CERAMIC FUEL CELLS

Market Announcement

Monday 27 February 2012

Half Year Accounts

Key Points:

- **Three-fold increase in revenue**
- **Five-fold increase in unit sales**
- **Significant increase in international sales and service channels**

Ceramic Fuel Cells Limited [AIM / ASX: CFU] – a leading developer of high efficiency and low emission power products for homes and other buildings – today released its interim financial results for the six months ended 31 December 2011.

Revenue for the period increased three-fold to AUD 3.3 million, from AUD 900,000 in the previous corresponding period. During the period the Company recorded sales of 67 units, a five-fold increase in sales compared to the December 2010 half year.

Cumulative orders doubled from July to December 2011 – to a total of 614 units. Orders for 100 units or more were received from distributors in Germany and The Netherlands, and from E.ON UK. The current open order book of 476 units will deliver increased revenue and cashflow in future quarters.

During the half year the Company added significantly to international sales and service channels. BlueGen distributors were appointed in key markets of Germany and The Netherlands. Local installation and service partners were trained in Europe, United Kingdom and Australia.

Ceramic Fuel Cells continues to invest in product development, and will continue to scale up for future growth. A placement and a rights issue during the half year raised AUD 16.4 million.

Ceramic Fuel Cells Managing Director Brendan Dow said recent developments in European markets had added significantly to the attractiveness of the company's products. "*The German Parliament has proposed an increased feed in tariff for products like ours, and German states have announced market introduction programs. Earlier this month we stated that we welcomed the UK Government's announcement of an increase in the feed in tariff for micro power and heating products (m-CHP), which includes our BlueGen product. There is no doubt that governments the world over are seeing the benefits of distributed generation of electricity, particularly technologies like ours which significantly reduce carbon emissions.*"

BlueGen delivers an electrical efficiency of up to 60 percent – the highest in the world. When the heat from BlueGen is used to produce hot water, total efficiency increases to up to 85 percent. The BlueGen product is the first and currently the only fuel cell m-CHP product to receive certification under the Microgeneration Certification Scheme (MCS) and be eligible for the UK feed in tariff.

In November 2011 the Company signed a Manufacturing Services Memorandum of Understanding with Jabil Circuit Inc, a global electronic manufacturing service provider with 55 factories in 22 countries and annual revenue of USD 16 billion. Jabil's global cleantech business unit makes a range of energy products including solar panels, smart grid meters and wind turbines. Under the MoU, Ceramic Fuel Cells and Jabil will work together towards scaling up manufacturing volumes of Ceramic Fuel Cells' Gennex fuel cell module and BlueGen product and reducing unit costs quickly, whilst maintaining consistent quality and security of supply.

The Directors' Report and Financial Report for the half year are available at www.cfcl.com.au.

ENDS

For more information please contact:

Ceramic Fuel Cells Limited

Andrew Neilson	Mobile	: +61 (0) 419 950 771
	Email	: investor@cfcl.com.au

Nomura Code Securities (AIM Nomad)

Juliet Thompson, Chris Golden	Tel.	: +44 (0) 207 776 1200

Australian media enquiries

Richard Allen	Tel.	: +61 (0) 3 9915 6341
Oxygen Financial Public Relations	Email	: richard@oxygenpr.com.au

UK media enquiries

Mark Way	Tel.	: +44 (0) 7786 116 991
MW Research PR	Email	: mark.w@harvardamerica.com

German media enquiries

Alex Seiler	Tel.	: +49 (0) 69 9218 7454
Hering Schuppener Consulting	Email	: aseiler@heringschuppener.com

About Ceramic Fuel Cells Limited:

Ceramic Fuel Cells is a world leader in developing fuel cell technology to generate highly efficient and low-emission electricity from widely available natural gas. Ceramic Fuel Cells has sold its BlueGen gas-to-electricity generator to major utilities and other foundation customers in Germany, the United Kingdom, Switzerland, The Netherlands, Italy, Japan, Australia, and the USA. Ceramic Fuel Cells is also developing fully integrated power and heating products with leading energy companies E.ON UK in the United Kingdom, GdF Suez in France and EWE in Germany.

The company is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).

www.cfcl.com.au

CERAMIC FUEL CELLS LIMITED

Clean power for your home

ASX
Half-year Report

Period ended 31 December 2011

Lodged with the ASX under Listing Rule 4.2A.3

Contents

	Page
Results for announcement to the market	2
Net tangible asset backing	3
Control over other entities	3
Associates and joint venture entities	3
Compliance statement	3

Results for announcement to the market

Half-year ended 31 December 2011
(Previous corresponding period: Half-year ended 31 December 2010)

	Movement	***%***		***$***
Revenue from ordinary activities	Up	257.3	to	3,312,684
Loss from ordinary activities after tax attributable to members	Up	48.7	to	(12,478,692)
Net Loss for the period attributable to members	Up	48.7	to	(12,478,692)

Dividend type	***Amount per security***	***Franked amount per security***
Final dividend	None	Not applicable
Interim dividend	None	Not applicable
No dividends were recommended, declared or paid during the period. The Directors do not propose to recommend the payment of a dividend in respect of the period. There is no dividend re-investment plan in operation.		

Brief Explanation of Revenue

- Revenue increased three-fold, from AUD 0.9m in the December 2010 half, to AUD 3.3m
- Sales of 67 units completed, compared to 12 units in the December 2010 half year
- Orders doubled from July to December 2011 – up to 614 units

Brief Explanation of Loss (and Net Loss)

The net loss for the period of A$12,479K compares to a net loss in the previous corresponding period of A$8,392K.

The major reasons for the increased loss of A$4,086K were:

- Sales revenue up by A$2,386K (257.3%);
- Other income down by A$3,900K as a result of a one-off legal settlement that was received in the prior half-year.
- Operating expenses up by A$4,823K (43.9%) as a result of growth in the business – including:
    - Costs of units associated with sales volume growth noted above;
    - Increase investment in sales and marketing activities;
    - Completion of the transfer of BlueGen assembly operations from Australia to Germany and investment in manufacturing production and control systems;
    - Increase in work to achieve safety certification in North America and for product development.
- Decreased loss of A$2,252K on foreign exchange translation due primarily to the Australian dollar having strengthened more in the previous corresponding reporting period than in the current reporting period.

