

AGL Energy Limited
ABN: 74 115 061 375

Locked Bag 1837
St Leonards NSW 2065
AUSTRALIA

Level 22, 101 Miller St
North Sydney NSW 2060
AUSTRALIA

T: +61 2 9921 2999
F: +61 2 9921 2552
www.agl.com.au

Energy in
action.®

ASX statement

31 March 2009

Attached is Form 6024 and other documents relating to the compulsory acquisition by AGL of options to acquire shares in Sydney Gas Limited.



Paul McWilliams
Company Secretary



ASIC registered agent number
lodging party or agent name Gilbert + Tobin
office, level, building name or PO Box Level 37
no
street number & name 2 Park Street
suburb/city Sydney NSW 2000
telephone
facsimile
DX number
Reference

--

	ASS. <input type="checkbox"/>	REQ-A <input type="checkbox"/>
	CASH. <input type="checkbox"/>	REQ-P <input type="checkbox"/>
	PROC. <input type="checkbox"/>	

Australian Securities & Investments Commission

form **6024**

Notice of
compulsory acquisition

Corporations Act 2001
664C(1)

To:

Securities of Sydney Gas Limited ABN 93 003 324 310 (the **Company**).

1. AGL Energy Limited ABN 74 115 061 375 (the **90% Holder**) has at least 90% of voting power in the Company and holds either alone or with a related body corporate, full beneficial interests in at least 90% by value of all securities of the Company that are either shares or convertible into shares.
2. You are the holder of options over unissued shares of the Company.
3. Under subsection 664A(3) of the Corporations Act 2001 (the **Act**) the 90% Holder may compulsorily acquire all the options over unissued shares in the Company in which neither the 90% Holder nor any of its related bodies corporate hold full beneficial interests (the **Options**) if less than 10% by value of holders of the Options have objected to the acquisition by the end of the objection period set out in this notice or the Court approves the acquisition under section 664F of the Act.
4. The 90% Holder hereby gives notice that it proposes to compulsorily acquire all the Options for the cash amount of \$0.004 per Option.
5. Under Section 664E, you, (or anyone who acquires the Options during the objection period) has the right to object to the acquisition of your Options by completing and returning the objection form that accompanies this notice within one month of receipt of this notice. The objection cannot be withdrawn.
6. You have the right to obtain the names and addresses of everyone else who holds securities in the same class from the Company Register.
7. Under section 664F, if 10% of holders of the Options have objected to the acquisition before the end of the objection period, the 90% Holder may within one month after the end of the objection period apply to the Court for approval of the acquisition of the Options.
8. During the last 12 months the 90% Holder or an associate has not purchased any securities of the same class as the Options.
9. There is no other information known to the 90% Holder or any related body corporate of the 90% Holder which is material to deciding whether to object to the acquisition and which is not disclosed in the expert's report under section 667A of the Act which is enclosed with this notice.

Signature

print name Paul McWilliams capacity Company Secretary

signed  date 31 March 2009

**CORPORATIONS ACT
PART 6A.2
OBJECTION FORM**

The Directors
AGL Energy Limited
Level 22
101 Miller Street
North Sydney NSW 2060

Dear Sirs

OBJECTION TO COMPULSORY ACQUISITION

I/We refer to the notice of compulsory acquisition received by me on2009.

Pursuant to section 664E(1) of the Corporations Act 2001, I/we, of, hereby notify AGL Energy Limited, that I/we object to the acquisition of options over unissued shares held by me/us and acknowledge that this objection:

- (i) relates to all securities of the above class that are covered by the notice and are held by me/us as at the date of this objection; and
- (ii) cannot be withdrawn.

.....
Signature of shareholder (or representative)

.....
Name of shareholder (print)

.....
Capacity of representative (if applicable)

.....
Date

THIS IS ANNEXURE A OF 18 PAGES REFERRED TO IN FORM 6024 (NOTICE OF COMPULSORY ACQUISITION)

**EXPERT'S REPORT
(PREPARED PURSUANT TO SECTION 667A OF THE ACT)**

Signature

print name Paul McWilliams

capacity Company Secretary

signed 

date 31 March 2009



BDO Kendalls

**INDEPENDENT EXPERT'S REPORT
TO AGL ENERGY LIMITED**

SYDNEY GAS LIMITED OPTIONS

30 March 2009



BDO Kendalls

BDO Kendalls Securities (NSW-VIC) Pty Ltd
Level 19, 2 Market St
Sydney NSW 2000
GPO Box 2551 Sydney NSW 2001
Phone 61 2 9286 5555
Fax 61 2 9286 5599
cf.sydney@bdo.com.au
www.bdo.com.au

