



2 March 2009

CERAMIC FUEL CELLS LIMITED

INTERIM RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2008

Ceramic Fuel Cells Limited (AIM, ASX: CFU), a global leader in fuel cell development, announces interim financial results for the six months ended 31 December 2008.

The Directors' Report and Financial Report for the half year are available at www.cfcl.com.au.

Key points are summarized below:

Financial Results:

- Revenue: A\$2.4m / £1.06m
 - FY08 Interims A\$1.8m / £0.8m
 - Field trial income up from A\$0.3m in FY08 to A\$0.9m in FY09
- Net operating cash outflow: A\$7.3m / £3.3m
 - FY08 Interims A\$9.1m / £4.1m
- Net loss: A\$32.6m / £14.6m
 - FY08 Interims A\$9.7m / £4.4m
 - Due to impairment charge of A\$27.5m / £12.3m for financial assets
 - Investments severely impacted by global financial crisis
 - Investments marked down to current selling price, A\$6.9m / £3.1m

Operational Highlights:

Product Development Projects

- UK
 - Utility E.On UK + appliance partner Gledhill
 - One semi-integrated unit installed and operating
 - Fully-integrated unit stage agreed, Gennex module to be shipped Q2 2009
- Germany
 - Utility EWE + appliance partner Bruns
 - Three semi-integrated units installed and operating
 - Discussing fully-integrated stage, Gennex module to be shipped Q2 2009
- France
 - Utility GdF/Suez + appliance partner De Dietrich Thermique
 - One semi-integrated unit installed and operating
 - Discussing fully-integrated stage, once agreed Gennex module to be shipped Q3 2009
- Holland
 - Utility Nuon + appliance partner De Dietrich Thermique/Remeha
 - One semi-integrated unit installed and operating, at De Dietrich Thermique
 - Project review underway
 - On 24 February 2009, Vatenfall announced takeover of Nuon

- Japan
 - Appliance partner Paloma Group (owner of Rheem and Solahart)
 - One NetGenPlus unit installed and operating
 - Discussing next stages of Product Development

Manufacturing

- Large scale fuel cell assembly plant in Heinsberg, Germany
- At 31 December 2008, €3.5m spent; total cost expected to be under €12.4m budget
 - Building works done – new mezzanine, new floor
 - Gas Storage facility
 - Factory Acceptance Tests for the 3 major items (Ink production, Robotic Dispensing, Furnaces)
 - Contracts awarded for HVAC, Gas control, Electrical installation
- Completion October 2009
- Initial design capacity 10,000 units per year - may phase capacity to defer spending
- Funding
 - NRW Government grant up to €1.3m (depending on final capex and jobs)
 - Potential project financing, equipment leasing

Electrical Efficiency

- September 2008, achieved 50% electrical efficiency. By December 2008, increased to 55%. February 2009, achieved 60% electrical efficiency whilst exporting 1.5kW, now up to 2kW
- Results achieved in an integrated mCHP appliance – not a laboratory unit - connected to mains natural gas, exporting power to the electricity grid in Melbourne
- No transmission or distribution losses means highest end user electrical efficiency of any technology using hydrocarbon fuels. Higher electrical efficiency means lower emissions and lower running costs.
- Compelling competitive advantage: Much higher than other mCHP technologies, including all other fuel cells.
- Very high electrical efficiency opens up new applications and markets.

Since the period end:

CFCL / E.On partnership

2008 - UK mCHP trial

- CFCL fuel cell unit *plus* a boiler = semi integrated mCHP unit
- Operated in Blackpool, UK, from June 2008 – still operational
- Met all of E.ON's performance and lifetime requirements

2009 – Product Development Contract, announced February 2009

- CFCL fuel cell module *inside* a boiler = fully integrated mCHP product
- Commercial functionality, then size, then cost
- E.On UK provides funding for product development, specifies UK market requirements, deploys units in stages subject to performance criteria

Commercial fuel cell mCHP Products

- Subject to agreed price and performance targets - E.On UK minimum order of 100,000 units from 2012-2018 to retain UK exclusivity

Fundraising

Placing and Subscription for A\$20.1m (£9.0m) before costs, announced on 2 March 2009.

- Placing - A\$10.2m (£4.6m) with institutional investors underwritten by Nomura Code Securities
- Subscription - A\$9.9m (£4.4m) with Australian and European cornerstone investors
- Issue price of A\$0.05 / 2.2 pence. Discount of 12% to the 30 day VWAP up to pricing discussions with cornerstone investor
- Placing and Subscription is subject to shareholder approval - notice of meeting to be sent shortly
- Planned further offers to shareholders at the same issue price
 - Australian Rights Issue – up to A\$10m
 - UK Offer - up to approximately £2.3m
 - Full details in prospectus or offer circular to be sent to shareholders

2009 Outlook

- European Product Development
 - Fully integrated mCHP units deployed
 - Further Orders
- New Revenue Opportunities
 - Products
 - Partners
 - Markets
- Sales from the UK Powder plant
- Automated production from Heinsberg late 2009
- Technology meeting or exceeding commercial targets

The interim results and Company presentations are available at www.cfcl.com.au.

