

Wednesday 27 February 2013

Half Year Accounts

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 2012 along with its Directors' report and review of operations.

Highlights of the Half-Year

- Strong political support in Germany & the UK
- North-Rhine Westphalia (NRW) introduces a capital subsidy scheme - the Company expects this to reduce the installed cost of a BlueGen unit to commercial customers in NRW by around EUR 10,000. Confirmation from NRW expected within the next 4 weeks
- UK Government increases the feed-in tariffs applying to mCHP units like BlueGen from December 2012
- The Company targets the significant UK social housing market - appoints the energy services company iPower as distribution channel for this market.
- Sales of 90 units completed – 34% increase over the equivalent period in 2011.
- Total cumulative orders received exceed 600 units. The Company is expanding its sales resources in Europe whilst also realigning its operational activities to reduce overhead costs.
- Investment in marketing is being increased to support projected sales growth in Germany, UK and Benelux.
- BlueGen receives a number of prestigious awards in Germany

During the first half of the fiscal year the company has made a number of significant changes to realign its corporate structure and operating activities to reduce overhead costs and to focus on the German, UK and Benelux markets. Sales volumes were up by 34% compared to the equivalent period in 2011. Revenue in the current period was AUD 2.6 million (GBP 1.7 million).

Ceramic Fuel Cells CEO Bob Kennett said "We see both strong political support for our technology and considerable market opportunities in our key European markets. We are positioning the Company to take advantage of the capital subsidy scheme for mCHP announced in the German state of North Rhine Westphalia, and the increase in the feed-in tariff in Britain which are both expected to be strong drivers of sales".

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.

Financial Results

Six month period to:	31 Dec 2012		31 Dec 2011	
	AUD m	GBP m	AUD m	GBP m
Revenue from operations	2.6	1.7	3.3	2.2
Net operating cash outflow	(9.1)	(6.1)	(12.4)	(8.4)
Net loss	(12.6)	(8.5)	(12.5)	(8.4)
Cash balance at 31 December	8.6	5.8	19.5	13.1

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

ENDS

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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 now focusing on markets in Germany, the United Kingdom and Benelux and is developing fully integrated power and heating products with leading energy companies E.ON UK in the United Kingdom 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
www.bluegen.info



CERAMIC FUEL CELLS LIMITED

Clean power for your home

ASX

Half-year Report

Period ended 31 December 2012

Lodged with the ASX under Listing Rule 4.2A.3

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Results for announcement to the market

Half-year ended 31 December 2012

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

	Movement	%		\$
Revenue from ordinary activities	Down	21.8	to	2,589,355
Loss from ordinary activities after tax attributable to members	Up	1.0	to	(12,609,282)
Net Loss for the period attributable to members	Up	1.0	to	(12,609,282)

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

- Unit sales volume was up by 34% however total revenue was down due to a reduction in the selling price of the unit designed to drive sales volumes. This is part of a longer term pricing strategy to increase sales volume.

Brief Explanation of Loss (and Net Loss)

The net loss for the period of A\$12,609K compares to a net loss in the previous corresponding period of A\$12,479K.

The major reasons for the increased loss of A\$130K were:

- Reduction in the level of operating costs by A\$1,268K (a 10% reduction which increases to 17% if you exclude the one off costs of staff redundancies that took place during the half-year).
- Increased sundry income earned in relation to the firm's powder business in the UK of A\$236K.
- These improvements were offset by a reduction in gross margin during the period of A\$1,635K.

Net tangible asset backing

	<i>31 Dec 2012 cents</i>	<i>31 Dec 2011 cents</i>
Net tangible asset backing per ordinary share	1.3	2.7

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

Interim Report

For the half-year ended 31 December 2012



CERAMIC FUEL CELLS

Directors' Report

For the half-year ended 31 December 2012

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 2012.

DIRECTORS

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

- Mr Alasdair Locke, Chairman
- Mr Robert (Bob) Kennett, Managing Director
- Dr Peter Binks
- Dr Roman Dudenhausen
- Ms Janine Hoey

Mr Locke was appointed a director on 24 September 2012 and as Chairman on 29 October 2012.

Mr Kennett was appointed Managing Director on 12 November 2012.

Mr Dow was a director from 11 January 2007 to the date of his resignation on 31 December 2012.

Mr Dempsey was a director from 1 July 2002 to the date of his resignation on 31 December 2012.

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 2012 is set out below:

	<i>Half-year</i>	
	<i>2012</i>	<i>2011</i>
	<i>\$000</i>	<i>\$000</i>
Revenue from continuing operations	2,589	3,313
Cost of sales, service & warranty	(3,844)	(2,933)
Gross profit/(loss)	(1,255)	380
Other income	472	236
Expenses		
Research & Product Development	(4,500)	(4,056)
General & Administration	(6,050)	(7,618)
Sales & Marketing	(1,198)	(1,215)
Other gains/(losses) - foreign exchange	(41)	(158)
Finance costs	(37)	(48)
Loss before income tax	(12,609)	(12,479)
Income tax expense	-	-
Loss for the half-year entirely attributable to members of Ceramic Fuel Cells Limited	(12,609)	(12,479)