30 March 2009

ABN 82 065 203 492
AFS Licence No. 222438

The Directors
AGL Energy Limited
Level 22
101 Miller Street
NORTH SYDNEY NSW 2065

Dear Sirs

INDEPENDENT EXPERT'S REPORT – SYDNEY GAS LIMITED OPTIONS

INTRODUCTION

BDO Kendalls Securities (NSW-VIC) Pty Limited ("**BDO**") has been engaged by the Directors of AGL Energy Limited ("**AGL**") to prepare an Independent Expert's Report ("**the Report**") pursuant to Section 664C of the Corporations Act 2001 ("**the Act**") in relation to notices issued by AGL to compulsorily acquire options in Sydney Gas Limited ("**SGL**").

The purpose of the Report is to express an opinion as to whether or not the terms proposed in the notices of compulsory acquisition (the "**Compulsory Acquisition Notices**") for the remaining options on issue in SGL ("**SGL Options**") give a fair value for the options concerned.

Our Report is to be included in the Compulsory Acquisition Notices to be sent to SGL's optionholders (the "**Optionholders**") to assist Optionholders in deciding whether to object to the compulsory acquisition. An outline of the terms proposed in the Compulsory Acquisition Notices is included at Section 1 of this Report.

SUMMARY AND OPINION

We have considered the terms proposed in the Compulsory Acquisition Notices as outlined in the body of this Report and have concluded that the terms proposed in the Compulsory Acquisition Notices are fair for the Tranche 1 options and unfair for Tranches 2 to 5.

We are not required to express an opinion as to whether the terms proposed in the Compulsory Acquisition Notices are reasonable or in the best interests of the Optionholders.

A summary of our analysis in forming the above opinion is provided below.



Fairness

In Section 7 of this Report we have considered the value of the SGL Options and compared that to the value of consideration provided as per the terms set out in the Compulsory Acquisition Notices. This comparison is shown in the table below.

Option Tranche	Number of Options	Expiry Date	Value per Option		Value of Consideration per Option \$	Fair/Unfair
			Low \$	High \$		
Tranche 1 - Class E	2,500,000	30 Jun 09	0.002	0.003	0.004	Fair
Tranche 2 - Employee options	50,000	28 Feb 10	0.023	0.032	0.004	Unfair
Tranche 3 - Employee options	515,000	31 Mar 10	0.023	0.033	0.004	Unfair
Tranche 4 - AJ Lucas Group Pty Limited	20,627,172	20 Aug 12	0.097	0.117	0.004	Unfair
Tranche 5 - AJ Lucas Group Pty Limited	20,627,172	20 Aug 12	0.070	0.090	0.004	Unfair

The consideration exceeds the value of the SGL Options for Tranche 1, therefore the terms proposed in the Compulsory Acquisition Notice for this Tranche are considered fair.

For the remaining options classified as Tranches 2 – 5 the consideration does not exceed the value of those SGL Options, therefore the terms proposed in the Compulsory Acquisition Notices are considered unfair for those option holders.

Yours faithfully
BDO KENDALLS SECURITIES (NSW-VIC) PTY LIMITED

Sebastian Stevens
Director

David McCourt
Director



INDEPENDENT EXPERT REPORT

Contents

1	OUTLINE OF THE OFFER.....	1
2	REPORT REQUIREMENTS	1
2.1	Offer to Buy Out Convertible Securities Under the Corporations Act.....	1
3	BASIS OF EVALUATION.....	2
3.1	Regulatory Guidelines.....	2
3.2	Adopted Basis of Evaluation	2
4	BACKGROUND OF SGL	2
4.1	Background of Operations	2
4.2	ASX Trading History	2
4.3	AGL Takeover Offer.....	3
4.4	SGL Options.....	3
5	VALUATION APPROACH	5
5.1	Selected Valuation Approach.....	5
6	VALUATION OF OPTIONS.....	6
6.1	Tranche Details and Option Valuation Inputs	6
6.2	Time to Expiry	7
6.3	Underlying Share Price	7
6.4	Volatility.....	7
6.5	Risk Free Rate of Return	8
6.6	Dividend Rate.....	8
7	COMPARISON OF VALUATION OF OPTIONS TO CONSIDERATION	9
8	QUALIFICATIONS	9
9	INDEPENDENCE	9
10	DISCLAIMERS AND CONSENTS	10
11	INDEMNITY	10

