



24 November 2009

Chairman's Address

Annual General Meeting held on Tuesday 24 November 2009

Introduction

Good afternoon Ladies and Gentlemen, my name is Jeff Harding and I am the Chairman of Ceramic Fuel Cells. On behalf of the Company's Board I welcome you to our 2009 Annual General Meeting.

Before we formally open the meeting, I would like to say a few words about the market opportunities for the Company and about some of the notable developments of the last year.

After the formal part of the meeting Managing Director Brendan Dow will give a more detailed presentation on the Company's activities.

Energy Market Transformation

It is now well recognised that energy supplies throughout the world require transformation.

In the developed world, energy use is rising, particularly summer peak demand for electricity. Billions of dollars are being spent to upgrade ageing power networks to cope with this demand. These costs are passed on to consumers through increased power bills.

Here in Australia we have been insulated from some of these expenses, but this is changing.

For example, earlier this year the Queensland Government reported that there were 1,000 air-conditioners being installed in South-East Queensland each week; and that each one would require an expenditure of \$5,000 to reinforce and upgrade the existing power network. That adds up to \$5 million per week.

These huge network costs are flowing into higher power bills for consumers. In Australia, New South Wales had a 20% increase this year in power costs. Other markets are facing similar increases. And that's just to keep the network maintained – let alone factoring in a penalty cost for producing CO₂.

All this may - and probably will - change again when the world leaders gather shortly in Copenhagen to discuss the challenges of climate change.

These pressures are also being felt in developed markets in Europe, North America and Asia.

The European Commission estimates that around €1 trillion will have to be spent on improving Europe's electricity network and generation capacity between now and 2030 to respond to climate and security of supply challenges.

Less developed countries are facing different – but equally urgent – challenges. China, India and parts of South America and Asia, all need to build new infrastructure to deliver reliable power, and in some cases to deliver power to many people that haven't previously had access to electricity.

The challenge of course is that all of this new electricity must come with far lower greenhouse gas emissions.

Governments in Australia, Europe and around the world have set targets to reduce emissions, and there will be many ways to meet these targets.

On the demand side, increasing energy efficiency is part of the answer, but it is not the whole answer.

Renewable energies such as solar, wave, wind and geothermal are also necessary but not sufficient for meeting demand.

Australian Governments are spending billions on carbon capture technology, to extend the life of coal generators. It will be many years before we know if this works, and if it is safe and economic.

Nuclear energy is also an option, but has its own challenges – long lead times for planning, approval and construction, safety and environmental issues, as well as currently being a very expensive way to generate electricity.

Role of Distributed Generation

One important part of the answer is distributed generation – generating electricity close to where it is consumed.

The move from a handful of large power stations, towards thousands of small-scale generators embedded where the power is needed, is a bit like the evolution we have seen from huge mainframe computers to personal computers and now hand-held smart phones, and from large centralised air-conditioning plants in buildings to large networks of small efficient units installed where cooling is needed.

Distributed generation using natural gas provides low emission power and heat; baseload as well as peak power; and significant energy network cost savings. It also has huge benefits for the environment,

Ceramic Fuel Cells' technology is ideally suited for distributed generation because it has very high efficiencies – we can generate electricity at close to double the efficiency of the current power grid.

Utilities in Europe are seriously interested in its potential to save huge investments in network upgrades and new generating capacity.

Turning Technology into Products

The standout technical milestone during the year was achieving electrical efficiency of 60 percent at the power point. We believe this is the highest electrical efficiency ever achieved from any technology which converts hydrocarbon fuels into electricity.

During the year the Company continued to develop integrated power and heating products with our partners in Germany, France and the United Kingdom. We successfully demonstrated semi-integrated products, and have now moved to develop and deploy fully integrated products.

Earlier this year the Company also developed and launched our BlueGen modular generator product. BlueGen provides both power and hot water, and is ideal for customers and markets – including Australia – that do not need a fully integrated product. Both products use the same core fuel cell module.

BlueGen was launched in May 2009 by the Victorian Premier John Brumby. Since the launch we have received a tremendous amount of interest from customers in many international and domestic markets. The first BlueGen demonstration unit will be installed in a VicUrban showcase site in the next few weeks.

