

ANNUAL REPORT 2004



CERAMIC FUEL CELLS LIMITED

Creating the energy to succeed™



Corporate Directory

Board of Directors

Julian Dinsdale (Executive Chairman)
Dr Colin Adam
Sally Pitkin
Dr Jack Hamilton
John Dempsey
David Carruthers

Chief Executive Officer

Dr Allen Conduit

Company Secretary

Andrew Neilson

Registered Office in Australia

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Noble Park, Victoria, 3174
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Auditors

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333 Collins St
Melbourne, Victoria, 3000

Share Registry

ASX Perpetual Registrars Ltd
Lvl 4, 333 Collins St
Melbourne, Victoria, 3000
Telephone: +613 9615 9999

Annual General Meeting

The Annual General Meeting of Ceramic Fuel Cells Limited will be held at the Australian Stock Exchange Theatre, Ground Floor, 530 Collins Street, Melbourne, Victoria, on Monday November 22nd, 2004 commencing at 10.00am. A formal notice of meeting and proxy form are enclosed with this report.

Stock Exchange Listing

Ceramic Fuel Cells Limited shares are listed on the Australian Stock Exchange under the symbol CFU.



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Ceramic Fuel Cells Limited is an Australian company geared to commercialising and selling its unique fuel cell technology and expertise into a rapidly growing international market for clean energy.

Our Vision

To use our solid oxide fuel cell technology to provide a highly efficient, reliable and clean form of electricity, making us a leader in the international renewable energy and fuel cell market.

Our Competitive Edge

- ▲ CFCL's fuel cell technology can use readily available, low cost, widely distributed natural gas to produce clean electricity on site
- ▲ CFCL also plans in the future to use biomass gas like methane, converting this 'waste' and major greenhouse gas into electricity
- ▲ We believe a combined heat and power (CHP) unit powered by CFCL's fuel cells has the potential to:

Achieve up to 50% electrical conversion efficiency

(compared to approximately 30% for current coal fired power stations)

Achieve up to 85% energy conversion efficiency through heat recovery

Reduce carbon dioxide emissions by up to 60%

(compared to current coal fired power stations)

- ▲ CFCL's innovations are protected by 27 patent families in major world markets.

Our Goals for 2004-05

- ▲ Sign agreements to conduct field trials of our micro combined heat and power (CHP) unit in Australasian and European markets;
- ▲ Establish income streams from field trials and other projects;
- ▲ Increase Australian fuel cell production for field trials, application partners requirements, and further testing and development;
- ▲ Complete the design of a manufacturing plant for mass fuel cell production in Europe;
- ▲ Engage with Application Partners to incorporate our technologies into end-user equipment; and
- ▲ Explore, and if appropriate, implement a dual listing of CFCL on the Alternative Investment Market (AIM) of the London Stock Exchange.

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Dear Shareholder

Over the last few years, Ceramic Fuel Cells Limited has taken a number of significant steps towards commercialising its fuel cell technology. Much has been achieved in this last year. For this considerable work and shared vision special thanks and appreciation go to the shareholders, Board, executive management team, and the staff at CFCL.

In 2003-4 we prepared the Company for listing on the ASX. We raised AUD\$12.6 million in private placements and then AUD\$15 million in the public offering. We restructured the organisation to increase the focus on commercialisation. We also expanded the company's management by creating positions to manage commercial and legal matters, risk, compliance, reporting to investors and the market.

Our hard work will continue as we seek to install our fuel cell technology into practical appliances to satisfy the market's demand for clean energy efficient products. We look forward to seeing the results of these preparations and our first sales in 2004-5.

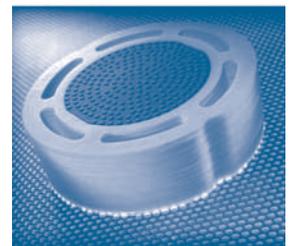
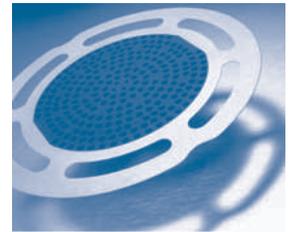
In 2004-5 we anticipate conducting a number of field trials of our combined heat and power (CHP) unit with partners in Australia, New Zealand and Europe. These field trials will help us refine our technologies. We also expect field trials and other projects to generate income for the company. We anticipate completing the design of a high volume fuel cell manufacturing plant and signing an agreement with a joint venture manufacturing partner to build this plant in Europe. We intend to sign agreements with application partners for the incorporation of our fuel cell technology into end-user appliances. In due course we anticipate that these application partners will sign agreements to buy fuel cells produced by the manufacturing plant.

We will also explore ways to tap into the dynamic capital markets in Europe, to be positioned alongside other fuel cell and 'alternative energy' companies. We believe this will place us in a strong financial position for the coming few years until our revenue streams are fully developed.

The push for clean, green energy in Europe and other countries around the world is very strong, with mandatory targets and significant government backing propelling the energy industry into innovation and new partnerships.

We believe fuel cells will play a significant role in the energy industry in the future. CFCL is positioned to play a significant role in this emerging market and to present its excellent technology to partners around the world.

On behalf of the Board of Directors, I thank you for your support of CFCL's vision.



A handwritten signature in blue ink, reading "Julian W. Dinsdale". The signature is fluid and cursive.

Julian Dinsdale

Executive Chairman

Summary of Business Performance

Main Achievements July 2003 to October 2004

Financial Achievements

- ▲ Private Capital raising AUD\$12.6 M
- ▲ Successful Initial Public Offering AUD\$15 M
- ▲ Listing on ASX 5 July 2004
- ▲ Increase number of shareholders from 12 to over 1,250
- ▲ Reduce operating net loss by 15.7% to 30 June 2004
- ▲ Reduce operating cash outflow by 20% to 30 June 2004
- ▲ Strengthened the balance sheet - cash at 30 June 2004 AUD\$21.2 M

Operational Achievements

- ▲ Changed focus of the company from R&D to commercialising technology and generating sales
- ▲ Continued improvements to fuel cells including power output, efficiency and reliability
- ▲ Continuing to secure our innovations through patent protection, leading to a total of 27 patent families in major jurisdictions around the world
- ▲ Commenced planning to increase fuel cell plate production capacity from 15,000 per annum
- ▲ Focussed resources on developing a 1 kW micro-CHP (combined heat and power) unit for the large European market.
- ▲ Designed pre-commercial micro-CHP unit and commenced prototype construction and demonstrations
- ▲ Signed agreement with Ceram Research Ltd to design manufacturing plant for Europe
- ▲ Established a foothold in the European market by establishing a United Kingdom subsidiary company, Ceramic Fuel Cells (Europe) Limited
- ▲ Appointed CEO for European operations
- ▲ Cut Occupational Health and Safety incidents from 20 to 11.



A stack of fuel cells incorporated in CFCLs prototype CHP unit (combined heat and power).

A different energy future

There is an increasing focus on producing electricity from clean energy sources. From the United Kingdom to Germany, from the United States to Japan, governments and industry are investing in new technologies to produce reliable electricity from sources other than coal, hydro or nuclear.

Renewable energy sources such as solar, wind and biomass all have a place in the energy mix, however, even in progressive energy-focussed Europe, the European Wind Energy Association predicts wind will only account for around 12.1% of electricity supply by 2020¹. If successful and economic, very new technologies such as ocean current and hot rocks may also provide additional clean generation sources in select regions at some future stage. It is increasingly recognised that fuel cells may provide the biggest 'baseload' energy key to the future².

Our Leading Edge

There are a number of companies around the world pursuing different fuel cell designs for a variety of applications, power levels and fuels.

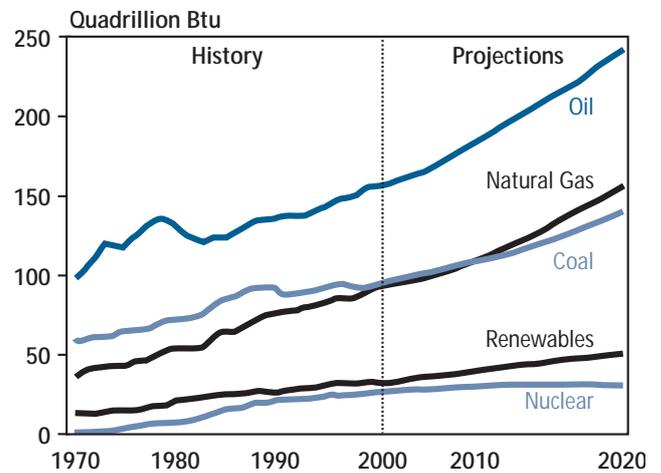
CFCL has focussed on creating fuel cells to generate electricity in the home or office for immediate use on site (local consumption) or for sale back to the grid. Other companies are focussed on developing fuel cells for motor vehicles, or specific portable appliances such as mobile phones.

While fuel cells are comparatively new in Australia, NASA has been using fuel cells to power their space missions since the 1950s. These fuel cells use hydrogen gas to produce electricity, with water as a by-product. The hydrogen gas required for such fuel cells is not naturally available and must be separately extracted from water or hydrocarbon fuels. This means that either a distribution system for bottled or piped gas needs to be created, or an electrolysis or reforming system must be separately provided for each fuel cell system.

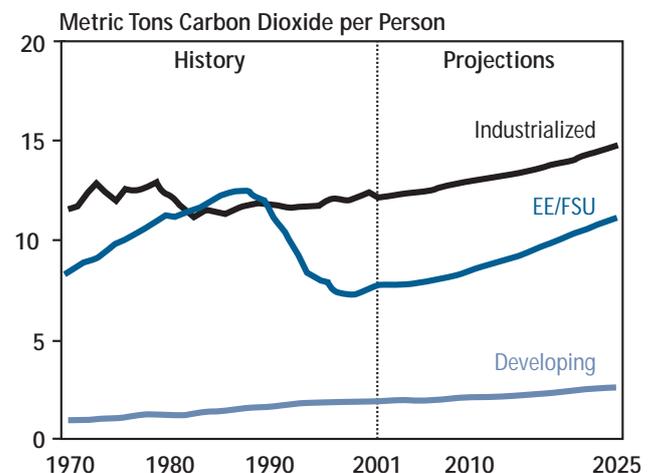
By contrast, CFCL's fuel cell operates on natural gas (methane). Natural gas is readily available, lower in cost, and is already widely distributed across countries and around the world.

CFCL is also working to adapt its fuel cell to create electricity from bio-fuels such as methane and ethanol. Methane is becoming recognised as a gas resource that should be used, rather than treated as a waste or allowed to escape to the atmosphere, where it has significant greenhouse impact. Methane naturally occurs at sewage treatment plants, waste tips, dairy farms and coal mining operations. CFCL is also investigating other biomass products such as ethanol produced from sugar cane, wheat and corn.

World Primary Energy Consumption by Energy Source, 1970-2025



Energy-Related Carbon Dioxide Emissions per Capita by Region, 1970-2025



Source: US Dept of Energy, International Energy Outlook 2004

¹ Wind Energy – The Facts, 2003, European Wind Energy Association, pg 10.

² Hydrogen Energy and Fuel Cells, European Commission, June 2003, p. 11-14

World Energy Generation

High efficiency, low emissions and reliable energy

CFCL's fuel cell micro-CHP unit (combined heat and power) currently under development is a small, quiet and constant power unit suitable to be installed in homes, offices or small commercial sites. The home unit is designed to produce 1kW of electricity and also hot water sufficient for a family of four. Larger units would be suitable for offices and other buildings. We believe a combined heat and power (CHP) unit powered by CFCL's fuel cells has the potential to achieve up to 50% electrical conversion efficiency (compared to approximately 30% for current coal fired power stations), up to 85% energy conversion efficiency through heat recovery, and to reduce carbon dioxide emissions by up to 60% (compared to current coal fired power stations). The European market for water heaters - which is estimated to be between 6 - 8,000,000 units per annum - represents a significant market opportunity for micro-CHP units.

This high efficiency would position CFCL's micro-CHP unit design and technology as a greenhouse friendly energy alternative, potentially cutting emissions by up to 60% compared with coal-fired centrally generated electricity.

We believe CFCL's fuel cells hold great promise for the future world of distributed cleaner energy generation.

Recent International Developments

- ▲ UK's Prime Minister announces intent to raise energy performance target in 2005 to 50% for new buildings, and an overall 60% cut in carbon emissions by 2050
- ▲ NSW adopts BASIX program for energy efficiency - 40% less greenhouse emissions for all types of new residential development by mid-2006
- ▲ German Government provides subsidies for fuel cell technologies powered by biomass
- ▲ New York State to have 25% electricity supplied by renewables, including biogas fuel cells, by 2013
- ▲ Hawaii to have 20% renewable energy, including biogas operated fuel cells, by 2020.

CFCL Melbourne's facility for testing of SOFC cells and stacks.



Review of Operations and Activities

For the year ended 30 June 2004

Summary

The Board and Management team at Ceramic Fuel Cells Limited (CFCL) recognise the market potential of our Solid Oxide Fuel Cell (SOFC) technology and associated services and are positioning the Company to realise this potential in the next few years.

This report presents the steps taken in 2003-4 to align the Company, our staff and resources to commercialise our technology to meet market demand for efficient and clean energy, and flags those steps underway for 2004-5.

Solid Oxide Fuel Cells are expected to play a significant role in providing efficient and greenhouse friendly products to a world hungry for clean and reliable energy. CFCL, founded in 1992, has developed a world leading capability in SOFCs, and we are moving rapidly to commercialise our technology.

The 2004 financial year was an exciting and important one for the development of CFCL. We made significant progress toward achieving our technical and commercial goals. In addition, we raised approximately \$27.6 million in capital, firstly raising \$12.6 million through private capital and then successfully raising \$15 million through a fully underwritten Initial Public Offering (IPO), with a subsequent listing on the Australian Stock Exchange (ASX) on 5 July 2004.

We have thereby transformed CFCL from a company with tightly held shareholdings to a public company with more than 1,000 shareholders.

CFCL appreciates the support of our new investors who have confirmed the vision and foresight of earlier shareholders, some of whom provided seeding funds, including the CSIRO, BHP Billiton, Western Power, Meridian Energy and a number of Government bodies. We especially recognise our largest shareholders, Energex and Metasource (Metasource is a wholly owned subsidiary of Woodside Petroleum Ltd), who over the past several years have provided strong financial and strategic backing. The support of the Australian Government and the Department of Industry Technology and Resources through their R&D Start Grant Program is also acknowledged.

Strong Board and management leadership resulted in a transformation of the company during 2003-4 from a research and development organisation, focused mainly on the science of fuel cell technologies, to a company outwardly focusing on product development and marketplace engagement.

CFCL's Melbourne Head Office, R&D and pilot manufacturing facility.