Highlights of the Half-Year

- Strong political support in Germany & the UK
- North-Rhine Westphalia (NRW) introduces a capital subsidy scheme - the Company expects this to reduce the installed cost of a BlueGen unit to commercial customers in NRW by EUR 10,000
Confirmation from NRW expected within the next 4 weeks
- UK Government increases the feed-in tariffs applying to mCHP units like BlueGen from December 2012
- The Company targets the significant UK social housing market - appoints the energy services company iPower as distribution channel for this market.
- Sales of 90 units completed – 34% increase over the equivalent period in 2011.
- Total cumulative orders received moves to 661 units. The Company is expanding its sales resources in Europe whilst also realigning its operational activities to reduce overhead costs.
- Investment in marketing is being increased to support projected sales growth in Germany, UK and Benelux
- BlueGen receives a number of prestigious awards in Germany

Operational Review

Ceramic Fuel Cells Limited (“CFCL”) makes small scale, highly efficient generators that use proprietary fuel cell technology to convert natural gas into electricity and heat for homes and small commercial buildings. CFCL has commercialised its technology into products and is now focused on selling to commercial customers in Europe.

CFCL’s BlueGen® product provides one to two kilowatts of electricity as well as heat for hot water. Our core Gennex™ fuel cell module is also being integrated by our development partners into integrated power and heating products which include a boiler for additional space heating.

Our products have many advantages over other forms of electricity generation, including very high electrical efficiency and the ability to remotely control their power output. Our products can deliver an electrical efficiency of up to 60 percent, with an additional 25 percent of energy being recovered as heat. The Directors believe this electrical efficiency is higher than any other technology in the rapidly expanding market for small scale power and heating products.

The BlueGen product’s very high electrical efficiency can reduce carbon emissions by up to two-thirds compared to power generated by coal fired power stations, and can deliver greater value for customers by reducing the marginal cost of generating electricity.

During the first half of the fiscal year the company has made a number of significant changes to realign its corporate structure and operating activities to reduce overhead costs and to focus on the German, UK and Benelux markets. This means that in the short term the company has reduced its direct sales investment in Australia, Japan and North America and has transferred a number of corporate activities to Europe. We see both strong political support for our technology and considerable market opportunities in these European markets which we are positioning the Company to take advantage of.

Market Developments

Germany

There is strong political support for micro Combined Heat and Power (mCHP) in Germany and in particular for high efficiency fuel cell based mCHP. This flows from the German vision for a low carbon, non-nuclear economy and their understanding that high efficiency distributed mCHP, which can react quickly to the variable demands on the grid, increasingly being imposed by the deployment of intermittent renewables, is a highly important element to achieving the country’s low carbon ambitions. In addition to the European 2020 targets (to reduce CO2 emissions by 20%, increase energy efficiency by 20% and to have 20% renewable energy)

Germany has also a stated target to reach 25% of electricity generation from CHP by 2020. We expect mCHP to play a significant role in reaching this goal.

In late October the German State of North-Rhine Westphalia announced a subsidy scheme for mCHP products. Under the new scheme the North-Rhine Westphalia Government will pay a capital subsidy to commercial customers and Energy Service Companies who install highly efficient mCHP products of less than 50 kilowatts. Ceramic Fuel Cells' BlueGen and integrated mCHP products are strongly positioned to take full advantage of this scheme.

Based on discussions with the relevant Government bodies, the Company believes that its BlueGen and integrated mCHP products will be classed as highly innovative cogeneration systems, and therefore eligible for a subsidy of 45 percent of the extra cost of the product compared to a conventional reference product. The subsidy is increased to 55 and 65 percent for small and medium sized businesses.

While the precise subsidy amount will be determined by the relevant Government department, and may vary between customers, the Company believes its products are likely to be eligible for an initial subsidy of approximately EUR 10,000 per unit. The first applications by customers have been lodged with the department and it is expected that the first determinations will be made by the end of the first quarter 2013.

The subsidy program is due to run until the end of 2017. It is part of a North-Rhine Westphalia Government funding program of up to EUR 250 million to support CHP deployment. The subsidy is in addition to the German Federal Government feed-in tariff for mCHP products. We believe that these benefits will bring the net price of a BlueGen unit to a level at which high energy, commercial users can achieve an attractive commercial return and, as such, we expect this subsidy programme to be popular and to be a significant driver of sales.

Also in October there was the opening of Germany's first commercial, virtual fuel cell power plant which will see the deployment of 25 BlueGen units. The opening was undertaken by Mr Peter Altmaier, Germany's Federal Minister for the Environment, Mr Johannes Remmel, Minister for the Environment in the state of North Rhine-Westphalia, together with Mr Bernd Wilmert, Chairman of the Board of the municipal utility network Trianel, and Sven Becker, CEO of Trianel.

A virtual power plant is a cluster of distributed electricity generation units, controlled and operated by a central entity using integrated software systems. A virtual power plant allows power generation to be modulated up or down to meet peak loads and balance intermittent power from wind or solar, with higher efficiency and more flexibility than large centralised power stations. Producing energy where it is needed eases the burden on electricity distribution networks and prevents distribution losses, which can amount to as much as 10 percent from large power plants using conventional generation methods.

At the opening Mr Altmaier declared that distributed electricity generation and energy efficiency, along with a coordinated expansion of renewable energies and electricity grids on a national level, are central elements of the electricity market of tomorrow.

United Kingdom

On 1 December the UK Government increased the feed-in tariff that applies to mCHP units that are accredited under the UK's Microgeneration Certification Scheme (MCS). The feed-in tariff that applies now is 12.5p per kilowatt-hour (kWh) for all electricity generated (this represents a 25% increase on the previous rate) plus an additional 4.5p per kWh for electricity not used on site and exported to the grid (a 50% increase on the previous rate). The increased tariff applies to the first 30,000 mCHP appliances installed. BlueGen is currently the only fuel cell based mCHP appliance accredited under the MCS and hence the only fuel cell eligible for the UK feed-in tariff.

