



CERAMIC FUEL CELLS LIMITED

Clean power for your home

31 July 2009

Ceramic Fuel Cells Limited

Quarterly Update and Cashflow Report

Ceramic Fuel Cells Limited (AIM / ASX: CFU) a leading developer of high efficiency and low emission power products for homes, today released its quarterly cashflow report for the period ended 30 June 2009.

Operational Review

BlueGen

During the quarter the Company launched a new modular gas-to-electricity generator product. The new product – called BlueGen – is a ‘mini power station’ for homes and other buildings. The BlueGen unit converts natural gas to low emission electricity and hot water, reducing greenhouse gas emissions and saving on home energy bills.

The BlueGen product was displayed at the Hannover Fair in Germany in April and then formally launched in May by the Premier of Victoria, John Brumby, at Ceramic Fuel Cells’ head office in Melbourne. The launch featured a live demonstration of a working BlueGen unit, connected to a hot water unit producing electricity and hot water. A video of Mr Brumby’s speech at the launch is available at www.brr.com.au/cfu ([click here](#)).

The BlueGen unit – about the size of a dishwasher - will allow homeowners to reduce their homes’ carbon dioxide emissions and save on energy bills. In Victoria each BlueGen unit can reduce carbon emissions by up to 18 tonnes per year compared to Victoria’s current brown coal power generators.

Each BlueGen unit can produce up to 17,000 kilowatt hours of power per year – more than twice the electricity needed to power an average home in Europe or Australia. Surplus electricity can be sold back to the power grid. The BlueGen units can generate electricity with up to double the efficiency of the current power grid.

At the BlueGen launch the Company also announced a Memorandum of Understanding with the Victorian Government’s sustainable urban development agency, VicUrban, to showcase the BlueGen units in VicUrban housing developments. Subject to agreeing final terms, Ceramic Fuel Cells will install the first BlueGen unit in VicUrban’s Sustainable and Affordable Living Centre in Dandenong to be opened towards the end of 2009, and will install up to three more demonstration units in other VicUrban developments in 2010.

BlueGen is a modular product, which can be installed just as a power generator, or coupled with a hot water tank and installed as a co-generation system to provide power and hot water. This modular product suits applications and markets that require an alternative product approach to fully-integrated micro combined heat and power systems.

The Hannover and Melbourne launches of BlueGen have generated significant interest from potential buyers, manufacturers and distributors of the product. The Company is building a substantial pipeline of sales opportunities and plans to start delivering BlueGen products from early 2010.

The Company intends to outsource the manufacturing of the BlueGen unit to selected appliance partners. The Company will make the fuel cell module, which is the core of the BlueGen product, at its manufacturing facility in Germany. The Company is in positive discussions with prospective BlueGen manufacturing partners.

The Company's sales strategy for BlueGen will be tailored to match the requirements of the many markets available to it (and customer segments within each market). For most customers and markets the Company plans to sell BlueGen through local sales and distribution agents who would also install and service the product. The Company has been approached by several potential sales agents. The Company is in positive discussions with prospective partners in several markets, including Europe, Australia and North America.

Over the next few months the Company plans to finalise its manufacturing and sales partnerships and finalise the BlueGen product offering and pricing, continuing to build the 'order book' ahead of sales from early 2010.

The Company is also obtaining relevant safety approvals for the BlueGen product. The Company expects to receive European 'CE' safety approval shortly for the demonstration units it has built, and plans to obtain full CE approval for the BlueGen product in January 2010. This CE approval will be used to obtain local approvals in other markets, including Australia (in early 2010) and North America (likely in Q3 2010). The Company is familiar with the CE requirements and process, having obtained CE approval for each of its prior field trial units since early 2006.

Integrated mCHP Product

In parallel with the BlueGen modular product, the Company is also continuing to develop fully integrated micro combined heat and power (mCHP) products with our utility and appliance partners in Europe.

The Company is pursuing parallel products, BlueGen and mCHP, to cater for different customer segments and different markets. Both products will use the Company's Gennex fuel cell module and will 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'.