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About Ceramic Fuel Cells Limited:

Ceramic Fuel Cells Limited is a world leader in developing solid oxide fuel cell technology to provide highly efficient and low-emission electricity from widely available natural gas and renewable fuels. The company is developing micro combined heat and power and distributed generation units that generate electricity and heat for homes. Ceramic Fuel Cells is developing products with leading appliance partners and utility customers in Germany, France, the United Kingdom, Holland and Japan. The company is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU). www.cfcl.com.au



CERAMIC FUEL CELLS LIMITED

Clean power for your home

ASX

Half-year Report

Period ended 31 December 2008

Lodged with the ASX under Listing Rule 4.2A.3

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Results for announcement to the market

Half-year ended 31 December 2008

(Previous corresponding period: Half-year ended 31 December 2007)

	Movement	%		\$
Revenue from ordinary activities	Up	29.3	to	2,360,923
Loss from ordinary activities after tax attributable to members	Up	235.8	to	(32,637,457)
Net Loss for the period attributable to members	Up	235.8	to	(32,637,457)

Dividend type	Amount per security	Franked amount per security
Final dividend	None	Not applicable
Interim dividend	None	Not applicable
<p>No dividends were recommended, declared or paid during the period.</p> <p>The Directors do not propose to recommend the payment of a dividend in respect of the period.</p> <p>There is no dividend re-investment plan in operation.</p>		

Brief Explanation of Revenue

Sales revenue of \$931k from field trials was 181% up on the previous corresponding period due to expansion of activity in Europe and Japan. Interest received on surplus funds at \$1,420k was in line with last year.

Brief Explanation of Loss (and Net Loss)

The net loss for the period attributable to members of \$32,637k compares to a net loss in the previous corresponding period of \$9,719k. The major reason for the \$22,918k increased loss was a charge for the impairment of financial assets for \$27,459k.

Overall operating expenses were down on the equivalent period last year as follows:

Research & Product Development (R&PD): \$844k cost decrease

- R&PD costs of \$5,316k were 13.7% lower due to the reduction in the level of external expenditure on certain projects and lower manufacturing volumes in the Melbourne facility.

Sales and Marketing (S&M): \$101k cost decrease

General & Administration (G&A): \$701k cost increase

- G&A costs of \$5,498k were 14.6% higher than for the previous corresponding reporting period due to:
 - Depreciation charges relating to the completed powder plant in the UK - \$553k
 - Increased expenses in relation to the employee share option plan - \$304k.

Net tangible asset backing

	<i>31 Dec 2008 cents</i>	<i>31 Dec 2007 cents</i>
Net tangible asset backing per ordinary share	7.9	18.1

Control over other entities

No control was gained or lost over any entity during the period.

Associates and joint venture entities

The company has no associates, nor has it formed any joint ventures with any other entities during the period.

Compliance statement

This report is based on accounts which have been subject to review.

CERAMIC FUEL CELLS LIMITED
ABN 82 055 736 671



CERAMIC FUEL CELLS LIMITED

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Statutory Accounts

For the half-year ended 31 December 2008





CERAMIC FUEL CELLS LIMITED

Clean power for your home

Directors' Report

For the half-year ended 31 December 2008

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Ceramic Fuel Cells Limited and the entities it controlled during, and at the end of, the half-year ended 31 December 2008.

DIRECTORS

The directors of Ceramic Fuel Cells Limited in office at the date of this report are:

- J Harding, *Chairman*
- B L Dow, *Managing Director*
- J P Dempsey
- M B Dureau
- R J Kennett

D Carruthers was a director from 1 September 2004 to the date of his retirement of 20 October 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the half-year was the commercial development and demonstration of ceramic (solid oxide) fuel cell technology.

There were no significant changes in the nature of the activities of the Group during the half-year.

DIVIDENDS

No dividends were recommended, declared or paid during the year and to the date of this report.

REVIEW OF OPERATIONS AND ACTIVITIES

A summary of the financial performance of the Group for the six months ended 31 December 2008 is set out below:

	<i>Half-year</i>	
	<i>2008</i>	<i>2007</i>
	<i>\$000</i>	<i>\$000</i>
Revenue from continuing operations	2,361	1,825
Other income	4,163	1,476
Expenses		
Research & Product Development	(5,316)	(6,161)
General & Administration	(5,498)	(4,796)
Sales & Marketing	(887)	(988)
Impairment charge	(27,460)	(1,075)
Loss before income tax	(32,637)	(9,719)
Income tax expense	-	-
Loss for the half-year attributable to members of Ceramic Fuel Cells Limited	<u>(32,637)</u>	<u>(9,719)</u>

Overview

Ceramic Fuel Cells Limited is a global leader in developing high efficiency and low emission microgeneration products for homes. The Company's solid oxide fuel cell (SOFC) technology converts gas into electricity and heat, without combustion or noise. Fuel cells provide environmental benefits through very high efficiency and low emissions.

