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**Santos and Apache development a major boost for Western Australian domestic gas supply**

Santos today announced that it will develop new gas supplies for the Western Australian domestic market by developing and producing gas from the Halyard field, which it owns with Apache Energy Limited.

The two companies will complete and tie back the Halyard well in WA-13-L (Halyard) and subject to the outcome of the Spar 2 appraisal well in WA-4-R (Spar) will quickly complete and tie back Spar as part of this development. This development is a significant new addition to the Western Australian supply portfolio, with gas from this area expected to supply around 10% of Western Australia's domestic gas needs from 2012.

To facilitate the Halyard and Spar development Santos has sold 55% of its working interest in Spar to Apache for an initial payment of US\$31 million with the potential for additional payments of up to US\$85 million depending on the level of certified reserves in Spar following the drilling of the Spar 2 appraisal well later this year.

Santos will hold 45% equity in both Halyard and Spar. Apache will hold 55% equity and will be the operator of both fields.

Halyard is expected to be on line in mid 2011 and Spar to follow in late 2012. Production from the combined development is expected to come on line at an initial gross rate of 50TJ per day and is then expected to increase to over 100TJ per day by early 2013 depending on the outcome of the Spar 2 well.

Santos considers that the expected recoverable resources in Halyard and Spar are around 335 PJ gross and should be supplying Western Australia with gas until at least 2025. There are additional opportunities in the Greater East Spar Area (see map) for future developments.

The transaction is subject to typical regulatory approvals and is expected to close in the second half of 2010.

John Anderson, Santos' Vice President Western Australia & Northern Territory said the transaction was an important step in the execution of its strategy to grow its domestic gas business in Western Australia through this acreage in relatively shallow water allowing quick development cycle time.

"Halyard and Spar are perfectly positioned to be developed in the near term by tying the gas fields back to the existing gas hub at Varanus Island. Santos is pleased to build on its important relationship with Apache in Western Australia, and is confident Halyard and Spar will make a significant contribution to the state's domestic gas supply," Mr Anderson said.

The Managing Director of Apache Energy Limited, Tom Maher, stated: "Apache looks forward to developing the Halyard discovery and drilling the Spar-2 appraisal well with Santos. Along with our ongoing joint venture constructing the Devil Creek Gas plant, the Apache-Santos partnership is poised to add significant additional supplies of natural gas for WA through further exploration and development at Halyard and Spar."

The Devil Creek gas plant, the first onshore domestic gas plant constructed in WA in seventeen years, will process natural gas from the offshore Reindeer Field starting in the fourth quarter of 2011.

Santos and Apache believe that there is further upside potential in the Greater East Spar Area and are planning on commencing additional work later this year with the drilling of an exploration prospect called Beam and in 2011-2012 with the completion and tie back of East Spar 9.

## About Greater East Spar Area and Varanus Island

Santos currently has a 100% working interest in WA-4-R and is operator.

Spar is located approximately 70km due west of Varanus Island, in the Carnarvon Basin, Western Australia. Spar 2 is expected to be drilled approximately 16km from the East Spar Manifold.

The existing Halyard well which is located in WA-13-L is approximately the same distance from this manifold.

The East Spar upstream pipeline, which is owned by Apache (55%) and Santos (45%) and which is designed to transport over 200 MMCFD of gas, is currently mothballed. This pipeline, which runs from the depleted East Spar gas field to Varanus Island, will be recommissioned to accept gas from the Greater East Spar Area.

Condensate will be extracted at Varanus Island from gas processed from Halyard and Spar. Sales gas will be exported from Varanus Island via the existing export pipelines that connect to the Dampier to Bunbury Pipeline and the Goldfields Gas Transmission Pipeline.

