QUEENSLAND GAS COMPANY
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FIRST SUPPLEMENTARY TARGET'S STATEMENT

Queensland Gas Company Limited

This is a supplementary target's statement ('Supplementary Statement') issued by Queensland Gas Company Limited ('QGC') under section 644 of the *Corporations Act 2001* (Cth). It is the first Supplementary Statement issued by QGC in relation to an off-market takeover offer for QGC Shares by Santos CSG Pty Ltd, a wholly owned subsidiary of Santos Limited.

This Supplementary Statement supplements and is to be read together with the Target's Statement issued by QGC on 15 November 2006. Words defined in the Target's Statement have the same meaning in the Supplementary Statement unless the context requires otherwise. This Supplementary Statement prevails to the extent of any inconsistency with the Target's Statement.

A copy of this Supplementary Statement has been lodged with ASIC. Neither ASIC nor any of its officers takes any responsibility for the contents of the Supplementary Statement.

Strategic relationship with AGL

On 5 December 2006, QGC announced that it had reached agreement with AGL Energy Limited ('AGL') to form a strategic relationship which involves:

- 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 (after the placements to AGL and Sentient) at a price of $1.44 per Share;
- QGC and AGL entering into a Gas Sale Agreement ('GSA') for AGL to buy from QGC a total contracted volume of 540 PJ over 20 years;
- QGC and AGL entering into a Gas Market Development Services Agreement ('GMSA') whereby:
    - AGL will provide market development services to QGC; and
    - QGC acquires rights to utilise AGL's excess pipeline capacity for a term of three years to accommodate any increase in production beyond the specific requirements of the GSA; and
    - QGC is required to pay to AGL a $7.5 million per year gas market development services fee for a 3 year period commencing June 2007; and
- AGL being entitled to three seats on an expanded Board of nine.

QGC views this transaction as a very positive outcome for both QGC and AGL. By keeping QGC as an independent listed company, all Shareholders can benefit from the longer term financial outcomes of the transaction and the potential for future growth of QGC.

AGL investment

AGL has agreed to not exceed a shareholding in QGC of more than 30% for two years, subject to some limited exceptions. One such exception is in circumstances where QGC receives a takeover offer from a third party.

GSA and GMSA

The prices at which QGC has sold its gas to AGL reflect current market conditions and will further underpin QGC's growth. The size of the GSA 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. This may result in QGC being able to sell additional gas on a short term basis and is likely to increase QGC's capacity to tap into new markets.

Share Buyback

The Share 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 Equities Pty Ltd 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 necessary to keep its total shareholding at no more than 30%).

Sentient

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

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, after the Share buyback, based on a $1.44 Share price.

Shareholder Approval

The agreements with AGL and Sentient, detailed above, are subject to QGC Shareholder approval at an Extraordinary General Meeting expected to be held in February 2007. It is expected that Shareholders will receive notice of the Extraordinary General Meeting in early January 2007.

QGC will commission an Independent Expert to confirm that the AGL proposal is fair and reasonable. QGC Directors hold or control 21.6% of QGC Shares. Each of your Directors has stated that he intends to vote his own shareholdings in support of the AGL and Sentient proposals. Shareholders should be aware that if the Santos Offer closes before the Extraordinary General Meeting and the proposed strategic relationship with AGL as outlined above is voted down at the Extraordinary General Meeting, QGC Shareholders will have lost their opportunity to accept the Santos Offer.

Directors' Recommendation

Having regard to the above, your Directors reiterate their recommendation that you **REJECT** the Santos Takeover Offer.

Directors' authorisation

This Supplementary Statement has been approved by a resolution passed by the QGC Board.

If you have any questions, please call the QGC Shareholder Information Line on 1800 043 134 (within Australia) or +61 2 8307 2433 (outside Australia) Monday to Friday between 8.00 am and 6.00 pm Queensland time, or visit our website at www.qgc.com.au.