

Investment Stewardship Group

Voting Bulletin: Santos Limited

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board Quality
2. Environmental risks and opportunities
3. Corporate Strategy and Capital Allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) provide information around our engagement with the issuer.

Company	Santos Limited
Market	Australia
Meeting Date	3 rd April 2020
Resolutions	Item 5a: Special Resolution to Amend the Company Constitution Item 5b: Ordinary Resolution on Paris Goals and Targets Item 5c: Ordinary Resolution on Climate-Related Lobbying
Board Recommendation	Item 5a: AGAINST Item 5b (1, 2 & 3): AGAINST Item 5c: AGAINST
BlackRockVote	BIS voted with management and withheld support for the relevant proposals.

While BlackRock shares the concerns reflected in these resolutions, particularly regarding the need to set ambitious Scope 1 & 2 emissions targets, we determined to support management. **Our decision was based on our multi-year engagement with the company on climate-related issues, including past discussions on improving Taskforce on Climate-related Financial Disclosures (TCFD) disclosures, and our experience that management subsequently addressed feedback from shareholders, including BlackRock.** However, we

caveat this support with an expectation that the company demonstrates meaningful progress on its climate risk related reporting and the business practices underlying it by next year's annual general meeting (AGM). Failure to do so will lead us to reconsider our position on similar proposals in the future.

Overview

Santos Limited, Australia's second largest independent gas producer, explores for, develops, produces, transports, and markets hydrocarbons (primarily liquid natural gas (LNG)) for homes and businesses in Australia and Asia.

BlackRock Investment Stewardship (BIS) regularly monitors Santos' governance practices and risk profile as part of its responsibility to shareholders. In prior engagements with the company's board and management, we had extensive discussions on its TCFD reporting (see our [2017 vote bulletin](#)). We have also discussed a range of other material issues driving long-term shareholder value, including, executive compensation, board composition and diversity, board refreshment and director commitments.

Rationale for BlackRock Vote

5a Special resolution to amend the company constitution: The shareholders request that the company amend the constitution so that shareholders in a general meeting may by ordinary resolution express an opinion or make a request related to an issue of material relevance to the company's business.

This resolution is required under Australian voting rules, which require a change in the company's constitution in order to file an underlying resolution. Therefore, a resolution calling for an amendment to the company's constitution is first necessary to allow for the two non-binding resolutions (5b & 5c). A group of shareholders owning 5% of voting shares or 100 shareholders (with no minimum holding size or length of holding period) may file a resolution. BlackRock is generally not supportive of constitutional amendment resolutions as the relative ease of filing risks distracting and time-consuming proposals being submitted by shareholders whose interests are not necessarily aligned with those of the broader shareholder base. We believe shareholder proposals should be a tool used after engagement has failed, which in our experience is not the case here.

5b-1 Shareholders request the Board disclose, in annual reporting from 2021: Short, medium and long-term targets for reductions in the company's Scope 1, Scope 2 and Scope 3 emissions (Targets) that are aligned with articles 2.1(a) and 4.1 of the Paris Agreement (Paris Goals)

In our engagements with the company over the past several years, Santos has demonstrated it is responsive to investor feedback. For example, in 2017 it was encouraged to report in alignment with TCFD framework recommendations and published its first climate change report the following year. Our vote for management on this proposal is based on the conviction that management is committed to addressing shareholder concerns and will consider more ambitious goals following carbon-mitigation research addressed in the next section.

While we are supportive of more ambitious targets on Scope 1 & Scope 2 emissions, we believe Scope 3 targets encompassing all indirect emissions in a company's value chain take time to implement, particularly for the natural gas sector. We suggest any future proposals be structured to provide shareholders with the opportunity to vote on each class of emissions separately (i.e. a separate line item for Scope 3).

5b-2 Shareholders request the Board disclose, in annual reporting from 2021: Details of how the company's exploration and capital expenditure, including each material investment in the acquisition or development of oil and gas reserves, is aligned with the Paris Agreement (Paris Goals)

The company has publicly indicated that it will be in a stronger position to improve disclosures and consider more ambitious targets following completion of a Carbon Capture and Storage (CCS) technology pilot in the Cooper basin, scheduled to finish by the end of 2020. The company has publicly explained that CCS climate mitigation research is of strategic importance to the future of the company and its carbon reduction targets alike and may also benefit the industry more broadly. The company's decision to continue funding its CCS study

while placing other capital expenditure under review due to recent economic shocks signals a commitment to research and development that may prove valuable to the company's future, the broader energy transition, and ultimately long-term shareholder value.

5b-3 Shareholders request the Board disclose, in annual reporting from 2021: Details of how the company's remuneration policy will incentivise progress against the Targets

Santos currently has sustainability measures in its remuneration scorecard, specifying climate-related performance for their short-term incentives, including short and medium-term emissions reduction projects. BIS maintains the view that compensation committees are best placed to determine effective performance measures given members' knowledge of the company's strategic plans, the industry in which the company operates, and other issues internal and/or unique to the company.

5c Ordinary resolution on the company's climate-related lobbying: The shareholders request the company conduct a review of its direct and indirect lobbying activities relating to climate, resources and/or energy policy (Review). A report summarising the completed Review to be disclosed on the company's website by 31 October 2020

Our conditional support for management on proposal 5c is based on the company's commitment to undertake a more comprehensive review of its industry association advocacy.¹ Based on our analysis and engagement, the company's public positions and lobbying efforts are aligned. In the past when the company has identified differences in positions it has made them known and, in certain cases, exited advocacy groups, most notably the Business Council Australia (BCA) in October 2019. It has also committed to being more transparent about its process and to publishing additional disclosures. We look forward over the coming year to greater transparency on the company's climate policy lobbying as well as that done by its agents and industry associations.

We will continue to engage with the board and management of Santos on a range of governance and material sustainability issues, including its strategy for climate risk mitigation and the broader energy transition. We will also monitor and provide feedback on the relevant disclosures once published.

¹ This bulletin was updated May 28, 2020 to clarify that our decision on item (5c) was based on engagement with the company. The original version stated the decision was based on public commitments made by the company.