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ASX statement

24 December 2008

Takeover Offer by AGL Energy Limited for Sydney Gas Limited

Pursuant to item 5 of subsection 633(1) of the *Corporations Act 2001* (Cth), AGL Energy Limited (ABN 74 115 061 375) (**AGL**) encloses its Bidder's Statement and Offer Document in relation to AGL's off-market bid to acquire all of the ordinary shares in Sydney Gas Limited (ABN 93 003 324 310) (**SGL**).

The Bidder's Statement has today been lodged with the Australian Securities and Investments Commission and served on SGL.

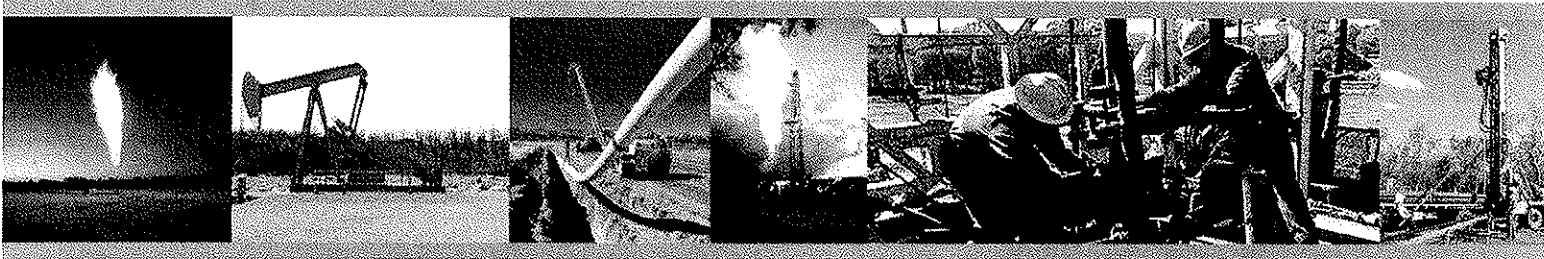


Paul McWilliams

Company Secretary



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.
YOU SHOULD READ THIS DOCUMENT IN ITS ENTIRETY. IF YOU ARE IN ANY DOUBT
AS TO HOW TO DEAL WITH IT, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL
OR OTHER PROFESSIONAL ADVISER AS SOON AS POSSIBLE.



OFFER BY
AGL ENERGY LIMITED

ABN 74 115 061 375

TO ACQUIRE ALL YOUR ORDINARY SHARES IN
SYDNEY GAS LIMITED

ABN 93 003 324 310

FOR \$0.425 CASH FOR EACH ORDINARY SHARE

The independent directors of Sydney Gas Limited unanimously recommend
YOU ACCEPT THIS OFFER in the absence of a superior proposal.

The offer is dated [x] [xxx] 2009 and will close at 7.00pm (AEDT) on [x] [xxx] 2009, unless extended.

Please call 1300 546 284 (or +61 3 9946 4459 for overseas domiciled holders) if you require
assistance with your acceptance.

Financial Adviser

Legal Adviser



INSIDE COVER

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to how to deal with this document, you should consult your broker or your legal, financial or other professional adviser as soon as possible.

KEY DATES

Bidder's Statement lodged with ASIC and ASX	24 December 2008
Date of Offer	[] January 2009
Date of Offer conditions notice*	[] January 2009
Offer closes (unless extended)*	[] February 2009

* This date is indicative only and may be changed as permitted by the Corporations Act.

HOW DO I ACCEPT THE OFFER?

You may only accept the Offer for all of Your SGL Shares. Acceptances must be received before the end of the Offer Period.

For issuer sponsored holdings of SGL Shares (Securityholder Reference Number beginning with "I")

To accept the Offer, complete the enclosed Issuer Acceptance Form (Blue) in accordance with the instructions on it and return it in the enclosed envelope or to an address on the Issuer Acceptance Form so that it is received before 7.00 pm (AEDT time) on the last day of the Offer Period.

For CHES Holdings of SGL Shares (Holder Identification Number beginning with "X")

To accept the Offer, either contact your Controlling Participant (usually your broker) and instruct them to accept the Offer on your behalf, or complete the enclosed CHES Acceptance Form (Green) in accordance with the instructions on it and return it in the enclosed envelope or to an address on the CHES Acceptance Form.

AGL OFFER INFORMATION LINE

If you have any questions in relation to this document, the Offer or how to accept the Offer, please call the AGL Offer Information Line on 1300 546 284 (toll-free for calls made within Australia) or +61 3 9946 4459 (for calls made from outside Australia) from Monday to Friday between 9:00am and 5:00pm (AEDT time). Please note that calls to these numbers may be recorded.

IMPORTANT INFORMATION AND NOTICES

(a) Bidder's Statement

This Bidder's Statement is given by AGL Energy Limited ABN 74 115 061 375 to Sydney Gas Limited ABN 93 003 324 310 under Part 6.5 of the Corporations Act and relates to the Offer. This Bidder's Statement is dated 24 December 2008 and includes in Section 9 an Offer dated [] January 2009 to acquire all Your SGL Shares.

(b) Australian Securities and Investments Commission

A copy of this Bidder's Statement was lodged with ASIC on 24 December 2008. Neither ASIC nor any of its officers takes any responsibility for the contents of this Bidder's Statement.

(c) Offers outside Australia

The distribution of this Bidder's Statement may, in some countries, be restricted by law or regulation. Accordingly, persons who come into possession of this Bidder's Statement should inform themselves of, and observe, those restrictions.

(d) Important notice to US shareholders

The Offer is made for the shares of an Australian registered company. It is important that US shareholders understand that the Offer is subject to disclosure requirements in Australia that are quite different from those in the US.

You should be aware that, subject to the Corporations Act, AGL may purchase SGL Shares otherwise than under the Offer, such as in open market or privately negotiated purchases.

(e) Disclosure regarding forward looking statements

The Bidder's Statement includes certain forward looking statements and statements of current intention (which include those in Section 4 of the Bidder's Statement). As such statements relate to future matters, they are subject to inherent risks and uncertainties. These risks and uncertainties include factors and risks specific to the industries in which AGL and SGL operate as well as matters such as general economic conditions, many of which are outside the control of AGL and its directors. These factors may cause the actual results, performance or achievements of AGL or SGL to differ, perhaps materially, from the results, performance or achievements expressed or implied by those forecasts or forward looking statements. The past performance of AGL and SGL is not a guarantee of future performance.

The forward looking statements do not constitute a representation that any such matter will be achieved in the amounts or by the dates indicated and are presented as a guide to assist you in assessing the Offer. The forward looking statements are based on information available to AGL at the date of this Bidder's Statement.

(f) Investment decisions

This Bidder's Statement does not take into account your individual investment objectives, financial situation or particular needs. You should therefore seek your own financial and taxation advice before deciding whether or not to accept the Offer.

(g) Information on SGL

All information in this Bidder's Statement relating to SGL has been prepared by AGL using information included in public documents filed by SGL or published by SGL on its website or information known to AGL because of its participation in certain joint ventures with SGL. None of the information in this Bidder's Statement relating to SGL has been commented on or verified by SGL or its directors or independently verified by AGL or its directors for the purposes of this Bidder's Statement. Accordingly, subject to the Corporations Act, AGL does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information. The information on SGL in this Bidder's Statement should not be considered comprehensive. In addition, the Corporations Act requires the directors of SGL to provide a Target's Statement to SGL Shareholders in response to this Bidder's Statement, setting out certain material information concerning SGL.

(h) Privacy

AGL has collected your information from the register of SGL Shareholders for the purposes of making the Offer and, if accepted, administering your holding of SGL Shares. The Corporations Act requires the names and addresses of SGL Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to AGL's related bodies corporate and external service providers, and may be required to be disclosed to regulators, such as ASIC. The registered office of AGL is Level 22, 101 Miller Street, North Sydney.

(i) Reserves and resources

Unless otherwise indicated, all gas and oil reserves and resources information reproduced in this document in respect of SGL has been prepared by and/or for SGL and has been extracted without material amendment from information included in public documents filed by SGL. Unless otherwise

indicated this information has not, for the purposes of this Bidder's Statement, been commented on or verified by SGL or its directors or verified by AGL or its directors.

According to information included in public documents filed by SGL, SGL uses reserves definitions consistent with the Society of Petroleum engineers and required by the ASX.

(j) Defined terms and interpretation

Unless otherwise noted, capitalised terms and certain abbreviations used in this Bidder's Statement are defined in the Glossary in Section 10. That Section also sets out certain rules of interpretation which apply to this Bidder's Statement.

Capitalised terms used in Section 7 (Taxation Implications) are defined in Section 7.

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Chairman's letter

AGL Energy Limited
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Energy in
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24 December 2008

Dear Sydney Gas Shareholder,

I am pleased to enclose a Bidder's Statement, which contains an offer (the "Offer") from AGL Energy Limited ("AGL") to acquire all of the issued ordinary shares of Sydney Gas Limited ("SGL") not already owned by it, as well as information relevant to the Offer. AGL is offering \$0.425 cash for every ordinary share in SGL. AGL believes this is a very attractive Offer.

This all-cash Offer represents:

- a 55 per cent premium to the closing price of \$0.275 per SGL ordinary share on the ASX on the last Trading Day for SGL ordinary shares prior to the Announcement Date;
- a 117 per cent premium to the 30 day volume weighted average price of SGL ordinary shares on the ASX to the last Trading Day for SGL ordinary shares prior to the Announcement Date of \$0.195; and
- a 92 per cent premium to the 90 day volume weighted average price of SGL ordinary shares on the ASX to the last Trading Day for SGL ordinary shares prior to the Announcement Date of \$0.222.

The Directors of SGL unanimously recommend that you ACCEPT the AGL Offer in the absence of a superior proposal.

AGL has entered into Pre-Bid Acceptance Deeds with SGL's two largest shareholders, AJ Lucas and Babcock & Brown, to acquire 14.8 per cent and 5.0 per cent of their or their associates' respective shareholdings in SGL. AGL's interests under these Deeds means that AGL has a relevant interest in 19.8 per cent of SGL Shares.

The SGL Directors who hold or control SGL Shares have stated that in the absence of a superior proposal, they intend to accept the Offer in respect of the shareholdings they own or control.

In addition, AJ Lucas has announced its intention to accept the Offer for the balance of its shareholding (approximately 5.2% of SGL's ordinary share capital) in the absence of a superior proposal and Babcock & Brown has announced its intention to accept the Offer for the balance of its shareholding in the absence of a superior proposal. Babcock & Brown has also announced its intention to convert the 155,944 SGL convertible notes it holds into SGL ordinary shares and accept the resultant SGL ordinary shares into the Offer in the absence of a superior proposal. Upon conversion those SGL ordinary shares will represent approximately 8.4% of SGL's total issued ordinary shares.

In November 2005, AGL entered into a 50/50 joint venture agreement with SGL to develop the coal seam gas ("CSG") resource in the Sydney Basin. This agreement governs the management of the Camden Project (which is operated by AGL) and the Hunter Project (operated by SGL). The Camden Project supplies an indigenous gas source of

approximately 5.3 Petajoules (PJ) per annum into the Sydney market. AGL has a unique knowledge of the assets and the financial resources to continue their development.

In Australia's rapidly consolidating gas industry, a combination of AGL's CSG assets and SGL would create a larger entity able to compete more effectively with international players and with the financial resources to fund the future development of the Camden and Hunter Projects. The combined gas reserves of AGL and SGL would be 534 PJ of 2P Reserves.



As AGL's Offer is subject only to limited conditions, AGL intends to stand in the market to acquire all SGL ordinary shares not owned by it at prices up to the Offer price of \$0.425 per SGL ordinary share. If you sell your shares on ASX this will require you to pay brokerage for the sale, however, you will receive payment for this trade more quickly than if you accept the Offer.

I encourage you to read this Bidder's Statement for more details about the Offer and about AGL. The offer is open for your acceptance until 7.00pm (AEDT) on [x] [xxx] 2009, unless extended. If you wish to accept the Offer, please complete and return the enclosed Acceptance Form so that it is received before the Offer closes. A summary of how to accept is also set out in Section 1.2 of the Bidder's Statement.

If you have any questions in relation to the Offer, please contact your legal, financial or other professional adviser or call the shareholder information line on 1300 546 284 (or +61 3 9946 4459 for overseas domiciled holders) between 9.00am and 5.00pm (AEDT) Monday to Friday.