Energy Market Forces

Global energy markets are facing a transformation from several forces. First, energy use is rising, requiring significant investment in new infrastructure; for instance global primary energy demand is forecast to grow by 45% from 2006 to 2030. Second, the electricity industry is a significant contributor to greenhouse gas emissions, which many Governments have agreed must be reduced sharply. For example, the European Union has committed to reduce emissions by 20 to 30 per cent by 2020, President Obama is targeting an 80 per cent emissions reduction by 2050 and in Australia the Federal Government is targeting 5-15 per cent reductions by 2020.

This 'emissions squeeze' creates strong support for low-emission energy technology, like solid oxide fuel cells, which can be deployed using the existing natural gas and electricity infrastructure.

These forces are also driving a move away from large centralised power stations towards 'distributed generation', where mini power stations are installed close to where the power is used. According to a PricewaterhouseCoopers 2008 survey, almost 40% of global utilities expect distributed generation, especially CHP technologies, to have the greatest impact on generation and supply over the next 10 years.

Governments are setting clear policies that support the uptake of new energy technologies including specific incentives for distributed generation, mCHP and fuel cells. For example Germany has a capital subsidy for micro-CHP units plus a feed-in tariff; the UK has introduced feed-in tariff legislation and tax breaks for CHP units; and in Japan there is a unit subsidy and Government sponsored programs to deploy products into the market.

CFCL's fuel cell products can have significant environmental benefits, through generating electricity and heat very efficiently, close to the end user. Higher electrical efficiency means significantly lower emissions than current coal or gas fired generators, with no emissions of nitrous oxides (NOX) or sulphur dioxides (SOX).

The Company's technical and financial modelling indicates that widespread deployment of fuel cell mCHP units can create significant value for utilities, appliance partners and homeowners. The Company's modelling also shows that widespread deployment of its fuel cell units can generate strong financial returns for utilities, for example 14% internal rate of return for existing customers and 30% for new customers in the United Kingdom – before any Government subsidies.

The main reason is simple: highly efficient fuel cell mCHP units can create power and heat (mainly power) more efficiently than the current mix of generating technologies. It costs utilities less to generate the same amount of power using far less fuel. This means far lower emissions. The Company's UK market modeling indicates that its fuel cell units can produce electricity with a net cost significantly lower than traditional electricity generation by capturing and using 'waste' heat, avoiding transmission losses and capturing carbon savings.

The value of these benefits is shared between CFCL, its utility and appliance partners, and the homeowner. So, whilst any additional Government incentives are welcome to support the transition from product development to commercial sales, Management and the Board believe there is a strong business case for customers to deploy CFCL's units.

Customers and Products

Current Projects

The first product the Company is developing is a 1 - 2kW combined heat and power (m-CHP) unit for homes. The unit replaces existing home heating systems, is connected to the existing natural gas network, providing power and heat for the home and exporting excess power to the electricity network.

The Company is developing mCHP products with leading utility customers and appliance partners in five key markets. In these partnerships, typically the energy company sets the specification for the mCHP product and will introduce the product to each market. Ceramic Fuel Cells makes the fuel cell module and sells this to the appliance manufacturer. The appliance manufacturer develops and manufactures the complete mCHP appliance. The appliance manufacturer or the utility then sells or 'leases' the mCHP unit to the homeowner.

The product development projects are typically conducted in several stages, with a project review at the end of each stage. In the first stage a CFCL NetGenPlus unit is connected to a boiler and operated as a 'semi integrated' unit. The fuel cell and boiler operate together but are physically separate. In the second stage a CFCL Gennex fuel cell module is integrated with a boiler into one fully integrated unit. This unit has all the functionality of a commercial product but is larger than a commercial unit. Subsequent units are made smaller, and then cheaper, to meet requirements for a commercial product.

In December 2008 CFCL produced its first fully integrated fuel cell boiler unit in preparation for European product deployment in 2009, having successfully operated semi-integrated units during 2008.

During the half year the Company continued to make progress with its product development projects.

In the United Kingdom the Company has one semi-integrated unit installed in Blackpool with its appliance partner Gledhill. This unit was installed in July 2008 and it met all of the performance and lifetime targets set by CFCL's utility customer E.On UK. In February 2009 the Company and E.On agreed to develop and deploy fully integrated units. As part of this stage the Company plans to ship Gennex modules in Q2 2009. The partners also agreed the profile of a future volume order. Subject to CFCL meeting agreed price and performance targets, E.On UK will place a minimum order of 100,000 units from 2012-2018 in order to retain exclusivity for CFCL's mCHP products in the UK market.

In Germany, three semi-integrated units are installed with CFCL's utility customer EWE and appliance partner Bruns Heiztechnik. The partners are discussing the project plans to develop and deploy fully-integrated units. CFCL expects to ship Gennex modules in Q2 2009. The partners are also discussing potential Government funding programs.

In France the Company has one semi-integrated unit installed with its appliance partner De Dietrich Thermique. Together with the utility customer GdF/Suez, the partners are discussing project plans for the fully-integrated units. Once these plans are agreed the Company plans to ship Gennex modules in Q3 2009.

CFCL also has a separate semi-integrated unit installed at De Dietrich Thermique as part of the project with Dutch utility Nuon and appliance maker De Dietrich / Remeha for the Benelux market.

During February 2009 the partners began a review of the project, covering technical performance of the semi-integrated unit, commercial terms and strategic commitment to the next stages of the project.