Appendix A – Financial Services Guide

Appendix B – Sources of Information

Appendix C – Option Valuation Methodologies



INDEPENDENT EXPERT REPORT

Glossary

AGL	AGL Energy Limited
AJ Lucas	AJ Lucas Group Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
BDO	BDO Kendalls Securities (NSW-VIC) Pty Ltd
Compulsory Acquisition Notices	Notices sent to SGL Optionholders by AGL on 31 March 2009 regarding the acquisition of the outstanding SGL Options
NSW	New South Wales
Offer	Off market takeover offer by AGL for all shares in SGL at \$0.425 per share
Option	An option to acquire an SGL share
Optionholder	A person registered in the register of optionholders of SGL as being a holder of Options
Report	Independent Expert's Report prepared by BDO
SGL	Sydney Gas Limited
SGL Options	The 44,319,344 options to subscribe for SGL shares at exercise prices of between \$0.600 and \$1.040 per SGL share
The Act	Corporations Act 2001
The Parties	AGL and SGL
Valuation Date	30 March 2009

1 OUTLINE OF THE OFFER

Under the compulsory acquisition provisions of the Act, AGL is providing Optionholders with Compulsory Acquisition Notices in respect of all remaining SGL options.

Currently SGL has the following classes of options outstanding:

- Class E (Tranche 1);
- Employee options (Tranches 2 & 3); and
- AJ Lucas options (Tranches 4 & 5).

The consideration for the SGL Options under the Compulsory Acquisition Notices is set out below.

Table 1.i: Consideration for the SGL Options

Option Tranche ¹	Number of Options	Expiry Date	Value of Consideration per Option
Tranche 1 - Class E	2,500,000	30 Jun 09	0.004
Tranche 2 - Employee options	50,000	28 Feb 10	0.004
Tranche 3 - Employee options	515,000	31 Mar 10	0.004
Tranche 4 - AJ Lucas Group Pty Limited	20,627,172	20 Aug 12	0.004
Tranche 5 - AJ Lucas Group Pty Limited	20,627,172	20 Aug 12	0.004

Source: SGL Option Register provided by AGL and AGL management.

Notes: 1. Tranche designations have been assigned by BDO for ease of reference. Refer to Section 6.1 for the key terms of each tranche.

2 REPORT REQUIREMENTS

2.1 Offer to Buy Out Convertible Securities Under the Corporations Act

AGL is seeking to compulsorily acquire the remaining options in SGL under Part 6A.2 of the Act.

As at the date of this Report, AGL has voting power in SGL of over 90% and full beneficial interests in over 90% (by value) of all securities in SGL that are either shares or convertible into shares as required under Section 664A(2). As such, under Section 664A(3) of the Act, AGL may compulsorily acquire the remaining securities of SGL that are either shares or convertible into shares.

Pursuant to Section 664C(2), in order to compulsorily acquire the remaining options in SGL, AGL must provide Optionholders with Compulsory Acquisition Notices. The notices are also to be accompanied by a copy of an independent expert's report prepared under Section 667A and an objection form.

Section 667A requires the expert to state whether the terms proposed in the Compulsory Acquisition Notices give a fair value for the securities concerned and to set out the reasons for forming that opinion.

Under Section 667A(2) the expert's report must also state whether in the expert's opinion AGL has full beneficial ownership in at least 90% by value of all securities of SGL that are shares or convertible into shares (Refer Section 4.4.2).



The Directors of AGL have engaged BDO to prepare the expert's report pursuant to Section 667A. Our Report will provide an opinion as to whether or not the terms proposed in the Compulsory Acquisition Notices give a fair value for the SGL Options.

3 BASIS OF EVALUATION

3.1 Regulatory Guidelines

In determining a fair value for the SGL Options, we have had regard to the views expressed by ASIC in their Regulatory Guide 111.

The assessment of whether the terms proposed in the Compulsory Acquisition Notices give a fair value for the options concerned includes a comparison of the consideration proposed by AGL to the value of the options being acquired.