Net tangible asset backing

	31 Dec 2011 cents	*31 Dec 2010 cents*
Net tangible asset backing per ordinary share	**2.7**	3.8

Control over other entities

No control was gained or lost over any entity during the period.

Associates and joint venture entities

The company has no associates, nor has it formed any joint ventures with any other entities during the period.

Compliance statement

This report is based on accounts which have been the subject of review.

CERAMIC FUEL CELLS LIMITED
ABN 82 055 736 671

CERAMIC FUEL CELLS LIMITED

Clean power for your home

Statutory Accounts

For the half-year ended 31 December 2011

LISTED ON AUSTRALIAN STOCK EXCHANGE

CERAMIC FUEL CELLS LIMITED

Clean power for your home

Directors' Report

For the half-year ended 31 December 2011

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Ceramic Fuel Cells Limited and the entities it controlled during, and at the end of, the half-year ended 31 December 2011.

DIRECTORS

The directors of Ceramic Fuel Cells Limited in office at the date of this report are:

- Mr Jeff Harding, *Chairman*
- Mr Brendan Dow, *Managing Director*
- Mr Roy Rose, *Deputy Chairman*
- Dr Peter Binks
- Mr John Dempsey
- Dr Roman Dudenhausen
- Ms Janine Hoey
- Mr Robert (Bob) Kennett

PRINCIPAL ACTIVITIES

The principal activity of the Group during the half-year was the commercial development of power generating products based on the Group's ceramic (solid oxide) fuel cell technology.

There were no significant changes in the nature of the activities of the Group during the half-year.

DIVIDENDS

No dividends were recommended, declared or paid during the half-year and to the date of this report.

REVIEW OF OPERATIONS AND ACTIVITIES

A summary of the financial performance of the Group for the six months ended 31 December 2011 is set out below:

	Half-year	
	2011	*2010*
	$000	*$000*
Revenue from continuing operations	**3,312**	927
Other income	**188**	4,088
Expenses		
Research & Product Development	**(10,854)**	(6,973)
General & Administration	**(3,752)**	(3,295)
Sales & Marketing	**(1,215)**	(730)
Net foreign exchange gain/(loss)	**(158)**	(2,409)
Loss before income tax	**(12,479)**	(8,392)
Income tax expense	**-**	-
Loss for the half-year entirely attributable to members of Ceramic Fuel Cells Limited	**(12,479)**	(8,392)

Highlights of the Half Year

- Increasing Sales Revenue
  - Revenue increased three-fold, from AUD 0.9m in the December 2010 half, to AUD 3.3m
  - Sales of 67 units completed, compared to 12 units in the December 2010 half year
- Building International Sales and Service Channels:
  - BlueGen distributors appointed in key markets of Germany and The Netherlands
  - Local installation and service partners trained in Europe, UK and Australia
- Increasing Order Book
  - Orders doubled from July to December 2011 – up to 614 units
  - Orders for 100 units or more received from distributors in Germany and The Netherlands, and from E.ON UK
  - Current open order book of 476 units, to deliver increased revenue and cashflow in future quarters
- Investing in product development and scale up for future growth. Placement and rights issue raises AUD 16.4m.
- Manufacturing Services MOU signed with global contract manufacturer Jabil Circuit
- Supportive Market Settings
  - UK Government to increase feed in tariff for micro power and heating products (m-CHP)
  - German Parliament also proposes an increased feed in tariff, and German States announce market introduction programs for m-CHP
- The year ahead – continuing to increase sales revenue and reduce unit costs while moving into volume sales.

Operational Overview

Ceramic Fuel Cells Limited is a leading developer of high efficiency and low emission power generating products for homes and other buildings.

The Company's products use patented fuel cell technology to provide highly efficient electricity from widely available natural gas. A fuel cell is an electricity generator that converts gas into electricity and heat through an electrochemical reaction, without combustion or noise. Fuel cells can provide significant environmental benefits through high efficiency and low emissions.

Global energy markets are facing a transformation. Energy use is rising, requiring significant investment in new power generation and grid infrastructure. However there is widespread agreement that greenhouse gas emissions from electricity generation must be reduced. These forces create a very large global opportunity for low-emission energy technology, like solid oxide fuel cells, which can be deployed using the existing natural gas and electricity infrastructure.

The first products to be powered by the Company's fuel cells are small scale units for homes and other buildings that produce one to two kilowatts of power as well as heat for hot water or space heating, with very high efficiency and low emissions.

Ceramic Fuel Cells' products have achieved electrical efficiency of 60 percent, which the Directors believe is higher than any other technology in the rapidly expanding market for small scale power and heating products. When heat is recovered from the electricity production process, total efficiency is up to 85 percent – twice as efficient as the average among current European power stations. This very high efficiency can significantly cut carbon emissions from power generation.

Over the last two years the Company has: completed the initial development of these products; tested and demonstrated the products with customers; and begun to generate larger volume orders. The Company and its subsidiaries employ approximately 137 staff in Australia, the United Kingdom and Europe.

Products

In order to cater for different markets and customers, the Company is developing two products in parallel: a modular generator product called BlueGen®, which provides power and heat for hot water, and an integrated combined heat and power (m-CHP) unit, which provides additional heat for space heating. Both products use the Company's Gennex fuel cell module and share many balance of plant components, allowing the Company and its partners to create different products and customer offerings from the same core technology platform.

Increasing Sales

Since it commenced selling units in late 2009 Ceramic Fuel Cells has now received orders for a total of 616 units. This is made up of 262 integrated m-CHP products and 354 BlueGen® products. This represents a doubling of the order book from June 2011.