Review of Operations and Activities

For the year ended 30 June 2004

Our management team and staff now possess those vital skills, qualifications and intellectual strengths in both the technical, manufacturing, legal and commercial areas essential for our growth. We continue to foster and develop the skills of our people and systems to improve the company's operations and viability, increase the certainty of planned outcomes and reduce business risk.

The 2004-05 financial year is expected to be one of achievement and growth for CFCL with the generation of income streams from a range of initial field trial deployments. We are working to sign agreements with leading industry players for joint ventures and partnerships as part of our planned long-term development.

Business Objectives and Successes 2003-4

The main objectives of CFCL for the year (1 July 2003 - 30 June 2004) were to:

- ▲ continue improving fuel cells efficiency;
- ▲ commence demonstrations of CFCL's technology in complete system prototypes;
- ▲ commence commercialisation activities with a particular focus on Europe and Australia; and
- ▲ raise funds to allow CFCL to commence the execution of its commercialisation plans.

Considerable progress was made on all these objectives.

During the 2004 financial year, CFCL continued to refine its fuel cell technology whilst developing technical demonstrator systems to show the operation of fuel cells in typical applications.

CFCL's investment in its technology and preparation for market entry resulted in a net loss from operations for the financial year of \$15.6 million, which was \$2.9 million lower than the net loss for the preceding period of \$18.5 million. The operating cash outflow was reduced from \$14.8 million last year to \$11.9 million this year, with the cash outflow from investing activities (which represents primarily capital expenditure) down from \$3.1 to \$0.1 million as a result of the completion of a program to expand testing capacity in financial year 2003.

Revenue for the year was \$0.4 million, down \$1.2 million compared to financial year 2003 due to a reduction in grant income from \$0.8 million last year to nil this year and lower interest income in the current year.

Research and development (R&D) costs were cut by \$4 million (28.5%) on the prior year; this was primarily due to a

reduction in the number of R&D staff commensurate with the development stage of the technology and our shift toward demonstration systems. The focus on demonstration systems will continue through 2005.

CFCL's expenditure on General and Administrative expenses is broadly in line with last year. The expenditure on Sales and Marketing increased during the year to \$0.3 million and will increase significantly in financial 2005 as we commence commercialisation activities in Europe.

CFCL is careful to pursue high environmental standards in materials processing and manufacture of components on site. Improved staff training, materials storage, handling and work conditions resulted in a drop from 20 OHS incidents causing injury in 2002-3 to 11 in 2003-4; these were mainly sprains and strains connected to manual handling.

Public Listing on Australian Stock Exchange

CFCL lodged a Prospectus on 7 May 2004 with the Australian Security and Investments Commission (ASIC). The Prospectus was a fully underwritten offer of 15,000,000 fully paid ordinary shares at an offer price of \$1.00 per share. The offer successfully closed in June 2004, and CFCL was listed on the ASX on 5 July 2004 (ASX code CFU).

Prior to the initial public offering, CFCL issued 14.6 million ordinary shares and raised \$12.6 million in two private placements. In addition we issued 5.3 million options over ordinary shares with an exercise price of \$1.00 per share and exercisable at any time until 31 March 2006.

Product Focus

CFCL intends to commercialise its technology through joint ventures. We expect that this will be achieved initially in Europe with manufacturing partners for the manufacture of fuel cells and with application partners for the manufacture of end-user application products. These may include Combined Heat and Power (CHP) units in which a fuel cell electricity generator is combined with a domestic hot water system.

Europe is a particularly attractive market for CFCL given existing demand for CHP units (based on fuel cells), solid government support and consumer appetite for environmentally friendly technologies. There is particularly strong demand for a CHP unit that produces a consistent 1kW of energy, 24 hours per day, seven days per week.

Our work on demonstration systems has now progressed to an advanced stage with the near completion of our prototype micro-CHP system. This is intended for sale to prospective customers for field trial applications during 2004-05.

Our first micro-CHP systems are designed to provide 1kW of electrical power plus sufficient hot water for a family of four

Review of Operations and Activities

For the year ended 30 June 2004

in a typical home. Larger systems of 5kW and greater are also covered in our business plan. Simultaneously we continue to refine our core fuel cell technology, including programs in performance and life testing, in anticipation of commercial rollout.

Over its 12 year life CFCL has amassed a range of valuable processes and services. Not only has CFCL developed significant R&D skills and knowledge of materials and processes, CFCL has built some of the best SOFC testing facilities in the world. We believe there is a market for these skills and facilities and intend to explore this during 2004-05. We are also planning to gain income for projects to adapt our fuel cell technologies to alternative and renewable fuels such as bio-methane and ethanol. In this way we intend to expand the range of applications for our fuel cell products.

In order to meet demand for fuel cells over the next two years, we are upscaling our existing manufacturing plant from 15,000 cell plates to approximately 100,000 cell plates per year with an expected capital expenditure of \$3.8 million over 18 months.

This increased capacity will enable us to sell to application partners, expand sales for field trials and continue in-house performance and life testing.

Patent Protection

CFCL has an extensive intellectual property (IP) portfolio with patents either granted or under application covering inventions in SOFC materials, cell and stack configurations, fuel processing, stack thermal management and system control technologies. Our IP also includes trade secrets, trademarks, copyright and licenses, together with non-disclosure and confidentiality agreements, which in total establish and protect our proprietary

rights and technologies around the world. As at 30 June 2004 CFCL had 27 inventions patented in all major jurisdictions and further patents for new inventions underway.

During the 2004 financial year \$0.6 million was expended in patent protection and associated administrative support. In accordance with the company's accounting policies the costs associated with the development, maintenance and protection of the intellectual property portfolio are not capitalised in the Statement of Financial Position. The company's IP Committee has and will continue to manage these assets to ensure the integrity and strength of CFCL's intellectual property.

Market Focus

In one of a number of steps furthering our entry into the European market, CFCL signed an agreement on 25 August 2004 with the leading international ceramics consultancy, Ceram Research Ltd, to design the manufacturing plant to put our fuel cells into mass production.

Ceram, based in the UK, will contribute expertise in design and manufacturing processes, and advise on location and specifications for a European manufacturing plant. Both Ceram and CFCL view this agreement as a vital step in a long-term partnership, with the first phase design work scheduled for completion in December 2004. This agreement puts CFCL in an excellent position for the early introduction of domestic-scale energy generators, based on solid oxide fuel cells into the European market.

CFCL is currently in discussions with other potential partners in Europe and is trialing skills and technology from companies in Japan and USA for potential incorporation into this manufacturing plant.

The ceramic electrolyte plate is first cast in the form of a "green" tape.



Review of Operations and Activities

For the year ended 30 June 2004

In early August 2004 CFCL also announced the establishment of a subsidiary company in the UK and the appointment of Mr Brendan Bilton as CEO for Europe (commenced 1 September 2004). Additional resources to forge the commercial engagements in the European market place are planned for deployment in Europe during 2004-05.

The capacity of the company has also been bolstered with the expertise of our new Legal and Commercial Manager, Chief Operating Officer and Investor and Public Relations Manager. CFCL is now excellently placed to capitalise upon our world-leading technologies and product potential.

CFCL is continuing to pursue sales of CHP units for field trials with key companies in target industries, including energy, residential development and the dairy industry. Currently our efforts are focused on Australia, with discussions also being pursued in New Zealand and Europe.

Risk Management Program

CFCL has an active Risk Management Program with both technical and commercial facets. CFCL attempts to predict and identify risks right across our operations activities and devise appropriate mitigation strategies to minimise the impact of adverse events and create alternative paths to achieve our commercial goals.

The market interest and current demand for energy and fuel cells is growing, however, a substantial commercial market for fuel cells has not yet been established by any organisation in the SOFC domain. CFCL is one of a number of early entrants into the SOFC field, and our success will be based upon our technical superiority, good management and partnerships. Our growth and future financial performance will depend on our ability to forge strong commercial relationships, enhance our existing technology, develop and introduce new products on a timely basis and keep pace with technological developments against a backdrop of evolving industry requirements. Through our Risk Management Program we work to anticipate and plan for challenges and opportunities for our business.

Company Goals for 2004-5

The goals for CFCL during financial year 2005 are to:

- ▲ complete the development of micro-CHP units and conduct field trials in both the Australian and European markets;
- ▲ establish income streams from both field trial activities and other project work using our accumulated intellectual property and know-how;
- ▲ engage with a Manufacturing Partner for the development of a volume manufacturing plant for fuel cells in Europe;
- ▲ engage with Application Partners to incorporate our fuel cell technologies into end-user equipment and subsequently create off-take agreements for the above mentioned manufacturing plant;
- ▲ explore, and if appropriate, implement a dual listing of CFCL on the Alternative Investment Market (AIM) of the London Stock Exchange to provide access to European capital markets and to allow the opportunity for European investors to enjoy the success of our product deployments in their markets; and
- ▲ undertake further work to optimise the performance of the existing fuel cell technology.

Conclusion

In view of the advanced state of development of our products, the forward steps we have recently taken to establish a presence in the European market and the receptive nature of that marketplace, which is searching for new and efficient methods of generating clean energy, we are confident that CFCL is on the track to success.

We look forward to the continued support of you, our shareholders, as we move along this path.



Dr Allen Conduit

Chief Executive Officer

Board of Directors

The Board has a broad range of experience in early stage technology companies and the energy industry, combined with relevant legal, financial and commercial expertise.



Mr Julian Westley Dinsdale

BSc, FIEE, CEng, FIE(Aust), CPEng, MIICA, MACS

Age: 60

Executive Chairman and member of Audit Committee Director & Executive Chairman since 9 December 2002

Experience: Mr Dinsdale has over 30 years experience in the international commercialisation of high-technology companies in Australia, the USA, Europe and Asia, with an emphasis on corporate and financial management, investment fund-raising and shareholder relations. He has established his own high-technology companies and served in prominent Director and Chairman positions within the energy industry.



Dr Colin McLean Adam

BMetEng(Hons), PhDMet, FTSE

Age: 61

Non-Executive Director, Chairman of Technical Committee and member of Audit Committee Director since 6 July 1992 Director & Chairman, TeleIP Limited

Experience: Dr Adam has been a director for 12 years. He recently retired from the CSIRO, having been Acting Chief Executive during 2000 and early 2001. He has had an extensive career in industrial research management with a number of organisations, both in Australia and in the USA. He has served and is serving on the boards of a number of technology companies and government organisations.



Mr David Carruthers

BComm, ACA, CFTP (Snr), MAICD Dip

Age: 57

Non-Executive Director and Chairman of Audit Committee Director since 1 September 2004 Director, Australian Red Cross Victoria

Experience: During his career with BP Finance Mr Carruthers was CFO of global operations, based in London, and the European Regional CEO based in Brussels. On returning to Australia he was the Managing Director of the Treasury Corporation of Victoria during the state's privatisation program. More recently he has provided advisory services in financial risk management to clients in the Asia-Pacific region and similar services (pro bono) to the Australian Red Cross.



Mr John Patrick Dempsey

GradDipAcct&FinMngt, GradDipAgEcon, PNA, ACIS, JP

Age: 58

Non-Executive Director and member of Audit Committee Director since 1 June 2002 Director, Energex Limited

Experience: Mr Dempsey has been a director for 2 years. He has been a qualified Accountant since 1974 and has worked in public practice, commerce and the Queensland rural sector in various positions. Previous appointments have included deputy Mayor of the City of Cairns, member of the Queensland Sugar Industry Tribunal, and Director/Partner in a public accountancy practice in Cairns. Mr Dempsey is presently an Owner/Principal of an accountancy practice in Brisbane and has been a Board Member of Energex Limited since 1999.



Dr Jack Andrew Hamilton

Ph.D, BEng(Chem)

Age: 48

Non-Executive Director Director since 22 April 2002 Director, Geodynamics Limited General Manager Business Development, North West Shelf Venture, Woodside Energy Ltd

Experience: Dr Hamilton is a senior executive with Woodside Petroleum Ltd. In over 21 years with Shell Australia Dr Hamilton held operational management positions in refining, petrochemicals and gas production, marketing, strategy and LNG project management. Between 1991 and 1994 he was onshore operations manager for Woodside Offshore Petroleum Pty Ltd. Dr Hamilton joined the board in 2002 and brings experience in investing in emerging technology and its application in the sustainable and renewable energy sectors.



Ms Sally Anne Majella Pitkin

LLB, LLM, MAICD

Age: 44

Non-Executive Director Director since 14 April 2000 Director, Australian Leisure & Hospitality Group Limited Member Advisory Board, Brisbane Transport Special Counsel, Clayton Utz

Experience: Ms Pitkin has been a director for 4 years. She is a company director and corporate lawyer and is presently Special Counsel with Clayton Utz Attorneys. Her areas of practice specialty are corporate financing, corporate governance, corporatisation and privatisation, and she has published extensively in these areas. Ms Pitkin holds directorships with companies in the public and private sector, including in the energy and technology transfer industries. Until recently Ms Pitkin was a director of Energex Ltd.

Mr K J Croagh was a Director from 29 July 1993 to the date of his resignation of 20 February 2004.

Mr R D C Garland was a Director from 3 April 1996 to the date of his resignation of 31 January 2004.

Executive Management Team

CFCL has a strong core management team, which is supported by key individuals with a range and depth of relevant experience important to ensuring the company's long-term success.

The experience and background of the key individuals is briefly summarised below.

Dr Allen Conduit

Chief Executive Officer (Age 50)

Dr Conduit joined the company in 2003 and brings significant experience in commercialising and growing high technology development and manufacturing businesses. In 1983 he founded his own business that manufactured and marketed fibre optic products to the telecommunications and computer networking industries and for the next 16 years, internationalised and grew that business before selling it to a large multinational company.

Dr Conduit has been a director of a number of companies and holds a Bachelor of Engineering degree and a Doctorate of Philosophy (Optical Communications).

Dr Karl Föger

Chief Technical Officer (Age 54)

Dr Föger is one of the initiators of SOFC technology in Australia and has an international reputation in research and development in the energy and environmental fields. Dr Föger held various research and management roles in the areas of catalyst and catalytic process development in CSIRO, culminating in his appointment as a Chief Research Scientist.

He has been involved with the company since its inception in 1992 and has published a number of papers on SOFC technology.

Tony Sherburn

Chief Financial Officer (Age 44)

Mr Sherburn is a Chartered Accountant with a degree in economics and more than 20 years experience in finance and accounting with an emphasis on strategic planning. He has commercial experience in a number of industries including manufacturing and new technology.

In addition, Mr Sherburn has been involved in raising venture capital equity within a high technology environment.

David Peck

Business Development Manager (Age 56)

Mr Peck brings extensive experience in various senior management roles responsible for sales, marketing and business development, with a particular focus on manufacturing for the international electrical power industry.

Mr Peck holds qualifications in engineering and business management and has taught in a post-graduate management program.