3.2 Adopted Basis of Evaluation

BDO considers that a report and analysis undertaken under the concept of "fairness" as expressed in ASIC Regulatory Guide 111 is consistent with determining whether the terms proposed in the Compulsory Acquisition Notices give a fair value for the SGL Options.

Having regard to the above and considering fairness, BDO has completed this assessment by comparing the value of the SGL Options to the value of consideration proposed under the Compulsory Acquisition Notices.

Our valuation of the SGL Options is based on our assessment of the current value of the underlying shares in SGL (Section 6.3) and the relevant terms of the SGL Options as at the date of this Report (Section 6.1).

4 BACKGROUND OF SGL

4.1 Background of Operations

SGL is an Australian gas exploration company with a focus on the development of coal seam gas resources in NSW. SGL was established in 1987 and was the first coal seam gas producer in NSW. It commenced delivering coal seam gas to the greater Sydney pipeline system in May 2001.

During 2005 SGL entered into a joint venture with AGL for further development of coal seam gas in NSW, particularly in the Sydney basin. 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.

4.2 ASX Trading History

Figure 4.2.1 below shows the daily trading price and volume history of SGL shares for the period 1 January 2008 to 4 March 2009 (the date of suspension from official quotation from the ASX following despatch of compulsory acquisition notices by AGL).

Figure 4.2.1: Daily Trading Price and Volume of SGL Shares 1 January 2008 to 4 March 2008



Note: The takeover offer by AGL was announced on 24 December 2008.

4.3 AGL Takeover Offer

On 24 December 2008 AGL announced an off market takeover offer for SGL. On 12 January 2009 AGL despatched a Bidder's Statement setting out the details of the Offer. The Offer made by AGL was \$0.425 cash for each SGL share.

On 19 January 2009 a Target's Statement was released by SGL responding to the Offer. The directors of SGL unanimously recommended that SGL shareholders accept the Offer in the absence of a superior offer. As at the date of this Report no superior offer had been made.

The Offer closed on 24 February 2009 with AGL receiving acceptances in respect of 96.95% of SGL ordinary shares on issue. AGL has then proceeded to compulsorily acquire the remaining SGL shares under section 661A(1) of the Act.

4.4 SGL Options

A summary of the classes of options currently on issue in SGL and SGL's current capital structure is set out in the following sections.

4.4.1 Tranches

A majority of the SGL Options are held by AJ Lucas and were issued on 21 August 2008. The employee options were issued under the terms of the SGL employee incentive plan adopted by the board of directors of SGL on 26 November 2003.

Table 4.4.i: Option Tranches

Tranche	Exercise Price per Option (\$)	Expiry Date	Number of Options on Issue	Vesting Conditions
Tranche 1 - Class E	1.040	30 Jun 09	2,500,000	Yes ⁽¹⁾
Tranche 2 - Employee options	0.885	28 Feb 10	50,000	No
Tranche 3 - Employee options	0.885	31 Mar 10	515,000	No
Tranche 4 - AJ Lucas Group Pty Limited	0.600	20 Aug 12	20,627,172	Yes ⁽²⁾
Tranche 5 - AJ Lucas Group Pty Limited	0.750	20 Aug 12	20,627,172	Yes ⁽²⁾

Source: SGL Option Register provided by AGL management, AGL management and Option Certificates

- Notes:**
1. AGL management have advised that while vesting conditions exist for this Tranche, they are not aware of the details of such conditions. For the purpose of the Report we have assumed that any vesting conditions have been met.
 2. Various vesting conditions exist in relation to these Tranches, however as per the terms of the AJ Lucas option certificates, the options are immediately exercisable in the event that any person acquires control of SGL. As discussed in Section 4.3, AGL now controls SGL, therefore for the purposes of this Report, we have assumed that these options have vested.

4.4.2 Current Capital Structure

As at the date of this Report the current shares and options on issue in SGL are as follows.

Table 4.4.ii: SGL Capital Structure

Securities on Issue	Number
Shares	439,236,139
Options	44,319,344

Source: SGL Appendix 3B dated 2 February 2009

Based on the most recent announcement to ASX, AGL holds 422,765,943 of the shares on issue in SGL.

Having considered the value paid for SGL shares under the takeover offer of \$0.425 per share, the total shares held by AGL and the valuation of options as set out in Section 7 of this report, we are of the opinion that AGL has full beneficial ownership in at least 90% by value of all securities of SGL that are shares or convertible into shares.



