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Ceramic Fuel Cells Limited
170 Browns Road
Noble Park, VIC 3174

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Record of interview:

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Ceramic Fuel Cells Limited has called an Extraordinary General Meeting for 1st February to approve a share placement to raise up to $85 million for your secondary raising on the Alternative Investment Market of the London Stock Exchange (AIM) listing. Can you give us an update on your progress?

CEO Brendan Dow
We worked on the listing over the Christmas and New Year period and last week our Chairman and I began a European roadshow with our joint brokers, Libertas Capital and Ambrian. We'll be presenting to potential European investors until early February. While we've still got a lot more work to do, we've been encouraged by the interest so far.

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Why are you raising such a large amount and how will you spend the funds?

CEO Brendan Dow
To generate satisfactory long term returns fuel cells have to be made in large volumes at a low unit cost, which is why we're planning to set up a fuel cell manufacturing plant in the large markets of Europe. The estimated cost of the plant is about A$90 million. We expect about A$41 million of the amount we raise will be spent on the manufacturing plant with the remainder funded by project finance and potentially some government subsidies.

The balance of the capital raised will be used to build on our commercialisation and technology development, construct a ceramic powder plant, invest in facilities at our current manufacturing plant, redeem the convertible notes issued in August 2005 and provide additional working capital.

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What's your time line to reaching volume production? Do you anticipate that the equity raised in this placement will be adequate to see you through to production?

CEO Brendan Dow
Our current timeline has us completing our planning for the foundry in 2006 and building and commissioning the plant during 2007 and 2008. We're planning for production to start in 2008 and to ramp up in the following year. Our intention is that the equity raised in this placement will take us through to early production, depending on the take up of orders and our current costings for the manufacturing plant.

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Why have you chosen to list on AIM? Are there any fuel cell companies currently listed on AIM?

CEO Brendan Dow
We believe that AIM is the most appropriate market for us to access UK and European capital at our stage of development. A recent article in the Australian Financial Review pointed out that there are now 39 Australian companies listed on AIM, with more to follow. The AIM market has provided good support to other 'clean technology' companies, including several fuel cell companies. They are all developing interesting technologies, mostly focussing on different applications from Ceramic Fuels' decentralised power and heat.

We believe that it's positive that AIM investors have supported these companies and therefore are already quite familiar with fuel cells. A London listing will give us a higher profile with European investors than if we were to remain listed only on ASX. We believe we'll benefit from being one of a vigorous group of fuel cell companies listed on AIM.

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Why have you opted for a placement instead of the rights issue foreshadowed at the Annual General Meeting and why announce the change on the eve of the Christmas holidays?

CEO Brendan Dow
Rather than the initially planned rights issue we've decided on the simpler structure of an institutional placement with the provision for existing shareholders to participate at the same price as the institutions. We believe a placement will raise funds more quickly than a rights issue and individual shareholders' investment will not be limited to their pro-rata entitlement.

We made the announcement as soon as the decision was made to expedite the fundraising and to give shareholders five weeks notice of the EGM on 1 February.

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Will Australian retail shareholders be disadvantaged in favour of large off-shore institutions by your change of strategy from a rights issue to a placement?

CEO Brendan Dow
No, we don't believe so. We're ensuring existing shareholders have a chance to participate in the placement. A placement rather than a rights issue means that an existing shareholders' investment is not limited to their pro-rata entitlement. They can invest more in the company and will be offered the same price as new investors.

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What will the placement price be and why is there a reference to a 20 percent discount in the EGM resolution?

CEO Brendan Dow
The price will be set in consultation with our brokers through a 'book build' process after the road show in Europe. The reference to a minimum of 80 percent of the average market price over the last five trading days prior to the issue is set out in the ASX Listing Rules as an alternative to setting a fixed price in the EGM resolution. This is a floor price and not the target issue price. In consultation with our advisors, we felt it was appropriate to set this floor price, rather than a fixed price before we had a chance to assess the level of interest from European institutions.

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When do you expect the placement to be completed?

CEO Brendan Dow
At this stage we plan to finish the book build and set the price in February and have the AIM listing completed in March 2006. We've already done a lot of the work needed for the listing, such as preparing our draft offer document, called an 'Admission Document' on the AIM, and commissioning a technical report, a patent report and various financial reports.

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What fees will you have to pay out of this money?

CEO Brendan Dow
We'll pay brokerage fees and fees to our other advisors. We'll be in a position to set out the total fees once the AIM admission document is finalised. Also, at the AGM in November 2005 the shareholders gave the Board authority to issue shares to a company associated with the Chairman, Julian Dinsdale in return for providing services related to the fundraising. The Board and Mr Dinsdale have agreed to extend some of the cut-off dates in this arrangement from 31 December 2005 to the end of February 2006, to reflect the revised fundraising timetable. The Board and Mr Dinsdale have also agreed to reduce the incentive fee from 1 percent to 0.5 percent of funds raised after 31 January 2006.

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Last August you issued convertible notes. Why are you planning to redeem these from the placement funds?

CEO Brendan Dow
The notes were a short-term means of providing 'bridging finance' to allow the Board some timing flexibility for this large secondary raising. The Notes were issued to a targeted group of professional and institutional investors as this was the most appropriate and efficient way of raising funds without the delay and costs of a more widespread offer at that time. Assuming we raise $85 million we'll repay those notes and reduce our interest expense. In the meantime, should those note holders elect to convert into shares we'll have additional funds available from the placement.

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Can you explain the strategy of building a European specialist ceramic powder plant?

CEO Brendan Dow
The strategy is to make our own consistently high quality ceramic powder more cheaply than buying it and to generate an additional revenue stream from excess production. We've developed a process for continuously producing high quality powder, which we believe can provide better quality and consistency at a lower cost. This is important because powder is a key input into our cells. Based on the work we've done with CSIRO, we believe this process can be scaled up from small laboratory tests to a pilot production plant.

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Your UK office has now been operating for 15 months. What has it achieved in that period? How are your business development activities going?

CEO Brendan Dow
Our UK office has become an important link to the UK and European markets. Our UK team was instrumental in securing the field trial contract and collaboration agreement with EWE in Germany. They've also been very active in our discussions with potential appliance manufacturers and planning the fuel cell manufacturing plant. Our UK office has effectively taken the lead on most of our business development activities which are mainly focused on Europe.

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What are your other operational goals for FY06?

CEO Brendan Dow
Our goals for FY06 include continuing to deliver fuel cell stacks in micro CHP systems and signing more field trial contracts, particularly in Europe.

We also aim to finalise contracts with application partners to incorporate our fuel cells into their appliances. We'll also be improving the design and performance of our fuel cell technology and systems and develop further income streams. At the

AGM in November 2005, I mentioned that we would work on ongoing technical improvements including power density, reliability and longer stack life.

We've identified a number of design, material and manufacturing process areas that can be improved within our technology and we'll look to incorporate these improvements into our future Net~Gen units and other applications.

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You generated operating revenue of $0.3 million in FY05. Can you provide revenue guidance for FY06?

CEO Brendan Dow
We expect to generate additional revenue in FY06, including from our field trial contracts, but we don't believe it would be responsible to provide any forecasts at this stage.

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Thank you Brendan

For further information on Ceramic Fuel Cells please visit www.cfcl.com.au or contact Andrew Neilson, Legal & Commercial Manager and Company Secretary, on +613 9554 2300 or andrewn@cfcl.com.au .

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