During January 2013 the Company entered into a distribution agreement with energy services company iPower to take advantage of the increased feed-in tariff and deploy BlueGen into the social housing sector. A

key target for housing associations is the reduction of fuel poverty and iPower installations of BlueGen will offer tenants a guaranteed discount on their electricity tariff.

Sales

Although the increased government support was very welcome, the North Rhine Westphalia capital subsidy scheme was originally planned for introduction in May 2012 but was delayed until November 2012 due to the holding of the state election. Consequently it caused a delay in purchasing decisions by customers as they awaited the implementation of the scheme.

Sales volume for the half-year to December 2012 was 90 units which represented a 34% increase over the equivalent period in the prior year. This was however slightly down on the sales volume in the prior six month period which was 102 units. Sales during the first half-year tend to be lower due to the European summer falling during this period. However, we believe that in this half-year the more significant factor was the delay in purchasing decisions by customers who were awaiting the implementation of the schemes discussed above in Germany and the UK.

Unit sales booked to revenue			
	<i>Quarter</i>	<i>Qtr unit sales</i>	<i>FY unit sales</i>
FY10			9
FY11			61
FY12	September 2011	8	169
	December 2011	59	
	March 2012	26	
	June 2012	76	
FY13	September 2012	47	90
	December 2012	43	

Total cumulative orders received to the end of December were 661 units (394 BlueGen units plus 267 integrated mCHP units). Of this total, orders for 329 units have been fulfilled and the remaining open order book of 332 units is expected to be supplied across 2013 – in accordance with customer’s requested delivery timing.

In response to the growing sales opportunities in Germany and the UK, the Company is expanding its sales resources.

In October Mr Andreas Ballhausen joined the European management team as Commercial Director. Mr Ballhausen is responsible for leading the business development, sales and customer service activities in Europe. He joins the Company from leading German energy utility EWE, where most recently he was in charge of establishing and running EWE’s business unit selling energy services and contracting solutions for households, industry and communities. Mr Ballhausen has extensive experience with fuel cells and mCHP products and is also a member of various committees in the energy sector, including the German Fuel Cell Initiative (IBZ).

The Company has decided to augment its sales channel strategy in Germany with the implementation of a direct sales force to focus on the opportunities presented in North-Rhine Westphalia. In December the Company recruited 6 new sales staff to commence this activity and plans to expand this number to address the sales opportunities in that market. In addition to this the Company is also increasing the number of indirect sales channels that it has in the German market.

In the UK the Company is focusing on a number of key market sectors. One of these is the social housing sector where the benefits of using BlueGen are particularly strong. In January 2013 the Company announced that it had entered into a distribution agreement with the energy services company (ESCo) iPower (see - www.ipoweruk.com) that focuses on this sector. In the UK this sector accounts for approximately 4.0 million

dwelling or 17.5% of the UK housing stock of approximately 22.8 million dwellings as at 31 March 2011 (source: Dept of Communities and Local Government).

iPower is a social enterprise and energy services company (ESCo). iPower's principal aim is the provision of energy services to the benefit of social stakeholders and its primary customer base is social housing landlords and their tenants. Social housing tenants are those who typically pay the highest prices for electricity and hence are the most attractive target market for BlueGen in the UK. iPower intends to provide the housing associations with a turnkey BlueGen installation which can be fully funded by iPower. They will then supply low carbon electricity and heat to tenants by using BlueGen and other technologies embedded at a building level over private wire networks. iPower will supply the electricity and heat in place of the existing supplier and at discounted rates. iPower's aim is to make clean energy affordable to all and return maximum benefits to property owners and tenants.

In addition to this the Company is marketing BlueGen units to housing associations, premium residential and small business customers across the UK through specialised installation, sales and service partners. To date these comprise:

- Be Green Systems for London and the South East;
- Ace Energy for the South Coast and South West;
- Green Buy Energy for Yorkshire and the North Midlands;
- Richard Irvin Sustainable Energy for Scotland; and
- World Heat and Power for the North West and North Wales.

During the half-year the Company continued to work with E.ON UK on the deployment of its BlueGen and integrated mCHP products, both as part of the previously announced Joint Technology Initiative (JTI) fuel cell demonstration programme. E.ON has previously deployed 41 BlueGen units under Phase I of the programme in 2012. In Phase II E.ON will deploy 60 integrated mCHP units that will be developed and built by the UK boiler maker Ideal Boilers Limited in co-operation with CFCL. The Company supplied 30 units in December and will complete the balance of the order early in the first quarter of 2013.

In December the Company expanded its indirect sales channels by appointing its first distributor to service the Belgium market.

Marketing

The marketing communication function is now being fully managed in Europe. The Company is increasing its investment in this area to raise the profile of both the BlueGen and Ceramic Fuel Cells brands in the key product markets of Germany, UK and Benelux. This investment will be used to drive and support projected sales growth in these markets.

Manufacturing & Accreditation

In July 2012 the Company commenced outsourcing the production of its fuel cells to Chaozhou Three-Circle (Group) Co., Ltd (CCTC). This company, based in Guangdong province, China, is a leading manufacturer of electronic components and advanced ceramics. Under the arrangement CCTC is making the fuel cell parts to CFCL's design and specification. The two companies have worked closely together to transfer CFCL's commercial cell production to CCTC, which has invested heavily in developing and building its own purpose-built manufacturing equipment specifically to make CFCL's cells. The outsourcing of cell production to CCTC has resulted in a significant reduction in cell costs and production levels are being increased whilst maintain high quality.

