

# Ceramic Fuel Cells Limited

## Notice of Annual General Meeting 2008

Dear Shareholder

On behalf of the directors of Ceramic Fuel Cells Limited, I am pleased to invite you to attend our 2008 Annual General Meeting. Along with this Notice of Annual General Meeting, you will receive a proxy form. (AIM Depository Interest holders will receive a 'Form of Instruction', which is similar to a proxy form.)

If you are attending the meeting, please bring your proxy form or Form of Instruction with you. Corporate shareholders should complete a Certificate of Appointment of Representative, to enable a representative to attend and participate in the meeting on their behalf. A form of this certificate is available from the Company's share registry.

If you are unable to attend the meeting, I encourage you to complete the proxy form or Form of Instruction and return it to our share registry. Instructions on how to return the forms are set out in this Notice of Annual General Meeting.

As an additional service to shareholders, portions of the meeting will also be available as a webcast after the meeting. Links to the webcast will be available on [www.cfcl.com.au](http://www.cfcl.com.au).

On behalf of the Company I encourage you to sign up to Computershare's e-Tree service to receive shareholder information online. Just go to [www.cfcl.com.au/e\\_Tree](http://www.cfcl.com.au/e_Tree) and follow the links to register.

Yours sincerely



**Jeff Harding**  
Chairman

### Shareholder Open Day

We are also pleased to invite Shareholders to our next Open Day which will be held on Wednesday 3 December 2008 at our head office and production facility at 170 Browns Road, Noble Park, Melbourne.

The Open Day will begin at 10am and finish by noon. It is a great chance for Shareholders to meet some of our senior managers and see first hand how the Company is commercialising its fuel cell technology.

Numbers are strictly limited, so if you would like to attend please RSVP to CFCL Reception via email ([receptionist@cfcl.com.au](mailto:receptionist@cfcl.com.au)) or by phone on +613 9554 2300. A confirmation note will be sent before the event with further details about the Open Day and directions on how to get to our offices.

**Ceramic Fuel Cells Limited** (ACN 055 736 671) (**CFCL**) will hold its Annual General Meeting at 5.30 pm on **Wednesday 26 November 2008** at the offices of DLA Phillips Fox, Level 21, 140 William Street, Melbourne, Victoria 3000 for the following purposes.

## **Business**

### **Item 1: Accounts**

To receive and consider the accounts, annual financial report, directors' report and auditor's report for CFCL for the year ended 30 June 2008.

### **Item 2: Election of Director**

To consider and, if thought fit, to pass the following resolution:

"That Mr John Dempsey be re-elected as a director of CFCL."

### **Item 3: Approval of Share Issue**

To consider and, if thought fit, to pass the following resolution:

"That, in accordance with Australian Stock Exchange (**ASX**) Listing Rule 7.4, the members approve the issue by the Company on 9 May 2008 of 35,000,004 ordinary shares to institutional investors as detailed in the Explanatory Statement accompanying this Notice of Meeting".

#### ***Voting Exclusion Statement***

CFCL will disregard any votes cast in relation to this resolution by the institutions that participated in the issue of securities and any of their associates. However, CFCL need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### **Item 4: Grant of Options to Brendan Dow under the Directors and Employee Benefits Plan**

To consider and, if thought fit, to pass the following resolution:

"That, for the purposes of the ASX Listing Rules and for all other purposes, the shareholders approve the grant of up to 2,700,000 options to Brendan Dow (or his nominee) under the Directors and Employee Benefits Plan on the terms described in the Explanatory Notes accompanying this Notice of Meeting".

#### ***Voting Exclusion Statement***

CFCL will disregard any votes cast in relation to this resolution by any Director and any of his associates. However, CFCL need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### **Item 5: Remuneration Report**

To consider, and if thought fit, to pass the following resolution:

"That the remuneration report for the year ended 30 June 2008 be adopted."

*Note – the vote of this resolution is advisory only and does not bind the directors.*

**By order of the Board**



**Andrew Neilson,  
Company Secretary**

20 October 2008

# Proxy and Voting Information

## Proxies

If you are unable to attend the Annual General Meeting, please note that a shareholder entitled to attend and vote at the Annual General Meeting has the right to appoint a proxy (which may be an individual or a body corporate). A proxy need not be a member of CFCL. A shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. (If proportions or numbers are not specified, each proxy may exercise half the available votes.)

