

# WALL STREET REPORTER®

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INTERVIEW

ASX  
CFU

Julian Dinsdale  
Executive Chairman



*Ceramic Fuel Cells Limited (CFU) is focused on meeting the requirements in the field of stationary power (electricity). The company's unique fuel cell design, is based on work done within the leading Australian institution, the CSIRO (Commonwealth Science and Industry Research Organisation), from which the Company spun off in 1992 with the support of many contributing partners before listing on the Australian Stock Exchange in 2004.*

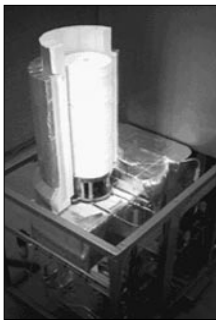
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Julian Dinsdale, Executive Chairman, spoke with *Wall Street Reporter Magazine* on May 5, 2005.



CERAMIC FUEL CELLS LIMITED



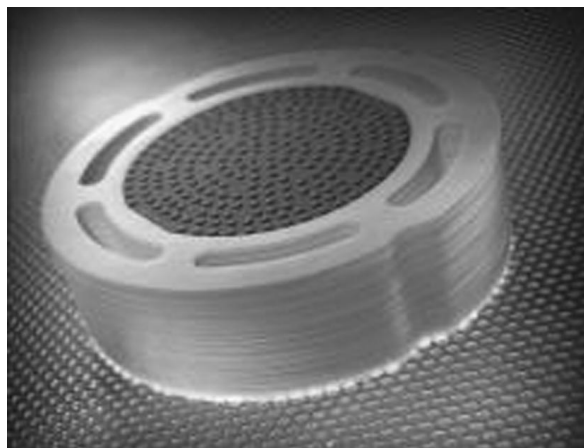
**WSR:** Could you begin with a brief history and overview of the company?

**CFU:** The company started in 1992 with a consortium including the states and federal Australian governments, the New Zealand government and BHP, with the purpose of developing solid oxide fuel cell systems. In 1996 the company was capitalized into a private company and in July last year it listed on the Australian Stock Exchange. Our primary product is fuel cell powered electricity generation systems, using a particular type, namely solid oxide fuel cells. These are suited to distributed electricity generation for homes, offices, factories and farms that consume the bulk of energy produced around the world. Our fuel cell design is a flat plate that is ideal for high volume manufacture. We currently use natural gas, which is of course, readily available and widely distributed, and so we are therefore not constrained like others in using hydrogen. Our fuel cell system is being conditioned to become in the future totally green through the use of bio fuels such as ethanol and bio diesel. Our company is capitalized at about A\$80 million on the Australian Stock Exchange. We've invested around A\$130 million in the design and products, and we have about 30 patent families covering a number of valuable inventions for applications and products in fuel cells, material science, energy generation and equipment systems. Our first product to market is a one kilowatt, reliable and efficient energy generation system. This has been developed for the residential micro-CHP (small combined heat and power) appliance market that is growing in Europe, U.K., North America and Japan. We have other power designs for future development. Certainly in the next few years, we expect to see more powerful fuel cell systems growing to five kilowatts and then upwards from there. We have about 100 staff in Australia plus a wholly owned subsidiary in the U.K. where our staff are wholly focused on European business and markets. Unlike a number of our fuel cell competitors we are in the

position to ship complete products — not only fuel cells, but fuel cell powered prototype systems to demonstrate the benefits of our fuel cells. The first ones are ready to go out to Powerco in New Zealand.

**WSR:** As we look at these products and systems, give us a better feel for the potential you see within your target markets.

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28 layer Solid Oxide Fuel Cell stack

**CFU:** The initial product target market is the micro-combined heat and power product range where we see one to three kilowatt micro-CHP units already being installed in homes in Europe and the UK. The hot water heating unit market in Europe is around eight million units per annum, and our market in Australia, Asia, Europe and America certainly is in the millions of units per annum. This is a very solid, large and growing market that has potential for not only us but for a number of players. Where we will offer distinct benefit over current engine-based micro-CHP systems is with our higher fuel and electrical efficiency, and use of a range of fuels (including natural gas and biogas). The reason this market for distributed generation is growing in many countries is because many governments and energy utilities are looking to reduce greenhouse gas and air particle pollution, reduce reliance on oil and find smart ways to generate energy, especially given their ageing power stations and infrastructure. For some there is also interest in alternative fuels, such as biofuels. In the next few years our fuel cell powered systems will be able to meet this demand. It should also be noted that micro-CHP energy generation is appealing to distributors because they can actually start putting

electricity generation in through their distribution network, thereby gaining market share and taking a load off their grid network systems.

