



CERAMIC FUEL CELLS LIMITED

Clean power for your home

CHAIRMAN'S ADDRESS

Annual General Meeting held on Thursday 20 November 2014

1.0 INTRODUCTION.

Good afternoon Ladies and Gentlemen, my name is Alasdair Locke and I am the Chairman of Ceramic Fuel Cells Limited. On behalf of the Company's Board I welcome you to our 2014 Annual General Meeting.

Before we formally open the meeting, I would like to introduce your Directors and then say a few words about the Company's progress during the last financial year and the outlook for the next financial year.

I will now introduce your Directors:

- Mr. Bob Kennett – Managing Director & CEO
- Mr. Clifford Ashby – Director & Chief Financial Officer
- Dr. Karl Föger – Non-executive Director

As many of you know, Karl has been our Chief Technology Officer for many years and a key figure in the development of BlueGEN. We are very pleased that he has agreed to continue to support the company in his non-executive role and to work closely with our technical team and advise on our ongoing technical progress.

2.0 MARKET OUTLOOK

World energy markets are continuing to change in their structure. As reported last year the increased availability of gas from “fracking” in the US has shifted the balance of supply and demand on a global basis. China and southern Asia continue to increase their demand evidenced in one example by the long-term contract signed earlier this year between China and Russia. The review of nuclear generation strategies continues. Germany remains committed to closing its nuclear fleet and has established a strategy based on increasing energy efficiency, the use of renewable supplies and the support of alternative energy sources including distributed generation.

Electricity prices have continued to rise. The UK has seen a further rise this year in the number of households falling within the classification of fuel poverty. Consumers are increasingly concerned about energy costs but are also very aware of environmental issues. In developed countries, whilst electricity demand continues to rise, new large-scale power plants are still very difficult to operate on a commercially sound basis. Furthermore securing funding for new build projects continues to be a major challenge.

As a consequence, the CFCL Board is confident that our BlueGEN product and its derivatives can play a vital role in supporting energy strategies on a global basis.

- We report every year that BlueGEN continues to demonstrate the highest electrical efficiency of any micro-generation technology available. This remains the case and we are confident that at the current 60 % (delivered at the point of use) and overall efficiency of 85% (including thermal output as hot water) is considerably ahead of any other competing technology.
- Demand for electricity in both developed and developing countries continues to increase. Building new large-scale generation plants is difficult in developed countries. Small-scale, in-home generators can readily bridge the gap between demand and capacity.
- BlueGEN delivers substantial CO2 savings (in the region of up to 12 tonnes per annum from each unit).
- Distributed generation in homes and other buildings avoids the need for substantial investment in the reinforcement of transmission line capacity particularly at a local level.
- The global market potential is very large. Germany alone, for example, provides the opportunity for the installation of several hundred thousand units. Other markets with similar potential include the UK, Netherlands, USA, Canada and Japan.
- BlueGEN has the capability to provide grid stability in markets where renewable energy penetration is high. Its ability to modulate load will potentially allow us to add substantial value in these markets.

3.0 ACHIEVEMENTS AGAINST KEY OBJECTIVES

3.1 BlueGEN OPERATIONAL PERFORMANCE

- The BlueGEN fleet has now achieved close to 5.5 million successful accumulated operating hours during which we have demonstrated very high levels of availability and reliability.
- Our technical team has achieved significant success in the reduction of degradation levels in our stack performance. The 70% reduction is expected to increase stack life to 5 years or more. This is clearly a major milestone in establishing the commercial viability of the BlueGEN unit.

3.2 MANUFACTURING.

Over the last year, the production team has put in a great deal of effort to meet our key objective of unit cost reduction. This is a vital process in our manufacturing development activities and critical in terms of working towards a cost base which avoids the need for fiscal support. The CFCL team, together with our manufacturing partners, has made very significant progress in identifying major reductions in component costs. Since 2012, a reduction of 29% has been achieved and we remain confident of being able to achieve further savings through volume production and value engineering.

