



24 April 2008

Quarterly Cash Flow Report and Trading Update

Ceramic Fuel Cells Limited, (AIM / ASX: CFU) a leading global fuel cell developer, has released its cash flow report for the third quarter, ended 31 March 2008. The report is available on the company's website: www.cfcl.com.au and also as set out below.

Financial Review

Net operating cash outflow for the third quarter was A\$3.6 million (£1.7 million), which was A\$1 million (£0.4 million) lower than the previous quarter. Net operating cash outflow for the three quarters from 1 July 2007 to 31 March 2008 was A\$12.9 million (£6.0 million), an average of A\$4.3 million (£2.0 million) per quarter. Third quarter expenditure on Research and Product Development was lower than the prior quarter.

Total cash and financial assets at the end of the quarter was A\$39.2 million (£18.4 million).

Operational Review

Product development

The Company continues to make good progress on the micro combined and heat (m-CHP) product development projects with its utility customers and appliance partners in five key markets. All of the Company's European appliance partners have now received NetGenPlus™ units.

The status of the projects is described below:

Germany

The Company has shipped five units to its partners EWE and Bruns Heiztechnik in Germany. During 2007 one NetGen™ unit was installed at Bruns' facility, and another one at EWE's premises. From January 2008, one NetGenPlus™ unit has been installed at Bruns' facilities and integrated with a Bruns boiler. Two NetGenPlus™ units are also being installed at EWE. The semi-integrated mCHP unit comprising a NetGenPlus™ unit and a Bruns' boiler is scheduled to be operational in the current quarter. Work has also begun on developing components for a fully-integrated mCHP unit. Two CFCL engineers are based in Oldenburg, Germany, working full time with EWE and Bruns.

France

The Company continues to make progress in its exclusive collaboration with Gaz de France, the largest gas utility in Europe, and De Dietrich Thermique, a leading French boiler manufacturer. In January 2008 the Company shipped a NetGenPlus™ unit to De Dietrich Thermique. This unit is now installed at De Dietrich Thermique's facility in Strasbourg and has been integrated with a De Dietrich Thermique boiler. Two CFCL engineers are based in Strasbourg working full time with De Dietrich Thermique.

United Kingdom

The Company's project with its UK partners E.On UK and Gledhill Water Storage Ltd is also progressing well. In January 2008 the Company shipped a NetGenPlus™ unit to Gledhill. This unit is now installed at Gledhill's product development facilities in Blackpool. A semi-integrated mCHP unit is scheduled to be operational in the current quarter. One CFCL engineer is based in the UK working full time with Gledhill.

Holland

The Company's partners in the Benelux markets are Nuon and the Remeha Group. CFCL's French partner De Dietrich Thermique is part of the Remeha Group and will also be developing products for the Benelux markets. During the quarter the partners developed the detailed specifications and project plan for the semi-integrated unit, which is scheduled to be operational in the current quarter. During the quarter the Company also announced a volume order from Nuon, described below.

Japan

In January 2008 the Company further extended its target markets by signing an agreement with Paloma Industries Ltd to evaluate and develop m-CHP products for the Japanese market. CFCL will supply Paloma with a NetGenPlus™ unit for Paloma to operate at its site in Japan. The project is on schedule for the unit to be delivered in mid 2008.

Japan is the largest market in the world for fuel cell m-CHP units. The Paloma Group services more than 10 million homes in Japan, and has significant manufacturing and sales operations across Asia, Oceania and the Americas. Paloma owns the Rheem, Solahart and Raypak brands and is the largest hot water manufacturer in the United States.

Volume Order

In February the Company announced that it has received a volume order from Nuon, the Company's utility partner in Holland. CFCL and Nuon have agreed on a set of performance targets for a commercial unit. On CFCL's achievement of these targets, Nuon will order 50,000 fuel cell systems, to be delivered over a five year period from the completion of CFCL's volume manufacturing plant, scheduled for June 2009. Delivery of the units is expected to start in the second half of 2009 and ramp up from 2010. CFCL will supply fuel cell modules to its appliance partner the Remeha Group, which will integrate the modules into complete mCHP units for on-sale to Nuon. The order is a significant commercial milestone with the potential to generate substantial revenue for the Company over the five years.

Volume Manufacturing

Supply Chain Partners

During the quarter the Company signed Co-operation and Supply agreements with leading advanced ceramics manufacturers, CeramTec AG and H.C. Starck, both based in Germany. These partnerships combine CFCL's expertise in solid oxide fuel cells with CeramTec and H.C. Starck's manufacturing capabilities and expertise, securing the Company's supply chain for mass manufacture of high quality fuel cells at commercially viable unit costs.

Under the agreements, CFCL will collaborate with CeramTec and H.C. Starck to produce advanced solid oxide fuel cell components and to continually improve cell performance and manufacturing processes and reduce unit costs. Once optimised, CeramTec and H.C. Starck will supply fuel cells to CFCL at pre-agreed prices until December 2011, securing long term cost visibility for CFCL. Supply of the fuel cells is expected to commence in the second half of 2008, with increases in forecast volumes from 2009.

German Plant

In February 2008 the Company announced that it is investing €12.4 million in the construction of a manufacturing plant in Heinsberg, Germany for the commercial production of its fuel cell systems. CFCL will assemble its fuel cell systems at its Heinsberg facility in automated and semi-automated production lines in a staged scale-up operation. Initial capacity will be 10,000 units per year. The plant has been designed to allow an increase in capacity of up to 160,000 units per year within the existing building. The plant is expected to be making fuel cell stacks from June 2009.

During the quarter the Company formally engaged CEL International Ltd as 'EPCM' contractors to manage the project. CEL had previously assisted the Company to finalise the equipment specifications and plant design, and formulate the project plan and costings. CEL works on approximately £250M capital value of projects per year and has significant experience in successfully managing capital works projects in the chemicals industry, including fuel cell manufacturing plants.

