



Altech Chemicals
Limited

ASX ANNOUNCEMENT AND MEDIA RELEASE

18 July 2019

ALTECH LAUNCHES GERMAN PROJECT EQUITY STRATEGY

Highlights

- Agreement to acquire 29% of German (Frankfurt) listed public company
- German public company name will change to Altech Advanced Materials AG
- Sale of a non-exclusive right to acquire up to 49% of Altech's HPA project for US\$100m
- Access to larger pool of European institutional investors
- Enhanced project valuation and less dilutionary for current Altech shareholders
- Aligns with European investors desire for battery materials exposure

Altech Chemicals Limited (Altech/the Company) (ASX: ATC) (FRA: A3Y) is pleased to announce that it has initiated a European equity strategy whereby investors will be provided a means to acquire a shareholding in up to a 49% direct interest in the Company's high purity alumina (HPA) project via subscribing to shares in a German domiciled public company that is listed on the Frankfurt Stock Exchange.

Altech was recently approached with the concept on an unsolicited basis and following consultation with German advisors, potential investors and various others has decided to pursue the opportunity on the basis of a valuation (sale price) of US\$100 million for a 49% direct HPA project interest.

Advantages of the concept for shareholders are that it provides an enhanced overall project and Company valuation; it will be significantly less dilutionary compared to a capital raising of this magnitude by Altech at its current share price; and it should positively impact project financial close.



Iggy Tan (Altech), Rolf Birkert (Deutsche Balaton), Uwe Ahrens (Altech)



Iggy Tan (Altech) and Hansjorg Plaggemars (Youbisheng)

Transaction Details

A. Altech to acquire 29% of Frankfurt listed Youbisheng Green Paper AG

Altech has executed an agreement to acquire 29% of Youbisheng Green Paper AG (YAG), a German domiciled public company listed on the Frankfurt Stock Exchange (FRA: YB1A). The total consideration is €2,729,000, payable by Altech as a combination of cash and shares.

The acquisition of YAG is conditional on the satisfaction of various conditions precedent, which include: YAG's name being changed to Altech Advanced Materials AG; the appointment of various Altech nominees to YAG's supervisory and management boards; YAG's shareholders approving an increase in its issued share capital to enable it to initially raise up to €70 million in new equity; the completion of legal due diligence to the satisfaction of Altech; the receipt of any necessary regulatory approvals; and final approval of the acquisition by the Altech board. The agreement also provides that Altech may sell-back the 29% interest in YAG (if it is acquired) by 30 June 2020 if YAG does not raise more than a minimum of €20 million in new equity.

B. Sale to YAG of a right to acquire up to 49% of Altech's HPA project for US\$100 million

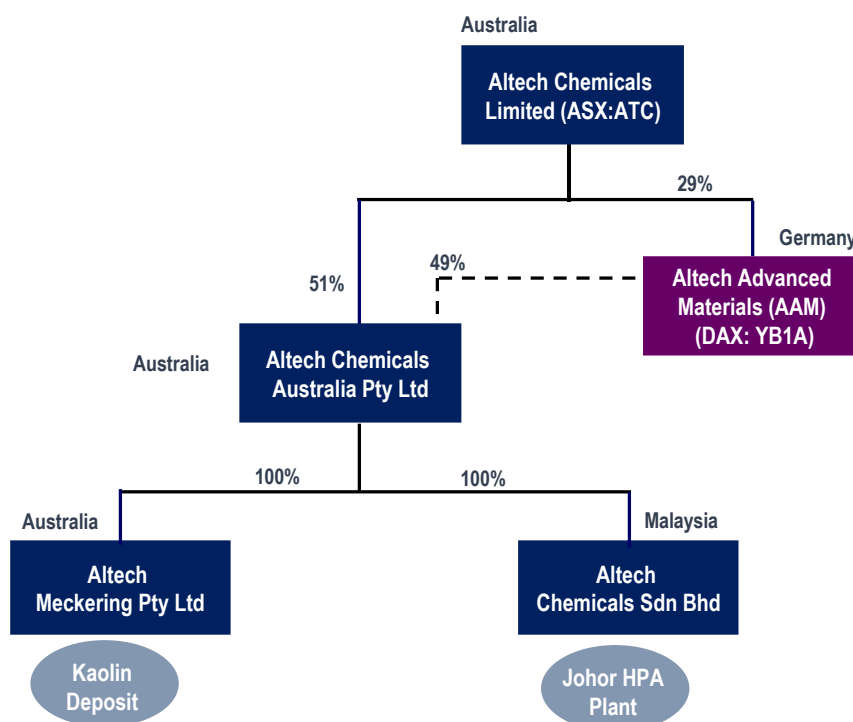
Altech has executed a subscription, sell-back and sell-back put option deed with YAG that affords YAG the non-exclusive right to acquire up to a 49% direct interest in Altech's HPA project for US\$100 million. YAG will pay Altech a non-refundable fee of €500,000 in cash for the right. The right must be executed on or before the earlier of project financial close or 1 January 2021.