3.3 SALES

- Our main focus remains with opportunities within the European market and more specifically, Germany and the UK.

- The initial state incentives scheme in Germany (NRW) has taken somewhat longer to come into effect than originally anticipated but we have certainly seen acceleration in approvals in recent months. In addition four other states in Germany have introduced similar schemes.
- In the UK our prime focus is the development of project-based opportunities particularly in the social housing sector. We are also developing distribution channels in the UK.
- Over the past financial year we sold 210 BlueGEN units. We are currently negotiating with a number of organisations for large-scale orders, which we hope to secure in the next few months.
- On 17 November we announced the commencement of the first fully funded BlueGEN programme, which comprises a 100kW fleet of BlueGENs (a minimum of 65 units). This programme is targeted primarily at public sector organisations that can take advantage of the significant carbon and energy savings BlueGEN has to offer. This contract follows our decision earlier this year to revise our sales strategy in order to focus primarily on larger scale projects and demonstrates the large potential and commercial viability of this contractual structure.

3.4 FUNDRAISING

- Having completed a review of our resource requirements in the first half of the calendar year we have continued to rigorously manage our cash flow.
- During the financial year the Company raised a net \$12.0 million (£6.6 million) from the issue of Equity and a net \$0.5 million (£0.3 million) from the issue of Convertible Loan Notes. The Rights Issue announced in September closed on 19 November 2014 and the results are currently being compiled. The Company expects to make announcements in relation to the outcome in accordance with the timetable foreshadowed.
- A further \$4.1 million (£2.4 million) has now been received as a tax refund against research and development expenditure in FY 2014.
- In December 2013 the Company sold the assets of its powder plant for £1.1 million (A\$2.0 million). A change and improvement in our production process had resulted in us no longer using the powder from the plant, hence, the Company realised a surplus asset that will have no detrimental effect on the Company.

4.0 FY14 FINANCES

The management team has continued to focus on cash management over the last year and our operating costs have been reduced by 20% over the past 7 months building on the cost savings implemented in the previous financial year. In total we have reduced our operating cost base by 35% since December 2012. We have been careful to ensure that this cost saving has not been to the detriment of our external sales, marketing and manufacturing requirements. We have also maintained strong relationships with our distributors and manufacturing partners.

Key financial results for the year from 1 July 2013 to 30 June 2014 are as follows:

- Net Loss after Tax - AUD 21.4M (GBP 11.8M) (increase of 8% from FY13)

- Revenue from Operations - AUD 6.1M (GBP 3.4M) (increase of 43% from FY13)
- Net Operating cash outflow - AUD 18.3M (GBP 10.0M) (increase of 9% from FY13)
- Cash balance at 30 June 2014 - AUD 5.3M (GBP 2.9M)

5.0 SUMMARY

To summarise, we have seen some progress in sales and major improvements in the performance of our BlueGEN unit.

At the beginning of calendar year 2014 we reviewed our sales strategy to concentrate our limited resources on projects with potential order numbers in the hundreds and ultimately thousands. We remain confident that this is the most efficient way of developing the market and that we will be able to successfully demonstrate a proven commercial model based on a number of alternative financing options.

The team has achieved a major success in improving the performance of the BlueGEN unit through a very significant reduction in degradation and as previously mentioned, we are confident that we have maintained our technical lead in the market.

We have concentrated resources on our ongoing objective of reducing component cost to a point where fiscal incentives are no longer required and the exercise is demonstrating excellent results.

The CFCL Board is well aware of the patience and continued support from our shareholders. I can assure you that we are all totally committed to working hard to achieve our strategic objectives and take full advantage of the opportunities open to the company and its products.

To this end, the Board continues to explore all options for the Company to support the significant global opportunities for our product and technology.

On behalf of the CFCL Board I would like to thank all shareholders who retained their faith in the Company and participated in the recently closed Rights Issue. I would also like to thank all shareholders for their patience and support of the Company over the past year.

Alasdair Locke

Chairman