SNOWCAP

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9 March 2023

The Board of Directors
Santos Limited
60 Flinders Street
Adelaide, South Australia 5000

We believe Santos' upstream growth strategy – the most aggressive of any major listed oil and gas company on the planet[1] – is misguided and driven by executive incentives, which are not aligned with shareholder interests.

In order to address its underperformance, we believe Santos must take urgent action to reduce upstream capex, increase capital returns, and realign executive incentives.

Dear Members of the Board,

Today we are writing because Santos has lost its way.

Since 2021, Santos has pivoted to a growth strategy, committing to *by far* the most aggressive growth capex plan of any major listed oil and gas company globally.

The result has been a drastic underperformance in Santos' stock price; now the lowest returning E&P peer over a one-year, two-year, and 10-year time frame. Santos' stock has meaningfully decoupled from oil prices and currently trades at a significant discount to both peers and fair value.

We believe this underperformance can be attributed to the following key issues:

- **A Misguided & Reckless Growth Strategy**
- **Inadequate Capital Returns, which Ignore Transition Risk**
- **Unacceptable Environmental & Safety Record**
- **Misaligned Executive Incentives**

As shareholders in Santos, we are sharing a detailed presentation outlining our perspectives on the Company and why we believe the board must take urgent action to address Santos' underperformance. Our materials are available at *www.reformsantos.com*

We believe that a reformed Santos has the potential to unlock 30%-50% upside for shareholders, create a better Santos for all stakeholders, and substantially improve Santos' alignment with the energy transition.

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[1] As measured by forecast total Capex as a proportion of forecast Operating Cash Flow between 2023-2025 (consensus estimates using data from S&P Capital IQ). Major listed E&P companies defined as all publicly listed companies where Exploration and Production activities comprised >50% of LTM EBITDA, Enterprise Value >$10.0bn, free float >70%.

Santos Today

Santos Ltd ("Santos" or "the Company") is a top-10 independent Exploration and Production (E&P) company with an attractive portfolio of oil and gas reserves and LNG capacity across Australia, Papua New Guinea, and Alaska. Natural gas accounts for 85% of Santos' current production, most of which is sold as LNG under long term contracts linked to oil prices.

Santos has Drastically Underperformed Since Pivoting to a Growth Strategy in 2021

In the past two years, against a backdrop of record oil prices, Santos' stock has flatlined. As a result, Santos is now the lowest returning large cap E&P company over a one year, two-year, and 10-year time frame, and trades at a significant discount to peers and intrinsic value[2].

Santos' drastic underperformance corresponds with a step change in strategy at the start of 2021 when the Company announced that it was entering a "growth phase". At that time, the board approved a special one-off A$6 million growth incentive plan for the CEO.

Since then, the Company has committed to $7 billion of new upstream growth projects, more than 50 times its total growth spend in the five-year period prior. A further $6 billion of growth projects are targeted for Final Investment Decision (FID) in the coming two years.

Santos' Growth Strategy is Reckless and Misguided

In the next three years, Santos is projected to spend 83% of its operating cash flow on capex; by far the most aggressive growth plan of any major listed E&P company globally. By stark contrast, US peers are increasingly focussed on capital discipline amidst an inflationary cost environment and uncertain long-term demand for fossil fuels.

Santos' growth projects appear to lack any special merit and have been poorly delivered to the market. At the time of FID in March 2021, Barossa had an independently projected IRR of less than 10%[3]. The project has also drawn substantial criticism for its high emissions intensity which is estimated to be twice that of competing projects[4].

Meanwhile, Pikka - an oil field on Alaska's North Slope - is a poor strategic fit for Santos' portfolio both in terms of its geography and breakeven price, which is substantially higher than Santos' average. Inherited as part of the Oil Search merger, Pikka was widely expected to be divested / sold down before Santos surprised the market by announcing FID in August last year.

By its own admission, Santos' board also lacks the relevant skills for overseeing large capital projects, and the Company's historical track record for investment is poor; in the past decade, Santos' average return on capital employed was just 0.5%[5].

Santos' Executive Incentives do not Align with Shareholder Interests

As far as we can tell, Santos' growth ambitions appear to be driven by a series of perverse executive incentives, which reward absolute growth, even where it destroys value for shareholders. Front and centre of these is the one-off A$6 million Growth Projects Incentive awarded to Santos' CEO in 2021, which has remained in place despite substantial criticism from shareholders and proxy advisers.

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[2] Snowcap SOTP analysis / Consensus Target Price
[3] Wood Mackenzie
[4] IEEFA
[5] Snowcap analysis using data from Capital IQ

Santos' Capital Returns are Inadequate and Ignore Transition Risk

In the past five years, Santos has returned an average of just 13% of operating cash flows to shareholders, which is substantially below peers who have returned an average of 32%, and a fraction of Santos' spend on exploration and development during this time[6].

In 2022, Bloomberg New Energy Finance ranked Santos 36th out of 41 global oil and gas companies according to transition readiness; further highlighting the need for Santos to accept the finitude of its business and prioritise returning value to shareholders.

Santos' Safety and Environmental Performance is Unacceptable

Santos has failed to take climate action seriously; setting tokenistic short term emission targets while simultaneously planning to increase production output by up to 30%. The Company is also being sued over its Climate Target Action Plan for alleged greenwashing.

Santos' direct emissions (scope 1 & 2) intensity of 52 tCO2e/mmboe is one of the highest in the industry, and the Company's health and safety record has been consistently unacceptable across a range of metrics. In 2021, Santos' total injury rate (TRIR) was higher than any of the 48 companies which reported to the IOGP and over four times the oil & gas industry average.

The Path Forward: Reforming Santos

In order to address Santos' underperformance and discounted valuation, we are advocating for the following key reforms:

- **Re-Instill Capital Discipline and Reduce Upstream Capex**
- **Increase Capital Returns to Shareholders**
- **Improve Environmental & Safety Performance**
- **Realign Executive Incentives**
- **Refresh Governance**

We believe that a reformed Santos has the potential to unlock 30%-50% of upside for shareholders and create a stronger, safer, and more responsible company.

We look forward to an ongoing conversation with you and our fellow shareholders.

Sincerely,

SNOWCAP

[6] Capital IQ