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CERAMIC FUEL CELLS LIMITED



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Ceramic Fuel Cells Limited
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Ceramic Fuel Cells Limited is planning the construction of a plant in the UK to produce ceramic powders. Given that your focus is on commercialising your micro-power generating technology, why are you building a powder plant?

CEO Brendan Dow

The ceramic powder, a zirconia powder, is the key to the performance of our solid oxide fuel cells. The quality of the ceramic powder affects the electricity generating capacity of the fuel cell and its life. Stack life is dependent on using consistent quality powder to the correct specification. We believe this is critical to fuel cells meeting commercial power density and stack life requirements.

We've developed our own methods of making ceramic powders to give us a day to day continuous stream of identical quality powder compared with the variable quality of the batch processing that is typical of the ceramics industry.

The key strategic reason for producing our own raw material is to mitigate the supply chain risk for a very specific material requirement which is very important to us. A secondary benefit is that it allows us to produce our fuel cells at a lower cost.

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You have a patented powder production process developed with the support of the CSIRO. What features of your process are unique?

CEO Brendan Dow

The specific patent, which was granted in May this year, covers the reactor that allows us to control the characteristics of the powder at a molecular level. This means that we can target the end specification of the product at the very start. With the batch processed powder we currently purchase we have to add various components to achieve our end product.

Our reactor also gives us the flexibility to make different types of powders. We've been making cathode powders in Melbourne using this technology for about four years and we recently commissioned our demonstration system to make zirconia powders.

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Zirconia powder for ceramic fuel cells will be the main product. What other types of powders will you make?

CEO Brendan Dow

Zirconia has a broad range of consumer and industrial applications depending on its final characteristics. We can make anything from a very basic powder through to complex types of zirconia based powders. It's a flexible process that can make cathode powders and could also enable us to make other powders, such as titania and magnesia based powders under partnerships or licences in the future.

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You suggested in your May presentation that the plant could be located in the north of England. Have you finalised the location and why have you chosen that site?

CEO Brendan Dow

We're currently finalising the location of the powder plant. We're interested in a site in the north of England where there's a cluster of both chemical and ceramics industries which would provide access to the appropriate skills required for the transfer of our technology.

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What will be the logistics of raw material supply and powder delivery to market?

CEO Brendan Dow

The material that we use to produce our chemical zirconia is a mineral salt produced in China from zircon sand from around the world. We'll import the mineral salts from China into the UK and mix them with water to create the solutions that we need. The finished powder that we'll supply to our fuel cell manufacturing plant will be high in value so the relative cost of transport is very low which gives us flexibility in the choice of location for the fuel cell plant.

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What will be the cost of the powder plant, are you on budget and how will you finance it?

CEO Brendan Dow

We're on budget to invest around A\$6 million (£2.4 million) in the plant, financed from our cash resources. We had net cash of A\$86 million (£34.4 million) at 30th June.

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As your technology was developed in Australia, will you be relocating staff from Australia? Who will manage the plant and what experience will management have?

CEO Brendan Dow

While we'll temporarily locate some of our highly skilled technicians from Melbourne, as we will with the fuel cell foundry, we'll hire the vast majority of staff locally. The most senior person we've recruited recently is our Manager of Capital Projects, Mike Atkinson, who's responsible for delivering the powder project this year and then the fuel cell factory in 2007 and 2008. Mike's a chemical engineer with a background in project management. He was the project manager for the Johnson Matthey fuel cell plant in the UK that was established several years ago, so he's very experienced in fuel cells, as well as delivering these sorts of projects. The other manager who's recently joined us in the UK is Simon Howard, our Powder Manufacturing Engineer who has about 17 years experience in engineering and technology roles in ceramics manufacturing.

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What are the market dynamics for ceramic powders?

CEO Brendan Dow

The market for advanced ceramic powder is thousands of tonnes per year and is characterised by highly specific customer requirements which makes it a very valuable commodity. Our pilot plant is designed for a total capacity of 20 tonnes per year. The advantage of our process is that it gives us the flexibility to meet very specific requirements. Prices can vary from about US\$70 up to about US\$200 per kilo depending on the specifications and volume required by the customer.

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Is the project viable on a stand alone basis? When do you anticipate commencing production?

CEO Brendan Dow

Our primary strategic reason for producing our own powders is to mitigate the risk of relying on existing powder supplies by producing our own consistently high quality at low cost. The plant makes strategic sense, for that reason alone we'll look to generate additional revenue once we scale up the process. When the plant is commissioned and operating at or near capacity it will be viable on its own. Our process is very efficient and we believe we can make powder at attractive margins. We'll be commencing production from about April 2007.