Today we were pleased to announce our first distribution agreement for BlueGen, with the leading Australian green retailer Neco. We will hear more about Neco later in the meeting.

Government

Energy policies in many countries have been expanded from a focus on only *renewable* power towards *low emission* power.

Germany, the United Kingdom, California, Japan and Korea, have all announced or implemented policies to help fuel cell products like ours get into the market.

We are encouraging governments in Australia to adopt similar policies. We have met with and provided submissions to State and Federal Governments. We will continue to push our case for changes that recognise the enormous benefits our technology can bring.

In the meantime we will continue to develop the sales and distribution networks for our products, especially BlueGen. We are not waiting for a Government handout, and we are confident we can sell products without any subsidies – but policies which recognise the huge carbon savings and other benefits of our technology will help us get into the mainstream market much faster.

Manufacturing

The key achievement during the year was commissioning our volume fuel cell manufacturing plant in Heinsberg, Germany. The plant, which opened in October 2009, uses state of the art automated manufacturing equipment to make the fuel cell 'stacks' which are the 'heart' of our technology. The plant will allow the Company to scale up production to reduce the costs of each stack.

We hosted more than 100 guests at the official opening, including customers, suppliers, partners, Government and German media, and the response across the board was positive and excited. The plant is a tribute to our staff here and in Germany.

FY09 Finances

On the revenue side, the Company's business revenues increased during the year by 172 percent, to A\$1.7 million.

Costs were tightly managed, with Research and Product Development spending down 20 percent from last year, and Sales and Marketing costs down by 19.5 percent. This resulted in cash outflow from operations being A\$3.2 million lower than last financial year.

Capital spending was largely for the Heinsberg manufacturing plant. The expected final cost of the plant is A\$16.5 million, which is around A\$5 million under the original budget.

These operational achievements were overshadowed by large impairment charges on financial investments, leading to a higher net loss for the year. As previously announced, we have commenced legal action to recover those losses. The costs of the legal action are being met by IMF Australia Limited. The preliminary legal matters are being dealt with in the Federal Court in Victoria, and we believe the matter will be heard by the Court in the first half of next calendar year.

In order to restore these funds, in April the Company raised A\$37 million through a placement and rights issue. The Board acknowledges and thanks shareholders for their strong support of the Company.

In September the Company sold all its remaining financial investments. At 30 September 2009 the Company had cash of A\$25.6 million.

Whilst mentioning the capital markets, it is pleasing to note that we have joined the ASX Top 300 category.

I am also pleased to report that the Company has attracted many new shareholders. Over the last two years the number of shareholders has more than doubled, from 4,300 to more than 9,000. The Board welcomes these new shareholders.

People

The Board was pleased to report that there were zero safety incidents recorded during the year. This was a particularly pleasing result during the construction and commissioning of the plant in Germany.

At the executive management level, we recently welcomed two senior managers – Frank Obernitz and Paddy Thompson – to lead business development activities in Europe and the UK. They are actively pursuing many sales opportunities and we are confident they will make significant contributions to the Company.

The Board welcomed Dr Peter Binks and Mr Roy Rose as Melbourne-based non-executive directors. They bring a wealth of experience and enthusiasm to the Board.

Professor Mike Dureau is resigning from the Board at this AGM. Mike joined the Board as a non-executive director and Chairman of the Board Technical Committee in December 2005 and the Board thanks him for his valuable contribution during that time.

Conclusion

In conclusion, the world is facing enormous challenges: the demand for electricity is going up, yet greenhouse gas emissions must come down, quickly, to avoid dangerous climate change.

There are huge global markets for products that can provide solutions to this challenge.

Ceramic Fuel Cells is well placed to seize these opportunities. We have 17 years of experience and wholly-owned intellectual property. We have world-leading technology, demonstrated over many years in several countries.

We have volume manufacturing in place, and we are quickly moving to sell, install and service our products.

Like any breakthrough product there are always challenges ahead, however we are tremendously excited about the opportunities for the Company in the coming year.

Thank you for your continued support as shareholders of Ceramic Fuel Cells.

Jeff Harding

Chairman