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 T +61 2 9263 4050
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 Our ref GKL:PX:1006228

**GILBERT
 TOBIN**

L A W Y E R S

24 December 2008

By fax (3) pages

To Company Announcements Office
 Australian Securities Exchange Limited
 Exchange Centre
 20 Bridge Street
 Sydney NSW 2000
 Fax 1300 135 638

Gilbert + Tobin

2 Park Street
 Sydney NSW 2000
 Australia

GPO Box 3810
 Sydney NSW 2001

T +61 2 9263 4000
 F +61 2 9263 4111

DX 10348 SSE

www.gtlaw.com.au

Dear Sir/Madam

Notice of Initial Substantial Holder – Sydney Gas Limited

We act for AGL Energy Limited and attach ASIC Form 603 advising that AGL Energy Limited has become a substantial shareholder of Sydney Gas Limited.

Yours faithfully
Gilbert + Tobin

Gilbert + Tobin

This facsimile is solely for the use of the addressee and may contain information which is confidential or privileged. If you receive this facsimile in error, please notify us immediately and we will arrange for its return at our expense. Liability limited by a scheme approved under Professional Standards Legislation.

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International associate

金杜律师事务所
KING & WOOD
 INTERNATIONAL AND PRC LAWYERS

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Form 603

Corporations Act 2001
Section 671B

Notice of initial substantial holder

To Company Name/Scheme Sydney Gas Limited (SGL)

ACN/ARSN 003 324 310

1. Details of substantial holder (1)

Name AGL Energy Limited (AGL) and its related bodies corporate (as set out in Annexure A) (AGL Group)

ACN/ARSN (if applicable) ACN 115 061 375

The holder became a substantial holder on 23 December 2008

2. Details of voting power

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in on the date the substantial holder became a substantial holder are as follows:

| Class of securities (4) | Number of securities | Person's votes (5) | Voting power (6) |
|-------------------------|----------------------|--------------------|------------------|
| Ordinary shares | 79,570,523 | 79,570,523 | 19.8% |

* Based on 402,543,433 shares on issue for SGL as at the date of this notice.

3. Details of relevant interests

The nature of the relevant interest the substantial holder or an associate had in the following voting securities on the date the substantial holder became a substantial holder are as follows:

| Holder of relevant interest | Nature of relevant interest (7) | Class and number of securities |
|-----------------------------|--|--|
| AGL | Relevant interest under section 608(1) and 608(8) of the Corporations Act 2001 (Cth) pursuant to Pre-Bid Acceptance Deed between AGL and AJ Lucas Group Limited ACN 060 309 104 (AJ Lucas) dated 23 December 2008, a copy of which is attached as Annexure B (AJ Lucas Deed). | 59,570,523 fully paid ordinary shares. |
| AGL | Relevant interest under section 608(1) and 608(8) of the Corporations Act 2001 (Cth) pursuant to Pre-Bid Acceptance Deed between AGL and Babcock & Brown Australia Pty Limited ACN 086 149 555 (Babcock & Brown) dated 23 December 2008, a copy of which is attached as Annexure C (Babcock & Brown Deed). | 20,000,000 fully paid ordinary shares. |

4. Details of present registered holders

The persons registered as holders of the securities referred to in paragraph 3 above are as follows:

| Holder of relevant interest | Registered holder of securities | Person entitled to be registered as holder (8) | Class and number of securities |
|-----------------------------|------------------------------------|---|--|
| AGL | AJ Lucas | AGL, subject to the terms of the AJ Lucas Deed | 59,570,523 fully paid ordinary shares. |
| AGL | Babcock & Brown and its associates | AGL, subject to the terms of the Babcock & Brown Deed | 20,000,000 fully paid ordinary shares. |

5. Consideration

The consideration paid for each relevant interest referred to in paragraph 3 above, and acquired in the four months prior to the day that the substantial holder became a substantial holder is as follows:

| Holder of relevant interest | Date of acquisition | Consideration (9) | | Class and number of securities |
|-----------------------------|---------------------|--|----------|--|
| | | Cash | Non-cash | |
| AGL | 23 December 2008 | Refer to the AJ Lucas Deed attached as Annexure B | | 59,570,523 fully paid ordinary shares. |
| AGL | 23 December 2008 | Refer to the Babcock & Brown Deed attached as Annexure C | | 20,000,000 fully paid ordinary shares. |

6. Associates

The reasons the persons named in paragraph 3 above are associates of the substantial holder are as follows:

| Name and ACN/ARSN (if applicable) | Nature of association |
|-----------------------------------|--|
| AGL Group | Each entity in the AGL Group is a related body corporate of AGL. |

7. Addresses

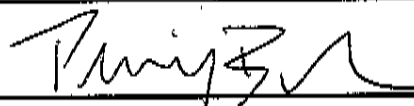
The addresses of persons named in this form are as follows:

| Name | Address |
|--|--|
| AGL Energy Limited and each of the entities listed in Annexure A | Level 22, 101 Miller Street, North Sydney NSW 2060 |

