



CERAMIC FUEL CELLS LIMITED

Clean power for your home

31st July 2006

CERAMIC FUEL CELLS LIMITED

TRADING UPDATE FOR QUARTER ENDED 30 JUNE 2006

Ceramic Fuel Cells Limited ("CFCL") announces its trading update for the fourth quarter 2006.

Key Highlights:

- Receipts from customers for the full year up 377% due to increased field trial activity;
- Final conversion of convertible notes to shares, reducing the company's debt to zero;
- Net cash outflow for the quarter down 5.2% and down 21% for the full year;
- Two further patents issued for the company's solid oxide fuel cell (SOFC) technology;
- Two senior management appointments.

Financials

Receipts from customers for the full year were up by 377% to A\$953,000 (£381,000), compared with A\$200,000 (£80,000) for FY05. The increase in receipts relates principally to the Company's field trial programme of its Combined Heat and Power (CHP) demonstration units. The Company expects to receive further revenues from these trials, particularly following the announcement on 29th June when the Company signed a further contract with EWE, the fifth-largest German multi-service energy company. Under this agreement, CFCL will supply EWE with ten NetGenTM units for further field trials as part of a collaborative project to develop commercial-ready micro CHP products for the European market. This is CFCL's most significant contract to date, taking the company within striking distance of its target of selling 12 NetGenTM units by the end of 2006.

During June 2006, the balance of the convertible notes (A\$8.2m / £3.28m) issued in August 2005 were converted into 16.4m shares, reducing the company's debt to zero. This means that the Company can use all of the funds raised at the time of its flotation on AIM in March 2006 for its commercialisation activities, rather than repaying these notes.

The net cash outflow for the final quarter was lower by 5.2% (A\$2,466,000 / £986,000) compared to the third quarter 2005 (A\$2,600,000 / £1,040,000). Higher staff costs for the final quarter were offset by the interest earned on invested funds. Net cash outflow for the full year was (A\$12,208,000 / £4,883,000), down 21% compared with FY05 (A\$15,226,000 / £6,090,000).

Capital expenditure on assets during the fourth quarter increased significantly to A\$540,000 (£216,000) compared to A\$75,000 (£30,000) in the third quarter. The Company expects capital expenditure to continue to increase as the company upgrades its Australian production facilities and invests in its European specialist ceramics powder manufacturing plant and fuel cell manufacturing plant. Otherwise, underlying operational costs were in line with previous quarters.

The Company's cash position at the end of the quarter was A\$86m (£34.4m) compared to A\$5.3m (£2.1m) on 30 June 2005.

Technical

The Company is delighted to announce that it has been granted two further patents for its solid oxide fuel cell (SOFC) technology.

The first patent has been granted in the USA for a zirconia window frame, a structure which enables anode supported SOFCs (connected by metallic plates) to be flatter and easier to seal, thereby improving the performance of the cell and making them easier and cheaper to manufacture. The Company has already been granted patents for the same invention in Australia and South Africa and has applied for patents in Canada, Europe and Japan.

The second patent has been granted in Europe for an electrically conductive metal surface treatment for a ceramic-metallic SOFC design. The patent has already been granted in Australia and the USA and the Company has applied for patents in five other countries. This technology of coating the stainless steel used in a fuel cell stack with oxide, allows the plates to be more conductive and hence produce more efficient power.

CFCL now has a total of 50 patents in 28 patent families, each family representing a single invention covered in multiple jurisdictions. These patent families cover inventions relating to SOFC materials, cell and stack configurations, fuel processing, stack thermal management and system control technologies.

These two new patents are examples of the Company's broad experience with a range of fuel cell designs and materials, having successfully designed, built and operated both all-ceramic and metal-ceramic composite kW-size fuel cell stacks.

This broad experience gives the Company a wide range of expertise and background knowledge to continually improve the Company's fuel cells rather than specialising in just metal-ceramic or all-ceramic designs.

The Company looks forward to announcing further technical improvements over the coming months.

Management Appointments

In July 2006, two senior managers joined CFCL's UK office, a reflection of the Company's increased focus on commercialising its technology and scaling up production, particularly in the European market.

Mike Atkinson joined the Company in a new position of Manager, Capital Projects and will report to Brendan Dow, Chief Executive Officer. He will also form part of the Executive Management Team. Mike will be responsible for managing CFCL's capital works projects, in particular its new powder plant and the fuel cell manufacturing plant. Mike has had extensive international commercial and engineering experience in managing major capital projects in high technology industries. He joins CFCL from six years at Johnson Matthey where he was responsible for managing the construction and commissioning of Johnson Matthey's dedicated fuel cell manufacturing facility in the UK, from site selection and factory construction, through to equipment procurement and commissioning and factory operations.

Simon Howard joins the Company as Powder Manufacturing Engineer. Simon is a specialist ceramics engineer with 17 years experience in engineering and technologist roles in ceramic manufacturing companies, including Morgan Electro Ceramics, Fairey Industrial Ceramics, Wedgwood, and Twyford's Bathrooms.

