

Investment Stewardship

Vote Bulletin: Santos Limited

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| Company | Santos Limited (ASX: STO) |
| Market and Sector | Australia, Energy |
| Meeting Date | 3 May 2022 |
| Key Resolutions ¹ | <p>Management proposal(s):</p> <ul style="list-style-type: none"> • Item 4: Advisory vote on climate change <p>Shareholder proposal(s):</p> <ul style="list-style-type: none"> • Item 8a: Special resolution – amendment to the Constitution • Item 8b: Ordinary resolution – capital protection • Item 8c: Ordinary resolution – climate-related lobbying • Item 8d: Ordinary resolution – decommissioning |
| Key Topics | Climate risk, corporate lobbying disclosure |
| Board Recommendation | The board recommends shareholders to vote FOR Item 4 and AGAINST Items 8a-8d |
| BlackRockVote | BlackRock voted FOR item 4 and AGAINST Items 8a-8d |

Overview

Santos Limited (Santos) engages in the exploration, development, transportation, and marketing of natural gas for homes and businesses in Australia and Asia.² The company employs more than 3,700 people and operates five core natural gas production assets across Australia, Papua New Guinea, and Timor-Leste.³

BlackRock Investment Stewardship (BIS) engages with companies to understand how they identify and manage risks and opportunities that we believe can impact a company's ability to deliver sustained financial performance for long-term investors like our clients. In our multiyear engagements with Santos, we have sought to further our understanding of the company's approach to governance issues – specifically board refreshment and director overcommitment issues – as well as environmental issues such as climate risk and the energy transition.

We have long engaged with Santos to understand their strategies to align the company's business model with the global aspiration to limit global warming as outlined in the Paris Agreement. Given the significance of the energy sector to the Australian economy and the key role it will play in achieving an orderly and just transition,

¹ Santos Limited. "[Notice of Annual General Meeting.](#)"

² Santos Limited. "[About Us.](#)"

³ Santos Limited. "[2021 Annual Report – Positioned for success.](#)" Pages 3 and 21.

we believe it is important as a long-term investor on behalf of our clients to understand how companies are managing the risks and opportunities arising from the transition to a low carbon economy.⁴

Rationale for BlackRock's vote

Item 4: Advisory vote on climate change (FOR)

BIS supported the management proposal seeking shareholder support for the company's approach to the energy transition, which is described in the company's 2022 Climate Change Report. The company's climate action plan, targets, and disclosures are consistent with what we look for and, in our assessment, demonstrate management and board responsiveness to shareholder feedback. Accordingly, BIS believes it is in the interests of long-term shareholders, like our clients, to support the proposal to approve the Climate Change Report.

At the 2022 Annual General Meeting (AGM), Santos introduced a proposal to "provide shareholders with a non-binding advisory vote on the Company's Climate Change Report at the 2022 Annual General Meeting."⁵ A similar proposal was submitted by a shareholder for the company's 2021 AGM. That proposal was withdrawn ahead of the AGM after the company agreed to put a climate plan to a vote themselves in the future.

As discussed in our commentary, [Climate risk and the global energy transition](#), we are interested in hearing from companies in which our clients are invested how they are assessing and managing the risks and opportunities arising from the global energy transition, including their strategies to navigate and realize emerging dynamics in the energy transition. Specifically, we look for companies to demonstrate they have strategies in place that address and are resilient to a range of scenarios, including likely decarbonization pathways well below 2°C, as well as global ambitions to limit temperature rise to 1.5°C.