Like the BlueGen product, the fully integrated mCHP product uses natural gas to produce power and heat. The mCHP product also contains an additional high efficiency boiler to provide additional heat for space heating. These hydronic heating systems are common in many European markets but are less common in warmer climates and outside Europe.

In Germany, France and the United Kingdom, the Company is working with leading utilities and appliance companies to develop mCHP products.

In each market the Company has successfully developed, built and operated 'semi integrated' units, comprising a fuel cell power unit connected to a separate boiler, controlled and operated together. Six semi integrated units have been installed – three in Germany, two in France and one in the UK. In total these units have been operated for over 50,000 hours (equal to about 70 months).

The Company is now progressing to the next stage of developing fully integrated units, comprising a Gennex fuel cell module physically integrated with a high efficiency boiler into a single unit. CFCL will supply the fuel cell module to its appliance partner in each market which will build the complete units, for deployment by the utility customer, starting later this year. These units will demonstrate the functionality of the integrated unit. The final stage of the product development is to make these units smaller and cheaper.

The status of the projects in each market is described below:

Market	Partners	Status
United Kingdom	E.On UK Gledhill Building Products	<ul style="list-style-type: none"> - semi integrated unit installed in June 2008, still operating - Agreed in February 2009 to the next stages of product development and to a future order profile of 100,000 units from 2012 (subject to performance targets and project milestones). - First fully integrated unit to be delivered in Q4 2009
Germany	EWE Bruns Heiztechnik	<ul style="list-style-type: none"> - semi integrated units installed in March, April and August 2008 and are still operating - First fully integrated unit to be delivered in Q4 2009 - Discussing and planning the next stage of product development, including timing, volumes and costing
France	GdF Suez De Dietrich Remeha	<ul style="list-style-type: none"> - semi integrated unit installed in April 2008, still operating. - In July the partners agreed to the next project stage. The first fully integrated unit to be delivered in late November 2009.

The Company is also in positive discussions with prospective utility customers in the Benelux markets and other European markets, for both an integrated mCHP product and the modular BlueGen product.

In Japan the Company is working with Paloma, a leading global home heating manufacturer and owner of the Rheem, Solahart and Raypak brands. In September 2008 the Company installed one of its NetGen+ demonstration systems at Paloma's facilities in Nagoya. The unit was successfully operated on one fuel cell stack for the agreed six month trial, until the end of March 2009. The unit exported power to the local grid and met all of Paloma's technical performance requirements, including daily modulation (where the power output of the unit is turned up and down each day, to mimic the power needs of the average Japanese home). The Company is in discussions with Paloma about the next stage of product evaluation and development for the Japanese market.

Fuel Cell Stack Manufacturing

The Company is completing the construction and commissioning of its fuel cell stack manufacturing plant in Heinsberg, Germany. The plant is on schedule to be opened and operating in October 2009.

The plant has been designed with the capacity to make 10,000 fuel cell stacks per year. The building works and all of the equipment, including the major cost items of furnaces, ink skid works and robotic assembly units, have been designed to meet this capacity. All of the major pieces of equipment have been installed and are currently being commissioned on-site.

For future expansion the plant can be expanded to a capacity of up to 160,000 stacks per year in the same building. The Company also holds an option over a nearby greenfield site.

The managed scale up of the plant capacity has achieved cost savings of approximately three million Euros. The final cost of the plant is expected to be approximately 9.5 million Euros.

In line with increasing its own manufacturing capacity, the Company is also formalising commercial supply agreements for all balance of plant components. The Company is also working with its fuel cell component suppliers – CeramTec and HC Starck in Germany – to reduce unit costs whilst maintaining commercial performance targets.

Ceramic Powder

The Company's ceramic powder plant in Bromborough, UK, is making zirconia powder for use in the Company's pilot manufacturing plant in Melbourne. The UK plant has successfully made zirconia powder that meets the Company's demanding quality requirements, using the Company's patented process.

As previously announced the Company is in discussions with potential customers looking to buy ceramic powders. During the quarter the Company received its first order for a test quantity of zirconia, to be used in a biomedical application. Subject to customer acceptance testing, the Company expects to discuss large orders for this powder over the next few months.