On 24 February 2009 it was announced that Swedish utility Vatenfall has agreed to buy Nuon. Subject to approvals, the deal is scheduled to close by 30 June 2009. The

Company is confident that the semi-integrated unit has met or exceeded all the targets agreed for the project, however there is a risk that Vatenfall's takeover of Nuon will impact the project. The Company will provide further updates as soon as it is able to.

Finally in Japan the Company has one NetGenPlus unit installed at the Nagoya facilities of its appliance partner, Paloma. Paloma is a large global gas appliance company and the owner of Rheem, Raypak and Solahart brands. The partners are discussing the next stages of product development for the Japanese market.

New Opportunities

The Company also continues to assess a range of opportunities to enter new markets and develop additional products. The recent significant increase in the electrical efficiency of the Company's technology opens up potential new products such as a 'generator' product (requiring less sophisticated integration than a mCHP product) and in the longer term a charging station for electric cars.

The Company is also working to leverage its experience in its five initial markets into new markets and is in early discussions with potential partners in additional markets in Europe, plus new markets in North America and Australia. The Company is also pursuing opportunities to obtain Government funding to develop and deploy its technology.

Manufacturing

During the half year the Company proceeded to build a manufacturing plant in Heinsberg, Germany for the commercial production of its fuel cell systems, as announced in February 2008.

During the half year the Company modified the facade of the 4,500m² building to incorporate a Gas Storage Facility, carried out substantial internal foundation work to permit the erection of a mezzanine above the main production area, which is now complete, re-surfaced the floor of the main production area and conducted Factory Acceptance Tests on the three major equipment packages (the Ink Production Skid, the Robotic Dispensing and Assembly Stations and the three Furnaces) with both the Ink Skid and Robotic equipment now delivered to site.

The Company also awarded contracts for the Heating Ventilation and Air Conditioning (HVAC) equipment, Gas Control/Distribution System and Electrical Installation with the HAVC design approved and the main pieces of equipment delivered to site.

In December 2008, in order to reduce future cash outflow the Company deferred some of the planned expenditure on the plant. CFCL revised the project plan to reduce spending from January to May 2009 by \$4.9m and deferred the plant opening from June to October 2009.

At 31 December 2008 the Company had spent €3.5m on the project. The total project cost is expected to be less than the €12.4m budget announced in February 2008.

The plant is still designed for an initial capacity of 10,000 units per year. The Company will further review the scale up in capacity to match its expected demand from customers and will consider a staged increase in capacity if this delivers significant cost savings.

Deferring the plant opening has a minimal impact on CFCL's commercialisation schedule, with the Company having sufficient manufacturing capacity in Melbourne to continue to supply fuel cell modules to its partners throughout 2009.

During the half year the Company continued to manufacture Gennex™ fuel cell modules, comprising metal-ceramic stacks and new balance of plant components at its facilities in Melbourne.

Early in 2008 the Company signed long term fuel cell supply and co-operation agreements with each of H.C. Starck and CeramTec, leading German-based manufacturers of advanced ceramic components. During the half year CFCL continued to share relevant intellectual property and technical expertise to continually improve the performance of the supplier's cells towards meeting CFCL's performance and quality requirements. Provided CFCL's requirements are met, CFCL expects the suppliers to scale up production of their own cells to meet CFCL's demands during 2009. In the meantime the Company continues to produce fuel cells at its Melbourne R&D and pilot manufacturing facility to drive continued improvements in cell and stack performance.

UK Powder Plant

During the half year the Company operated a plant in Bromborough, Merseyside, UK, designed to make high quality ceramic powders using the Company's proprietary technology. The Company has been optimising the processes and equipment used at the plant to make zirconia powders. Zirconia is a key input into the Company's fuel cell components and is also used in a wide range of other products and applications.

During the half year the Bromborough plant shipped zirconia powder to the Company's main facility in Melbourne. The powder passed all the Company's quality control and powder characterisation tests and has been used to make the Company's fuel cells.

The Company has also continued to develop powder samples for several potential customers.

The Company believes that the plant is capable of making a range of high quality powders for several large and growing markets, and that the plant and the associated intellectual property can provide a range of options to maximise shareholder value. During the half year the Company and its advisors explored a range of these options, including licensing the intellectual property and selling the plant as a standalone operation.

Whilst a number of parties expressed interest in the operation, and the Company received an offer for the plant, the terms did not meet the Company's objectives. Whilst the Company will continue to monitor strategic opportunities, at this stage the Company is focusing on operating the plant itself, to make powder for its own needs and to generate revenue by selling powders to other customers. The Company expects to receive IPPC environmental approval for the plant within the next month, allowing the plant to operate as a fully commercial powder plant.

Technology

During the half year the Company continued to make significant technical improvements in electrical efficiency and fuel cell lifetime which are the key drivers of value in fuel cell mCHP products.

The standout technical achievement has been the increase in electrical efficiency. In September 2008 the Company announced that it had achieved 50% electrical efficiency. By December 2008 that had increased to 55%, and in February 2009 the Company achieved 60% electrical efficiency whilst exporting 1.5kW to the power grid.