The Company is also working with CCTC to outsource other manufacturing processes and component supply, to increase volume and reduce CFCL's product costs. (In addition to these supply arrangements, CCTC also made an investment of AUD 6 million into CFCL in the fund raising round concluded in September 2012 – refer to the Finance Activities section below).

As a result of this outsourcing arrangement we have significantly scaled back production of cells in Melbourne and reduced staffing levels accordingly. Cell production in Melbourne will only continue as part of ongoing research and development and product improvements.

Also during the half-year work has been undertaken with our furnace supplier on a large furnace located in our German plant. In August 2012 the supplier retrofitted the furnace with specially designed parts. The furnace was successfully commissioned after this and was used to produce commercial stacks through to November however; the overall production yield did not reach the level desired by the Company. Further work on the furnace is currently being undertaken by the supplier to improve the yield level. It is expected that this work will be completed [in mid March] and that the furnace will then be commissioned and returned to production. Once the furnace is ramped up to full production we expect to have a combined capacity of around 1,500 stacks per year.

The plant's production throughput can be increased above 1,500 units per year without additional capital spending, by operational efficiencies (such as improving processes and production flow, reducing furnace cycle times, loading and unloading times, robot optimisation), more flexible work practices (the plant is currently operating on a single shift); and by continuing to outsource the manufacturing and assembly of components and sub-assemblies. Modest investments in multiple tooling will also increase production levels.

In addition to achieving these operational efficiencies the Company intends to make further capital expenditures to increase furnace capacity to around 3,000 – 3,500 stacks per year. It is expected that this capital expenditure would be approximately A\$1.5 million.

In December the plant in Heinsberg, Germany successfully underwent its annual accreditation review for the UK Microgeneration Certification Scheme (MCS). The successful completion of this audit review is necessary to ensure that BlueGen units made at the plant are allowed to carry the MCS Certificate which in turn is required to earn the feed-in tariff in the UK.

During the last quarter the Company obtained CE certification for a number of different fluing installation options for units in the European market which will allow for a reduction in installation costs and provide increased flexibility for customers.

Corporate Restructure

In October 2012 the Company realigned its corporate structure and operational activities to reduce overhead costs and to focus resources on the German, UK and the Benelux markets. The Company has reduced its direct sales investment in Australia, Japan and North America, and transferred a number of corporate activities to Europe.

As a result of outsourcing cell production to CCTC and the above restructure activity, the company's headcount has been reduced by 56 full-time equivalent positions (FTEs). In a full year this is expected to result in a cost saving of approximately AUD 5m (GBP 3.3m). This would represent an 18% reduction in operating costs as reported in the financial statements for the year ended 30 June 2012. However in the half-year just ended the restructure has led to a charge in the P&L of AUD \$0.9 million (GBP 0.6 million) and an increase in cash payments of approximately AUD 0.8m (GBP 0.5m).

At the end of December 2012 the number of employees in the company, on a full-time equivalent basis, was 113.

Board and Management Changes

As part of the restructure there have been a number of changes in the Board and management of the Company. At the Annual General Meeting in October 2012 Mr Jeff Harding and Mr Roy Rose both retired having served as Chairman and Deputy Chairman of the Company for five years and three years respectively. Also at this meeting shareholders affirmed the appointment of Mr Alasdair Locke who had been appointed as a director in September 2012. Mr Locke was subsequently appointed to the position of Chairman by the Board. Mr Locke is the founder and former Executive Chairman of Abbot Group plc, an oil services company which he founded in 1990. Abbot Group was listed on the London Stock Exchange from 1995 until its sale in 2008 for £906 million to a US private equity fund. At the time of the sale, Abbot Group was one of the leading oil drilling service and engineering contractors in the world employing over 8000 people and operating in over 20 countries.

Mr Locke is currently Chairman of Argenta Holdings plc, an unlisted holding company which trades in the Lloyds of London Insurance Market and non-Executive Chairman of Hardy Oil and Gas plc and First Property Group plc. Mr Locke has personally invested in each of the Company's fundraising rounds since 2009 and he has a beneficial interest in 73,912,988 shares in the Company (approximately 4.7 percent of the Company's issued shares).

In November 2012 Mr Brendan Dow stepped down as the Managing Director and Mr Bob Kennett, who has been a non-executive director since 2006, became the CEO of the Group.

Mr Kennett has had extensive experience in the energy industry in the UK. He was Managing Director of PowerGen Combined Heat and Power Ltd for 12 years during which time he successfully established and built a profitable business in the UK combined heat and power market with assets of more than £600 million. The business had a staff of 350 and a turnover approaching £200 million with an annual operating profit of over £40 million.

Mr Kennett also served as Chairman and Director of PowerGen Renewables Ltd. He is a board member of the Combined Heat and Power Association and Chairman of the CHPA Micro Forum.

In December 2012 Mr John Dempsey retired as a non-executive director having served the Company for ten years.

The Board wishes to formally note its gratitude to these directors who have left the Board for their dedicated service in bring the Company through to the next stage of commercial development.