Signature

print name **Phillp Breden** capacity **Attorney for AGL Energy Limited**

sign here



date **24 December 2008**

DIRECTIONS

- (1) If there are a number of substantial holders with similar or related relevant interests (eg. a corporation and its related corporations, or the manager and trustee of an equity trust), the names could be included in an annexure to the form. If the relevant interests of a group of persons are essentially similar, they may be referred to throughout the form as a specifically named group if the membership of each group, with the names and addresses of members is clearly set out in paragraph 7 of the form.
- (2) See the definition of 'associate' in section 9 of the Corporations Act 2001.
- (3) See the definition of 'relevant interest' in sections 608 and 671B(7) of the Corporations Act 2001.
- (4) The voting shares of a company constitute one class unless divided into separate classes.
- (5) The total number of votes attached to all the voting shares in the company or voting interests in the scheme (if any) that the person or an associate has a relevant interest in.
- (6) The person's votes divided by the total votes in the body corporate or scheme multiplied by 100.
- (7) Include details of:
 - (a) any relevant agreement or other circumstances by which the relevant interest was acquired. If subsection 671B(4) applies, a copy of any document setting out the terms of any relevant agreement, and a statement by the person giving full and accurate details of any contract, scheme or arrangement, must accompany this form, together with a written statement certifying this contract, scheme or arrangement; and
 - (b) any qualification of the power of a person to exercise, control the exercise of, or influence the exercise of, the voting powers or disposal of the securities to which the relevant interest relates (indicating clearly the particular securities to which the qualification applies).

See the definition of 'relevant agreement' in section 9 of the Corporations Act 2001.

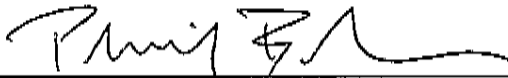
- (8) If the substantial holder is unable to determine the identity of the person (eg. if the relevant interest arises because of an option) write 'unknown'.

- (9) Details of the consideration must include any and all benefits, money and other, that any person from whom a relevant interest was acquired has, or may, become entitled to receive in relation to that acquisition. Details must be included even if the benefit is conditional on the happening or not of a contingency. Details must be included of any benefit paid on behalf of the substantial holder or its associate in relation to the acquisitions, even if they are not paid directly to the person from whom the relevant interest was acquired.

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Annexure A

This is Annexure A of 2 pages to the Form 603 Notice of initial substantial holder signed by me and dated 24 December 2008.



Name: Philip Breden
Attorney for AGL Energy Limited

Date: 24 December 2008

| | |
|--|--------------------|
| AGL Energy Limited | ABN 74 115 061 375 |
| AGL Limited | N/A (New Zealand) |
| AGL ACT Retail Investments Pty Limited | ABN 53 093 631 586 |
| AGL Corporate Services Pty Limited | ABN 98 093 015 724 |
| AGL Electricity (VIC) Pty Limited | ABN 62 070 182 099 |
| AGL Energy Limited | N/A (New Zealand) |
| AGL Energy Sales & Marketing Limited | ABN 18 076 092 067 |
| AGL Energy Services Pty Limited | ABN 57 074 821 720 |
| AGL Energy Services (Queensland) Pty Limited | ABN 80 104 759 471 |
| AGL Gas Developments (Hunter) Pty Limited | ABN 32 073 928 631 |
| AGL Gas Developments (PNG) Pty Limited | ABN 37 001 389 939 |
| AGL Gas Developments (Sydney) Pty Limited | ABN 64 086 013 505 |
| AGL Gas Production (Camden) Pty Limited | ABN 58 115 063 744 |
| AGL Gas Trading Pty. Limited | ABN 70 068 827 038 |
| AGL Gloucester MG NL | ABN 53 075 137 218 |
| AGL Gloucester LE Pty Limited | ABN 96 092 684 010 |
| AGL HP1 Pty Limited | ABN 86 080 429 901 |
| AGL HP2 Pty Limited | ABN 75 080 810 546 |
| AGL HP3 Pty Limited | ABN 22 080 735 815 |
| AGL Hydro Operations Pty Limited | ABN 21 080 797 824 |
| AGL Hydro Partnership | ABN 86 076 691 481 |
| AGL Pipelines Investments Pty Limited | ABN 86 091 258 418 |
| AGL Pipelines Investments (QLD) Pty Limited | ABN 98 091 258 472 |
| AGL Power Generation (NSW) Pty Limited | ABN 11 118 099 451 |
| AGL Power Generation (QLD) Pty Limited | ABN 85 119 438 756 |
| AGL Power Generation (Victoria) Pty Limited | ABN 45 086 586 192 |
| AGL Power Generation (Wind) Pty Limited | ABN 13 120 355 213 |
| AGL Retail Energy Limited | ABN 21 074 839 464 |
| AGL SA Generation Pty Limited | ABN 84 081 074 204 |
| AGL Sales Pty Limited | ABN 88 090 538 337 |
| AGL Sales (Queensland) Pty Limited | ABN 85 121 177 740 |
| AGL Sales (Queensland Electricity) Pty Limited | ABN 66 078 875 902 |
| AGL Share Plan Pty Limited (50%) | ABN 78 080 609 749 |
| AGL (SHL) Pty Limited | ABN 39 116 830 285 |
| AGL South Australia Pty Limited | ABN 49 091 105 092 |
| AGL Southern Hydro Holdings Pty Limited | ABN 78 104 646 424 |
| AGL Southern Hydro Investments Pty Limited | ABN 98 104 071 829 |
| AGL Southern Hydro Pty Limited | ABN 89 088 976 327 |
| AGL Southern Hydro (NSW) Pty Limited | ABN 73 056 452 601 |
| AGL Torrens Island Pty Limited | ABN 67 081 074 197 |
| AGL Torrens Island Holdings Pty Limited | ABN 96 071 611 017 |
| AGL Utility Services Pty Limited | ABN 72 081 834 826 |
| AGL Wholesale Gas Limited | ABN 26 072 948 504 |
| AGL Wholesale Gas (SA) Pty Limited | ABN 13 094 384 291 |
| Australian Energy Ltd | ABN 72 083 183 028 |