People

The Company has recently appointed two non-executive directors, Dr Peter Binks and Mr Roy Rose. Both directors are based in Melbourne and have extensive skills and experience in commercialising and manufacturing innovative products.

The Company has also appointed two senior Business Development and Sales executives, to further develop the Company's business and secure sales into European markets. One executive will be based in Germany and one will be based in the United Kingdom. Further details will be provided when the executives begin with the Company in late September 2009.

Market Developments

There is a continuing strong momentum in many markets towards supporting the deployment of smaller scale 'distributed generation' units in order to meet increasing demand for energy whilst reducing carbon emissions.

Notably, the UK Government has announced that from April 2010 a feed-in tariff will be paid for small low emission generators, including natural gas micro combined heat and power (mCHP) products.

A consultation paper released by the UK Government in July 2009 sets out the key aspects of the proposed feed in tariff:

- A fixed payment from the electricity supplier for every kilowatt hour (kWh) generated (the "generation tariff") plus another payment for every kWh exported to the power grid (the "export tariff").
- The generation tariff will be a fixed price per kilowatt hour, set at different levels for different technologies and installation sizes. The proposed generation tariffs range from 4.5 pence per kWh (larger hydro and wind) up to 36.5 pence per kWh (small solar PV).
- The fixed export tariff is currently proposed to be 5 pence / kWh for all technologies.
- The rates for gas-fired mCHP are being developed along with the Government's heat and energy saving strategy and renewable heat incentive and will be announced later in 2009 – but still with the objective of starting in April 2010.

- The Government expects to lower the tariff levels for new projects over the years, but any individual installation, once starting to receive a tariff at a certain level, will continue to receive the same generation tariff for 20 years.
- Tariffs will apply to the following technologies from 2010; wind; solar PV; hydro; anaerobic digestion; biomass and biomass combined heat and power (CHP) and **gas-fired micro CHP** (up to 50kW).

Whilst the eligibility criteria and tariff details are still being finalised, the Company believes that the UK feed in tariff could provide important financial assistance to help early product deployment.

A summary of the proposed UK feed in tariff and link to the consultation paper is available at www.cfcl.com.au/News.

Apart from the UK, in Germany fuel cell power and heat generators already receive a feed-in tariff of about 5 Euro cents per kWh (about 9 Australian cents) plus a capital subsidy of up to 3,300 Euros for a high efficiency 2kW unit (about \$5,800).

California in the USA is also currently consulting on an appropriate design for a feed in tariff scheme for small combined heat and power generators.

In Australia, all States and Territories (except Tasmania) have introduced or are planning a feed-in tariff for small generators, however these tariffs are restricted to a few technologies (mainly solar PV). The Federal Government also has policies to support the deployment of renewable energy technologies.

The Company is putting its case to Australian State and Federal governments that in order to quickly reduce emissions from electricity generation, these policies should be expanded to support *low emission* small generators, including high efficiency fuel cell power generators.

The Company has made submissions to several Government and industry inquiries.

The Environment and Natural Resources Committee of the Victorian Parliament is conducting an inquiry into the approvals process for renewable energy projects in Victoria. Managing Director Brendan Dow appeared before the Committee on 27 July 2009. A copy of Ceramic Fuel Cells' briefing note which was given to the Committee is available at http://www.cfcl.com.au/Recent_announcements/.

The Company has also made a submission to the Senate Inquiry into the proposed amendments to the Federal Renewable Energy Act.

Financial Review

Net operating cash outflow for the June quarter was A\$4.5m (£2.2m). During the quarter the Company completed a review of its organisational structure which resulted in 19 staff being made redundant. Payments to these staff have increased staff costs in the quarter. The current headcount is 89 staff.

Interest receipts are down in the June quarter due to lower interest rates and the timing of payments.

During the quarter cash outflow from investing activities was A\$1.7m (£0.8m). This largely related to payments arising from building the Company's manufacturing plant in Germany.