John Rajoo

Chief Operations Officer (Age 45)

Mr Rajoo has extensive senior operations and general management experience with multinational companies specialising in high technology products, including functional areas of engineering, strategy and sales. In addition, Mr Rajoo has been involved in commercialising new technology products and transforming businesses.

Mr Rajoo holds qualifications in engineering and business management and is a Six Sigma specialist.

Brendan Bilton

CEO, CFCL Europe (Age 40)

Mr Bilton has combined his Masters qualifications in materials science with business management skills. He left Morgan Crucible, UK to join CFCL in September 2004. As Business Development Manager for Morgan Fuel Cells he managed major accounts with key international companies in the development of fuel cell technology.

Mr Bilton is a member of the Fuel Cell Councils of US, EU and the UK Government Fuel Cell Steering Group.

Andrew Neilson

Legal & Commercial Manager (Age 34)

Mr Neilson has been solicitor with one of Australia's largest law firms, and in-house legal counsel and commercial manager in the IT industry. He has experience with commercialising technology, identification and allocation of commercial risk and in structuring and negotiating contracts with global partners, suppliers and customers.

Mr Neilson is Board Secretary of the Sustainable Living Foundation. He has a Bachelor of Laws (Honours) and a Bachelor of Commerce.

Directors' Report

For the year ended 30 June 2004

Principal Activity

The principal activity of the company during the year was the commercial development and demonstration of ceramic (solid oxide) fuel cell technology and the analysis of market opportunities for products based on this technology.

The company changed its activities during the year from predominantly research and development to commercialisation and development of its products.

Dividends

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

Review of Operations and Activities

Refer to pages 7 to 10 of this document.

Earnings Per Share

	2004 cents	2003 cents
Basic earnings per share	(18.44)	(23.11)

Significant changes in the state of affairs

Significant changes in the state of affairs of the company during the year were the following ordinary share issues:

- ▲ 4,090,000 shares at an issue price of \$0.50 per share that raised \$2,045,000 of share capital, and
- ▲ 25,550,000 shares at an issue price of \$1.00 per share that raised \$25,550,000 of share capital

(refer Note 15(b) to the Financial Statements).

In the opinion of the directors there were no other significant changes in the state of affairs of the company that occurred during the year under review not otherwise disclosed in this report or in the financial statements.

Matters subsequent to the end of the year

Establishment of Ceramic Fuel Cells (Europe) Limited

In August 2004 the company established a wholly owned European subsidiary, Ceramic Fuel Cells (Europe) Limited, initially headquartered in the United Kingdom. The formation of the new subsidiary is expected to be the stepping-stone to European joint ventures for large-scale fuel cell production and for partnerships with manufacturers of fuel cell appliances.

No other matter or circumstance has arisen since 30 June 2004 that has significantly affected, or may significantly affect:

- the company's operations in future financial years, or
- the results of those operations in future financial years, or
- the company's state of affairs in future financial years.

Likely developments and expected results of operations

Ceramic Fuel Cells Limited intends to continue the commercialisation activities of its existing technology and will undertake further technology developments. The company is focusing on distributed generation, particularly the micro combined heat and power (micro-CHP) and secure power markets. Initial target markets are environmentally friendly distributed generation for residential houses in Western Europe, Australia and the USA.

Further information on likely developments in the operations of the company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

Environmental Regulation

The company is not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Directors' Report

For the year ended 30 June 2004

Directors' Meetings

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2004, and the numbers of meetings attended by each director as a member of the relevant committee, were:

Name of Director	Full meeting of directors		Meetings of committees			
			Technical		Audit	
	A	B	A	B	A	B
Current Directors						
Mr J W Dinsdale	24	24	*	*	3	3
Dr C M Adam	23	24	9	9	2	2
Mr J P Dempsey	22	24	*	*	2	2
Dr J A Hamilton	21	24	*	*	*	*
Ms S A M Pitkin	23	24	*	*	*	*
Former Directors						
Mr K J Croagh	15	15	*	*	1	1
Mr R D C Garland	13	14	*	*	1	1

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

* = Not a member of the relevant committee

Directors' Interests in the Company's Securities

Particulars of directors' interests in the securities of Ceramic Fuel Cells Limited as at the date of this report are as follows:

Ordinary Shares

Name	Balance at 1 July 2003	Received during the period on the exercise of options	Other changes during the period	Balance at the date of this report 17 Sept 2004
Current Directors				
J W Dinsdale ^{1,2}	-	-	300,000	300,000
J A Hamilton ³	-	-	3,000	3,000
S A M Pitkin ⁴	-	-	10,000	10,000
Total	-	-	313,000	313,000

1. As part of his remuneration Mr Dinsdale agreed to accept 300,000 fully paid ordinary shares in the company. These shares have been accrued for at 30 June 2004 in the Financial Statements. On 17 September 2004 the Directors resolved to issue these shares to Mr Dinsdale.

2. Mr Dinsdale is entitled to further equity in the company in accordance with the terms of his remuneration package approved by shareholders at a general meeting on 14 February 2003, the details of which are to be found in the **Employment Agreements** section of Note 18 to the Financial Statements.

3. J & J Hamilton hold these shares as trustees for the Hamilton Unit Trust.

4. Ms Pitkin holds these shares as trustee for the Pitkin Superannuation Fund.

Options (over ordinary shares)

Name	Balance at 1 July 2003	Granted during the period as remuneration	Exercised during the period	Other changes during the period 17 Sept 2004	Balance at the date of this report	Vested and exercisable at the date of this report
Current Directors						
C M Adam ¹	25,000	-	-	-	25,000	-
Former Directors						
K J Croagh ^{1,2}	25,000	-	-	-	25,000	-
R D C Garland ^{1,2}	25,000	-	-	-	25,000	-
Total	75,000	-	-	-	75,000	-

1. The options held by C M Adam, K J Croagh and R D C Garland have been placed in escrow, as a condition of admitting the company to the official list of the ASX, and cannot be exercised before 5 July 2006.

2. Due to the above-mentioned escrow period, on 24 June 2004 the Board resolved to extend the expiry date of the options of Messrs Croagh and Garland which, under the terms of the Ceramic Fuel Cells Limited Share Option Plan Rules, would have expired 12 months from the date of listing such that they now expire 12 months from the end of the escrow period, ie. on 4 July 2007.

Remuneration Report

Principles used to determine the nature and amount of remuneration

Non-Executive Directors

Fee payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Remuneration of non-executive directors is determined by the company in general meeting. Remuneration consists of an annual fee plus statutory superannuation. Annual fees of \$25,000 for the Vice Chairman and \$20,000 for non-executive directors were re-confirmed at the Annual General Meeting held on 27 November 2003. There is no "at risk" remuneration component (bonuses and other performance based rewards are not applicable), hence there is no link between remuneration and the company's financial performance. Non-executive directors are eligible to participate in the Ceramic Fuel Cells Limited Share Option Plan. Two former non-executive directors and one current non-executive director hold options over ordinary shares (refer section entitled *Share-Based Compensation: Options*). The Board is currently utilising the services of an independent, external remuneration consultant to review the level of directors' remuneration in light of the increased responsibilities inherent in becoming a publicly listed company.

Executive Chairman

The remuneration of the Executive Chairman was negotiated by the Board with Mr Dinsdale on an at arms length basis, and the terms contained therein reflect the importance placed by directors upon the necessity of raising new funds to ensure the continuing viability of the company. Mr Dinsdale's remuneration terms were approved at a meeting of shareholders held on 14 February 2003. Mr Dinsdale's remuneration comprises three components: a base payment, a success fee based upon funds raised (varying according to source), and equity, (further details of which are to be found within the *Employment Agreements* section of *Note 18 to the Financial Statements*).

Executive Pay

The company enters into individual employment agreements with each of its executives. Executive pay and reward has two components:

- ▲ Annual remuneration, and
- ▲ Long-term incentive via participation in the Ceramic Fuel Cells Limited Share Option Plan.

No executive currently has an "at risk" remuneration component, thereby ensuring that the company's labour costs remain quantifiable at all times, hence there is no link between remuneration and the company's performance.

- ▲ Annual remuneration: is based upon market rates (current at the time of hire) applicable to each individual's role and responsibilities within the company. Annual remuneration is expressed in terms of a Total Salary Package (TSP), which includes statutory superannuation. The performance of individual executives against previously agreed key performance indicators is reviewed at least annually by their manager, during which time performance goals and objectives are established for subsequent performance periods. Information from the review process is then taken into account, along with such factors as increases in the cost of living and market parity, in determining the individual's remuneration for the next financial year. Remuneration increases based upon changes in individual roles which increase an individual's level of responsibility, or recognise an increased level of skill necessary to perform a role, may be approved at any time by the Chief Executive Officer acting within the level of authority delegated to him by the Board. The Board reviews and approves executive remuneration annually.
- ▲ Share options: membership of the Ceramic Fuel Cells Limited Share Option Plan is open to all full time and part time permanent and long-term contract executives. Of the specified executives listed overleaf, none have been offered options to date.

Directors' Report

For the year ended 30 June 2004

Details of remuneration

Details of the nature and amount of each element of the emoluments of each director of Ceramic Fuel Cells Limited and each of the 5 officers of the company receiving the highest emoluments for the year ended 30 June 2004 are set out in the following tables:

Directors of Ceramic Fuel Cells Limited

Name	Primary			Equity		Post employment Super-annuation	Total
	Cash salary & fees	Cash bonus	Non-monetary benefits	Shares	Options ⁴		
	\$	\$	\$	\$	\$	\$	\$
Current Directors							
Executive Directors							
J W Dinsdale ^{1,2}	238,018	271,000	-	300,000	-	1,982	811,000
Non-Executive Directors							
C M Adam	5,000	-	-	-	4,375	16,800	26,175
J P Dempsey	-	-	-	-	-	21,800	21,800
J A Hamilton ³	-	-	-	-	-	-	-
S A M Pitkin	15,000	-	-	-	-	6,800	21,800
Former Directors							
Non-Executive Directors							
K J Croagh (from 1/7/2003 - 20/2/2004)	16,146	-	-	-	-	-	16,146
R D C Garland (from 1/7/2003 - 31/1/2004)	11,667	-	-	-	-	1,050	12,717
Total	285,831	271,000	-	300,000	4,375	48,432	909,638

1. As part of his remuneration Mr Dinsdale agreed to accept 300,000 fully paid ordinary shares in the company. These shares have been accrued for at 30 June 2004 in the Financial Statements. On 17 September 2004 the Directors resolved to issue these shares to Mr Dinsdale.
2. Mr Dinsdale is entitled to further equity in the company in accordance with the terms of his remuneration package approved by shareholders at a general meeting on 14 February 2003, the details of which are to be found in the **Employment Agreements** section of Note 18 to the Financial Statements.
3. J A Hamilton waived his entitlement to fees for the year ended 30 June 2004 (as he also did for the year ended 30 June 2003).
4. This figure represents the change in value of existing share options due to the repricing of certain options by directors (from an exercise price of \$4.00 per share to an exercise price of \$1.50 per share) on 6 May 2004. The options have been valued using a Black-Scholes option valuation model.

Other Executives of Ceramic Fuel Cells Limited

Name	Primary			Equity		Post employment Super-annuation	Other Salary Continuance insurance	Total
	Cash salary & fees	Cash bonus	Non-monetary benefits	Shares	Options ⁴			
	\$	\$	\$	\$	\$	\$	\$	\$
K Föger	130,775	-	23,768	200,000	-	53,000	3,400	410,943
N A Sherburn	164,223	25,000	25,992	-	-	11,002	450	226,667
A J Conduit (from 31/7/2003 - 30/6/2004)	210,021	-	-	-	-	6,418	-	216,439
D R Chapman (from 18/9/2003 - 30/6/2004)	127,718	-	-	-	-	8,251	561	136,530
B A Thomas	104,338	-	-	-	-	9,083	1,049	114,470
Total	737,075	25,000	49,760	200,000	-	87,754	5,460	1,105,049

1. On 27 November 2003 the company issued 200,000 fully paid ordinary shares to Dr Föger as consideration for services rendered to the company. Further details regarding the shares are included in the **Issue of Shares** section of Note 21 to the Financial Statements.
2. On 27 November 2003 Dr Föger renounced his entitlement to 120,000 options previously granted to him. Further details regarding the options are included in the **Share-Based Compensation: Options** section of Note 18 to the Financial Statements.

Shares Under Option

There were 5,831,999 unissued ordinary shares of the company under option as at the date of this report, the details of which are as follows:

Issued under the CFCL Share Option Plan	Expiry Date	Number of shares	Consideration for grant of option	Consideration for exercise of option
To current and former Directors	04/07/2007	25,000	\$Nil	\$1.50 per share
	04/07/2007	25,000	\$Nil	\$1.50 per share
	24/05/2011	25,000	\$Nil	\$1.50 per share
Subtotal		75,000		
To current and former Employees and Contractors	14/05/2010	60,000	\$Nil	\$1.50 per share
	04/07/2005	60,000	\$Nil	\$4.00 per share
	24/07/2010	141,000	\$Nil	\$1.50 per share
	04/07/2005	17,000	\$Nil	\$4.00 per share
	22/02/2011	1,000	\$Nil	\$1.50 per share
	04/07/2005	5,000	\$Nil	\$4.00 per share
	26/07/2011	3,000	\$Nil	\$1.50 per share
	04/07/2005	24,000	\$Nil	\$4.00 per share
	25/10/2011	1,000	\$Nil	\$1.50 per share
	05/05/2014	170,000	\$Nil	\$2.01 per share
Subtotal		482,000		
Total		557,000		

The options are exercisable pursuant to the terms of the CFCL Share Option Plan, as disclosed in Note 15(d) to the Financial Statements.

General Options Issued under the Private Placement completed 6 May 2004

To subscribers	31/03/2006	5,274,999	\$Nil	\$1.00 per share
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The options are exercisable pursuant to the terms of the Supplementary Information Memorandum dated 19 March 2004.

Neither CFCL Share Option Plan holders nor General Option holders have any right under the terms of the issuance of their options to participate in any other share issue of the company or of any other entity.

At the date of this report no options over shares had been exercised.

Loans to Directors and Executives

No loans were made to directors or to executives during the financial year and to the date of this report.

Share options granted to Directors and the most highly remunerated Officers

No options over unissued shares were granted during or since the end of the year to either directors or officers of the company, nor to any related parties.

Insurance of Officers

During the year ended 30 June 2004, Ceramic Fuel Cells Limited paid a premium of \$60,377 (2003 - \$22,391) to insure the following directors and company secretary, plus all officers of the company:

Dr C M Adam	Mr K J Croagh	Mr J P Dempsey
Mr J W Dinsdale	Mr R D C Garland	Dr J A Hamilton
Ms S A M Pitkin	Mr I G Murdoch	(Company Secretary)

The liabilities insured are legal costs and any other expenses

incurred by officers in defending any civil or criminal proceedings arising out of their conduct while acting in the capacity of officer of the company, other than those liabilities arising from:

- ▲ conduct involving a wilful breach of duty in relation to the company, or
- ▲ improper use of position or information to gain advantage for self or some other person, or
- ▲ conduct causing detriment to the company.

