Australian Shareholders' Association

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Reserves up to 14 years

Company/ASX Code	Santos (STO)
AGM date	Thursday 2 May 2019
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
Pre AGM Meeting?	Yes with Chairman Keith Spence

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

Summary of ASA Position

<u>Governance and culture</u>

Chairman Keith Spence describes a changed culture led by the MD, now aligned with efficiency as a low cost producer, consistent with key remuneration incentives set by the board.

<u>Financial performance</u> including dividends and shareholder returns

Financial performance has improved and appears to have potential to continue improving.

A key indicator of sustained financial performance is 2P reserves which have increased to 14 years, with potential for continuing improvement in the medium term.

While any very minor negatives in performance variation from 2017 have good explanations, return on equity (ROE = NPAT of 360m / book value of 7,200m) was 9%; somewhat short of commendable if an adjustment is made for $2 billion of impairments over 2 years in 2016 and 2017, which would reduce the figure to 7%. GLNG running at less than 60% of nameplate capacity must be a significant factor. We attribute this to a conceptual design decision made when the project was under consideration: to acquire upstream assets sufficient for supplying half the production capacity of the plant and rely on spot price purchase of additional gas supply. While this has not been economic and the half pace productivity is not attributable to present management or board, we have been assured the board considers it a strategic necessity to obtain low cost feed stock to improve GLNG production.

Dividends recommenced, with payout ratio in the policy range of 10% to 30%, providing the majority of earnings for increasing resource and reserves, consistent with the board's intention of doubling production within the medium term, signalling intended growth compared to dividends.

<u>Key events</u>

Acquisition of Horizon for cash and shares. Debt reduction. No capital raising.

Key Board or senior management changes

No changes in 2018.

Summary

(As at FYE)	2018	2017	2016	2015	2014
NPAT ($m USD)	630	- 360	-1,047	-1,953	-630
UPAT ($m USD)	727	336	63	49	530
Share price ($ AUD)	5.48	5.45	4.02	3.68	8.25
Dividend (cents US / AU)	9.7 / 13	zero	5	30	35
TSR (%)	3%	36%	10%	-51%	-41%
EPS (cents US / AU)	30 / 40	-17.3	-58	-170	-64
CEO total remuneration, actual ($m AUD)	4.5	3.63	0.45	0.61	0.79

For 2018, the CEO's total actual remuneration was **53 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

Item 2 (a)	**Re-election of Mr Hock Goh as a Director**
ASA Vote	**For**

Summary of ASA Position

Appointed on 22 October 2012, Mr Goh has extensive international executive experience in oil & gas, plus extensive directorships internationally.

He has an ample shareholding in Santos.

Item 2 (b)	**Re-election of Mr Peter Hearl as a Director**
ASA Vote	**For**

Summary of ASA Position

Appointed on 10 May 2016, Mr Hearl has extensive executive experience in oil & gas in Australia and USA. His directorship is in broader industries, generally with opportunity to bring his marketing experience to the table.

He has an ample shareholding in Santos.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Base pay for the CEO has been increased marginally and maximum incentive opportunity has been increased for both STI and LTI. LTI has a four year performance testing period and half STI payment is in shares deferred. Share allocation is based on market price at the beginning of the period.

The remuneration is clearly presented, although there is some key information not disclosed; eg WACC. There is a table of actual take home pay for 2018.

Our past criticism has focussed on two of the four equal elements of LTI: FCFBP and WACC. Our concern about FCFBP inherently providing incentive for executive decisions to reduce exploration or development activity continues, but at a lower level of concern; amelioration being provided by performance as 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. Our other concern previously expressed about FCFBP is that it seems to us to provide a free kick; performance hurdles not being sufficiently challenging. We acknowledge here that our opinion is opposite to that of the chairman; and this is clearly a matter of values and judgement. Our concern previously expressed about WACC was that the performance hurdle was only 70% of WACC. That problem has been addressed with first payment occurring on achievement of ROACE equalling WACC. Our remaining difference of opinion is on the initial reward for achieving WACC being 50% whereas we would prefer zero. And we suggest maximum reward being achieved at 120% of WACC would be better at 150%. But we recognise these matters as differences of opinion, emanating from slightly different values.

Item 4	Approval of LTI grant for MD
ASA Vote	For

Summary of ASA Position

Refer to the previous paragraph.

Based on number of shares calculated from just over $5 market price, a maximum remuneration could be $2m FAR, $3m STI plus $3m LTI; a total of $8m.

On the basis of turn-around in financial performance under this MD and the board’s plan for doubling production in the medium term, it is quite possible that a maximum outcome could be achieved. But this would entail significant improvement in financial results; let’s say in the order of double; ie underlying NPAT in the order of $1,500m.

A grant which could result in $3m for both STI and LTI would be higher at a higher share price; say $8m plus $2m base pay, for a total of $10m. We are going to vote in favour this time, and we will have further conversation about matters we have raised above. The analysis has been provided in case some of our members think it could be too much and obtained too easily, in which case they can vote against or direct their proxies against.

Counter to that, we have taken into account the enormous change which has occurred under this new MD. And our vote of undirected proxies will be cast accordingly, in favour of the proposal.

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