Cash inflows from financing activities during the quarter totalled A\$30.9m (£15.1m). In April the Company successfully closed a series of equity fundraisings, which together raised A\$32.2m (£15.8m) before costs. Costs associated with the fund raisings totalled A\$1.4m (£0.7m).

At the end of June the Company had cash of A\$25.5m (£12.5m) and held investments valued at A\$4.3m (£2.1m).

During the quarter the Company entered into an agreement with ASX-listed litigation funding company IMF (Australia) Limited to recover lost investment funds. The Company is taking legal action to recover losses suffered when the Company's funds were invested in a range of structured financial products. Under the funding agreement, IMF (Australia) Limited will pay the costs of Ceramic Fuel Cells' legal action, including all legal fees, in return for a success fee. The claim is being finalised by the Company's lawyers and is expected to be formally filed and served shortly.

ENDS

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About Ceramic Fuel Cells Limited

Ceramic Fuel Cells Limited is a world leader in developing solid oxide fuel cell technology to provide highly efficient and low-emission electricity from widely available natural gas. The company is developing micro combined heat and power and distributed generation units that generate electricity and heat for homes and other buildings. Ceramic Fuel Cells is developing products with leading appliance partners and utility customers in Germany, France, the United Kingdom and Japan. In May 2009 the company launched its BlueGen gas-to-electricity product. Headquartered in Melbourne, and with operations in the UK and Germany, Ceramic Fuel Cells is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).

www.cfcl.com.au

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

CERAMIC FUEL CELLS LIMITED

ABN

82 055 736 671

Quarter ended ("current quarter")

30 JUNE 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	293	1,716
1.2 Payments for		
(a) staff costs ¹	(2,941)	(11,080)
(b) advertising and marketing ²	(109)	(663)
(c) research and product development ³	(1,072)	(3,368)
(d) leased assets	-	-
(e) other working capital	(832)	(3,689)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	72	2,153
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other		
- Net GST/VAT Received/(Paid)	(33)	315
- Export Market Development Grant received	123	123
- Sundry income received	6	51
Net operating cash flows	(4,493)	(14,442)

Notes

1. 'Staff costs' includes all labour and associated headcount costs, and therefore incorporates all Research & Product Development (R&PD) staff, Sales & Marketing (S&M) staff and General & Administrative (G&A) staff.
2. 'Advertising and marketing' excludes all S&M staff costs (as per note 1 above).
3. 'Research and product development' costs includes all R&PD costs as defined in Note 1(e) to the Financial Statements for the year ended 30 June 2008, but excludes all R&PD staff costs (as per note 1 above).

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(4,493)	(14,442)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(1,682)	(8,233)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	1	1
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other – Security deposits decreased (increased)	1	1
Net investing cash flows	(1,680)	(8,231)
1.14 Total operating and investing cash flows	(6,173)	(22,673)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	32,234	32,234
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other - Financial assets: Net proceeds/(Net payments) ¹	21	4,327
Other - Share issue costs	(1,403)	(1,403)
Net financing cash flows	30,852	35,158
Net increase (decrease) in cash held	24,679	12,485
1.21 Cash at beginning of quarter/year to date	1,353	12,651
1.22 Exchange rate adjustments on foreign currency cash balances	(505)	391
1.23 Cash at end of quarter	25,527	25,527
Funds held in Financial Assets ²	4,253	4,253
Total Cash and Financial Assets	29,780	29,780

1. The net proceeds from/(payments for) the disposal and purchase of the company's investments are at item 1.20

2. Funds held in Financial Assets reflects the current market value of non-impaired investments.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	120
1.25	Aggregate amount of loans to the parties included in item 1.11	-
1.26	Explanation necessary for an understanding of the transactions <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> Item 1.24 - Directors' fees. </div>	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

NIL

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

NIL

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	19,024	1,353
4.2	Cash equivalents	6,503	-
4.3	Bank overdraft	-	-
4.4	Other	-	-
Total: cash at end of quarter (item 1.23)		25,527	1,353
Financial Assets		4,253	4,753
Total Cash and Financial Assets at end of quarter		29,780	6,106

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	Not applicable	Not applicable
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: [] July 2009

Print name: Jeff Harding
Director

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.