A Proxy Form accompanies this Notice of Annual General Meeting.

For the appointment of a proxy to be effective, you must return the completed Proxy Form (and, if the appointment is signed by the appointor's attorney, the authority under which the appointment was signed or a certified copy of the authority) to Computershare Investor Services Pty Ltd (Computershare Australia) at least 48 hours before the meeting.

You can send your proxy form to Computershare Australia by using the Reply Paid Envelope enclosed with this notice, or:

faxing it to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or

posting it to GPO Box 242, Melbourne VIC 3001, Australia.

## Depository Interest holders

Holders of Depository Interests traded on the London Stock Exchange AIM market will receive a Form of Instruction instead of a Proxy form. The Form of Instruction allows the Depository Interest holder to direct the Custodian of the Depository Interest, Computershare Company Nominees Limited, to vote on their behalf at the Annual General Meeting.

Depository Interest holders should return the Form of Instruction to Computershare in the United Kingdom – not to CFCL or to Computershare Australia. The address and deadline for returning the form are set out in the Form of Instruction. If Depository Interest holders wish to attend the meeting they should contact Computershare's UK office for a Letter of Representation.

## Corporate Representatives

Corporate shareholders wishing to appoint a representative to attend the meeting on their behalf must provide that person with a properly executed letter confirming that they are authorised to act as the company's representative. The authorisation may be effective either for this meeting only or for all meetings of CFCL and should be produced prior to admission.

## Eligibility to vote at the meeting

CFCL has determined, for the purposes of voting at the meeting, that CFCL shares are taken to be held by those shareholders registered at 7.00pm (Melbourne time) on 24 November 2008.

## Registration

If you are attending the meeting, please bring your personalised proxy form with you. The barcode at the top of the form will make it easier for you to register to vote. If you do not bring your form, you will still be able to attend the meeting, but representatives from CFCL or Computershare will need to verify your identity when registering.

## Undirected Proxies

The Chairman of CFCL will chair the meeting and will vote undirected proxies in favour of all resolutions. CFCL encourages all shareholders who submit proxies to direct their proxy how to vote on each resolution.

# Explanatory Notes

These Explanatory Notes have been prepared to provide you with material information to enable you to make an informed decision in relation to the business to be conducted at the Annual General Meeting of the Company. They form part of the Notice of Annual General Meeting.

## Item 1 Accounts

This item gives shareholders an opportunity to raise questions on the Annual Report and on the performance of the Company generally.

The auditor (or a suitable representative) is required under the Corporations Act to attend the meeting to be available to take questions on the conduct of the audit and the preparation of and content of the auditor's report.

Members may forward written questions to the auditor on these matters for response at the meeting. These should be emailed to investor@cfcl.com.au or mailed to Mr Chris Dodd, Partner, PricewaterhouseCoopers, Freshwater Place, 2 Southbank Boulevard, Southbank VIC 3006 and may be submitted up to 5 business days before the meeting.

CFCL is required by law to forward all questions to the auditor and the auditor is required to prepare a list of questions that the auditor considers are relevant to the conduct of the audit and the content of the auditor's report. The auditor may omit questions that are the same in substance to other questions and questions that are not received in a timely manner.

At the meeting the Chairman will give the auditor a reasonable opportunity to answer the questions on the question list. In addition, copies of the questions will be available at the meeting.

## Item 2 Re-Election of Mr John Dempsey as a director

Rule 81(1) of CFCL's Constitution provides that at each annual general meeting, one third of directors (other than the Managing Director), or if their number is not a multiple of three then the number nearest to but not exceeding one third, must retire from office and may submit themselves for re-election. Mr Dempsey retires as a director in accordance with Rule 81(1) of the Constitution, and, being eligible, offers himself for re-election.

Mr John Dempsey has been a Non-Executive Director of CFCL since 2002. He is also a member of the Board Audit Committee.

Mr Dempsey, aged 62, has been a qualified Accountant since 1974 and has worked in public practice, commerce and the Queensland rural sector in various positions. Mr Dempsey has been a Non-Executive Director of Energex Limited, one of CFCL's substantial shareholders, since 1999, and Chairman of Energex Limited since 2007.