In their 2022 Climate Change Report – which incorporates shareholder feedback – the company describes the steps they are taking towards achieving "net-zero Scope 1 and Scope 2 emissions by 2040, in line with the objective of the Paris Agreement to limit global temperature rise to less than 2 degrees Celsius and pursue efforts to limit the temperature rise to 1.5 degrees Celsius."⁶ The report also describes how the company's "climate transition investments will meet [our] disciplined investment criteria, be demand-led by [our] customers and consistent with [our] low-cost operating model."⁷

Furthermore, Santos intends to provide shareholders with a non-binding advisory vote every three years to determine whether the approach remains suitable, while allowing time for the company to make progress in relation to their Climate Transition Action Plan. This will help ensure that the "evolution of technology, science, markets, policy and experience over time is taken into account in the Company's approach to the energy transition."⁸

We understand that net zero pathways will not be linear or streamlined; energy markets and the macroeconomic environment are complex and volatile, and there will continue to be a great deal of regulatory and geopolitical uncertainty.⁹ In this context, we believe the board and management are best positioned to determine what approach will best enable the company to navigate risks and opportunities in the context of their particular business model and sector. Thorough company disclosures allow investors to understand corporate climate action plans, track progress, and assess the strategic changes that the company may undertake to manage key risks, such as emissions reduction efforts.

⁴ Santos Limited is included BIS' [climate focus universe](#), a list of approximately 1,000 carbon-intensive public companies that represent nearly 90% of the global scope 1 and 2 greenhouse gas (GHG) emissions of BlackRock's clients' public equity holdings.

⁵ Santos Limited. "Notice of Annual General Meeting." Page 10.

⁶ Santos Limited. "2022 Climate Change Report." Page 7.

⁷ Santos Limited. "2022 Climate Change Report." Page 7.

⁸ Santos Limited. "Notice of Annual General Meeting." Page 10.

⁹ BlackRock Inc., "[Managing the Net-Zero Transition](#)", February 2022.

We are encouraged by Santos' improving transparency in this regard and will continue to engage to further understand progress against their commitment "to a just and orderly, demand-led transition to cleaner energy and clean fuels."¹⁰

Item 8a: Special resolution – amendment to the Constitution (AGAINST)

BIS is generally not supportive of constitutional amendment resolutions and voted AGAINST the special resolution to amend Santos Ltd.'s constitution. The full resolution reads as follows:¹¹

To consider, and if thought fit, pass the following resolution as a special resolution:

To amend the constitution to insert the following new Clause 32A: "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 a material risk as identified by the company and cannot either advocate action that 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."

As required under the Australia Corporations Act 2001, a resolution calling for an amendment to the company's constitution is first necessary to allow for the subsequent ordinary resolution(s), in this case items 8b-8d. 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. BIS is generally not supportive of constitutional amendment resolutions. Our concern is that the relative ease of filing introduces the risk of potentially distracting and time-consuming resolutions being submitted by shareholders whose interests are not necessarily aligned with those of the broader shareholder base.

Item 8b: Ordinary resolution – capital protection (AGAINST)

BIS did not support the resolution as it is overly prescriptive and risks unduly restricting management's ability to make business decisions. The full resolution reads as follows:¹²

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

Shareholders note the company's support for the climate goals of the Paris Agreement, along with the publication of the International Energy Agency's NetZero Emissions by 2050 Scenario, and the Climate Action 100+ company assessment. Shareholders therefore request the company disclose, in subsequent annual reporting, information that demonstrates how the company's capital allocation to oil and gas assets will align with a scenario in which global energy emissions reach net-zero by 2050, facilitating the efficient managing down of these assets.

This information should include:

- *production guidance for the lifetime of the company's oil and gas assets;*
- *plans and capital expenditure expectations for decommissioning and rehabilitating oil and gas asset sites;*
- *plans and provisions for supporting staff to transition to future employment following oil and gas asset closures; and*
- *details of how remaining value in the company's oil and gas assets will be redeployed or returned to investors.*

¹⁰ Santos Limited. "2022 Climate Change Report." Page 6.

¹¹ Santos Limited. "Notice of Annual General Meeting." Page 3.

¹² Santos Limited. "Notice of Annual General Meeting." Page 4.

As stated in the BIS [Global Principles](#), and applied via our regional voting guidelines, we generally do not support shareholder proposals that we believe risk over-reaching into the basic business decisions of the company, as is the case with this resolution.