Sales revenue increased three-fold, from AUD 0.9m in the December 2010 half year to AUD 3.3m this half year. Sales of 67 units were completed within the half-year, which is equivalent to the total number of units sold in the whole of the last fiscal year, and a five-fold increase on sales of 12 units in the December 2010 half year.

The Company's open order book currently stands at 476 units – with the geographic split being Germany 264, Netherlands 101, UK 107, and four units in other markets. This order book will deliver a substantial increase in revenue and cashflow to the Company as the units are delivered over future quarters.

The Company has sold products directly to early customers, but in larger volumes the Company's strategy is to sell products through a network of distributors and to outsource the installation and service of BlueGen units and integrated products. Our strategy is to use multiple sales channels to drive sales - a "top-down" approach through energy utilities (which can deploy large volumes but tend to move slowly) and a "bottom-up" approach through non-utility commercial sales channels. The Company is focusing most of its resources on several key geographic markets – Germany, The Netherlands and the United Kingdom – which have supportive regulatory settings, a large volume potential, established energy infrastructure and consumer appetite for new energy products. Ceramic Fuel Cells is also 'seeding' other global markets – such as Japan, North America and Australia – which have the potential to develop into deeper markets.

During the half year the Company focused its sales efforts on the following markets:

Germany

In July 2011 the Company appointed sanevo Blue Energy as its first distributor in Germany. Sanevo has placed an initial order for 100 BlueGens to be delivered in the first year, with a target minimum order of 500 for delivery in the second year and a target of 2,000 BlueGens over years three and four. Provided sanevo orders these minimum volumes, sanevo has exclusive rights to distribute BlueGen to commercial and residential customers in the German States of Baden-Württemberg and Bavaria, and in Austria. Ceramic Fuel Cells retains full rights to sell BlueGens to utilities and energy service companies.

During the half year the Company worked with sanevo to finalise its market offering and establish its installation and customer support capability.

In January 2012 sanevo confirmed that it has received customer commitments for all of the first order of 100 BlueGens. Working with sanevo, Stadtwerke Aalen is now the first German Utility to actively promote and support sales of BlueGen to its customers, including by providing an incentive

payment to early customers. Stadtwerke Aalen is the local electricity and gas utility for the region of Aalen in Southern Germany.

During the half year the Company continued to work with EWE, Germany's fifth largest energy utility, and its external contractors as they accelerated the installation of integrated m-CHP systems. These systems are part of EWE's order for up to 200 units – the Company's largest order to date. A total of 32 units have been installed to date, with another 25 units expected to be installed by the end of June, plus a further 145 units from July to December 2012.

Netherlands

In July 2011 Ceramic Fuel Cells appointed Zestiq B.V. (now renamed BlueGeneration) as its first BlueGen distributor in The Netherlands. In September 2011 BlueGeneration placed an order for 100 units for delivery over 12 months. The units will be installed and maintained by Eneco Installatie Bedrijven, the service company of Dutch energy company Eneco.

In December BlueGeneration started its marketing programme, focusing on small commercial customers. BlueGeneration is also working with several large Dutch energy companies on larger scale projects for BlueGen deployment.

United Kingdom

In the United Kingdom the Company is working with E.ON UK, one of the UK's largest energy retailers. Together, Ceramic Fuel Cells and E.ON are working to launch integrated power and heating products for the UK market. In November 2011 E.ON UK placed an order for 105 units. Of these, 41 BlueGen products will be deployed under the European Union Fuel Cell and Hydrogen Joint Undertaking's Joint Technology Initiative ("JTI") fuel cell demonstration programme. These units are expected to be installed in homes and other buildings in the UK, Germany and The Netherlands from March 2012. A further four BlueGen units will be deployed by E.ON in demonstration and commercial customer sites outside of this programme.

Ceramic Fuel Cells and the UK heating company Ideal Boilers ("Ideal") will also develop up to 60 integrated m-CHP units to be installed in homes in the UK, Benelux and Germany under the JTI project from late 2012. These units will be manufactured by Ideal.

These activities are part of the continuing work between Ceramic Fuel Cells and E.ON to develop a range of product configurations for different UK market segments and customer requirements. Once the Product Development Agreement with E.ON (signed in 2009) is completed during 2012 the next stage in the parties' collaboration is to negotiate and sign a Product Supply Agreement for commercial products. This is subject to the products performing as expected and to the parties agreeing the commercial terms.

In 2011 Ceramic Fuel Cells also appointed RES On-Site Limited, part of the RES Group, as a non-exclusive distributor of BlueGen in the United Kingdom. RES On-Site will target the commercial microgeneration energy market throughout the UK and will provide installation and after-sales service for BlueGen products. Ceramic Fuel Cells is also in discussions with other potential BlueGen distributors to focus on the residential and social housing markets.

France

In December 2011 the Company's French appliance development partner DeDietrich Thermique received CE safety approval for the deployment of its integrated m-CHP appliance called CERAMIS POWER. The first 20 units are expected to be ordered and deployed during 2012. The first units are being operated by GdF Suez, France's largest gas retailer, with more than ten million customers in France.

Australia

During the half year the Company completed the supply and installation of 25 BlueGen units to Ausgrid (a large electricity network operator) for the 'Smart Grid, Smart City' project in Newcastle, New South Wales. This AUD 100 million project, funded by the Australian Government, is Australia's largest smart grid project. The project's consortium includes CSIRO, IBM Australia, AGL, GE Energy, TransGrid, Newcastle City Council and the New South Wales Government.

The 25 BlueGen units were installed in customers' homes in November and December by a team of local contractors trained by Ceramic Fuel Cells. The BlueGen units have been operating from December 2011, and the Company looks forward to providing further progress reports during the Smart Grid project.

Separately, in January 2012 Ausgrid released the results from the first 18 months of its 'Smart Home' project. In this project, a family home in Sydney was equipped with a range of new energy technologies, including a BlueGen unit, solar PV and an electric car.