Proceedings on behalf of the company

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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



Julian W Dinsdale

Executive Chairman, Melbourne, 17 September 2004

Corporate Governance Statement

Board of Directors and its Committees

The Board of Directors consists of an Executive Chairman and five non-executive directors. The board's policy is that it should include a majority of non-executive directors. Under the company's constitution, directors are elected for a period of three years subject to the requirements that one-third of the directors must retire at each annual general meeting. A retiring director may offer themselves for re-election.

The board of directors is responsible for the overall corporate governance of the company. Issues of substance affecting the company are considered by the full board of directors, with advice from external advisers as required. Any conflict of interest must be declared by the director(s) when it arises, and directors do not participate in discussions or resolutions pertaining to any matter in which the director has a material personal interest.

The board has ultimate responsibility to the shareholders for the welfare of the company by guiding and monitoring its business affairs. The board delegates management of the company's resources to the Executive Chairman and Chief Executive Officer, to deliver the strategic plans and goals as set by the board.

In discharging their duties, directors are provided with direct access to senior management and outside advisors and auditors. Board committees and individual directors may seek, with prior consultation with the Chairman, independent professional advice at the company's expense for the purposes of the proper performance of their duties. The company's policy is to execute a formal Deed with each director and the Company Secretary, to clearly set out the parties' expectations regarding access to board papers, indemnity and insurance.

The board has established two committees, the Audit Committee and the Technical Committee, to assist with the execution of the board duties and to ensure specialist issues are given detailed consideration.

The company also has an Intellectual Property Committee that reports to the CEO. The Technical Committee will also receive copies of these reports as part of its monitoring of the company's technology risks.

Audit Committee

The Audit Committee comprises Mr Carruthers (Chair), Dr Adam and Messrs Dempsey and Dinsdale.

The role of the Audit Committee is to assist the board in fulfilling its corporate governance responsibilities. The primary duties and responsibilities of the Audit Committee include recommending to the board the appointment of the external auditors, reviewing and monitoring compliance with the audit plan of the external auditors, reviewing the company's financial reports and monitoring the quality of financial information, monitoring the effectiveness of the accounting systems and the internal control environment, ensuring the company has an effective risk management and compliance system, and providing a clear line of communication between the external auditors and the board.

Technical Committee

The Technical Committee currently includes Dr Adam and Mr Dinsdale, with the CEO and senior technical management attending by invitation.

The role of the Technical Committee is to overview the company's product and technology development programmes and to advise the board upon those matters (including technology risks).

Directors' 'Independence'

The board notes that the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations issued in March 2003 include, in recommendation 2.1, seven suggested criteria for assessing the 'independence' of directors.

The board also notes that this recommendation has been clarified in a series of 'Frequently Asked Questions' issued by ASX, including the guidance that the board can determine a director to be independent so long as the director retains the ability and willingness to operate independently and objectively and to challenge the board and management, even if a relationship listed in the ASX recommendations exists.

Given this context, the board considers the 'independence' of directors can be assessed as in the table overleaf, according to the ASX criteria.

Corporate Governance Statement

Criteria	Julian Dinsdale	Dr Colin Adams	John Dempsey	Sally Pitkin	Dr Jack Hamilton	David Carruthers
Non-Executive	x	✓	✓	✓	✓	✓
Is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company.	✓	✓	x	x	x ²	✓
Within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment.	✓	✓	✓	✓	✓	✓
Within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided.	✓	✓	✓	✓	✓	✓
Is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.	✓	✓	✓	✓	✓	✓
Has no material contractual relationship with the company or another group member other than as a director of the company.	✓	✓	✓	✓	✓	✓
Has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.	✓	✓ ³	✓	✓	✓	✓
Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.	✓	✓	✓	✓ ⁴	✓ ⁴	✓ ⁴

1. John Dempsey and Sally Pitkin were appointed as Directors by Energex Limited, a substantial shareholder.

2. Jack Hamilton is associated with Metasource Pty Ltd, a substantial shareholder.

3. Dr Colin Adam has served on the board since 1992. The board believes that Dr Adam's knowledge, experience and expertise developed over this time, particularly in technical matters, remains important to the company at this stage in its development. The board believes that this period of tenure does not materially interfere with Dr Adam's ability to act in the best interests of the company.

4. John Dempsey, Sally Pitkin and Jack Hamilton are officers of (or associated with) substantial shareholders. The board believes that this connection in itself does not create any interest or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of CFCL.

At this current stage in the company's development - having recently listed, and in the process of the seeking to earn revenue from commercialising its technology - the Board considers the 'independence' of the directors to be appropriate and in the best interests of the company's members as a whole.

The board intends to keep monitoring and reviewing its composition as the company develops to ensure the board continues to provide effective governance.

Corporate Governance Statement

ASX Recommendations

The board has reviewed the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations issued in March 2003. The recommendations cover a range of principles to promote good corporate governance. The board is working progressively to implement these recommendations.

In the table below, CFCL reports on its compliance with each of the ASX recommendations. As a general comment the board notes that the recommendations are guidelines, rather than a prescriptive 'checklist' and that the recommendations may be not be appropriate for companies in all circumstances. In CFCL's case, the company fully supports the ten ASX Principles of Good Corporate Governance. At this stage in the company's development the main focus is to commercialise the company's technology and pursue opportunities to earn revenue.

The table below indicates that there are numerous actions that the company intends to take in the 2004-05 Financial Year to further comply with the ASX recommendations. The company expects some of those activities to be relatively straight forward, however other activities may take considerable resources. The company intends to further refine its Corporate Governance practices to comply with the ASX recommendations, in a manner that is consistent with the company's business plan and an efficient use of shareholders' funds.

The company will update shareholders on its Corporate Governance activities in the coming financial year.

ASX recommendation	Actions to date	Intended action 2004-05
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Roles and responsibilities

1.1 Formalise and disclose the functions reserved to the board and those delegated to management.	<ul style="list-style-type: none"> The company has drafted a Board Charter setting out the functions of the board, authority delegated to Management etc. The company has adopted letters of appointment setting out key terms and conditions and expectations, with Directors, CEO, CFO. The division of responsibilities between the CEO and Executive Chairman is set out in the draft Board Charter. 	<ul style="list-style-type: none"> Board Charter to be finalised and a summary, or statement of delegated authority to Management, to be posted on a Corporate Governance section of CFCL's website.
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Structure of the board

2.1 A majority of the board should be independent directors.	<ul style="list-style-type: none"> During the year the board appointed Mr David Carruthers as an additional independent, non-executive director. The board considers that of the 6 directors, 2 are 'independent' according to the criteria set out in the ASX recommendations. (See commentary above this table.) 	<ul style="list-style-type: none"> The board will consider whether it is appropriate to: <ul style="list-style-type: none"> - Appoint further 'independent' directors; - establish a procedure for non-executive directors to meet regularly without management present.
2.2 The chairperson should be an independent director.	Currently the chairman is not independent.	<ul style="list-style-type: none"> The board will consider whether it is appropriate for the chairman to revert to a non-executive position.
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.	The company complies.	
2.4 The board should establish a nomination committee.	CFCL has not established a nomination committee, as these functions are carried out by the full board.	
2.5 Provide the information indicated in <i>Guide to reporting on Principle 2.</i>	Departures from recommendations 2.1 to 2.5 are set out above.	<ul style="list-style-type: none"> The board will consider whether it is appropriate to adopt and publish a formal policy and procedure for selecting and appointing new directors.

Corporate Governance Statement

ASX Recommendation	Actions to date	Intended action 2004/2005
Ethical decision-making		
<p>3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:</p> <p>3.1.1 the practices necessary to maintain confidence in the company's integrity</p> <p>3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</p>	<ul style="list-style-type: none"> The company has drafted a Board Charter to guide directors' conduct. The company has adopted formal policies which guide the conduct of CEO, CFO and other executives (and other employees) in a range of areas, as described in recommendation 10.1 below. 	<ul style="list-style-type: none"> Board Charter to be finalised and a summary to be posted on a Corporate Governance section of CFCL's website.
<p>3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.</p>	<ul style="list-style-type: none"> The company has adopted a formal policy for trading in the company's securities (one policy for all employees and a supplementary policy for key executives). The company conducted comprehensive training sessions utilising external legal advisors to train employees in their restrictions on trading in the company's securities, prior to the company listing. The Securities Trading Policy is provided to all new employees as part of their induction process. 	<p>The company intends to post upon its website a summary of the main provisions of the company's Securities Trading Policy.</p>
<p>3.3 Provide the information indicated in <i>Guide to reporting on Principle 3</i>.</p>	<p>Departures from recommendations 3.1 to 3.3 are set out above.</p>	
Integrity in financial reporting		
<p>4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.</p>	<p>The CEO and CFO have provided a representation letter regarding the financial reports.</p>	
<p>4.2 The board should establish an audit committee.</p>	<p>The company has established an audit committee.</p>	<p>The company intends to publish on its website, the Audit Committee Charter (or a summary of its terms).</p>

Corporate Governance Statement

ASX Recommendation	Actions to date	Intended action 2004/2005
Integrity in financial reporting (continued)		
<p>4.3 Structure the audit committee so that it consists of:</p> <ul style="list-style-type: none"> • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least three members. 	<p>The Audit Committee comprises Mr Carruthers (Chair), Dr Adam and Messrs Dempsey and Dinsdale.</p> <p>Of these directors, the board considers two to be 'independent'. Mr Carruthers (independent, non-executive director) replaced Mr Dinsdale (Executive Chairman) as Chairman of the Audit Committee. All members of the Committee are financially literate and Messrs Carruthers and Dempsey have financial expertise.</p>	
<p>4.4 The audit committee should have a formal operating charter.</p>	<p>The company has adopted a formal charter for the Audit Committee.</p> <ul style="list-style-type: none"> • Names and qualifications of Audit Committee members - (pages 14 & 11). • Details of all Audit Committee meetings - (page 14). 	<p>The company intends to publish on its website, the Committee Charter (or a summary of its terms).</p>
<p>4.5 Provide the information indicated in <i>Guide to reporting on Principle 4</i>.</p>	<p>Departures from recommendations 4.1 to 4.5 are set out above.</p>	<p>The board will consider whether it is appropriate to adopt and publish formal procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners.</p>

Disclosure

<p>5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.</p>	<ul style="list-style-type: none"> • The company has established written policies and procedures for continuous disclosure. This policy establishes a Disclosure Committee comprising of the Company Secretary, CEO, CFO and Chairman. This committee is responsible for vetting and authorising company announcements in order to comply with the continuous disclosure requirements. • The company conducted training sessions with all employees regarding continuous disclosure requirements prior to listing. • The Continuous Disclosure Policy is provided to all employees when they join the company. • The Company Secretary is the primary 'disclosure officer' responsible for liaising with ASX. 	<p>The company intends to post on its website a summary of its Continuous Disclosure Policy.</p>
<p>5.2 Provide the information indicated in <i>Guide to reporting on Principle 5</i>.</p>	<p>Departures from recommendations are set out above.</p>	

Corporate Governance Statement

ASX Recommendation	Actions to date	Intended action 2004/2005
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Shareholder communication

<p>6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.</p>	<ul style="list-style-type: none"> In July 2004 the company appointed a full time Company Secretary (who also serves as Legal and Commercial Manager). In August 2004 the company employed a full-time Investor and Public Relations Manager, to properly manage its shareholder communications. 	<ul style="list-style-type: none"> Create a shareholder communications strategy for policies and procedures. Encourage electronic communication with shareholders. Make more information available on the company's website, including all announcements to ASX, full text of AGM notices and explanatory material.
<p>6.2 Request the external auditor to attend the annual general meeting (AGM) and be available to answer shareholder questions about the audit.</p>	<p>The company's external auditor, PricewaterhouseCoopers, is available to answer shareholder questions at the AGM.</p>	

Risk management

<p>7.1 The board or appropriate board committee should establish policies on risk oversight and management.</p>	<ul style="list-style-type: none"> The Audit Committee is responsible for overseeing risk management. The company has formal processes and tools for identifying, managing and mitigating significant technical or commercial risks. Risks are tracked and managed by the CEO and other members of the Executive Management Team, and reported to the Audit Committee. 	
<p>7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:</p> <p>7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board</p> <p>7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.</p>	<p>The CEO and CFO have given a written statement regarding risk management as recommended.</p>	
<p>7.3 Provide the information indicated in <i>Guide to reporting on Principle 7</i>.</p>	<p>Departures are set out above.</p>	

Performance evaluation

<p>8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.</p>	<ul style="list-style-type: none"> Evaluating the board's performance is covered in the draft Board Charter. The performance of key executives is evaluated as part of the company's system for reviewing the performance of all employees. 	<p>The board will consider whether it is appropriate to establish a full process for evaluating the performance of individual board members or committees.</p>
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Corporate Governance Statement

ASX Recommendation	Actions to date	Intended action 2004/2005
Remuneration		
<p>9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand:</p> <p>9.1.1 the costs and benefits of those policies and</p> <p>9.1.2 the link between remuneration paid to directors and key executives and corporate performance.</p>	<ul style="list-style-type: none"> The remuneration of directors and key executives and the link between remuneration and corporate performance is set out on pages 15-17. More detail on the company's remuneration policy and procedures are set out on pages 15-17. 	
<p>9.2 The board should establish a remuneration committee.</p>	<ul style="list-style-type: none"> The board has not established a Remuneration Committee as these matters are considered by the full board. 	<ul style="list-style-type: none"> The board will consider whether it is appropriate to establish a separate Remuneration Committee.
<p>9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.</p>	<ul style="list-style-type: none"> Non-executive Directors are generally paid a base fee plus expenses, rather than participating in any incentive plan or equity in the company. However, one non-executive Director, Dr Adam, holds options in the Company in recognition for his significant contribution to the company over many years. Further details of directors remuneration are set out in the Directors' Report. Non-executive directors are not provided with retirement benefits other than the statutory superannuation. 	
<p>9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.</p>	<ul style="list-style-type: none"> The company has a Share Option Plan that was approved by members in November 1999. Equity-based equity remuneration is disclosed in Note 21 to the Financial Statements. 	<ul style="list-style-type: none"> Any equity based executive remuneration approved by the board will be made in accordance with thresholds set in plans approved by shareholders. If the board decides to establish a Remuneration Committee, the company intends to post on its website the charter of that Committee (or a summary of its main terms).
<p>9.5 Provide the information indicated in <i>Guide to reporting on Principle 9</i>.</p>	<ul style="list-style-type: none"> Departures to recommendation 9.1 to 9.5 are described above. 	

