QUEENSLAND GAS COMPANY
QGC
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QUEENSLAND GAS COMPANY LIMITED
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20 February 2007

ASX ANNOUNCEMENT

Dear Fellow Shareholder,

I am writing to provide you with an update on the Santos and AGL proposals received by QGC.

Santos' initial takeover offer has now lapsed but last Thursday, 15 February, Santos submitted an improved offer for QGC on commercial terms which initially appear to be superior to the AGL offer. I enclose copies of the Santos announcement and QGC's response as issued to the ASX on 15 February.

Until the revised Santos offer receives approval from the Australian Competition and Consumer Commission (ACCC), there is too much uncertainty for the QGC Board to recommend it to shareholders. The Santos offer is also subject to impractical requirements regarding the termination of the agreements entered into with AGL and prohibitions on QGC speaking to potential bidders which QGC believes are both impractical and unreasonable in the circumstances.

Santos is offering $1.30 cash for each QGC share, plus a share in a "New QGC" which will own most of QGC's assets outside of the Undulla Nose area. Santos claims that each New QGC share will be worth at least $0.50. QGC has commissioned independent expert Deloitte Corporate Finance to evaluate the new Santos offer and prepare a report for shareholders to consider, if the offer is approved by the ACCC.

In the meantime QGC has continued to drill new exploration and production wells, and further evaluate the rising flowrates from existing production wells. QGC expects that this work will lead to a significant upgrade in proven and probable (2P) gas reserves of at least 125 PJ. QGC has commissioned independent certifiers Netherland Sewell and Associates Inc (NSAI) to review this work and hopes to have preliminary advice from NSAI shortly.

At this stage, given the current uncertainties connected with the new Santos offer, your Board continues to recommend the AGL proposal to shareholders, and urges shareholders to vote in favour of the proposals contained in the Notice of General Meeting and Explanatory Memorandum. Unless and until there is greater certainty with the Santos offer, the QGC Board has no reason to change its recommendation in support of the AGL proposal.

We will continue to keep shareholders updated on developments.

Yours faithfully,

Robert Bryan
Chairman

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LISTED ON ASX

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15 February 2007

ASX ANNOUNCEMENT

QGC receives improved offer from Santos

Queensland Gas Company (QGC) today received improved terms in the proposal from Santos as announced on 30 January 2007.

Details of the revised Santos offer are set out in Santos' announcement released to ASX earlier today. In summary, the Santos offer involves:

- Santos buying all QGC shares at a price of $1.30 per share in cash;
- QGC shareholders receiving an *in specie* distribution of an equivalent number of shares in a "new QGC" which would be listed on ASX and would own all of QGC's existing tenements other than those covering the Undulla Nose, estimated to contain approximately 8,300 PJ of original gas in place;
- Santos subscribing for a 30% shareholding in "new QGC" for:
  - cash consideration of 20c per share, amounting to an investment of approximately $40 million;
  - committing to allow "new QGC" to sell or cause Santos to buy 100PJ of gas once QGC has proved up 100PJ of 2P reserves in ATP 648P;
  - providing "new QGC" with access to infrastructure and other assistance;
- Santos is not in the normal course seeking Board representation, or to increase its shareholding in "new QGC" beyond 30% for two years.

This new Santos' offer is superior to their proposal announced on 30 January. This follows the commencement of a review of the 30 January proposal by the Australian Competition and Consumer Commission (ACCC). The improvements fall into two areas:

1. "New QGC" will be entitled to sell or cause Santos to buy 100 PJ of 2P gas (once that quantity is certified at ATP 648P). This has been increased from 60 PJ and would allow "new QGC" to quickly become a significant gas producer with more than 5% share of the Queensland gas market. The arrangement would also provide the cash to develop "new QGC's" highly prospective exploration tenements.
2. A proposal for a gas transportation and swap agreement that would provide "new QGC" access to southern and north-western Queensland markets.

While the commercial terms of the revised Santos offer initially appears to be superior to the commercial terms of the AGL proposal, it must be noted that the Santos offer is subject to (and cannot be accepted until it receives) approval from the ACCC. The offer is also subject to impractical requirements regarding termination of the AGL agreement.

The Santos offer is also subject to QGC immediately abiding by a 'no talk' provision. Given the uncertainty surrounding the ACCC approval, QGC believes a 'no talk' provision is impractical and unreasonable in the circumstances and therefore QGC does not consider itself to be bound by it.

At this time, QGC Directors maintain their recommendations as contained in the Explanatory Memorandum sent to shareholders on 1 February 2007. The present recommendation in respect of the AGL proposal will be reviewed if and when the ACCC announces a finding which would give QGC shareholders certainty around the Santos offer. The ACCC has stated that it expects to announce its findings on the new proposal not later than 1 March 2007.

In the interim, QGC will refer the new Santos offer to Deloitte who acted as the Independent Expert in considering the AGL offer.