The results show that the BlueGen unit generated on average 28 kilowatt hours of electricity per day and the generation from the solar PV system and solar pergola was 4 kilowatt hours per day. Combined, the home generated significantly more electricity than it used. Compared to the average greenhouse emissions from power supplied in NSW, the home saved 1.4 tonnes of carbon from its solar systems and 6.9 tonnes of carbon from the BlueGen unit – a 65 percent reduction in carbon emissions.

During the half year the Company completed the installation of 30 BlueGen units with the Victorian Government Office of Housing. Twenty BlueGens are installed in houses in Melbourne and ten are installed in Shepparton in regional Victoria. As part of the project, leading Australian energy retailer Origin Energy is providing the Office of Housing clients with a one-for-one feed in tariff for the electricity generated by the BlueGens. This means that Office of Housing tenants who export power to the grid will get credits on their bills equal to the normal retail rate of electricity.

Apart from these units, BlueGen units are also operating with customers in Melbourne, Shepparton, Sydney, Canberra, Newcastle, Adelaide and Brisbane. During the half year the Company continued to work with its distributors Harvey Norman Commercial division and Hills Industries, to market BlueGen units to commercial and Government customers.

Other markets

During the half year the Company continued to operate BlueGen units in other global markets with some of the world's largest gas and energy companies, including Tokyo Gas and Osaka Gas in Japan, SoCal Gas in California, Edison S.p.A. in Italy and Cosvegas in Switzerland.

International Awards

During 2011 the Company's BlueGen product was recognised by many industry awards:

- May 2011 - BlueGen won both the 2010-11 'CEO Award' – DuPont Australia and New Zealand's most prestigious innovation award – as well as the 'Design for a Sustainable Future' award, one of seven categories at the biennial DuPont Australia & New Zealand Innovation Awards.
- June 2011 - Microgeneration UK 2011 Technical Innovation Award.
- September 2011 - CFCL was awarded the 'Innovator of the Year' award by Climate Alliance Limited in Australia.
- October 2011 - 'Minerals and Energy Award' at the 2011 Governor of Victoria Export Awards.
- October 2011 – 'Clean Technology - Harnessing Opportunities' award winner at the 2011 Banksia Foundation Environmental Awards.

Market Developments

The Company continues to see favourable market developments for clean energy products, particularly in Europe.

In Germany a number of federal states have announced market introduction programs for m-CHP systems. The federal state of Saxony has announced a '1,000 Basement Programme' to provide financial incentives, and the state of Hessen is providing funding of EUR 600,000 over three years. In late 2011 the state of North Rhine Westphalia announced plans to increase the share of CHP electricity production to 25 percent, by providing funding of EUR 250 million over several years to support the deployment of local CHP systems. Similarly, a number of regional utilities are also providing incentives to their customers to install fuel cell m-CHP systems.

In February 2012 the German Federal Parliament also proposed an increase in the current feed in tariff for m-CHP units with high electrical efficiency – ideally suited to the Company's BlueGen and m-CHP products.

In the United Kingdom, in August 2011 BlueGen was the first (and currently the only) fuel cell product to receive the UK Microgeneration Certificate Scheme ("MCS") accreditation which enables access to the UK feed-in tariff. This entitles the owner of a BlueGen to receive a payment for electricity generated and exported to the grid.

In February 2012 the UK Government announced an increase in the feed in tariff for m-CHP products, including BlueGen. The Government plans to increase the m-CHP feed in tariff from October 2012, from a total of 14.1 pence to 15.8 pence, comprising a generation tariff, increased from 11 pence to 12.5 pence for every kilowatt hour of electricity generated on-site, plus an export tariff of 3.3 pence for every kilowatt hour of electricity exported to the grid.

Speaking in a Parliamentary debate on the feed in tariffs, Greg Barker, UK Minister of State (Climate Change) MP, noted that:

> *"Micro-CHP can play a much larger role in driving the decentralised energy revolution…there are few homes that couldn't benefit from micro-CHP… There is a clear role for Government leadership to bring micro-CHP to market…as an attractive, price-competitive alternative to taking electricity from the grid or installing a conventional boiler."*

In Australia there is currently no feed in tariff for fuel cell units. In January 2012 the Victorian Government announced a Victorian Competition and Efficiency Commission (VCEC) review of feed in tariffs. The review will also identify barriers to distributed renewable and low emission generation in Victoria, including co-generation and tri-generation. The VCEC reviewe commenced on 15 February and submissions close on 19 March 2012. A final report from the review is due in June 2012. In 2009 VCEC conducted a similar review for the previous Victorian Government, which formally recommended that feed in tariff provisions be extended to cover a broader range of low-emission technologies. The Company will be making a submission to the new VCEC review. More information on the review is available at www.vcec.vic.gov.au.

In July 2011 the Australian Government announced that it will establish a AUD 10 billion commercially oriented Clean Energy Finance Corporation (CEFC) as part of its Clean Energy Future Package. The objective of the CEFC is to encourage the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies. In December the Company made a submission to the expert review panel advising the Government on the design and operation of the CEFC. The Company has also met with members of the expert review panel and the Government department responsible for setting up the CEFC. A copy of the Company's submission is available on the Company's website.

Product & Manufacturing Accreditation

As noted above, in August 2011 BlueGen became the first fuel cell product to receive MCS certification and to be eligible for the UK feed-in tariff.

The MCS accreditation process involves an extensive and rigorous third party review of all the procedures involved in manufacturing, installing and maintaining a microgeneration product. As part of that review the Company's production facilities in Melbourne were audited to ensure compliance with the high manufacturing standards required. During the half year the Company's plant in Heinsberg, Germany also underwent this audit process and was similarly successful in meeting the manufacturing requirements. Accordingly, the plant in Germany can now produce BlueGen units that carry the MCS accreditation for use in the United Kingdom.

During the half year the Company continued to make progress towards receiving BlueGen product safety approval for the North American market. This approvals process is rigorous and time consuming, with many of the requirements for the North American market being in addition to or different from the European and Australian standards.