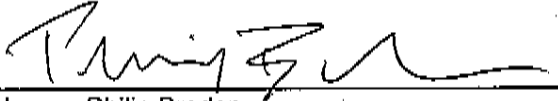
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| | |
|--|--------------------|
| Australian Plains Wind Farm Pty Ltd | ABN 99 116 978 039 |
| Ben Lomond Wind Farm Pty Ltd | ABN 23 105 363 853 |
| Box Hill Wind Farm Pty Limited | ABN 18 110 666 021 |
| Coopers Gap Wind Farm Pty Limited | ACN 126 594 714 |
| Crows Nest Wind Farm Pty Limited | ABN 75 105 363 255 |
| Dollar Wind Farm Pty Limited | ABN 56 107 251 285 |
| Dual Fuel Systems Pty Limited | ABN 58 001 499 314 |
| Energy Infrastructure Management Pty Ltd (50%) | ABN 75 100 946 389 |
| Essential Energy Services Pty Ltd | ABN 58 090 072 889 |
| Geogen Pty Limited | ACN 113 102 686 |
| Geogen Australia Pty Limited | ACN 134 542 082 |
| Geogen Victoria Pty Limited | ACN 121 810 160 |
| H C Extractions Pty Limited | ABN 70 002 945 655 |
| Highfields Wind Farm Pty Limited | ABN 85 109 821 114 |
| Macarthur Wind Farm Pty Ltd | ABN 19 106 134 507 |
| MWF JV Pty Limited (50%) | ACN 129 819 852 |
| Oaklands Hill Wind Farm Pty Limited | ACN 126 595 935 |
| PGI Pty Limited | ABN 52 127 185 826 |
| Powerdirect Pty Limited | ABN 28 067 609 803 |
| Victorian Energy Pty Limited | ABN 97 069 892 379 |
| Worlds End Wind Farm Pty Ltd | ABN 98 100 729 780 |

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Annexure B

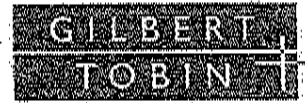
This is Annexure B of 13 pages to the Form 603 Notice of initial substantial holder signed by me and dated 24 December 2008.



Name: Philip Breden
Attorney for AGL Energy Limited

Date: 24 December 2008

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L A W Y E R S

Pre-bid acceptance agreement

**AGL Energy Limited
AJ Lucas Group Limited**

Gilbert + Tobin

2 Park Street
Sydney NSW 2000
Australia

GPO Box 3810
Sydney NSW 2001

T +61 2 9263 4000
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| Contents | Page |
|---|-------------|
| 1 Defined terms and interpretation | 1 |
| 1.1 Definitions in the Dictionary | 1 |
| 1.2 Interpretation | 1 |
| 2 Bidder's promise and Securityholder's promise | 1 |
| 2.1 Bidder's promise | 1 |
| 2.2 Securityholder's promise | 2 |
| 3 Substantial holder notice | 2 |
| 4 Warranties | 2 |
| 5 Expiry and Termination | 2 |
| 6 Acknowledgements | 3 |
| 7 Severance | 4 |
| 8 Confidentiality | 4 |
| 9 Consent | 4 |
| 10 Other | 4 |
| 10.1 Acknowledgement | 4 |
| 10.2 Entire agreement | 4 |
| 10.3 Governing law | 5 |
| 10.4 Counterparts | 5 |
| Schedule 1 — Dictionary | 6 |
| Schedule 2 — Conditions | 9 |
| Execution page | 10 |

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Date: 23 December 2008

Parties

- 1 **AGL Energy Limited** (ACN 115 061 375) of Level 22, 101 Miller Street North Sydney NSW 2060 (**Bidder**)
 - 2 **AJ Lucas Group Limited** (ACN 060 309 104) of 157 Church Street, Ryde, New South Wales, 2112 (**Securityholder**)
-

Background

- A Securityholder is the legal and beneficial owner of 59,570,523 fully paid ordinary shares in Target (**Acceptance Securities**).
- B Bidder proposes to make a public announcement of its intention to make the Offer.
- C If such Offer is made, Securityholder has agreed to accept the Offer on the terms and conditions of this document in respect of the Acceptance Securities.