AGL's off-market cash offer represents a certain return on your investment. I strongly recommend you accept the Offer for the reasons set out in this Bidder's Statement.

Yours sincerely

Mark Johnson
Chairman

Overview of AGL's Offer

This summary provides an overview of the Offer and is qualified by the detailed information contained in the Bidder's Statement. You should read the Bidder's Statement in full before deciding whether or not to accept the Offer.

The Bidder	AGL is one of Australia's major integrated energy companies with a market capitalisation of approximately \$6.9 billion as at the close of trading on the last Trading Day prior to the Announcement Date. Through pre-bid agreements with AJ Lucas and Babcock & Brown, AGL has a relevant interest in 79,570,523 SGL Shares which represents 19.8% of SGL's issued ordinary share capital. Section 2 of the Bidder's Statement contains further information about AGL.
Offer	<p>The Offer consideration is \$0.425 cash for every SGL Share. AGL is offering to acquire all of your shares in SGL by way of an off-market takeover bid.</p> <p>The Offer relates to all SGL Shares on issue on the Register Date together with those which are issued following the exercise of SGL Options or conversion of SGL Convertible Notes prior to the close of the Offer Period.</p>
Offer Period	The Offer closes at 7.00pm (AEDT) on [xx] [xxx] 2009, unless it is extended or withdrawn by the Bidder.
How to Accept and Payment Date	<p>If you accept the Offer and the Offer becomes unconditional, AGL will pay you the consideration under the Offer by the earlier of:</p> <ul style="list-style-type: none">▪ 21 days after the end of the Offer Period; or▪ one month after the later of receipt of your valid acceptance and the date on which the Offer becomes unconditional.
On Market acquisitions	<p>AGL intends to stand in the market to acquire all SGL Shares not owned by it at prices up to the Offer price of \$0.425 cash per SGL Share during normal trading on ASX.</p> <p>SGL Shareholders that sell their SGL Shares on ASX will receive payment on a T+3 basis (being 3 Trading Days after the date of the transaction).</p> <p>SGL Shareholders that sell their SGL Shares on ASX cannot subsequently accept the Offer in respect of SGL Shares sold on ASX.</p> <p>Refer to Sections 1.2 and 1.3 of the Bidder's Statement for further details.</p>
Conditions	The Offer is subject only to there being "no prescribed occurrences" between the Announcement Date and the end of the Offer Period.
Broker Fees	There are no brokerage costs in accepting the Offer. If you sell Your SGL Shares on the ASX you will need to pay brokerage.

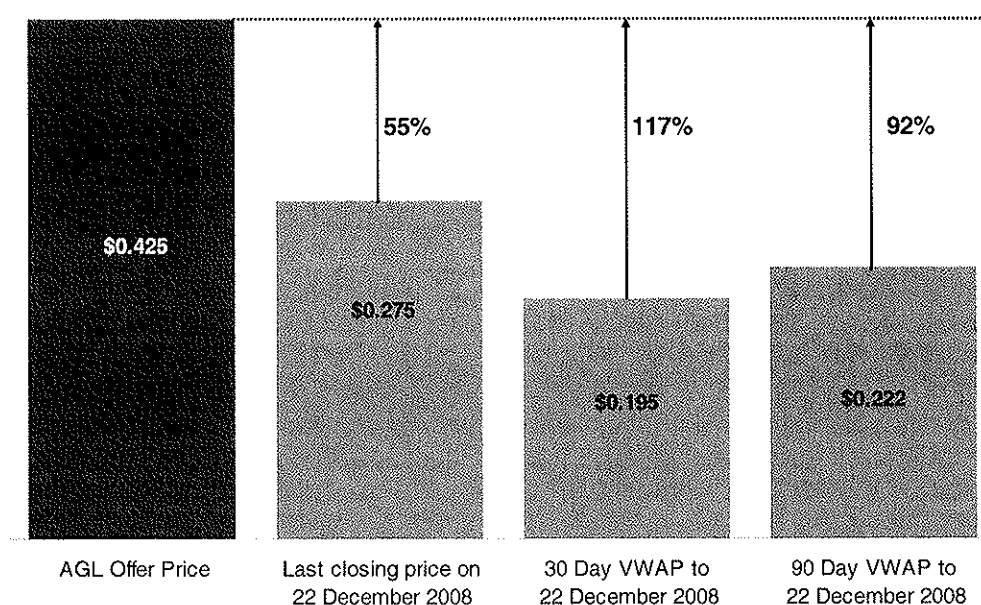
Why you should accept the AGL Offer

1. SUBSTANTIAL PREMIUM TO RECENT SHARE PRICE PERFORMANCE

AGL's cash Offer of \$0.425 per SGL Share represents a substantial premium to SGL's pre-announcement share price performance:

- a 55 per cent premium to the closing price of \$0.275 per SGL Share on the ASX on the last Trading Day for SGL Shares prior to the Announcement Date;
- a 117 per cent premium to the 30 day volume weighted average price of SGL Shares on the ASX to the last Trading Day for SGL Shares prior to the Announcement Date of \$0.195; and
- a 92 per cent premium to the 90 day volume weighted average price of SGL Shares on the ASX to the last Trading Day for SGL Shares prior to the Announcement Date of \$0.222.

Figure 1: AGL Offer Price Compared to SGL Share Prices



2. MAJOR SHAREHOLDER SUPPORT

AGL has entered into Pre-Bid Acceptance Deeds to acquire 14.8 per cent of SGL Shares from AJ Lucas and 5.0 per cent of SGL Shares from associates of Babcock & Brown. In addition, AJ Lucas has announced an intention to accept the Offer in respect to the balance of its shareholding in SGL (approximately 5.2% of SGL Shares) in the absence of a superior proposal and Babcock & Brown has announced an intention to accept the Offer for the balance of its shareholding in SGL in the absence of a superior proposal.

Babcock & Brown has also announced its intention to convert the 155,944 SGL Convertible Notes it holds into SGL Shares and accept the resultant SGL Shares into the Offer in the absence of a superior proposal. Upon conversion those SGL Shares will represent approximately 8.4% of SGL's total issued ordinary shares.

3. SGL DIRECTORS' UNANIMOUS RECOMMENDATIONS

The SGL Board unanimously recommends the Offer in the absence of a higher offer. All SGL Directors who own SGL Shares have stated their intention to accept the Offer in respect of all SGL Shares that they own or control in the absence of a superior proposal.

4. 100 PER CENT CASH CONSIDERATION: CERTAIN AND IMMEDIATE VALUE FOR SGL SHARES

AGL's Offer to acquire SGL Shares is for 100 per cent cash consideration. This gives SGL Shareholders certainty about the value of the consideration being offered (subject to the Offer conditions being satisfied). This may be particularly attractive for SGL Shareholders, given the significant risks associated with SGL's business, including:

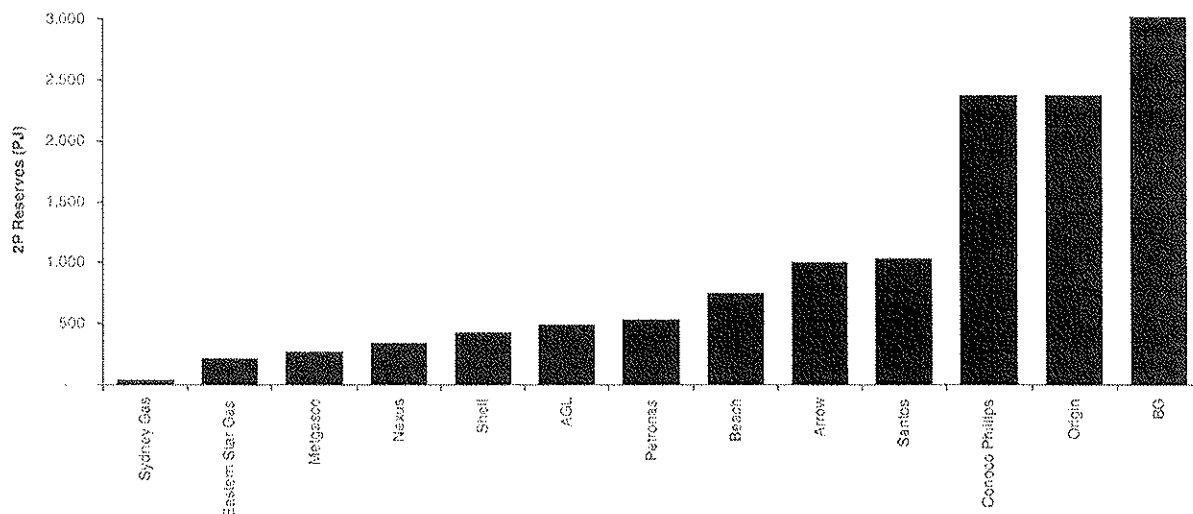
Funding Risks:

- SGL may need to secure additional equity and/or debt to fund further capital expenditure, particularly the development of the Hunter Project, to achieve its stated objectives.
- Given SGL's recent share price performance and current financial market conditions, AGL believes that it may be difficult for SGL to source equity or debt funding in the near term. In addition, any further equity raising may dilute existing SGL Shareholders.

Lack of Scale:

- SGL currently has certified 2P reserves of 41PJ, which is significantly less than the major players in the sector.
- AGL is a Top 50 ASX listed company, with significant CSG resources, through its interest in the Moranbah Project in Queensland, options to acquire acreage in the Queensland Surat Basin, the recently acquired Gloucester Basin asset in New South Wales and its existing 50 per cent interest in the Sydney Basin.
- AGL has the resources and experience to more effectively compete in the rapidly consolidating CSG sector and accelerate development of the Sydney Basin.

Figure 2: Share of 2P Reserves (PJ)



Source: ABN AMRO from publicly released company announcements

Frequently asked questions

The table below answers some key questions that you may have about the Offer and should be read in conjunction with the remainder of this Bidder's Statement. You are strongly encouraged to read the entire Bidder's Statement before deciding how to deal with Your SGL Shares.

Question	Answer
What is the Offer?	AGL is making an Offer to acquire all Your SGL Shares. The Offer consideration is \$0.425 cash for each SGL Share.
What is the Bidder's Statement?	<p>This Bidder's Statement was prepared by AGL for distribution to SGL Shareholders. The Bidder's Statement describes the terms of AGL's Offer for Your SGL Shares and information relevant to your decision whether or not to accept the Offer.</p> <p>The Bidder's Statement is an important document. Should you have any doubt as to how to deal with this document, you should consult your financial, legal or other professional adviser.</p>
Who is AGL?	AGL is one of Australia's major integrated energy companies. It services a retail energy and dual fuel customer base which exceeds 3.2 million customer accounts. AGL has investments in upstream gas activities and electricity generation that complement wholesale energy contracts to support the retail customer base.
Do SGL Directors support the Offer?	Yes, the SGL Directors have unanimously recommended that SGL Shareholders accept the Offer and have stated their intention to do so for the SGL Shares that they own or control in the absence of a superior proposal.
How do I accept the Offer?	<p>To accept the Offer you should follow the instructions set out in Section 1.2 and on the Acceptance Form. Your acceptance must be received before the Offer Period ends.</p> <p>AGL also intends to stand in the market to acquire all SGL Shares not owned by it at prices up to the Offer price of \$0.425 cash per SGL Share during normal trading on ASX.</p>
Are there any conditions of the Offer?	The Offer is subject only to there being "no prescribed occurrences" between the Announcement Date and the end of the Offer Period. Details of this condition are set out in clause 9.8 of this Bidder's Statement.
How long is the Offer open for?	The Offer opens on [x] [xxx] 2009 and is scheduled to close at 7.00pm (AEDT) on [x] [xxx] 2009 (unless extended).
Do I have to pay any fees?	No brokerage, charges or stamp duty will be payable by you on the acceptance of the Offer. You may incur brokerage costs and GST on those costs, if you choose to sell Your SGL Shares on ASX.

What should I do? To accept the Offer, you should:

- (a) read this Bidder's Statement in full;
- (b) read SGL Target's Statement in full (when issued);
- (c) consult your broker, legal financial or other professional adviser if you are in any doubt as to what action to take or how to accept the Offer; and
- (d) accept the Offer in the manner described in Section 1.2 and on the Acceptance Form.

AGL intends to stand in the market to acquire all SGL Shares not owned by it at prices up to the Offer price of \$0.425 cash per SGL Share during normal trading on ASX.

