Santos - shareholder resolutions

Paris Alignment resolution

Shareholders request the Board disclose:

a. details of how the Board will ensure that our company's capital expenditure, including each material investment in the acquisition or development of oil and gas reserves, is aligned with the Paris Climate Agreement's goal of keeping the increase in global average temperatures to well below 2°C and pursuing efforts to limit the increase to 1.5°C;
b. short-, medium- and long-term targets for reduction of our company's emissions from both its operations (Scope 1 and 2) and products (Scope 3) ('**Targets**'); and
c. details of how the company's remuneration policy will incentivise progress against the Targets.

This disclosure should omit proprietary information, and be prepared at reasonable cost.

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company.

Supporting statement

Shareholders welcome our company's 2019 Climate Change Report, which is largely consistent with the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD). However, we are of the firm opinion that our company's growth strategy and emissions reduction targets disclosed in the report are not aligned with a pathway consistent with the Paris Agreement, particularly given:

- The greater urgency communicated in the International Panel on Climate Change's (IPCC) Special Report on Global Warming of 1.5°C[1], which calls for a rapid escalation in the scale and pace of the transition to limit the increase in global temperatures to 1.5°C.

- The failure to match the ambition recently shown by our company's global peers, namely Royal Dutch Shell Plc and BP Plc, which, we are concerned, would render Australian oil and gas companies global laggards. In particular:
    - Shell's commitment to set emissions reduction targets inclusive of its value chain (Scope 3)[2], whereas our company has limited its targets to its own operations;
    - The board of BP has supported a resolution very similar to this resolution[3], and BP has set separate targets regarding its methane intensity,[4] which our company has not done;

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[1] https://www.ipcc.ch/sr15/.

[2] https://www.shell.com/media/news-and-media-releases/2018/joint-statement-between-institutional-investors-on-behalf-of-climate-action-and-shell.html.

[3] https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-to-support-investor-groups-call-for-greater-reporting-around-paris-goals.html

[4] https://www.bp.com/en/global/corporate/sustainability/climate-change/tackling-methane.html

- Both BP and Shell have committed to incentivise emissions reduction in executive remuneration, in contrast with our company, which continues to incentivise executives for the growth of both production and reserves via exploration[5].

The 2019 Climate Change Report (p11) claims that energy demand is "projected to remain flat in the near to medium-term, and grow by 10% by 2060 under the Beyond 2°C Scenario (B2DS). The B2DS relies heavily on carbon capture and storage (CCS) and/or negative emissions, and allows for one-in-three odds of exceeding 2°C; which constitutes an uncomfortably high level of risk. It certainly does not reconcile with the current 'guardrail' understanding of 2°C developed by the UNFCCC as a "defence line that needs to be stringently defended."[6]

Conversely, the IPCC's 1.5°C report projects that in the absence of, or with only a limited use of fossil fuels with carbon capture and storage (CCS), the share of primary energy provided by gas must decline by 20-25% by 2030, and by 53-74% by 2050 (relative to 2010)[7]. It is clear there is a fundamental difference between our company's strategy, and the recommendations of the IPCC, given the absence of commercially viable carbon capture and storage.

As per the 2019 Climate Change Report (pp20-21), our company's climate change targets consist of the following:

1. To increase gas production by 50% by 2025;
2. To reduce operational emissions by 5% by 2025;
3. To assess carbon, capture and storage, and solar thermal technologies.

Our company's plans to increase gas production and associated capital expenditure must be seen in the context of a reliance on the theory that we can entirely displace coal-fired power with gas, thus embedding emissions into Australia's and the region's medium-term future at a time when gas should be playing a limited role only, particularly in developed economies.

Our company's commitment to reduce operational emissions by 5% by 2025 will likely be achieved by the decarbonisation of electricity grid with only minor operational improvements by the company.

Further, the final element of our company's targets relies on the availability of unproven technologies such as carbon capture and storage and/or negative emissions and contains no monetary commitment, no timeline, nor any metrics by which our company will measure success.

Shareholders have an interest in the long term viability of the company, and a responsibility to ensure that its business is aligned with the speed of decarbonisation that is required to limit global warming to well below 2°C, and preferably 1.5°C.

