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## **Santos to acquire 100% of Eastern Star Gas Consolidates strategic position in NSW's Gunnedah Basin Joint Venture with TRUenergy**

Santos is pleased to announce that it has reached binding agreements to give effect to:

- the acquisition of 100% of the outstanding ordinary shares in Eastern Star Gas Limited (ESG); and
- the subsequent sale of a 20% working level interest in ESG's permits in the Gunnedah Basin, northern New South Wales, for A\$284 million to TRUenergy Holdings Pty Ltd (TRUenergy).

Pursuant to these transactions, Santos will assume operatorship and own 80% of ESG's coal seam gas (CSG) permits with TRUenergy owning the remaining 20%.

The acquisition of ESG will be conducted via a recommended Scheme of Arrangement (Scheme) under which ESG shareholders will receive 0.06803 Santos shares for every 1 ESG share held<sup>1</sup>.

Based on Santos' closing price of A\$13.23 on 15 July, the transaction values ESG at A\$0.90 per ESG share or A\$924 million, and represents a 3P reserves multiple of A\$0.50 per gigajoule.

The acquisition of ESG builds on Santos' existing interests in the Gunnedah Basin. Following completion, Santos will have the largest natural gas reserves position in NSW, with 1,216 PJ of 2P reserves and 2,238 PJ of 3P reserves.

TRUenergy, a leading energy retailer with significant power generation interests in Eastern Australia, represents an ideal partner to develop ESG's permits in joint venture with Santos.

Santos is one of Australia's largest domestic natural gas producers and has a long track record of working with local communities to safely and sustainably produce natural gas.

Santos Chief Executive, David Knox, said: "This transaction represents the next major step in Santos' eastern Australia gas strategy and positions the company to meet the expected increase in demand for natural gas from both domestic power generation and export LNG markets."

"The acquisition of ESG is a unique opportunity to consolidate our Gunnedah Basin interests and establish the leading position in Australia's next major natural gas province."

<sup>1</sup> Subject to adjustment in the event Santos declares a dividend prior to the Scheme Implementation Date and ESG shareholders do not become entitled to receive that dividend.

“Santos has been working in regional Australia for more than 50 years, including 15 years exploring for and developing coal seam gas.”

“Santos is committed to developing the coal seam gas industry in the Gunnedah Basin without impacting the important role the region plays as an agricultural producer. The growth of the natural gas industry in the Gunnedah Basin will bring new jobs and additional investment to local communities across the region,” Mr Knox said.

## **Proposed Acquisition of ESG**

Santos and ESG have entered into a Scheme Implementation Deed (SID) under which it is proposed that Santos will acquire all of the issued and outstanding ordinary shares of ESG, other than the shares already held by Santos and TRUenergy.

Santos currently owns approximately 20.9% of the issued and outstanding ordinary shares of ESG and TRUenergy owns approximately 3.8%.

Under the Scheme, ESG shareholders will receive 0.06803 Santos shares for every 1 ESG share held.<sup>2</sup>

The implied offer price of A\$0.90 per ESG share represents a premium of:

- 51% to ESG’s closing price of \$0.595 on 15 July 2011; and
- 48% to the volume weighted average price of ESG shares for the 30-day period up to and including 15 July 2011.

Additional benefits for ESG shareholders include:

- the ability to retain exposure to the growing eastern Australian natural gas market;
- the ability to obtain scrip-for-scrip CGT rollover relief for eligible shareholders;
- the receipt of an attractive dividend yielding stock;
- exposure to Santos’ exploration, development and production portfolio, with potential for substantial additional growth; and
- Santos’ long track record of project delivery and leadership in community engagement.

## **Unanimous Recommendation by ESG Board**

The directors of ESG unanimously recommend that ESG shareholders vote in favour of the Scheme and have each stated that they intend to vote the shares they control in favour of the Scheme, in the absence of a superior proposal and subject to an Independent Expert’s opinion that the Scheme is in the best interests of ESG shareholders.

It is anticipated that ESG shareholders will receive Scheme documents containing full details of the Scheme by mid-September. The Scheme is subject to ESG shareholder and Court approval and satisfaction of certain ordinary closing conditions including no material adverse change to ESG and no material breach of the SID by ESG. It is expected that the Scheme will be completed by the end of October.

<sup>2</sup> Subject to adjustment in the event Santos declares a dividend prior to the Scheme Implementation Date and ESG shareholders do not become entitled to receive that dividend.

ESG has agreed to a number of deal protection mechanisms including a no-talk and no-shop obligation, a matching right and a reimbursement fee provision.

A copy of the SID will be released to the ASX today.

Deutsche Bank acted as exclusive financial adviser to Santos and Freehills acted as exclusive legal adviser in relation to this transaction.

