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HD Australian Santos to cut A$3.5 bil in debt through asset sale, equity raising
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* 35% of Kipper gas field sold to Mitsui

TD * China-based investor Hony Capital to take 7.9% stake

* A$2.5 billion to be raised in entitlement offer

Troubled Australian oil and gas producer Santos has unveiled plans to wipe A$3.5 billion ($2.5 billion) off its A$8.8 billion debt through asset sales and by raising equity, but has managed to preserve its stake in its key LNG operations.

Santos Monday said it had completed a strategic review, which began in August in response to market jitters about its liquidity. Santos' shares, which closed at A$5.91 on Friday, have been particularly hard-hit by the fall in crude oil prices over the past 12 months, dropping from more than A$15 last September to below A$4 on September 30 this year, wiping more than A$11 billion from the company's capital value.

The crash in Santos' shares has left it a takeover target and it has already come into the sights of investment fund Scepter Partners.

Bermuda-based Scepter launched a A$6.88/share offer for Santos on October 22, valuing the company at A$7.14 billion. Santos has rejected the proposal, labeling it "opportunistic in nature" and saying it failed to reflect the "fair underlying asset value of the company."

Santos now plans to shore up its finances through a A$520 million sale of its 35% stake in the Kipper gas field to Japan's Mitsui, a A$500 million private placement to an affiliate of China-based international private equity fund Hony Capital , and a A$2.5 billion, 1-for-1.7 entitlement offer. Hony will subscribe for its shares at A$6.80 each, raising its stake in Santos from 1.4% to 7.9% as a result of the share placement.

"The A$3.5 billion of capital initiatives reinforce the Santos balance sheet and mark a significant step towards restoring long-term value for shareholders," said Santos Executive Chairman Peter Coates. "We are very confident that the steps taken today will drive better returns for shareholders by strengthening the company's financial position and underscoring the value of its high quality and diverse asset base."

KIPPER SALE TO BE COMPLETED IN Q1 2016

The sale of the stake in Kipper is expected to be completed in the first quarter of 2016, and "realizes good value for this asset despite difficult oil and gas market conditions in recent times," Coates said. He added that the planned capital initiatives meant Santos was under no pressure to sell more assets, but would continue to respond to the interest generated by the strategic review, only selling operations "where there is a compelling value case."

The gas field is part of the $4.5 billion Kipper Tuna Turrum project, operated by ExxonMobil and BHP Billiton 's Gippsland Basin joint venture. Kipper Tuna Turrum is the largest oil and gas development on Australia's east coast, with an estimated 1.6 Bcf of gas and 140 million barrels of liquids.

The Turrum and Tuna fields are owned 50% each by ExxonMobil and BHP Billiton . The Gippsland Basin joint venture partners also own the remaining 65% of Kipper.

Gas is currently being produced from the project's Tuna field and crude oil is being produced from Turrum. Kipper is expected to begin producing gas in 2016, after the commissioning of a new A$1 billion gas conditioning plant at the onshore Longford processing facility.

Santos is Australia's third-largest oil and gas producer, behind the BHP Billiton and Woodside Petroleum . The company expects to produce between 57 million and 59 million barrels of oil equivalent in 2015, at a production cost of A$14.20-14.60/boe.

PNG LNG STAKE SURVIVES SALE PROCESS

Santos is an emerging LNG producer, having made the first shipment from its $18.5 billion Gladstone LNG project on Australia's east coast in September. The company owns 30% of the 7.8 million mt/year GLNG project, where the second train is expected to begin shipments in early 2016.

GLNG is Santos' first operated LNG project, and adds to a portfolio, which includes 13.5% of ExxonMobil 's PNG LNG and 11.5% of ConocoPhillips ' Darwin LNG. The company's other core operations are its oil and gas assets in central Australia's onshore Cooper Basin.

Market interest throughout Santos' review process has mainly focused on a potential sell-down of its stake in PNG LNG, which has been a star performer since starting up several months ahead of schedule in April 2014. PNG LNG operated at the rate of 7.4 million mt/year during the third quarter of 2015, well above its nameplate capacity of 6.9 million mt/year.

It is a low-cost operation and also has significant growth potential. The PNG LNG joint venture is currently looking to develop the P'nyang field to provide gas for a third production train.

The expansion would raise the plant's capacity to more than 10 million mt/year. ExxonMobil is aiming for a final investment decision on the expansion in 2017.

Santos also said Monday that Kevin Gallagher would replace outgoing CEO David Knox , who announced his decision to step down in August. Gallagher is currently CEO of Australian engineering services group Clough and is expected to join the company in early 2016.

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