Santos Ltd
ABN 80 007 550 923
Santos Centre
60 Flinders Street
Adelaide South Australia 5000

GPO Box 2455
Adelaide South Australia 5001
Telephone: +61 8 8116 5000
www.santos.com

Santos

3 April 2020

TO:	ASX Market Announcements
FROM:	Company Secretary
SUBJECT:	**2020 Annual General Meeting**

Please find attached the Chairman's and Managing Director and Chief Executive Officer's addresses to the 2020 Annual General Meeting held today.

Amanda Devonish
Company Secretary

Chairman's Address

Good morning ladies and gentlemen, fellow shareholders.

Welcome to the 2020 Annual General Meeting of Santos Limited.

My name is Keith Spence.

This is my third Santos AGM after a year in which the value of our company again grew significantly and we were able to continue to pay a dividend to shareholders.

However, I say this at a time when we face the challenges of the global coronavirus pandemic combined with a collapse of oil prices.

I'll have more to say about that later.

This year's meeting is being conducted with the assistance of video and teleconferencing as we play our part in the social distancing that is vital as all Australians work together to slow down the spread of the coronavirus.

I regret that we were unable to meet with shareholders personally in Adelaide today, and I look forward to shareholders being able to be present when we meet next year.

Today instead, we are webcasting the entire meeting live.

Every effort has been made to ensure that this runs smoothly for our shareholders.

However, if any technology issues do arise, a recording or a transcript of the meeting will be available on our website.

Before we commence formally, I regret to inform you that, for the same reason that we can't meet in person today, we are unable to conduct the annual shareholder trip to Moomba this year.

The format of this meeting is also different from our previous AGMs, as we have advised in recent ASX releases.

The opportunity to ask questions is still available.

Shareholders may ask a question via the Q and A tab at the top right of their screens.

If you have a question already prepared, please submit it now so that I can answer as many questions as possible when I come to the relevant agenda item.

All questions should be addressed to me as the Chair.

Please start your question with the resolution number to which it relates.

I ask that you keep your questions short and to the point so that as many shareholders as possible have a chance to ask a question.

Each shareholder should restrict themselves to no more than two questions.

Santos

Mr Tom Baddeley, from the Santos Government and Public Affairs team, is here with me in Perth and will read out the name of the shareholder and their question.

As our time is limited, it's possible not all questions will be able to be answered today.

If there are unanswered questions, on matters not substantially covered in today's meeting, Santos will publish responses in relation to those matters, on our website.

I confirm that a quorum is present – by virtue of the proxies I hold as Chair – and I now formally declare the meeting open.

I'm speaking to you from Perth in Western Australia and I begin by acknowledging the Traditional Owners, the Whadjuk Noongar people.

I pay my respects to their elders past, present and emerging.

Directors and shareholders listening in are doing so from other ancestral lands, and I also pay my respects to those Aboriginal peoples and their elders.

The operations of Santos take place across the nation, and I wish to acknowledge the Traditional Owners everywhere that we operate, and thank them for their involvement in our industry.

Let me commence our business for today with some introductions.

Members of the Santos Board joining us via teleconference today are, non-executive directors:

- Yasmin Allen
- Guy Cowan
- Hock Goh
- Yu Guan
- Vanessa Guthrie
- Peter Hearl
- And Janine McArdle.

Also on the call is Jodie Hatherly, our Company Secretary.

Yu Guan and Janine McArdle will seek election by shareholders today.

I welcome Janine and Yu to their first Santos AGM.

Yasmin Allen and Guy Cowan will seek re-election to the Board later in the meeting.

Our Managing Director and Chief Executive Officer, Kevin Gallagher, is joining the meeting from Adelaide.

Also present on the call is Russell Curtin, representing our auditor Ernst & Young.

As previously notified to the ASX, all resolutions today will be decided on a poll, based on proxies that were submitted before the meeting.

I declare the poll open, and I will now vote all directed proxies in accordance with the directions provided by shareholders.

Santos

As advised in the notice of meeting, I will also vote all available undirected proxies:

IN FAVOUR of all Board-recommended resolutions – 2(a), 2(b), 2(c), 2(d), 3 and 4.

And AGAINST resolution 5(a), which was requisitioned by a group of shareholders.

I have been informed that resolution 5(a) will not be passed by the 75% majority required for a special resolution.

Accordingly, it is not necessary to vote on resolutions 5(b) and 5(c).

However, questions in relation to those items will be allowed in the Q and A for resolution 5(a).

