

Santos

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6 November 2006

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Level 4
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BY ELECTRONIC LODGEMENT

Santos CSG Pty Ltd ACN 121 188 654 ("Santos CSG") – takeover offer for Queensland Gas Company Limited ACN 089 642 553 ("QGC")

We attach a copy of a letter sent to QGC shareholders today.

W J Glanville
Company Secretary

Office of the Chairman

Santos

Santos Ltd
ABN 80 007 550 923
Santos CSG Pty Ltd
ACN 121 188 654
Ground Floor Santos House
91 King William Street
Adelaide South Australia 5000

2 November 2006

Update on Santos Offer for QGC

Dear QGC Shareholder

By now you will have received Santos CSG Pty Ltd's (*Santos CSG*) Bidder's Statement, which sets out its \$1.26 cash offer for each of your shares in Queensland Gas Company Limited (*QGC*). Santos CSG is a wholly owned subsidiary of Santos Limited.

By making our \$606 million offer for QGC, Santos has recognised both the efforts of QGC management in building the business to its current stage and QGC's future upside. Our proposed acquisition of QGC complements our existing coal seam gas assets at Fairview and Scotia and builds upon Santos' long history of operating in Queensland and our commitment to the State.

Accordingly, as outlined in the Bidder's Statement, Santos is offering QGC shareholders a fair and attractive price which reflects QGC's upside potential. In particular, we believe that you should accept the offer as:

- It represents a significant premium to QGC's historical trading levels;
- It represents a high reserves valuation multiple for QGC relative to recent comparable transactions;
- It gives you the opportunity to realise value for QGC's uncertain resource potential;
- Cash consideration provides you certainty of value and removes the risks inherent in your QGC investment; and
- QGC's share price may fall if the Offer lapses and there is no competing bidder for QGC.

You will shortly receive a Target's Statement from QGC. This is an important document which must include all information that you and your professional advisers would reasonably require to make an informed assessment on whether to accept the offer. You should therefore expect QGC's Board to provide an objective, reasoned and unambiguous view on the value of QGC and outline all reasonable supporting assumptions on which that view is based. We would expect that any such views on value will be supported by a credible independent expert's report or a detailed valuation report by the Directors of QGC.

Santos is aware of the various statements that QGC has made regarding increasing its 2P reserve base, resource potential and other matters. As outlined in the Bidder's Statement, our offer of \$1.26 per QGC share already factors in the upside potential of QGC. Despite a number of ASX releases by QGC since Santos announced the bid, there has been no new information from QGC or other published material which has in any way altered this assessment.

I encourage you to accept the offer, which is currently scheduled to close at 5.00 pm (Queensland time) on 30 November 2006.

If you have any questions about the offer, please call the Offer Information Line during business hours on 1300 651 473 (from within Australia) or +61 3 9415 4355 (from outside Australia).

Yours faithfully



Stephen Gerlach
Chairman
Santos Limited