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## **QGC 2P reserves still 30% below their stated “target”**

Santos has reviewed in detail yesterday’s announcement by Queensland Gas Company Limited (QGC) with respect to a report from Netherland, Sewell and Associates Inc (NSAI), and has concluded that it does not contain any information that increases Santos’ assessment of the value of QGC.

In particular, Santos notes that QGC’s claimed Proved and Probable (2P) reserves of 695.3 petajoules (PJ) are still 30% below QGC’s often stated “target” of about 1,000 PJ.

QGC has not said or done anything since the announcement of Santos’ offer, (including releasing details of the NSAI report) that has altered Santos’ assessment that its offer of \$1.26 per share is fair for QGC shareholders.

Santos looks forward to reviewing QGC’s Target’s Statement to assess the detailed reasons being used by QGC’s Board to support its rejection of Santos’ offer.

Santos also observes QGC’s statement that “NSAI still need to confirm the commerciality of these reserves”, which highlights the risk that these claimed reserves may not be economically recoverable. Common oil and gas industry standards require confirmation of commerciality before hydrocarbon volumes can be classified as reserves, and therefore Santos expects QGC to demonstrate the commerciality of the volumes before they are booked as reserves.

Despite recent drilling activities, QGC has not announced any reserve additions outside of the Undulla Nose area, with the entire reclassification of volumes coming from within the Undulla Nose. QGC indicated in its recent rights issue prospectus that over 40% of its permit interests are not considered to have any “CSG potential”.

Further, much of the claimed increase in reserves is not from the most recent 6 week drilling programme as stated, but from development drilling undertaken some time ago.

Santos reiterates that there is no certainty that QGC's 2P reserves "target" of 1,000 PJ will be achieved, but even if it was, the reserves valuation multiple implied by Santos' \$1.26 per share cash offer would still be in the range of the multiples for other comparable transactions, as noted in Santos' Bidder's Statement.

Further, using QGC's claimed 2P reserves of 695.3 PJ, the reserves valuation multiple implied by Santos' offer is still materially higher than other comparable transactions.

Santos expects that full details in relation to the NSAI report, including any material limitations or qualifications, will be included in QGC's Target's Statement.

The NSAI evaluation is not a substitute for an independent expert's report of QGC's business. In the absence of considered and objective guidance on the fundamental value of QGC, supported by a detailed valuation report, any statements by QGC's Board to reject Santos' bid on value grounds should be ignored by shareholders as lacking credibility.

Santos CSG Pty Ltd, a wholly owned subsidiary of Santos Ltd, announced a takeover bid for QGC on 5 October 2006.

Ends

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