The Directors (other than Mr Dempsey) recommend that shareholders vote in favour of re-electing Mr Dempsey. The Chairman of the meeting intends to vote undirected proxies in favour of this resolution.

## Item 3 Approval of Share Issue

On 9 May 2008 the Company raised A\$14.7 million before costs through an issue of 35,000,004 new ordinary shares (**Placing Shares**) by way of a placement to institutional investors in the United Kingdom and Europe. The Placing Shares were issued at a price of 20 pence per share (approximately A\$0.42).

The institutional investors to whom the Placing Shares were issued were determined following a placement process undertaken on behalf of the Company by its broker and AIM Nominated Advisor, Nomura Code Limited.

The proceeds from the placing will provide CFCL with further working capital to facilitate the Company's continued commercialisation activities including the development of integrated micro combined heat and power products. The Placing Shares rank equally with the Company's existing ordinary shares and are quoted on the London Stock Exchange AIM market and the ASX.

Broadly, ASX Listing Rule 7.1 restricts the number of securities a listed entity may issue without shareholder approval (subject to certain exemptions) in any 12 month period to 15% of the existing securities on issue. Shareholder approval was not required before the Placing Shares were issued, because the placing was less than 15% of the Company's existing shares. However the effect of the placing is that it reduces the Company's capacity to issue additional securities in the future without shareholder approval.

If Resolution 3 is approved, the Company will be able to disregard the issue of the Placing Shares when calculating the maximum number of relevant securities that may be issued in the 12 months after the placement, without the prior approval of shareholders under ASX Listing Rule 7.1.

Given the Company's overall strategy to continue to pursue product commercialisation and manufacturing scale up in Europe and other target markets, the ability of the Company to raise capital up to the 15% threshold without obtaining shareholder approval is important. This will enable the Company to quickly respond to any need or opportunity to issue securities in the future, if the directors believe this to be in the best interests of the Company at the time.

If Resolution 3 is not passed, the Company may be required to incur cost and delay of holding a further general meeting of shareholders before raising future equity.

The Directors recommend that shareholders vote in favour of this resolution. The Chairman intends to vote undirected proxies in favour of this resolution.

#### Item 4 Grant of Options to Brendan Dow under the Directors and Employee Benefits Plan

##### Background

ASX Listing Rule 10.14 prevents the Company from granting securities to directors or their associates under the Company's Directors and Employee Benefits Plan unless pre-approved by the shareholders. To enable the shareholders to approve the resolution under Item 4, the following information is provided in compliance with ASX Listing Rules 10.15 and 10.15A.

##### CFCL Directors and Employee Benefits Plan

Subject to receiving shareholder approval to do so, the grant of options to subscribe for fully paid ordinary shares will be made under the Rules of the CFCL Directors and Employee Benefits Plan approved by shareholders at the Company's AGM held on 28 November 2006.

The terms of the Directors and Employee Benefits Plan were summarised in the Notice of Annual General Meeting for 2006. The Directors and Employee Benefits Plan is designed to give the Board greater flexibility about what form of benefit to offer directors and employees to best achieve the Company's goals of attracting and retaining quality directors and staff and aligning their incentives with shareholders' interests.

The following persons are directors of CFCL and are entitled to participate in the Directors and Employee Benefits Plan. Their associates are also named.

Brendan Dow  
 John Dempsey  
 Michael Dureau (SAN Solutions Pty Ltd)  
 Jeffrey Harding  
 Robert Kennett.

At the AGM held on 22 November 2007, the shareholders gave approval under Listing Rule 10.14 for the following issues of options to Directors:

Brendan Dow	285,000 options issued in December 2007 and 285,000 options issued in September 2008.
David Carruthers	100,000 options issued in December 2007.
Michael Dureau	100,000 options issued in December 2007.
Jeffrey Harding	100,000 options issued in December 2007.
Robert Kennett	100,000 options issued in December 2007.

These options were issued for nil consideration.

Details of any securities issued to directors or their associates under the Directors and Employee Benefits Plan will be published in each annual report of the Company relating to a period in which securities have been issued, and that approval for the issue of securities was obtained under Listing Rule 10.14.

Any additional directors or their associates who become entitled to participate in the Directors and Employee Benefits Plan after the resolution was approved and who were not named in this Notice of Annual General Meeting, will not participate until approval is obtained under Listing Rule 10.14.