I now declare the poll closed.

The formal results of the poll will be notified to the ASX after the meeting, and will be posted on the Santos website, and I will display the voting outcome for each item of business after the online Q and A about that item.

On behalf of the Board, I would like to acknowledge the tremendous work of all Santos' people, led by our Managing Director and CEO Kevin Gallagher, to achieve record financial results in 2019 for the second year running.

The Santos balance sheet remained strong, allowing the Board to declare a final dividend of 5 US cents per share fully-franked.

This brings full-year dividends to 11 US cents per share fully-franked – or around 17 Australian cents.

I am pleased to say that in US dollar terms this is a 13 per cent increase for our shareholders on the previous year.

The dividend is consistent with our sustainable dividend policy to pay in the range of 10 to 30 per cent of free cash flow generated per annum.

2019 was a very good year for Santos.

Kevin will go into this in detail, talking about the operational performance and financial results, but the headlines are worthy of emphasis:

Record free cash flow for a second year running. And a 7 per cent increase in net profit after tax.

These results demonstrate the strength of our strategy and our disciplined, low-cost, cash-generative operating model.

We were able to achieve these results because we haven't deviated from our strategy to transform, build and grow our business around five core, long life natural gas assets in Australia and Papua New Guinea.

As a result of maritime boundary changes, this now includes Timor-Leste where the Bayu-Undan field, that supplies gas to the Darwin LNG project, is located.

When I addressed you this time last year:

Our Barossa project offshore northern Australia was on track for a 2020 final investment decision.

In February we were still on track to achieve this.

However, on 23 March we acted decisively in response to the turmoil in global markets to protect our operating cash flow and our balance sheet.

As a result, a final investment decision on the Barossa project, which will backfill Darwin LNG, will be delayed.

The ConocoPhillips acquisition is expected to complete in the first half of 2020, subject to third-party consents and regulatory approvals.

Importantly, this acquisition remains consistent with our strategy to build and grow around our core natural gas assets, and it will deliver Santos operatorship and control of a high quality portfolio of low-cost, long-life assets and strategic infrastructure – including a controlling interest in Darwin LNG and Bayu-Undan.

We've already announced a conditional agreement to sell a 25 per cent interest in Bayu-Undan and Darwin LNG to SK for $390 million and we are in advanced discussions with a number of parties for equity in the Barossa project.

And our LNG sales discussions are progressing well.

At last year's AGM, we remained hopeful of reaching agreement with our joint venture partners, and the PNG Government, to farm-in to P'nyang, increase upstream alignment in PNG, and participate in PNG LNG expansion.

While we reached agreement with our partners, we have not yet been able to agree terms with the PNG Government.

Combined with current market conditions, this will mean any farm-in to P'nyang and PNG LNG expansion will be delayed.

Last year, I advised that GLNG production was on track to deliver 6 million tonnes per annum of LNG sales by the end of 2019.

I am pleased to say we reached this target early in October 2019 and we have increased production guidance to 6.2 million tonnes per annum for 2020.

In the Cooper Basin, we had drilled the most wells since 2014 and we were looking to drill a 100-well program in 2019.

We exceeded that target, drilling 115 wells.

It was a very successful drilling and appraisal program that delivered 183 per cent reserves replacement.

I reported to you that we anticipated a decision on development consent for the Narrabri Gas Project later in 2019.

I am very pleased that the NSW Minister for Planning has, in March this year, referred the project to the Independent Planning Commission.

The Minister has directed the Commission to hold public hearings and make a determination within 12 weeks of receiving the assessment report from the NSW Department of Planning.

The current public health crisis and social distancing requirements mean that the assessment report has not yet been delivered and the process for conducting public hearings is still being settled.

Nonetheless, a decision can reasonably be expected in 2020.

In 2019, we released our second Climate Change Report, setting medium-term targets towards our aspiration of net zero emissions by 2050.

This year our third Climate Change Report sets out progress against our targets and confirms that Santos is economically resilient under all International Energy Agency World Energy Outlook 2018 scenarios.

The first target is to increase our LNG exports to 4.5 million tonnes by 2025.

Increasing LNG exports is the best thing we can do to reduce global emissions by replacing coal in household heating and cooking, industrial processes and power generation in Asia.

As I said earlier, GLNG in Queensland achieved a 6 million tonne run-rate in 2019 and with capacity of 8.6 million tonnes per annum, it provides opportunity for sales growth in the future.

When conditions improve and we can refocus on growth projects like Barossa to backfill Darwin LNG and PNG LNG expansion, these will also provide new sales opportunities.