- Ends -

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ASX/Media Release

Santos

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15 February 2007

Santos submits formal "superior" offer to QGC Board

Santos today made a formal offer for Queensland Gas Company (QGC) of at least $1.80 per share, which includes plans to create a robust new competitor in the eastern Australian gas industry.

The formal offer, valued at approximately $960 million, was lodged today with the QGC Board of Directors following discussions with QGC.

The Santos offer involves:

- $1.30 per share cash for all QGC shares;
- creation of a "New QGC" which will have approximately 9 trillion cubic feet (TCF) of original gas in place (OGIP); and
- an issue of New QGC shares to existing QGC shareholders on a one-for-one basis.

Santos has placed a value of at least 50 cents per share on the New QGC shares, taking the total implied offer consideration to at least $1.80 per share. If Santos and QGC proceed to implement the proposal, Santos expects an independent expert's report would be commissioned to provide QGC shareholders with both a valuation range for the New QGC shares, and the entire consideration payable under the offer.

Santos' Managing Director, Mr John Ellice-Flint, said the company looked forward to positive consideration of Santos' formal offer by the QGC Board.

"Santos has structured its offer to provide QGC shareholders with both a very attractive cash component and shares in a dynamic new entity that would be led by QGC's Managing Director Richard Cottee and his highly successful team," Mr Ellice-Flint said.

"New QGC will benefit from unique commercial agreements with Santos which will enable the new entity to quickly bring new gas supplies to market, and be an active independent participant in a very competitive gas market from day one," he said.

"Santos' offer is extremely attractive for QGC shareholders and is clearly superior to the AGL proposal announced last year."

Mr Ellice-Flint said Santos believed that its offer was superior because:

- the implied total consideration of at least $1.80 per share is:
  - above the midpoint of the "per share" control valuation determined by QGC's independent expert in the AGL Explanatory Memorandum, and
  - at least 25% higher than the placement/buyback price under the AGL proposal,
- QGC shareholders have the opportunity to exchange all of their shares at an attractive price, unlike the AGL proposal where scale back applies; and
- QGC shareholders have the potential to participate in further significant value creation through the commercialisation of New QGC's high quality acreage portfolio outside the Undulla Nose assets.

New QGC will also be granted an economic interest in the first 100 PJ of gas discovered in ATP 648P (Undulla Nose) and a put option to sell that gas to Santos. The 100 PJ represents a two-thirds increase in the volume of gas as proposed by Santos on 30 January 2007 (previously 60PJ). The put option is at New QGC's election and will provide a "floor price" to ensure the new company is able to commercialise gas on attractive terms.

Santos' offer also contains all other previously announced commercial arrangements with New QGC, plus a gas swap agreement to access north-west Queensland markets, access to the Roma-Brisbane pipeline and an interim financing package from Santos. [See Appendix A]

These arrangements are designed to boost New QGC's exploration and marketing efforts and potential sales across much of Queensland.

New QGC is expected to be a robust competitor from its inception. In addition to the above arrangements, it will:

- own tenements with more than 9 TCF of OGIP – QGC has previously described ATP 621P and ATP 651P as having the potential to be the "next Undulla Nose";
- hold over 70% of QGC's existing acreage and approximately 50% of QGC's existing OGIP;
- have the same Board, senior management and technical teams as the current QGC; and
- have significant capital resources for its operations, including the $40 million cash to be subscribed by Santos for shares in New QGC.

Santos' offer is subject to the conditions set out in Appendix B and is open for acceptance by QGC's Board until 5 March 2007 - provided each of the conditions is satisfied at the time of acceptance or waived by Santos.

Given the constraints imposed upon QGC by AGL under the AGL contractual arrangements, Santos has been compelled to structure its proposal as a unilateral offer, rather than negotiating and executing a fully termed Merger Implementation Agreement with QGC. As a result, Santos' offer includes a number of conditions that reflect these unusual circumstances.

Upon acceptance, QGC would immediately execute transaction documents, including a Merger Implementation Agreement, which will provide detailed terms and conditions, including a break fee and other arrangements. The transaction would be effected by a demerger and Scheme of Arrangement and thus would be subject to approval by QGC shareholders.

Further details will be sent to QGC shareholders in due course if QGC's Board accepts Santos' offer.

Ends

Santos stock symbols: STO (Australian Securities Exchange), STOSY (NASDAQ ADR), Ref #82-34 (Securities Exchange Commission)

APPENDIX A

The details below are a summary of certain key elements of Santos' offer. Further information will be provided if and when Santos and QGC enter into binding transaction documentation.

Assets to be acquired by Santos for $1.30 cash per QGC Share
Undulla Nose permits/licences and related assets, including ATP 610P Bellevue, ATP 620P, ATP 632P (portion relating to the Undulla Nose), ATP 676P S1, ATP 676P S2, PLA 211 Berwyndale, PL 201 Berwyndale South, PLA 212, PLA 180 Lauren, PL 179 Argyle (1), PL 229 Argyle (2), PL 228 Kenya, ATP 648P and a 15% equity interest in ATP 651P, inclusive of all related infrastructure, licences and property.