Company conduct and stakeholders

<p>10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.</p>	<p>The company has developed numerous formal policies, procedures and work instructions to help employees comply with a range of obligations, including:</p> <ul style="list-style-type: none"> Bullying and Harassment in the Workplace Intellectual Property & Non Disclosure Security Emergency Response Information Security OH & S Privacy Securities Trading Continuous Disclosure Environmental Policy 	<ul style="list-style-type: none"> The board intends to review the company's current policies to assess whether it is appropriate for the company to adopt a formal code of conduct.
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Financial Report

For the year ended 30 June 2004

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This is the Financial Report of Ceramic Fuel Cells Limited, which is an individual entity.

Ceramic Fuel Cells Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is at 170 Browns Road, Noble Park, Victoria 3174, Australia.

The company's ordinary shares commenced trading on the Australian Stock Exchange on 5 July 2004 and the directors have chosen to present the financial report for the year ended 30 June 2004 in accordance with the enhanced disclosure requirements pertaining to publicly listed entities.

A description of the nature of the company's operations and its principal activities is included in the Review of Operations and Activities (pages 7-10) and in the Directors' Report (pages 13-17), which are not part of this Financial Report.

A copy of this Financial Report may be obtained from the Company's website: www.cfcl.com.au

Statements of Financial Performance

For the year ended 30 June 2004

	Note	2004 \$	2003 \$
Revenue from ordinary activities	3	356,492	1,570,352
Expenses			
Research & Development	1(a)	10,180,454	14,232,384
General & Administration	1(a)	5,405,047	5,570,412
Sales & Marketing	1(a)	330,498	257,023
Borrowing costs	4	19,664	-
Profit/(loss) from ordinary activities before income tax expense	4	(15,579,171)	(18,489,467)
Income tax expense	5	-	-
Profit/(loss) from ordinary activities after income tax expense	22	(15,579,171)	(18,489,467)
Profit/(loss) from extraordinary items after income tax expense		-	-
Net Profit/(loss)		(15,579,171)	(18,489,467)
Net Profit/(loss) attributable to outside equity interest		-	-
Net Profit/(loss) attributable to members of Ceramic Fuel Cells Limited	16	(15,579,171)	(18,489,467)
Total revenues, expenses and valuation adjustments attributable to members of Ceramic Fuel Cells Limited recognised directly in equity	15(b)	(2,813,060)	-
Total changes in equity other than those resulting from transactions with owners as owners		(18,392,231)	(18,489,467)

		cents	cents
Basic earnings per share	24	(18.44)	(23.11)

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of Financial Position

As at 30 June 2004

	Note	2004 \$	2003 \$
Current Assets			
Cash assets	6, 17	21,249,037	8,457,334
Receivables	7, 17	59,195	128,865
Other	8	266,150	275,416
Total Current Assets		<u>21,574,382</u>	<u>8,861,615</u>
Non-Current Assets			
Plant, equipment and motor vehicles	9	4,895,849	7,122,095
Leasehold Improvements	10	32,034	732,144
Intangibles	11	1,000	1,000
Total Non-Current Assets		<u>4,928,883</u>	<u>7,855,239</u>
Total Assets		<u>26,503,265</u>	<u>16,716,854</u>
Current Liabilities			
Payables	12, 17	1,223,188	855,281
Provisions	13	374,950	302,087
Total Current Liabilities		<u>1,598,138</u>	<u>1,157,368</u>
Non-Current Liabilities			
Provisions	14	125,523	82,651
Total Non-Current Liabilities		<u>125,523</u>	<u>82,651</u>
Total Liabilities		<u>1,723,661</u>	<u>1,240,019</u>
Net Assets		<u>24,779,604</u>	<u>15,476,835</u>
Equity			
Contributed equity	15(b)	94,117,576	69,235,636
Retained profits	16	(69,337,972)	(53,758,801)
Total Equity		<u>24,779,604</u>	<u>15,476,835</u>

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 30 June 2004

	Note	2004 \$ Inflow/(Outflow)	2003 \$
Cash Flows from Operating Activities			
Cash receipts in the course of operations (inclusive of goods and services tax)		748,475	1,838,447
Cash payments in the course of operations (inclusive of goods and services tax)		(13,050,318)	(17,523,147)
		(12,301,843)	(15,684,700)
Interest received		398,777	890,873
Net cash inflow /(outflow) from operating activities	22	(11,903,066)	(14,793,827)
Cash Flows from Investing Activities			
Proceeds from sale of plant, equipment and motor vehicles		7,344	479
Payments for plant, equipment and motor vehicles		(130,547)	(3,164,818)
Proceeds from return of security deposit		52,500	49,141
Net cash outflow from investing activities		(70,703)	(3,115,198)
Cash Flows from Financing Activities			
Proceeds from issue of shares		27,455,000	-
Share issue costs		(2,669,864)	(200,000)
Proceeds from issuing convertible notes		2,800,000	-
Repayment of convertible notes		(2,800,000)	-
Interest paid on convertible notes		(19,664)	-
Net cash inflow from financing activities		24,765,472	(200,000)
Net Increase/(Decrease) in Cash Held		12,791,703	(18,109,025)
Cash at the beginning of the financial year		8,457,334	26,566,359
Cash at the End of the Financial Year	6	21,249,037	8,457,334

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

Notes to the Financial Statements

30 June 2004

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Notes to the Financial Statements

30 June 2004

Note 1. Summary of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*. It is prepared in accordance with the historical cost convention and does not take into account changing money values or, except where stated, current valuations of assets. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. It is anticipated that, as it progresses to commercialisation of its fuel cell technology, the company will be required to raise additional capital to continue as a going concern.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed, and the key differences in accounting policies that are expected to arise, is set out in Note 1(r).

(a) Change in reporting classification

Commencing from this reporting period, the Statement of Financial Performance is being reported on the basis of the function of expenses incurred, rather than by their nature. The main reasons for the classification of expenses into the functional sub-categories of Research & Development (R&D), General & Administration (G&A) and Sales & Marketing (S&M) are as follows:

- readers of the company's statements of financial performance will gain a better understanding of the company's progress towards achievement of its business plans than they would otherwise have gained if reporting remained based on the nature of costs, and
- these classifications are widely recognised within the Australian and international financial community.

Research & Development expense, as denoted in the Statement of Financial Performance, includes the cost of all research and development projects, incorporating direct labour and direct material costs, as well as total company depreciation and amortisation charges, but excludes indirect project support costs and otherwise apportionable overheads, which are borne within the General & Administration expense classification.

(b) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Foreign currency transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, amounts payable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

(d) Revenue recognition

Amounts disclosed as revenue are net of duties and taxes paid or received. Grant revenue is recognised only when received.

(e) Receivables

All sundry debtors are recognised at the amounts receivable as they are due for settlement, being no more than 30 days from the date of recognition. Collectability of sundry debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

(f) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Non-current assets are recorded at cost and no adjustments were made to assets to reduce their carrying value to recoverable value, nor were any revaluations made, during the year. Profits and losses on the disposal of property, plant and equipment are taken into account in determining the operating profit for the year.

(g) Depreciation of plant, equipment and motor vehicles

Depreciation is calculated on a straight-line basis to write off the net cost or re-valued amount of each item of plant and equipment over its expected useful life to the company. Estimates of remaining useful lives are made on a regular basis for all assets and range from 2.5 to 6.7 years.

Note 1. Summary of Significant Accounting Policies (continued)

(h) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease, or the estimated useful life of the improvement to the company, whichever is the shorter. Leasehold improvements not already completely written down at the reporting date are being amortised over 18 months and 11 months for the company's Browns Road and Summit Road premises respectively.

(i) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense. The lease asset is amortised on a straight-line basis over the term of the lease or, where it is likely that the company will obtain ownership of the asset, the life of the asset.

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability.

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(j) Intangible assets and expenditure carried forward

(i) Intellectual property

Intellectual property consists of the actual cost incurred in purchasing (for a nominal sum) the beneficial interest in the company's intellectual property, which previously resided in the company's members.

(ii) Research and development

Only those research and development fixed assets and expenditures which will provide future economic benefits to the company in excess of 12 months are capitalised and depreciated over the life of the individual asset or research project. Items capitalised are at the value of their components and do not include labour. Payments for consumable items used in research activities are written off to the statement of financial performance in the periods in which they are incurred.

(iii) Patents

Costs associated with patents are written off to the statement of financial performance in the periods in which they are incurred.

(k) Employee entitlements

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the reporting date are recognised in accruals in respect of employee's services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates payable.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Employee benefit on-costs

Employee benefit on-costs, namely payroll tax and workers' compensation insurance, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(iv) Equity-based compensation benefits

Equity-based compensation benefits are presently held by current and former directors and employees under the Ceramic Fuel Cells Limited Share Option Plan. Information relating to this plan is set out in Note 15(d). No accounting entries have been made in relation to the plan and, as at the date of this report, no options have been exercised.

Notes to the Financial Statements (continued)

30 June 2004

Note 1. Summary of Significant Accounting Policies (continued)

(l) Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Maintenance and repairs

Routine maintenance, repair and minor renewal costs are charged as expenses as incurred.

(n) Web site costs

All costs incurred in establishing, maintaining and updating the company's web site have been charged as expenses as incurred. Due to the stage of the company's development, such costs are unable to be equated to the probability of generating future economic benefits.

(o) Cash

For the purpose of the statement of cash flows, cash includes cash on hand, deposits at call and investments which are readily convertible to cash on hand and are subject to an insignificant risk of change in value.

(p) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. The only borrowing cost incurred by the company to date has been interest payable on convertible notes up to and including the date of repayment of the principal sum outstanding.

(q) Earnings per share

Basic earnings per share is determined by dividing net profit/(loss) after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(r) Impact of adopting Australian equivalents to International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

In complying with Australian equivalents to IFRS for the first time, hereinafter referred to as AIFRS, the company will be required to restate its comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The company is managing the transition to AIFRS utilising both internal and external resources. Internally, management responsibility for ensuring the company complies with all existing and future accounting standards resides with the Chief Financial Officer. Progress reporting by management to directors will be via the Board Audit Committee, which oversees all of the company's external financial reporting responsibilities.

Action taken to date includes staff training and analysis of AIFRSs to determine key differences, as well as initial consideration of the likely impact upon financial reporting systems. A more detailed project plan will be developed so as to ensure key deliverables are achieved and the overall project delivered on time.

To date, most of the AIFRSs have been analysed and the company has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies may be available, including elective exemptions under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. No definitive decisions have yet been made on such choices, as the financial consequences and, therefore, the most appropriate accounting policies for the company, have yet to be determined.

Major changes identified to date that will be required to the company's existing accounting policies include the following (references to new AASB standards below are to the Australian equivalents to IFRS issued in July 2004):

Note 1. Summary of Significant Accounting Policies (continued)

(r) Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

(i) Taxation

Under the new AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. In addition, tax assets are recognised when recovery is probable. This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, in which items are only tax-effected if they are included in the determination of pre-tax accounting profit/(loss), current and deferred taxes cannot be recognised directly in equity, and tax assets may only be recognised when recovery is assured beyond a reasonable doubt and/or is virtually certain.

(ii) Equity-based compensation benefits

Under the new AASB 2 *Share-based Payment*, equity based compensation to employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

(iii) Recoverable amount of non-current assets

Under the new AASB 136 *Impairment of Assets*, when the carrying amount of an individual asset or a group of assets (a cash generating unit) is greater than its recoverable amount, then discounted cash flows must be used to calculate the resulting decrement. This will result in a change to the current accounting policy, under which the cash flows used to determine the lower of an asset's carrying amount or net recoverable amount are undiscounted.

(iv) Foreign exchange contracts

Under the new AASB 132 *Financial Instruments: Disclosure and Presentation*, if, in the future, the company enters into foreign exchange contracts to hedge exposure to foreign currencies, then such derivatives must be recognised in the Statement of Financial Position at fair value; strict criteria must be met to apply hedge accounting. The portion of the gain or loss on forward exchange contracts that is determined to be effective in hedging the foreign exchange exposure can be recognised directly in equity. If hedge accounting is not applied, or a hedge is determined to be ineffective, the gain or loss on the forward contracts will be recognised in the Statement of Financial Performance. To date the company has not undertaken any foreign currency hedging.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet and, as previously explained, no decisions have yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the company's financial position and reported results.

Note 2. Segment Information

The company does not have multiple business segments, it has operated solely in the fuel cell research and development field within Australia, and it is yet to earn revenue from the sale of products or services.

Since the end of the reporting period the company has established a presence in Europe, which may necessitate future reporting by geographical segment, subject to materiality.

Notes to the Financial Statements (continued)

30 June 2004

	2004 \$	2003 \$
Note 3. Revenue		
Revenue from operating activities		
R&D Start grant	-	750,000
	-	750,000
Revenue from outside the operating activities		
Interest	326,859	810,262
Sale of non-current assets	7,344	479
Sundry income	19,286	3,856
Foreign exchange gains (net)	3,003	5,755
	356,492	820,352
Total revenue from ordinary activities	356,492	1,570,352

Note 4. Profit from Ordinary Activities

Net gains and expenses

Profit/(loss) from ordinary activities before income tax expense includes the following specific net gains and expenses:

Net gains

Foreign exchange - Net gains on foreign currency accounts payable 3,003 5,755

Expenses

Net loss on disposal of plant, equipment and motor vehicles 55 284,770

Depreciation

Plant and equipment	2,296,112	2,275,622
Motor vehicles	7,962	7,962
Total depreciation	2,304,074	2,283,584

Amortisation

Leasehold Improvements 737,118 1,174,091

Borrowing costs

Interest paid on convertible notes fully repaid 19,664 -

Other provisions

Employee entitlements 433,256 480,058

Rental expense relating to operating leases

Minimum lease payments	567,940	529,600
Lease incentive expensed	-	-
Total rental expense relating to operating leases	567,940	529,600

Redundancy payments 13,061 1,106,865

Notes to the Financial Statements (continued)

30 June 2004

	2004 \$	2003 \$
Note 5. Income Tax		
(a) The income tax expense for the financial year differs from the amount calculated on the operating profit/(loss). The differences are reconciled as follows:		
Profit/(loss) from ordinary activities before income tax expense	(15,579,171)	(18,489,467)
Income tax calculated @ 30% (2003 - 30%)	(4,673,751)	(5,546,840)
Tax effect of permanent differences:		
R&D tax concession	(846,750)	(1,157,513)
Non-deductible entertainment	333	575
Sundry items	19	98
Income tax adjusted for permanent differences	(5,520,149)	(6,703,680)
Income tax benefit not recognised	5,520,149	6,703,680
Income tax attributable to operating profit	-	-
(b) The directors estimate that the potential future income tax benefit at 30 June 2004 in respect of tax losses not brought to account, calculated @ 30% (2003 - 30%) is:	25,235,178	19,715,028
This benefit for tax losses will only be obtained if:		
(i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and		
(ii) the company continues to comply with the conditions for deductibility imposed by tax legislation, and		
(iii) no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.		
Note 6. Current Assets - Cash Assets		
Cash at bank and on hand	14,283,087	480,315
Deposits at call	6,965,950	5,977,019
Investments	-	2,000,000
Balance as per statement of cash flows	21,249,037	8,457,334
Deposits at call		
The deposits at call bore floating interest rates between 4.21% and 5.74% (2003 - 3.39% and 5.85%).		
Note 7. Current Assets - Receivables		
GST paid on purchases	59,195	56,112
Sundry debtors	-	72,753
	59,195	128,865
Sundry debtors		
Interest earned on investments but not yet received was \$Nil (2003 - \$71,918). Interest is not charged on outstanding amounts, nor is collateral obtained or applicable.		