Santos' 2022 Climate Change Report describes how management plans to align capital allocation decisions with their Climate Transition Action Plan, including projected capital investment initiatives consistent with Paris-aligned pathways.¹³ BIS maintains that a company's executive leadership and the board are best positioned to determine the course of action that, in their view, is in the best economic interests of the company and long-term investors. This includes how the company considers climate risk in capital allocation decisions, such as investments in sustainable solutions, opportunities, business lines, renewable energy, and/or low-carbon products – and how such investments are aligned with the long-term financial interests of shareholders like our clients.

We believe Santos' plans and transparency are appropriate and provide the information we need to assess the company's approach to the energy transition. We will continue to engage as the company's approach to climate risks and opportunities and the energy transition evolves.

Item 8c: Ordinary resolution – climate-related lobbying (AGAINST)

BIS did not support the resolution as, based on our analysis, we found it to be overly prescriptive given that it seeks to direct the company's climate-related lobbying activities. The full resolution reads as follows:¹⁴

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

Shareholders request that our company cease all private and public advocacy, both direct and indirect, that contradicts the conclusions of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) on 1.5°C alignment, including advocacy relating to the development of new oil and gas fields.

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

BIS regularly engages with companies to understand how their corporate political activities contribute to policy matters material to their long-term strategy and shareholder value.

BIS has long engaged with Santos on this issue, and, over the years, the company has taken a series of actions to conduct a more comprehensive review of their corporate political activities and industry association memberships. As described in our [2020 Vote Bulletin](#), when Santos has identified meaningful differences in position, they have made them known and, in certain cases, exited advocacy groups, most notably the Business Council Australia in October 2019. The company also committed to greater transparency and has published additional disclosures accordingly.¹⁵

Based on the company's publicly available disclosures, and our multi-year engagement, we believe Santos has demonstrated progress in ensuring their corporate political activities and industry association memberships align with their stated policy positions.

In addition, as described in our commentary on [corporate political activities](#), BIS may support a shareholder proposal requesting additional disclosure or explanation where we note material inconsistencies with stated public policy priorities material to the company's long-term strategy or where increased transparency would help shareholders understand how a company's political activities support its strategic priorities. In this case,

¹³ Santos Limited. "[2022 Climate Change Report](#)," Page 33.

¹⁴ Santos Limited. "[Notice of Annual General Meeting](#)," Page 4.

¹⁵ In 2020, Santos Limited published a "first review of industry association's alignment to the company's climate and energy policy positions," continuously enhancing such review. See "[2022 Climate Change Report](#)" at page 8 and "[2021 Statement on Review of Industry Associations](#)" at page 3 to learn more.

we believe the resolution exceeds requesting greater disclosures and could constrain the company from participating in certain climate-related industry associations and activities directly relevant to their business. As a result, BIS assessed that it is not in the interests of our clients to support this resolution.

Item 8d: Ordinary resolution – decommissioning (AGAINST)

BIS did not support the resolution as, based on our analysis, we found it to be overly prescriptive, risking unduly restricting management’s ability to make business decisions. The full resolution reads as follows:¹⁶

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

Shareholders request that the Board disclose annually from 2023:

- 1. a list of all onshore and offshore oil and gas infrastructure which may be decommissioned over the medium-term;*
- 2. audited asset-level provisions for the decommissioning of this infrastructure and restoration of sites, along with the major assumptions underpinning these provisions;*
- 3. analysis of the useful life of all assets using different oil and gas demand scenarios, including the IEA Net Zero by 2050 scenario.*

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

As explained in our commentary on [Climate Risk and the Global Energy Transition](#), we look to companies to help their investors understand how climate risks and opportunities are integrated into their governance, strategy, and risk management, to provide scope 1 and 2 greenhouse gas (GHG) emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector.

Following a careful analysis of the resolution’s request, in our view, its prescriptive nature risks over-reaching into the basic business decisions of the company as, on our assessment, it presumes a particular course of action by management. As a result, BIS believes it is not in the interests of long-term investors like our clients to support this resolution.

¹⁶ Santos Limited. “[Notice of Annual General Meeting](#),” Page 4.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹⁷

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹⁷ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.