

14 November 2018

Company Announcements Office
Australian Securities Exchange
10th Floor
20 Bond Street
SYDNEY NSW 2000

ANNOUNCEMENT NUMBER 344

Via: ASX Online

Number of Pages: 4 (including this page)

ASX Code: 1AG

Dear Sir

Corporate Update: Restructure & Potential Demerger of Carbon Business

HIGHLIGHTS

- Alterra Board has committed in-principle to a restructure and demerger of its Carbon Business to better realise value to shareholders and enable the development of new agribusiness projects.
- A new company Carbon Conscious Investments Ltd has been established which will own the Carbon Business and is currently a 100% owned subsidiary of Alterra.
- Subject to shareholder approval, the demerger will take place via Alterra distributing 85% of the CCIL shares in-specie to Alterra shareholders with Alterra retaining 15%.
- Alterra will be contracted to continue to manage the Carbon Business operations under a Service Agreement.
- A Notice of Meeting outlining the Proposed Transaction will be distributed to shareholders in the near future.

Alterra Ltd (ASX: 1AG) (**Alterra** or **Company**) is pleased to advise that its board of directors (**Board**) has approved in-principle to a restructure and demerger of the Company's Carbon Business (**Proposed Transaction**).

Background

Alterra, (then trading as Carbon Conscious Limited) was contracted to establish carbon forest estates for carbon sequestration in 2009, 2010, 2011 and 2012 (**Carbon Business**). The Carbon Business generates quarterly revenue for the ongoing management by Alterra of the carbon forest estates on behalf of customers till September 2027.

Due to political uncertainty in relation to carbon markets and carbon pricing, there have been no new significant agro-forestry projects for carbon sequestration established by the Company since 2012.

Since 2015, the Company has been focussed on re-building its balance sheet and identifying new agribusiness opportunities for growth with a focus on dairy.

In March 2016, the Company changed its name from Carbon Conscious Limited to Alterra Limited, reflecting the Company's focus on new agricultural ventures.

In March 2017, Alterra purchased a property “ambadgee Springs” near Dandaragan in Western Australia as a prospective dairy site. The property was assessed as highly suitable for the development of an intensive dairy operation and is currently leased for cropping purposes, generating positive cash-flow, while feasibility studies are conducted. The Company is currently focussed on securing water access, refining environment management plans and applications and securing a milk off-take contract.

Alterra has been reviewing dairy opportunities in Queensland and is in ongoing discussions regarding the potential to establish a large-scale dairy operation to supply milk to the Queensland domestic market. In addition, the Company continues to review other agribusiness opportunities with a focus on horticulture and water assets.

Proposed Transaction

The Carbon Business is made up carbon property rights, licences and contracted management agreements with counterparties out till September 2027 and, subject to the existing contracts remaining on foot, is expected to generate revenue of \$21 million between 1 January 2019 and 30 September 2027. The Board is keen to unlock the significant value in the Carbon Business and demerging these assets into a new company with a focus on managing the Carbon Business is expected to achieve this.

Management have been engaging with key customers, regulators and advisers in order to complete the restructure of the ownership of the Carbon Business to enable a demerger should shareholders approve to do so. Completion of the restructure is expected by 31 December 2018.

The Proposed Transaction would see the Carbon Business become the primary asset and key focus of a new unlisted company Carbon Conscious Investment Ltd (**CCIL**) which is currently a 100% subsidiary of Alterra.

The intention is to manage the operations of CCIL conservatively with an emphasis on keeping costs down and maximising cash-flow from the Carbon Business for the potential return to shareholders.

Alterra would retain the existing cash, land and other assets and would be free to focus on its existing dairy operations (**Dairy Business**) and other new agribusiness opportunities.

Managing Director Mr Andrew McBain said “the demerger would provide Alterra shareholders with continued exposure to the long term and consistent cash-flows of the existing Carbon Business and enable Alterra to be more aggressive in relation to developing new business opportunities. After considering numerous options, we believe the demerger of the Carbon Business is the most balanced option, allowing shareholders to retain exposure to the income stream generated by the Carbon Business via CCIL, Alterra’s Dairy Business as it embarks on a strategy focussed on capital growth, or both.”

The Company is aiming to complete the Proposed Transaction in Q1 2019.

Strategic Rationale

Alterra's primary purpose in undertaking the proposed restructure and demerger is to separate the ownership of the Carbon Business from the Dairy Business and any other new agricultural activities undertaken by Alterra. Specifically, the proposed demerger is being undertaken to achieve the following objectives:

- I. The Carbon Business generates consistent contracted cash-flow out till September 2027, however, Alterra's Board believes that the value of the Carbon Business is not reflected in Alterra's market capitalisation. The demerger delivers a corporate structure that allows a greater opportunity for the true value of the Carbon Business to be realised, thereby enabling shareholders to benefit.
- II. Due to the lack of new opportunities in the Carbon Business, Alterra is focused on developing its non-Carbon Business assets. The undervaluation of the Company's business, including the Carbon Business, complicates new project development including fund raising efforts.
- III. A demerger has the effect of quarantining the Carbon Business so that the consistent cash-flow from the Carbon Business contracts is not exposed to risk from the Dairy Business or any new agribusiness ventures undertaken by Alterra.
- IV. With the pool of investors willing to invest in the Carbon Business and the pool of investors willing to invest in the Dairy Business and other projects believed to be quite distinct, the demerger is expected to enhance the capacity of Alterra to raise funds and reduce its costs of equity capital.
- V. Provide shareholders with the opportunity to retain exposure to the cash-flows associated with the Carbon Business, while maintaining their investment exposure to the Dairy Business and any new agribusiness opportunities.
- VI. Enable both CCIL and Alterra to undertake more targeted marketing as both companies will have a clear and more easily understood investment proposition.

The demerger will enable:

- I. Alterra to dedicate its efforts to its Dairy Business and other new agribusiness opportunities;
- II. CCIL to focus on the management of the Carbon Business; and
- III. the removal of the internal competition for capital.

Proposed Transaction Structure

The Proposed Transaction would see CCIL acquire the Carbon Business from Alterra in return for all of the issued capital in CCIL. It is anticipated that existing Alterra shareholders who remain on the Alterra share register on the record date (to be confirmed and subject to shareholder approval) would be eligible to receive shares in CCIL via an in-specie distribution. Alterra intends on an in-specie distribution of 85% of the shares in CCIL to Alterra shareholders with Alterra retaining 15%.

Both Alterra and CCIL would have a dedicated board, however, CCIL would contract the Carbon Business operations to Alterra and would share various administrative overheads.

Timetable

The Proposed Transaction will only proceed if the following conditions are met:

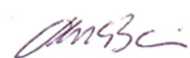
- I. various agreements including novation deeds have been executed with key customers;
- II. the Company obtaining shareholder approval under the Corporations Act for the proposed In-specie Distribution;
- III. confirmation from CCIL, to the satisfaction of the Alterra Board, that CCIL has the necessary financial capacity to operate post demerger; and
- IV. confirmation from the Australian Taxation Office, to the satisfaction of the Board, that demerger relief in relation to capital gains tax is likely to be granted.

Subject to the timing of these approvals, the Company is targeting completion of the Proposed Transaction in Q1 calendar year 2019.

Next Steps

The Company expects to be in a position to send shareholders a Notice of Meeting providing detail in relation to the Proposed Transaction in the near term.

Yours faithfully



Andrew McBain
Managing Director