Technology

During the half-year the Company has continued to further develop its technology to improve reliability and robustness of its fuel cell stacks and to extend their lifetime. This work will continue on during the second half. The Company has recently just passed the 2 million hour mark for the aggregated operating hours of units deployed in field tests and at customer sites.

The Company is undertaking a rigorous and ongoing programme to reduce the cost of the BlueGen product. This is being achieved by:

- Cost down value engineering projects;
- Working with supply chain partners to achieve cost effective, high quality component sourcing;
- Outsourcing of selective manufacturing and sub-assembly operations;
- Volume orders; and
- Internal process improvements.

Awards

In October at the f-cell conference in Stuttgart, Germany the company was awarded the prestigious f-cell award sponsored by the Baden-Württemberg Ministry of the Environment, Climate Protection and the Energy Sector. The jury's citation noted "BlueGen as the most outstanding technology for 2012 with a high potential for practical application".

Also in October the Company was awarded Spirit of Innovation award at the Dutch "Energie 2012" exhibition.

In November the Company was awarded the prestigious Innovation Prize of the German Gas Industry. This prize is awarded every 2 years for the most innovative product and service in the gas industry. The awarding of this prize is seen as very significant in the German market.

Financial Operating Results

During the half-year the number of units sold increased by 34% over the comparative prior year period, however, the overall level of revenue reduced from AUD 3.3 million (GBP 2.2 million) to AUD 2.6 million (GBP 1.7 million). This was due to a reduction in the selling price of the unit designed to lower the cost to the customer and drive sales volumes. We are adopting a pricing strategy designed to lift sales volumes and to give an appropriate level of margin over time.

Over the comparative half-year periods the manufactured cost of the unit has reduced by approximately 24%. Reduction of the manufactured cost is a key strategic focus for the Company and, as noted above, we have a rigorous and ongoing programme to reduce the costs of the BlueGen unit. We expect this programme to achieve further significant cost reductions over the coming year.

As also mentioned above in the section on Sales, customers delayed their purchasing decisions during the period to await the implementation of, in Germany, the North Rhine Westphalia capital subsidy scheme and, in the UK, the revised feed-in tariff. In response to this, and to drive sales numbers, the Company decided, for a limited period, to reduce its gross margin and sell units at close to the manufactured cost. As the Company builds its sales volume up it will be able to reduce the manufactured cost of the product and expects to restore its gross margin to an appropriate level.

The cost of warranty expense over the comparative half-year periods increased from AUD 0.3 million (GBP 0.2 million) to AUD 1.1 million (GBP 0.8 million). This is reflective of the increased sales volume, an increase in the installed base over that period of 250% and the Company's desire to maintain an appropriate and conservative level of provisioning.

Operating costs during the half-year were AUD 11.8 million (GBP 7.9 million). This figure includes AUD 0.9 million (GBP 0.6 million) of costs directly associated with the reduction in staff numbers arising from the restructure of the Company's activities. Also included is an impairment charge of AUD 0.3 million (GBP 0.2 million) due to the recognition of a provision for impairment of trade receivables related to one of the Company's distributors experiencing financial difficulty. If these amounts are excluded, then overall operating costs reduced by approximately 19% between the comparative half-year periods. This is due in part to a reduction in salary costs arising from the restructure, reduced depreciation charges, a reduction in general & administration costs and higher production levels which have absorbed more costs into production (either as cost of sales or inventory).

Financing Activities

In September 2012 the Company completed a capital raising of AUD 11.6 million. This raising was constituted by a subscription for AUD 6 million from Chaozhou Three-Circle (Group) Co., Ltd (CCTC) – the supplier of our fuel cell components discussed above; a rights issue to qualifying shareholders in Australia and New Zealand that raised AUD 4.2 million and an overseas offer made to qualifying shareholders outside of Australia and New Zealand (and certain other territories) that raised AUD 1.4 million. The subscription and rights issue were undertaken at a price of six cents per share and the overseas offer was at a price of 4 pence per share (the equivalent of six cents). The subscription resulted in the issue of 100 million ordinary shares which gives CCTC a

6.4% interest in the company, the rights issue resulted in the issue of 69.7 million ordinary shares and the overseas offer resulted in the issue of a further 23.3 million ordinary shares.

MATTERS SUBSEQUENT TO THE END OF THE HALF-YEAR

NRW Grant

The requirements of the regional development grant of €1,386,000 (A\$1,761,566 as at reporting date) received from the Government of North Rhine Westphalia, Germany in December 2009 have been finalised subsequent to the current reporting date. The Group has been awarded €966,000 on a pro-rata basis in recognition of the number of jobs created up to 15 December 2012, with the balance of €420,000 having been repaid, along with interest of €67,745, in February 2013. There is an ongoing requirement over the next five years to maintain the number of jobs created, hence the grant continues to be treated as deferred revenue at reporting date. The grant will be recognized as income over the next 5 years on a straight-line basis to match the expected future labour costs of the created jobs. The remaining €1,380,000 of restricted cash equivalents (being €1,800,000 as at reporting date less the €420,000 subsequently repaid) is shortly expected to be released, whereupon it will be freely available to the Group.

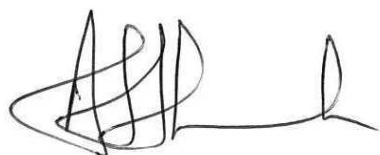
No other matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect:

- (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 12.

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



Alasdair Locke
Chairman

Melbourne
27 February 2013



Auditor's Independence Declaration

As lead auditor for the review of Ceramic Fuel Cells Limited for the half year ended 31 December 2012, 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.