This level exceeds the commercial targets set by the Company's partners and is far more efficient than the current electricity grid and all other microgeneration technologies currently available. So far as the Company is aware, an electrical efficiency of 60% where the power is used (ie there are no transmission or distribution losses) is the highest electrical efficiency of any generating technology, worldwide, using hydrocarbon fuels.

There is now widespread recognition that maximising electrical efficiency is the key to creating the most value from mCHP products, and the Company's recent achievements create a compelling competitive advantage in this very large emerging market.

On fuel cell lifetime, a fuel cell stack in a test station has been producing 1kW of power for almost 9,000 hours (from February 2008 to February 2009). The Company is aiming to achieve degradation rates equal to a commercial lifetime target of 4 to 5 years (40,000 hours) during 2009.

As at the date of this report the Company had been granted 100 patents in international markets for inventions.

Risk management

During the half year the Company focused on managing the key risks facing the Company.

The key technical risk for the Company (and for all fuel cell companies) is to consistently make fuel cells that work reliably, in real world conditions, for a long time. During the year the Company continued to make significant progress toward meeting - and in the case of electrical efficiency, exceeding - these technical requirements. The technical focus of the Company in 2009 is to achieve commercial targets for fuel cell lifetime and reliability.

The Company's key commercial risk in its current stage of product development is the risk that appliance partners take too long to develop products, or utility customers take too long to buy products in volume. This risk is not unique to the Company and is faced by many companies that are developing new products with partners. The Company is actively mitigating this risk by forming close strategic relationships with its partners and by identifying and pursuing additional revenue streams through new products, including products that the Company can largely develop itself, with less reliance on development partners.

The Company is also managing the risk of scaling up its manufacturing, through its plant in Germany and through its partnerships with commercial suppliers. Scaling up manufacturing is critical to enable the Company to make the transition from expensive 'hand made' units to cheap volume manufactured products, generating commercial revenues and margins.

The key financial risk for the company is to ensure that it has adequate liquidity to continue its operations. The actions to address this issue are detailed in the sections entitled 'Operating Results and Financing Activities' and 'Matters subsequent to the end of the Half-Year'. At a policy level the Company's Treasury Investment Policy has been amended during the period to only allow the placement of new funds into selected highly liquid securities. (These are essentially cash deposits, short term bank guaranteed securities and government securities).

Operating Results and Financing Activities

The Company's 'Revenue from continuing operations' increased from A\$1.8m to A\$2.4m during the period due to the expansion of field trial activity in Europe and Japan.

Expenditure on Research and Product Development during the period decreased by 13.7% to A\$5.3m due to a reduction in the level of external expenditure on certain projects and lower manufacturing volumes in the Melbourne facility.

Expenditure on Sales & Marketing of A\$0.9m was 10% lower than the prior period. Resources and activities during the period were strongly focused on Europe and Japan.

Expenses relating to the General and Administrative functional area have increased from A\$4.8m to A\$5.5m. This is primarily due to increases in non-cash expenditure items being:

- Depreciation charges relating to the completed powder plant in the UK – A\$0.5m; and
- Increased expenses in relation to the employee share option plan – A\$0.3m.

During the financial period the Company's financial assets have been severely impacted by the global financial crisis. The Company held an investment portfolio that at 31 December 2008 comprised a mix of asset backed securities, mortgage backed securities and credit linked notes. In October 2008 the Company announced that the credit quality of its AA rated credit linked notes had been impaired and that it was likely that an impairment charge of up to \$13.1m would be taken in the interim financial statements. In December 2008 it was announced that the Company had sold one of its securities, a AAA rated mortgage backed security, at a discount of 50% to its face value and that a further impairment charge of A\$2.4m would be incurred.

The current market environment for the Company's investment securities is neither deep nor liquid. This has presented a fundamental problem as to what is the 'fair value' of the investments required by the accounting standards. The directors have decided to value the investments on the basis of indicative selling values recently obtained by the Company which value the investment portfolio at A\$6.9m.

These events have given rise to an impairment charge in the results for the period of A\$27.5m (this includes a debit balance of A\$3.9m that had been included in the Investment Revaluation Reserve in equity at 30 June 2008).

The Company is looking at taking legal action to recover losses suffered in relation to its investments and has received an offer to fund the costs of this litigation. The Company will provide a further update if and when it accepts this offer.

As a result of this impairment the Company has needed to repair its funding position. To this end the directors have taken a number of actions subsequent to the end of the financial period and these are reported below under the heading 'Matters Subsequent to the End of the Half-Year'.

In addition to these actions the Company is also taking action to:

- Fulfil the requirements of the Regional Economic Development Grant previously offered by the state government of North Rhine-Westphalia. With the changes to the building project at Heinsberg the Company expects to receive up to €1.3m in the second half of 2009;
- Apply for a number of other government grants and programmes in both Australia and Germany;
- Secure debt financing for part of the manufacturing plant being constructed at Heinsberg.

The Company will also review its operational cost structure with a view to making savings.