In 2019 we set a target to reduce our own production emissions in the Cooper Basin and Queensland by 5 per cent by 2025.

I'm pleased to report that we're well ahead of the progress needed to achieve this target.

And that the company's overall scope 1 emissions intensity continues to trend lower.

Importantly, we said we would pursue a step-change in emissions reductions technology.

The International Energy Agency, the Asia Pacific Economic Cooperation Forum and the Intergovernmental Panel on Climate Change all acknowledge that carbon capture and storage – or CCS – is a critical technology to achieving the world's climate goals.

In 2019 we commenced a CCS appraisal program in the Cooper Basin, drilling two wells which will be followed with injectivity assessments this year.

And we've now entered front end engineering and design for a 1.7 million tonne per annum CCS project which would capture carbon dioxide from the Moomba Gas Plant and could commence as early as 2022.

Kevin will say more about this later.

Last year, we expected to drill two exploration wells in the Northern Territory's McArthur Basin onshore shale gas province.

Unfortunately, a combination of weather and rig delays meant the program could not be undertaken in 2019 and the cost-cutting measures we announced on 23 March mean that these wells will now be delayed beyond 2020.

We were, however, able to conduct hydraulic fracture stimulation on our Tanumbirini-1 well and confirm a successful gas discovery.

With the current public health crisis and the vulnerability of remote and Indigenous communities, we plan to curtail further testing of this well and safely shut it in to avoid the movement of people in and out of the area to help keep these communities healthy and safe.

And while I didn't comment on Western Australia last year:

In 2019, we successfully integrated the Quadrant business and completed a successful appraisal program for Dorado in the Bedout Basin, de-risking development options for the field.

Although our growth projects that were due to take final investment decisions have been put on hold, we continue to progress our Dorado project and still expect to enter front end engineering and design in the second quarter to make this project ready for final investment decision once conditions improve.

The unrelenting focus of Kevin and his team on our strategy to transform, build and grow around our core assets, together with our disciplined, low-cost, cash-generative operating model has positioned the company well to weather the unprecedented market conditions we are currently experiencing.

As I said earlier, in response to the challenges of COVID-19, combined with low oil prices, we acted decisively on 23 March to protect our cash flow and our balance sheet.

We announced cost cuts in 2020 of $550 million in capital expenditure and $50 million in operating expenditure, and we will continue to review this as we need to, over the coming months.

Right now, we need to keep production going to maintain our own revenues – and the revenues that flow to governments, so they can fund the economic relief that is going to be required during this crisis for households and businesses across the nation.

It is also vitally important that we keep employing people and buying locally to support our communities and that we maintain reliable energy supplies for our customers in both Australia and Asia.

These energy supplies are essential for hospitals, power generators, manufacturers of medical supplies and food, supermarkets, and all the other products and services that keep the economy and society functioning.

Santos has strong operating cash flows, our balance sheet remains strong, and as we announced last week, we are targeting a free cash flow breakeven of $25 per barrel oil price in 2020.

To maintain this position and support jobs at Santos and our customers, our top priority is to keep production flowing and our costs down without compromising on safety or asset integrity.

I'd like to thank you, our loyal shareholders.

I hope you can see your patience being rewarded by a company that sticks to its strategy and lives its purpose: to provide sustainable returns to shareholders by supplying affordable, reliable and cleaner energy to improve the lives of people in Australia and Asia.

I am confident the Santos management team will steer the company successfully through the current public health and economic crisis in a way that positions us well for economic recovery and the growth opportunities that will, inevitably, re-emerge in the future.

I'll now hand over to Kevin to give you his review of operations and more details about our financial results, the challenges we now face and our plan for the coming year.

Thank you.

Managing Director and Chief Executive Officer's Address

Thank you Keith.

As I am joining the meeting from Adelaide, I begin by acknowledging I am on the traditional country of the Kaurna people of the Adelaide Plains and I pay my respects to their elders past, present and emerging.

As Keith said, Santos delivered another strong set of financial results in 2019.

However, in just one month, a great year behind us has been overshadowed by the collapse of oil prices and global markets, and we now face unprecedented headwinds for the remainder of the year.

Very importantly, Santos is a much more resilient company today than we were in 2015-16 when we last faced a challenge like this – and I am confident that we will climb back again.

Ours is a cyclical business, which is why, over the last four years, we have embedded our disciplined low-cost operating model to make Santos a sustainable business.