5 VALUATION APPROACH

Methodologies commonly used for valuing options are set out in *Appendix C*.

5.1 Selected Valuation Approach

We have adopted the Black & Scholes Option Pricing Model to determine the value of SGL Options. The Black & Scholes Option Pricing Model requires consideration of the following variables:

- Exercise price of the option;
- Current valuation of the underlying stock;
- Volatility of underlying stock;
- Time to expiry;
- Risk-free rate of return; and
- Dividend rate of the underlying stock.

6 VALUATION OF OPTIONS

6.1 Tranche Details and Option Valuation Inputs

Tables 6.1.i to 6.1.v below summarise the key information for each option tranche. Further information on the components of the key information follows the tables.

Table 6.1.i: Tranche 1 Terms/Valuation Inputs

Terms/Valuation Inputs	Section	Terms/Valuation Inputs
Exercise Price (\$)	4.4.1	1.040
Expiry Date	4.4.1	30 Jun 09
Time to Expiry (years)	6.2	0.25
Underlying Share Price (\$)	6.3	0.425
Volatility (%)	6.4	84 – 92
Risk free Rate of Return (%)	6.5	3.17
Dividend Rate (%)	6.6	-

Table 6.1.ii: Tranche 2 Terms/Valuation Inputs

Terms/Valuation Inputs	Section	Terms/Valuation Inputs
Exercise Price (\$)	4.4.1	0.885
Expiry Date	4.4.1	28 Feb 10
Time to Expiry (years)	6.2	0.92
Underlying Share Price (\$)	6.3	0.425
Volatility (%)	6.4	65 – 72
Risk free Rate of Return (%)	6.5	2.64
Dividend Rate (%)	6.6	-

Table 6.1.iii: Tranche 3 Terms/Valuation Inputs

Terms/Valuation Inputs	Section	Terms/Valuation Inputs
Exercise Price (\$)	4.4.1	0.885
Expiry Date	4.4.1	31 Mar 10
Time to Expiry (years)	6.2	1.00
Underlying Share Price (\$)	6.3	0.425
Volatility (%)	6.4	62 – 70
Risk free Rate of Return (%)	6.5	2.64
Dividend Rate (%)	6.6	-

Table 6.1.iv: Tranche 4 Terms/Valuation Inputs

Terms/Valuation Inputs	Section	Terms/Valuation Inputs
Exercise Price (\$)	4.4.1	0.600
Expiry Date	4.4.1	20 Aug 12
Time to Expiry (years)	6.2	3.39
Underlying Share Price (\$)	6.3	0.425
Volatility (%)	6.4	42 – 49
Risk free Rate of Return (%)	6.5	3.50
Dividend Rate (%)	6.6	-

Table 6.1.v: Tranche 5 Terms/Valuation Inputs

Terms/Valuation Inputs	Section	Terms/Valuation Inputs
Exercise Price (\$)	4.4.1	0.750
Expiry Date	4.4.1	20 Aug 12
Time to Expiry (years)	6.2	3.39
Underlying Share Price (\$)	6.3	0.425
Volatility (%)	6.4	42 – 49
Risk free Rate of Return (%)	6.5	3.50
Dividend Rate (%)	6.6	-



6.2 Time to Expiry

The time to expiry is the difference in years between the Valuation Date and the expiry date.

6.3 Underlying Share Price

As at the date of this Report SGL shares have been suspended from trading on the ASX. As a result there is no readily observable market price for the underlying shares associated with the SGL Options.

Pursuant to Paragraph 10 of Regulatory Guide 111, an assessment of fairness pursuant to a takeover offer should be made assuming 100% ownership of the target company. Investment fundamentals dictate that the value of 100% of a company is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings. The difference between the value of 100% of a company and the total of the value of minority share holdings is referred to as a "premium for control".

We believe that any offer for SGL options should also be made with reference to an underlying share price that includes a premium for control.

Therefore in determining the underlying share price of SGL shares for the purpose of each of our option valuations we have adopted the Offer price of \$0.425 per share paid pursuant to the AGL Offer. The Offer price of \$0.425 reflects the price paid by AGL to acquire control of SGL and therefore represents the best estimate of SGL's underlying share price, inclusive of a premium for control.

