



24 July 2007

## CERAMIC FUEL CELLS LIMITED

### TRADING UPDATE FOR QUARTER ENDED 30 JUNE 2007

Ceramic Fuel Cells Limited (“CFCL” or the “Company”), a leading developer of solid oxide fuel cells for micro-combined heat and power (m-CHP) units, today announces its trading update and cashflow statement for the fourth quarter ended 30 June 2007. In a separate announcement today CFCL, Nuon NV (Nuon), Holland’s leading generator and distributor of electricity, gas and heat and De Dietrich-Remeha Group, represented by Remeha BV (Remeha), announce that they have formed a collaboration to jointly develop a fully integrated m-CHP unit for the residential market across The Netherlands and Belgium.

Since the beginning of CFCL’s financial year, the Company has now completed all its partnering objectives in Europe. The Company has secured four agreements with major utilities and boiler manufacturers in the largest and most advanced economies of Benelux, France, Germany and the UK, giving access to more than 20 million customers across Europe. CFCL is now developing m-CHP products with its launch partners as the next key stage towards commercialisation.

#### Highlights of the quarter:

- Continued to make good progress on the product development projects in Germany and France.
- Continued to upgrade manufacturing equipment in Melbourne.
- Site works and equipment installation at the powder plant in Merseyside, UK.
- Hired local staff to establish the project office for the manufacturing facility in Heinsberg, Germany.
- Net operating cash outflow of A\$4.1 million / £1.6 million (Q3: A\$3.3 million / £1.3 million).
- Total cash and financial assets at 30 June 2007 of A\$60.3 million / £24.1 million.

#### Since the quarter end:

- Signed a product development agreement with E.ON UK for the United Kingdom residential market.
- Signed a product development agreement with Nuon NV, Remeha Group BV and De Dietrich Thermique for the Benelux residential market.

Brendan Dow, Managing Director of Ceramic Fuel Cells, said:

*“This last financial year has been a period of significant progress for CFCL, with the recent UK and Benelux partnerships completing our stated strategy of securing four EU launch partners and giving us access to the largest and most advanced markets across Europe. Product development with our French and German partners is progressing well, validating our strategy of working together with utilities and appliance partners. We will be announcing further milestones in product development as we move towards commercialization. We are also beginning to scale up our manufacturing capabilities to meet the timetable.”*

*“We remain focused on successfully commercializing the mCHP unit, and are confident that we remain ahead of the curve in our development initiatives.”*

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**CERAMIC FUEL CELLS LIMITED** provides the opportunity to listen to an audio broadcast with **Mr Brendan Dow and Boardroomradio** in a presentation titled "**Benelux Agreement and Quarterly Update**".

*To listen, simply click on the link below:*

<http://www.brr.com.au/event/CFU/46/25670/wmp/ui8p8997rt>

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**About CFCL**

Ceramic Fuel Cells Limited is a leading developer of 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 listed on the London Stock Exchange AIM market and the Australian Stock Exchange (code CFU).

[www.cfcl.com.au](http://www.cfcl.com.au)

## **Financial Review**

Net operating cash outflow for the fourth quarter was A\$4.1 million, which was higher than the previous quarter, due to higher expenditure on product development and staff costs. The Company shipped one additional product development unit during the quarter, which resulted in higher receipts from customers than prior quarters. Receipts from customers for the full year were A\$270,000. Further product development units will be shipped during the second half of the calendar year.

The net operating cash outflow for the full year was A\$15.3 million, which was higher than FY06 (A\$12.2 million) and similar to FY05 (A\$15.2 million).

As expected, capital expenditure was higher in the quarter as the Company upgraded its Melbourne plant and commissions its UK powder plant. Capital expenditure was A\$2.3 million for the fourth quarter, up from A\$2.2 million for the third quarter. Capital expenditure for the full year was A\$7.4 million. The Company expects capital expenditure to continue to increase in the coming financial year as the Company completes the UK powder plant and continues work on the fuel cell plant in Heinsberg, Germany.

Total cash and financial assets at the end of the quarter was A\$60.3 million.