Indeed, sustainable in the face of black swan events, such as the once-in-a-hundred year pandemic that we are currently fighting.

When oil prices and demand recover, I believe our projects will be much better placed than those of our competitors.

If we remain cash flow positive and maintain a strong balance sheet until market conditions improve, we will be well-positioned to refocus on growth and deliver superior value to shareholders over time.

Our strategy to transform, build and grow around our core assets has been accepted by the market in recent years as a good strategy.

It is still a good strategy.

We have a low cash flow breakeven – with a $25 per barrel target for 2020, as we announced last week.

We are now in control of our capital expenditure profile over the next few years because we now operate most of our assets.

We have great flexibility in our growth because all of our growth projects are yet to take final investment decisions.

This means we can defer projects as required until market conditions improve.

Our production levels from our current assets are relatively steady beyond 2025, even without any new growth projects.

The balance sheet is stronger – we have $3 billion of liquidity available – and our covenants have headroom for several years in the current oil price environment.

In the first couple of months of this year we generated $186 million in free cash flow.

And, our fixed-price gas sales contracts are expected to make up 35 per cent of sales volumes in 2020.

We have recently undertaken additional oil price hedging covering April to December this year.

This means we now have almost 9 million barrels hedged, covering 30 per cent of our remaining 2020 oil price exposure, at an average floor price of $43 per barrel.

We are set-up to sustain the base business and remain resilient to low oil prices.

It was encouraging to see S&P Global Ratings recognise this last week by reaffirming Santos' BBB- credit rating with stable outlook.

S&P also noted Santos has the financial capability to undertake the acquisition of ConocoPhillips' northern Australia and Timor-Leste business, which, as Keith also said, is expected to complete in the first half of 2020.

Returning to our 2019 performance, our strong financial results demonstrate the strength of a disciplined, cash-generative operating model.

Let me run through some of the highlights:

We continued to drive unit costs down and deliver efficiency gains despite cost pressures seen across our industry.

Sales revenue was up 10 per cent to $4 billion.

Reported net profit after tax was up 7 per cent to $674 million.

The acquisition of Quadrant Energy delivered what we promised it would and more, with synergy savings now forecast at more than $60 million per year.

And, we generated a record $1.1 billion in free cash flow, up 13 per cent on 2018.

You have all heard me say many times – cash is king – and now it is more important than ever.

I am also exceptionally pleased that we were able to pay a full-year dividend of 11 US cents per share, up 13 per cent on 2018.

As you know, we are very focused on free cash flow in this business.

This is how we measure our performance and I am not going to let up on that.

Back in 2016 our free cash flow breakeven was just shy of $50 a barrel.

We had assets that required over $70 oil price to breakeven.

Stepping forward to 2019, our free cash flow breakeven reduced to $29 and even lower if we include the effect of oil price hedging.

All of our assets generate free cash flow at oil prices under $35.

This is the Santos disciplined operating model in action.

Our record $1.1 billion free cash flow this year means that over the past four years we have generated $3 billion in free cash and we finished 2019 with a free cash flow yield of around 10 per cent.

The Santos disciplined operating model continues to drive lower cash unit production costs across our operating assets.

Over the last two years we have delivered reductions of 28 per cent in Western Australia, 17 per cent in the Cooper Basin and 5 per cent in Queensland.

I believe this is industry-leading performance, which has been achieved despite cost pressures seen across our industry, and our focus on growth over the last year or so.

I was hoping to be sharing with you today our growth plans for 2020 and beyond, having last December increased our 2025 production target to 120 million barrels of oil equivalent.

However, as we announced last week, much of our growth has been postponed under the current market conditions.

That does not change the fact, that, when market conditions improve – which I am confident they will – one of the things that sets Santos apart is that we have growth opportunities across all of our assets.

Our growth is not beholden to one product, one product market, or even one region.

Ours is also a brownfield upstream growth strategy leveraging existing infrastructure to deliver superior shareholder returns.

We have conventional offshore growth in Barossa and Dorado.

We have onshore growth in the Cooper Basin and across Queensland.

Narrabri is also now in the hands of the Independent Planning Commission in New South Wales for a final decision, which is expected within months.

And, our reserve and resource position underpinning these growth projects is strong.

We have 989 million barrels of oil equivalent in 2P reserves and 1.9 billion barrels of oil equivalent in 2C resources.

That excludes the ConocoPhillips acquisition, on completion of which we would book an additional 480 million barrels of 2C before any subsequent sell-downs.

