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CERAMIC FUEL CELLS LIMITED



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Ceramic Fuel Cells Limited recently announced that it passed a key milestone in commercial field trials of its fuel cell-powered combined heat and power (CHP) units with 10,000 hours of operation across the current programmes in Germany, Australia and New Zealand. Are the units performing as expected?

CEO Brendan Dow

All four prototype units being tested by Powerco in New Zealand, szencorp in Australia and EWE AG in Germany are performing as expected in the field, despite a fairly rigorous early testing regime. We're particularly pleased with the robustness of the units and how the balance of plant components have integrated together.

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What are the objectives of fuel cell trials?

CEO Brendan Dow

Remember that fuel cells are a new technology for the energy market with a lot of advantages over current ways of generating electricity. Fuel cells silently, efficiently and cleanly generate electricity and heat from mains natural gas. They can reduce carbon dioxide emissions by up to 60 percent compared with coal fired generation, and as part of a distributed generation network, can significantly reduce transmission losses.

As with any new technology, those who stand to gain the most from these advantages, in our case the energy companies, need empirical evidence of fuel cell performance which is why we're conducting field trials. Specifically, we want to prove the reliability of the systems, to validate the systems' controls and to establish the safety of these gas appliances to the energy utilities and other potential partners and customers.

As well as our overall system efficiency, the utilities are testing the stability and performance of the electricity our units export to the power grid which is one of their highest priorities. The utilities are validating their distributed generation control strategies and they need to be satisfied with the reliability of our units. We're also working with them to determine a financial, distribution and sales model to take CHP units to market, as well as the maintenance requirements of the units.

These four units will provide a lot of useful data. We'll also deploy further NetGentm units, that's the next step from the larger demonstration unit to a smaller, more commercial unit, with other partners during the course of 2006 to prove to them that our technology meets industry benchmarks.

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What additional milestones need to be passed in the current trials before your technology meets the commercial criteria set by the power utilities and when do you expect to achieve these milestones?

CEO Brendan Dow

We'll do further reliability testing at much higher levels of power export under more extreme grid conditions to help our partners understand how the units can be turned up and down to vary the power output. This is important to utilities as one of the benefits of distributed electricity generation is that they can control output to reflect changes in supply and demand. A large number of fuel cell units out in the field would help them balance their network, especially in Europe where a lot of variable wind power is coming on to the grid. Our timeline has us conducting field trials with our utility customers through to 2008.

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Are your competitors conducting similar CHP unit field trials? If so, how do your results compare?

CEO Brendan Dow

Field trials for fuel cell companies are not negotiable. All our customers, not just utilities, expect to trial new technologies before ordering them in large volumes. Field trials are a part of the commercialisation process for fuel cells, just like other new technologies.

The fuel cell market is divided into companies that are still in the development stage and those that are currently in field trials. Most fuel cell companies don't publish their field trial results so we can't compare them.

We made our first 1kW fuel cell stack two years ago. We've said for some time that we believe to make money out of fuel cells it's critical to be able to make cells in very large numbers at a very low unit cost. That's a huge jump from making one or two stacks. We believe our timeline to commission a manufacturing plant by the end of 2008 makes us the first to reach an advanced stage of preparing for volume manufacture.

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The Chairman told the AGM in November that your strategy is to become the supplier of choice of reliable and highly efficient solid oxygen fuel cells to manufacturers for integration into micro generation appliances for the European market. If your target market is the appliance manufacturers, why are you conducting field trials with power utilities?

CEO Brendan Dow

As the utilities will be providing access to their power grids for fuel cell generated electricity they need to validate the power, efficiency, carbon emission reduction and cost of the technology.

The appliance manufacturers have a potentially lucrative opportunity to enter a fast growing, emerging micro-CHP market. To seize that opportunity quickly, we plan to team with appliance manufacturers to show that our technology meets the utilities' minimum requirements. We need to validate the technology with the utilities first and then work with the appliance manufacturers. To put it another way, the utilities are the 'demand' side of the equation and the appliance companies are the 'supply' side.

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You said in the Prospectus for the February placement to shareholders that you expect to derive a significant portion of future revenues from agreements with appliance manufacturers. What progress have you made in finding appliance partners and will further field trials with those appliance partners be necessary?

CEO Brendan Dow

We're currently in discussions with several European manufacturers on the early stages of integrating our fuel cells with their appliances. One of our strategic goals is to announce product development and cooperation agreements later this year. After that we'll look to commence appliance trials in early 2007.

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You exhibited your Net-Gen™ power generation unit at the Hanover Trade Fair in Germany recently. What response did you have at the exhibition?

CEO Brendan Dow

We had a great response from Europe, because the Europeans are very familiar with fuel cell technology and Hanover gave prospective partners an opportunity to compare our technology with what's available in the European market.

What surprised us was the level of interest from outside Europe. Potential partners from Japan and Korea, as well as India and Taiwan, were very keen to learn more

about our fuel cell technology. While the technology is new to them, the exhibition enabled them to recognise that we are among the global leaders in fuel cell micro CHP units.

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The establishment of a commercial scale ceramic powder plant was identified by the Chairman at the AGM as one of your goals in FY06. What progress have you made towards establishing the plant?

CEO Brendan Dow

We've made good progress with our 20 tonne powder manufacturing plant. We have a full demonstration system for zirconia based powders and cathode powders up and running in Melbourne. We've engaged Sinclair Knight Merz (SKM) as the engineering consultants on the project and we're identifying suitable sites now. We're also in the process of recruiting key staff and tendering for critical components. We plan to start construction within the next couple of months.

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The Chairman at the AGM in November said that the alliance with US-based Precision Flow Technologies to make solid oxide fuel cell test equipment using your intellectual property and expertise will deliver "a mix of up-front payments and ongoing revenue streams in the 2005/06 year". Have these revenue streams commenced and how significant do you anticipate these revenues will be in FY06 and FY07?

CEO Brendan Dow

Revenues have commenced with Precision Flow which is actively promoting our alliance within the fuel cell industry, particularly in the US. Although the initial revenue is modest, we expect testing revenues to continue to grow over the next two to three years as more fuel cell developers realise their testing services capability is under resourced.

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In an Open Briefing in January you said that your timeline for your high volume fuel cell foundry is to complete planning in 2006, building and commissioning during 2007 and for production to start in 2008. How is the planning process progressing?

CEO Brendan Dow

Detailed planning is well underway to build on the significant amount of work already done with SKM as the project consultants. We're also identifying the most suitable location and laying the groundwork for financing options. We'll be rigorously updating our project plans and costings before committing to such an important project. We expect to finalise the location over the next few months.

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Your shares were listed on the London Stock Exchange's AIM Market in March with an \$87.4 million placement that enlarged your capital by 61 percent. How has your shareholder profile changed following the placement in Europe and have your road shows and listing given rise to any commercial opportunities?

CEO Brendan Dow

The shareholder profile has certainly changed and the liquidity of our shares has increased. Institutional interest in the UK and mainland Europe has been strong, with two institutions, Aegon and Credit Suisse, acquiring substantial holdings of more than 5 percent each.

Our roadshows have led to a number of significant commercial opportunities in Europe, particularly for agreements to purchase fuel cells from our planned foundry. Also, a number of investors are specifically interested in investing directly in the fuel cell foundry.

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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 2822 or andrewn@cfcl.com.au .

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