



QUEENSLAND GAS COMPANY LIMITED
ABN 11 089 642 553

Level 11
307 Queen Street, Brisbane QLD 4000
GPO Box 3107, Brisbane QLD 4001
Tel: 07 3004 1000 Fax: 07 3012 8411
Website: www.qgc.com.au
Email: qgc@qgc.com.au

5 December 2006

ASX ANNOUNCEMENT

QGC partners with AGL

Queensland Gas Company Limited (QGC) today announced it had reached an agreement with AGL Energy Limited (AGL) to form a strategic relationship that will underpin QGC's continued development and growth as an independent energy company.

The arrangements between QGC and AGL involve:

- AGL paying up to \$292 million for a 27.5% stake in QGC through a share placement priced at \$1.44 per share;
- QGC undertaking an off-market buyback of up to 12.5% of its expanded capital (post AGL and Sentient issues) at a price of \$1.44 per share;
- A Gas Sale Agreement (GSA) for AGL to buy from QGC a total contracted volume of 540 petajoules (PJ) over 20 years;
- A Gas Market Development Services Agreement (GMSA) whereby AGL will provide market development services to QGC, and QGC has acquired rights to utilise AGL's excess pipeline capacity for a term of three years to accommodate QGC's proposed rapid increase in production beyond the specific requirements of this contract; and
- AGL being entitled to three seats on an expanded QGC Board of nine.

QGC Chairman, Mr Bob Bryan said, "The agreements announced today confirm QGC as a major new force in the gas supply market along Australia's eastern seaboard, with initial focus on south east Queensland. We are delighted that AGL has recognised the value of QGC and welcome them as a major shareholder. Importantly, QGC will continue as an independent company and will carve out its own growth path in the interests of all shareholders".

"With a potentially very large resource base of coal seam gas still to be developed, QGC will be well placed to expand and grow quickly, in an environment that increasingly values clean energy", Mr Bryan said.

QGC's Managing Director, Mr Richard Cottee said: "The new injection of funds means QGC can further accelerate the development of its multi-option energy supply business model which will create vigorous competition in the gas supply market and maximise long term value to QGC shareholders."

"Furthermore, AGL's cornerstone investment and bankable Gas Supply Agreement will also provide the funding base to further accelerate the exploration and development of QGC's gas resources," Mr Cottee said.

The agreement also provides for a share buyback which gives existing shareholders the opportunity to liquidate a portion of their investment.

AGL investment in QGC

As part of its investment agreement in QGC, AGL has agreed to not exceed a shareholding of more than 30% for two years, subject to some limited exceptions; one such exception is if QGC receives a takeover offer from a third party.

Gas Sale and Gas Market Development Services Agreements

“While the price details remain confidential, the prices at which QGC has sold its gas to AGL reflect current market conditions and will further underpin QGC’s growth. The contract will not affect the development of the Condamine Power Station and complements existing contracts,” said Mr Cottee.

“Whilst this contract commercialises QGC’s existing 2P Reserves, QGC remains confident that its Growth Acceleration Strategy will deliver additional reserves to meet the buoyant market for clean energy,” Mr Cottee said.

The size of this contract reflects the fact that QGC can now market sizeable contracts over longer terms based on customers’ confidence in its ability to perform.

“The purpose of the GMSA is for AGL to provide market development services to QGC, and to provide QGC with access to AGL’s unutilised pipeline capacity over the next three years, and may result in QGC being able to sell additional gas on a short term basis. It should greatly increase QGC’s capacity to tap into new markets,” Mr Cottee said.

Buyback

The buyback is likely to take the form of an off-market tender of up to 12.5% of QGC’s shares at \$1.44 each. Shareholders can elect to tender some or all of their shares, subject to scaleback if more than 12.5% of shares are tendered.

QGC shareholders Elph Pty Ltd, Sentient, ANZIS , Leyshon and Mr Bob Bryan have confirmed that they do not intend to tender any shares into the buyback, and AGL will not tender any shares (unless required to keep its total shareholding at 30%), which will allow any shareholders who wish to sell, to sell significantly more than 12.5% of their shareholding.

Sentient Gas

Under a separate agreement, QGC’s joint venturer Sentient Gas will convert its legal and beneficial permit interests and its unitisation agreement, into an equivalent 10% QGC shareholding (calculated on a 2P basis). This is in addition to its current 3% shareholding (both figures calculated on a pre-AGL issue and pre-buyback basis). Rationalisation of the permit-level ownership will simplify future development financing and gas marketing.

QGC market capitalisation

The restructured QGC with new major shareholders AGL and Sentient is expected to have an implied market capitalisation in excess of \$925 million, post buyback, based on a \$1.44 share price.

New reserves and contract position

The new reserves and contract position of QGC following the Sentient and AGL transactions is shown in the annexure.

Shareholder approval

The agreements with AGL and Sentient are subject to QGC shareholder approval at an Extraordinary General Meeting expected to be held in February 2007.

QGC will commission an Independent Expert's report to confirm that the AGL proposal is fair and reasonable for shareholders.

QGC directors unanimously recommend the proposal to shareholders and intend to vote their own shareholdings in support.

- ends -

For investor information:

Richard Cottee
Managing Director
QGC
Ph: (07) 3004 1000

For media information:

Cannings
02) 9252 0622
Martin Debelle 0409 911 189
Sarah Hudson 0424 034 059



QGC's Reserves Position



	Pre-Transaction PJ	Post-Transaction PJ	Increase PJ
1P Reserves	228.0	245.6	17.6
2P Reserves	695.3	741.2	45.9
3P Reserves	2,555.9	2,755.3	199.4

QGC's pre-transaction reserves are based on the most recent reserves estimate conducted by Netherland Sewell & Associates Inc (NSAI) (dated 1 December 2006), and reflect QGC's legal interest in its tenement areas. QGC's post transaction reserves have been extrapolated to include those reserves on QGC's tenements currently attributable to Sentient's legal interest.

QGC's Firm Contract Position



Firm Contracts	Start Date	Term (years)	Total Contract Quantity		
			Pre-Transaction PJ	Post-Transaction PJ	Increase PJ
CS Energy	Jul 2006	10	36	40	4
Braemar Power Project (Tranche II)	Sep 2006	1	2	2.2	0.2
Braemar Power Project (Tranche I)	Oct 2006	10	36	40	4
Braemar Power Project (Tranche III)	Feb 2007	1	4.5	5.1	0.5
Incitec Pivot Ltd	Oct 2007	10	44	44	
AGL ¹	Jan 2008	20	486	540	54
Total			608.5	671.3	62.7

AGL¹ - as per agreement with AGL Energy announced on 5 December 2006.