SGL Shareholders that sell their SGL Shares on ASX will receive payment on a T+3 basis (being 3 Trading Days after the date of the transaction).

SGL Shareholders that sell their SGL Shares on ASX cannot subsequently accept the Offer in respect of SGL Shares sold on ASX.

If you have any queries about the Offer, you may also call the shareholder information line on 1300 546 284 (or +61 3 9946 4459 for overseas domiciled holders) between 9.00am and 5.00pm (AEDT) Monday to Friday.

What choices do I have as a SGL shareholder? As a SGL shareholder, you have the following choices in respect of Your SGL Shares:

- Accept the Offer;
- Sell Your SGL Shares on ASX (unless you have previously accepted the Offer for Your SGL Shares); or
- Do nothing.

If I accept the Offer, when will I receive consideration for my SGL shares? If you accept the Offer and the Offer becomes unconditional, AGL will pay you the consideration under the Offer by the earlier of:

- 21 days after the end of the Offer Period; or
- one month after the later of receipt of your valid acceptance and the date on which the Offer becomes unconditional.

What happens if I accept the Offer? Once you accept the Offer (even while it remains subject to Defeating Conditions) you will not be able to sell Your SGL Shares or otherwise deal with the Rights attaching to Your SGL Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.

What happens if I do not accept the Offer? If you do not accept the Offer and you do not sell Your SGL Shares on ASX, you will remain a SGL Shareholder and will not receive any cash consideration.

However, if AGL becomes entitled to compulsorily acquire Your SGL Shares, it intends to do so. If this occurs, you will still receive the cash consideration but at a later date than you would have received it if you had accepted the Offer.

What are the tax implications of accepting the Offer? A general description of the taxation treatment for certain Australian resident SGL Shareholders accepting the Offer is set out in Section 7.

You should not rely on that description as advice for your own affairs.

You should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to accept the Offer for Your SGL shares.

What is the effect of the Offer on SGL Options? The Offer relates to SGL Shares which are issued following the exercise of SGL Options prior to the close of the Offer Period. No separate takeover offer is being made for SGL Options.

What is the effect of the Offer on SGL Convertible Notes? The Offer relates to SGL Shares which are issued following the conversion of SGL Convertible Notes prior to the close of the Offer Period. No separate takeover offer is being made for SGL Convertible Notes.

1 Overview of the Offer

1.1 Summary of Offer Terms

AGL offers to acquire all of your SGL Shares for \$0.425 cash per share on the Offer Terms set out in Section 9 of this Bidder's Statement.

The Offer relates to SGL Shares that exist as at the Register Date.

The Offer also extends to all SGL Shares that are issued between that date and the end of the Offer Period as a result of exercise of SGL Options or conversion of SGL Convertible Notes. AGL will not rely on any breach of a Defeating Condition caused by the issue of SGL Shares on the exercise of SGL Options or conversion of SGL Convertible Notes to terminate the Offer.

Under the Offer Terms, the amount of consideration you receive directly from AGL will be reduced by the amount or value of any Rights attaching to SGL Shares, on or after the Announcement Date, which AGL does not receive.

AGL also intends to stand in the market to acquire all SGL Shares not owned by it at prices up to the Offer price of \$0.425 cash per SGL Share during normal trading on ASX. SGL Shareholders that sell their SGL Shares on ASX will receive payment on a T+3 basis (being 3 Trading Days after the date of the transaction). SGL Shareholders that sell their SGL Shares on ASX cannot subsequently accept the Offer in respect of SGL Shares sold on ASX.

Offer Period

The offer is scheduled to close at 7.00pm (AEDT time) on [] 2009 (but it may be extended or withdrawn in accordance with the Corporations Act).

Payment Date

If you accept the Offer, you will be paid the consideration to which you are entitled on or before one month after the later of receipt of your valid acceptance and the date on which the Offer becomes unconditional (and in any event on or before 21 days after the end of the Offer Period).

Conditions

The Offer is subject only to a "no prescribed occurrence" condition. Further details of this condition are set out in Section 9.8 of this Bidder's Statement.

1.2 How to accept the Offer

The Offer may only be accepted for all of Your SGL Shares.

How you accept the Offer depends on whether your SGL Shares are in an Issuer Sponsored Holding or a CHESS Holding. You will have been sent an Acceptance Form with this Bidder's Statement (an Issuer Acceptance Form (Blue) or a CHESS Acceptance Form (Green)), which will be the Acceptance Form to be used in relation to your SGL Shares:

- (a) **If you hold your SGL Shares in an Issuer Sponsored Holding (your SRN starts with an "I")**, to accept the Offer you must complete, sign and return the enclosed Issuer Acceptance Form (Blue) in accordance with the instructions on it

and return it to the address indicated on the form (and set out below) before the end of the Offer Period.

- (b) **If you hold your SGL Shares in a CHES Holding (your HIN starts with an "X"),** to accept the Offer you must either:
- (i) instruct your Controlling Participant (for example, your broker) to initiate acceptance of the Offer before the end of the Offer Period; or
 - (ii) complete the accompanying CHES Acceptance Form (Green) and send the completed CHES Acceptance Form (together with all other documents required by the instructions on the form) directly to your broker or other Controlling Participant in sufficient time for the Offer to be accepted before the end of the Offer Period with instructions to initiate acceptance of the Offer on your behalf before the end of the Offer Period; or
 - (iii) complete, sign and return the CHES Acceptance Form (Green) in accordance with the instructions on it and lodge it by returning it to the address indicated on the form (and set out below) so that your acceptance is received **before 7.00pm on the second last day of the Offer Period**. This will authorise AGL to instruct your broker or other Controlling Participant to initiate acceptance of the Offer on your behalf.
- (c) **If you are a Broker or a ASTC Participant,** to accept the offer you must initiate acceptance in accordance with the requirements of the ASTC Settlement Rules before the end of the Offer Period.

The postal and delivery addresses for completed Acceptance Forms are as follows:

AGL Offer
C/- Computershare Investor Services Pty Limited
GPO Box 52
Melbourne VIC 3001

The transmission of the Acceptance Form and other documents is at your own risk.

You may **deliver** the Acceptance Form and any associated documents in person to:

In Melbourne

AGL Offer
c/- Computershare Investor Services Pty Limited
Private and Confidential
Attention Corporate Actions
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Between 9:00 am and 5:00 pm

In Sydney

AGL Offer
c/- Computershare Investor Services Pty Limited
Private and Confidential
Attention Corporate Actions
Level 2
60 Carrington Street
Sydney NSW 2000
Between 9:00 am and 5:00 pm

The facsimile number for completed Acceptance Forms is:

+61 3 9473 2529

For full details see clause 9.4 of the Offer Terms in Section 9 of this Bidder's Statement.

1.3 Sales on ASX

AGL also intends to stand in the market to acquire all SGL Shares not owned by it at prices up to the Offer price of \$0.425 cash per SGL Share during normal trading on ASX. SGL Shareholders that sell their SGL Shares on ASX will receive payment on a T+3 basis (being 3 Trading Days after the date of the transaction). SGL Shareholders that sell their SGL Shares on ASX cannot subsequently accept the Offer in respect of SGL Shares sold on ASX.

2 Information on AGL

2.1 Overview of AGL

AGL began trading on the ASX in October 2006 following the merger of the infrastructure assets of The Australian Gas Light Company and Alinta Limited and the subsequent separation of AGL as a separate listed entity.

AGL and The Australian Gas Light Company have been in the Australian energy industry since 1837, beginning as a privately owned gas utility in New South Wales and since then building an extensive energy business across Australia. Today, AGL is Australia's largest energy retailer by customer account numbers. AGL is also Australia's largest privately owned operator of renewable energy generation assets and has a number of development opportunities that will help meet AGL's mandatory obligations in the future, and enhance its market position.

AGL has offices and businesses in every Australian state (excluding Western Australia) and the Australian Capital Territory and as at the date of this Bidder's Statement has about 1,900 employees (excluding contractors). AGL's head office is in Sydney.

AGL is an S&P/ASX 50 Index company with a market capitalisation of approximately \$6.9 billion as at the close of trading on the last Trading Day prior to the Announcement Date. AGL has a BBB rating from Standard & Poor's.

2.2 AGL's principal activities

As at the date of this Bidder's Statement, AGL has the principal business groups described below.

The Retail Energy group is responsible for the sale and marketing of gas, electricity and related customer services to AGL's customer base.

AGL increased its sales and marketing activity during FY08. Total billable customer accounts were increased by approximately 34,000 compared with the previous year.

The Merchant Energy businesses, as from December 2008, are responsible for developing, operating and maintaining AGL's power generation portfolio of assets, developing AGL's carbon strategy, and managing the risks associated with the procurement and delivery of electricity for AGL's wholesale and retail portfolios and managing the short term elements of gas contract and portfolio management. The businesses use financial hedges, bilateral contracts and physical generation to achieve competitively priced supply.

AGL's Gas and Power Development group focuses on the opportunities in acquiring direct equity gas.

During FY08, the Gas and Power Development group completed the construction of the Hallett 1 wind farm, committed to the development of the Hallett 2 wind farm and secured the development rights to the Hallett 3 and Hallett 4 wind farms.

In addition, AGL's stakes in QGC and PNG oil and gas interests were divested in the last quarter of calendar year 2008. AGL also acquired CSG assets in the Gloucester Basin and options over CSG assets in the Surat Basin in the last quarter of calendar year 2008.

The Gas and Power Development group will continue to execute equity gas transactions, explore for new gas resources, develop and operate gas production and manage gas assets.

2.3 Capital Management Initiatives

Commencing in FY07, AGL has undertaken a critical review of its portfolio with a plan to divest non-core assets to provide financial capacity for AGL to participate in new opportunities in Australian energy markets.

Following on from this review, AGL has divested its interests in:

- AlintaAGL;
- GasValpo; and
- Elgas.

These disposals, together with AGL's divestment of its investment in QGC and PNG oil and gas interests, have realised approximately \$3.2 billion thereby reducing AGL's debt and allowing for investments in assets that better fit with AGL's integrated energy strategy.

2.4 Directors

As at the date of this Bidder's Statement the Directors of AGL are:

Mr Mark Johnson
Chairman, Non-executive Director

Mr Michael Fraser
Managing Director and Chief Executive Officer

Ms Carolyn Hewson
Non-executive Director

Mr Les Hosking
Non-executive Director

Mr Jeremy Maycock
Non-executive Director

Ms Sandra McPhee
Non-executive Director

Mr Max Ould
Non-executive Director

Mr Bruce Phillips
Non-executive Director

Mr Graham Reaney
Non-executive Director

Further details of AGL's Directors and management team can be found at its website:
www.agl.com.au

2.5 Publicly Available Information

AGL is a company listed on the ASX and is subject to the periodic and continuous disclosure requirements of the Corporations Act and ASX Listing Rules. AGL's annual report for the year ended 30 June 2008 was given to the ASX on 11 September 2008.

Information (including copies of financial statements) may also be obtained from AGL's website at www.agl.com.au.

3 Information on SGL

3.1 Profile of SGL

SGL is an Australian gas exploration company whose current activities are the development of CSG resources in New South Wales. SGL was established in 1987 and is the first CSG producer in New South Wales. It commenced delivering CSG to the Greater Sydney Pipeline System in May 2001.

SGL is listed on ASX and based on a closing price of \$0.275 on the Trading Day immediately prior to the Announcement Date, had a market capitalisation of approximately \$110.7 million.

During 2005 SGL entered into a joint venture with AGL for the further development of CSG in New South Wales. SGL holds in joint venture with AGL four Petroleum Exploration Licences (**PELs 2, 4, 5 and 267**) covering nearly 17,326 square kilometres and five Petroleum Production Leases (**PPLs 1, 2, 4, 5 and 6**) covering 213 square kilometres. The joint venture comprises three projects: the Camden Project, the Hunter Project and the Sydney Project. AGL is the operator of Camden Project and SGL is the operator of the Hunter Project and the Sydney Project.

The SGL and AGL joint venture in relation to the Camden Project is currently producing approximately 5.3 petajoules (**PJ**) of gas annually at Camden which represents approximately 3.8% of the total New South Wales gas market.

The SGL and AGL joint venture in relation to the Hunter Project covers two PELs, PEL 267 and PEL 4, over 10,126 square kilometres in the Hunter Region of New South Wales. An exploration programme is underway with seismic surveys, drilling of core holes and test wells and reservoir characterisation.