During the December quarter the Company, together with the certifying bodies in North America and Europe, conducted an extensive range of tests on the BlueGen, including for compliance to electrical and gas safety standards in accordance with the USA fuel cell standard. This work took up a significant amount of the Company's engineering and product development resources, including on-site visits and tests in North America and Europe. These tests have been successfully completed. The Company is continuing to work on the remaining certification requirements, whilst focusing most of its engineering resources on supporting sales in the European market. The Company expects to achieve North American safety approval by the end of June 2012.

Manufacturing and Supply Chain

German Plant

The Company has built a large scale assembly plant in Heinsberg, Germany, to manufacture fuel cell stacks, the core of the Gennex fuel cell module. Automated manufacturing equipment is installed and operating at the plant, including furnaces, ink mixing equipment, robotic assembly units and testing stations.

During 2011 the Company has increased its fuel cell stack production from the plant, and has also built a facility in the same building to assemble complete BlueGen units. During the year the Company expanded the Heinsberg plant, installed assembly and materials handling equipment and hired additional staff. The Heinsberg plant began assembling complete BlueGen units from February 2011.

During June 2011 the Heinsberg plant was audited and certified by Kiwa Gastec under the CE Surveillance Audit programme. The objective of this programme is to ensure that CFCL is manufacturing the BlueGen product in compliance with the CE approval previously granted.

In the half year the Company hired additional staff and invested in additional equipment in order to continue to increase production at the Heinsberg plant. There are now approximately 23 staff employed at the plant.

Supply Chain

In January 2011 the Company entered into a volume supply agreement with HC Starck for the supply of fuel cell components. During 2011 the Company has been working with HC Starck to ensure that it can increase its production capacity to meet our forecast demand for cells, whilst maintaining our high quality standards. This requires HC Starck to invest in additional capacity and resources.

In the meantime, Ceramic Fuel Cells is meeting current demand for cells by continuing to make fuel cell components at its pilot manufacturing site in Melbourne, and is working with other commercial scale cell suppliers in order to mitigate supply chain risk for larger volumes.

During the half year the Company's metal casting supplier in Thailand, which also provides components to large automotive companies, was severely impacted by flooding. This caused an interruption to supply, which in turn impacted on the BlueGen supply and installation program for the half year. Supply of parts resumed in December and there has been no long term material impact on our production capacity

Cost Reductions

Over the last year the Company has focused on reducing the unit costs of the BlueGen product. The costs of components used to make BlueGen units are sensitive to economies of scale. In recognition of this, the Company is seeking to move from ordering components in lots of 100 to lots of 1,000. This is expected to reduce the current BlueGen product cost by approximately 20 percent.

Apart from increasing volumes, the Company is also reducing unit costs through value engineering, that is:

- Reducing the number and complexity of components;
- Improving manufacturing processes;
- Implementing fixed tooling processes;
- Increasing manufacturing yields.

Memorandum of Understanding with Jabil

In November 2011 the Company signed a Manufacturing Services Memorandum of Understanding (MoU) with Jabil Circuit Inc ("Jabil**"**). Jabil is a global Electronic Manufacturing Service provider with 55 factories in 22 countries and annual revenue of USD 16 billion. Jabil's global cleantech business unit makes a range of energy products including solar panels, smart grid meters and wind turbines.

Under the MoU, Ceramic Fuel Cells and Jabil will work together towards scaling up manufacturing volumes of our Gennex fuel cell module and BlueGen product and reducing unit costs quickly, whilst maintaining consistent quality and security of supply.

It is intended that Jabil's manufacturing services will grow over time to match our increasing sales volumes. The details of the particular services in each phase will be set out in a formal supply agreement to be signed at the time. The first phase of co-operation is for Ceramic Fuel Cells to source selected components from Jabil's manufacturing operations. The parties are working on a detailed program of work to implement this phase as soon as possible. The second phase is for Ceramic Fuel Cells to source major sub-assemblies from Jabil. The final phase is for Jabil to assemble finished products as a contract manufacturer.

This co-operation with Jabil complements the Company's initial manufacturing capacity and its volume plant in Germany. Ceramic Fuel Cells will retain control of fuel cell stack manufacturing and all related intellectual property into the future, whilst progressively outsourcing the manufacturing and supply of components, sub-assemblies and ultimately the mass manufactured BlueGen product.

The Directors believe that working with Jabil will allow Ceramic Fuel Cells to benefit from Jabil's expertise and scale in contract manufacturing and global supply chain management, in order to further increase our volumes and rapidly drive down unit costs.

Technology

In the December 2011 half year the Company continued to make progress on increasing the reliability and robustness of its fuel cell stacks (particularly to increase the number of times the fuel cell stack can 'thermal cycle', or turn on and off) and to extend the lifetime of the fuel cell stack. This work will continue during 2012.

The Company conducts extensive testing of its fuel cell stacks, other components and complete products, including lifetime testing of fuel cell stacks. In aggregate, the Company has operated its products in its own field tests and at customer sites (across nine countries) for more than 1 million hours.

The Company has a broad portfolio of wholly-owned intellectual property, including 27 patent families (i.e. a single invention covered in multiple jurisdictions) and more than 139 individual patents that have been granted in key global markets. This intellectual property portfolio extends from the basic raw materials of the Company's fuel cells through to complete power generating products.

Risk management

During the half year the Company continued to manage the key risks facing the Company.

The key technical risk for the Company (and for all fuel cell companies) is to consistently make fuel cells that work reliably, in real world conditions, for a long time. The Company is continuing to make progress towards mitigating this risk.

On the manufacturing side, the Company is managing the risk of scaling up its capacity through its plant in Germany and its partnerships with commercial suppliers. Scaling up manufacturing is critical to enable the Company to make the transition from expensive 'hand-made' units to low cost volume manufactured products, generating commercial revenues and margins. Working with an experienced contract manufacturer such as Jabil is another important way of mitigating this scale up risk.

