



Altech Chemicals
Limited

ASX ANNOUNCEMENT AND MEDIA RELEASE

26 October 2020

ALTECH – SALE OF 25% OF ALTECH INDUSTRIES GERMANY FOR A\$8.3 MILLION

Highlights

- €5.0 million (A\$8.3 million) sale of 25% of Altech's wholly owned Germany subsidiary (AIG)
- Acquired by Frankfurt Stock Exchange listed Altech Advanced Materials AG
- Initial cash payment, with balance of consideration payable over 3 years
- AIG will have the rights to use Altech's HPA manufacturing technology
- €20.0 million (A\$33 million) valuation of AIG, with Altech retaining 75%

Altech Chemicals Limited (Altech/the Company) (ASX: ATC) (FRA: A3Y) is pleased to announce that it has executed a binding Memorandum of Understanding (MOU) to sell 25% of its wholly owned Germany subsidiary – Altech Industries Germany GmbH (AIG) for € 5.0 million (~A\$ 8.3 million), to Frankfurt Stock Exchange listed Altech Advanced Materials AG (AAM).

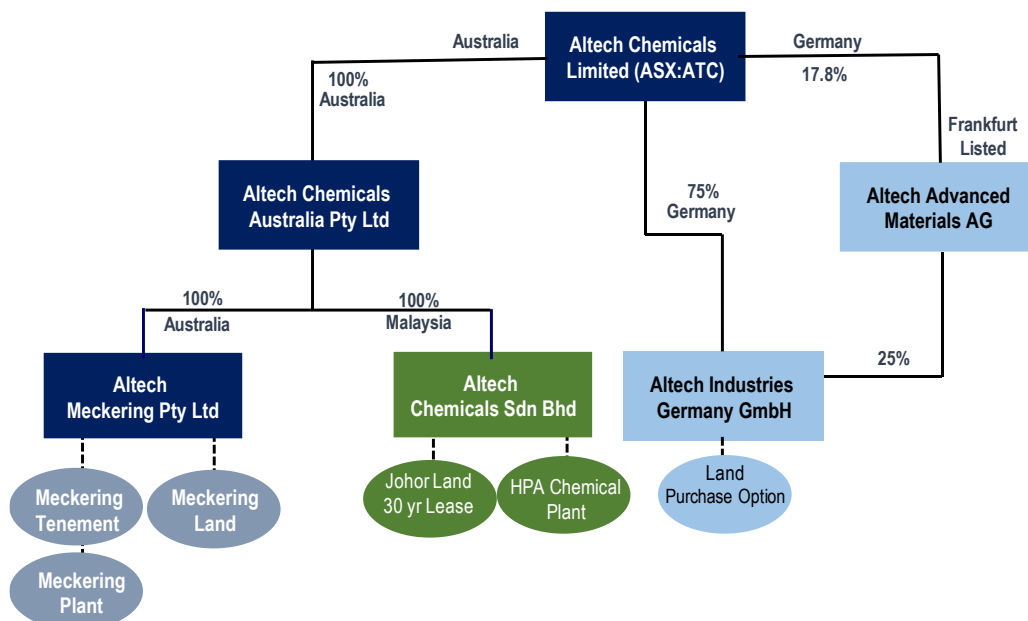
The consideration payable for the sale is structured as follows:

1. Initial Cash Consideration of € 250,000 (~A\$415,000) upon the signing of the Share Sales and Purchase Agreement and a Shareholder Agreement between ATC and AAM.
2. Deferred Consideration: of €4.75 million (~A\$7.92 million), payable as follows:
 - Three equal instalments of €1.583 million (~A\$2.63 million) paid on each annual anniversary of the payment of the Initial Cash Consideration;
 - Interest, paid quarterly to ATC at the rate of 3% p.a. (~A\$240k p.a.) on the outstanding Deferred Consideration;
 - AAM may pay the outstanding Deferred Consideration in full to ATC at any time without penalty; and
 - The Deferred consideration will be secured via the pledge by AAM of the 6,250 AIG shares (i.e. should the Deferred Consideration not paid be paid in full at or before the third anniversary of the Immediate Cash Payment the AIG will fall back to ATC and all consideration paid by AAG will be retained by ATC).
3. AAM will proportionally participate in all future equity raises by AIG on the same terms as ATC, for the purpose of funding its working capital and envisaged business development activities, such as the exercise of its option to acquire industrial land at the Schwarze Pumpe Industrial Park, Saxony, Germany.