ENDS

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NOTES TO EDITORS

About Ceramic Fuel Cells Limited

Ceramic Fuel Cells Limited (CFCL, www.cfcl.com.au) is a world leader in developing solid oxide fuel cell (SOFC) technology which can provide reliable, energy efficient, high-quality, and low-emission electricity from widely available natural gas and renewable fuels. CFCL is developing SOFC products for small-scale on-site micro combined heat and power (m-CHP) and distributed generation units that co-generate electricity and heat for domestic use.

CFCL is now at an advanced stage of development, and is moving swiftly towards commercialization. Since 1992, CFCL has developed its own fuel cells and complete fuel cell 'stacks', and has also succeeded in creating the highly engineered "balance of plant" that surrounds the fuel cell stack and controls the inputs (fuel, air and water), outputs (heat and electricity), timing, and temperature controls.

CFCL is currently demonstrating prototype units in field trials with EWE (the fifth-largest German multi-service energy company) and Powerco (New Zealand's second largest electricity and gas distribution company). In June 2006, CFCL signed a contract with EWE to supply ten CFCL NetGen™ units for further field trials as part of a collaborative project to develop commercial-ready m-CHP products for the European market.

CFCL has extensive R&D, testing and manufacturing facilities in Melbourne, Australia. CFCL will build a fuel cell manufacturing facility in Europe, with plans to begin large scale production in 2008-09, making CFCL a leader in preparing for volume manufacturing. The Company will also construct a plant in Europe to produce high quality ceramic powders, which are a key component of solid oxide fuel cells, using the Company's patented technology. The powder plant is scheduled to be commissioned in Q1 2007.

With over 100 skilled staff and extensive patented technology (50 patents in 28 patent 'families' to date), CFCL is pursuing partnerships for manufacture, production and use of its fuel cells in delivering electricity to the domestic European and Asian markets.

CFCL was formed in 1992 by Australia's CSIRO (Commonwealth Science and Industry Research Organisation) and a consortium of leading energy and industrial companies. A UK subsidiary was established in 2004. The Company is based in Melbourne, Australia and Chester, United Kingdom. It is publicly listed on both the AIM Stock Exchange, London (floated March 2006), and on the Australian Stock Exchange (floated July 2004). The company's code on both exchanges is CFU.

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,466)	(12,208)
1.9 Cash flows related to investing activities		
Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(540)	(706)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	7	72
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other	-	-
Net investing cash flows	(533)	(634)
1.14 Total operating and investing cash flows	(2,999)	(12,842)
1.15 Cash flows related to financing activities		
Proceeds from issues of shares, options, etc.	-	91,367
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings (convertible notes)	-	8,200
1.18 Repayment of borrowings (insurance premiums)	(97)	(284)
1.19 Dividends paid	-	-
1.20 Other - Convertible notes issue costs	-	(532)
Other - Interest paid on convertible notes	(63)	(516)
Other - Interest paid on insurance premiums funding	(2)	(12)
Other - Share issue costs	(354)	(7,594)
Net financing cash flows	(516)	90,629
Net increase (decrease) in cash held	(3,515)	77,787
1.21 Cash at beginning of quarter/year to date *	89,511	5,301
IFRS adjustment to opening cash balance *	-	169
1.22 Exchange rate adjustments on foreign currency cash balances	120	2,859
1.23 Cash at end of quarter	86,116	86,116

* For reporting purposes, prior to 1 July 2005 security deposits were not defined as cash. However, under Australian equivalents to International Financial Reporting Standards (AIFRS), security deposits are now included within the definition of cash and cash equivalents. Hence, under AIFRS, 'Cash at beginning of quarter' has been increased by \$169k (being the value of security deposits as at 30 June 2005) to reflect this revised definition.

Payments to directors of the entity and associates of the directors

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

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	111
1.25	Aggregate amount of loans to the parties included in item 1.11	-
1.26	Explanation necessary for an understanding of the transactions	
	<p><i>Directors' Fees</i> Cash payments for directors' fees totalled \$111k for the quarter (\$297k for the year to date).</p> <p><i>Share issue costs</i> Share issue costs at item 1.20 includes year to date cash payments of \$249k to a director-related entity.</p>	

Non-cash financing and investing activities

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

Convertible Notes
During the quarter convertible notes with a value of \$4,070,000 were converted into equity, thereby reducing the Company's liabilities by the same amount. These conversions resulted in the issue of a further 8,140,000 ordinary shares.

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

NIL

Financing facilities available

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

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

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	159	472
4.2 Deposits at call	11,025	21,032
4.3 Bank overdraft	-	-
4.4 Other		
- Investments	74,749	67,838
- Security deposits	183	169
Total: cash at end of quarter (item 1.23)	86,116	89,511

* Refer above comment regarding security deposits now being included within the definition of cash and cash equivalents.

Acquisitions and disposals of business entities

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

Compliance statement

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

Sign here: Date: July 2006

Print name: David Carruthers
Director

Notes

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