The SGL and AGL joint venture in relation to the Sydney Project has two PELs, PEL 2 and PEL 5, covering 6,913 square kilometres in the Central Coast and Sydney region of New South Wales. A technical review is continuing to assess potential gas reserves in these licence areas.

AGL understands that SGL has the following certified reserves¹:

- 2P reserves: 41PJ; and
- 3P reserves: 54PJ.

In February 2008 SGL entered into a strategic partnership with AJ Lucas under which AJ Lucas became a substantial shareholder in SGL and also agreed to provide technical services and drilling services to SGL. The agreement involved the placement to AJ Lucas of approximately 15% of the then issued capital of SGL for a price of approximately \$18 million. AJ Lucas also has the opportunity to acquire additional shares in SGL by subscribing \$12.1 million and \$15.1 million development capital via the exercise of the AJ

¹ SGL ASX Announcement 6 March 2006. Reserves certified by independent experts Netherland, Sewell & Associates Inc.

Lucas Options, being two performance linked options, which may be exercised subject to specified performance indicators having been met. Each of these options if exercised would result in the issue of 20,627,172 SGL Shares (aggregating 41,254,344 SGL Shares). As part of this arrangement Andrew Lukas, a Director of AJ Lucas, was appointed as CEO of SGL and Alan Campbell, the Chairman and CEO of AJ Lucas, was appointed as a Director of SGL. Mr Campbell is now the Chairman of SGL.

3.2 Directors

As at the date of this Bidder's Statement the Directors of SGL are:

Mr Allan Campbell
Chairman, Non Executive Director

Mr John Moore
Non Executive Director

Mr Raymond Fung
Non Executive Director

Mr Warren Murphy
Non Executive Director

3.3 Substantial Shareholders

Based on publicly available information each of the following persons had the following substantial shareholdings in the issued ordinary share capital of SGL on the Announcement Date.

SGL Shareholder	SGL Shares	%
A J Lucas Group	80,508,207	19.99
Deutsche Bank Group	26,463,876*	6.56
Babcock & Brown Group	26,387,323	6.56
Saad Financial Services SA	23,387,254	5.81

*AGL understands that 26, 387,323 of the SGL Shares referred to in the Deutsche Bank Group substantial holder notice are the subject of a prime brokerage agreement with Babcock & Brown.

The shareholding of AJ Lucas and Babcock & Brown will change in accordance with the arrangements noted at Section 8.2 of this Bidder's Statement.

3.4 Publicly available information

The information in this Section 3 has been prepared based on a review of publicly available information concerning SGL. It has not been verified and AGL does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information. The information should not be considered comprehensive.

Further information relating to SGL's businesses and issued securities may be included in SGL's target statement in relation to the Offer.

SGL is a company listed on ASX and is subject to the periodic and continuous disclosure requirements of the Corporations Act and ASX Listing Rules. For more information concerning the financial position and affairs of SGL, you should refer to the full range of information that has been disclosed by SGL pursuant to those obligations.

A copy of SGL's annual report for the financial year ended 30 June 2008 was lodged with ASX on 28 October 2008.

4 AGL's intentions

4.1 Overview

This Section 4 sets out AGL's intentions, on the basis of the facts and information concerning SGL that are known to AGL, in relation to the following:

- the continuation of the businesses of SGL;
- any major changes to businesses of SGL and any redeployment of the fixed assets of SGL; and
- the future employment of the present employees of SGL.

AGL and its advisors have reviewed information that is publicly available concerning SGL and its businesses and assets. In addition, AGL and its advisers have also reviewed other information concerning the Camden Project, Hunter Project and the Sydney Project which is available to AGL as a partner in those joint ventures with SGL.

However, AGL has not undertaken any formal due diligence in relation to SGL's businesses in connection with the Offer and consequently does not believe that it is aware of all material information, facts and circumstances that may be necessary to enable it to assess all of the operational, commercial, taxation and financial implications of its current intentions.

At the conclusion of its offer AGL will, to the extent to which it is able, conduct a review of SGL and its businesses, assets, liabilities and employees following which it will review its intentions as set out in this Section 4.

Consequently, the statements set out in this Section 4 are statements of AGL's current intention only, which may change as new information becomes available or circumstances change. The statements in this Section 4 should be read in this context.

4.2 Intentions upon acquiring 90% or more of SGL Shares

AGL's intentions if it acquires a relevant interest in more than 90% of SGL's Shares and is entitled to proceed to compulsory acquisition of the outstanding SGL Shares are set below.

Compulsory acquisition

If AGL becomes entitled to do so under the Corporations Act, it intends to dispatch notices seeking the compulsory acquisition of all outstanding SGL Shares in accordance with the provisions of the Corporations Act and to proceed with the compulsory acquisition of all outstanding SGL Options in accordance with the provisions of the Corporations Act.

ASX Listing

AGL intends to procure the removal of SGL Shares from the Official List of ASX at the conclusion of the compulsory acquisition process.

Directors

AGL intends to replace all members of the Board of SGL, its Subsidiaries and any company in respect of which SGL has nominated directors, with its own nominees.

SGL Convertible Note

Babcock & Brown has also announced its intention to convert the 155,944 SGL Convertible Notes it holds into SGL Shares and accept the resultant SGL Shares into the Offer in the absence of a superior proposal. Upon conversion those SGL Shares will represent approximately 8.4% of SGL's total issued ordinary shares.

Accordingly AGL anticipates that there will be no SGL Convertible Notes on issue at the close of the Offer Period.

SGL's businesses, assets and employees

If AGL compulsorily acquires all outstanding SGL securities, SGL will become a wholly owned subsidiary of AGL and hence the AGL Group will own 100% of each of the Hunter Project, Camden Project and Sydney Project. Subject to the other matters described in this Bidder's Statement, AGL intends to operate these projects in accordance with usual industry practice.

SGL's main business activity is carrying out exploration in the Sydney Basin in which each of the Sydney Project and Hunter Project are located. Consistent with AGL's target of increasing its interest in equity gas reserves, AGL intends to continue the exploration and appraisal programs commenced by SGL in the Sydney Basin but may, given its superior financial position, consider increasing the pace of exploration and appraisal programs for the Hunter Project so as to accelerate SGL's reserves certification program.

On 17 December 2008, AGL announced that it had entered into an agreement to acquire 100% of the interests in PEL 285 in the Gloucester Basin. AGL anticipates that there will be opportunities to extract operational synergies from developing PEL 285 in combination with the nearby Hunter Project and Sydney Project.

AGL believes that the current SGL employees have been important to the growth of SGL's business and anticipates that it will continue the employment of the majority of SGL's employees. However, following completion of the Offer, AGL will conduct a review of the employment functions of SGL. AGL anticipates that the review will disclose duplication in some activities and functions, primarily in head office roles, and as a consequence some SGL employees are likely to be made redundant. In the event of redundancies, AGL will recognise and comply with the redundancy terms of all relevant employment contracts and industrial agreements or awards.

4.3 Intentions upon acquiring more than 50% but less than 90% of SGL Shares

AGL's intentions if it acquires a relevant interest in more than 50% but less than 90% of SGL Shares are set out below.

ASX Listing

AGL will maintain the listing of SGL on the ASX as long as SGL meets the requirements of the Listing Rules for maintaining a listing, including there being a sufficient spread of SGL Shareholders.

Depending on the level of acceptances to the Offer, it is possible that ASX may seek to delist SGL if, in ASX's opinion, there is an insufficient spread of shareholdings to ensure an orderly and liquid market in SGL securities. If ASX proposes to delist SGL on this basis AGL's current intention is that it would not oppose this delisting.

Directors

AGL intends, subject to the Corporations Act and SGL's Constitution, to seek to re-constitute the Board of Directors of SGL to reflect AGL's majority ownership of SGL.

However, AGL intends to ensure that SGL has at least one independent director while it remains listed on ASX.

SGL's businesses, assets and employees

If after the close of the Offer SGL is a controlled entity but not a wholly owned subsidiary of AGL, then AGL intends to attempt to procure that the SGL Board implements the intentions of AGL which are outlined in Sections 4.2 above to the extent possible and appropriate.

In addition, but subject to all applicable legal requirements, AGL will seek to become appointed as the operator of the Hunter Project in substitution for SGL.

Dividends

AGL intends to maintain SGL's current policy of not declaring dividends.

Capital raisings

SGL's existing business plan and the current intentions of AGL in relation to the development of SGL's businesses will require significant capital expenditure. It may be necessary to undertake a substantial equity offering either alone or in conjunction with raising debt capital to fund SGL's anticipated capital expenditure requirements. AGL has not finalised its intentions in this regard and accordingly the form and timing of any future capital raisings or debt raisings have not been determined at this time.

Limitations on intentions

If at the conclusion of the Offer SGL is a controlled entity but is not a wholly owned subsidiary of AGL there will be minority SGL Shareholders. In this event AGL expects that the directors appointed by it will act at all times in accordance with their fiduciary duties and intends that all requisite shareholder approvals and other requirements of law including, the Corporations Act and ASX Listing Rules, are complied with in pursuing any of the intentions which are referred to above.

As a result of these requirements the approval of minority SGL Shareholders may be required for the implementation of any of the intentions outlined above. The requirement for SGL directors to have regard to their fiduciary duties in the context of a partly owned subsidiary and the possible requirement to seek approval of SGL minority shareholders may prevent a particular intention from being achieved.

Intentions if AGL acquires less than 50.1% of SGL Shares

If AGL acquires less than 50.1% of SGL Shares, it intends to seek to obtain representation on the Board of Directors of SGL which is commensurate with the level of its shareholding in SGL. AGL may in the future acquire further SGL Shares in accordance with the requirements of the Corporations Act.

4.4 Intentions generally

Subject to the above, AGL intends on the basis of the facts and information concerning SGL which are known to it:

- to continue the businesses of SGL;
- not to make any major changes to the businesses of SGL or to redeploy SGL's fixed assets; and

- to continue the employment of SGL's present employees.

5 Information on SGL securities

5.1 Capital Structure

According to the most recent Appendix 5B lodged by SGL with ASX, the total number of securities in SGL as at the date of this Bidder's Statement is as follows:

- (a) 402,543,433 SGL Shares;
- (b) 45,114,344 SGL Options (including 41,254,344 AJ Lucas Options issued to A J Lucas); and
- (c) 155,944 SGL Convertible Notes.

5.2 SGL Options

AJ Lucas Options

According to the most recent Appendix 5B lodged by SGL with ASX, AGL understands that there are 41,254,344 AJ Lucas Options on issue as at the date of this Bidder's Statement. These options were issued following a meeting of SGL Shareholders on 15 August 2008 to approve their issue.

The AJ Lucas Options comprises 2 equal tranches of options (each comprising 20,627,172 options) with the first tranche having an exercise price of \$0.60 and the second tranche having an exercise price of \$0.75.

Based on AGL's review of public filings made by SGL, AGL understands that except as described below the AJ Lucas Options can only be exercised if certain performance hurdles are satisfied (which relate to the level of 2P reserves of SGL and the price at which SGL Shares trade on ASX) and after the expiration of a period of time from their date of issue (2 years from issue in the case of the first tranche of AJ Lucas Options and 3 years from issue in the case of the second tranche of AJ Lucas Options).

SGL's public filings also indicate that notwithstanding the performance hurdles mentioned above, all of the AJ Lucas Options will become immediately exercisable if:

- any person acquires control (as that term is defined in the Corporations Act) of SGL;
- there is a sale of all or substantially all of the assets of SGL and its subsidiaries; or
- SGL ceases to be the exploration operator of the Hunter Project and the Sydney Project.

AGL does not intend to make takeover offers for the AJ Lucas Options, including for the reason that the exercise price of these options is substantially below the Offer price. However, if AGL proceeds to compulsory acquisition of outstanding SGL Shares at the end of the Offer Period, it is required to, and intends to, make offers to acquire all outstanding AJ Lucas Options in accordance with Part 6A.1 of the Corporations Act.

Other Options

According to the most recent Appendix 5B lodged by SGL with ASX, AGL understands that there are an additional 3,860,000 SGL Options on issue with exercise prices between \$0.885 and \$1.04 per SGL Option. It is not clear to AGL based on SGL's public

disclosures whether those options are presently exercisable or whether the Offer accelerates the time at which these SGL Options become exercisable.