## **Proposed Joint Venture arrangements with TRUenergy**

Santos has entered into a series of binding arrangements with TRUenergy, which give effect to:

- the sale by TRUenergy of its 39 million shares in ESG to Santos at A\$0.90 per share resulting in proceeds of approximately A\$35 million; and
- the acquisition by TRUenergy of a 20% interest in ESG's CSG permits and a pro rata share of other assets previously owned by ESG for approximately A\$284 million

resulting in net cash consideration to Santos of approximately A\$249 million. The sale will take effect on the second business day following completion of the Scheme.

The cash proceeds from TRUenergy fully cover Santos' anticipated incremental capital expenditure to fund its share of the ongoing development of the Gunnedah Basin to the end of 2014.

The agreements with TRUenergy are conditional on the successful completion of the Scheme and regulatory approvals.

Mr Knox said: "Santos welcomes TRUenergy, one of Australia's largest integrated energy companies, as our joint venture partner in developing this major natural gas province."

TRUenergy's Managing Director, Richard McIndoe, said: "We are pleased to become joint venture partners in the Gunnedah Basin with Santos. With such a qualified partner developing and operating the field, TRUenergy can focus on its core strengths of power generation and retailing with confidence that our equity gas will be available when we need it in the future."

## **Santos' position in the Gunnedah Basin**

Santos first acquired interests in the Gunnedah Basin in 2007, and in 2009 acquired a 20% holding in ESG and a 35% equity interest in various exploration permits operated by ESG.

In addition to the permits held by ESG, Santos' other Gunnedah Basin assets (for which it is already operator) include:

- 25% of PELs 1 and 12 (Santos can increase its interest to 65% via farm-in);
- 15% of PEL 456 (Santos can increase its interest to 50% via farm-in); and
- 100% of PELs 450, 452 and 462.

Assumption of operatorship and majority interest in the various CSG permits will allow Santos to undertake co-ordinated development of its Gunnedah Basin acreage.

Santos Vice President Eastern Australia James Baulderstone said: “Santos will develop our coal seam gas business working in cooperation with farmers and existing rural businesses in the region, continuing our 50-year track record of building beneficial partnerships with landowners and local communities.”

“We are aware of a number of important issues raised by local farmers and other land users concerning the longer term development of the Gunnedah Basin, one of which is the proposed Narrabri to Wellington pipeline. We are confident we can address community concerns in that regard and we will be explaining these plans to the community in the near future, once we have completed our review of Eastern Star’s plans.”

“We also look forward to ESG staff joining Santos and the important role they will play in developing our assets in NSW,” Mr Baulderstone said.

## **About Santos**

An Australian energy pioneer since 1954, Santos is one of the country’s leading gas producers, supplying Australian and Asian customers. Santos has been providing Australia with natural gas for more than 40 years. The company today is one of the largest producers of natural gas to the Australian domestic market. Santos also has developed major oil and liquids businesses in Australia and operates in all mainland Australian states and the Northern Territory. From this base, Santos is pursuing a transformational liquefied natural gas (LNG) strategy with interests in four LNG projects. Santos has 2,400 employees working across its operations in Australia and Asia.

## **About ESG**

Eastern Star Gas is focussed on the exploration, development, production and sale of coal seam gas in Australia. The Company’s main activity, the Narrabri Gas Project, is located in Petroleum Exploration Licence 238 adjacent to the township of Narrabri in New South Wales. ESG holds a 65% interest in PEL 238 and is the operator. The remaining 35% interest is held by Santos.