The parties agree

1 Defined terms and interpretation

1.1 Definitions in the Dictionary

A term or expression starting with a capital letter:

- (a) which is defined in the Dictionary in Schedule 1 (**Dictionary**), has the meaning given to it in the Dictionary;
- (b) which is defined in the Corporations Act, but is not defined in the Dictionary, has the meaning given to it in the Corporations Act; and
- (c) which is defined in the GST Law, but is not defined in the Dictionary or the Corporations Act, has the meaning given to it in the GST Law.

1.2 Interpretation

The interpretation clause in Schedule 1 (**Dictionary**) sets out rules of interpretation for this Agreement.

2 Bidder's promise and Securityholder's promise

2.1 Bidder's promise

Bidder may publicly announce the Offer at not less than the Offer Price and subject only to the conditions set out in Schedule 2 no later than 2 Business Days after the date of this Agreement.

2.2 Securityholder's promise

In return for Bidder paying to Securityholder \$10.00 (receipt of which is acknowledged by Securityholder) and the various obligations in this document, Securityholder agrees that, if Bidder publicly announces the Offer in accordance with clause 2.1, Securityholder will:

- (a) subject to this Agreement not having been terminated under clauses 5(d) or 5(e), accept the Offer in respect of the Acceptance Securities by no later than 2 Business Days after Target lodges its Target's Statement with ASIC under section 633 step 13 of the Corporations Act; and
- (b) do everything (including execute any document and make any election) that Bidder may reasonably require to give full effect to Securityholder's obligations to accept the Offer in respect of the Acceptance Securities.

3 Substantial holder notice

The Bidder agrees that it will lodge with the ASX an initial substantial holder notice in relation to all relevant Target Securities, including the Acceptance Securities, (which will attach a copy of this Agreement) at the time required by the Corporations Act.

4 Warranties

The Securityholder and Bidder each warrants to the other that:

- (a) it has full power and authority to enter into this Agreement; and
- (b) the execution and performance of this Agreement is not in breach of any trust, deed, contract or other obligation to which it is bound.

The Bidder warrants that the entry into this Agreement by the parties will not cause Bidder to breach section 606 of the Corporations Act.

5 Expiry and Termination

This Agreement will expire and terminate and there will be no continuing rights or obligations of either party (other than the warranties under clause 4) on the first to occur of the following events:

- (a) the Offer is not announced as contemplated by clause 2.1 within 2 Business Days of the date of this Agreement;
- (b) Bidder contravenes section 631(1) of the Corporations Act by not making offers for Target Securities within 2 months after the date of the announcement of the Offer;
- (c) Securityholder accepts the Offer for all the Acceptance Securities;
- (d) prior to acceptance of the Offer by Securityholder, another bidder:
 - (i) makes offers under a takeover bid for the whole of Target;
 - (ii) at a price per Target Security higher than the then Offer Price;
 - (iii) which is or has become free from defeating conditions other than a Prescribed Occurrence or FIRB approval

and Bidder does not, within 5 Business Days of the later of the date those offers were made and the date those offers became free from defeating conditions other than a Prescribed Occurrence or FIRB approval:

- (iv) vary the Offer in accordance with section 650D of the Corporations Act to increase the Offer Price to equal to or greater than those offers; and
- (v) waive any remaining defeating conditions; or
- (e) prior to acceptance of the Offer by Securityholder, Target announces a scheme of arrangement under which a third party will become the controlling shareholder of Target and the Shareholders will dispose of all of their Target Securities to the third party at a price per Target Security higher than the then current Offer Price and Bidder does not, on or before the 20th Business Day before the scheme meeting:
 - (i) vary the Offer in accordance with section 650D of the Corporations Act to increase the Offer Price to equal to or greater than the scheme price; and
 - (ii) waive any remaining defeating conditions.

6 Acknowledgements

- (a) The Securityholder acknowledges and agrees that Bidder has the right, subject to the Corporations Act, to delete, waive or vary any of the conditions in any Offer, declare any Offer unconditional or extend any Offer at any time.
- (b) Each of Securityholder and Bidder acknowledge and agree that clauses 5(d) and (e) operate successively so that for each successive counter takeover bid meeting the requirements in clause 5(d), or scheme announcement meeting the requirements of clause 5(e), Bidder must increase the Offer Price as provided in the relevant clause to prevent termination. If an increase to the price of offers under a counter takeover, or the price under a scheme, is contingent on an event occurring other than:
 - (i) in the case of a takeover bid, a Prescribed Occurrence or FIRB approval; or
 - (ii) in the case of a scheme, approval by the court in accordance with section 411 of the Corporations Act,

the consideration offered under the counter takeover bid or the scheme is not regarded as being at the price unless and until that event occurs.
- (c) Each of Securityholder and Bidder acknowledge and agree that, for the purposes of clauses 5(d), 5(e) and 6(b), shares or units which are offered under a counter takeover bid or scheme as consideration will be valued at the volume weighted average sale price of those shares or units on the ASX (or other recognised exchange on which such securities are quoted) in the 5 trading day period prior to:
 - (i) in the case of a counter takeover bid – the later of the date that the offers under the bid are made and the date that the offers become unconditional; and
 - (ii) in the case of a scheme – the 23rd Business Day before the scheme meeting,

(the Relevant Date).