AGL does not intend to make takeover offers for these SGL Options, including for the reason that the exercise price of these options is substantially below the Offer price. However, if AGL proceeds to compulsory acquisition of outstanding SGL Shares at the end of the Offer Period, it is required to, and intends to, make offers to acquire all outstanding SGL Options in accordance with Part 6A.1 of the Corporations Act.

AGL will not rely on any breach of a Defeating Condition caused by the issue of SGL Shares on the exercise of SGL Options to terminate the Offer.

5.3 SGL Convertible Notes

Babcock & Brown has also announced its intention to convert the 155,944 SGL Convertible Notes it holds into SGL Shares and accept the resultant SGL Shares into the Offer in the absence of a superior proposal. Upon conversion those SGL Shares will represent approximately 8.4% of SGL's total issued ordinary shares.

Accordingly AGL anticipates that there will be no SGL Convertible Notes on issue at the close of the Offer Period.

AGL will not rely on any breach of a Defeating Condition caused by the issue of SGL Shares on the conversion of a SGL Convertible Note to terminate the Offer.

5.4 Details of relevant interests in SGL securities and voting power

As at the date of this Bidder's Statement:

- AGL has a relevant interest in 79,570,523 SGL Shares; and
- AGL has voting power in SGL of 19.8%.

5.5 Consideration provided for SGL securities during previous four months

Except as set out below, AGL and its associates have not acquired or disposed of SGL securities during the period of four months ending on the day immediately before the date of the Offer.

On 23 December 2008, AGL entered into Pre-Bid Acceptance Deeds with AJ Lucas and Babcock & Brown, under which those parties agreed to accept or procure the acceptance of the Offer in respect of an aggregate number of 79,570,523 SGL Shares (representing approximately 19.8 per cent of SGL Shares). Further details of these Pre-bid Acceptance Deeds are set out in Section 8.2.

5.6 Inducing benefits given during previous four months

Except as set out in this Bidder's Statement, neither AGL nor any of its associates has, during the period of four months ending on the day immediately before the date of the Offer, given, offered or agreed to give, a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

- (a) accept the Offer; or
- (b) dispose of SGL Shares,

which benefit was not offered to all SGL Shareholders under the Offer.

6 Funding

6.1 Maximum Cash Consideration

As at the date of this Bidder's Statement AGL understands that there are 402,543,433 SGL Shares on issue. The consideration for the acquisition of those SGL Shares to which the Offer relates will be satisfied wholly in cash. If the Offer is accepted in respect of all of those SGL Shareholders the consideration payable to those SGL Shareholders will be approximately \$171.1 million.

In addition, Babcock & Brown has also announced its intention to convert the 155,944 SGL Convertible Notes it holds into SGL Shares and accept the resultant SGL Shares into the Offer in the absence of a superior proposal. AGL understands that an additional 36,692,705 SGL Shares will be issued on conversion of the SGL Convertible Notes held by Babcock & Brown. The consideration payable under the Offer in respect of such SGL Shares will be approximately \$15.6 million.

The above assumes that no holder of SGL Options exercises SGL Options and accepts the Offer in respect of the Shares which are issued upon such exercise. This is a reasonable assumption as all of the SGL Options are out of the money at the Offer price. If, however, all holders of SGL Options exercise those SGL Options and accepted the Offer then the additional consideration payable in respect of the SGL Shares resulting from such exercise would be approximately \$19.2 million.

6.2 AGL's Funding Arrangements

The funds required to pay the consideration for the acquisition of SGL Shares pursuant to the Offer will be obtained by AGL utilising its existing cash reserves.

The funds available to AGL from its existing cash reserves materially exceed the maximum consideration payable pursuant to the Offer and transaction costs, including adviser fees, payable in connection with the Offer.

Accordingly, AGL is of the opinion that it has a reasonable basis for forming, and it holds the view, that it will be able to pay the consideration required for the acquisition of SGL Shares pursuant to the Offer to satisfy its obligations under the Offer.

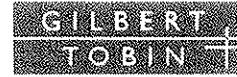
The Offer is not subject to any financing conditions.

6.3 Particulars of cash reserves

As at the date of this Bidder's Statement, AGL and its wholly owned subsidiaries have cash reserves of approximately \$1.8 billion on deposit with various financial institutions, which are available to be utilised to pay the whole or part of the consideration payable for the acquisition of SGL Shares under the Offer.

7 Taxation Implications

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LAWYERS

23 December 2008

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Dear Directors

AGL Energy Limited (AGL) offer for Sydney Gas Limited (SGL) Australian Taxation Report

You have instructed us to prepare this taxation report (**report**) for inclusion in AGL's Bidder's Statement in relation to the offmarket takeover bid (**Offer**) to holders of ordinary shares (**shares**) in SGL.

The report outlines the general Australian income tax, stamp duty and goods and services tax (**GST**) consequences for SGL shareholders who sell their shares pursuant to the *Offer*.

The comments outlined below reflect the income tax, stamp duty and GST laws and regulations as at 9am of the date of the report. They do not take into account proposed or anticipated changes of law and do not take into account laws (including tax laws) of countries other than Australia.

The report does not consider:

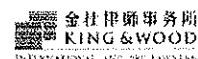
- all possible Australian tax considerations for every SGL shareholder;
- the position of SGL shareholders who do not hold their SGL shares solely on capital account – for example, where they buy and sell shares in the ordinary course of business or where they hold their shares on revenue account or as trading stock;
- the consequences for SGL shareholders who are not residents of Australia for income tax purposes, and who hold (or use) or have held (or used) their shares at any time as an asset of a permanent establishment in Australia (or in carrying on a business through a permanent establishment);
- the position of SGL shareholders who acquired their shares under an employee share or option plan; and
- the position of SGL shareholders who are subject to special taxation rules (for example, banks, insurance companies, tax exempt organisations, superannuation funds, dealers in securities).

If any SGL shareholder is a subsidiary member of a consolidated group or a MEC (multiple entry consolidated) group (**MEC group**) (both as defined in Part 3-90 of the *Income Tax Assessment Act 1997*), a reference to that SGL shareholder should be read as a reference to the head entity of that consolidated group or MEC group.

This information contained in this report is of a general nature only. The report is not taxation advice and should not be relied upon as such.

Liability limited by a scheme approved under Professional Standards Legislation.
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International associate



We recommend that each SGL shareholder seek their own professional advice in relation to the disposal of their SGL shares pursuant to the Offer, taking into account their individual circumstances and the applicable laws (including in their country of residence) at the time of the disposal of their shares.

1 Taxation on the disposal of SGL shares

If you sell your shares pursuant to the Offer, you will need to consider the application of the *Income Tax Assessment Act 1936*, the *Income Tax Assessment Act 1997* (both referred to as the **income tax law**) and in particular, the capital gains tax provisions contained in the income tax law.

1.1 Australian resident SGL shareholders

SGL shareholders will derive a capital gain in relation to the disposal of an SGL share to the extent that the amount they receive (or are entitled to receive) for the disposal of that SGL share is more than their "cost base" in the SGL share.

SGL shareholders will realise a capital loss to the extent that the amount they receive (or are entitled to receive) for the disposal of an SGL share is less than the "reduced cost base" of that SGL share. Capital losses may only be offset against capital gains realised during the income year or in later income years (subject to any rules which may deny or restrict the use of such losses in the current or a later income year). They cannot be used to reduce a shareholder's income which is not a capital gain.

SGL shareholders will need to consider the consequences for the disposal of different parcels of shares that they own and acquired at different times. It may be possible that they have derived capital gains on some and capital losses on others.

Generally, a shareholder's cost base in an SGL share is the total amount they paid for that SGL share including their acquisition and disposal costs in respect of the share. However, there are special rules which can affect what the cost base is in that share. The reduced cost base of an SGL share is usually determined in a similar (but not identical) manner. Again special rules may apply to modify the general rules regarding reduced cost base. We recommend that SGL shareholders speak to their professional tax adviser to help them determine the correct cost base and reduced cost base in their shares.

Net capital gains of SGL shareholders for the income year are included in their assessable income. Broadly, the net capital gain in respect of an income year is the total of all of the capital gains derived during the income year less any capital losses realised in the income year and any net capital losses arising in previous income years (on the assumption those current year and prior year net capital losses can be utilised). That amount may be reduced further by other concessions, particularly under the discount capital gains tax rules.

Under the discount capital gains tax rules, certain categories of SGL shareholders, including, individuals and trusts may be eligible for discount capital gains treatment in relation to the SGL shares that the shareholder has held for at least 12 months (excluding the day of acquisition and the day of disposal, in the case of both days, as determined under the capital gains tax rules) at the time they are taken to have disposed of their SGL shares. The discount percentage for individuals is 50% (this discount percentage is applied to any remaining discount capital gain). Companies are not eligible for discount capital gains treatment.

1.2 Non-resident SGL shareholders

If the SGL shareholder is not a resident of Australia for income tax purposes, they will generally not have to pay Australian income tax on any capital gain when they dispose of their SGL shares, unless both of the following requirements are satisfied:

- the SGL shareholder holds a "non-portfolio interest" in SGL. Broadly, an SGL shareholder will hold a "non-portfolio interest" in SGL if it (together with its associates) own, or owned, throughout a 12 month period during the two years preceding the sale of their SGL shares (such sale time being determined under the capital gains tax rules), 10 per cent or more of (broadly) all of the shares in SGL; and
- the SGL shares pass the "principal asset test" at the time of the disposal for capital gains tax purposes. In broad terms, SGL shares would pass the "principal asset test" if the market value of SGL's direct and indirect interests in Australian land (including leases and mining rights) is more than the market value of its other assets at the time of the disposal for capital gains tax purposes. Detailed calculations are necessary to determine the results of the "principal asset test", particularly when tracing through interposed entities.

If either element is absent, any capital gain made on the disposal of the SGL shares should not be subject to income tax in Australia.

If an SGL shareholder holds a "non-portfolio interest" in SGL, then they should contact SGL to help them determine if their SGL shares would pass the "principal asset test".

Except in very limited circumstances, we would not anticipate that a non-resident SGL shareholder would be entitled to claim a capital loss under the Australian capital gains tax rules.

2 Stamp duty


No stamp duty will be payable by the SGL shareholders on the disposal of their shares pursuant to the Offer.

3 GST

No GST will be payable by the SGL shareholders on the disposal of their shares pursuant to the Offer.

SGL shareholders who are registered for GST may not be entitled to full input tax credits for any GST incurred on costs associated with the disposal of their shares.

Yours faithfully
Gilbert + Tobin



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8 Additional Information

8.1 Offer conditions

The only Defeating Conditions of the Offer are that no “prescribed occurrences” occur between the Announcement Date and the end of the Offer Period. Further details of this condition are set out in Section 9.8(a).

8.2 Pre-bid Acceptance Deeds and Convertible Notes Acquisition Agreement

On 23 December 2008, Sydney Gas’ largest shareholders, AJ Lucas and Babcock & Brown, entered into separate Pre-bid Acceptance Deeds with AGL, where AJ Lucas and Babcock & Brown have agreed to accept or procure the acceptance of AGL’s Offer by no later than 2 Business Days after SGL has lodged its Target Statement with ASIC in response to the Offer for an aggregate number of 79,570,523 SGL Shares comprising 59,570,523 SGL Shares held by AJ Lucas and 20,000,000 SGL Shares held by associates of Babcock & Brown.

The Pre-Bid Acceptance Deeds terminate in a number of circumstances, including where AGL fails to increase the Offer price to match the price offered under a superior proposal.

Complete copies of the Pre-Bid Acceptance Deeds will be attached to a substantial holder notice in respect of SGL to be lodged by AGL with ASX on 24 December 2008.

8.3 Agreement with SGL

SGL has entered into an agreement with AGL dated 23 December 2008 in respect of the Offer. Under that agreement:

- (a) the board of SGL has agreed to unanimously recommend that SGL Shareholders accept the Offer in respect of their SGL Shares and not change that recommendation, in the absence of a superior proposal emerging;
- (b) SGL must provide on a timely basis any assistance and information reasonably requested by AGL to enable AGL to prepare and finalise its Bidder’s Statement;
- (c) SGL must provide AGL and its advisors with a reasonable opportunity to review and comment on a draft of SGL’s Target Statement prior to lodgement of the Target Statement with ASIC;
- (d) SGL has agreed to lodge its Target Statement with ASIC by the 7th day after AGL has given notice under section 633 item 9 of the Corporations Act that it has completed its despatch of this Bidder’s Statement to SGL Shareholders but in any event not before 19 January 2009; and
- (e) SGL covenants that it will, in the period between the Announcement Date and the close of the Offer, conduct the business of SGL in the ordinary course and keep all SGL petroleum titles in good standing.