CEO Brendan Dow

Will building and commissioning the powder plant distract you from your primary objective of commercialising your fuel cells?

CEO Brendan Dow

No. Firstly, the powder plant is part of our fuel cell commercialisation process anyway and secondly, the two projects are on different time lines. The powder plant is past planning and is now in the implementation stage. We're sourcing the equipment over the next two months for installation at the end of December or early January. The fuel cell foundry is now in detailed planning with construction scheduled to start next year for commissioning in 2008.

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Do other fuel cell companies make their own powders?

CEO Brendan Dow

No, we don't believe so. There are other solid oxide fuel cell companies at a similar advanced stage of commercialisation which we believe have the same challenges with their raw materials. Being a new industry, the opportunities to develop strategic relationships and supply arrangements are vast. We're dealing with a number of enquiries about co-operating or entering into powder arrangements with other companies in the fuel cell market. They're not competing with us because we're focusing on different segments of the large market for solid oxide fuel cells.

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You expect to outsource components for the fuel cells to be manufactured in Europe. Have you chosen your suppliers yet?

CEO Brendan Dow

Potential vendors from all round the world are visiting us to understand our processes and to help us scale up production in Europe. We're testing the processes that we've selected for the European fuel cell plant in our Melbourne plant to prove that they are robust and that the inputs can be produced to the correct specifications on commercially available equipment.

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You've indicated that you would be looking at opportunities to win government subsidies to help finance your European fuel cell factory and you have been researching locations for the plant during 2006. What progress have you made?

CEO Brendan Dow

We strongly believe that we can access European government funding. We've done initial due diligence on several locations and we're negotiating with our short listed candidates to secure the best deal. We expect a result in the next few months.

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What is your funding strategy for the fuel cell factory?

CEO Brendan Dow

Our preference is to use a mixture of debt and equity, if the terms are right. The financing structure depends on a range of variables, such as the choice of location, the size of the plant and whether we buy land and build a plant or use an existing building. We're in discussions with potential lenders in mainland Europe and the UK and when we finalise the location, we'll determine the best funding structure.

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You will be selling the fuel cells to appliance manufacturers for incorporation into their products. Have you established any partnerships with appliance manufacturers yet?

CEO Brendan Dow

Yes, we've established relationships with preferred partners who'll deliver the appliances to various markets and we expect to make some relevant announcements over the next couple of months.

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Electrical appliance specifications vary from country to country. Will you be able to produce a universal ceramic fuel cell?

CEO Brendan Dow

Yes, the same fuel cell will go into all geographic markets for the same end product, such as a micro-CHP unit. Our fuel cells produce DC electricity which the appliance companies modify by changing the frequency and voltage to suit the local specifications. For other future products, like auxiliary power units for trucks, we would tweak the specifications of the stack to meet the customer's requirements, but the basic cell building blocks should be the same.

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What technical hurdles have to be overcome before your fuel cell has the performance characteristics acceptable to the energy utilities?

CEO Brendan Dow

Power density and stack life are the two primary drivers for our current product development. We're flat out working on improving power density and we expect to announce our progress over the next six months. If we can make today's one kilowatt fuel cell stack produce 1.5 or 2 kilowatts with the same raw material, energy and labour, then we can dramatically increase revenue for the same cost. If the fuel cell stack produces the same amount of power at a higher power density it can also last a lot longer.

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In addition to the initial two demonstration CHP units, you are supplying German energy utility, EWE, with ten NetGen™ units for further field trials as part of a collaborative project to develop commercial-ready m-CHP products for the European market. What is the significance of this large order?

CEO Brendan Dow

Our relationship with EWE is very strong and this order is powerful evidence of the progress that we've made over the last 12 months. If we hadn't been able to show EWE complete CHP systems, with fuel cell stacks and "Conformité Européene" (CE) approval, working in real world conditions in their buildings, then we wouldn't have an order for another ten and we wouldn't have a collaborative agreement to jointly develop commercial CHP units.

The significance of the EWE orders and its commitment is that the NetGen™ units will be deployed in Germany which we believe is the most 'market ready', of all the fuel cell opportunities in Europe. All the supporting factors are in place in Germany; there's government support, access to research institutes that specialise in fuel cells and fuel cell materials and skills clusters that are important to the deployment of fuel cells and micro CHP. Importantly, the utilities are ready, particularly EWE, as it has a strategic commitment to develop distributed generation solutions.

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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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