



CERAMIC FUEL CELLS LIMITED

20 October 2008

Dear Shareholder,

Together with this letter you will receive the Notice of the Company's upcoming Annual General Meeting. The Company's 2008 Annual Report is also now available online at www.cfcl.com.au.

You may be aware that on 17 October the Company announced that one of the Company's financial investments was likely to be downgraded, and the Company expected to take an impairment charge of up to A\$13 million in its accounts to 31 December 2008.

The Company's Management and Directors are naturally very disappointed that the Company's finances have been impacted by the recent severe collapse of global financial markets. Management and Directors are actively managing the Company's finances, including planning for further financing to ensure the Company can continue its strong commercialisation progress. We are pursuing several options that may include liquidating the remaining investments in an orderly fashion. We are also pursuing a range of strategic options to maximise shareholder value from the Company's United Kingdom Powder Plant.

In the meantime the business of turning the Company's leading clean energy technology into valuable products is going very well. The Company has six units operating with leading utility customers and appliance partners in Europe, and one unit installed in Japan. We are on track to deploy fully integrated micro combined heat and power (mCHP) units in 2009. We have also recently achieved a key target for commercial mCHP products by exporting power to the grid at 50% electrical efficiency. There are very large markets for the Company's highly efficient mCHP products, with strong market forces and Government policies supporting the uptake of 'clean power' products.

Management and the Board remain confident that the Company's strong business progress will continue over the coming year.

Yours sincerely

Jeff Harding
Chairman