6.4 Volatility

Volatility is a measure of the degree to which an underlying asset's market price changes during a period of time. In order to determine an appropriate volatility to apply to the value of the SGL Options we have considered the observed standard deviation of returns on SGL shares over the various periods (based on the number of years to expiry) up to 22 December 2008 (being the date prior to the suspension of trading of SGL shares, one day prior to the announcement of AGL's intended Offer).

The volatility of SGL's shares after the date of the announcement of AGL's intended Offer may have been impacted by factors unique to a takeover situation and can therefore not be relied upon as an accurate indication of the true underlying volatility of SGL shares.

In determining an appropriate range of volatility for the SGL Options we have considered the following:

- Volatility should be appropriate for the time period over which it is being applied (i.e. the remaining life of the option) unless there are specific factors that impact on the volatility over the selected historical period and therefore the reliability of the outcome (eg sale of a major part of the business, takeover offers etc). We note no such factors appear to have affected SGL's share trading over the historical periods observed.
- Volatility should be assessed over as long a period as practical having regard to the specific factors mentioned above.
- The time to expiry of the SGL Options range from 3 months to 3.39 years (the majority being 3.39 years under the AJ Lucas option arrangements).



- As discussed in Section 6.3, the underlying share price adopted includes a premium for control. The historical volatility observed for SGL relates to a minority interest parcel of shares. In order to apply an appropriate volatility to an underlying share price including a premium for control we have adjusted the observed historical volatility.

6.5 Risk Free Rate of Return

The risk free rate of return for the SGL Options has been based on either the 3-Month Treasury Bill Rate, 1-Year Government Bond Rate or 3-Year Government Bond Rate (depending on the time to expiry for each of the tranches of SGL Options) as at the Valuation Date.

6.6 Dividend Rate

SGL does not have a consistent history of paying dividends therefore we have assumed a zero dividend rate for the purpose of our SGL Option valuations.

7 COMPARISON OF VALUATION OF OPTIONS TO CONSIDERATION

The following table summarises our assessment of the value of SGL Options compared to the value of consideration offered under the Compulsory Acquisition Notice.

Table 7.i: Comparison of Option Valuation to Consideration

Option Tranche	Number of Options	Expiry Date	Value per Option		Value of Consideration per Option \$	Fair/Unfair
			Low \$	High \$		
Tranche 1 - Class E	2,500,000	30 Jun 09	0.002	0.003	0.004	Fair
Tranche 2 - Employee options	50,000	28 Feb 10	0.023	0.032	0.004	Unfair
Tranche 3 - Employee options	515,000	31 Mar 10	0.023	0.033	0.004	Unfair
Tranche 4 - AJ Lucas Group Pty Limited	20,627,172	20 Aug 12	0.097	0.117	0.004	Unfair
Tranche 5 - AJ Lucas Group Pty Limited	20,627,172	20 Aug 12	0.070	0.090	0.004	Unfair

Source: SGL Option Register provided by AGL management and AGL management

The consideration exceeds the value of the SGL Options for Tranche 1, therefore the terms proposed in the Compulsory Acquisition Notice for this Tranche are considered fair.

For the remaining options classified as Tranches 2 – 5 the consideration does not exceed the value of those SGL Options, therefore the terms proposed in the Compulsory Acquisition Notices are considered unfair for those option holders.

8 QUALIFICATIONS

BDO has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sebastian Stevens and David McCourt of BDO. They have significant experience in the preparation of independent expert reports, valuations and merger and acquisitions advice across a wide range of industries in Australia.

9 INDEPENDENCE

BDO is entitled to receive a fee of approximately \$30,000 (excluding GST and reimbursement of out of pocket expenses) for this Report. Except for this fee, BDO has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this Report.

Prior to accepting this engagement BDO considered its independence with respect to AGL and SGL and any of their respective associates with reference to the ASIC Regulatory Guide 112 titled "Independence of Experts". In BDO's opinion it is independent AGL and SGL and their respective associates.

BDO do not have at the date of the Report, and have not had within the previous two years, any shareholding in or other relationship with AGL or SGL.



A draft of this Report was provided to AGL and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this Report as a result of this review.

10 DISCLAIMERS AND CONSENTS

This Report has been prepared at the request of AGL for attachment with the Notice of Compulsory Acquisition which will be sent to Optionholders. AGL engaged BDO to prepare an independent expert's report to consider the Compulsory Acquisition in accordance with the requirements of the Corporations Act.

