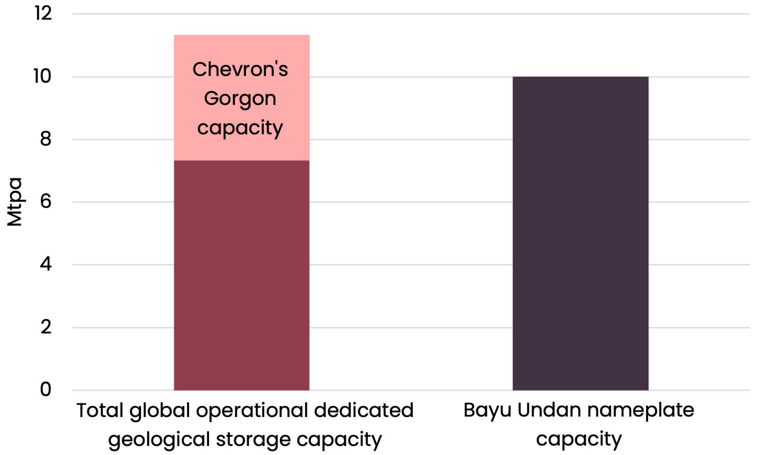
Reliance on uncommercial, unproven CCS

- To meet its operational emissions targets and avoid long-term reliance on increasingly expensive carbon credits, Santos is betting heavily on carbon capture and storage (CCS). Santos expects to meet roughly two-thirds of its Scope 1 and 2 emissions reductions targets with CCS.
- In 2023 there were just **12 CCS projects** not dedicated to extracting more fossil fuels with nameplate capacity of only 11.3 million tonnes per year. This puts the average capacity from these projects at just 0.94 Mtpa.
- By contrast, and despite limited CCS experience, Santos considers capacity of 10 Mtpa at Bayu Undan an achievable target.

Global operational dedicated geological storage capacity compared to Bayu Undan



Source: CCS Institute. Bayu Undan targeting 10Mt CO_2e p.a according to November 2023 Investor Briefing.

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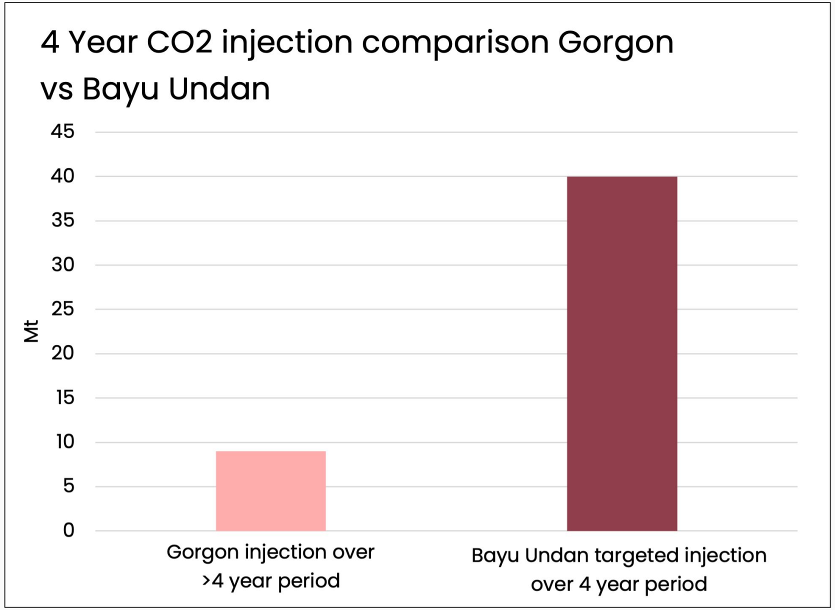
Risk of CCS gamble

- Chevron's Gorgon, the largest comparable operational CCS project in the world, is only **operating at about "one third" of target capacity** with only 9Mt of CO_2 injected since 2019, and capturing less than 4% of total emissions from the Gorgon LNG project. To achieve this **Chevron has spent AU$3.2bn on CO_2 injection** at Gorgon.
- Barossa alone is expected to generate 19Mt of operational emissions by 2030, which must be captured or offset under the Safeguard Mechanism.
- Wood Mackenzie analysis put **project IRR at time of FID at just ~6%.**
- Santos' reliance on unproven CCS to manage the massive emissions liability at a highly marginal project poses unacceptable financial risk.



Source: Gorgon 4 year injection. Bayu Undan targeting 10Mt CO2e p.a according to November 2023 Investor Briefing.