The Company is also focusing on managing commercial risks:

- Managing sales risk by selling products to generate revenue and cashflow, and using several sales channels in multiple markets (rather than relying on a single market). During the half-year the Company put in place two new sales channels in the key markets of Germany and The Netherlands;
- Managing pricing risk by selling products for a positive gross margin, and driving costs down faster than the selling price;
- Managing after sales service and support risk by pricing allowances for warranty claims, and extensive monitoring of early product performance.

During the half year a key focus was to generate further sales. The Company secured three separate orders for 100 units or more and has now doubled the order book from June 2011. Market settings for clean energy products are positive, particularly in Europe, and Management and the Board are convinced that there is enormous market potential for the Company's products in many large global markets.

Finally Management and the Board actively monitor the Company's forecast cashflow position to mitigate the key financial risk of ensuring the Company has adequate liquidity to continue its operations.

Operating Results

During the half-year the Company's 'Revenue from continuing operations' increased from AUD 0.9m to AUD 3.3m. The Company has been building its capacity to sell and install units by working with its sales partners. As a result sales of 67 units were completed within the half-year, which is equivalent to the total number of units sold in the whole of the last fiscal year. Sales for the equivalent period last financial year were 12 units.

Other income has decreased from AUD 4.1m to AUD 0.2m as a result of a one-off legal settlement that was received in the prior half-year.

Expenditure on Research and Product Development during the half-year rose from AUD 7.0m to AUD 10.9m. This cost category includes the cost associated with units that have been sold during the period and accordingly it reflects the increase in sales volume discussed above. During the half-year the Company increased its activities in both manufacturing and product development. These activities included:

- Completing the transfer of BlueGen assembly operations from Australia to Germany;
- Putting in place the production and manufacturing control systems to allow the German plant to gain accreditation under the UK Microgeneration Certification Scheme (MCS). This is required for units to be eligible for the feed-in tariff in the UK;
- Working with the certifying bodies in North America and Europe to conduct an extensive range of tests as part of achieving safety certification for the North American market; and
- Increasing the activity on a number of development and component optimisation projects in order to continue to improve product performance and lifetime, and reduce unit cost.

The average headcount in this functional area has increased from 88 in the prior half-year to 105.

Sales and Marketing expenditure increased from AUD 0.7m in the prior half-year to AUD 1.2m this half-year as the Company increased its sales activity. The average number of employees involved in sales and marketing during the current half-year was eight, an increase of three over the December 2010 half-year. In addition to increasing its direct resources, the Company has also appointed several distributor sales channels during the period. Two of these distributors have placed orders for 100 BlueGens units each. The distributor in Germany has announced that it has already received customer commitments for the 100 units that it ordered.

Expenses relating to the General and Administrative functional area increased by AUD 0.5m to AUD 3.8m compared to the corresponding half-year.

The current period includes a net foreign exchange loss of AUD 0.2m compared to a loss in the prior period of AUD 2.4m. These losses arise predominantly from the translation of foreign currency cash and investments to Australian dollars. The Group's policy is to not hedge this foreign currency translation risk (other than the 'natural' hedge of holding cash in the same currency as expected expenditure). The translation losses arise from the appreciation of the Australian dollar against the pound sterling and the euro.

Financing Activities

In November 2011 the Company undertook a placement of 54.6m shares at a price of 7.0 pence (approximately 10.8 Australian cents) and raised the equivalent of AUD 5.9m. In December 2011 the Company made an offer to existing shareholders on the same terms and issued a further 102.7m shares and raised an additional AUD 11.1m. The net amount raised from both fundraising rounds after transaction costs was AUD 16.4m.

MATTERS SUBSEQUENT TO THE END OF THE HALF-YEAR

No matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial periods, or
(b) the results of those operations in future financial periods, or
(c) the Group's state of affairs in future financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

This report is made in accordance with a resolution of the directors.

.....
Jeff Harding
Chairman

Melbourne
24 February 2012

Auditor's Independence Declaration

As lead auditor for the review of Ceramic Fuel Cells Limited for the half year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Ceramic Fuel Cells Limited and the entities it controlled during the period.

Michael Shewan
Partner
PricewaterhouseCoopers

Melbourne
24 February 2012

Liability limited by a scheme approved under Professional Standards Legislation.

CERAMIC FUEL CELLS LIMITED

Clean power for your home

Interim Financial Report

For the half-year ended 31 December 2011

Contents

	Page
Interim financial report	
Consolidated statement of comprehensive income	16
Consolidated balance sheet	17
Consolidated statement of changes in equity	18
Consolidated statement of cash flows	19
Notes to the consolidated financial statements	20
Directors' declaration	26
Independent auditor's review report to the members	27

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Ceramic Fuel Cells Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

A copy of this interim financial report may be obtained from the company's website: www.cfcl.com.au

Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2011

	Notes	Half-year 2011 $	2010 $
Revenue from continuing operations	4	**3,312,684**	927,068
Other income	5	**187,648**	4,088,052
Research & Product Development		**(10,854,203)**	(6,973,359)
General & Administration		**(3,752,271)**	(3,294,991)
Sales & Marketing		**(1,214,554)**	(729,528)
Net foreign exchange gain/(loss)		**(157,996)**	(2,409,547)
Loss before income tax		**(12,478,692)**	(8,392,305)
Income tax expense		-	-
Loss for the half-year entirely attributable to members of Ceramic Fuel Cells Limited		**(12,478,692)**	(8,392,305)
Other comprehensive income/(expense)			
Exchange differences on translation of foreign operations		**(769,690)**	(1,699,561)
Other comprehensive income/(expense) for the half-year, net of tax		**(769,690)**	(1,699,561)
Total comprehensive income/(expense) for the half-year entirely attributable to members of Ceramic Fuel Cells Limited		**(13,248,382)**	(10,091,866)
		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share	12	**(1.01)**	(0.74)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2011