Notes to the Financial Statements (continued)

30 June 2004

	2004 \$	2003 \$
Note 8. Current Assets - Other		
Security deposits	161,359	213,859
Prepayments	104,791	61,557
	266,150	275,416

Security deposits

- (i) Two deposits totalling \$95,000 are being held as security for a performance guarantee of \$90,000 issued to the landlord of the company's Browns Road, Noble Park premises,
- (ii) One deposit of \$63,000 is being held as security for a performance guarantee of \$60,000 issued to the landlord of the company's Summit Road, Noble Park premises.

Note 9. Non-Current Assets - Plant, Equipment and Motor Vehicles

(a) Plant, equipment and motor vehicles

Plant and equipment - at cost	13,579,337	13,529,348
Less: Accumulated depreciation	(8,699,818)	(6,431,545)
	4,879,519	7,097,803
Motor vehicles - at cost	53,080	53,080
Less: Accumulated depreciation	(36,750)	(28,788)
	16,330	24,292
Plant, equipment and motor vehicles	4,895,849	7,122,095

(b) Reconciliation

Details	Plant and equipment \$	Motor vehicles \$	Total \$
Carrying amount at 1 July 2003	7,097,803	24,292	7,122,095
Additions	85,227	-	85,227
Disposals (Written Down Value)	7,399	-	7,399
Transfers In/(Out) (Written Down Value)	-	-	-
Depreciation expense (Note 4(a))	2,296,112	7,962	2,304,074
Carrying amount at 30 June 2004	4,879,519	16,330	4,895,849

Notes to the Financial Statements (continued)

30 June 2004

	2004	2003
	\$	\$

Note 10. Non-Current Assets - Leasehold Improvements

(a) Leasehold improvements		
Browns Road, Noble Park leasehold improvements - at cost	4,619,782	4,582,775
Less: Accumulated amortisation	(4,587,748)	(3,921,282)
	32,034	661,493
Summit Road, Noble Park leasehold improvements - at cost	195,130	195,130
Less: Accumulated amortisation	(195,130)	(124,479)
	-	70,651
Leasehold improvements	32,034	732,144

(b) Reconciliation

Details	Leasehold improvements Browns Road \$	Leasehold improvements Summit Road \$	Total \$
Carrying amount at 1 July 2003	661,493	70,651	732,144
Additions	37,008	-	37,008
Disposals (Written Down Value)	-	-	-
Transfers In/(Out) (Written Down Value)	-	-	-
Amortisation expense (Note 4(a))	666,467	70,651	737,118
Carrying amount at 30 June 2004	32,034	-	32,034

	2004	2003
	\$	\$

Note 11. Non-Current Assets - Intangible Assets

Intellectual property	1,000	1,000
Less: Accumulated amortisation	-	-
	1,000	1,000

Note 12. Current Liabilities - Payables

Trade creditors and accruals	1,223,188	780,281
GST received on grant revenue	-	75,000
	1,223,188	855,281

Note 13. Current Liabilities - Provisions

Employee benefits (Note 21)	374,950	302,087
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Note 14. Non-Current Liabilities - Provisions

Employee benefits (Note 21)	125,523	82,651
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Notes to the Financial Statements (continued)

30 June 2004

Note 15. Contributed Equity

(a) Share capital

The company's share capital account consisted of 109,836,448 fully paid up, ordinary shares.

(b) Movements in ordinary share capital

Movements in ordinary share capital of the company during the past two years were as follows:

Date	Details	Number of Shares	Issue Price	\$
1-7-2002	Opening balance	27,496,448		69,235,636
	No movement	-		-
30-6-2003	Balance	27,496,448		69,235,636
14-11-2003	Additional investment by Energex Limited	2,000,000	\$0.50	1,000,000
14-11-2003	Additional investment by Metasource Pty Ltd	2,000,000	\$0.50	1,000,000
14-11-2003	Bonus issue to Energex Limited	26,250,000	-	-
14-11-2003	Bonus issue to Metasource Pty Ltd	26,250,000	-	-
27-11-2003	Issued for services rendered	200,000	\$0.50	100,000
22-1-2004	Additional investment by Jürgen Graf und Partner GbR	90,000	\$0.50	45,000
6-5-2004	Private placement	10,550,000	\$1.00	10,550,000
24-6-2004	Initial public offering	15,000,000	\$1.00	15,000,000
				96,930,636
	Less: Transaction costs arising on share issues	-		(2,813,060)
30-6-2004	Balance	109,836,448		94,117,576

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and the proceeds on winding up of the company, in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting of the company, either personally or by duly authorised representative, proxy or attorney, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Share options

Unissued ordinary shares of Ceramic Fuel Cells Limited under option at 30 June 2004 totalled 5,919,499, of which 644,500 have been issued under the Ceramic Fuel Cells Limited Share Option Plan and 5,274,999 were issued under the Private Placement completed 6 May 2004, as follows:

Issued under the CFCL Share Option Plan

To current & former directors

Number of shares: 75,000

Consideration for grant of option: \$Nil.

Consideration for exercise of option: \$1.50 per share

When exercisable: Immediately, provided that, at the time of exercise:

- (a) the option has not lapsed; and
- (b) shares are quoted on a stock market of an Approved Stock Exchange; or
 - (i) if a takeover scheme or takeover announcement or scheme or arrangement is made or undertaken in respect of CFCL and the Board reasonably determines exercise to be appropriate; or
 - (ii) if an entity becomes entitled to 50% or more of the company's shares, and the Board reasonably determines exercise to be appropriate; or
 - (iii) in any other circumstance if the Board in its absolute discretion determines; and in each case the options must be exercised within 30 days after the Board notifies members of its determination.

Since the reporting date the entire 75,000 options have been escrowed as a condition of admitting the company to the official list of the Australian Stock Exchange (ASX). They are unable to be exercised before 5 July 2006.

To current & former employees and contractors

Number of shares: 569,500

When exercisable: All options are now fully vested and the conditions for exercise are the same as those for directors.

Further information relating to the Ceramic Fuel Cells Limited Share Option Plan, including details of consideration for exercise, numbers of options issued, exercised and lapsed during the financial year and options outstanding as at the end of the financial year are set out in Note 21.

Issued under the Private Placement completed 6 May 2004

Number of shares: 5,274,999

Consideration for grant of option: \$Nil.

Consideration for exercise of option: \$1.00 per share

When issued: 6 May 2004

When exercisable: Any time from the date of issue until 5:00PM (Sydney time) on 31 March 2006.

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

Notes to the Financial Statements (continued)

30 June 2004

	2004 \$	2003 \$
Note 16. Retained Profits/(Losses)		
Retained profits/(losses) at the beginning of the financial year	(53,758,801)	(35,269,334)
Net profit/(loss) attributable to members of Ceramic Fuel Cells Limited	(15,579,171)	(18,489,467)
Retained profits/(losses) at the end of the financial year	<u>(69,337,972)</u>	<u>(53,758,801)</u>

Note 17. Financial Instruments

(a) Interest rate risk exposures

	Note	Floating Interest Rate	Fixed Interest Maturing in < 1 year	Non- interest bearing	Total
2004					
Financial Assets					
Cash at bank and on hand	6	14,283,087	-	-	14,283,087
Deposits at call	6	6,965,950	-	-	6,965,950
Investments	6	-	-	-	-
Receivables	7	-	-	59,195	59,195
Security deposits	8	-	158,000	3,359	161,359
		<u>21,249,037</u>	<u>158,000</u>	<u>62,554</u>	<u>21,469,591</u>
Weighted average interest rate		4.68%	5.23%		
Financial Liabilities					
Trade & Other creditors and accruals	12	-	-	1,223,188	1,223,188
		-	-	<u>1,223,188</u>	<u>1,223,188</u>
Weighted average interest rate		-	-		
Net financial assets (liabilities)		<u>21,249,037</u>	<u>158,000</u>	<u>(1,160,634)</u>	<u>20,246,403</u>
2003					
Financial Assets					
Cash at bank and on hand	6	480,315	-	-	480,315
Deposits at call	6	5,977,019	-	-	5,977,019
Investments	6	-	2,000,000	-	2,000,000
Receivables	7	-	-	128,865	128,865
Security deposits	8	-	210,500	3,359	213,859
		<u>6,457,334</u>	<u>2,210,500</u>	<u>132,224</u>	<u>8,800,058</u>
Weighted average interest rate		4.58%	5.16%		
Financial Liabilities					
Trade & Other creditors and accruals	12	-	-	855,281	855,281
		-	-	<u>855,281</u>	<u>855,281</u>
Weighted average interest rate		-	-		
Net financial assets (liabilities)		<u>6,457,334</u>	<u>2,210,500</u>	<u>(723,057)</u>	<u>7,944,777</u>

The company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability, by maturity period, is set out in the preceding table. For interest rates applicable to specific assets or liabilities, refer to individual notes to the financial statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates, as the company intends to hold fixed rate assets and liabilities to maturity.

Notes to the Financial Statements (continued)

30 June 2004

Note 17. Financial Instruments (continued)

(b) Credit risk exposures

The credit risk on financial assets of the company which have been recognised in the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

(c) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the company equals their carrying amounts. None of the financial assets and financial liabilities are 'traded' on organised markets. The company does not have any 'off-balance sheet' financial instruments.

	Note	2004 \$	2003 \$
Reconciliation of net financial assets to net assets			
Net financial assets as above		20,246,403	7,944,777
Non-financial assets and liabilities			
Plant, equipment and motor vehicles	9	4,895,849	7,122,095
Leasehold improvements	10	32,034	732,144
Intangibles	11	1,000	1,000
Other assets	8	104,791	61,557
Provisions	13, 14	(500,473)	(384,738)
Net assets as per statement of financial position		24,779,604	15,476,835

Note 18. Director and Executive Disclosures

Directors

The following persons were directors of Ceramic Fuel Cells Limited during the financial year:

Executive Chairman

J W Dinsdale

Non-Executive Directors

C M Adam

J P Dempsey

J A Hamilton

S A M Pitkin

K J Croagh was a Director from 29 July 1993 to the date of his resignation of 20 February 2004.

R D C Garland was a Director from 3 April 1996 to the date of his resignation of 31 January 2004.

Executives with the greatest authority for strategic direction and management

The following persons were the ten executives with the greatest authority for the strategic direction and management of the company ("specified executives") during the financial year:

Name	Position	Period of service
A J Conduit	Chief Executive Officer	31 July 2003 to 30 June 2004
K Föger	Chief Technology Officer	Entire year
N A Sherburn	Chief Financial Officer	Entire year
D R Chapman	Chief Engineer	18 September 2003 to 30 June 2004
C Csorba	Human Relations Manager	2 December 2003 to 30 June 2004
B M Murrphy	Operations Manager	25 September 2003 to 30 June 2004
D N S Peck	Business Development Manager	1 August 2003 to 30 June 2004
B A Thomas	Manufacturing Manager	Entire year
S Baker	Human Resources Manager	1 July 2003 to 27 November 2003
M Peck	Operations Manager	1 July 2003 to 16 September 2003

Note 18. Director and Executive Disclosures (continued)

Remuneration of directors and executives

Principles used to determine the nature and amount of remuneration

Non-Executive Directors

Fee payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Remuneration of non-executive directors is determined by the company in general meeting. Remuneration consists of an annual fee plus statutory superannuation. Annual fees of \$25,000 for the Vice Chairman and \$20,000 for non-executive directors were re-confirmed at the Annual General Meeting held on 27 November 2003. There is no "at risk" remuneration component (bonuses and other performance based rewards are not applicable), hence there is no link between remuneration and the company's financial performance. Non-executive directors are eligible to participate in the Ceramic Fuel Cells Limited Share Option Plan. Two former non-executive directors and one current non-executive director hold options over ordinary shares - refer section entitled *Share-Based Compensation: Options* below. The Board is currently utilising the services of an independent, external remuneration consultant to review the level of directors' remuneration in light of the increased responsibilities inherent in becoming a publicly listed company.

Executive Chairman

The remuneration of the Executive Chairman was negotiated by the Board with Mr Dinsdale on an at arms length basis, and the terms contained therein reflect the importance placed by directors upon the necessity of raising new funds to ensure the continuing viability of the company. Mr Dinsdale's remuneration terms were approved at a meeting of shareholders held on 14 February 2003. Mr Dinsdale's remuneration comprises three components: a base payment, a success fee based upon funds raised (varying according to source), and equity, further details of which are to be found within the *Employment Agreements* section of this note.

Executive Pay

The company enters into individual employment agreements with each of its executives. Executive pay and reward has two components:

- ▲ Annual remuneration, and
- ▲ Long-term incentive via participation in the Ceramic Fuel Cells Limited Share Option Plan.

No executive currently has an "at risk" remuneration component, thereby ensuring that the company's labour costs remain quantifiable at all times, hence there is no link between remuneration and the company's performance.

- ▲ Annual remuneration: is based upon market rates (current at the time of hire) applicable to each individual's role and responsibilities within the company. Annual remuneration is expressed in terms of a Total Salary Package (TSP), which includes statutory superannuation. The performance of individual executives against previously agreed key performance indicators is reviewed at least annually by their manager, during which time performance goals and objectives are established for subsequent performance period/s. Information from the review process is then taken into account, along with such factors as increases in the cost of living and market parity, in determining the individual's remuneration for the next financial year. Remuneration increases based upon changes in individual roles which increase an individual's level of responsibility, or recognise an increased level of skill necessary to perform a role, may be approved at any time by the Chief Executive Officer acting within the level of authority delegated to him by the Board. The Board reviews and approves executive remuneration annually.
- ▲ Share options: membership of the Ceramic Fuel Cells Limited Share Option Plan is open to all full time and part time permanent and long-term contract executives. Of the specified executives listed above, none have been offered options to date.

Details of remuneration

Details of the remuneration of each director of Ceramic Fuel Cells Limited and of each of the ten specified executives of the company, are set out in the tables below. Amounts disclosed for remuneration of directors and specified executives exclude insurance premiums of \$60,377 paid by the company in respect of directors' and officers' liability insurance contracts, as the contracts do not specify premiums paid in respect of individual directors and officers. Information relating to the insurance contracts is set out in the director's report.