New QGC Shareholding
As part of its offer, Santos would acquire a 30% stake in New QGC through a share placement. In return, Santos would provide the following to New QGC which it believes is worth at least 50 cents per share:

- 20 cents cash per share;
- an economic interest in the first 100 PJ of gas discovered in ATP 648P (situated within the Undulla Nose);
- a put option to sell up to 100 PJ of gas to Santos on commercially attractive terms; and
- certain commercial agreements, as outlined below.

The commercial agreements involve Santos providing a number of unique, value-enhancing benefits to New QGC. These include a Transitional Services Agreement, Pipeline and Plant Infrastructure Agreement, Pipeline Consent Agreement, Drilling Rig Access Agreement, Transportation Agreement, North Queensland Gas Swap Agreement and a commitment to provide interim funding.

Following Santos' placement, New QGC would have:

- an experienced senior management team with a proven track record in exploring for and commercialising coal seam gas in south eastern Queensland;
- tenements with approximately 9 TCF OGIP that have been publicly acknowledged as having significant potential – e.g. "next Undulla Nose";
- approximately $40 million in cash;
- an economic interest in the first 100 PJ of gas from ATP 648P and a corresponding put option with Santos; and
- value-enhancing commercial agreements with Santos.

These attractive features would ensure New QGC would be a robust competitor from inception and is well positioned for near-term growth.

New QGC Board Representation
Santos would not require Board representation on New QGC as a condition of its offer.

Standstill Agreement

Santos would agree to enter into a standstill arrangement that would limit Santos' ability to increase its shareholding in New QGC beyond 30% for two years following the transaction, other than in specific agreed circumstances. New QGC would agree not to undertake any capital raisings that would have the effect of diluting Santos's percentage interest in New QGC, without offering Santos the right to participate in the capital raising in order to maintain its percentage interest, subject to specified exceptions.

Transaction Conditions
The transaction will be subject to limited conditions to be specified in the documentation to be agreed between parties, including court and QGC shareholder approvals as necessary, and other usual conditions for scheme of arrangement transactions.

Total Santos Cash Outlay
Santos' total cash outlay of approximately $710 million to effect the proposed transaction consists of:

- $1.30 per QGC share (assuming that further shares in QGC will be issued to Sentient in accordance with the proposal announced by QGC on 5 December 2006); and
- a total of around $40 million in cash payable to New QGC under a share placement pursuant to which Santos will acquire a 30% shareholding in New QGC.

APPENDIX B

Conditions of the Santos offer to the QGC Board

This offer is subject to the following conditions each having been satisfied at the time of QGC's acceptance of this offer:

1 the Australian Competition and Consumer Commission (ACCC) makes a public statement to the effect that it has no objection (Non-objection Statement) to the transaction to which the Transaction Documents would give effect (the Santos Transaction);

2 the Directors of QGC make a public statement within 24 hours of the ACCC's Non-objection Statement to the effect that they propose to recommend that QGC shareholders vote in favour of the Santos Transaction and that they recommend that shareholders do not vote in favour of the AGL Transaction (as defined in the Notice of Meeting and Explanatory Memorandum (EM) issued by QGC on 30 January 2007);

3 there is no postponement or adjournment of the Extraordinary General Meeting of QGC to be held on 2 March 2007 or of any item of business to be considered at that meeting (without Santos' written consent, which may be withheld in its absolute discretion);

4 QGC has given to Santos a certificate in writing that in QGC's reasonable opinion:

   (a) the Subscription Agreement dated 4 December 2006 between AGL and QGC has been validly terminated (other than for breach of the agreement by QGC); and

   (b) all agreements with AGL associated with the Subscription Agreement (as described in the EM) including the Gas Sales Agreement have been validly terminated (other than for breach of the agreement by QGC);

5 from the date of this offer until the date of acceptance neither QGC nor any person on its behalf engages in any communication with any person in relation to any proposal that would compete with the proposal the subject of this offer other than:

   (a) communications solely related to AGL's existing proposal the subject of the EM (excluding, for the avoidance of doubt, communications related to any variation of that proposal); or

   (b) QGC responding to a definitive written proposal that:

      (i) has been submitted to QGC and is capable of acceptance (whether or not it is conditional);

      (ii) is superior to the proposal the subject of this offer; and

      (iii) the material terms of which (including the identity of the proposer) has been the subject of an announcement to the Australian Securities Exchange;

6 at the time of acceptance of this offer, QGC gives Santos a certificate in writing confirming that the condition the subject of paragraph 5 above has been satisfied.

Each of the conditions set out above is for the benefit of Santos and may only be waived by Santos by giving notice in writing to QGC. Separate conditions will be included in the Merger Implementation Agreement.

Ends