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Reliance on increasingly expensive offsets

- Even assuming Bayu Undan operates as planned, Santos' strategy still relies heavily on carbon credits: by 2030 Santos expects 15-30% of its emissions 'reduction' initiatives will be carbon credits.
- The gap between Barossa first gas (Q3 2025) and Bayu Undan first injection (2028) is guaranteed to leave Santos exposed to ACCU prices. Any Bayu Undan CCS delay increases this exposure.
- NAB research outlines a number of factors expected to push ACCU prices up to trade in line with more developed carbon markets such as the EU.
- As of mid-March 2024, EU carbon credits trade at around AU$94, a ~160% premium to ACCU prices. This will result in significant costs for Santos as ACCU's rise in price over the coming decade.

Factors driving increased ACCU prices

Markets Research Carbon Research — national australia bank
Rising Net Zero adoption by Australian companies.
Australian governments proposed Climate Risk reporting requirements.
CSIRO forecasts cost of abatement is expected to "more than double" from 2023 levels once abatement of more than ~160-170 Mt is required.
Safeguard Mechanism set to accelerate decarbonisation and add to ACCU demand.
ACCU's trade at a significant discount to their European, British, Californian and New Zealand counter-parts.

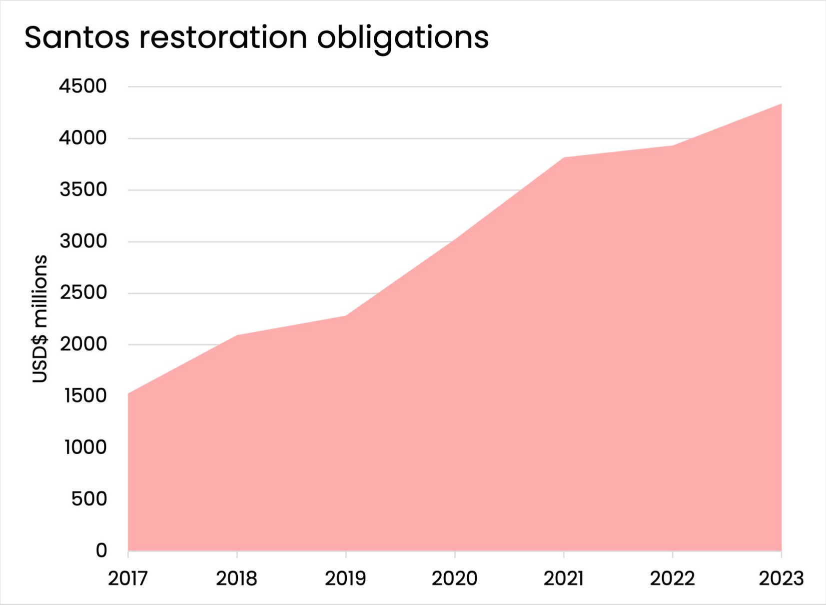
Source: NAB Research

Ever-growing restoration provisions

- Santos' latest reporting also highlights the risk investors face regarding restoration provisions with these provisions **increasing by USD$407m** to a massive USD$4.338bn.

- In the notes to its financial statements Santos continues to expect to leave major trunk lines in-situ even though full removal is the 'base case' in Australia. Santos estimates additional rehabilitation costs for this removal of between USD$400m-$600m. This would bring **restoration provisions to USD$4.738bn-$4.938bn.** Considering the complexity of these removals it likely for costs to trend towards the higher range of these estimates.

- **This $4.938bn in restoration provisions is ~32% of Santos' current market capitalisation.**



Source: Refinitiv, Santos 2017-2023 Annual Reports

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Decreasing access to finance