A handwritten signature in blue ink, appearing to read 'Andrew Cronin', is written over a circular blue stamp or seal.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
27 February 2013

PricewaterhouseCoopers, ABN 52 780 433 757

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CERAMIC FUEL CELLS

Interim Financial Report

For the half-year ended 31 December 2012

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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 2012 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 2012

	Notes	Half-year 2012 \$	2011 \$
Revenue from continuing operations	2	2,589,355	3,312,684
Cost of sales, service & warranty	4	(3,844,625)	(2,932,993)
Gross profit/(loss)		(1,255,270)	379,691
Other income	3	471,916	235,664
Research & Product Development		(4,500,390)	(4,056,063)
General & Administration		(6,050,178)	(7,617,418)
Sales & Marketing		(1,197,433)	(1,214,554)
Other gains/(losses) – foreign exchange		(41,430)	(157,996)
Finance costs		(36,497)	(48,016)
Loss before income tax		(12,609,282)	(12,478,692)
Income tax expense		-	-
Loss for the half-year entirely attributable to members of Ceramic Fuel Cells Limited		(12,609,282)	(12,478,692)
Other comprehensive income/(expense)			
Exchange differences on translation of foreign operations		759,294	(769,690)
Other comprehensive income/(expense) for the half-year, net of tax		759,294	(769,690)
Total comprehensive income/(expense) for the half-year entirely attributable to members of Ceramic Fuel Cells Limited		(11,849,988)	(13,248,382)
		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share	14	(0.86)	(1.01)

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

Consolidated Balance Sheet

As at 31 December 2012

	Notes	31 December 2012 \$	30 June 2012 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5(a)	8,623,772	6,621,759
Cash equivalents (restricted)	5(b)	2,287,748	2,224,419
Trade and other receivables	6	803,931	2,795,774
Inventories	7	8,130,150	9,328,366
Other		607,956	514,856
Total Current Assets		<u>20,453,557</u>	<u>21,485,174</u>
Non-Current Assets			
Plant and equipment		10,493,855	11,323,758
Intangible assets		1,000	1,000
Total Non-Current Assets		<u>10,494,855</u>	<u>11,324,758</u>
Total Assets		<u>30,948,412</u>	<u>32,809,932</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		1,867,235	3,364,784
Borrowings		279,709	264,031
Provisions	8	2,915,429	3,390,648
Other liabilities	9	2,051,392	2,977,367
Total Current Liabilities		<u>7,113,765</u>	<u>9,996,830</u>
Non-Current Liabilities			
Borrowings		917,143	1,029,750
Provisions	10	1,143,757	886,196
Other liabilities	11	1,409,253	-
Total Non-Current Liabilities		<u>3,470,153</u>	<u>1,915,946</u>
Total Liabilities		<u>10,583,918</u>	<u>11,912,776</u>
Net Assets		<u>20,364,494</u>	<u>20,897,156</u>
EQUITY			
Contributed equity	12(b)	288,558,371	277,282,387
Reserves		869,586	68,950
Retained profits/(losses)		<u>(269,063,463)</u>	<u>(256,454,181)</u>
Total Equity		<u>20,364,494</u>	<u>20,897,156</u>

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 2012

Note	Entirely attributable to owners of Ceramic Fuel Cells Limited			
	Contributed equity	Reserves	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 1 July 2011	260,275,437	(483,853)	(226,256,458)	33,535,126
Profit/(loss) for the half-year			(12,478,692)	(12,478,692)
Other comprehensive income		(769,690)		(769,690)
Total comprehensive income 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	16,383,902	-	-	16,383,902
Employee shares - value of employee services	331,393	-	-	331,393
Employee share options - value of employee services		50,424	-	50,424
Balance at 31 December 2011	276,990,732	(1,203,119)	(238,735,150)	37,052,463
Balance at 1 July 2012	277,282,387	68,950	(256,454,181)	20,897,156
Profit/(loss) for the half-year			(12,609,282)	(12,609,282)
Other comprehensive income		759,294		759,294
Total comprehensive income for the half-year	-	759,294	(12,609,282)	(11,849,988)
Transactions with owners in their capacity as owners				
Contributions of equity, net of transaction costs	12(b) 11,085,544	-	-	11,085,544
Employee shares - value of employee services	12(b) 190,440	-	-	190,440
Employee share options - value of employee services	-	41,342	-	41,342
Balance at 31 December 2012	288,558,371	869,586	(269,063,463)	20,364,494

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 2012

	Notes	2012 \$	Half-year 2011 \$
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		4,940,759	3,102,761
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(14,346,414)</u>	<u>(15,585,574)</u>
		(9,405,655)	(12,482,813)
Other receipts		363,596	103,462
Interest receipts (payments)		<u>(36,497)</u>	<u>(48,016)</u>
Net cash inflow (outflow) from operating activities		<u>(9,078,556)</u>	<u>(12,427,367)</u>
Cash Flows from Investing Activities			
Payments for plant and equipment		(151,353)	(460,436)
Proceeds from disposal of plant and equipment		270	-
Decrease (increase) in security deposits (including restricted cash equivalents)		<u>49,157</u>	<u>4,154</u>
Net cash inflow (outflow) from investing activities		<u>(101,926)</u>	<u>(456,282)</u>
Cash Flows from Financing Activities			
Proceeds from issue of shares		11,625,282	16,988,335
Share issue costs		(539,314)	(308,272)
Interest receipts		109,413	146,668
Repayment of borrowings		<u>(133,764)</u>	<u>(126,410)</u>
Net cash inflow (outflow) from financing activities		<u>11,061,617</u>	<u>16,700,321</u>
Net increase (decrease) in cash and cash equivalents		1,881,135	3,816,672
Cash and cash equivalents at the beginning of the half-year		6,621,759	15,852,905
Effects of exchange rate changes on cash and cash equivalents		<u>120,878</u>	<u>(208,680)</u>
Cash and cash equivalents at the end of the half-year	5(a)	<u>8,623,772</u>	<u>19,460,897</u>

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 2012

Note 1. Basis of Preparation of Half-Year Report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2012 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 2012 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.