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In the event this methodology cannot be applied, the value will be the value as assessed by an independent investment bank (acting as expert) appointed by agreement between Securityholder and Bidder, as at the Relevant Date. Failing agreement, the investment bank will be appointed by the President for the time being of the Institute of Chartered Accountants (New South Wales Division) or his or her nominee.

7 Severance

If, at any time, any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that will not affect or impair:

- (a) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (b) the legality, validity or enforceability under the law of any other jurisdiction of that provision or any other provision of this Agreement.

8 Confidentiality

The fact and terms of this Agreement must be kept confidential until the earlier of:

- (a) the announcement of the Offer; or
- (b) the lodgement of a substantial shareholder notice by a party.

Subject to compliance with all applicable laws, no substantial holder notice may be lodged before the second business day after the date of this agreement.

9 Consent

Securityholder consents to the inclusion of references to it and the subject matter of this Agreement in any public announcement by Bidder in relation to the Offer or to any such references or statements required in a Bidder's Statement issued in connection with the Offer.

10 Other

10.1 Acknowledgement

Securityholder acknowledges that nothing in this Agreement obliges Bidder to announce or proceed with the Offer.

10.2 Entire agreement

This Agreement constitutes the entire agreement between the parties about its subject matter and supersedes any previous agreements, understandings and negotiations on that subject matter and each party acknowledges that in entering into this Agreement it has not relied on any representations, warranties or undertakings about its subject matter except as expressly contained in this Agreement.

10.3 Governing law

This Agreement is governed by the law in force in New South Wales. Each party submits to the non-exclusive jurisdiction of the courts of New South Wales.

10.4 Counterparts

This Agreement may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

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**Schedule 1 —
Dictionary**

1 Dictionary

In this Agreement:

Acceptance Securities means 59,570,523 fully paid ordinary Target Securities held by the Securityholder.

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange.

Business Day means a day that is not a weekend or a public holiday in the State of New South Wales.

Corporations Act means *Corporations Act 2001 (Cth)*.

Offer means offers for the Target Securities (if any) made by the Bidder described in clause 2 as varied in accordance with the Corporations Act.

Offer Price means cash consideration of \$0.425 per Target Security.

Prescribed Occurrence means the occurrence of any of the following events:

- (a) Target converts all or any of its shares into a larger or smaller number of shares;
- (b) Target or a subsidiary of Target resolves to reduce its share capital in any way;
- (c) Target or a subsidiary of Target:
 - (i) enters into a buy-back agreement; or
 - (ii) resolves to approve the terms of a buy-back agreement under section 257C(1) or section 257D(1) of the Corporations Act;
- (d) Target or a subsidiary of Target issues shares, or grants an option over its shares or agrees to make such an issue or grant such an option;
- (e) Target or a subsidiary of Target issues, or agrees to issue, convertible notes;
- (f) Target or a subsidiary of Target disposes or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (g) Target or a subsidiary of Target charges, or agrees to charge, the whole, or a substantial part, of its business or property;
- (h) Target or a subsidiary of Target resolves that it be wound up;
- (i) a liquidator or provisional liquidator of Target or of a subsidiary of Target is appointed;
- (j) a court makes an order for the winding up of Target or of a subsidiary of Target;

- (k) an administrator of Target or of a subsidiary of Target is appointed under section 436A, 436B or 436C of the Corporations Act;
- (l) Target or of a subsidiary of Target executes a deed of company arrangement; or
- (m) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Target or of a subsidiary of Target.

Shareholders means those persons who hold Target Securities (at the relevant date).

Target means Sydney Gas Limited (ABN 93 003 324 310).

Target Securities means fully paid ordinary shares in the capital of Target.

2 Interpretation

In this Agreement, the following rules of interpretation apply unless the contrary intention appears:

- (a) headings are for convenience only and do not affect the interpretation of this Agreement;
- (b) the singular includes the plural and vice versa;
- (c) words that are gender neutral or gender specific include each gender;
- (d) where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings;
- (e) the words 'such as', 'including', 'particularly' and similar expressions are not used as, nor are intended to be, interpreted as words of limitation;
- (f) a reference to:
 - (i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate;
 - (ii) a thing (including, but not limited to, a chose in action or other right) includes a part of that thing;
 - (iii) a party includes its successors and permitted assigns;
 - (iv) a document includes all amendments or supplements to that document;
 - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or party, schedule or attachment to this Agreement;
 - (vi) this agreement includes all schedules and attachments to it;
 - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a rule of an applicable Financial Market and is a reference to that law as amended, consolidated or replaced;
 - (viii) an agreement other than this agreement includes an undertaking, or legally enforceable arrangement or understanding, whether or not in writing; and

- (ix) a monetary amount is in Australian dollars;
- (g) an agreement on the part of two or more persons binds them jointly and severally;
- (h) when the day on which something must be done is not a Business Day, that thing must be done on the preceding Business Day;
- (i) in determining the time of day, where relevant to this Agreement, the relevant time of day is:
 - (i) for the purposes of giving or receiving notices, the time of day where a party receiving a notice is located; or
 - (ii) for any other purpose under this agreement, the time of day in the place where the party required to perform an obligation is located; and
- (j) no rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this agreement or any part of it.