Final investment decisions on just Barossa and Dorado alone would commercialise over 300 million barrels of resources and convert them to reserves.

But of course, delivering these reserves is going to be delayed for the time being, until market conditions improve.

I would now like to address Santos's approach to climate change.

Santos operates and markets natural gas in the Asia Pacific region – the region which accounts for 40 per cent of total global energy demand and half the world's total greenhouse gas emissions.

Australia's Chief Scientist, Dr Alan Finkel, said recently that natural gas is already making it possible for nations to transition to a reliable and relatively low-emissions electricity supply.

Dr Finkel referred to the UK where the combination of natural gas and renewables has led to a 50 per cent reduction in emissions from electricity generation since 2009.

A mature debate about climate change and emissions reduction must address technologies to make natural gas cleaner and eventually "zero emissions".

That's why Santos is investing in carbon capture and storage, or CCS.

Today, CCS projects store around 40 million tonnes per year of carbon dioxide, far short of the more than two billion tonnes of carbon dioxide the International Energy Agency forecasts that CCS projects will need to store each year by 2040.

The Cooper Basin is uniquely placed for CCS, with potential injection capacity of 20 million tonnes of carbon dioxide each year for 50 years.

Our proposed Moomba CCS project, now in front end engineering and design, will safely and permanently store carbon dioxide already separated at the Moomba Gas Plant, in the same reservoirs that have safely held oil and gas in place for tens of millions of years.

The project is attracting considerable interest and we have entered a non-binding agreement that could lead to BP investing A$20 million in support of the project.

We estimate the cost of abatement at less than A$30 per tonne and our aim is to drive these costs lower with scale and experience.

I believe carbon capture and storage is an exciting opportunity for Santos now and into the future, with the potential to create a new wealth-generating industry for Australia, breathe new life into existing industries such as cement and steel, and underpin the development of new energies such as hydrogen.

Just as private investment in renewable energy deployment was accelerated through public policy and funding over the last two decades, we now need to focus on accelerating CCS in similar ways.

A revenue stream – such as from Australian Carbon Credit Units, will be a critical enabler for our Moomba CCS project.

In closing, I want to acknowledge the uncertainty the world is facing as we all fight the coronavirus pandemic together.

Right now I am focused on the health, safety and wellbeing of Santos people and their families and on keeping production flowing. This will mean that we can keep the lights on for the country and continue to power other essential services like hospitals, schools, Australian manufacturers, and the supermarkets our communities rely on.

I have activated the Crisis Management Team, which I am leading, and we have established a Pandemic Task Force that is working with the business to implement business continuity and contingency plans that comply with government and public health requirements.

So far we have:

- Introduced self-declarations regarding personal health
- Heightened personal hygiene and workplace cleaning procedures
- Introduced temperature checks at airports and all of our workplaces
- Implemented social distancing
- Put in place travel and workplace access restrictions
- Adjusted field rosters and camp environments
- And enhanced medical treatment and evacuation capability from the field.

Our workforce has supported us in everything we are doing and I cannot thank them enough for their cooperation and the magnificent job they are doing to keep energy supplies flowing.

Our company has a critical role to play in keeping our economy and society functioning by continuing to provide energy security for our customers in Australia and across Asia.

We have acted decisively in announcing financial measures that are appropriate to the current environment and which will ensure the company continues as a low-cost, reliable and high performance business.

These include:

- Reducing capital expenditure by $550 million (38 per cent)
- Reducing 2020 cash production costs by $50 million
- And targeting 2020 free cash flow breakeven oil price of $25 per barrel.

Our operating model is focused on maintaining a strong balance sheet and increasing operating cash flow through improvements in productivity and discipline around our capital expenditure.

And, our balance sheet is strong, with $1.2 billion in cash at the end of February and $1.9 billion in committed undrawn debt facilities.

Near term debt maturities are minimal.

The ConocoPhillips acquisition is fully-funded from existing cash and $750 million in committed two-year acquisition debt.

We have already announced a conditional agreement to sell a 25 per cent interest in Bayu-Undan and Darwin LNG to SK for $390 million and we are in advanced discussions with a number of parties for equity in Barossa.

When conditions improve, our low-cost, efficient and sustainable operations together with our diverse portfolio of long-life natural gas assets will put Santos in the best possible position for the future to deliver superior value to shareholders over time.

Santos

Finally, to all of you on today's call, please follow the public health advice of our Chief Medical Officers around the country and stay healthy and safe.

Thank you.

I will now hand back to Keith.

The formal business of the meeting was then conducted.