



23 July 2008

Ceramic Fuel Cells Limited ("CFCL" or "the Company")

Business Update and Quarterly Cash Flow Report

Ceramic Fuel Cells Limited, (AIM / ASX: CFU) a leading developer of high efficiency and low emission microgeneration products for homes, today provides a business update together with its quarterly cash flow report for the period ended 30 June 2008.

Operational Review

Product development

The Company continues to make good progress with its product development projects in its five key markets. All of the Company's European appliance partners have now received NetGenPlus™ units for integration with high efficiency boilers to create new micro combined heat and power (mCHP) units for homes.

Leading Dutch energy company Nuon has placed an order for 50,000 mCHP units, on the achievement of agreed performance targets. These targets encompass physical weight and size, power and heat output, efficiency, lifetime, CO₂ savings and selling price of the mCHP unit. The Company has made strong progress toward meeting key technical targets with recently announced advances in fuel cell stack efficiency and lifetime.

Since the start of the year the Company has installed five NetGenPlus™ units with its utility and appliance partners, in Germany, France and the United Kingdom. These NetGenPlus units are being tested and operated in real world conditions, connected to existing natural gas, water and telecommunications lines and the local electricity grids.

The Company also plans to ship a NetGenPlus unit in August to its Japanese partner Paloma.

CFCL is now designing and developing fully integrated mCHP units with its appliance partners. The Company expects to complete its first fully integrated units by the end of the year, before deploying larger numbers of units during 2009.

Manufacturing

In February 2008, CFCL 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. The plant will have an initial capacity of 10,000 units per year.

The project is on budget and on schedule for the plant to be operational by June 2009.

During the quarter the Company received full environmental and building permit approvals for the plant from the appropriate German government bodies. The Company also signed contracts and placed orders for the three largest cost pieces of equipment, comprising furnaces, ink skids and robotic assembly units.

UK Powder Plant

The Company continues to produce zirconia powder from its ceramic powder plant in Bromborough, Merseyside, UK. During the quarter the first shipment of 3YSZ powder from the Bromborough plant was received in Noble Park, Victoria. The powder passed all the Company's QC and powder characterisation tests and has been used to make the Company's fuel cells.

CFCL has also continued to supply powder samples to several potential customers. The Company believes the plant is capable of making a range of high quality powders for several large and growing markets. 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.

Technical

On 1st July 2008 the Company presented its latest technical advances at the 8th annual European Solid Oxide Fuel Cell Forum, in Lucerne, Switzerland, including:

- a 50% increase in cell power density, from 350 mW/cm² in June 2007 to 500 – 650 mW/cm² in June 2008;
- an increase in fuel cell stack lifetime. Degradation has reduced by 35%, from 1.53% / 1000 hours reported in February 2008 to less than 1% / 1000 hours, when operating a 1kW stack in a test station at 750°C on natural gas.

These results have been achieved through advances made in cells, glass technology, interconnect metals, protective coatings on metals and contact technology.

The Company continues to make improvements in efficiency and durability which are the key technical targets required for commercial fuel cell products.

Industry News

During the quarter there was a significant focus from policy makers on the benefits of small scale power generation and mCHP technologies.

In late June 2008, the UK Prime Minister Gordon Brown announced a new strategy for renewable and low carbon energy, including consultation on financial incentives such as feed-in tariffs for decentralised energy and microgeneration.

In July 2008, the German Government announced a target of boosting small scale CHP to 25 per cent of Germany's power by 2020. To reach this target, from September 2008 the German Government is introducing a subsidy of up to €1,550 per kW for mCHP units. The subsidy conditions are designed to reward mCHP units that can maximise electrical efficiency and operating hours. In Germany mCHP units already qualify for a feed in tariff of about €0.05 per kWh.

Whilst CFCL believes that its technology can create significant value for customers even without subsidies, the Company welcomes Government policies which boost the deployment of mCHP units.

Financial Review

Net operating cash outflow for the fourth quarter was A\$4.3 million (£2.1 million), which was A\$0.6 million (£0.3 million) higher than the previous quarter, due to increased working capital requirements. Final quarter expenditure on research and product development was lower than the prior quarter.

During the fourth quarter cash outflow from investing activities was A\$1.3 million (£0.6 million). This largely related to building the Company's manufacturing plant in Heinsberg, Germany. Capital expenditure for the full year was A\$6.9 million (£3.3 million). The forecast cost of the

plant is in line with the budgeted cost of €12.4 million (A\$20 million / £9.8 million) announced in February 2008.

Net operating cash outflow for the full financial year from 1 July 2007 to 30 June 2008 was A\$17.3 million (£8.4 million), compared to A\$15.3 million (£7.5 million) in the prior year. Spending increased as the Company built and shipped NetGenPlus units to its product development partners, commissioned its UK powder plant and began investing in its German manufacturing plant.

During the quarter the Company raised A\$14.7 million (£7.0 million) before costs via a placing of new shares to UK and European institutional investors.

Total cash and financial assets at 30 June 2008 were A\$43.3 million (£21.1 million).

ENDS

Managing Director Mr Brendan Dow presents the quarterly review in a webcast and video 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 (EWE and Bruns Heiztechnik), France (Gaz de France and De Dietrich Thermique), the United Kingdom (E.On UK Ltd and Gledhill Water Storage Ltd), Holland (Nuon and Remeha), and Japan (Paloma). 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")

30 JUNE 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter	Year to date (12 months)
	\$A'000	\$A'000
1.1 Receipts from customers	118	456
1.2 Payments for		
(a) staff costs ¹	(2,847)	(10,661)
(b) advertising and marketing ²	(255)	(1,037)
(c) research and product development ³	(752)	(5,676)
(d) leased assets	-	-
(e) other working capital	(1,447)	(4,191)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	736	2,919
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other		
- Net GST Received/(Paid)	153	933
- Export Market Development Grant received	81	81
- Sundry income received	9	26
Net operating cash flows	(4,204)	(17,150)

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 (12 months) \$A'000
1.8	Net operating cash flows (carried forward)	(4,204)	(17,150)
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	(1,378)	(6,928)
	(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)	64	(28)
	Net investing cash flows	(1,314)	(6,956)
1.14	Total operating and investing cash flows	(5,518)	(24,106)
Cash flows related to financing activities			
1.15	Proceeds from issues of shares, options, etc.	14,700	14,702
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	(8,381)	9,905
	Other - Share issue costs	(780)	(780)
	Net financing cash flows	5,539	23,827
	Net increase (decrease) in cash held	21	(279)
1.21	Cash at beginning of quarter/year to date	3098	3,658
	Reclassification of security deposits ²	-	(174)
1.22	Exchange rate adjustments on foreign currency cash balances	(27)	(113)
1.23	Cash at end of quarter	3,092	3,092
	Funds held in Financial Assets	40,199	40,199
	Total Cash and Financial Assets	43,291	43,291

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	102
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	3,092	3,098
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other	-	-
Total: cash at end of quarter (item 1.23)	3,092	3,098
Financial Assets	40,199	36,191
Total Cash and Financial Assets at end of quarter	43,291	39,289

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: 23 July 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.