BDO hereby consents to this Report accompanying the Notice of Compulsory Acquisition. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO.

BDO takes no responsibility for the contents of the Notice of Compulsory Acquisition other than this Report.

BDO has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit of SGL. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

With respect to taxation implications it is recommended that individual Optionholders obtain their own taxation advice, in respect of the Compulsory Acquisition, tailored to their own particular circumstances. Furthermore, the advice provided in this Report does not constitute legal or taxation advice to the Optionholders, or any other party.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of our engagement are such that BDO has no obligation to update this Report for events occurring subsequent to the date of this Report.

11 INDEMNITY

AGL has provided an indemnity to BDO for any claims arising out of any misstatement or omission in any material or information provided to it in the preparation of this Report.



Appendix A

FINANCIAL SERVICES GUIDE

Dated 30 March 2009

BDO Kendalls Securities (NSW-VIC) Pty Ltd ABN 82 065 203 491 ("BDO" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

1 FINANCIAL SERVICES GUIDE

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 222438
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our complaints handling procedures and how you may access them.

2 FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide general financial product advice to retail and wholesale clients on securities and interests in managed investment schemes.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

3 GENERAL FINANCIAL PRODUCT ADVICE

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

4 FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement.

Except for the fees referred to above, neither BDO Kendalls Securities, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

5 REMUNERATION OR OTHER BENEFITS RECEIVED BY OUR EMPLOYEES

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

6 REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

7 ASSOCIATIONS AND RELATIONSHIPS

BDO Kendalls Securities is a wholly owned subsidiary of BDO Kendalls (NSW-VIC) Pty Ltd, which is a member of an Australian association of independent accounting and management consulting firms trading under the name of "BDO Kendalls".

From time to time BDO Kendalls Securities or BDO Kendalls and/or BDO related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

8 INDEPENDENCE

BDO Kendalls Securities is independent of the entity that engages it to provide a report. The guidelines for independence in the preparation of reports are set out in the Regulatory Guide 112 issued by the Australian Securities and Investments Commission in October 2007. BDO Kendalls Securities operates independently of the other members of BDO International in Australia.

9 COMPLAINTS RESOLUTION

9.1 INTERNAL COMPLAINTS RESOLUTION PROCESS

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Kendalls Securities, GPO Box 2551, Sydney NSW 2001.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

9.2 REFERRAL TO EXTERNAL DISPUTE RESOLUTION SCHEME

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited ("FOS"). FOS is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Kendalls Securities is a member of FOS (Member Number 11281).

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited

GPO Box 3
MELBOURNE VIC 3001

Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399

10 CONTACT DETAILS

You may contact us using the details set out at the top of our letterhead of this FSG.



Appendix B

SOURCES OF INFORMATION

BDO Corporate Finance has relied on the following information for the purposes of preparing this Report:

- Compulsory Acquisition Notices dated 31 March 2009;
- Bidder's Statement and Target's Statement dated 12 January 2009 and 19 January 2009 respectively;
- SGL Option Register provided by AGL Management;
- Options Certificates and Terms and Conditions;
- Discussions with AGL management;
- Bloomberg;
- Other information available in the public domain.



Appendix C

VALUATION METHODOLOGIES

The valuation of an option is a function of the price of the underlying share to which the option may convert, the remaining life of the option, the exercise price, medium term interest rates and the anticipated yield of the underlying share.

The price of an option is the sum of its intrinsic value and its time value. Intrinsic value is based on the difference between the option's exercise price and the current price of the underlying instrument and time value is the residual value of the options premium above any intrinsic value.

An option can either be American style or European style:

- American style options can be exercised by the holder at any time from the date of purchase up until (and including) expiry date.
- European style options can be exercised by the holder only on the specified expiry date.

Methodologies commonly used for valuing options are detailed below.

Binomial Trees Methodology

This options valuation technique involves plotting possible paths that might be followed by the price of the underlying stock over the life of the option. The outcomes of the movements in the share price are discounted back to present value using the risk free rate.

Black & Scholes Option Pricing Methodology

The Black & Scholes Option Pricing Model is a formulaic approach which assumes that the options are European and considers the following variables:

- Exercise price of the option
- Current price of the underlying stock
- Volatility price of the price of the underlying stock
- Time to expiry of the option
- Risk free rate of return
- Dividends paid on the underlying stock