

SM ENERGY

DEAR STAKEHOLDERS

At SM Energy, we strive to sustainably generate profitable growth through investments in energy production and supply. Our strategy is to be a premier operator of top-tier assets, and our view of being a premier operator includes a strong commitment to environmental, social and governance (ESG) best practices. Sustainability in our business is only possible if we effectively manage risk and preserve financial strength to enable future investment.

Since the last publication of this report, our team has achieved important numeric and qualitative goals related to our ESG practices. Our accomplishments included:

- **Environment:** Significant strides were made to reduce emissions and recycle water. Noteworthy statistics include:
 - Methane intensity in 2019 was top quartile among industry peers who reported.
 - Greenhouse gas (GHG) emissions intensity in 2019 was 12.4 mT CO₂/MBoe, beating our internal target.
 - Produced water recycling nearly doubled in the second half of 2019 to more than five million barrels as we designed and installed semi-mobile facilities at development sites.
- **Safety:** Total recordable incident rate for all Company employees and contractors in 2019 was 0.46, nearly top quartile among our peers.
- **Innovation:** Team collaboration led to the development and implementation of data dashboards for key safety, emissions, spill performance and water stewardship metrics. The current data provided by these dashboards is reviewed and discussed at each regular senior management meeting and each quarterly meeting of the Board of Directors, while up-to-date data enables operating personnel to monitor and pro-actively manage these factors on a daily basis.
- **People and Culture:** Our Leadership Learning Journey program was designed to include all SM Energy employees. This program combines training on our corporate values and desired leadership core competencies to enhance engagement, improve behavior consistent with our culture and develop talent across the organization. During 2019, our team collectively volunteered nearly 2,700 hours in service to community organizations, and we contributed \$1.5 million to community causes.



...being a premier operator includes a strong commitment to environmental, social and governance best practices.”



● **Governance:** Our Board of Directors amended the charter of its existing Nominating and Corporate Governance Committee to enhance oversight of ESG matters and rename it the Environmental, Social and Governance Committee. Our Board and management continued to engage our investors, including owners of a majority of our common stock, and received feedback that largely expressed satisfaction with our governance and executive compensation practices.

● **Disclosure:** We have taken significant steps to improve the transparency and reporting of our ESG efforts. We are now participating in the CDP questionnaire, and we are publishing SASB metrics in conjunction with our Corporate Responsibility Report for your consideration.

Our capabilities in risk management have been tested by the COVID-19 pandemic, and I can proudly say that the SM Energy team was well prepared and has managed effectively through this disruption. Our IT infrastructure and broader operating procedures have made working remotely effective and secure, we have substantial hedges in place protecting us from the volatility in oil prices, and our operations and planning teams quickly slowed our pace of development to preserve liquidity and investment returns.

On the financial strength front, we completed our three-year portfolio transition to focus on developing top-tier oil and gas assets and generated free cash flow in the second half of 2019 and the first quarter of 2020. Our plan is to continue to focus on reducing leverage and generating debt adjusted per share cash flow growth moving forward.

Of course, none of this progress would have been possible without the outstanding efforts of our SM Energy team members and the support of our Board. Our Board has been consistently engaged in overseeing our ESG efforts to date, and with the designation of a specific Board committee to now oversee our ESG efforts, we expect to make even more transparent connections between our strategy, ESG performance goals and compensation practices.

We hope that you will find this report to be useful and efficient for your purposes, and always appreciate constructive feedback. Thank you for your interest in our Company.

Sincerely,



Jay Ottoson
Chief Executive Officer
August 2020