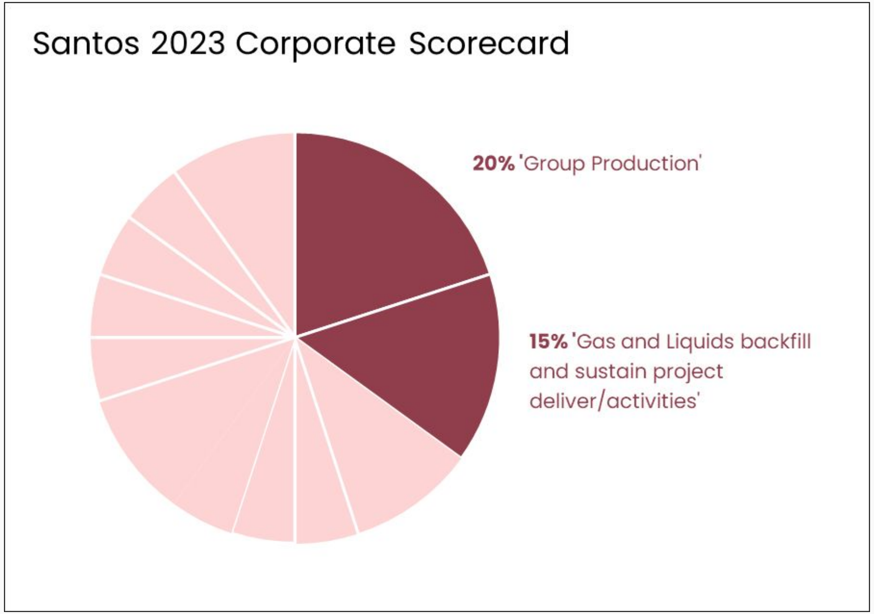
- Many of the world's major banks now have exclusions on financing new oil and gas projects.
- 24 of the world's top 100 banks, representing over USD$26 trillion in assets now exclude project finance for new oil and/or gas fields.
- Many of these exclusions have been adopted in just the last two years. This trend is likely to increase as commercial banks seek to add legitimacy to their net-zero commitments.
- Alongside project finance exclusions, many banks are now requiring credible transition plans from oil and gas companies in order to continue providing any finance, which Santos has not produced.
- Decreasing access to traditional bank finance in the coal sector has already led to significantly higher costs of capital.

BANK POLICIES: OIL & GAS EXCLUSION

ASSETS (USD)	BANK	NEW GAS FIELDS	GAS EXPANSION	NEW OIL FIELDS	OIL EXPANSION
$2,864.59 BN	HSBC	EXCLUDED		EXCLUDED	
$2,849.61 BN	BNP PARIBAS			EXCLUDED	
$2,542.61 BN	CRÉDIT AGRICOLE	EXCLUDED		EXCLUDED	
$1,853.86 BN	BANCO SANTANDER	EXCLUDED		EXCLUDED	EXCLUDED
$1,823.84 BN	BARCLAYS	EXCLUDED		EXCLUDED	
$1,636.35 BN	BPCE/NATIXIS			EXCLUDED	
$1,588.99 BN	SOCIÉTÉ GÉNÉRALE	EXCLUDED			
$1,180.22 BN	CRÉDIT MUTUEL	EXCLUDED		EXCLUDED	
$1,057.69 BN	LLOYDS BANKING GROUP	EXCLUDED		EXCLUDED	
$1,034.32 BN	ING	EXCLUDED		EXCLUDED	
$916.72 BN	UNICREDIT			EXCLUDED	
$837.21 BN	COMMONWEALTH BANK	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$796.88 BN	LA BANQUE POSTALE	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$762.15 BN	BBVA	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$679.76 BN	NAB	EXCLUDED		EXCLUDED	
$671.70 BN	RABOBANK			EXCLUDED	
$653.39 BN	WESTPAC	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$540.66 BN	DANKSE BANK	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$510.25 BN	COMMERZBANK	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$417.61 BN	OCBC	EXCLUDED		EXCLUDED	
$380.33 BN	KBC GROUP	EXCLUDED		EXCLUDED	
$376.07 BN	UOB	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$346.45 BN	LLBW	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED
$331.32 BN	HANDELSBANKEN	EXCLUDED	EXCLUDED	EXCLUDED	EXCLUDED

Remuneration incentivises misguided strategy

- Santos' remuneration structure still incentivises key management personnel to increase oil and gas production and progress oil and gas growth projects.
- This structure remains inconsistent with the company's own climate policy, which claims to support the climate goals of the Paris Agreement.
- In 2023, 20% of Santos' "corporate scorecard" used to determine the award of short-term incentives was based on increasing oil and gas production. 15% of the scorecard was for "backfill and sustain" project delivery/activities. Despite the title, this includes growth projects such as Barossa.



Source: Santos 2023 Annual Report

Growth project incentive

- Santos also continues to heavily incentivise oil and gas expansion with its CEO growth projects bonus.
- Investors have voiced significant frustration for this award and its low hurdles, with over 25% voting against the 2021 Remuneration Report, when the incentive was introduced.
- 60% of this award is based on the successful delivery of oil and gas growth projects: Barossa, Dorado and "backfill resources to maximise ongoing utilisation and future expansion of existing facilities".
- In 2023, the low hurdles continued, requiring only two achievements: regulatory approval for Dorado Offshore Project Proposal and the extension of reserves coverage for GLNG.
- If all Growth Projects Incentive SARs are fully granted, the fair value (measured at the beginning of the scheme) would be $6 million.
- Santos' has failed to respond to investor concerns around the CEO's growth projects incentive. Despite receiving a strike against the 2021 Remuneration Report, Santos' directors still maintained that incentivising oil and gas project growth would "deliver sustainable growth and longer-term profitability to our shareholders". This has not eventuated, and the growth strategy continues to exacerbate financial risk.