##### Proposed Offers

As Managing Director of the Company, part of Mr Dow's remuneration package comprises an annual incentive of options (in lieu of a cash bonus) depending on personal and Company performance against agreed key performance indicators (**KPIs**). The Board assesses performance against the KPIs after the end of each financial year and makes an offer of options based on that assessment.

In April 2006 the Board and Mr Dow agreed the terms of the options offers that would apply for the first three years of Mr Dow's contract (representing the financial years ending 30 June 2006, 2007 and 2008). In general terms, these offers were up to 300,000 options each year, at an exercise price calculated at a discount to the market price. These terms (and the formula for calculating the discounts) were described in the notice of meeting for the 2007 AGM, at which shareholders approved the offers for the 2007 and 2008 financial years.

Under those terms, in December 2007 Mr Dow was issued 285,000 options (at an exercise price of \$0.695) for the 2007 financial year and in September 2008 he was issued 285,000 options (at an exercise price of \$0.11) for the 2008 financial year.

In July 2008 the Board reviewed Mr Dow's remuneration package, including obtaining advice from an external remuneration consultant. Subject to shareholder approval, the Board proposes to:

- Change the structure of the annual 'short term incentive' options offer, away from the practice of issuing a smaller number of options with a discounted exercise price, towards the current practice for other senior managers, whereby a larger number of options would be issued with an exercise price equal to the average closing market price during June of the relevant financial year. The Board will seek approval to issue:
  - Up to 750,000 options, for performance over the 2009 financial year. The exercise price would be the average closing market price during June 2009. The number of options would be determined by the Board based on performance against pre-agreed FY09 KPIs.
  - Up to 750,000 options, for performance over the 2010 financial year. The exercise price would be the average closing market price from 20 May – 20 June 2010 (the end of the term of Mr Dow's current contract). The number of options would be determined by the Board based on performance against pre-agreed FY10 KPIs.
- Increase Mr Dow's 'long term incentive' by a one-off issue of 1,000,000 options. The exercise price would be the average closing market price during June 2008, however the options only vest when Mr Dow completes his term as Managing Director (ie in June 2010 or earlier if the Board agrees).

In addition the Board is seeking approval for a one-off offer of 200,000 options to reflect the Company's achievements to February 2008, particularly the volume order from Nuon for 50,000 units, based on agreed performance targets, announced on 27 February 2008. On 21 April 2008 the Company announced that it had issued options to 84 staff members, including all senior managers, and noted that the Board would seek shareholder approval to make an offer to Mr Dow.

The proposed offers to Mr Dow are summarised in the following table:

Tranche	Options would be issued:	Quantum	Exercise price	Other terms
February 2008 offer	Within 10 business days of shareholder approval	200,000	\$0.46 (VWAP for February 2008)	Vest on issue, 4 year life.
Long term incentive	Within 10 business days of shareholder approval	1,000,000	\$0.45 (VWAP for June 2008)	Vest when Mr Dow completes his term (ie in June 2010 or earlier if the Board agrees), 4 year life
FY09 Performance	Before 31 October 2009	Up to 750,000	VWAP for 1-30 June 2009	The number of options depends on performance against FY09 KPIs Vest on issue, 4 year life.
FY10 Performance	Before 31 October 2010	Up to 750,000	VWAP for 20 May – 20 June 2010	The number of options depends on performance against FY10 KPIs Vest on issue, 4 year life.

Each tranche of options will be governed by the rules of the CFCL Directors and Employee Benefits Plan (Plan). The Plan rules provide that, subject to the Board's discretion, options will generally lapse if they are not exercised or redeemed within the applicable exercise period or within certain time periods after the recipient ceases to be a CFCL employee or director. The exercise period for the options proposed to be issued to Mr Dow expires four years after the options are granted.

##### Capital Structure

As at 20 October 2008, the Company had on issue 344,745,674 fully paid ordinary shares and 11,609,810 options. If all options proposed to be granted to Brendan Dow are granted, the number of options would increase by 2,700,000, to 14,309,810.

Until exercised the grant of the options will not impact on the number of ordinary shares on issue in the Company. If all options proposed to be granted to Mr Dow are granted and then exercised, an additional 2,700,000 ordinary shares would be issued representing approximately 0.9% of all ordinary shares.

**Taxation**

As far as the Company is aware, there are no adverse taxation consequences to the Company arising from the proposed grant of the options.