Going Concern

Over the life of the Group it has incurred substantial operating losses 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. The Group has commercialised its fuel cell technology into products and has begun to make sales, but it has not yet achieved sales and production levels that allow the Group to generate positive operating cashflow or profits. These factors represent uncertainty about the ability of the Group to continue as a going concern. The Directors have considered these factors and believe it is appropriate to prepare the financial statements on a going concern basis given the following strategies:

Operational and business strategies

The Company continues to increase the number of sales orders received and has taken initiatives to increase the production capacity, reduce the cost per unit and to reduce the level of operating costs.

Management and the Board's recent focus has been to deliver products and convert these orders into revenue and cashflow. Revenue has increased each year over the last four years. Management and the Board are taking steps to increase sales more quickly, particularly in Germany and the UK where Government policy settings have created increased sales opportunities. In order to achieve profitable sales growth, the Company continued to work on increasing the production capacity by bringing large furnaces into production at its manufacturing plant in Germany.

The Company has also taken measures to reduce the unit cost. These measures include: removing the need to internally produce the Group's fuel cells at its pilot plant facility in Melbourne by outsourcing this to an industrial scale ceramics manufacturer, placing higher volume orders and undertaking cost-down engineering work.

Financing strategies

The Company is pursuing several funding options to strengthen its balance sheet and to allow it to continue to implement its sales strategies and to increase production levels. The directors believe that the Company will continue to be successful in obtaining additional funding.

The continuing viability of the company, its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent on the successful conclusion of these fund raising activities and the ability to achieve profitable sales growth. As such, there is material uncertainty as to whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2012. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2012 (continued)

	<i>Half-year</i>	
	2012	2011
	\$	\$
Note 2. Revenue		
From continuing operations		
<i>Sales revenue</i>		
Fuel cell products	2,305,884	3,082,702
Service and support	283,471	228,886
Powder sales income	-	1,096
Total revenue from continuing operations	<u>2,589,355</u>	<u>3,312,684</u>

Note 3. Other Income

Sundry income	363,596	102,548
Net interest revenue	108,050	133,116
Net gain on disposal of plant & equipment	270	-
Total other income	<u>471,916</u>	<u>235,664</u>

Note 4. Expenses

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

Cost of sales, service & warranty		
Cost of goods sold	2,302,117	2,254,291
Product warranty expense	1,138,761	333,183
Service & support costs	403,747	345,519
	<u>3,844,625</u>	<u>2,932,993</u>
Equity-based payments expense		
Share-based expense	(140,548)	929,921
Share options expense	41,342	50,424
	<u>(99,206)</u>	<u>980,345</u>
Staff redundancy costs	<u>922,740</u>	<u>-</u>

Expenses re-classification

For the purpose of consistency of comparison within the consolidated statement of comprehensive income:

- A\$3,865,147 of costs previously reported as Research & Product Development expenses for the half-year ended 31 December 2011 have been re-classified as General & Administration expenses; and
- A\$2,932,993 of costs previously reported as Research & Product Development expenses for the half-year ended 31 December 2011 have been re-classified as Cost of Sales, Service & Warranty expenses.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2012 (continued)

	31 December 2012 \$	30 June 2012 \$
Note 5. Current Assets – Cash and Cash Equivalents		
(a) Cash and Cash Equivalents		
Cash at bank and on hand (balance as per statement of cash flows)	<u>8,623,772</u>	<u>6,621,759</u>
<i>Cash at bank and on hand</i>		
Cash on hand is non-interest bearing. Cash at bank consists of multiple currencies in 'at call' accounts (bearing balance-dependent interest rates in accordance with individual account terms) and short-term deposits of up to 3 months duration.		
(b) Cash Equivalents (Restricted)		
Bank term deposit	<u>2,287,748</u>	<u>2,224,419</u>
<i>Cash Equivalents (Restricted)</i>		
The amount of restricted cash equivalents at 31 December 2012 has been pledged as security for a €1,800,000 bank guarantee issued in relation to a government grant received in December 2009, and so is unavailable for use by the Group (refer also Note 9(b) Current Liabilities - Other Liabilities, Note 11 Non-Current Liabilities – Other Liabilities and Note 13 Events Occurring After the Reporting Period).		
Note 6. Current Assets – Trade and Other Receivables		
Trade and other receivables	1,158,931	2,795,774
Provision for impairment of receivables	(355,000)	-
	<u>803,931</u>	<u>2,795,774</u>
Note 7. Current Assets - Inventories		
Raw materials and stores	4,053,567	4,671,169
Work in progress	2,696,505	3,417,441
Finished goods	1,380,078	1,239,756
	<u>8,130,150</u>	<u>9,328,366</u>
Inventory expense		
Write-downs of inventories to net realisable value recognized as an expense during the half-year ended 31 December 2012 amounted to \$Nil (2011 – \$Nil).		
Note 8. Current Liabilities – Provisions		
Provisions for employee benefits: annual and long service leave	1,310,714	1,728,191
Provision for product warranty	1,563,679	1,065,571
Provision for leased property reinstatement	-	563,424
Provision for operating leases	41,036	33,462
	<u>2,915,429</u>	<u>3,390,648</u>

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2012 (continued)

	31 December 2012	30 June 2012
	\$	\$
Note 9. Current Liabilities – Other Liabilities		
Deferred revenue	969,965	555,633
Government grants	1,081,427	2,421,734
	2,051,392	2,977,367

(a) Deferred revenue

Deferred revenue includes customer deposits received in advance and unearned service and support revenue.