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Remuneration remains inconsistent with peers

Santos has shown no signs of improvement over several years of remuneration policies. This contrasts starkly with international peers:

- Shell's long term incentive scheme and TotalEnergies' performance share scheme offer no oil and gas production or growth incentives.
- Both Shell and TotalEnergies removed direct quantitative fossil fuel production targets from their remuneration schemes back in 2021. These targets were previously worth up to 25% and 8% respectively of their CEO's annual bonuses.
- BP has completely eliminated fossil fuel production metrics from its annual bonus scheme and has progressively reduced their weight in its long-term incentive scheme. The company's most recent long-term scheme saw a major cut in production metric weights, and instead included a 15% weighting for Scope 1 and 2 emissions cuts.

Source: Santos
Individual metric weights were not disclosed prior to 2021; our 2016-2020 figures therefore equally split category weights by the number of metrics in each category.

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Board-endorsed risky strategy and climate failure

- **Santos' inadequate response to shareholder concerns, financial underperformance and misguided growth strategy** have been presided over by Chair Keith Spence and a board appearing to mismanage the existential risks posed by the energy transition that is rapidly gathering pace.
- As Chair of the nominations committee, Keith Spence has additional oversight and responsibility to ensure the election of new directors that add requisite skills.
- Key guidance on skills matrices highlight the need for board competencies to manage key business issues, including those emerging under different scenarios.

ASX	Board skills should cover "emerging business and governance issues"
Australian Institute of Company Directors	Address "the key issues facing the organisation" and ensure "the board's composition takes account of different scenarios"
Climate Action 100+	"The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment."

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Failing to meet IGCC director expectations

Investor Group on Climate Change	Santos
"The company has a **coherent climate change strategy** which is integrated into the company's strategy **including capital expenditure.**"	**Failed** Climate strategy (including capex) is misaligned with the Paris climate goals as the company is pursuing oil and gas growth.
"The company undertakes **robust climate change scenario analysis** and **disclose capital investments, or assumptions**, consistent with the Paris Agreement objective of aiming to limit global warming to 1.5ºC."	**Failed** Latest scenario analysis lacks granularity. Capital investments remain wildly inconsistent with 1.5ºC.
"**Carbon offsets** are used as a **last resort** in the company's medium- to long-term strategy to manage climate change."	**Failed** Carbon offsets remain core to Santos' strategy (15-30% of planned 'reductions' by 2030).

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Failing to meet IGCC director expectations

Investor Group on Climate Change	Santos
“The **climate change transition strategy** for oil and gas companies **is the company strategy.**”	**Failed** Santos’ company strategy prioritises new oil and gas growth whilst its climate strategy and policy claims to support the Paris goals, which require no new oil and gas projects.
“The **CEO and Chair** to show company leadership by **ensuring action on climate change and minimising misalignment or inconsistencies in the approach** to climate change across the company.”	**Failed** Despite its stated support for the Paris goals and achieving 1.5°C, Santos “actively supports the continued role for fossil fuels in the energy mix” through its lobbying efforts.
“**Remuneration structures should not include incentives inconsistent or conflicting** with improving a company’s **climate change resilience and reducing emissions.**”	**Failed** Remuneration structure still promotes oil and gas growth, inconsistent with reducing emissions and climate change resilience.

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Skills matrix assessment out of step with reality

The matrix below demonstrates the skills, experience and diversity of the Directors in office at the end of 2023 across several dimensions that are relevant to Santos as a global energy Company. The matrix includes an explanation of the new criteria used to assess whether a Director possesses particular skills.