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**Schedule 2 —
Conditions**

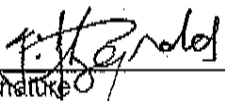
There being no Prescribed Occurrence between the date that the Offer is announced and the close of the offer period of the Offer.

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Execution page

Executed as an agreement.


Signed for **AGL Energy Limited** by its attorney under power of attorney in the presence of:



Witness Signature

John Fitzgerald

Print Name



Attorney Signature

Michael Moraza

Print Name

Each attorney executing this Agreement states that he or she has no notice of revocation or suspension of his or her power of attorney.

Signed for **AJ Lucas Group Limited** by:

Signature of director

Signature of director/secretary

Name of director (print)

Name of director/secretary (print)

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Execution page

Executed as an agreement.

Signed for **AGL Energy Limited** by its attorney under power of attorney in the presence of:

Witness Signature

Attorney Signature

Print Name

Print Name

Each attorney executing this Agreement states that he or she has no notice of revocation or suspension of his or her power of attorney.

Signed for **AJ Lucas Group Limited** by:

Signature of director

Signature of director/secretary

MARTIN JOHN GREEN

IAN STUART-ROBERTSON

Name of director (print)

Name of director/secretary (print)

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Annexure C

This is Annexure C of 11 pages to the Form 603 Notice of initial substantial holder signed by me and dated 24 December 2008.



Name: Philip Breden
Attorney for AGL Energy Limited

Date: 24 December 2008

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**GILBERT
TOBIN**

LAWYERS

Pre-bid agreement

**AGL Energy Limited
Babcock & Brown Australia Pty Ltd**

Gilbert + Tobin

2 Park Street
Sydney NSW 2000
Australia

GPO Box 3810
Sydney NSW 2001

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F +61 2 9263 4111

DX 10348 SSE

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| Contents | | Page |
|-----------------|---|-------------|
| 1 | Defined terms and interpretation | 1 |
| 1.1 | Definitions in the Dictionary | 1 |
| 1.2 | Interpretation | 2 |
| 2 | Bidder's promise and Securityholder's promise | 2 |
| 2.1 | Bidder's promise | 2 |
| 2.2 | Securityholder's promise | 2 |
| 3 | Substantial holder notice | 2 |
| 4 | Warranties | 2 |
| 5 | Expiry and Termination | 3 |
| 6 | Acknowledgements | 4 |
| 7 | Severance | 5 |
| 8 | Confidentiality | 5 |
| 9 | Consent | 5 |
| 10 | Other | 6 |
| 10.1 | Acknowledgement | 6 |
| 10.2 | Entire agreement | 6 |
| 10.3 | Governing law | 6 |
| 10.4 | Counterparts | 6 |
| Schedule 1 | — Dictionary | 7 |
| Schedule 2 | — Conditions | 10 |
| Execution page | | 11 |

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Date: 23 December 2008

Parties

- 1 **AGL Energy Limited** of Level 22, 101 Miller Street North Sydney NSW 2060 (Bidder)
 - 2 **Babcock & Brown Australia Pty Ltd** of Level 23, The Chifley Tower, 2 Chifley Square, Sydney NSW 2000 (Securityholder)
-

Background

- A Associates of the Securityholder are the beneficial owner of 20,000,000 fully paid ordinary shares in Target (**Sale Securities**).
- B Bidder proposes to make a public announcement of its intention to make the Offer.
- C If such Offer is made, Securityholder has agreed to procure acceptance of the Offer on the terms and conditions of this document in respect of the Sale Securities.

The parties agree

1 Defined terms and interpretation

1.1 Definitions in the Dictionary

A term or expression starting with a capital letter:

- (a) which is defined in the Dictionary in Schedule 1 (**Dictionary**), has the meaning given to it in the Dictionary;
- (b) which is defined in the Corporations Act, but is not defined in the Dictionary, has the meaning given to it in the Corporations Act; and
- (c) which is defined in the GST Law, but is not defined in the Dictionary or the Corporations Act, has the meaning given to it in the GST Law.

1.2 Interpretation

The interpretation clause in Schedule 1 (**Dictionary**) sets out rules of interpretation for this agreement.

2 Bidder's promise and Securityholder's promise

2.1 Bidder's promise

Bidder promises to publicly announce the Offer at not less than the Offer Price and subject only to the conditions set out in Schedule 2 no later than 2 Business Days after the date of this Agreement.