(b) Government grants

In December 2009 the Group received a regional development grant of €1,386,000 (A\$1,761,566 as at reporting date) from the Government of North Rhine Westphalia in Germany. The funding required the company to meet certain requirements as to expenditure on construction of the Group's plant in Germany and the creation of jobs by 15 December 2012. The Group met the requirement in relation to expenditure on the plant but only partially met the job creation criteria (refer also Note 5(b) Restricted Cash Equivalents, Note 11 Non-Current Liabilities - Other Liabilities and Note 13 Events Occurring After the Reporting Period).

In January 2012 the Group received a European Union grant of €573,667 (\$729,114 as at reporting date) for the development and field trial of ceramic fuel cell micro-CHP units. At 31 December 2012 the full amount of the grant continues to be treated as deferred revenue and will be brought to account in future reporting periods in line with the satisfaction of the obligations.

Note 10. Non-Current Liabilities – Provisions

Provision for product warranty	236,321	459,892
Provision for operating leases	171,831	223,167
Provision for employee benefits: long service leave	75,533	111,183
Provision for leased property reinstatement	660,072	91,954
	1,143,757	886,196

Note 11. Non-Current Liabilities – Other Liabilities

Government grant	1,409,253	-
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Government grant

In December 2009 the Group received a regional development grant of €1,386,000 (A\$1,761,566 as at reporting date) from the Government of North Rhine Westphalia in Germany. The funding required 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 met the requirement in relation to expenditure on the plant but only partially met the job creation criteria (refer also Note 5(b) Restricted Cash Equivalents, Note 9(b) Current Liabilities - Other Liabilities and Note 13 Events Occurring After the Reporting Period).

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2012 (continued)

Note 12. Contributed Equity

(a) Share capital

The share capital account of the company consists of 1,559,231,320 fully paid up, ordinary shares as at 31 December 2012.

(b) Movements in ordinary share capital

Movements in ordinary share capital of the company during the six months ended 31 December 2012 were as follows:

Date	Details	Number of shares	Issue price	Amount \$
1-7-2012	Opening balance	1,366,298,863		277,282,387
25-9-2012	Placing and subscription	99,500,000	\$0.06	5,970,000
25-9-2012	Overseas offer	23,254,556	\$0.06	1,444,607
25-9-2012	Australia and New Zealand rights issue	69,677,901	\$0.06	4,180,675
1-11-2012	Placing and subscription	500,000	\$0.06	30,000
	Add: Employee services provided	-		190,440
	Less: Transaction costs arising on share issues	-		(539,738)
31-12-2012	Balance	1,559,231,320		288,558,371

Note 13. Events Occurring After the Reporting Period

NRW Grant

The requirements of the regional development grant of €1,386,000 (A\$1,761,566 as at reporting date) received from the Government of North Rhine Westphalia, Germany in December 2009 have been finalised subsequent to the current reporting date. The Group has been awarded €966,000 on a pro-rata basis in recognition of the number of jobs created up to 15 December 2012, with the balance of €420,000 having been repaid, along with interest of €67,745, in February 2013. There is an ongoing requirement over the next five years to maintain the number of jobs created, hence the grant continues to be treated as deferred revenue at reporting date. The grant will be recognized as income over the next 5 years on a straight-line basis to match the expected future labour costs of the created jobs. The remaining €1,380,000 of restricted cash equivalents (being €1,800,000 as at reporting date less the €420,000 subsequently repaid) is shortly expected to be released, whereupon it will be freely available to the Group.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2012 (continued)

	2012	<i>Half-year</i>
	Cents	2011
		Cents
Note 14. Earnings Per Share		
Basic and diluted earnings per share	(0.86)	(1.01)
	Number	Number
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	1,472,341,726	1,231,369,841
	\$	\$
Earnings used in calculating basic and diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	(12,609,282)	(12,478,692)

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

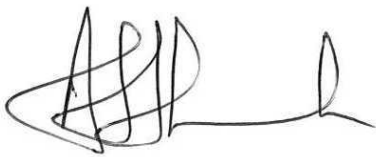
All options issued will be anti-dilutive until such time as the Group generates profits, rather than losses, hence all options have been excluded from the calculation of diluted earnings per share.

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 14 to 23 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 2012 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.

A handwritten signature in black ink, appearing to read 'ALASDAIR LOCKE', with a long horizontal line extending to the right.

Alasdair Locke
Chairman

Melbourne
27 February 2013



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 2012, 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 2012 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*.



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 2012 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*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report, which indicates the need for additional funding to ensure the continuation of the consolidated entity. This condition, along with the other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Andrew Cronin'.

Andrew Cronin
Partner

Melbourne
27 February 2013