8.4 ASIC modifications

AGL has relied on the modification to Section 636(3) of the Corporations Act set out in ASIC Class Order 01/1543 “Takeover Bids” to include references to certain statements which are made or based on statements made in documents lodged with ASIC or ASX. Pursuant to the Class Order, the consent of the relevant person is not required for the inclusion of such statements in this Bidder’s Statement. As required by the Class Order, AGL will make available a copy of these documents (or of relevant extracts from these documents), free of charge, to you and other SGL Shareholders who request it during the

Bid Period. To obtain a copy of these documents (or the relevant extracts), you may telephone the AGL Offer Information Line on 1300 546 284 (toll-free for calls made within Australia) or +61 3 9946 4459 (for calls made from outside Australia) from Monday to Friday between 9.00am and 5.00pm (AEDT time).

AGL has not obtained from ASIC any modifications of or exemptions from the Corporations Act in relation to the Bid. AGL may rely on class order relief granted by ASIC which applies generally to all persons, including AGL.

8.5 ACCC

AGL has informed the ACCC of its intention to make a takeover Bid for SGL and has not received notice of any objection.

8.6 Offer extends to new SGL Shares

For the purposes of Section 633(2) of the Corporations Act, the date for determining the persons to whom information is to be sent in items 6 and 12 of Section 633(1) of the Corporations Act is the Register Date (being 7.00pm on 24 December 2008).

The Offer extends to persons who become registered, or entitled to be registered, as the holder of SGL Shares during the Offer Period due to the conversion of, or exercise of rights attached to, securities convertible into SGL Shares (being SGL Options and SGL Convertible Notes) which are on issue on the Register Date.

Sections 5.2 and 5.3 set out AGL's understanding, based on documents provided by SGL to ASX, of the rights of the holders of SGL Options and SGL Convertible Notes respectively in relation to the Offer.

8.7 Broker commissions

AGL may offer to pay a commission to brokers who solicit acceptances of the Offer from their clients, but it has made no final decision in relation to the matter at this stage.

Any commission payments will be paid only in respect of parcels of SGL Shares held by retail shareholders who accept the Offer.

If a commission is offered, commission payments will not exceed 0.75% of the value of the consideration payable to a retail shareholder who accepts the Offer, and will be subject to minimum payments (not exceeding \$50) and maximum payments (not exceeding \$750) for each acceptance.

If a commission is offered, it will be payable only to brokers and will be subject to the condition that no part of the fee will be able to be passed on or paid to SGL Shareholders.

It is AGL's intention that, if and when an offer of commission has been made to any broker by AGL, the commission arrangement will remain in place for the balance of the Offer Period and the amount of the commission offered will not be increased during the Offer Period.

8.8 Regulatory and legal matters

AGL is not aware of any SGL Shareholder who requires any approval or clearance, in accordance with the statutory requirements below, in order to be entitled to receive any consideration under the Offer.

(a) Banking (Foreign Exchange) Regulations 1959 (Cth)

The Banking (Foreign Exchange) Regulations 1959 (Cth) may impose restrictions on certain financial transactions and require the consent of the Reserve Bank of Australia for the movement of funds into and out of Australia. Based on AGL's searches, restrictions currently apply if funds are to be paid to, or received from:

- (i) specified individuals and entities associated with the former government of the Federal Republic of Yugoslavia;
- (ii) specified ministers and senior officials of the Government of Zimbabwe;
- (iii) certain specified entities associated with the Democratic People's Republic of Korea (North Korea);
- (iv) specified individuals associated with the Burmese regime; and
- (v) several entities and individuals who contribute to Iran's proliferation activities not already listed by the UN Security Council.

(b) Other Commonwealth legislation

The Charter of the United Nations Act 2002 (Cth) prohibits:

- (i) assets from being provided to proscribed persons or entities; and
- (ii) the use or dealing, and facilitation of such use or dealing, of certain assets owned or controlled by proscribed persons or entities,

in each case without the written consent of the Minister of Foreign Affairs.

Persons and entities from various countries have been proscribed under various Regulations made pursuant to the Charter of the United Nations Act 2002 (Cth) including in relation to Afghanistan, Côte d'Ivoire, Democratic Republic of the Congo, Iran, Iraq, Liberia, Sudan, Sierra Leone, Somalia, Democratic People's Republic of Korea, Lebanon and Rwanda.

8.9 No escalation agreements

Neither AGL nor any Associate of AGL has entered into any escalation agreement in respect of SGL Shares that is prohibited by Section 622 of the Corporations Act.

8.10 Consents

This Bidder's Statement contains statements made by, or statements based on, statements made by AGL, Gilbert + Tobin, Computershare Investor Services Pty Ltd and ABN Amro. Each of AGL, Gilbert + Tobin, Computershare Investor Services Pty Ltd and ABN Amro has given and has not, before lodgement of this Bidder's Statement with ASIC, withdrawn their consent to the inclusion of:

- (a) references to its name;
- (b) each statement it has made; and
- (c) each statement which is based on a statement it has made,

in the Bidder's Statement in the form and context in which those statements appear and to the maximum extent permitted by law expressly disclaims and takes no responsibility

for any part of this Bidder's Statement other than any statement which has been included in this Bidder's Statement with the consent of that party.

Each person who is named in this Bidder's Statement as acting in a professional capacity for AGL in relation to the Offer (including, without limitation, Gilbert + Tobin, ABN Amro and Computershare Investor Services Pty Ltd):

- (a) does not make, or purport to make, any statement in this Bidder's Statement or any statement on which a statement in this Bidder's Statement is based, other than a statement included in this Bidder's Statement with the consent of that person; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Bidder's Statement, other than any statement which has been included in this Bidder's Statement with the consent of that party.

8.11 No other material information

There is no other information that:

- is material to the making of the decision by a holder of SGL Shares whether or not to accept the Offer; and
- which is known to AGL,

other than:

- as set out or referred to elsewhere in this Bidder's Statement; or
- information which it would be unreasonable to require AGL to disclose because the information has previously been disclosed to holders of SGL Shares.

9 The Offer

9.1 Offer

- (a) AGL offers to acquire from you on the terms and conditions of this Offer all of Your SGL Shares together with all Rights attaching to them.
- (b) This Offer extends to all SGL Shares in respect of which you become registered or in respect of which you become entitled to be registered as the holder prior to the end of the Offer Period as a result of the conversion of, or the exercise of rights attached to, other securities convertible into SGL Shares (including SGL Convertible Notes and SGL Options) and which are on issue at the Register Date.
- (c) Offers on terms and conditions identical to those contained in this Offer have been dispatched or will be dispatched to:
 - (i) all holders of SGL Shares registered as such in the Register on the Register Date; and
 - (ii) any person who becomes registered as the holder of SGL Shares during the period commencing on the Register Date and ending at the end of the Offer Period due to the conversion of, or exercise of rights attached to, other securities convertible into SGL Shares (including SGL Convertible Notes and SGL Options) and which are on issue at the Register Date.
- (d) This Offer is dated [].

9.2 Consideration for the Offer

Subject to the terms of this Offer, the consideration offered by AGL for the acquisition of all Your SGL Shares is \$0.425 for each SGL Share.

9.3 Offer Period

- (a) Unless the Offer Period is extended or the Offer is withdrawn, in either case in accordance with the requirements of the Corporations Act, this Offer will remain open for acceptance by you during the period commencing on the date of this Offer and ending at 7:00pm AEDT on [] (**Offer Period**).
- (b) Subject to the Corporations Act, AGL may extend the Offer Period.
- (c) In addition, if, within the last 7 days of the Offer Period:
 - (i) this Offer is varied to improve the consideration offered; or
 - (ii) AGL's voting power in SGL increases to more than 50.1%,then the Offer Period will be mandatorily extended in accordance with Section 624(2) of the Corporations Act so that it ends 14 days after the relevant event.

9.4 Acceptance

- (a) You may accept this Offer only in respect of all of Your SGL Shares.
- (b) Subject to Section 9.5, to accept this Offer in respect of SGL Shares which, at the time of acceptance, are registered in your name in the issuer sponsored sub-

register operated by SGL (in which case Your SGL Shares are not in a CHES Holding and your Securityholder Reference Number will commence with "I"), you must **complete** and **sign** the Issuer Acceptance Form (Blue) enclosed with this Offer (which forms part of this Offer) in accordance with the instructions on it and **return** it together with all other documents required by those instructions (if any) to:

BY MAIL: AGL Offer
C/- Computershare Investor Services Pty Ltd
GPO Box 52
Melbourne VIC 3001;

BY FAX: +61 3 9473 2529; or

BY HAND: **In Melbourne**

AGL Offer
c/- Computershare Investor Services Pty Limited
Private and Confidential
Attention Corporate Actions
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Between 9:00 am and 5:00 pm

In Sydney

AGL Offer
c/- Computershare Investor Services Pty Limited
Private and Confidential
Attention Corporate Actions
Level 2
60 Carrington Street
Sydney NSW 2000
Between 9:00 am and 5:00 pm

so that it is **received** at an address specified above by no later than the end of the Offer Period. A reply paid envelope, which is valid if sent from within Australia, is enclosed for your use.

If your Acceptance Form (including any documents required by the terms of this Offer and the instructions on the Acceptance Form) is returned by facsimile, it will be deemed to be received in time if the facsimile transmission is received (evidenced by a confirmation of successful transmission) before the end of the Offer Period, but you will not be entitled to receive the consideration under this Offer to which you are entitled until your original Acceptance Form (including any documents required by the terms of this Offer and the instructions on the Acceptance Form) is received at an address specified above.

- (c) To accept this Offer in respect of SGL Shares which, at the time of acceptance, are held by you in a CHES Holding (in which case your Holder Identification Number will commence with "X"), you must comply with the ASTC Settlement Rules. To accept this Offer in accordance with the ASTC Settlement Rules:
- (i) if you are the Controlling Participant, you must initiate acceptance of this Offer in accordance with Rule 14.14 of the ASTC Settlement Rules before the end of the Offer Period; or

- (ii) if you are not the Controlling Participant, you may either:
 - (A) **instruct** your Controlling Participant, in accordance with the sponsorship agreement between you and the Controlling Participant, to initiate acceptance of this Offer in accordance with Rule 14.14 of the ASTC Settlement Rules, such initiation to occur before the end of the Offer Period. If you choose to accept this Offer in this way, your Controlling Participant will be obliged by Rule 14.14.1 of the ASTC Settlement Rules to initiate the acceptance within the following timeframes:
 - I if you specify a time when or by which this Offer must be accepted, in accordance with those instructions; or
 - II otherwise, by End of Day (as defined in the ASTC Settlement Rules) on the date that you instruct the Controlling Participant to accept this Offer or, if the Offer Period ends on the day you provide those instructions, before the end of the Offer Period; or
 - (B) otherwise, **complete** and **sign** the enclosed CHES Acceptance Form (Green) in accordance with the instructions on the CHES Acceptance Form and **return** it (using the enclosed reply paid envelope, which is valid if sent from within Australia) together with all other documents required by those instructions to one of the addresses indicated on the CHES Acceptance Form and as such authorise AGL to instruct your Controlling Participant to initiate acceptance of this Offer on your behalf in accordance with Rule 14.14 of the ASTC Settlement Rules. For return of the CHES Acceptance Form to be an effective acceptance of the Offer under this Section 9.4(c)(ii)(B), it must be received by AGL in time for AGL to give instructions to your Controlling Participant, and your Controlling Participant to carry out those instructions, before the end of the Offer Period.
- (d) To accept this Offer in respect of SGL Shares in respect of which, at the time of acceptance, you are entitled to be registered but are not registered as a result of the conversion of, or exercise of rights attached to, securities convertible into SGL Shares (being SGL Convertible Notes and SGL Options), you must **complete** and **sign** the Issuer Acceptance Form enclosed with this Offer in accordance with the instructions on it and **return** it together with all other documents required by those instructions to one of the addresses referred to in paragraph (b) so that it is received by no later than the end of the Offer Period.
- (e) An acceptance of this Offer under Section 9.4(b), (c)(ii)(B) or (d) shall not be complete until the Acceptance Form, completed and signed in accordance with the instructions on it and all other documents required by those instructions, have been received at one of the addresses set out in Section 9.4(b). Notwithstanding the foregoing provisions of this Section 9.4, AGL may, in its absolute discretion, waive at any time prior to the end of the Offer Period all or any of the requirements specified in the Acceptance Form but payment of the consideration in accordance with this Offer will not be made until any irregularity has been resolved and such other documents as may be necessary to procure registration of the SGL Shares have been lodged with AGL.
- (f) The transmission of the Acceptance Form and other documents is at your own risk.