2.2 Securityholder's promise

In return for Bidder paying to Securityholder \$10.00 (receipt of which is acknowledged by Securityholder) and the various obligations in this document, Securityholder agrees that if Bidder publicly announces the Offer at no less than the Offer Price and subject only to a "no prescribed occurrences condition" in accordance with section 652C of the Corporations Act, Securityholder will procure that the holders of the Sale Securities:

- (a) accept the Offer in respect of the Sale Securities by no later than 2 Business Days after Target lodges its target's statement in respect of the Offer with ASIC under section 633 step 13 of the Corporations Act; and
- (b) do everything (including execute any document and make any election) that Bidder may reasonably require to give full effect to Securityholder's obligations to procure acceptance of the Offer in respect of the Sale Securities in accordance with clause 2.2(a).

3 Substantial holder notice

The Bidder agrees that it will lodge with the ASX an initial substantial holder notice in relation to the Sale Securities (which will attach a copy of this Agreement) at the time required by the Corporations Act.

4 Warranties

The Securityholder and Bidder each warrants to the other that:

- (a) it has full power and authority to enter into this Agreement; and
- (b) the execution and performance of this Agreement is not in breach of any trust, deed, contract or other obligation to which it is bound.

5 Expiry and Termination

This Agreement will expire and terminate and there will be no continuing rights or obligations of either party (other than the rights and obligations under clause 4) on the first to occur of the following events:

- (a) the Offer is not announced as contemplated by clause 2 within 2 Business Days of the date of this Agreement;
- (b) Bidder contravenes section 631(1) of the Corporations Act by not making offers for Target Securities within 2 months after the date of the announcement of the Offer;
- (c) Securityholder procures acceptance of the Offer for all the Sale Securities;
- (d) prior to completion or acceptance of the Offer by the Securityholder, another bidder:
 - (i) announces a takeover bid for all the Target Securities;
 - (ii) at a price per Target Security higher than the then Offer Price; and
 - (iii) which is either unconditional or conditional only one or more of the following conditions: no prescribed occurrences under section 652C of the

Corporations Act, approval (or expiry of the applicable period) under the Foreign Acquisition and Takeovers Act and/or the condition referred to in section 625(3) of the Corporations Act,

and Bidder does not, by the earlier of 2 Business Days of the announcement of that takeover bid and the date Securityholder is required to accept the Offer under clause 2.2, announce that it will vary the Offer in accordance with section 650D of the Corporations Act to increase the Offer Price to equal to or greater than that takeover bid; or

- (e) prior to completion or acceptance of the Offer by the Securityholder, Target announces a scheme of arrangement under which a third party will become the controlling shareholder of Target which is at a price per Target Security higher than the then current Offer Price and Bidder does not, on or before the earlier of 2 Business Days of the announcement of that scheme and the date Securityholder is required to accept the Offer under clause 2.2, announce that it will vary the Offer in accordance with section 650D of the Corporations Act to increase the Offer Price to equal to or greater than the scheme price.

6 Acknowledgements

- (a) The Securityholder acknowledges and agrees that (without limiting the operation of clauses 2.1 and 5) Bidder has the right, subject to the Corporations Act, to delete, waive or vary and conditions in any Offer, declare any Offer unconditional or extend it at any time.
- (b) Each of the Securityholder and the Bidder acknowledge and agree that clauses 5(d) and (e) operate successively so that for each successive counter takeover bid announcement meeting the requirements in clause 5(d), or scheme announcement meeting the requirements of 5(e), the Bidder must increase the Offer Price as provided in that clause to prevent termination but the effect of those clauses ceases once Completion occurs. If an increase to the price of offers under a counter takeover, or the price under a scheme, is contingent on an event occurring other than:
 - (i) in the case of a takeover bid, an Excluded Condition; or
 - (ii) in the case of a scheme, approval by the court in accordance with section 411 of the Corporations Act,

the consideration offered under the counter takeover bid or the scheme is not regarded as being at the price unless and until that event occurs.

- (c) Each of the Securityholder and the Bidder acknowledge and agree for the purposes of clauses 5(d), 5(e) and 6(b), shares or units which are offered under a counter takeover bid, scheme or other transaction as consideration will be valued at the volume weighted average sale price of those shares on the ASX (or other recognised exchange on which such securities are quoted) in the 5 trading day period prior to announcement of the counter takeover bid or scheme (**the Relevant Date**).

In the event this methodology cannot be applied, the value will be the value as assessed by an independent investment bank (acting as expert) appointed by agreement between the Securityholder and the Bidder, as at the Relevant Date. Failing agreement, the investment bank will be appointed by the President for the time being of the Institute of Chartered Accountants (New South Wales Division) or his or her nominee.

7 Severance

If at any time any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that will not affect or impair:

- (a) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (b) the legality, validity or enforceability under the law of any other jurisdiction of that provision or any other provision of this Agreement.

8 Confidentiality

The fact and terms of this agreement must be kept confidential until the earlier of:

- (a) the announcement of the Offer; or
- (b) the lodgement of a substantial shareholder notice by a party.

Subject to compliance with all applicable laws, no substantial holder notice may be lodged before the second business day after the date of this agreement.