**WSR:** Do you have the infrastructure in place to handle all this additional growth and demand?

**CFU:** In Australia we are producing the initial products for demon-



stration and proof of the technology to utilities and manufacturers. To meet future demand in our first market in Europe we have plans, drawings and site options for a high volume fuel cell foundry. This will service initially the European market. We believe this volume production plant can grow to about 100 megawatts per annum over a three year period. Our intent is to manufacture fuel cells for sale to application development partners for integration into a range of their appliances. The complete micro-CHP systems we have designed and built prove the operation and capacity of our fuel cells. Our strategy is for system manufacturers in Europe to buy fuel cell products from our fuel cell plant and incorporate them into their particular products. Our offices and factory in Australia will continue to be our R&D base and pilot production plant, while future expansion of staff and facilities will be in Europe, right in the middle of our first target market.

**WSR:** So strategic alliances and partnerships are moving forward?

**CFU:** They certainly are.

**WSR:** What can you tell us about the key players on board here, the present management team at Ceramic Fuel Cells?

**CFU:** In the past two years we have changed the management team at Ceramic Fuel Cells. Really it was a team geared around research and development, now it has a commercial focus around specific products for identified markets. Our new subsidiary company is focused on European business and markets and the new management team in Australia is bringing commercial product to market. In those two years we've brought in commercial managers, sales personnel, product managers who work on product control and product development; this is all totally different to the earlier R&D environment. Together they work with the finance, commercial, legal and marketing managers. It is certainly proving to be an excellent and formidable team. This team is well attuned to the demands and requirements of running a commercial business, working with customers, suppliers and investors. In the next few years we will capitalize upon all the years of investment and the relationships built within the energy industries around the world.

**WSR:** Does the investment community understand the company and the direction here?

**CFU:** In Australia the understanding is less than in Europe, U.K. and the U.S. Australia is suffering from a general big downturn in the markets,

which is certainly affecting the majority of small capitalization companies that do not have significant revenue streams. A further issue is that Australia has little impetus to support energy efficient systems such as micro-CHP or fuel cells, because of the low cost of fuel and electricity, and plentiful supply of fuel reserves. Other parts of the world are eager to support companies in the business of efficient and clean energy generation systems. This is particularly evident in countries that are reliant on imported energy or have signed up to the Kyoto Protocol. The larger market for our type of stock is Europe and the U.S./North America. In these regions investors are well aware of the benefits of our technology and products.

**WSR:** In closing, let's just recap. Why should investors consider Ceramic Fuel Cells as a long-term investment opportunity?

**CFU:** We have excellent design, patent protection, a dynamic management team and a clearly defined growing market. In a few years we will be offering our more efficient and clean fuel cell system as a better option to existing less efficient and dirtier conventional engine systems. There is no doubt that demand for stationary energy for homes, offices, factories and farms will continue to grow, and that increasingly this energy will have to be efficient and clean. Fuel cell systems are in the prime position to deliver on this. We acknowledge that some of our fuel cell competitors are years behind us, not even having produced an operational fuel cell stack or testing rig. There are some others that are marginally ahead and we will soon offer a good comparison on reliability, longevity and price. In the fuel cell industry you look at very simple features. What is the cost of a fuel cell per kilowatt? How long does it last and can it be applied very simply? At Ceramic Fuel Cells Limited we believe that we have a mature product that we can supply to manufacturers for the distributed energy market. We believe we will soon have the capacity to deliver these fuel cell systems, in quantity, at a fair price. We believe there are not many other companies in the world that could actually claim that today. We will be able to do this through our large fuel cell foundry in Europe that will make these products in significant volume. We believe we have an excellent future. While the company won't be making large profits in the near term, in the long term we have the potential to make significant volume of fuel cells for sought after products. After all, that's what our fuel cells were designed to do years ago, and that's how they've come out. Our business plan, management team, company structure and focus on product delivery to growing markets are all key criteria to securing long-term revenue for the company. Our long term future looks exceptionally promising. ■