MATTERS SUBSEQUENT TO THE END OF THE HALF-YEAR

(a) Share Placement

Subsequent to the end of the financial period the company has entered a Placing Agreement with its UK Broker, Nomura Code Securities Limited ("Nomura"), and has entered Subscription Agreements with investors to issue a total of 409,046,688 ordinary shares at a price of 2.2 pence (approximately 5 Australian cents) and raise the equivalent of A\$20.1m (before costs). Nomura has in turn entered into agreements with certain financial institutions to place the shares on the terms specified. The issue of these shares is subject to the shareholders approving the issue at an Extraordinary General Meeting. The notice of meeting is expected to be mailed on or about 6 March 2009 for a meeting on or about 6 April 2009.

(b) Australia and New Zealand Rights Issue

At a meeting on 27 February 2009 the directors decided that, upon entering into the agreements specified in (a) above, that they would seek to undertake a rights issue to ASX shareholders registered in Australia and New Zealand. The company is seeking to raise up to A\$10,000,000 at a share issue price of 5 cents per share. The company intends to lodge a prospectus with the Australian Securities and Investment Commission in the coming weeks to allow it to undertake this rights issue. The rights issue is expected to be completed during April 2009.

(c) UK Issue

At a meeting on 27 February 2009 the directors decided that, upon entering into the agreements specified in (a) above, that they would seek to undertake an Open Offer to existing United Kingdom and European AIM shareholders, to raise up to £2,227,000 at a share issue price of 2.2 pence. The Company has been advised that an Open Offer to AIM shareholders to raise less than €2,500,000 can be undertaken without a prospectus. The Company expects to send a Circular with details of the offer to eligible shareholders in the coming weeks.

After taking the above information into account, the directors have concluded that there are reasonable grounds to believe that the preparation of the financial report on a going concern basis is appropriate.

No other matter or circumstance has arisen since 31 December 2008 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial periods, or
- (b) the results of those operations in future financial periods, or
- (c) the Group's state of affairs in future financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

This report is made in accordance with a resolution of the directors.



.....
Jeff Harding
Chairman

Melbourne
28 February 2009

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Auditor's Independence Declaration

As lead auditor for the review of Ceramic Fuel Cells Limited for the half year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Ceramic Fuel Cells Limited and the entities it controlled during the period.



Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
28 February 2009



CERAMIC FUEL CELLS LIMITED

Clean power for your home

Interim Financial Report

For the half-year ended 31 December 2008

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Ceramic Fuel Cells Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

A copy of this interim financial report may be obtained from the company's website: www.cfcl.com.au

Consolidated Income Statements

For the half-year ended 31 December 2008

	Notes	Half-year 2008 \$	2007 \$
Revenue from continuing operations	3	2,360,923	1,825,420
Other income	4	4,163,346	1,476,084
Research & Product Development		(5,316,716)	(6,161,372)
General & Administration		(5,498,133)	(4,796,670)
Sales & Marketing		(886,886)	(988,224)
Impairment charge	5(b)	(27,459,991)	(1,074,516)
Loss before income tax		(32,637,457)	(9,719,278)
Income tax expense		-	-
Loss for the half-year attributable to members of Ceramic Fuel Cells Limited		(32,637,457)	(9,719,278)
		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share	7	(9.47)	(3.14)

The above consolidated income statements should be read in conjunction with the accompanying notes.

Consolidated Balance Sheets

As at 31 December 2008

	Notes	31 December 2008 \$	30 June 2008 \$
ASSETS			
Current Assets			
Cash and cash equivalents		4,666,311	12,650,750
Trade and other receivables		640,990	712,188
Financial assets	5(a)	6,949,739	-
Other		468,010	417,932
Total Current Assets		<u>12,725,050</u>	<u>13,780,870</u>
Non-Current Assets			
Financial assets	5(a)	-	30,649,431
Plant and equipment		18,589,056	14,161,748
Intangibles		1,000	1,000
Total Non-Current Assets		<u>18,590,056</u>	<u>44,812,179</u>
Total Assets		<u>31,315,106</u>	<u>58,593,049</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		1,668,060	1,588,346
Provisions		974,013	916,220
Deferred revenue		716,142	717,409
Total Current Liabilities		<u>3,358,215</u>	<u>3,221,975</u>
Non-Current Liabilities			
Provisions		606,399	418,624
Total Non-Current Liabilities		<u>606,399</u>	<u>418,624</u>
Total Liabilities		<u>3,964,614</u>	<u>3,640,599</u>
Net Assets		<u>27,350,492</u>	<u>54,952,450</u>
EQUITY			
Contributed equity		199,583,570	199,583,570
Reserves		3,656,632	(1,378,867)
Retained losses		(175,889,710)	(143,252,253)
Total Equity		<u>27,350,492</u>	<u>54,952,450</u>

The above consolidated balance sheets should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

For the half-year ended 31 December 2008

	<i>Half-year</i> 2008 \$	<i>2007</i> \$
Total equity at the beginning of the half-year	<u>54,952,450</u>	<u>66,343,016</u>
Changes in the fair value of financial assets	3,898,009	(1,218,483)
Exchange differences on translation of foreign operations	<u>215,514</u>	<u>(69,550)</u>
Net expense recognised in equity	4,113,523	(1,288,033)
Loss for the half-year	<u>(32,637,457)</u>	<u>(9,719,278)</u>
Total recognised expense for the half-year	<u>(28,523,934)</u>	<u>(11,007,311)</u>
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity (net of transaction costs)	-	2,360
Employee share options	<u>921,976</u>	<u>778,198</u>
	<u>921,976</u>	<u>780,558</u>
Total equity at the end of the half-year	<u>27,350,492</u>	<u>56,116,263</u>

Total recognised income/(expense) for the half-year is entirely attributable to members of Ceramic Fuel Cells Limited.