Under the terms of the deed:

- YAG has the right to acquire a minimum 10% direct HPA project interest (for a pro-rata amount of US\$20.4 million) up to a maximum of 49% direct HPA project interest for US\$100 million, by subscribing to shares in Altech's wholly-owned subsidiary Altech Chemicals Australia Pty Ltd (see Figure 1 below);
- At the end of year 6 after project financial close, YAG must sell-back to Altech all of the HPA project interest that it acquired for a price that would deliver YAG a return of 15% p.a. on its initial acquisition cost (the sell-back);
- Altech has the option to trigger a YAG sell-back at any time prior to the 6th anniversary of project financial close at a purchase price for YAG's interest that would deliver the same annual return (15%); and
- YAG may cancel its sell-back obligation at any time by paying a cancellation fee to Altech thereby retaining its HPA project interest.

The deed is subject to the completion of Altech's acquisition of the 29% interest in YAG (i.e. all conditions precedent being satisfied).

Figure 1. Altech corporate structure following the 29% acquisition of YAG and sale of the right



Altech has previously stated that it is prepared to sell up to 49% of its HPA project to a joint venture partner as part of its project financing strategy. The Company continues to exchange project information via its data room and progress discussions with a number of potential partners.

Altech also continues to work with Macquarie Bank towards finalising a project mezzanine debt facility. This proposal to offer up to a 49% project equity interest via a Frankfurt listed public company does not stop the joint venture partner initiative or the work with Macquarie Bank, it may complement these initiatives, or it could be an alternative depending on the various outcomes.

Background

In Germany and throughout Europe generally there is heightened awareness and corresponding investment interest in the battery materials and green energy sectors (LEDs for example). There is an ever increasing focus on the transition from vehicles powered by internal combustion engines to those powered by lithium-ion batteries and the corresponding investment opportunities that this transition presents.

Germany and France have led the way and unveiled details of a strategy to support the creation of a major battery industry in Europe. In addition, the stringent 2020 EU CO₂ emission standards (95g per kilometre) are paving the way for the rapid displacement of internal combustion engine vehicles with electric vehicles (EVs). To meet the new standards, European automotive manufacturers have announced plans for new EV models releases – both fully electric and/or hybrids. A range of companies have recently committed to constructing or expanding battery cell plants in the EU – by 2023/2024 the expected effective capacity is 147GWh. Global battery capacity is likely to be greater than 800GWh in 2023.

Europe has correctly identified risks along the EV supply chain and has outlined the need for regional integration of the battery/EV production process. The current reliance on Asian suppliers has been identified as a concern. Importantly, the EU has a co-ordinated strategy – offering incentives to buyers, setting strict CO₂ emission standards, revealing new grants and subsidies for battery companies to secure production facilities and raw

materials within Europe. Volkswagen has stated that it would like to see all of its EV manufacturing supply chain steps established in Europe.

Altech's HPA project continues to attract significant interest in Germany and Europe due to the US\$190m of committed senior debt funding from German government-owned KfW IPEX-Bank; the support of Euler Hermes – the German government export credit agency; the award of the contract for construction of the HPA plant to SMS group of Dusseldorf, Germany; and the Company's already significant German shareholder base (approximately 20%) comprising Deutsche Balaton, Delphi, SMS Investments and various other German and European retail shareholders.

Altech's view that supply shortfalls of battery grade 4N+ HPA (used in lithium-ion battery separators) is likely in the medium term has been recently supported with the release of CRU's HPA market outlook report (refer ASX announcement of 3 July 2019). Altech's proposed investment in Frankfurt-listed YAG and the sale to YAG of the right to acquire up to a 49% interest in the Company's HPA project is an important first step in a longer-term strategy for the Company to increase its exposure to European investors and to service the growing European EV/battery market with 4N HPA.

About YAG

YAG's shares are listed on the regulated market in the General Standard of the Frankfurt Stock Exchange (FRA: YB1A).

The company has 1,577,552 shares on issue and its shares have recently traded in the range of €1.60 – €1.90. YAG holds net cash and liquid securities of approximately €0.7 million and has no business activities other than its holdings of liquid securities.