	Notes	31 December 2011 $	30 June 2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	**22,528,081**	19,057,009
Trade and other receivables		**2,113,909**	1,291,287
Inventories		**7,023,291**	5,131,081
Other		**616,026**	811,893
Total Current Assets		**32,281,307**	26,291,270
Non-Current Assets			
Plant and equipment		**14,536,898**	16,492,827
Intangible assets		**1,000**	1,000
Total Non-Current Assets		**14,537,898**	16,493,827
Total Assets		**46,819,205**	42,785,097
LIABILITIES			
Current Liabilities			
Trade and other payables		**2,502,172**	1,840,879
Borrowings		**264,330**	271,937
Provisions	8	**2,760,684**	2,535,065
Deferred revenue	9	**2,219,935**	2,352,647
Total Current Liabilities		**7,747,121**	7,000,528
Non-Current Liabilities			
Borrowings		**1,200,055**	1,413,812
Provisions	10	**819,566**	835,631
Total Non-Current Liabilities		**2,019,621**	2,249,443
Total Liabilities		**9,766,742**	9,249,443
Net Assets		**37,052,463**	33,535,126
EQUITY			
Contributed equity	11(b)	**276,990,732**	260,275,437
Reserves		**(1,203,119)**	(483,853)
Retained losses		**(238,735,150)**	(226,256,458)
Total Equity		**37,052,463**	33,535,126

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2011

Consolidated		***Entirely attributable to owners of Ceramic Fuel Cells Limited***			
	Note	***Contributed equity***	***Reserves***	***Retained earnings***	***Total equity***
		$	***$***	***$***	***$***
Balance at 1 July 2010		230,415,020	710,438	(205,079,975)	26,045,483
Total comprehensive income/(expense) for the half-year		-	(1,699,561)	(8,392,305)	(10,091,866)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	11(b)	29,895,064	-	-	29,895,064
Employee share options - value of employee services		-	38,620	-	38,620
		29,895,064	(1,660,941)	(8,392,305)	19,841,818
Balance at 31 December 2010		260,310,084	(950,503)	(213,472,280)	45,887,301
Balance at 1 July 2011		**260,275,437**	**(483,853)**	**(226,256,458)**	**33,535,126**
Total comprehensive income/(expense) for the half-year		**-**	**(769,690)**	**(12,478,692)**	**(13,248,382)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	11(b)	16,383,902	-	-	16,383,902
Employee shares – value of employee services	11(b)	941,946	-	-	941,946
Employee shares in escrow	11(b)	(610,553)	-	-	(610,553)
Employee share options - value of employee services		-	50,424	-	50,424
		16,715,295	(719,266)	(12,478,692)	16,765,719
Balance at 31 December 2011		**276,990,732**	**(1,203,119)**	**(238,735,150)**	**37,052,463**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2011

	Notes	Half-year 2011 $	2010 $
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**3,102,761**	2,265,454
Payments to suppliers and employees (inclusive of goods and services tax)		**(15,585,574)**	(13,509,162)
		(12,482,813)	(11,243,708)
Other receipts		**103,462**	3,974,179
Interest receipts/(payments)		**(48,016)**	(58,388)
Net cash inflow (outflow) from operating activities		**(12,427,367)**	(7,327,917)
Cash Flows from Investing Activities			
Payments for plant and equipment		**(460,436)**	(874,557)
Decrease/(increase) in security deposits		**4,154**	(50,000)
Net cash inflow (outflow) from investing activities		**(456,282)**	(924,557)
Cash Flows from Financing Activities			
Proceeds from issue of shares		**16,988,335**	30,217,073
Share issue costs		**(308,272)**	(1,296,348)
Net proceeds from/(payments for) financial assets		**-**	(2,353,864)
Repayment of borrowings		**(126,410)**	(122,257)
Interest received		**146,668**	149,736
Net cash inflow (outflow) from financing activities		**16,700,321**	26,594,340
Net increase/(decrease) in cash and cash equivalents		**3,816,672**	18,341,866
Cash and cash equivalents at the beginning of the half-year		**19,057,009**	11,474,299
Effects of exchange rate changes on cash and cash equivalents		**(345,600)**	(2,350,733)
Cash and cash equivalents at the end of the half-year	7	**22,528,081**	27,465,432

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2011

Note 1. Basis of Preparation of Half-Year Report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Accounting Standard AASB 134 is fully compliant with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Ceramic Fuel Cells Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The financial report has been prepared on a going concern basis.

Future funding considerations

The Group is in the commercialisation stage of its fuel cell technology. Over the life of the Group it has incurred operating losses, which are detailed in the balance sheet, and is yet to become cashflow positive at an operational level. The Directors are mindful of this and continue to closely monitor the level of the Company's cash resources. Potential sources of future funding may include, but are not limited to:

- generation of sales revenue through developing and selling pre-commercial and commercial products;
- disposing of non-strategic assets;
- securing debt financing for new assets and working capital requirements, either in part or in whole; and
- further issues of equity.

The Directors continue to monitor the Group's detailed financial plans and will take appropriate measures to maintain funding for the Group's operations.

Note 2. Expenses re-classification

For the purpose of consistency of comparison within the consolidated statement of comprehensive income, A$1,215,529 of costs previously reported as General & Administration expenses for the half-year ended 31 December 2010 have been re-classified as Research & Product Development expenses.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2011
(continued)

Note 3. Segment Information

(a) Operating segment

Management considers that the Group represents a single operating segment whose activities are directed towards the commercialisation of its fuel cell technology. Decisions as to resource allocation and the measurement of the business's performance are undertaken at the Group level.

(b) Geographical information

Although the Group's operational businesses are managed on a global basis, they operate within two main geographical areas:

Australia: The home country of the parent entity. The areas of operation are principally solid oxide (ceramic) fuel cell research, product development and pilot manufacturing; and

Europe: Comprises the subsidiaries of the parent entity. The areas of operation include the operation of a zirconia powder manufacturing plant, a fuel cell products manufacturing and assembly plant, sales, marketing and business development.

Geographical revenues are allocated based upon the country in which the customer is located.

Geographical assets are allocated based upon the country in which the assets are physically located.