The IPCC 1.5°C report recommends that in order to reach net zero carbon emissions by 2050, gas must play a diminishing role in primary energy. Failing to limit global warming to 1.5°C will seriously impact the functioning of our financial systems and society more broadly. Companies

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[5] https://www.carbontracker.org/reports/paying-with-fire/

[6] http://unfccc.int/resource/docs/2015/sb/eng/inf01.pdf at page 18

[7] https://www.ipcc.ch/sr15/

which do not put in place appropriate plans will likely face rapid and terminal loss of social license and value. 2050 is just 31 years away, and our company -- whose core business is extracting and selling hydrocarbons -- has not begun a conversation with shareholders about how it will decarbonise.

ACCR urges shareholders to vote for this proposal.

Lobbying resolution

Shareholders request that:

1. The Board commission a comprehensive review of our company's positions, oversight and processes related to direct and indirect public policy advocacy (**Review**), including through industry associations of which our company is a member or at which our company is formally represented (**Relevant Industry Associations**), on energy and climate change, covering the period between the date that the Paris Agreement was adopted (12 December 2015) and the present day.

We request that this Review:

   a. for each Relevant Industry Association, disclose the proportion of that Association's revenue contributed by our company;
   b. evaluate whether advocacy positions* taken by Relevant Industry Associations are consistent with the Paris Agreement as a global framework for limiting the increase in global average temperature to well below 2°C; and
   c. evaluate whether advocacy positions* taken by Relevant Industry Associations, in respect of Australian climate and energy policy, are consistent with our company's policy and serve our company's financial interests.

*Given that 'advocacy positions' by Relevant Industry Associations are not always taken in written form, we request that this Review include, as evidence of such advocacy positions, credible media reporting.

2. the Board prepare (at reasonable cost and omitting confidential information) a report describing the completed Review and detailing the proposed actions to be taken as a result of the Review, to be made available to shareholders by the time of the company's next AGM. Shareholders request that that the company integrate reporting on its membership and assessment of alignment into its annual reporting from 2020.

3. the Board determine, and disclose to shareholders, the criteria by reference to which the company would discontinue membership of a Relevant Industry Association, in circumstances where energy and climate policy consistent with the Paris Agreement are not promoted by that Association.

Supporting statement - Santos

As a shareholder, the Australasian Centre for Corporate Responsibility (ACCR) favours policies and practices that protect and enhance the value of our investments.

Policy uncertainty

The last decade of Australian climate and energy policy has been characterised by short-lived policy, driven in large part by adversarial campaigning by industry bodies. Australia continues to be a laggard in the urgent global effort to reduce carbon emissions.

Accordingly, we urge shareholders to ensure that companies in all sectors review their relationships with industry bodies that act as obstacles to the effective uptake of national and global policy frameworks aimed at limiting global warming to 2°C.

Insufficient existing disclosure

Our company has not disclosed a complete list of its trade association memberships since its 2016 climate change submission to the CDP[8], in which it identified just two “trade associations that are likely to take a position on climate change legislation”: the Australian Petroleum Production and Exploration Association (APPEA) and the Business Council of Australia (BCA). We believe, however, that this is not an exhaustive list of our company’s trade associations that seek to influence climate and energy policy.

We are concerned that our company’s in principle commitment to the goals of the Paris Agreement, as well as the economic interests of shareholders, are being undermined by our company’s membership of various trade associations which undertake advocacy counter to these goals.

Negative advocacy

We question the long-term attractiveness to shareholders of our company’s public policy advocacy through certain industry associations. Three of these associations, the Australian Petroleum Production and Exploration Association (APPEA), the Business Council of Australia (BCA), and the Queensland Resources Council (QRC), have taken positions that run strongly counter to the goals of the Paris Agreement, and the corresponding interests of our company and its shareholders. For example:

1. APPEA, on whose board our company retains a position[9], has:
    - called for the “urgent removal of existing bans and moratoriums” on fracking in eastern states[10];
    - proposed that the Clean Energy Finance Corporation (CEFC) support gas projects[11];

[8] Santos Ltd, CDP Climate Change submission, 2016

[9] https://www.appea.com.au/about-appea/board/

[10] APPEA, Submission to Energy Security Board’s Draft Detailed Consultation Paper, 15 June 2018

[11] APPEA, Submission to Independent review into the future security of the National Electricity Market, March 2017

- argued for exemptions from climate policy for emissions intensive industries, including the LNG industry[12];
- opposed state-based renewable energy targets (RET)[13]; and
- called for LNG plants to be exempt from public disclosure of their emissions[14].