The total acquisition cost for the 29% YAG interest (458,000 shares) is €2,729,000 and comprises:

- €1,729,000 payable in cash, €500,000 of which is to be paid within 30 days of the satisfaction of all conditions precedent (see below), with the balance (€1,229,000) payable by 31 March 2020; and
- €1,000,000 payable in Altech shares upon satisfaction of all conditions precedent; the shares will be issued at a 15% discount to the 10-day VWAP at the date of exercise of the agreement.

The acquisition of the YAG shares is subject to the following conditions precedent, which are expected to be satisfied at or shortly after the general meeting of YAG shareholders held on 17 July 2019:

1. Altech being satisfied with the outcome of all due diligence and other investigations in relation to YAG;
2. Approval of the Altech board of directors for the transaction;
3. Receipt of any required regulatory approvals and/or third party consents in Germany and Australia;
4. YAG shareholder approval for a change of company name to Altech Advanced Materials AG (AAM);
5. YAG shareholders resolving to increase the share capital of the company by not less than 63,102,080 new shares with a contemplated issue price of €1.10 per share; and
6. Appointment of various Altech nominees to the supervisory board and management board of YAG.

Altech's sale of the right to AAM (formerly YAG) to acquire up to a 49% interest in the Company's HPA project via the subscription of shares in Altech's wholly-owned subsidiary Altech Chemicals Australia Pty Ltd is subject to Altech purchasing the AAM (formerly YAG) shares and delivering the initial consideration due within 30 days of conditions precedent satisfaction. Under the terms of the subscription, sell-back and sell-back put option deed, AAM may exercise its right to acquire a direct project interest via a subscription of shares in Altech Chemicals Australia Pty Ltd in whole or in parts for the duration of the exercise period, which expires at the earlier of project financial close or 1 January 2021 with a minimum subscription amount equivalent to a 10%

equity interest. The subscription amount payable by AAM in the case of a partial exercise will be calculated on a direct pro-rata basis, based on the price of US\$100 million for a 49% HPA project interest.

Both agreements are binding but remain subject to satisfactory due diligence, conditions precedent and final approval by the Altech board.

Terms of Agreement – Acquisition of 29% of the issued shares of Youbisheng Green Paper AG

Item	Acquisition Deed – 29% of Youbisheng Green Paper AG (YAG)
Market Listing	Regulated Market of the Frankfurt Stock Exchange
Shares on issue	1,577,552 shares, trading in a range of €1.60 - €1.90 per share
YAG net cash and liquid investments	~€700,000 (31 December 2018)
Sale shares	458,000 shares
Seller of shares	Deutsche Balaton AG
Purchaser of shares	Altech Chemicals Limited (ATC)
Purchase Consideration	€2,729,000
Payment Structure	€1,729,000 payable in cash; and €1,000,000 payable in fully paid Altech shares (priced at a 15% discount to the 10-day VWAP at the date of all conditions precedent satisfied, with a floor price of \$0.08 per share).
Payment Timing	1. €500,000 within 30 days of satisfaction of conditions precedent; 2. Altech shares to the value of €1,000,000 upon satisfaction of all conditions precedent (completion date); 3. Balance of €1,229,000 due 31 March 2020.
Conditions Precedent	1. Due diligence to the satisfaction of Altech; 2. Altech Chemicals Limited board final approval; 3. Shareholders of YAG approving the appointment of Iggy Tan and Uwe Ahrens to the YAG management board; 4. Shareholders of YAG approving the appointment of two Altech nominees to the YAG supervisory board; 5. Shareholders of YAG approving the change of company name to Altech Advanced Materials AG (AAM); and 6. Shareholders of YAG approving a capital increase of 63,102,080 new shares, valid for six (6) months after the AGM. All to be satisfied or waived by 30 September 2019.
Sell-Back option	Altech has the right to sell-back the 458,000 YAG shares (if purchased) at any time prior to 30 June 2020, if less than €20,000,000 of new equity in YAG has been raised. The sell-back price for the shares will be the lower of €1,729,000 or the net asset value per share plus €1,500,000, payable in cash.