9.5 Entitlement to Offer

- (a) If at the time this Offer is made to you, or at any time during the Offer Period and before you accept this Offer, another person is, or is entitled to be, registered as the holder of, or is able to give good title to, some or all of Your SGL Shares (such a SGL Share in this paragraph being called an **Entitlement Share**) then, in accordance with Section 653B(1)(a) of the Corporations Act:
- (i) a corresponding Offer shall be deemed to have been made at that time to that other person relating to the Entitlement Shares;
 - (ii) a corresponding Offer shall be deemed to have been made at that time to you relating to Your SGL Shares other than the Entitlement Shares; and
 - (iii) this Offer shall be deemed immediately after that time to have been withdrawn.
- (b) If at any time during the Offer Period and before the Offer is accepted, you hold SGL Shares on trust for, as nominee for, or on account of, another person or persons, then a separate and distinct Offer shall be deemed, in accordance with Section 653B(1)(b) of the Corporations Act, to have been made to you in relation to each parcel of SGL Shares within Your SGL Shares. An acceptance by you of the Offer in respect of any such distinct portion of Your SGL Shares will be ineffective unless you have given AGL notice stating that Your SGL Shares consist of separate and distinct parcels and your acceptance specifies the number of SGL Shares in the distinct portions to which the acceptance relates. If Your SGL Shares are in a CHESS Holding, the notice may be transmitted in an electronic form approved by the ASTC Settlement Rules. Otherwise, the notice must be given to AGL in writing.
- (c) Beneficial owners whose AGL Shares are registered in the name of a broker, investment dealer, bank, trust company or other nominee should contact that nominee for assistance in having this Offer accepted in respect of the AGL Shares which they beneficially own.

9.6 Effect of acceptance

- (a) By:
- (i) completing, signing and returning an Acceptance Form in accordance with Section 9.4(b), (c)(ii)(B) or (d); or
 - (ii) causing this Offer to be accepted in accordance with the ASTC Settlement Rules if Your SGL Shares are in a CHESS Holding,
- you will, or will be deemed to, have:
- (i) subject to Section 650E of the Corporations Act and Section 9.5, irrevocably accepted this Offer in respect of all Your SGL Shares;
 - (ii) subject to this Offer being declared free from the Defeating Conditions or such conditions being fulfilled, agreed to transfer Your SGL Shares to AGL;
 - (iii) represented and warranted to AGL as a fundamental condition going to the root of the contract resulting from your acceptance of this Offer that, both at the time of acceptance of this Offer and at the time the transfer of Your SGL Shares to AGL is registered, all of Your SGL Shares are and will upon registration be fully paid up and free from all mortgages, charges, liens and other encumbrances of any kind and restrictions on transfer of any kind, and

that you have full power and capacity (whether legal or equitable) to sell and transfer such SGL Shares and that you have paid all amounts which at the time of acceptance have fallen due for payment in respect of those SGL Shares;

- (iv) authorised AGL (by any of its directors, officers, servants or agents), if necessary, to complete on the Acceptance Form correct details of Your SGL Shares, fill in any blanks remaining on the Acceptance Form and rectify any error in or omission from the Acceptance Form as may be necessary to make the Acceptance Form an effective acceptance of this Offer;
- (v) irrevocably appointed AGL and each of its directors, secretaries and officers from time to time jointly and each of them severally as your true and lawful attorney, with effect from the date that any contract resulting from the acceptance of this Offer is declared free from all its Defeating Conditions or those conditions are fulfilled, with power to exercise all powers and rights which you could lawfully exercise as the registered holder of Your SGL Shares or in exercise of any right derived from the holding of Your SGL Shares, including, without limiting the generality of the foregoing, requesting SGL to register Your SGL Shares in the name of AGL, attending and voting at any meeting of SGL Shareholders, demanding a poll for any vote taken at or proposing or seconding any resolutions to be considered at any meeting of SGL Shareholders, requisitioning any meeting of SGL Shareholders, signing any forms, notices or instruments relating to Your SGL Shares and doing all things incidental or ancillary to any of the foregoing. You will, or will be deemed to, have acknowledged and agreed that in exercising such powers the attorney may act in the interests of AGL as the intended registered holder of those SGL Shares. This appointment, being given for valuable consideration to secure the interest acquired in Your SGL Shares, is irrevocable and terminates upon registration of a transfer to AGL of Your SGL Shares;
- (vi) agreed, with effect from the date that any contract resulting from the acceptance of this Offer is declared free from all its Defeating Conditions or those conditions are fulfilled, and in the absence of a prior waiver of this requirement by AGL, not to attend or vote in person at any meeting of SGL Shareholders or to exercise or purport to exercise any of the powers conferred on AGL or its nominee in Section 9.6(a)(v);
- (vii) irrevocably authorised and directed SGL to pay to AGL or to account to AGL for all Rights, subject, however, to any such Rights received by AGL being accounted for by AGL to you in the event that this Offer is withdrawn or avoided;
- (viii) except where Rights have been paid or accounted for under Section 9.6(a)(vii), irrevocably authorised AGL to deduct from the consideration payable in respect of Your SGL Shares, the value of any Rights paid to you which, where the Rights take a non-cash form, will be the value of those Rights as reasonably assessed by the Chairman of ASX or his or her nominee;
- (ix) if, at the time of acceptance of this Offer, Your SGL Shares are in a CHES Holding, with effect from the date that either this Offer or any contract resulting from the acceptance of this Offer is declared free from all its Defeating Conditions or those conditions are fulfilled, irrevocably authorised AGL to cause a message to be transmitted in accordance with ASTC Settlement Rule 14.17.1 (and at a time permitted by ASTC Settlement Rule 14.17.1(b)) so as to transfer Your SGL Shares to AGL's takeover transferee

holding. AGL shall be so authorised even though at the time of such transfer it has not paid the consideration due to you under this Offer;

- (x) agreed to indemnify AGL in respect of any claim or action against it or any loss, damage or liability whatsoever incurred by it as a result of you not producing your Holder Identification Number or in consequence of the transfer of Your SGL Shares being registered by SGL without production of your Holder Identification Number for Your SGL Shares;
 - (xi) represented and warranted to AGL that, unless you have notified it in accordance with Section 9.5(b), Your SGL Shares do not consist of several parcels of SGL Shares; and
 - (xii) agreed to execute all such documents, transfers and assurances that may be necessary or desirable to convey Your SGL Shares and any Rights to AGL.
- (b) If Your SGL Shares are in a CHESS Holding and you complete, sign and return the Acceptance Form in accordance with Section 9.4(c)(ii)(B) (which you are not bound, but are requested, to do), you will be deemed to have irrevocably authorised AGL and any of its directors, secretaries or officers to:
- (i) instruct your Controlling Participant to initiate acceptance of this Offer in respect of Your SGL Shares which are in a CHESS Holding, in accordance with Rule 14.14 of the ASTC Settlement Rules if you have not already done so; and
 - (ii) give any other instructions in relation to Your SGL Shares to your Controlling Participant on your behalf under the sponsorship agreement between you and that Controlling Participant.

9.7 Dividends and other entitlements

- (a) AGL will be entitled to all Rights declared, paid, made, or which arise or accrue at or after the Announcement Date in respect of SGL Shares that it acquires pursuant to this Offer.
- (b) If any Rights are declared, paid, made or arise or accrue in cash after the Announcement Date to the holders of SGL Shares, AGL will (provided the same has not been paid to AGL) be entitled to reduce the consideration specified in Section 9.2 and payable by it to accepting holders of SGL Shares by an amount equal to the value of such Rights.
- (c) If any non-cash Rights are issued or made or arise or accrue after the Announcement Date to the holders of SGL Shares, AGL will (provided the same has not been issued to AGL) be entitled to reduce the consideration specified in Section 9.2 and payable by it to accepting holders of SGL Shares by an amount equal to the value (as reasonably assessed by the Chairman of ASX or his or her nominee) of such non-cash Rights.

9.8 Defeating Conditions

- (a) Subject to paragraph (b), this Offer and the contract resulting from the acceptance of this Offer (and each other Offer and each contract resulting from the acceptance thereof) are subject to the following conditions being fulfilled or waived by AGL:

No prescribed occurrences

None of the following events happen in the period between the Announcement Date and the end of the Offer Period:

- (A) SGL converting all or any of its shares into a larger or smaller number of shares under Section 254H of the Corporations Act;
 - (B) SGL or a subsidiary of SGL resolving to reduce its share capital in any way;
 - (C) SGL or a subsidiary of SGL entering into a buyback agreement or resolving to approve the terms of a buyback agreement under Section 257C(1) or 257D(1) of the Corporations Act;
 - (D) SGL or a subsidiary of SGL making an issue of its shares (other than an issue of shares pursuant to the exercise or conversion of options or other securities which have been issued and notified to ASX prior to the Announcement Date) or granting an option over its shares or agreeing to make such an issue or grant such an option;
 - (E) SGL or a subsidiary of SGL issuing, or agreeing to issue, convertible notes;
 - (F) SGL or a subsidiary of SGL disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
 - (G) SGL or a subsidiary of SGL charging, or agreeing to charge, the whole, or a substantial part, of its business or property;
 - (H) SGL or a subsidiary of SGL resolving that it be wound up;
 - (I) the appointment of a liquidator or provisional liquidator of SGL or of a subsidiary of SGL;
 - (J) the making of an order by a court for the winding up of SGL or of a subsidiary of SGL;
 - (K) an administrator of SGL or of a subsidiary of SGL being appointed under Section 436A, 436B or 436C of the Corporations Act;
 - (L) SGL or a subsidiary of SGL executing a deed of company arrangement; or
 - (M) the appointment of a receiver, or a receiver and manager in relation to the whole, or a substantial part, of the property of SGL or of a subsidiary of SGL.
- (b) The Defeating Conditions are conditions subsequent. Further, each of the Defeating Conditions is a separate and distinct condition and shall not be taken to limit the meaning or effect of any other Defeating Condition. The breach or non-fulfilment of any condition subsequent does not prevent a contract to sell Your SGL Shares resulting from your acceptance of this Offer coming into effect, but entitles AGL by written notice to you, to rescind the contract resulting from your acceptance of this Offer.
- (c) Subject to the provisions of the Corporations Act, AGL alone has the benefit of the Defeating Conditions and any breach or non-fulfilment of any such Defeating Conditions may be relied on only by AGL.
- (d) The date specified for the giving of the notice referred to in Section 630(3) of the Corporations Act as to the status of the Defeating Conditions is [], subject to extension in accordance with Section 630(2) of the Corporations Act if the Offer Period is extended in accordance with the Corporations Act.
- (e) Subject to the Corporations Act, AGL may free the Offer and any contract resulting from acceptance of the Offer from all or any of the Defeating Conditions generally

or in relation to a specific occurrence by giving notice in writing to SGL and to ASX in accordance with Section 650F of the Corporations Act. Any such notice may be given not later than three Business Days after the end of the Offer Period.

- (f) If at the end of the Offer Period in respect of the Defeating Conditions:
- (i) AGL has not declared this Offer and all other Offers made by AGL under the Bid and all contracts resulting from the acceptance of Offers to be free from the conditions; and
 - (ii) the conditions have not been fulfilled,

then all contracts resulting from the acceptance of Offers and all Offers that have been accepted and from whose acceptance binding contracts have not yet resulted are void. In that event, AGL will, if you have accepted this Offer:
 - (iii) return at your risk your Acceptance Form together with all documents forwarded by you with that form to your address as shown in the Acceptance Form; or
 - (iv) if Your SGL Shares are in a CHESS Holding, notify ASTC under the ASTC Settlement Rules that the contract resulting from your acceptance of the Offer is avoided.