**Value of benefit**

The options will not be listed on the ASX or AIM market and accordingly have no readily identifiable market value. Indicative valuations of the proposed grant of options to Mr Dow have been determined, as set out in the table below. These valuations were calculated using a trinomial lattice option pricing model that takes into account the exercise price, the term of the option, the share price at valuation date, an expected price volatility range of the underlying share, the restrictions on exercise applied by the CFCL Securities Trading Policy, an allowance for expected early exercise, the expected dividend yield and the risk-free rate for the term of the option. The model inputs are shown in the table below.

The Company is required to expense the value of the options in the Income Statement over the vesting period. Based on the indicative valuations, the approximate expense of the options to the Company is also described in the table below.

	<b>200,000 Options</b>	<b>1,000,000 Options</b>
<b>Parameter</b>	<b>Input</b>	<b>Input</b>
Consideration for grant of option	Nil	Nil
Option life (years)	4	4
Vesting period (years)	0	1.6
Exercise price	\$0.46	\$0.45
Share price at valuation date (15 September 2008)	\$0.37	\$0.37
Expected price volatility range <sup>1</sup>	Initially 69.7%, through to 55%	
Share price multiple (of exercise price) at which early exercise expected	2.5	2.5
Expected dividend yield	Nil	Nil
Risk-free interest rate: range over option life	7.04% to 6.26%	
<b>Indicative valuation per option</b>	\$0.16	\$0.17
<b>Approximate P&amp;L Expense</b>	FY09 - \$32,000 FY10 - Nil	FY09 - \$63,000 FY10 - \$107,000

1. The term structure of price volatility is based on historic volatility and expected changes to future volatility.

2. Note: it is not possible to value the options proposed to be issued to Mr Dow for FY09 Performance and FY10 Performance, as the exercise price is not yet known.

**Current remuneration**

Mr Dow is an executive director of the Company and receives a remuneration package comprising an annual salary package plus an annual incentive of options (in lieu of a cash bonus) depending on personal and Company performance against agreed key performance indicators.

Mr Dow's remuneration for the year to 30 June 2008 is shown below.

<b>Name</b>	<b>Cash salary &amp; fees</b>	<b>Non-monetary benefits</b>	<b>Super-annuation</b>	<b>Options</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
B L Dow	310,185	55,342	36,000	94,050	495,577

More details of Mr Dow's remuneration are set out in the Directors' Report released to the ASX on 29 September 2008, and also available at [www.cfcl.com.au](http://www.cfcl.com.au).

**General**

As at 20 October 2008, Mr Dow held an interest in 770,000 options (and nil shares) in the Company.

All funds received from the exercise of the options will be applied towards the working capital and cash requirements of the Company when the options are exercised.

The Directors consider that it is in the best interests of shareholders that Mr Dow, as the Company's Managing Director, has a significant component of "at risk" remuneration, to directly link his remuneration to Company performance and align his interests with shareholders' interests. The Directors also consider that it is in the best interests of shareholders that Mr Dow's remuneration package includes a combination of annual 'short term' incentives and a 'long term' incentive of options, rather than the Company paying Mr Dow a cash bonus. The Directors also consider it is appropriate for the exercise price of the annual offer of options to reflect the market price during June of the relevant financial year, rather than a discount to the market price.

The Directors (other than Mr Dow) recommend that shareholders vote in favour of this resolution to grant options to Mr Dow. The Chairman intends to vote undirected proxies in favour of this resolution.

**Item 5 Remuneration Report**

As required by the Australian Corporations Act 2001 (Cth), the Remuneration Report is submitted to shareholders for consideration and adoption by way of non-binding resolution. The Company also notes that disclosing details of the Company's remuneration policies is consistent with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*.

The Remuneration Report is set out on pages 14 to 23 of the Annual Report for the year ended 30 June 2008 accompanying this Notice of meeting.

Among other things, the report:

- explains the Board's policies on remuneration of directors and senior managers of the Company;
- discusses the link between these policies and Company performance;
- provides details of performance conditions applicable to any element of remuneration; and
- provides details of the remuneration of each director and certain key management personnel.

Shareholders will be given a reasonable opportunity to discuss the remuneration report at the meeting.

The Chairman intends to vote undirected proxies in favour of this resolution.

