ASX Clearing Corporation & ASX Market Notice

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Key topics

1. AGL Energy Limited Accelerated Entitlement Offer - Adjustment Implications for ETOs Including Adjustments For May 2012 Expiring Series

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DERIVATIVES – EQUITY AND INDEX OPTIONS

AGL ENERGY LIMITED ACCELERATED ENTITLEMENT OFFER - ADJUSTMENT IMPLICATIONS FOR ETOS INCLUDING ADJUSTMENTS FOR MAY 2012 EXPIRING SERIES

ASX Participants and ASX Clear (ASXCL) Participants are advised that AGK Limited (ASX Code: **AGK)** announced an accelerated entitlement offer on 24 May 2012.The shares will be in trading halt from Thursday 24 May to Monday 28 May 2012, and will resume ex-entitlement trading on (indicatively) Tuesday 29 May 2012.

The trading halt will occur over the 24 May 2012 ETO expiry date where there are expiring AGK ETO series with open positions.

The entitlement offer announced is 1 new share for 6 old shares at $11.60 per share**.** There is no difference in dividend entitlement between the new shares and the old shares. Participants are advised to refer to the listed company's announcements for full details and timetables for the institutional and retail offers.

Separate Adjustments for Expiring Series, UA Trading

ASX has consulted with ASXCL in relation to the trading halt occurring over the May 2012 ETO expiry day. ASX will determine separate adjustments as appropriate given the circumstances using ASX Operating Rule [2230] Adjustments, Appendix 2230 Procedure 10 *Alternative Adjustments.* Participants are advised that May 2012 expiring series will be adjusted using a "built-in exercise method" so that the new contract size and the new strikes will reflect the offer taken up as shown in Table 2 below. Trading in these expiry series will be on a UA basis from 2.00 pm to 4.20 pm on expiry day.

Non-May 2012 expiring series will remain in trading halt until Tuesday 29 May 2012 and will then be trading on a UA basis, adjusted by the usual method, referencing the ex-entitlement VWAP of the shares.

Table 1: Key indicative timetable aspects (from an AGK ETOs implications perspective):

Trading halt/suspension in AGK shares (3 days)	Thursday 24 May 2012 – Monday 28 May 2012
AGK ETO exercise restriction applies for non-expiry series immediately after announcement of entitlement offer by listed entity	Thursday 24 May 2012 (expiry day)

Expiring series reopened for trading window from 2pm -4.20pm for trading on a **UA** basis (* see note 1 below) while underlying is in trading halt on ETO expiry day Non-expiry series remain suspended from trading until 29 May 2012	Thursday 24 May 2012
AGK securities resume trading on ex-entitlement basis	Tuesday 29 May 2012 (indicatively)
Non-expiring series resume trading on an **UA** basis (* see note 2 below) Exercise restrictions lifted	Tuesday 29 May 2012

Notes:

Participants may wish to consider making their clients, especially retail traders, aware of the issues relating to rights-style ETO adjustment for entitlement issues, in relation to trading of ETOs on the ex-entitlement day.

- 1) Expiring series during trading halt: Participants are strongly advised that the adjustment to the expiry series becomes effective on expiry day while trading of these expiring series will be on an adjusted basis ("UA" Under Adjustment flag). For the expiring series only, the full extent of the adjustments is published in this notice.
- 2) Non-expiring series: As with any rights-style market value based adjustment, Participants are strongly advised that the adjustment becomes effective on the commencement of ex-entitlement trading of the underlying shares. However, while any ETO trades entered into after the resumption of trading will be on an adjusted basis ("UA" Under Adjustment flag), the full extent of the adjustments will only be published after VWAP has been determined by ASX after close of trading .

Autoexercise of Expiring Series

Participants should consider whether reliance on the Autoexercise facility for the expiring series is appropriate given the reference price disseminated through the system may not be a true reflection of the potential market price, as the underlying securities is in trading halt on expiry day while an entitlement offer is underway.

Participants may wish to consider estimating a theoretical ex-price based on last closing price or alternatively an implied share price from trading in the expiring options. Participants are advised to have regard to whether exercising is appropriate given the extra information about the company that has become available since the shares last traded.

If trading of expiring series is considered active enough, ASXCL may provide an estimated implied ex-entitlement share price, otherwise the reference price in DCS will be from the last closing price before trading halt and should not be used as a guide to exercise or let lapse the option series.

ASXCL does not accept responsibility for any exercises resulting from use of the Autoexercise facility.

Exercises Restrictions

Other than the May 2012 expiring series, exercises of AGK ETOs are immediately restricted after the announcement of the entitlement offer. The exercise restrictions are lifted on 29 May 2012.[1] Any exercises in AGK ETOs after the offer announcement will involve delivery of ex-entitlement securities.

[1] This exercise restriction specifically applies despite the 10-business day period prior to and including an option expiry.