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statements

For the half-year ended 31 December 2008

	Half-year	
	2008	2007
	\$	\$
Cash Flows from Operating Activities		
Receipts from customers (inclusive of goods and services tax)	1,630,012	653,631
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(9,033,450)</u>	<u>(11,067,487)</u>
	<u>(7,403,438)</u>	<u>(10,413,856)</u>
Other revenue	37,061	33,573
Net cash inflow (outflow) from operating activities	<u>(7,366,377)</u>	<u>(9,109,709)</u>
Cash Flows from Investing Activities		
Proceeds from sale of plant and equipment	310	-
Payments for plant and equipment	<u>(5,207,170)</u>	<u>(3,881,945)</u>
Decrease/(increase) in security deposits	<u>(956)</u>	<u>793</u>
Net cash inflow (outflow) from investing activities	<u>(5,207,816)</u>	<u>(3,881,152)</u>
Cash Flows from Financing Activities		
Net proceeds from financial assets	2,451,526	11,215,206
Proceeds from issue of shares	-	2,360
Share issue costs	-	-
Interest received	<u>1,227,671</u>	<u>1,270,574</u>
Net cash inflow (outflow) from financing activities	<u>3,679,197</u>	<u>11,217,566</u>
Net decrease in cash and cash equivalents	(8,894,996)	(1,773,295)
Cash and cash equivalents at the beginning of the half-year	12,650,750	3,484,004
Effects of exchange rate changes on cash and cash equivalents	<u>910,557</u>	<u>(83,535)</u>
Cash and cash equivalents at the end of the half-year	<u>4,666,311</u>	<u>1,627,174</u>

The above consolidated cash flow statements should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2008

Note 1. Basis of Preparation of Half-Year Report

This general purpose financial report for the interim half-year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Accounting Standard AASB 134 is fully compliant with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Ceramic Fuel Cells Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The financial report has been prepared on a going concern basis.

A significant uncertainty exists in relation to the Group's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The Group is progressing the commercialisation phase of its fuel cell technology and it requires the raising of additional funding to continue as a going concern.

Subsequent to the end of the financial period the company has entered into an agreement for the placement of shares to investors (refer to Note 6(a) *Share Placement*). The placement requires the approval of shareholders. The directors believe that if this approval is received then this will significantly mitigate the uncertainty expressed above.

In addition to this share placement, the company intends to undertake a rights issue to all ASX shareholders registered in Australia and New Zealand (refer to Note 6(b) *Australia and New Zealand Rights Issue*) and also to undertake an issue to all UK shareholders (refer to Note 6(c) *UK Issue*).

After taking into account all available information, the directors have concluded that there are reasonable grounds to believe that:

- the share placement will be approved by shareholders at an Extraordinary General Meeting to be held on or about 6 April 2009 and that the relevant shares will be issued and the proceeds received;
- the Group will be able to pay its debts as and when they become due and payable; and
- preparation of the financial report on a going concern basis is appropriate.

The directors have formed this view after considering the potential sources of future funding for the Group. In addition to the issue of equity, other funding sources may include, but are not limited to:

- generation of sales revenue through developing and selling pre-commercial and commercial products;
- liquidations of the Group's existing investment portfolio, either in part or in whole;
- disposing of non-strategic assets;
- securing debt financing for new assets, either in part or in whole;
- drawdown on the regional development grant offered by the state government of North Rhine Westphalia; and
- the securing of government grants to assist in the financing of planned projects.

No adjustments were made to the financial report in relation to this uncertainty.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2008

(continued)

Note 2. Segment Information

Primary reporting format – geographical segments

	<i>Australia</i>	<i>Europe</i>	<i>Consolidated</i>
	\$	\$	\$
Half-year 2008			
Segment revenue	<u>154,065</u>	<u>798,147</u>	<u>952,212</u>
Unallocated revenue and other income			<u>5,572,057</u>
Total revenue and other income			<u>6,524,269</u>
Segment result	<u>(9,562,084)</u>	<u>(1,187,439)</u>	<u>(10,749,523)</u>
Unallocated revenue less unallocated expenses			<u>(21,887,934)</u>
Loss before income tax			<u>(32,637,457)</u>
Half-year 2007			
Segment revenue	<u>114,337</u>	<u>231,093</u>	<u>345,430</u>
Unallocated revenue			<u>1,512,395</u>
Total revenue and other income			<u>1,857,825</u>
Segment result	<u>(10,616,618)</u>	<u>(984,218)</u>	<u>(11,600,836)</u>
Unallocated revenue less unallocated expenses			<u>1,881,558</u>
Loss before income tax			<u>(9,719,278)</u>