## **Operational Review**

### ***Product development agreements for Germany and France***

The Company continues to make progress on the product development projects with Gaz de France and De Dietrich Thermique (in France) and with EWE and Bruns (in Germany).

The first stage in each project is to design and operate an 'Alpha' unit, whereby a CFCL NetGen unit, a high efficiency condensing boiler and a thermal store (water tank) will be connected and operated via a single control unit. Work on this stage has begun in each project and is expected to be completed in 2007.

The Company will provide further updates on progress later in the year.

### ***Product development agreement with E.ON for the UK***

In early July the Company signed a product development agreement with E.ON UK, the company that runs Powergen, to develop and deploy a prototype fuel cell m-CHP unit in the UK.

The project will follow similar stages to the German and French projects. CFCL will announce its appliance partner for the project in due course. CFCL will supply a NetGen+ unit for operation with a supplementary boiler and a specially designed thermal store to produce an 'Alpha' prototype which will subsequently be deployed in a field trial. The current project schedule is for the NetGen+ unit to be delivered by December 2007 and the Alpha unit to be developed in Q2 2008.

The partners have agreed to discuss further co-operation in the subsequent development and deployment of 'Beta' CHP units (comprising CFCL's fuel cell module fully integrated with a condensing boiler) as well as commercial targets for fuel cell m-CHP units for the UK residential market.

E.ON UK is the UK's largest integrated power and gas company – generating and distributing electricity, and retailing electricity and gas for around 8.5 million electricity and gas customer accounts. E.ON UK is part of the E.ON group, the world's largest investor-owned power and gas company. E.ON UK employs around 16,000 people in the UK.

### ***Product development agreement with Nuon for Benelux***

In July the Company also signed a product development agreement with Nuon NV, Holland's leading generator and distributor of electricity, gas and heat, Remeha Group BV and De Dietrich Thermique, to jointly develop a fully integrated m-CHP unit for the residential market across The Netherlands and Belgium.

With operations in The Netherlands, Belgium and Germany, Nuon is one of the leading innovative energy companies in Europe, with a stated commitment to efficient and renewable power generation. Remeha Group BV is one of the largest boiler manufacturers in Europe. The Remeha group of companies includes De Dietrich Thermique, France's leading heating appliance company, with whom CFCL already collaborates via its partnership with Gaz de France. The product development project for Benelux will build on this existing collaboration.

CFCL, Nuon, Remeha and De Dietrich will jointly develop 1kW m-CHP units to meet specifications for homes in The Netherlands and Belgium. The first stage of the project is to deploy an 'Alpha' unit, which is expected to occur in the first half of 2008. Nuon will then test the system for efficiency, reliability and integration. Based on the results of this stage, the partners will then proceed to the second stage - creation of a near-commercial 'Beta' unit, comprising a single physical unit in which a CFCL fuel cell module is fully integrated with a De Dietrich boiler.

The parties have also agreed to define price and performance targets for commercial m-CHP units and, if the project proceeds successfully, to place agreed volume orders for commercial units. On the basis of these volume order targets Nuon will be CFCL's exclusive utility partner in the Benelux region.

### ***Fuel Cell Plant***

The Company is continuing its progress on the fuel cell manufacturing facility planned for the Oberbruch industrial park in Heinsberg, Germany. During the quarter the owner and manager of the site, Nuon, continued to undertake site works on the building leased by CFCL. These site works are scheduled to finish during the September quarter. CFCL project works are expected to start towards the end of 2007. Nuon are also assisting CFCL in the process of obtaining environmental and planning consents, which are also scheduled to be completed in the September quarter.

During the quarter the Company hired three local project management staff based at the Heinsberg site. The Company is continuing to finalise its project plans, including the scale up of the plant and the project timing and cost. The Company will update shareholders on progress in the second half of the year.

### ***Powder plant***

During the quarter the Company and its installation contractor continued work on the ceramic powder plant in Bromborough, Merseyside, UK, including site works and equipment installation. The plant is scheduled to be operational during October 2007.