Governance, risk and legal			
Board leadership	5 underlying skills*	10 (100%)	–
Risk management	5 underlying skills*	10 (100%)	–
Legal	4 underlying skills*	8 (80%)	2 (20%)
Strategy and transformation			
Strategy and planning	5 underlying skills*	10 (100%)	–
Major project delivery	4 underlying skills*	9 (90%)	1 (10%)
Innovation and disruption	4 underlying skills*	8 (80%)	2 (20%)
Climate change response/energy transformation	5 underlying skills*	8 (80%)	2 (20%)
Leadership oversight			
CEO experience/Large P&L leadership	4 underlying skills*	9 (90%)	1 (10%)
International business	4 underlying skills*	8 (80%)	2 (20%)
Talent, remuneration and culture	5 underlying skills*	9 (90%)	1 (10%)
Industry and customer			
The oil and gas industry	5 underlying skills*	6 (60%)	4 (40%)
Energy markets	3 underlying skills*	5 (50%)	5 (50%)
Oil and gas mergers, acquisitions and divestments	5 underlying skills*	6 (60%)	4 (40%)
Finance and accounting			
Corporate finance	4 underlying skills*	9 (90%)	1 (10%)
Accounting and financial reporting	5 underlying skills*	7 (70%)	3 (30%)
Functional oversight			
Information technology and data	5 underlying skills*	8 (80%)	2 (20%)
Communications and corporate affairs	3 underlying skills*	10 (100%)	–
Government relations	5 underlying skills*	9 (90%)	1 (10%)
Health, safety and environment	5 underlying skills*	10 (100%)	–
Social licence	5 underlying skills*	10 (100%)	–

- **Directors with primary skills** Consistent ability to identify complex oversights
- **Directors with secondary skills** Broad and general knowledge of subject area

*** Underlying skill details:**

Board leadership
Including: Relevant board experience, Board/committee leadership, Board procedures and processes, investor engagement and continuous disclosure regime

Risk management
Including: Risk and compliance management systems, risk and compliance reporting to the Board, crisis management, regulatory risk management, and HR and people risks

Legal
Including: Santos' legal framework, legal negotiation, individual Director's legal duties and class action experience

Strategy and planning
Including: Strategic process and implementation, strategic thinking, strategy measurement and accountability, business planning and budgeting and portfolio-based capital allocation

Major project delivery
Including: Project front end loading, major project governance and oversight, vendor management and project risk and oversight

Innovation and disruption
Including: Disruption and industry transformation, new business development, vertical and/or adjacent business integration and portfolio approach to innovation

Climate change response/energy transformation
Including: Climate change and emissions oversight, decarbonisation, clean energy, carbon credits and carbon trading, and emerging climate trends

CEO experience/large P&L leadership
Including: International CEO experience, significant P&L responsibility, providing constructive CEO feedback and CEO appointment and termination

Source: Santos corporate governance statement

- The failures articulated in the previous slides call into question Santos' claim that 8 of its board members (80%) have the "consistent ability to identify complex oversights" with respect to "Climate change response/energy transformation".
- Even as climate transition risk has skyrocketed, the 4 board members appointed under Keith Spence's tenure as Chair of the nomination committee all have extensive fossil fuel industry backgrounds, with only 3 fleeting mentions of 'energy transition', 'alternative energy solutions' and 'some aspects of carbon management' across all 4 biographies.

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Delays and legal issues during Spence's tenure

REUTERS

Australian environmental group sues Santos over clean energy claims

Australian Centre for Corporate Responsibility (ACCR) files lawsuit in Federal Court challenging Santos' statement that gas is "clean" and that Santos' 2040 Net Zero pledge was deceptive.

ABC NEWS

Whistleblower says 'Santos lied to all of us' over severity of oil spill, marine deaths off WA coast

FINANCIAL REVIEW

Santos raises cost for Barossa gas after legal delays

Barossa project costs increased by $456.1m following regulatory delays. Project now expected to cost between $US4.5 billion to $US4.6 billion

ABC NEWS

Santos' $4.7 billion Barossa gas field could produce more CO2 than LNG, report says

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Investor action required

- **Santos continues to reject investor demands for a genuine climate risk management strategy**.
    - Santos has exceedingly weak emissions targets and plans. Even assuming full implementation of these plans, which appears highly unlikely, Santos' overall **emissions are expected to rise 22% by 2028** from 2023 levels due to planned production growth.
- Santos is pursuing a **misguided oil and gas growth strategy** that has already cost shareholders through **significant underperformance**, while **exacerbating massive transition risk exposure**.
    - This **risky growth strategy is heavily incentivised through remuneration**, a practice abandoned by key global peers years ago.
- Santos' inadequate response to shareholder concerns and misguided growth strategy have been presided over by Chair Keith Spence and a **board appearing to mismanage the existential risks** posed by the energy transition that is rapidly gathering pace.

At the upcoming Santos Ltd AGM, **shareholders are urged to vote:**

- **AGAINST** the re-election of Keith Spence
- **AGAINST** the adoption of the company's remuneration report