

Media enquiries

Kathryn Mitchell
+61 8 8218 5260 / +61 (0) 407 979 982
kathryn.mitchell@santos.com

Richard Phillips – Caliburn Partnership
+61 3 9935 6801 / +61 (0) 410 423 214

Investor enquiries

Andrew Seaton
+61 8 8218 5157 / +61 (0) 410 431 004
andrew.seaton@santos.com

5 October 2006**Santos announces \$606 million cash offer for QGC**

Santos today announced a \$1.26 per share all cash offer (by its wholly owned subsidiary Santos CSG Pty Ltd⁽¹⁾ ("Santos CSG")) for Queensland Gas Company Limited ("QGC"), valuing the coal seam gas company at \$606 million.

Santos CSG currently owns 3.9% of QGC's ordinary shares, including 1.9 million shares bought on-market on 4 October 2006. Santos' offer is subject to certain conditions, including acquiring a minimum 50.1% shareholding.

The \$1.26 per share cash offer represents a:

- 24% premium to QGC's closing share price of \$1.02 on 3 October 2006, the last day of trading prior to Santos' on-market purchase of 1.9 million QGC shares on 4 October;
- 47% premium to the volume weighted average price of \$0.86 for QGC shares over the 3 months to 3 October 2006; and
- 100% premium to the issue price of \$0.63 for QGC's 1 for 4 rights issue announced in August 2006.

Santos' Managing Director, Mr John Ellice-Flint, said the cash offer provided QGC shareholders with an opportunity to receive an attractive premium.

"The acquisition of QGC is a logical transaction for Santos, and is consistent with our strategy to extend and enhance our core eastern Australia gas business. QGC's coal seam gas assets are a good strategic fit with our existing gas processing and transmission hubs in Queensland," Mr Ellice-Flint said.

"Coal seam gas is a sector that Santos knows well and in which we are a proven developer and operator, given our ownership of the Fairview and Scotia fields," he said.

"This offer also further confirms Santos' long term commitment to Queensland and builds on over 50 years of activity in the state."

Note:

1) Santos CSG Pty Ltd, ACN 121 188 654

Based on QGC's certified proven plus probable ("2P") coal seam gas reserves as at 30 June 2006 of 422.7 PJ, the offer implies a reserve valuation multiple of \$1.38 per Gigajoule, which is significantly higher than recent comparable coal seam gas transactions.

This premium reflects and values potential increases in QGC's 2P reserves base as a result of pilot drilling work already underway.

Offer details

The \$1.26 cash per share offer is for all QGC ordinary shares, and is subject to certain conditions. A full set of conditions accompanied this release when lodged with the Australian Stock Exchange, and is available on Santos' website (www.santos.com).⁽²⁾

A Bidder's Statement is expected to be lodged with the Australian Securities and Investments Commission next week.

Santos has a debt facility available to fund the offer. Refinancing of this facility will be consistent with maintaining a BBB+ credit rating.

Santos is being advised by Caliburn Partnership and Johnson Winter & Slattery.

Note:

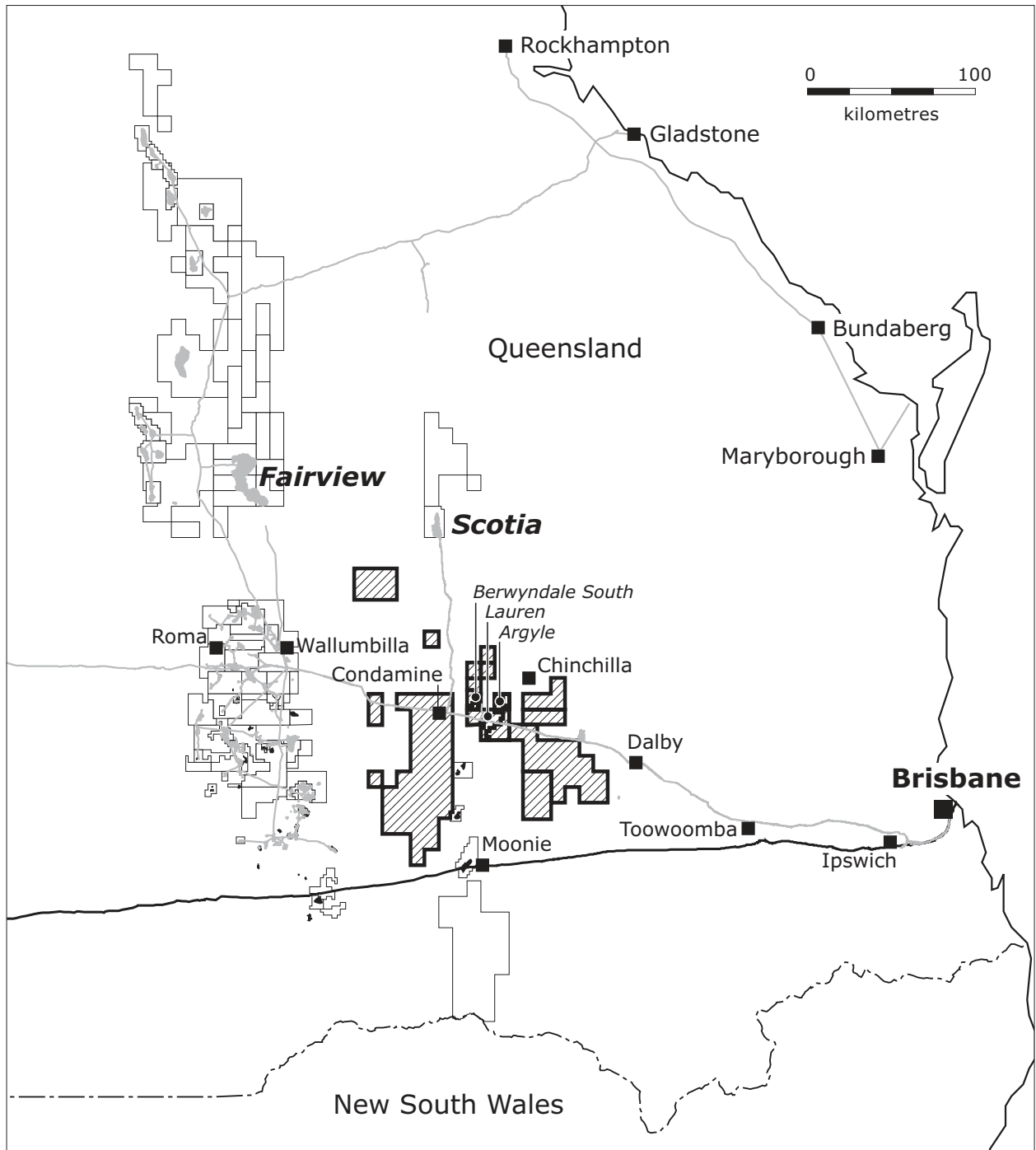
2) See document titled "Santos CSG Pty Ltd takeover offer for Queensland Gas Company Limited - Conditions of the Offer".

Map attached.

Ends

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

Surat/Bowen Basins



Legend

- Santos acreage
- ▨ Queensland Gas acreage
- Oil Field
- Gas Field
- Oil Pipeline
- Gas Pipeline