The transaction is approved by the supervisory board of AAM, and by the board of Altech. The 25% sale values AIG at €20.0 million (~A\$33 million), with Altech retaining 75%.

Altech's corporate structure post the sale of 25% of AIG is shown in Figure 1, below.

Figure 1 – Altech Corporate structure post sale of 25% of AIG



In addition to holding the right to acquire the Schwarze Pumpe Industrial land (ASX Announcement 14 July 2020) and the availability of €7.8 million (A\$12 million) of grant support from the state of Saxony, Germany (ASX Announcement 13 October 2020), AIG will also have the right to use Altech's high purity alumina (HPA) manufacturing technology via a license agreement with Altech, including any future development of Altech's proposed Anode Grade HPA; a fee will be payable by AIG to Altech for the use of these rights.

Commenting on the sale, Altech managing director Mr Iggy Tan said "securing AAM as a 25% shareholder of AIG will deliver benefits for each of the companies. AIG will now have a German shareholder (AAM) which will better position it to apply for various European Union and German manufacturing incentives – as Europe brings its supply chains closer to home to increase critical raw materials self-reliance, such as materials that are used in the manufacture of lithium-ion batteries. For Altech, an AIG that is co-funded and will be championed in Germany and Europe by an extremely supportive German shareholder (AAM) was an opportunity not to be missed.

Altech continues to remain focussed on delivering the close of funding for our Johor HPA plant, however selling 25% of our German subsidiary to AAM will both assist in the future funding of AIG and with the due diligence and feasibility study work that has been initiated for a second HPA plant in Germany."

– end –

Authorised by: Iggy Tan (Managing Director)

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Wir sprechen Deutsch.

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 (Al₂O₃) through the construction and operation of a 4,500tpa high purity alumina (HPA) processing plant at Johor, Malaysia. Feedstock for the plant will be sourced from the Company's 100%-owned kaolin deposit at Meckering, Western Australia and shipped to Malaysia.

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. Increasingly HPA is used by lithium-ion battery manufacturers as the coating on the battery's separator, which improves performance, longevity and safety of the battery. With global HPA demand approximately 19,000t (2018), it is estimated that this demand will grow at a compound annual growth rate (CAGR) of 30% (2018-2028); by 2028 HPA market demand is forecast to be approximately 272,000t, driven by the increasing adoption of LEDs worldwide as well as the demand for HPA by lithium-ion battery manufacturers to serve the surging electric vehicle market.



German engineering firm SMS group GmbH (SMS) is the appointed EPC contractor for construction of Altech's Malaysian HPA plant. SMS has provided a USD280 million fixed price turnkey contract and has proposed clear and concise guarantees to Altech for plant throughput and completion. Altech has executed an off-take sales arrangement with Mitsubishi Corporation's Australian subsidiary, Mitsubishi Australia Ltd (Mitsubishi) covering the first 10-years of HPA production from the plant.

Conservative (bank case) cash flow modelling of the project shows a pre-tax net present value of USD505.6million at a discount rate of 7.5%. The Project generates annual average net free cash of ~USD76million at full production (allowing for sustaining capital and before debt servicing and tax), with an attractive margin on HPA sales of ~63%. (Refer to ASX Announcement "Positive Final Investment Decision Study for 4,500TPA HPA project" dated 23 October 2017 for complete details. The Company confirms that as at the date of this announcement there are no material changes to the key assumptions adopted in the study).

The Company has been successful in securing senior project debt finance of USD190 million from German government owned KfW IPEX-Bank as senior lender. Altech has also mandated Macquarie Bank (Macquarie) as the preferred mezzanine lender for the project. The indicative and non-binding mezzanine debt term sheet (progressing through due diligence) is for a facility amount of up to USD90 million. To maintain project momentum during the period leading up to financial close, Altech has raised ~A\$39 million in the last 24 months to fund the commencement of Stage 1 and 2 of the plant's construction; Stage 1 construction commenced in February 2019 with Stage 2 early works completed at the end of June 2020.

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.