Notes to the Financial Statements (continued)

30 June 2004

Note 18. Director and Executive Disclosures (continued)

Remuneration of directors and executives (continued)

Details of remuneration (continued)

Directors of Ceramic Fuel Cells Limited (for the year ended 30 June 2004)

Name	Primary			Equity		Post employment	Total
	Cash salary & fees	Cash bonus	Non-monetary benefits	Shares	Options ⁴	Super-annuation	
	\$	\$	\$	\$	\$	\$	\$
Current Directors							
<i>Executive Directors</i>							
J W Dinsdale ^{1,2}	238,018	271,000	-	300,000	-	1,982	811,000
<i>Non-Executive Directors</i>							
C M Adam	5,000	-	-	-	4,375	16,800	26,175
J P Dempsey	-	-	-	-	-	21,800	21,800
J A Hamilton ³	-	-	-	-	-	-	-
S A M Pitkin	15,000	-	-	-	-	6,800	21,800
Former Directors							
<i>Non-Executive Directors</i>							
K J Croagh (from 1/7/2003 - 20/2/2004)	16,146	-	-	-	-	-	16,146
R D C Garland (from 1/7/2003 - 31/1/2004)	11,667	-	-	-	-	1,050	12,717
Total	285,831	271,000	-	300,000	4,375	48,432	909,638

1. As part of his remuneration Mr Dinsdale agreed to accept 300,000 fully paid ordinary shares in the company. These shares have been accrued at 30 June 2004. On 17 September 2004 the Directors resolved to issue these shares to Mr Dinsdale.
2. Mr Dinsdale is entitled to further equity in the company in accordance with the terms of his remuneration package approved by shareholders at a general meeting on 14 February 2003, the details of which are to be found in the **Employment Agreements** section of this note.
3. J A Hamilton waived his entitlement to fees for the year ended 30 June 2004 (as he also did for the year ended 30 June 2003).
4. This figure represents the change in value of existing share options due to the repricing of certain options by directors (from an exercise price of \$4.00 per share to an exercise price of \$1.50 per share) on 6 May 2004. The options have been valued using a Black-Scholes option valuation model.

Notes to the Financial Statements (continued)

30 June 2004

Note 18. Director and Executive Disclosures (continued)

Remuneration of directors and executives (continued)

Details of remuneration (continued)

Specified Executives of Ceramic Fuel Cells Limited (for the year ended 30 June 2004)

Name	Primary			Equity		Post employment	Other	Total
	Cash salary & fees \$	Cash bonus \$	Non-monetary benefits \$	Shares ¹ \$	Options ² \$	Super-annuation \$	Salary continuance insurance \$	
Current Executives								
A J Conduit (from 31/7/2003 - 30/6/2004)	210,021	-	-	-	-	6,418	-	216,439
K Föger	130,775	-	23,768	200,000	-	53,000	3,400	410,943
N A Sherburn	164,223	25,000	25,992	-	-	11,002	450	226,667
D R Chapman (from 18/9/2003 - 30/6/2004)	127,718	-	-	-	-	8,251	561	136,530
C Csorba (from 2/12/2003 - 30/6/2004)	62,767	-	-	-	-	5,357	3,906	72,030
B M Murríhy (from 25/9/2003 - 30/6/2004)	85,841	-	-	-	-	24,123	4,375	114,339
D N S Peck (from 1/8/2003 - 30/6/2004)	96,124	-	-	-	-	8,326	1,327	105,777
B A Thomas	104,338	-	-	-	-	9,083	1,049	114,470
Former Executives								
S Baker (from 1/7/2003 - 27/11/2003)	37,682	-	-	-	-	3,750	329	41,761
M Peck (from 1/7/2003 - 16/9/2003)	62,100	-	-	-	-	-	-	62,100
Total	1,081,589	25,000	49,760	200,000	-	129,310	15,397	1,501,056

1. On 27 November 2003 the company issued 200,000 fully paid ordinary shares to Dr Föger as consideration for services rendered to the company. Further details regarding the shares are included in the *Issue of Shares* section of Note 21 to the Financial Statements.
2. On 27 November 2003 Dr Föger renounced his entitlement to 120,000 options previously granted to him. Further details regarding the options are included in the *Share-Based Compensation: Options* section of this note.

Notes to the Financial Statements (continued)

30 June 2004

Note 18. Director and Executive Disclosures (continued)

Remuneration of directors and executives (continued)

Employment agreements

Remuneration and other terms of employment for the Executive Chairman and the specified executives are formalised in written agreements, the major remuneration provisions of which are set out below (as at 30 June 2004):

J W Dinsdale, Executive Chairman

Terms of appointment as Chairman approved by shareholders at a general meeting on 14 February 2003

- ▲ Remuneration is subject to review on the anniversary of the commencement of the term of agreement.
- ▲ No entitlement to an early termination payment in the event he ceases to be the Chairman of the Board of Directors before the end of the term of the agreement
- ▲ Remuneration components, payable to Mr Dinsdale or his nominee, are as follows:
 - payment of \$20,000 per month and reimbursement of all reasonable expenses incurred on behalf of the company, and
 - a success fee of 2% of the funds raised from new equity participants, and a success fee of 1% of the funds raised from existing shareholders, for funds raised up to 30 June 2004. The company, by agreement with Mr Dinsdale, may satisfy the payment of any such success fee by way of cash, equity or a combination of both, and
 - such number of shares in the company as are agreed by the Board and Mr Dinsdale after a new business plan is developed and adopted by the Board
- ▲ The total number of shares to be issued to Mr Dinsdale or his nominee as part of the remuneration package will not exceed such number as is equal to 7.5% of the total number of issued shares in the company at the time of issue.
- ▲ In the event of termination as Chairman within two months of a successful fund raising, the success fee remains payable to Mr Dinsdale or his nominee.

Under a letter agreement dated 7 May 2004:

- ▲ Mr Dinsdale has agreed to accept 300,000 ordinary shares at an issue price of \$1.00 in satisfaction of his success fee in relation to the initial public offering, and
- ▲ all of the 300,000 ordinary shares owing to Mr Dinsdale must be retained and no security interest created in them for a period of 3 months from allotment and, furthermore, no more than 50% of the shares may be disposed or have a security interest created in them for a further period of 3 months after the expiration of the initial 3 month period.

A J Conduit, Chief Executive Officer

Period: 31/8/2003 to 30/11/2003

- ▲ Independently contracted: consultancy renewable monthly
- ▲ Fixed fee consultancy of \$19,167 per month

Period: 1/12/2003 to 30/6/2004

- ▲ Employment contract: 13 months fixed term ending 31/12/2004
- ▲ Annual Total Salary Package (TSP) of \$230,000 to end of contract

K Föger, Chief Technology Officer

Period: 1/7/2003 to 30/6/2004

- ▲ Employment contract: "permanent" ongoing position
- ▲ Annual TSP of \$195,000 reviewable at least annually

N A Sherburn, Chief Financial Officer

Period: 1/7/2003 to 30/6/2004

- ▲ Employment contract: "permanent" ongoing position
- ▲ Annual TSP of \$193,001 reviewable at least annually
- ▲ A bonus of \$25,000 was approved by directors in January 2004 and is not a component of Mr Sherburn's annual remuneration package. The bonus was awarded in recognition of his extra efforts and professionalism as part of the process of the company's capital raising programme. The quantum of the bonus was established by the Board having due regard to Mr Sherburn's remuneration package and the degree of skill and effort contributed by him over and above that which could reasonably be expected from an executive officer in his position.

Note 18. Director and Executive Disclosures (continued)

Remuneration of directors and executives (continued)

Employment Agreements (continued)

D R Chapman, *Chief Engineer*

Period: 18/9/2003 to 18/3/2004

▲ Employment contract: 6 months fixed term

▲ Annual TSP of \$165,000

Period: 19/6/2003 to 30/6/2004

▲ Employment contract: "permanent" ongoing position

▲ Annual TSP of \$165,000 reviewable at least annually

C Csorba, *Human Relations Manager*

Period: 2/12/2003 to 8/6/2004

▲ Employment contract: 6 months fixed term

▲ Annual TSP of \$125,000

Period: 9/6/2003 to 30/6/2004

▲ Employment contract: "permanent" ongoing position

▲ Annual TSP of \$125,000 reviewable at least annually

B M Murrhly, *Operations Manager*

Period: 25/9/2003 to 23/12/2003

▲ Independently contracted: 3 month fixed term

▲ Fixed fee consultancy of \$800 per day

Period: 31/12/2003 to 30/6/2004

▲ Employment contract: 6 months fixed term ending 30/6/2004

▲ Annual TSP of \$140,000

Period: 30/6/2004 onwards

Contract extended a further 6 months to 31/12/2004

▲ Annual TSP of \$140,000 reviewable at least annually

D N S Peck, *Business Development Manager*

Period: 1/8/2003 to 30/6/2004

▲ Employment contract: "permanent" ongoing position

▲ Annual TSP of \$110,000 reviewable at least annually

B A Thomas, *Manufacturing Manager*

Period: 1/7/2003 to 30/6/2004

▲ Employment contract: "permanent" ongoing position

▲ Annual TSP of \$110,000 reviewable at least annually

Notes to the Financial Statements (continued)

30 June 2004

Note 18. Director and Executive Disclosures (continued)

Remuneration of directors and executives (continued)

Employment Agreements (continued)

Share-Based Compensation: Options

The terms and conditions of each grant of options held by current and former directors and specified executives at any time during the year ended 30 June 2004 are as follows:

Name	Grant date	Expiry date	Exercise price at grant \$	Exercise price at 30 Jun 2004 ³ \$	Value per option at grant date \$	Date exercisable
Current Directors						
C M Adam	25 May 2001	24 May 2011	4.00	1.50	3.24	From 5 Jul 2004 ¹
Former Directors						
K J Croagh ²	22 May 2000	4 Jul 2007	4.00	1.50	3.16	From 5 Jul 2004 ¹
R D C Garland ²	23 Mar 2001	4 Jul 2007	4.00	1.50	3.21	From 5 Jul 2004 ¹
Current Specified Executives						
K Föger	15 May 2000	27 Nov 2003	4.00	N/A	3.16	The options were never exercisable.

1. The options held by C M Adam, K J Croagh and R D C Garland have been placed in escrow, as a condition of admitting the company to the official list of the ASX, and cannot be exercised before 5 July 2006.
2. Due to the above-mentioned escrow period, on 24 June 2004 the Board resolved to extend the expiry date of the options of Messrs Croagh and Garland which, under the terms of the Ceramic Fuel Cells Limited Share Option Plan Rules, would have expired 12 months from the date of listing such that they now expire 12 months from the end of the escrow period, ie. on 4 July 2007.
3. On 6 May 2004 the Board varied the exercise price of these options - all the other terms, then in existence, of these options remained unchanged.

As at the reporting date, options then on issue will have no effect on the future remuneration of directors and specified executives.

Equity instrument disclosures relating to directors and executives

Options provided as remuneration

No director had been granted, offered or promised any options over ordinary shares in the company during the year.

No specified executive had been granted, offered or promised any options over ordinary shares in the company during the year.

Shares provided on exercise of remuneration options

As at 30 June 2004, and to the date of this report, no options over ordinary shares were able to be, or had been, exercised by directors or specified executives.

Notes to the Financial Statements (continued)

30 June 2004

Note 18. Director and Executive Disclosures (continued)

Option holdings

The numbers of options over ordinary shares in the company held during the financial year ended 30 June 2004 by each director of Ceramic Fuel Cells Limited, and of each of the ten specified executives of the company, are as follows:

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other change during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Current Directors						
C M Adam ¹	25,000	-	-	-	25,000	-
Former Directors						
K J Croagh ¹	25,000	-	-	-	25,000	-
R D C Garland ¹	25,000	-	-	-	25,000	-
Current Specified Executives						
K Föger	120,000	-	-	(120,000)	-	-

1. The options held by C M Adam, K J Croagh and R D C Garland have been placed in escrow, as a condition of admitting the company to the official list of the ASX, and cannot be exercised before 5 July 2006.

Share holdings

The numbers of ordinary shares in the company held during the financial year by each director of Ceramic Fuel Cells Limited and each of the ten specified executives of the company are set out below:

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Current Directors				
J A Hamilton	-	-	3,000	3,000
Specified Executives				
K Föger	-	-	200,000	200,000
Total	-	-	203,000	203,000

- As part of his remuneration Mr Dinsdale agreed to accept 300,000 fully paid ordinary shares in the company. These shares have been accrued at 30 June 2004. On 17 September 2004 the Directors resolved to issue these shares to Mr Dinsdale.
- Mr Dinsdale is entitled to further equity in the company in accordance with the terms of his remuneration package approved by shareholders at a general meeting on 14 February 2003, the details of which are to be found in the Employment Agreements section of this note.

Loans to directors and executives

No loans were made to directors or to specified executives during the financial year ended 30 June 2004 and to the date of this report.

Notes to the Financial Statements (continued)

30 June 2004

	2004 \$	2003 \$
Note 19. Remuneration of Auditors		
During the year the following remuneration was paid or payable to PricewaterhouseCoopers' Australian firm for:		
Assurance services		
1. Audit services		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>		
For the half-year (ended 31 December)	30,000	-
For the full year (ended 30 June)	50,000	36,000
	<u>80,000</u>	<u>36,000</u>
2. Other assurance services		
Due diligence services	113,171	-
	<u>113,171</u>	<u>-</u>
Total remuneration for assurance services	<u>193,171</u>	<u>-</u>
Taxation services		
Review of company income tax returns	14,980	13,345
Other tax compliance services	13,160	-
Total remuneration for taxation services	<u>28,140</u>	<u>13,345</u>
Advisory services		
Other advisory services	13,500	25,000
Total remuneration for advisory services	<u>13,500</u>	<u>25,000</u>
Total remuneration for all services	<u><u>234,811</u></u>	<u><u>74,345</u></u>

Note 20. Commitments for Expenditure

Capital commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	57,420	12,804
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-
	<u>57,420</u>	<u>12,804</u>

Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	524,103	369,114
Later than one year but not later than 5 years	151,857	-
Later than 5 years	-	-
	<u>675,960</u>	<u>369,114</u>

Representing:

Non-cancellable operating leases	<u>675,960</u>	<u>369,114</u>
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Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	524,103	369,114
Later than one year but not later than 5 years	151,857	-
Later than 5 years	-	-

Commitments not recognised in the financial statements	<u>675,960</u>	<u>369,114</u>
--	----------------	----------------

Both of the company's operating leases in relation to its Noble Park premises contain options to renew for further periods, as well as annual rent escalation clauses which guarantee minimum rent payments.

Finance leases

Total commitment for minimum lease payments in relation to finance leases at the reporting date is \$Nil (2003 - \$Nil).