### ***Melbourne facility***

As announced in the previous quarter, the Company continued to upgrade its manufacturing plant at Noble Park, Melbourne, to make the new metal-ceramic fuel cells and balance of plant components. The equipment and processes upgraded during the June quarter included a new semi-continuous furnace, laser cutting and measurement equipment, ultrasonic washing equipment for metal stack parts and a robot cell assembly system.

### ***Cell and Stack Manufacturing***

During the quarter the Company continued to manufacture metal-ceramic stacks at its upgraded facilities in Melbourne. The Company continues to make technical improvements in degradation and durability which are the key metrics for commercial fuel cells.

Gennex™ fuel cell modules, comprising metal-ceramic stacks and new balance of plant components, will be integrated into NetGen units for delivery in 2007. In the meantime the Company is continuing to utilise its 'Gen4' all-ceramic stacks in its existing field trial units.

**ENDS**

# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

**CERAMIC FUEL CELLS LIMITED**

ABN

**82 055 736 671**

Quarter ended ("current quarter")

**30 JUNE 2007**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	123	270
1.2 Payments for		
(a) staff costs <sup>1</sup>	(2,670)	(9,906)
(b) advertising and marketing <sup>2</sup>	(534)	(1,280)
(c) research and product development <sup>3</sup>	(1,661)	(5,068)
(d) leased assets	-	-
(e) other working capital	(276)	(3,934)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	707	3,677
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other		
- Net GST Received/(Paid)	169	890
- Export Market Development Grant received	-	-
- Sundry income received	-	5
<b>Net operating cash flows</b>	<b>(4,142)</b>	<b>(15,346)</b>

#### Notes

1. 'Staff costs' includes all company labour and associated headcount costs, and therefore incorporates all Research & Product Development (R&PD) staff, Sales & Marketing (S&M) staff and General & Administrative (G&A) staff.
2. 'Advertising and marketing' excludes all S&M staff costs (as per note 1 above).
3. 'Research and product development' costs includes all R&PD costs as defined in Note 1(e) to the Financial Statements for the year ended 30 June 2006, but excludes all R&PD staff costs (as per note 1 above).

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

		Current quarter \$A'000	Year to date (12 months) \$A'000
1.8	Net operating cash flows (carried forward)	(4,142)	(15,346)
<b>Cash flows related to investing activities</b>			
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(2,312)	(7,489)
	(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	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other	-	-
	<b>Net investing cash flows</b>	<b>(2,312)</b>	<b>(7,489)</b>
<b>1.14</b>	<b>Total operating and investing cash flows</b>	<b>(6,454)</b>	<b>(22,835)</b>
<b>Cash flows related to financing activities</b>			
1.15	Proceeds from issues of shares, options, etc.	-	-
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Other - Financial assets: Net proceeds/(Net payments) <sup>1</sup>	6,913	15,666
	Other - Share issue costs	-	(31)
	<b>Net financing cash flows</b>	<b>6,913</b>	<b>15,635</b>
	<b>Net increase (decrease) in cash held</b>	<b>459</b>	<b>(7,200)</b>
1.21	Cash at beginning of quarter/year to date	3,259	11,367
1.22	Exchange rate adjustments on foreign currency cash balances	(60)	(509)
1.23	<b>Cash at end of quarter</b>	<b>3,658</b>	<b>3,658</b>
	Funds held in Financial Assets	56,709	56,709
	<b>Total Cash and Financial Assets</b>	<b>60,367</b>	<b>60,367</b>

1. The net proceeds/(payments) from the disposal and purchase of the company's investments are at item 1.20.

**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	91
1.25	Aggregate amount of loans to the parties included in item 1.11	-
1.26	Explanation necessary for an understanding of the transactions	
	Directors' fees.	

**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

NIL
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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
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**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	3,484	3,075
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other		
- Security deposits	174	184
<b>Total: cash at end of quarter (item 1.23)</b>	<b>3,658</b>	<b>3,259</b>
Financial Assets	56,709	64,836
<b>Total Cash and Financial Assets at end of quarter</b>	<b>60,367</b>	<b>68,095</b>

### Acquisitions and disposals of business entities

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i>
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: 19 July 2007

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.