2. The BCA, on whose Energy and Climate Change Committee our company retains a position[15] has:
   - argued against any extension of the RET and stated that "there was no role for state-based" renewable energy targets[16];
   - called for the removal of state-based moratoriums on fracking[17];
   - proposed that the CEFC be permitted to invest in nuclear or thermal generation with carbon capture and storage[18];
   - argued for exemptions from climate policy for emissions intensive industries[19];
   - opposed Paris-aligned emissions reduction targets, and told government MPs that a 45% emissions reduction target would be "economy wrecking"[20];
   - called for further investment in Australia's coal-fired power stations[21].

3. The QRC has:
   - stated that the deployment of High Efficiency, Low Emission (HELE) coal fired power plants is a "key first step along a pathway to near-zero emissions"[22];
   - called on the government to underwrite the development of new coal fired power stations[23];
   - supported the development of new thermal coal mines in Queensland's Galilee Basin[24];
   - suggested that states should be penalised for not developing their gas reserves[25];
   - called for a new coal fired power station to be built in Queensland[26].

Robust Governance

[12] APPEA, Submission to Review of Climate Change Policies, May 2017
[13] APPEA, Submission to Energy Security Board's Draft Detailed Consultation Paper, 15 June 2018
[14] APPEA, Submission to the Review of the National Greenhouse and Energy Reporting Legislation, September 2018
[15] https://www.bca.com.au/energy_and_climate_change_committee
[16] https://www.bca.com.au/energy_and_climate
[17] Business Council of Australia, Submission to Independent review into the future security of the National Electricity Market, March 2017
[18] Business Council of Australia, Submission to Review of Climate Change Policies, May 2017
[19] ibid.
[20] https://www.smh.com.au/politics/federal/malcolm-turnbull-says-coalition-mired-in-idiocy-and-ignorance-on-climate-20181204-p50k1p.html
[21] https://twitter.com/BCAcomau/status/1083146139329691648
[22] Queensland Resources Council, Submission to Advancing Climate Action in Queensland, 2 September 2016
[23] https://www.theaustralian.com.au/news/nation/coalition-elders-fire-up-for-coalfired-power-seek-to-end-infighting/news-story/939186e79f2dcb63ebacc6ca9c3c1e5c
[24] http://www.abc.net.au/radio/brisbane/programs/focus/focus-on-coal/9917952
[25] http://www.abc.net.au/news/rural/2017-07-05/qld-resources-boss-calls-for-carrot-and-stick-approach-to-gas/8681150
[26] https://www.qrc.org.au/media-releases/queensland-ideal-place-for-hele-coal-investment/

The impact of these relentless policy interventions is weakened policy outcomes that lack consistency with the goals of the Paris Agreement. This suggests a lack of appropriate oversight by our companies, despite our company's positions of influence at APPEA and the BCA. This insufficient governance is what this resolution seeks to remedy.

The IIGCC's 'Investor Principles on Lobbying' call on trade associations to "lobby positively in line with the Paris Agreement"[27]. None of the industry associations listed above have advocated for emissions reductions targets consistent with the Paris Agreement. Rather, they have consistently undermined ambition consistent with the Paris Agreement, derided the role of renewable energy and effectively delayed the transition to a low carbon economy.

We support, as a starting point, our company's long term aspirational target of net zero emissions from its operations by 2050[28]. However, the activities of industry associations of which our company is a member stand in conflict with this commitment and our company's long term financial and strategic interests. As our company begins to reduce its emissions, such advocacy has the potential to undermine shareholder value over time, given our company's exposure to climate-related risk and policy uncertainty.

Our company's membership of Relevant Industry Associations should therefore be reviewed in light of those associations' positions, with a view to establishing criteria for discontinuing memberships that have not promoted our company's interests and the goals of the Paris Agreement.

ACCR urges shareholders to vote for this proposal.

[27] IIGCC, European Investor Expectations on Corporate Lobbying on Climate Change, October 2018
[28] Santos Ltd, Climate Change Report 2019, p19.