Notes to the Financial Statements (continued)

30 June 2004

	2004 \$	2003 \$
Note 21. Employee Benefits		
Employee benefit and related on-costs liabilities		
Provision for employee entitlements		
Included in accruals (Note 12)	412,535	190,464
Provision for employee benefits - current (Note 13)	374,950	302,087
Provision for employee benefits - non-current (Note 14)	125,523	82,651
Aggregate employee benefit and related on-cost liabilities	913,008	575,202

Employee numbers

Number of full-time equivalent employees at reporting date:	91	84
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As explained in Note 1(k)(ii), the amount for long service leave that is expected to be settled more than 12 months from the reporting date is measured at its present value. The following assumptions were adopted in measuring present value:

Weighted average rates of increase in annual employee benefits to settlement of the liabilities	4%	4%
Weighted average discount rates	5.74%	5.38%
Weighted average terms to settlement of the liabilities	9.2 years	9.9 years

Ceramic Fuel Cells Limited Share Option Plan

The establishment of the Ceramic Fuel Cells Limited Share Option Plan was approved by special resolution at the annual general meeting of the company held on 26 November 1999. All full time and part time permanent employees, including non-executive directors but excluding casual and short-term contract employees, are eligible to participate in the plan upon successful completion of their employment probationary period. Refer to Note 15(d) for details of options over ordinary shares granted to employees.

Set out below are summaries of options granted under the plan at 30 June 2004:

Grant Date	Expiry Date	Exercise price	Balance at 30 June 2003	Issued during the year	Exercised during the year	Lapsed ⁴ during the year	Balance at 30 June 2004
15 May 2000	14 May 2010	\$4.00	180,000	-	-	120,000	60,000
15 May 2000	14 May 2010	\$1.50	60,000	-	-	-	60,000
22 May 2000	4 Jul 2007	\$1.50	25,000	-	-	-	25,000
25 Jul 2000	24 Jul 2010	\$4.00	126,500	-	-	41,000	85,500
25 Jul 2000	24 Jul 2010	\$1.50	141,000	-	-	-	141,000
23 Feb 2001	22 Feb 2011	\$4.00	7,000	-	-	-	7,000
23 Feb 2001	22 Feb 2011	\$1.50	1,000	-	-	-	1,000
23 Mar 2001	4 Jul 2007	\$1.50	25,000	-	-	-	25,000
25 May 2001	24 May 2011	\$1.50	25,000	-	-	-	25,000
29 Jun 2001	28 Jun 2011	\$4.00	40,000	-	-	40,000	-
27 Jul 2001	26 Jul 2011	\$4.00	41,000	-	-	-	41,000
27 Jul 2001	26 Jul 2011	\$1.50	3,000	-	-	-	3,000
26 Oct 2001	25 Oct 2011	\$1.50	1,000	-	-	-	1,000
6 May 2004	5 May 2014	\$2.01	-	170,000	-	-	170,000
Total			675,500	170,000	-	201,000	644,500

1. All options have been issued for no consideration

2. All options are fully vested at the date of this report

3. On 6 May 2004 the company decided to reduce the exercise price of options held by certain members (principally existing employees) from \$4.00 per share to \$1.50 per share

4. Lapsed includes options renounced

Issue of Shares

During the year 200,000 ordinary shares at \$0.50 per share were issued to the company's Chief Technical Officer, Dr Karl Föger, to acknowledge the considerable contribution made by Dr Föger to the technical progress of the company. Dr Föger gave up 120,000 options over shares in the company's share option plan.

Notes to the Financial Statements (continued)

30 June 2004

	Note	2004 \$	2003 \$
Note 22. Reconciliation of Profit from Ordinary Activities after Income Tax to Net Cash Inflow from Operating Activities			
Operating profit after income tax		(15,579,171)	(18,489,467)
Depreciation and amortisation	4	3,041,192	3,457,675
Shares issued for services rendered		100,000	-
Net loss/(gain) on sale of non-current assets		55	284,770
Change in operating assets and liabilities			
Decrease/(increase) in sundry debtors		69,670	274,469
Decrease/(increase) in other operating assets		(43,234)	134,220
Increase/(decrease) in trade creditors and accruals		392,687	(272,146)
Increase/(decrease) in other provisions		115,735	(183,348)
Increase/(decrease) in other creditors		-	-
Net cash inflow/(outflow) from operating activities		(11,903,066)	(14,793,827)

Note 23. Contingent Liability

The company has the following contingent liability:

R&D Start Grant

Under an agreement with the Industry Research and Development Board (IR&D Board) acting on behalf of the federal government, the company received a \$15 million grant under the R&D Start Grant programme. The company has received the full amount of the grant. The agreement runs until 2009 and imposes certain obligations upon the company. If the company was to breach the agreement or become insolvent, the IR&D Board may elect to terminate the agreement. In the event of such a termination or in other specific circumstances, the agreement provides that the IR&D Board may choose to require the repayment of any or all of the grant, with or without interest.

At the end of the year the maximum amount of this liability would have been \$18.98 million.

	2004 Cents	2003 Cents
Note 24. Earnings Per Share		
Basic earnings per share	(18.44)	(23.11)
	Number	Number
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic earnings per share	84,487,842	79,996,448
	\$	\$
Earnings used in calculating basic earnings per share		
Net Profit/(Loss)	(15,579,171)	(18,489,467)

There were no extraordinary items, nor net loss attributable to outside equity interest, to be taken into account in determining earnings used in calculating basic earnings per share.

Information concerning the classification of securities

(a) Options Issued Under the CFCL Share Option Plan

Options granted to employees under the Ceramic Fuel Cells Limited Share Option Plan are considered to be potential ordinary shares but, because their conversion to ordinary shares would decrease the net loss from continuing ordinary operations per share, they are not considered to be dilutive and no calculation of diluted earnings is required. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 21.

(b) Options Issued to Subscribers Under the Private Placement Completed 6 May 2004

Options granted to subscribers under the Private Placement completed 6 May 2004 are considered to be potential ordinary shares but, because their conversion to ordinary shares would decrease the net loss from continuing ordinary operations per share, they are not considered to be dilutive and no calculation of diluted earnings is required. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 15(d).

Comparative Information

The basic earnings per share amount disclosed for the year ended 30 June 2003 has been adjusted for the bonus share issues to Metasource Pty Ltd and Energex Limited of 14 November 2003 (refer to Note 15(b)).

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 26 to 50:

- (a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's financial position as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and
- (b) there are reasonable grounds to believe that the company 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.



Julian W Dinsdale

Executive Chairman

Melbourne
17 September 2004



Independent audit report to the members of Ceramic Fuel Cells Limited

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Audit opinion

In our opinion, the financial report of Ceramic Fuel Cells Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Ceramic Fuel Cells Limited as at 30 June 2004, and of its performance for the period ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Ceramic Fuel Cells Limited, the company, for the period ended 30 June 2004.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and its performance as represented by the results of its operations and cash flows.

Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)



We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in cursive script that reads "Charles Christie".

Charles Christie
Partner

Melbourne
17 September 2004

Shareholder Information

Class of Shares and Voting Rights

Ordinary Shares

As at 17 September 2004, the Company had on issue 109,836,448 fully paid ordinary shares, held by 1,265 shareholders.

The voting rights attaching to shares are set out in clause 62 of the Company's Constitution. Subject to that clause, at general meetings of the Company:

- ▲ On a show of hands each person present as a member, proxy, attorney or representative of a member, has one vote; and
- ▲ On a poll each member present in person or by proxy, attorney or representative has:
 - One vote for each fully paid share; and
 - Proportionate voting rights for each partly paid share.

Options

As at 17 September 2004, the Company had the following ordinary shares of the Company under option:

- ▲ 557,000 options under the CFCL Share Option Plan, held by 62 optionholders;
- ▲ 5,274,999 options issued to shareholders under the Private Placement completed on 6 May 2004, held by 120 optionholders.

Options do not carry any voting rights. The options are not listed.

Substantial Shareholders

Listed below are the names of substantial holders in the Company and the number of securities in which they have a relevant interest, as disclosed in substantial shareholding notices up to 17 September 2004:

Holder	Number of securities
Woodside Petroleum Limited ¹	38,250,000
ENERGEX Limited	36,800,783

1. Woodside is the parent company of Metasource Pty Ltd.

Distribution of Shareholders as at 17 September 2004

Holding	Shareholders
1 - 1000	33
1001 - 5000	621
5001 - 10000	275
10001 - 100000	292
100001 and Over	44
Total	1,265

The number of security investors holding less than a marketable parcel of 618 securities (\$.810 on 17 September 2004) is nine and they hold 4142 securities.

Distribution of Options as at 17 September 2004

		Holding and Number of Option Holders					Total Option Holders
		1-1,000	1,001-5,000	5,001-10,000	10,001-100,000	Over 100,000	
Shareholder Options			11	28	71	10	120
CFCL Share Option Plan							
Expiry Date	Exercise Price						
4 July 2005	\$4.00	26			2		28
4 July 2007	\$1.50				2		2
14 May 2010	\$1.50				1		1
24 July 2010	\$1.50	21			3		24
22 Feb 2011	\$1.50	1					1
24 May 2011	\$1.50				1		1
26 July 2011	\$1.50	3					3
25 Oct 2011	\$1.50	1					1
5 May 2014	\$2.01					1	1

Top 20 Ordinary Shareholders

As at 17 September 2004, the 20 largest holders of the Company's ordinary shares were:

Rank	Name	No of Shares	%
1	METASOURCE PTY LTD	38,250,000	34.82
2	ENERGEX LIMITED	36,800,783	33.51
3	CSIRO	3,989,596	3.63
4	STRATEGIC INDUSTRY RESEARCH FUND LTD	1,492,910	1.36
5	COMMONWEALTH OF AUSTRALIA	1,420,000	1.29
6	WESTERN POWER CORPORATION	1,342,314	1.22
7	BELL SECURITIES LIMITED	1,206,400	1.10
8	ALCARDO INVESTMENTS LIMITED	1,061,000	0.97
9	IOOF INVESTMENT MANAGEMENT	952,547	0.87
10	MERIDIAN ENERGY LIMITED	670,000	0.61
11	WHI SECURITIES PTY LTD	631,500	0.57
12	WESTPAC CUSTODIAN NOMINEES	629,793	0.57
13	EQUITY TRUSTEES LIMITED	587,421	0.53
14	BHP BILLITON LIMITED	520,719	0.47
15	J P MORGAN NOMINEES AUSTRALIA	500,000	0.46
16	FEMILE PTY LTD	480,000	0.44
17	JURGEN GRAF UND PARTNER GBR	455,000	0.41
18	NATIONAL NOMINEES LIMITED	453,350	0.41
19	LEWIS SECURITIES LTD	422,000	0.38
20	DEN DUYTS CORPORATION PTY LTD	350,000	0.32
TOTAL FOR TOP 20:		92,215,333	83.96

Restricted Securities

As at 17 September 2004, the following were 'restricted' securities or were subject to voluntary escrow:

Class	Number	Expiry date
Ordinary	6,298,337	5 July 2005
Options	75,000	5 July 2006

Buy-back

As at 17 September 2004 there is no on-market buy-back.

This glossary is provided to explain source of the technical terms used in the fuel cell industry and in this Annual Report.

Anode	the negative electrode in an electrolytic cell
Application Development Partner	an organisation that has experience in manufacturing and distribution of end-user energy related products
APU	auxiliary power unit
ASIC	the Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited (ACN 008 624 691)
Balance of Plant or BoP	the support system to the fuel cell stack which manages the supply of fuel and air, controls the total fuel cell system and provides an interface with electrical loads
Board of Directors	The Directors of the Company
Cathode	the positive electrode in an electrolytic cell
Cell or Cell plate	consisting of an anode, cathode and electrolyte, this is the basic electricity generating component in a fuel cell
CFCL or the Company	Ceramic Fuel Cells Limited ABN 82 055 736 671
CHP unit	A unit which produces and combines Heat and Power
Cogeneration	a process that generates different types of usable energy, typically where waste heat is used for other purposes
Combined Cycle System	an electric generating technology in which additional electricity is produced from otherwise lost waste heat exiting from the primary generator.
DC	direct current
Distributed generation	a form of power generation that takes place at or near the customer site, tailors the power to specific needs, and places control in the hands of the customer
Electrical efficiency	measure of effectiveness in converting source fuel into electricity - referred to as 'efficiency'
Electrical loads	power requirements at customer site
Electrolyte	ionic conducting material
End-user product joint venture	a joint venture between CFCL and an Application Development Partner to enable the manufacture and sale of end-user products using CFCL fuel cells
Flat plate	a type of cell design adopted by the Company
Fuel cell	an electrochemical energy conversion device that generates electricity
Fuel cell stack	an assembly of multiple cells connected together using interconnects
Hydrocarbon fuel	hydrocarbon fuels include natural gas, liquefied petroleum gas (propane), diesel and biogas
Internal reforming	process where the methane contained in hydrocarbon fuel is reacted with steam on the anode of the fuel cell
IP	Intellectual Property
kW	kW = 1,000 watts
kW-hour	a kilowatt hour - a measure of electrical energy consumption
Kyoto Protocol	an agreement reached in Kyoto on 11 December 1997 where certain industrialised countries agreed to reduce their collective greenhouse gas emissions
LNG	liquefied natural gas
Load factor	ratio of average to peak power requirements for electricity end user
LPG	liquefied petroleum gas
Manufacturing Development Partner	an organisation who has expertise in volume ceramic manufacture that enters into a manufacturing joint venture with CFCL
Manufacturing joint venture	a joint venture between CFCL and a manufacturing partner to manufacture fuel cells
MCFCS	type of fuel cell that uses molten carbonate as electrolyte
MW	Mega Watt = 1,000 kW
Net metering	an electricity metering system for customers who have their own generating capacity whereby the meter measures the electricity drawn from the grid and also the surplus electricity that is generated by the customer and supplied to the grid. At the end of the billing period the customer pays for their net consumption.
OECD	Organisation for Economic Cooperation and Development
OH&S	Occupational Health and Safety
PAFCs	type of fuel cell that uses phosphoric acid as electrolyte
PCT	Patent Co-operation Treaty
PEMFCs	type of fuel cell that uses proton exchange membrane as electrolyte
Power density	amount of power generated per unit area or per unit volume
R&D	Research and Development
Reforming	is the conversion of hydrocarbon fuels to lower molecular weight products
Separator or Separator plate	a ceramic plate that separates the fuel from the air and provides electrical conductivity from one cell to the next
SOFC	type of fuel cell that uses solid oxide as electrolyte
Stack	multiple cells combined one on top of the other to form a fuel cell stack which provides higher voltage and higher power than a single cell
Stationary power	power generation units, which are fixed in a certain location. Other types of power include portable and automotive
Thermal cycling	the change from room temperature to operating temperature and back to room temperature
TW	Terra Watt = 1 million Mega Watts