Terms of Agreement – Right for YAG (to be renamed AAM) to acquire up to a 49% interest in Altech’s HPA project with guaranteed sell-back

Item	Subscription, Sell-Back and Sell-Back Put Option Deed for up to a 49% interest in Altech’s high purity alumina (HPA) project
Interest	Up to 49% of the issued shares (interest) in Altech Chemicals Australia Pty Ltd
Issuer of interest	Altech Chemicals Australia Pty Ltd (Project Co)
Acquirer of interest	Altech Advanced Materials AG (AAM) (formerly Youbisheng Green Paper AG (YAG))
Consideration	US\$100 million for a 49% interest in Project Co
Fee for Right to acquire (non-refundable)	€500,000 payable within 30 days of satisfaction of all conditions precedent
Conditions Precedent	1. Due diligence to the satisfaction of Altech 2. Altech Chemicals Limited Board final approval 3. Satisfaction of all condition precedent items specified in the agreement for the acquisition of 29% of the shares of YAG
Exclusivity	Non-exclusive
Partial subscription	In the case of a partial exercise of the right, the subscription funds payable will be calculated on a direct pro-rata basis, based on US\$100 million for a 49% interest, or US\$2.041 million for every 1% up to a maximum of 49%.
Guaranteed sell-back	AAM must sell-back the 49% interest (or partial interest) to Altech at the end of year six (6) following project financial close. Altech will pay a sell-back price calculated at a 15% annual return on the subscription price.
Altech option for early sell-back	Altech can trigger an early sell-back at any time prior to the end of the year 6 period by paying a sell-back price calculated on an annual return of 15%.
AAM option to cancel sell-back	AAM may elect to cancel the sell-back at any time, including after Altech has exercised its early sell-back option, by paying Altech a cancellation fee of \$10,000.
Subscription to shares in Altech Chemicals Limited (Parent)	In the event that AAM is not able to raise sufficient new equity by financial close that would enable it to subscribe to a minimum 10% interest, AAM may elect to use any amount of its funds to subscribe to Altech Chemicals Limited shares priced at a 15% discount to the 10-day VWAP.

– end –

The potential German and European equity investments referred to in this ASX announcement are conceptual in nature and will depend on factors such as market sentiment, general market conditions, investment mandates, detailed due diligence of potential equity investors, and other such matters. Any commitment of equity will be subject to and is contingent upon amongst other things, the completion of detailed due diligence and various internal approvals. There is no certainty that the equity investments contemplated in the announcement will be concluded. The Company makes no representations or warranties whatsoever as to the outcome of the possible equity raisings described in this announcement.

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About Altech Chemicals (ASX:ATC) (FRA:A3Y)

Altech Chemicals Limited (Altech/the Company) is aiming to become one of the **world's leading suppliers of 99.99% (4N) high purity alumina (HPA)** (Al_2O_3).

HPA is a high-value, high margin and highly demanded product as it is the critical ingredient required for the production of synthetic sapphire. Synthetic sapphire is used in the manufacture of substrates for LED lights, semiconductor wafers used in the electronics industry, and scratch-resistant sapphire glass used for wristwatch faces, optical windows and smartphone components. There is no substitute for HPA in the manufacture of synthetic sapphire.



Global HPA demand is approximately 25,315tpa (2016) and demand is growing at a compound annual growth rate (CAGR) of 16.7% (2016-2024), primarily driven by the growth in worldwide adoption of LEDs. As an energy efficient, longer lasting and lower operating cost form of lighting, LED lighting is replacing the traditional incandescent bulbs.

Current HPA producers use expensive and highly processed feedstock materials such as aluminium metal to produce HPA. Altech has completed a Final Investment Decision Study (FIDS) for the construction and operation of a 4,500tpa HPA plant at the Tanjung Langsat Industrial Complex, Johor, Malaysia. The plant will produce HPA directly from kaolin clay, which will be sourced from the Company's 100%-owned kaolin deposit at Meckering, Western Australia. Altech's production process will employ conventional "off-the-shelf" plant and equipment to extract HPA using a hydrochloric (HCl) acid-based process. Production costs are anticipated to be considerably lower than established HPA producers.

The Company is currently in the process of securing project financing. Construction of the HPA plant at Johor, Malaysia has commenced with the execution of an agreement with its appointed EPC contractor SMS group for Stage 1 and Stage 2 of construction.

Forward-looking Statements

This announcement contains forward-looking statements which are identified by words such as 'anticipates', 'forecasts', 'may', 'will', 'could', 'believes', 'estimates', 'targets', 'expects', 'plan' or 'intends' and other similar words that involve risks and uncertainties. Indications of, and guidelines or outlook on, future earnings, distributions or financial position or performance and targets, estimates and assumptions in respect of production, prices, operating costs, results, capital expenditures, reserves and resources are also forward-looking statements. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions and estimates regarding future events and actions that, while considered reasonable as at the date of this announcement and are expected to take place, are inherently subject to significant technical, business, economic, competitive, political and social uncertainties and contingencies. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the directors and management. We cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are subject to various risk factors that could cause actual events or results to differ materially from the events or results estimated, expressed or anticipated in these statements.