9.9 Obligations of AGL

- (a) Subject to this Section 9.9 and the Corporations Act, AGL will provide the consideration for Your SGL Shares by the end of whichever of the following periods ends earlier:
- (i) one month after the Offer is accepted or, if the Offer is subject to a Defeating Condition when accepted, within one month after the Offer becomes unconditional; or
 - (ii) 21 days after the end of the Offer Period.
- Under no circumstances will interest be paid on the consideration for Your SGL Shares under this Offer, regardless of any delay in making payment or any extension of this Offer.
- (b) Where the Acceptance Form requires an additional document to be given with your acceptance (such as a power of attorney):
- (i) if that document is given with your acceptance, AGL will provide the consideration in accordance with paragraph (a);
 - (ii) if that document is given after your acceptance and before the end of the Offer Period while the Offer is subject to a Defeating Condition, AGL will provide the consideration by the end of whichever of the following periods ends earlier:
 - (A) one month after the Offer becomes unconditional; or
 - (B) 21 days after the end of the Offer Period;
 - (iii) if the document is given after your acceptance and before the end of the Offer Period while the Offer is not subject to a Defeating Condition, AGL will

provide the consideration by the end of whichever of the following periods ends earlier:

- (A) one month after the document is received; or
- (B) 21 days after the end of the Offer Period; or
- (iv) if that document is received after the end of the Offer Period, AGL will provide the consideration within 21 days after that document is received. However, if, at the time that document is received, this Offer is still subject to a Defeating Condition that relates to a circumstance or event specified in Section 9.8(a), AGL will provide the consideration within 21 days after the Offer becomes, or is declared, unconditional.
- (c) If, at the time of acceptance of this Offer, or provision of any consideration under it, any authority or clearance of the Reserve Bank of Australia or of the ATO is required for you to receive any consideration under this Offer or you are a resident in or a resident of a place to which, or you are a person to whom:
 - (i) the Banking (Foreign Exchange) Regulations 1959 (Cth);
 - (ii) the Charter of the United Nations (Terrorism and Dealing with Assets) Regulations 2002 (Cth);
 - (iii) the Charter of the United Nations (Sanctions – Afghanistan) Regulations 2001 (Cth);
 - (iv) the Iraq (Reconstruction and Repeal of Sanctions) Regulations 2003 (Cth);
 - (v) the Charter of the United Nations (Dealing with Assets) Regulations 2008; or
 - (vi) any law of Australia that would make it unlawful for AGL to provide the consideration payable under the Offers,

applies, then acceptance of this Offer will not create or transfer to you any right (contractual or contingent) to receive the consideration specified in this Offer unless and until all requisite authorities or clearances have been obtained by AGL. Please refer to Section 8.7 for information as to whether this restriction applies to you.

9.10 Withdrawal

- (a) AGL may withdraw this Offer at any time with the written consent of ASIC which consent may be given subject to such conditions (if any) as are specified in the consent. Notice of any withdrawal will be given to ASX and SGL and will comply with any other conditions imposed by ASIC.
- (b) If AGL withdraws this Offer, any contract resulting from its acceptance will automatically be void.

9.11 Variation

AGL may at any time, and from time to time, vary this Offer in accordance with the Corporations Act.

9.12 Costs, taxes and GST

All costs and expenses of the preparation of this Bidder's Statement and of the preparation and circulation of this Offer will be paid by AGL. No GST is payable as a consequence of the Offer.

9.13 Notices

- (a) Any notices to be given by AGL to SGL under the Bid may be given to SGL by leaving them at, or sending them by pre-paid ordinary post to, the registered office of SGL or by sending them by facsimile transmission to SGL at its registered office.
- (b) Any notices to be given to AGL by you or by SGL under the Bid may be given to AGL by leaving them at or sending them by pre-paid ordinary post to AGL at one of the addresses referred to in Section 9.4(b).
- (c) Any notices to be given by AGL to you under the Bid may be given to you by leaving them at or sending them by pre-paid ordinary post or if your address is outside Australia, by airmail, to your address as shown in the Register.

9.14 Governing law

This Offer and any contract that results from your acceptance of this Offer are governed by the laws in force in NSW.

10 Glossary and Interpretation

Glossary

The following terms have the meanings set out below unless the context requires otherwise:

1P means reserves with at least a 90 per cent probability that the quantities actually recovered will meet or exceed the estimate.

2P means reserves which consist of 1P reserves plus probable reserves and which, taken together, have at least a 50 per cent probability that, the quantities actually recovered will meet or exceed the estimate.

3P means reserves which consist of 2P reserves plus possible reserves and which, taken together, have at least a 10 per cent probability that the quantities actually recovered will meet or exceed the estimate.

ACCC means the Australian Competition and Consumer Commission.

Acceptance Form means the form of acceptance of the Offer enclosed with this Offer and the Bidder's Statement or, as the context requires, any replacement or substitute acceptance form provided by or on behalf of AGL (and includes, to avoid doubt, both the Issuer Acceptance form (Blue) and the CHES Acceptance Form (Green)).

AEDT means Australian Eastern Daylight Savings Time.

AGL means AGL Energy Limited ABN 74 115 061 375.

AGL Director means a director of AGL.

AGL Group means AGL and its Related Entities as at the date of this Bidder's Statement.

AJ Lucas means AJ Lucas Group Limited.

AJ Lucas Options means the SGL Options issued to AJ Lucas as more fully described in Section 5.2 of this Bidder's Statement.

Announcement Date means 24 December 2008.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in Section 12 of the Corporations Act.

ASTC means ASX Settlement and Transfer Corporation Pty Ltd ABN 49 008 504 532.

ASTC Settlement Rules means the operating rules of the settlement facility provided by ASTC.

ASX means ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange it operates.

ATO means the Australian Taxation Office.

Babcock & Brown means Babcock & Brown Limited and its related bodies corporate.

Bid means the Offer to acquire all of the SGL Shares, on the terms set out in this Bidder's Statement.

Bid Period means the period between the date on which this Bidder's Statement was provided to SGL and the end of the Offer Period (both inclusive).

Bidder's Statement means this document, being the bidder's statement of AGL under Part 6.5 of the Corporations Act relating to the Offer.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a business day.

Camden Project means the joint venture between AGL and SGL covering Petroleum Production Licences 1, 2, 4, 5 and 6.

CGT means Australian capital gains tax.

CHES means the Clearing House Electronic Subregister System operated by ASTC, which provides for the electronic transfer, settlement and registration of securities in Australia.

CHES Holding means a holding of SGL Shares on the CHES subregister of SGL.

Class Order means ASIC Class Order 01/1543.

Controlling Participant has the meaning given in the ASTC Settlement Rules.

Corporations Act means the Corporations Act 2001 (Cth) and any regulations made under that Act.

CSG means coal seam gas (or methane), being gas (principally methane) extracted from coal seams and being suitable (generally after treatment) for sale as natural gas.

Defeating Condition means each condition of the Offer set out in Section 9.8(a).

Entitlement Share has the meaning given to that term in Section 9.5(a).

GST means the goods and services tax imposed under the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

Hunter Project means the joint venture between AGL and SGL covering Petroleum Exploration Licences 267 and 4.

Holder Identification Number or **HIN** means the number used to identify an SGL Shareholder on the CHES subregister of SGL.

Listing Rules means the listing rules of ASX as amended or varied from time to time.

NSW means New South Wales.

Offer, AGL Offer or AGL's Offer means, as the context requires, the offer for SGL Shares contained in Section 9, or the off-market takeover bid constituted by that offer, and **Offers** means the several like offers which together constitute the Bid, as varied in accordance with the Corporations Act.

Offer Period means the period during which Offers will remain open for acceptance in accordance with Section 9.3.

PJ means petajoules, being one million gigajoules. A measure of energy.

possible reserves means those additional reserves which analysis of geosciences and engineering data suggest are less likely to be recoverable than probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of proved plus probable plus possible (3P) reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

probable reserves mean those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserve (2P). In this context, when probabilistic methods are used, there should be at least of 50% that the actual quantities recovered will equal or exceed the 2P estimate.

Register means the register of SGL Shareholders maintained by SGL in accordance with the Corporations Act.

Register Date means 7.00pm on 24 December 2008.

Related Entity means in relation to a person, any entity which is related to that person within the meaning of Section 50 of the Corporations Act or which is in an economic entity (as defined in any approved Australian accounting standard) that is controlled by that person.

Reserves means those estimated quantities of natural gas which it is anticipated can be recovered from a given date forward and categorised as proved reserves plus probable reserves using the 1997 definitions of oil and gas reserves adopted by the Society of Petroleum Engineers (SPE) and World Petroleum Congress.

Rights means all accretions, rights or benefits of whatever kind attaching to or arising from or in respect of the SGL Shares, whether directly or indirectly, including without limitation all rights to receive dividends (and any attaching franking credit), to receive or subscribe for shares, units, notes, options or other securities and to receive all other distributions or entitlements declared, paid, made or issued by SGL or any subsidiary of SGL after the Announcement Date.

Securityholder Reference Number or **SRN** means the number allocated by SGL to identify a SGL Shareholder on its issuer sponsored subregister.

SGL means Sydney Gas Limited ABN 93 003 324 310.

SGL Board means the board of directors of SGL.

SGL Director means a director of SGL.

SGL Options means any options to acquire SGL Shares that have been granted by SGL and includes the AJ Lucas Options.

SGL Shareholder means a person who is registered as the holder of SGL Shares in the Register.

SGL Shares means fully paid ordinary shares in SGL.

SGL Convertible Notes means 155,944 10.5% convertible notes issued by SGL to Babcock & Brown in September 2006 having a face value of \$100 per note.

Share Registry means Computershare Investor Services Pty Ltd .

Standard & Poor's means Standard & Poor's (Australia) Pty Ltd ACN 007 324 852.

S&P/ASX 50 Index means the index of that name published by Standard & Poor's (or any successor of or replacement for that index).

Sydney Project means the joint venture between AGL and SGL covering Petroleum Exploration Licences 5 and 2.

Takeover Transferee Holding means the CHESS Holding to which SGL Shares are to be transferred pursuant to acceptances of the Offer.

Trading Day has the meaning given to it in the Listing Rules.

Your SGL Shares means, subject to Sections 9.5(a) and 9.5(b), the SGL Shares in respect of which you are registered or entitled to be registered as holder in the Register at 9:00am on the Register Date and any new SGL Shares of which you are registered or entitled to be registered as the holder in the Register from 9:00am on the Register Date to the end of the Offer Period as a result of the conversion of, or exercise of rights attached to securities convertible into SGL Shares (being SGL Convertible Notes and SGL Options) which are on issue at 9:00am on the Register Date, and to which you are able to give good title at the time you accept the Offer during the Offer Period.

Interpretation

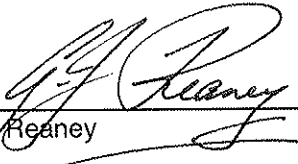
- (a) Annexures to the Bidder's Statement form part of this Bidder's Statement.
- (b) Words and phrases to which a meaning is given by the Corporations Act, the Listing Rules or the ASTC Settlement Rules have that meaning in this Bidder's Statement and in the Acceptance Form unless that meaning is inconsistent with the context in which the word or phrase is used.
- (c) Headings are for convenience only and do not affect the interpretation of this Bidder's Statement.
- (d) The singular includes the plural and vice versa and words importing any gender include the other gender, and references to persons include corporations.
- (e) References to Sections are to sections of this Bidder's Statement.
- (f) References to paragraphs are references to paragraphs within the Section in which the reference to the paragraph is made.
- (g) References to time are references to the time in Sydney, Australia on the relevant date, unless stated otherwise.
- (h) References to "dollars", "\$" or "cents" are to Australian currency, unless stated otherwise.

11 Approval of Bidder's Statement

This Bidder's Statement has been approved by a resolution of the directors of AGL Energy Limited.

Dated 24 December 2008

Signed for and on behalf of AGL Energy Limited by:



Graham Heaney
Director

CORPORATE DIRECTORY

AGL Energy Limited

ABN 74 115 061 375

Registered office

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North Sydney NSW 2060

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Postal address

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St Leonards NSW 2065

Legal Adviser

Gilbert + Tobin
Level 37, 2 Park Street
Sydney NSW 2000

Financial Adviser

ABN Amro
ABN Amro Tower
88 Phillip Street
Sydney NSW 2000

Share Registry for Offer

Computershare Investor Services Pty Ltd
GPO Box 52
Melbourne VIC 3001

**AGL OFFER INFORMATION LINE:
1300 546 284 (toll-free for calls made within Australia) or
+61 3 9946 4459 (for calls made from outside Australia)
Monday to Friday between 9.00am and 5.00pm (AEDT time)**