



**CERAMIC FUEL CELLS LIMITED**

*Clean power for your home*

19 August 2010

**CERAMIC FUEL CELLS LIMITED**

**PRELIMINARY RESULTS**

**12 MONTHS ENDED 30 JUNE 2010**

Ceramic Fuel Cells Limited, (AIM / ASX: CFU) a leading developer of high efficiency and low emission electricity generation units for homes and other buildings, today announces its preliminary results for the year ended 30 June 2010.

The full results are available at [www.cfcl.com.au](http://www.cfcl.com.au).

**Highlights in the period and year to date:**

**Customers and Products**

- BlueGen modular power and heat generator (power and hot water)
  - Obtained CE approval in April 2010
  - Orders for 51 BlueGen units from leading energy companies and other foundation customers in many large markets: Germany, United Kingdom, Switzerland, The Netherlands, Japan, Australia and the USA
  - Includes order for 30 units from the Victorian Government's Office of Housing. Expect to finalise the order conditions in August 2010
- Integrated mCHP products (power, hot water and space heating)
  - First units installed with partners in Germany, UK and France
  - In discussions to confirm details of next orders
- Common Fuel Cell Module, with the World's Highest Electrical Efficiency
  - CFCL Gennex fuel cell module is the core technology in both the integrated mCHP and BlueGen products
  - All of the integrated mCHP and BlueGen products have achieved initial electrical efficiency of between 59.3% and 62.4%
  - Repeatable world-leading electrical efficiency in a range of real world conditions in many markets
- As at 19 August, six integrated mCHP units and 12 BlueGen units operating with customers in seven countries
- BlueGen Distribution in Australia
  - Appointed non-exclusive distributors of the BlueGen product: green retailer Neco, based in Melbourne, and Harvey Norman's Commercial Division, in New South Wales and the ACT.
  - Initially marketing to commercial customers like local Councils, State Governments, 'green building' developers and energy utilities.

## Large Carbon Savings

- CSIRO Report confirms significant carbon savings potential from BlueGen
- In Victoria each BlueGen unit can save up to 14 tonnes of carbon per year (1.5 kW continuous operation, replacing a gas hot water unit).

## Prestigious German Innovation Award

- Awarded the Innovation NRW.INVEST AWARD for 2010, by the Government of North Rhine-Westphalia in Germany
- CFCL was honoured to receive the 2010 award for Innovation. The 2009 winner of the Innovation award was Research in Motion, the developer of the BlackBerry device.
- Australian Ambassador to Germany, Mr Peter Tesch: *"I am convinced that Ceramic Fuel Cells will shape the world market and especially the German market of private energy supply."*

## Feed-in Tariffs

### Victorian Government Feed-in Tariff Review

- Victorian Government is reviewing the expansion of feed-in tariffs to include low-emissions technologies like fuel cells
- A feed-in tariff is a rate paid for electricity fed back into the electricity grid from designated renewable and low emission electricity generation sources
- CFCL welcomes the Government's review and has made a submission, which is available at [www.cfcl.com.au](http://www.cfcl.com.au).

### United Kingdom Feed-in Tariff

- In April 2010 the UK Government introduced a feed-in tariff for small scale power and heating products
- Energy retailers pay homeowners 10 pence per kWh generated plus an additional 3 pence per kWh exported to the grid
- To be eligible for the tariff, the product must be certified under the Microgeneration Certification Scheme (MCS). CFCL is working with industry partners to apply the relevant MCS standards to the Company's products. CFCL expects to achieve MCS certification during September 2010.

## Manufacturing

### Heinsberg, Germany

- Completed construction of a plant for the volume assembly of fuel cell stacks. The plant includes automated and semi-automated equipment.
- All assembly processes are fully commissioned and operating, including the ink mixing equipment and the robotic seal dispensing and assembly machines
- Currently making fuel cell stacks at the plant using a lower volume furnace
- Also continuing to make stacks in Melbourne to meet current demand
- To increase the volume of stacks the Company will need to use its larger furnaces already installed at the Heinsberg plant. CFCL is currently working with the supplier of the large volume furnaces to ensure the furnaces will produce fuel cell stacks in larger volumes at acceptable quality standards

## **BlueGen Assembly**

- CFCL examined several alternatives for BlueGen assembly, including toll manufacturing
- To preserve product quality whilst reducing costs, CFCL is assembling complete BlueGen units in-house
- BlueGen assembly currently in Melbourne; from early 2011, BlueGen assembly in the Heinsberg plant
- CFCL is building BlueGen units now to meet expected customer demand

## **Powder Plant**

- Plant in the UK uses proprietary process to make high quality ceramic powders.
- The Plant is currently making zirconia powders to be used in the Company's fuel cells. External customers also evaluating samples for biomedical, refractory and fuel cell applications.

## **Licence Agreement with NexTech**

- In June 2010 CFCL entered a licence agreement with USA-based NexTech Materials, Ltd for NexTech to commercially offer solid oxide fuel cell interconnect coating solutions based on CFCL's patented formulations
- CFCL has patented a technology which protects metal interconnect plates from chromium poisoning. This solution, which CFCL uses in its own fuel cell products, is useful for other developers of solid oxide fuel cells.
- Based in Ohio, NexTech Materials is a leading provider of technology solutions for the solid oxide fuel cell market. NexTech's customers are located in more than 35 countries and include fuel cell researchers, developers and manufacturers.
- CFCL will receive a royalty from NexTech Materials' sales, creating an additional revenue stream from CFCL's existing intellectual property.
- CFCL's Fuel Cell Interconnect Device is patented in the United States, Japan, Europe (France, Germany, Italy and the United Kingdom), Australia and New Zealand.