9 Consent

Securityholder consents to the inclusion of references to it and the subject matter of this agreement in any public announcement by Bidder in relation to the Offer or to any such references or statements required in a Bidder's Statement issued in connection with the Offer, subject to the announcement or Bidder's Statement stating that Securityholder has not caused the issue of the announcement or Bidder's Statement and takes no responsibility for any part of the announcement or Bidder's Statement.

10 Other

10.1 Acknowledgement

Securityholder acknowledges that nothing in this agreement obliges Bidder to announce or proceed with the Offer.

10.2 Entire agreement

This agreement constitutes the entire agreement between the parties about the Sale Securities and supersedes any previous agreements, understandings and negotiations on that subject matter and each party acknowledges that in entering into this agreement it has not relied on any representations, warranties or undertakings about its subject matter except as expressly contained in this agreement.

10.3 Governing law

This agreement is governed by the law in force in New South Wales. Each party submits to the non-exclusive jurisdiction of the courts of New South Wales.

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10.4 Counterparts

This agreement may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

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Schedule 1 — Dictionary

1 Dictionary

In this agreement:

ASIC means the Australian Securities and Investments Commission.

Associate in relation to a person (**first person**) means any other person controlling, controlled by, or under common control with, the first person, and **control** for the purpose of this definition means the power to direct or cause the direction of the management, policies, investments or affairs of the controlled person, whether through ownership of securities or partnership or other ownership interests, trusteeship, beneficial entitlement to a trust, by contract or otherwise.

ASX means the Australian Securities Exchange.

Business Day means a day that is not a weekend or a public holiday in the State of New South Wales.

Corporations Act means *Corporations Act 2001* (Cth).

Excluded Condition means a defeating condition that is a “no prescribed occurrence condition” (being the occurrence of any of the events set out in section 652C of the Corporations Act).

Offer means off-market offers for the Target Securities (if any) made by the Bidder described in clause 2 as varied in accordance with the Corporations Act.

Offer Price means cash consideration of \$0.425 per Target Security.

Sale Securities means 20,000,000 fully paid ordinary Target Securities held by the Securityholder.

Shareholders means those persons who hold Target Securities (at the relevant date).

Target means Sydney Gas Limited ABN 93 003 324 310.

Target Securities means fully paid ordinary shares in the capital of Target.

2 Interpretation

In this agreement the following rules of interpretation apply unless the contrary intention appears:

- (a) headings are for convenience only and do not affect the interpretation of this agreement;
- (b) the singular includes the plural and vice versa;
- (c) words that are gender neutral or gender specific include each gender;
- (d) where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings;

- (e) the words 'such as', 'including', 'particularly' and similar expressions are not used as, nor are intended to be, interpreted as words of limitation;
- (f) a reference to:
- (i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate;
 - (ii) a thing (including, but not limited to, a chose in action or other right) includes a part of that thing;
 - (iii) a party includes its successors and permitted assigns;
 - (iv) a document includes all amendments or supplements to that document;
 - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or party, schedule or attachment to this agreement;
 - (vi) this agreement includes all schedules and attachments to it;
 - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a rule of an applicable Financial Market and is a reference to that law as amended, consolidated or replaced;
 - (viii) an agreement other than this agreement includes an undertaking, or legally enforceable arrangement or understanding, whether or not in writing; and
 - (ix) a monetary amount is in Australian dollars;
- (g) an agreement on the part of two or more persons binds them jointly and severally;
- (h) when the day on which something must be done is not a Business Day, that thing must be done on the preceding Business Day;
- (i) in determining the time of day, where relevant to this agreement, the relevant time of day is:
- (i) for the purposes of giving or receiving notices, the time of day where a party receiving a notice is located; or
 - (ii) for any other purpose under this agreement, the time of day in the place where the party required to perform an obligation is located; and
- (j) no rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this agreement or any part of it.

**Schedule 2 —
Conditions**

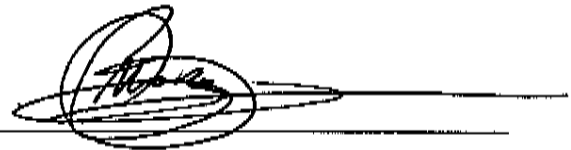
No "prescribed occurrences" within the meaning of Section 652C of the Corporations Act between the date that the Offer is announced and the close of the offer period of the Offer

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Execution page

Executed as an agreement.

Signed by **Michael Moraza** as attorney for
AGL Energy Limited under power of attorney
dated 22 December 2008 in the presence of:



By executing this agreement the attorney states
that the attorney has no notice of revocation of
the power of attorney

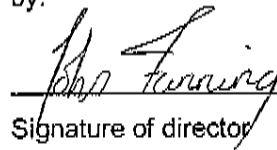
Michael Moraza

Signature of witness



Name of witness (print)

Signed for **Babcock & Brown Australia Pty Ltd**
by:



Signature of director

JOHN FANNING

Name of director (print)



Signature of ~~director~~ secretary

MELANIE HEDGES

Name of ~~director~~ secretary (print)

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