The project is on time and on budget.

Australia Manufacturing

During the quarter the Company continued to manufacture metal-ceramic stacks at its upgraded facilities in Melbourne. CFCL's Gennex™ fuel cell modules, comprising metal-ceramic stacks and new balance of plant components, are being integrated into NetGenPlus units for product development partners.

UK Powder Plant

During the quarter the Company produced zirconia powder from its high quality ceramic powder plant in Bromborough, Merseyside, UK. The Company will use this powder for its internal use as well as for potential sales to external customers. During the quarter the Company supplied powder samples to several potential customers, including CeramTec, one of the Company's fuel cell component suppliers. The Company believes the plant is capable of making a range of high quality powders for several large and growing markets, including the markets for bio-medical applications, thermal barrier coatings and catalyst support materials. The Company also believes that in the medium term the plant and the associated intellectual property can provide a range of options to maximise shareholder value.

During the quarter the Company hosted an Open Day for analysts at the Bromborough plant. Copies of the presentations are available at http://www.cfcl.com.au/Recent_announcements.

Technical

During the quarter the Company released its latest technical data showing results of a fuel cell stack running on natural gas. The stack produced approximately 1.1kW at an electrical efficiency of 53% and a degradation rate of 1.52% per 1000 hours.

The Company also announced that advances in power density have enabled the Company to increase the nominal output from each of its fuel cell stacks to 2kW of electricity at minimal additional balance of plant cost. This significantly reduces the unit's cost per kW and increases the unit's CO₂ savings.

The Company continues to make technical improvements in degradation and durability which are the key metrics for commercial fuel cells.

Patents

From January 2008 the Company has been granted five further patents.

In February 2008 a patent was granted for a coating to protect steel used in fuel cell stacks from corrosion. This can improve the fuel cell stack electrical efficiency and lifetime. CFCL has already been granted patents on the invention in Europe, USA, Australia and New Zealand. A patent has now been granted in Canada, with a patent application also pending in Japan.

Another patent was also granted in February, for a process of using hydrogen to remove sulphur from fuel. This can allow fuel cells to use many types of fuels, including gasoline, diesel, kerosene, LPG and natural gas, and substantially broaden the markets where CFCL's fuel cell systems may be readily deployed. The patent has been granted in Australia, with patent applications pending in Europe, USA, Japan and Canada.

An Australian patent was granted for a feedthrough technology used to allow yttria-stabilized zirconia plates to be used as interconnectors in fuel cell stacks. Patent applications are also pending in Europe, USA and Japan. Another Australian patent was granted for a fuel cell sealing arrangement, with applications pending in Europe and Japan.

Finally the Company has been granted a patent in Europe for the use of copper based alloys for use as interconnectors in SOFC stacks. The patent is in force in Australia and the USA, and applications are in progress in Canada and Japan.

ENDS

Managing Director Mr Brendan Dow discusses the quarterly review in a webcast interview on [Boardroomradio](#) – [click here](#) or go to www.brr.com.au/cfu.

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About CFCL

Ceramic Fuel Cells Limited is a world leader in developing solid oxide fuel cell (SOFC) technology to provide reliable, highly efficient and low-emission electricity from widely available natural gas and renewable fuels. CFCL is developing SOFC products for micro combined heat and power (m-CHP) and distributed generation units that generate electricity and heat for homes.

CFCL is developing m-CHP products with leading appliance partners and utility customers in Germany, France, the United Kingdom, Holland, and Japan. CFCL is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU). www.cfcl.com.au

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")

31 MARCH 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from customers	296	338
1.2 Payments for		
(a) staff costs ¹	(2,491)	(7,814)
(b) advertising and marketing ²	(352)	(782)
(c) research and product development ³	(1,913)	(4,924)
(d) leased assets	-	-
(e) other working capital	(308)	(2,744)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	912	2,183
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other		
- Net GST Received/(Paid)	169	780
- Export Market Development Grant received	-	-
- Sundry income received	16	17
Net operating cash flows	(3,671)	(12,946)

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 2007, 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 (9 months) \$A'000
1.8	Net operating cash flows (carried forward)	(3,671)	(12,946)
Cash flows related to investing activities			
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(1,834)	(5,550)
	(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 – Security deposits decreased (increased)	(93)	(92)
	Net investing cash flows	(1,927)	(5,642)
1.14	Total operating and investing cash flows	(5,598)	(18,588)
Cash flows related to financing activities			
1.15	Proceeds from issues of shares, options, etc.	-	2
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) ¹	7,071	18,286
	Other - Share issue costs	-	-
	Net financing cash flows	7,071	18,288
	Net increase (decrease) in cash held	1,473	(300)
1.21	Cash at beginning of quarter/year to date	1,627	3,658
	Reclassification of security deposits ²		(174)
1.22	Exchange rate adjustments on foreign currency cash balances	(2)	(86)
1.23	Cash at end of quarter	3,098	3,098
	Funds held in Financial Assets	36,191	36,191
	Total Cash and Financial Assets	39,289	39,289

1. The net proceeds from/(payments for) the disposal and purchase of the company's investments are at item 1.20.
2. Under AIFRS cash deposits held as security do not meet the definition of cash and cash equivalents.

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	97
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

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

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	3,098	1,627
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other	-	-
Total: cash at end of quarter (item 1.23)	3,098	1,627
Financial Assets	36,191	45,440
Total Cash and Financial Assets at end of quarter	39,289	47,067

1. Under AIFRS cash deposits held as security do not meet the definition of cash and cash equivalents.

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

- 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.
- This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 24 April 2008

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.