

HD **UPDATE: PNG LNG project helps Santos hike Q2 output by 3% on year**

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Australian exploration and production **company** Santos produced 12.8 **million** barrels of **oil** equivalent in the second quarter of 2014, up 3% year on year, following the startup in April of the Papua New Guinea LNG project.

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Santos holds 13.5% of the ExxonMobil -operated PNG LNG project, which has a capacity of 6.9 **million** mt/year at two production trains. The \$19 **billion** project began producing well ahead of its scheduled October startup date and had shipped seven cargoes by the end of the quarter, Santos said Friday.

Santos' Q2 production compared with an output of 12.4 **million** boe in the corresponding period of 2013 and was 5% higher than the 12.2 **million** boe pumped in the first three months of this year.

In the first half of 2014, Santos' output totaled 25 **million** boe, up 2% from 24.5 **million** boe in the corresponding period of 2013.

The **company's** sales revenue was A\$974 **million** (\$910.36 **million**) for the second quarter and A\$1.89 **billion** for the first half of the year, up 22% and 25% respectively compared with 2013.

"Delivery of the PNG LNG project is an important milestone for Santos in our journey to becoming a major LNG supplier to Asia," Managing Director and CEO David Knox said. "This project will significantly lift Santos' LNG production once the project reaches full output, and we are already seeing the contribution it is making."

Santos also holds a 30% operating **stake** in the 7.8 **million** mt/year Gladstone LNG project in eastern Australia. The coalseam gas-to-LNG project is budgeted to cost \$18.5 **billion** from the final investment decision to the end of 2015, when the second train is expected to be ready for startup.

"GLNG continues to make good progress, it remains on budget and we are on track to deliver first LNG in 2015," Knox said. First commissioning gas is expected to be delivered to the LNG plant on Curtis Island, Queensland, in the fourth quarter of 2014.

"GLNG project guidance on cost and schedule remains unchanged, but we continue to be skeptical on the project given our cautious view on coalseam gas well deliverability and reserves," **Hong Kong**-based analysts with Bernstein Research said in a note Friday.

Santos drilled 42 coalseam gas wells in Queensland as part of the GLNG project during the second quarter, taking its total to 827, according to Bernstein. The **company** needs to drill 173 more wells before GLNG startup to achieve its estimated target of 1,000 wells, the analysts added.

"During the quarter, GLNG executed two third-party gas supply agreements for an aggregate quantity of 85 petajoules (1.5 **million** mt)," Bernstein said. The analysts added that given the forecast reserves shortfall, Santos was "increasingly likely to be forced into purchasing more third-party gas to meet contractual obligations."

Santos expects to produce between 52 **million** and 57 **million** boe in 2014. The **company** is Australia's third-largest **oil** and gas producer behind BHP Billiton and Woodside Petroleum .

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