Primary reporting format – geographical segments

	Australia ***$***	***Europe*** ***$***	***Total*** ***$***
Half-year 2011			
Total segment revenue	**4,488,492**	**1,995,035**	**6,483,527**
Less: Inter-segment revenue	**(2,558,221)**	**(612,622)**	**(3,170,843)**
Revenue from external customers	**1,930,271**	**1,382,413**	**3,312,684**
Segment result	**(11,458,341)**	**(4,817,273)**	**(16,275,614)**
Inter-segment eliminations			**3,869,818**
Unallocated revenue & other income less unallocated expenses			**(72,896)**
Profit/(loss) before income tax			**12,478,692**
Segment assets	**29,258,621**	**27,452,816**	**56,711,437**
Inter-segment eliminations			**(32,438,509)**
Unallocated assets			**22,546,277**
Total assets as at 31 December 2011			**46,819,205**
Half-year 2010			
Total segment revenue	1,535,250	336,185	1,871,435
Less: Inter-segment revenue	(932,596)	(11,771)	(944,367)
Revenue from external customers	602,654	324,414	927,068
Segment result	(7,313,333)	(2,653,745)	(9,967,078)
Unallocated revenue & other income less unallocated expenses			1,574,773
Profit/(loss) before income tax			8,392,305
Segment assets	27,342,856	25,547,888	52,890,744
Inter-segment eliminations			(28,312,554)
Unallocated assets			29,864,184
Total assets as at 31 December 2010			54,442,374

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2011
(continued)

	Half-year	
	2011	*2010*
	$	*$*

Note 4. Revenue

From continuing operations

Sales revenue		
Fuel cell products	**3,311,588**	926,483
Powder sales income	**1,096**	-
Licensing income	**-**	585
Total revenue from continuing operations	**3,312,684**	927,068

Note 5. Other Income

Sundry income	**102,548**	3,957,298
Net interest revenue	**85,100**	130,754
Total other income	**187,648**	4,088,052

Note 6. Expenses

Profit/(loss) before income tax includes the following specific expenses:

Product warranty expense	**333,181**	123,964
Equity-based payments expense		
- Share-based expense	**929,921**	544,653
- Share options expense	**50,424**	38,620
	980,345	583,273

	31 December	*30 June*
	2011	*2011*
	$	*$*

Note 7. Current Assets – Cash and Cash Equivalents

Cash at bank and on hand (balance as per statement of cash flows)	**22,528,081**	27,465,432

The amount of cash and cash equivalents at 31 December 2011 includes A$3,067,184 pledged as security for bank guarantees, and so is unavailable for use by the Group. Of this amount, A$2,293,870 (€1,800,000) supports a bank guarantee issued in relation to a government grant received in December 2009 (refer Note 9 Deferred Revenue).

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2011
(continued)

	31 December 2011 $	*30 June 2011 $*

Note 8. Current Liabilities – Provisions

Provisions for employee benefits: annual and long service leave	**1,467,764**	1,361,719
Provision for product warranty	**1,094,849**	987,871
Provision for reinstatement	**130,917**	129,385
Provision for operating leases	**67,154**	56,090
	2,760,684	2,535,065

Note 9. Current Liabilities – Deferred Revenue

Deferred revenue, including government grants	**2,219,935**	2,352,647

In December 2009 the Group received a regional development grant of €1,386,000 (A$2,220,798 as at transaction date) from the Government of North Rhine Westphalia in Germany. The funding requires the company to meet certain requirements as to expenditure on construction of the Group's plant in Germany and the creation of jobs. The Group has met the requirement in relation to expenditure on the plant.

At 31 December 2011 the full amount of the grant (A$1,766,280) has been treated as deferred revenue and will be brought to account in a future period in line with the satisfaction of the obligations.

Note 10. Non-Current Liabilities – Provisions

Provision for reinstatement	**526,129**	531,789
Provision for operating leases	**217,403**	243,874
Provision for employee benefits: long service leave	**76,034**	59,968
	819,566	835,631

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2011
(continued)

Note 11. Contributed Equity

(a) Share capital

The share capital account of the company consists of 1,366,298,863 fully paid up, ordinary shares as at 31 December 2011.

(b) Movements in ordinary share capital

Movements in ordinary share capital of the company during the six months ended 31 December 2011 were as follows:

Date	Details	Number of shares	Issue price	Amount $
1-7-2011	Opening balance	1,201,353,566		260,275,437
3-10-2011	Employee share scheme issue	6,663,850	$0.124	826,317
10-11-2011	Placing and subscription	54,559,999	$0.108	5,892,480
28-11-2011	Employee share scheme issue	1,051,170	$0.11	115,629
7-12-2011	Overseas offer	25,686,748	$0.108	2,781,636
12-12-2011	Australia and New Zealand rights issue	76,983,530	$0.108	8,314,220
	Less: Employee shares in escrow	-		(610,553)
	Less: Transaction costs arising on share issues	-		(604,434)
31-12-2011	Balance	**1,366,298,863**		**276,990,732**

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2011
(continued)

	Half-year	
	2011	*2010*
	Cents	*Cents*
Note 12. Earnings Per Share		
Basic and diluted earnings per share	**(1.01)**	(0.74)
	Number	*Number*
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	**1,231,369,841**	1,134,816,832
	$	$
Earnings used in calculating basic and diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	**(12,478,692)**	(8,392,305)

There were no results from discontinued operations, nor net losses attributable to outside equity interests, to be taken into account in determining earnings used in calculating basic and diluted earnings per share.

Information concerning the classification of securities
All options issued will be anti-dilutive until such time as the Group generates profits, rather than losses, hence all options have been excluded from the calculation of diluted earnings per share.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 16 to 25 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Ceramic Fuel Cells Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

.....
Jeff Harding
Chairman

Melbourne
24 February 2012

Independent auditor's review report to the members of Ceramic Fuel Cells Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Ceramic Fuel Cells Limited, which comprises the balance sheet as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Ceramic Fuel Cells Limited (the consolidated entity). The consolidated entity comprises Ceramic Fuel Cells Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Ceramic Fuel Cells Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Ceramic Fuel Cells Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Michael Shewan
Partner

Melbourne
24 February 2012