Table 2: Adjusted AGK May 2012 Expiring Series (UA trading basis)

OLD SIZE	NEW SIZE	OLD STRIKE (CENTS)	NEW STRIKE (CENTS)
100	117	1	1*
100	117	1100	1109
100	117	1150	1151
100	117	1200	1194
100	117	1250	1237
100	117	1275	1259
100	117	1300	1280
100	117	1325	1301
100	117	1350	1323
100	117	1375	1344
100	117	1400	1366
100	117	1425	1387
100	117	1450	1409
100	117	1451	1410**
100	117	1475	1430
100	117	1500	1451
100	117	1501	1452
100	117	1550	1494
100	117	1551	1495
100	117	1600	1537
100	117	1650	1580
100	117	1700	1623
100	117	1750	1666
100	117	1800	1709
100	117	1850	1751

- *See further below for LEPOs
- **Existing $14.51 strikes rounded to $14.10 for systems reasons

The adjustment to the expiry ETO series becomes **effective** on the commencement of the expiry day trading window on Thursday 24 May 2012 when the underlying securities is still under trading halt**. Any AGK ETO trades in expiring series from 2pm – 4.20 pm will be on an under adjustment basis** (trade status "UA"). The adjustment will apply regardless of whether the market value of the rights is positive or negative.

Participants are strongly advised to note that the cost of exercise has increased by 1/6 * 100* ($11.60+0) = $193.3333 per contract and the number of shares to be delivered has increased from 100 to 116.667 rounded to 117.

The table above was calculated in accordance with the adjustment formula for the Expiring Series only (with negligible time value) as follows:

NC = OC + m

where
NC = new contract size, calculated to 4 decimal places, and rounded down to the nearest share per contract
OC = old contract size
m = the number of new securities attributed to each OC determined by the issue ratio applied to the old contract size assuming the full entitlement is taken up (subscribed)

The new strikes are calculated as the Total Exercise Cost Built-In divided by the New Contract Size as follows:

New Strike = (OC * Old Strike + m * (C +d))/ NC

where

d = ordinary dividend or distribution that new securities are not entitled to compared to existing securities

C= consideration paid to exercise the implied rights (i.e entitlement or subscription price)

To illustrate for normal ETO series.

*The existing contract size is **100**. Issue is 1 for 6 entitlement offer at $11.60. Dividend difference is $0.*

*The adjusted contract size using the built-in exercise method for the expiring May 2012 series is 100 +1/6*100 = 116.6667 rounded to 117*

Suppose the old strike price for an expiring series =$14.00

new strike price = total exercise cost/ new contract size

Total exercise cost built-in =

*100 * $14.00 + 1/6*100 * ($11.60+$0) = $1400 +$193.3333= $1593.3333*

So, the new strike = $1593.3333/116.6667 =$13.6571 = $13.66 rounded to the nearest 1 cent.

Expiring LEPO Cash Adjustments for Built In Exercise and Rounding Calculations

In general, if there are expiring LEPOs the built-in exercise funding cost will be a cash margin amount calculated as follows:

[OC * Old Strike + m * (C +d)] - (NC*Old Strike)

Further, where there is a contract size rounding calculations involved, a cash compensation will apply between LEPO takers and writers. For an illustration of the general approach, refer to Derivatives Notice No. 019/12 "LEPO Roundings Adjustments – Cash Compensation Calculations". For the expiring LEPOs, the cash compensation may be calculated as the rounding amount multiplied by the estimated ex-entitlement share price on expiry day (a theoretical ex-price based on the last cum-entitlement closing share price may be used by ASX in lieu of an expiring options traded implied share price).

A net LEPO cash adjustment will then be made the next business day for the built-in exercise funding cost and contract size roundings.

There are no open positions in the May 2012 LEPOs.

Usual Adjustment Method for Non-Expiry Series

The usual rights-style adjustment treatment will be applied by ASX to non-May 2012 expiring series.

New contract size is calculated as follows:

NC = OC + n*r/S

Where

NC	= new contract size
OC	= old contract size *(currently* 100*)*
n	= the number of rights attributed to each OC determined by the issue ratio applied to the old contract size *(1*/6 *100*)*
r	= the market value (*whether positive or negative value*) of the each right as determined by ASX, calculated as: **S - d - C** where: S =VWAP ex-entitlement of existing shares when the ETOs have also resumed trading (Tuesday 29 May 2012*),* using the volume-weighted average price on ASX market[2]

[2] ASX TradeMatch

d = ordinary dividend or distribution for which the new shares are not entitled to *(*d=$0*)*

C = consideration paid to exercise the implied rights (i.e. entitlement price) (C=$11.60)

The new strikes are calculated as follows:

New Strike = Old Strike * OC/NC

For the strike calculations, the new contract size used by ASX is rounded to 4 decimal places, and the strike factor (OC/NC) is rounded to 6 decimal places, based on the result calculated for the standard 100 contract size.

LEPOs Cash Adjustments for Roundings Calculations for Non-Expiring Series

In this situation, as the new contract sizes for non-expiring series will be different to the new contract size for the expiring series, the cash adjustment calculations for LEPOs will be slightly different.

Further Derivatives Notice

A further notice detailing the adjusted contract sizes and adjusted strikes (other than the May 2012 series that will have expired by then), will be issued by ASX after the close of business on Tuesday 29 May 2012, with the adjustment effective commencing on the day the underlying ex-entitlement stock and ETOs resume trading..