## **About TRUenergy**

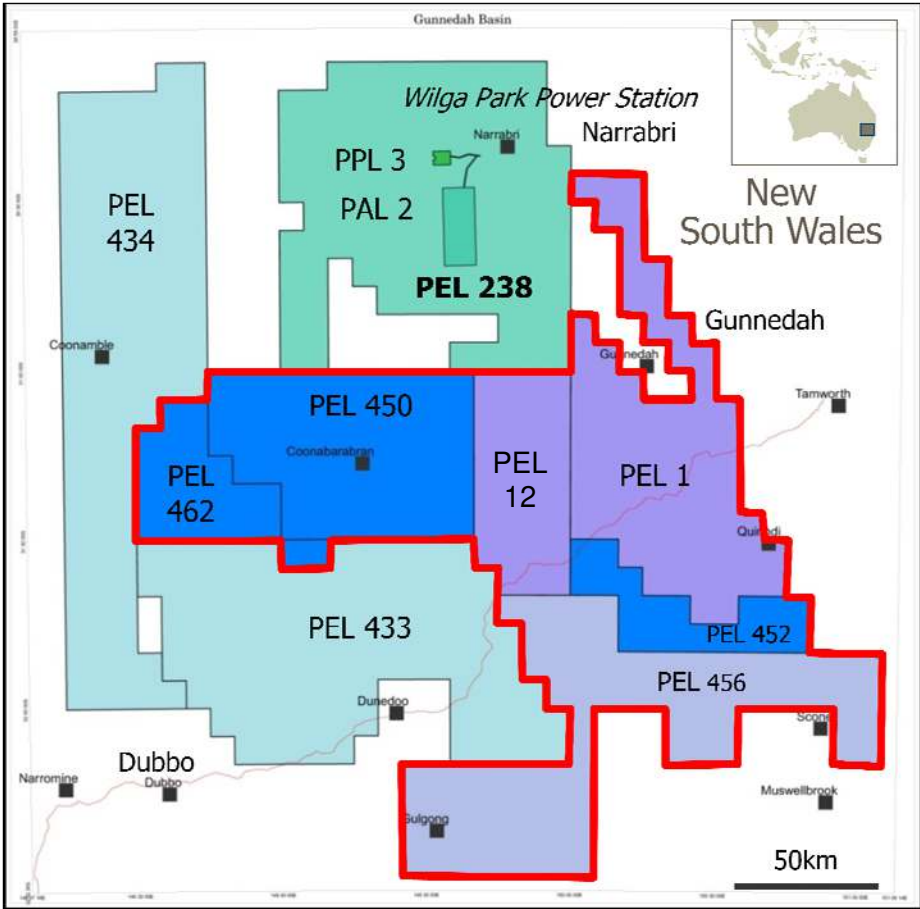
TRUenergy is one of Australia’s largest integrated energy companies, providing gas and electricity to over 2.5 million household and business customer accounts in the National Electricity Market. With a multi-billion dollar portfolio of generation and retails assets, TRUenergy is one of the largest private energy businesses in Australia. TRUenergy owns and operates a 5,613 megawatt (MW) portfolio of electricity generation facilities.

## **Attachments:**



Map of Santos and ESG acreage in the Gunnedah Basin  
Gunnedah Basin Joint Venture Structure

Ends.

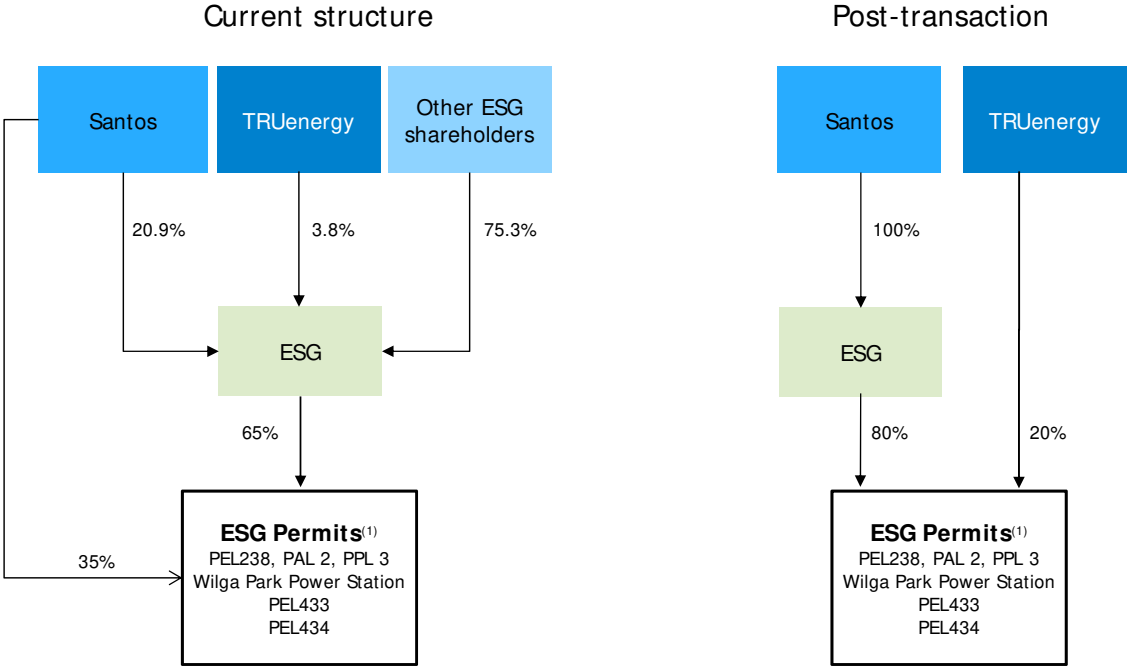
Appendix 1 - Map of Santos and ESG acreage in the Gunnedah Basin



LEGEND

-  Santos Acreage
-  Eastern Star Gas Acreage

**Appendix 2 - Gunnedah Basin Joint Venture Structure**



(1) ESG also has farm-in rights over PELs 6, 427 and 428 in NSW; and PELs 117, 121 and 122 in South Australia