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2008

(continued)

	<i>Half-year</i> 2008	2007
	\$	\$
Note 3. Revenue		
From continuing operations		
<i>Sales revenue</i>		
Field trial income	930,759	331,093
Licensing income	9,391	14,337
	<u>940,150</u>	<u>345,430</u>
<i>Other revenue</i>		
Interest	1,420,773	1,479,990
Total revenue from continuing operations	<u>2,360,923</u>	<u>1,825,420</u>

Note 4. Other Income

Net foreign exchange gain	4,150,974	1,443,679
Net gain on disposal of plant and equipment	310	-
Sundry income	12,062	32,405
Total other income	<u>4,163,346</u>	<u>1,476,084</u>

<i>31 December</i> 2008	<i>30 June</i> 2008
\$	\$

Note 5. Financial Assets - Investments

(a) Unlisted Securities

Current assets		
Financial assets	6,949,739	-
Non-current assets		
Financial assets	-	30,649,431
	<u>6,949,739</u>	<u>30,649,431</u>

Investments include the following revaluation surplus/(deficit) (transferred to equity) as at reporting date: - (3,898,009)

Unlisted, interest-bearing securities denominated in:

Australian dollars	-	4,850,925
European euros	5,533,931	20,911,477
UK pounds sterling	1,415,808	4,887,029
	<u>6,949,739</u>	<u>30,649,431</u>

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2008

(continued)

Note 5. Financial Assets – Investments (continued)

(b) Impairment Charge

As a result of the continuing state of the debt securities market the directors have decided to treat the decreases in fair values of certain financial assets as impairments in the value of those assets. The amount of the impairment charge as at reporting date is \$27,459,991. (This amount includes a debit balance of \$3,898,009 that had been included in the Investment Revaluation Reserve in equity at 30 June 2008).

Fair value has been based on indicative selling values for the securities, obtained subsequent to the end of the financial period

Note 6. Events occurring after the balance sheet date

(a) Share placement

Subsequent to the end of the financial period the company has entered into a Placing Agreement with its UK Broker, Nomura Code Securities Limited (“Nomura”), and has entered into Subscription Agreements with investors to issue a total of 409,046,688 ordinary shares at a price of 2.2 pence (approximately 5 Australian cents) and raise the equivalent of A\$20.1m (before costs). Nomura has in turn entered into agreements with certain financial institutions to place the shares on the terms specified. The issue of these shares is subject to the shareholders approving the issue at an Extraordinary General Meeting. The notice of meeting is expected to be mailed on or about 6 March 2009 for a meeting on or about 6 April 2009.

(b) Australia and New Zealand rights issue

At a meeting on 27 February 2009 the directors decided that, upon entering into the agreements specified in Note 6(a) above, that they would seek to undertake a rights issue to ASX shareholders registered in Australia and New Zealand. The company will seek to raise up to A\$10,000,000 at a share issue price of 5 cents per share. The company intends to lodge a prospectus with the Australian Securities and Investment Commission in the coming weeks to allow it to undertake this rights issue. The rights issue is expected to be completed during April 2009.

(c) UK issue

At a meeting on 27 February 2009 the directors decided that, upon entering into the agreements specified in Note 6(a) above, that they would seek to undertake an Open Offer to existing United Kingdom and European AIM shareholders, to raise up to £2,227,000 at a share issue price of 2.2 pence. The Company has been advised that an Open Offer to AIM shareholders to raise less than €2,500,000 can be undertaken without a prospectus. The Company expects to send a Circular with details of the offer to eligible shareholders in the coming weeks.

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2008

(continued)

	<i>Half-year 2008 Cents</i>	<i>2007 Cents</i>
Note 7. Earnings Per Share		
Basic and diluted earnings per share	(9.47)	(3.14)
	<i>Number</i>	<i>Number</i>
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	344,745,674	309,743,170
	\$	\$
Earnings used in calculating basic and diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	(32,637,457)	(9,719,278)

There were no extraordinary items, nor net loss attributable to outside equity interests, to be taken into account in determining earnings used in calculating basic and diluted earnings per share.

Information concerning the classification of securities

All options issued will be anti-dilutive until such time as the Group generates profits, rather than losses, hence all options have been excluded from the calculation of diluted earnings per share.

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 21 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Ceramic Fuel Cells Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



.....
Jeff Harding
Chairman

Melbourne
28 February 2009

Independent auditor's review report to the members of Ceramic Fuel Cells Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Ceramic Fuel Cells Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Ceramic Fuel Cells Limited Group (the Consolidated Entity). The consolidated entity comprises both Ceramic Fuel Cells Limited (the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Ceramic Fuel Cells Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

**Independent auditor's review report to the members of
Ceramic Fuel Cells Limited (continued)**

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Ceramic Fuel Cells Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Significant uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, we draw your attention to Note 1 in the financial report which indicates that there is significant uncertainty as to whether the Consolidated Entity will continue as a going concern while the Consolidated Entity remains reliant on securing additional sources of funds and, therefore, whether the Company and its controlled entities will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.



PricewaterhouseCoopers



Chris Dodd
Partner

Melbourne
28 February 2009