## **Financial**

Year to 30 June 2010 (unaudited FY10 results)

- Revenue from Operations: AUD 2.0 million (GBP 1.2 million)
  - Up 21 percent from FY09: AUD 1.7 million (GBP 1.0 million)
- Net operating cash outflow: AUD 17.2 million (GBP 9.9 million)
  - FY09: AUD 16.6 million (GBP 9.5 million)
  - At 30 June 2010 the value of BlueGen items in inventory was AUD 1.0 million (GBP 0.6 million).
- Operating costs: AUD 21.5 million (GBP 12.4 million)
  - In line with FY09: AUD 21.2 million (GBP 12.2 million)
- Net loss: AUD 19.7 million (GBP 11.3 million)
  - FY09: AUD 42.2 million (GBP 24.3 million)
- Cash balance at 30 June 2010: AUD 11.5 million (GBP 6.6 million)
  - Includes AUD 2.6 million (GBP 1.5 million) in bank account pledged to support guarantees.

## **Fundraising**

Fundraising announced 19 August 2010, to take the Company to the next stage of its commercial development, including for working capital and to scale up production of its fuel cell products to meet expected future demand. See separate announcement.

**ENDS**

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### **About Ceramic Fuel Cells Limited:**

Ceramic Fuel Cells Limited is a world leader in developing fuel cell technology to provide highly efficient and low-emission electricity from widely available natural gas. Ceramic Fuel Cells is developing fully integrated power and heating products with leading energy companies E.ON UK in the United Kingdom, GdF Suez in France and EWE in Germany. The company has sold BlueGen units to major utilities and other foundation customers in Germany, the United Kingdom, Switzerland, The Netherlands, Japan, Australia and the USA.

Ceramic Fuel Cells is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).

[www.cfcl.com.au](http://www.cfcl.com.au)



**CERAMIC FUEL CELLS LIMITED**

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# *ASX Preliminary Final Report*

*Year ended 30 June 2010*

Lodged with the ASX under Listing Rule 4.3A

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## **Results for announcement to the market**

*Year ended 30 June 2010*

*(Previous corresponding period: Year ended 30 June 2009)*

	<b>Movement</b>	<b>%</b>		<b>\$</b>
<b>Revenue</b> from continuing operations	Up	21.1	to	2,032,984
<b>Loss</b> after tax attributable to members	Down	53.4	to	19,651,870
<b>Net Loss</b> for the period attributable to members	Down	53.4	to	19,651,870

Dividend type	Amount per security	Franked amount per security
Final dividend	None	Not applicable
Interim dividend	None	Not applicable

No dividends were recommended, declared or paid during the period.

The Directors do not propose to recommend the payment of a dividend in respect of the period.

There is no dividend re-investment plan in operation.

### **Brief Explanation of Results**

Refer to attached commentary

## **Preliminary Consolidated Statement of Comprehensive Income**

*For the year ended 30 June 2010*

	<b>Note</b>	<b>2010</b> \$	<b>2009</b> \$
<b>Revenue from continuing operations</b>	2	<b>2,032,984</b>	1,679,399
Other income	3	<b>255,433</b>	2,100,969
Research & Product Development		<b>(10,257,270)</b>	(9,861,834)
General & Administration	4	<b>(8,919,372)</b>	(9,614,608)
Sales & Marketing		<b>(2,334,848)</b>	(1,731,444)
Net foreign exchange gain/(loss)		<b>(3,355,754)</b>	2,711,657
Impairment reversal/(charge)		<b>2,926,957</b>	(27,459,991)
<b>Loss before income tax</b>		<b>(19,651,870)</b>	(42,175,852)
Income tax expense		-	-
<b>Loss for the year entirely attributable to members of Ceramic Fuel Cells Limited</b>	9(b)	<b>(19,651,870)</b>	(42,175,852)
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	9(a)	<b>(3,345,291)</b>	(582,120)
Changes in the fair value of financial assets		-	3,898,009
<b>Other comprehensive income for the year, net of tax</b>		<b>(3,345,291)</b>	3,315,889
<b>Total comprehensive income/(expense) for the year entirely attributable to members of Ceramic Fuel Cells Limited</b>		<b>(22,997,161)</b>	(38,859,963)
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the company</b>			
Basic and diluted earnings per share	10	<b>(1.91)</b>	(8.58)

*The above preliminary consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

## Preliminary Consolidated Balance Sheet

As at 30 June 2010

	Note	2010 \$	2009 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	11,474,299	25,527,144
Trade and other receivables		836,636	452,479
Inventories		1,081,472	80,092
Financial assets		-	4,253,041
Other		445,842	352,105
<b>Total Current Assets</b>		<u>13,838,249</u>	<u>30,664,861</u>
<b>Non-Current Assets</b>			
Plant and equipment		19,435,452	20,275,958
Intangible assets		1,000	1,000
<b>Total Non-Current Assets</b>		<u>19,436,452</u>	<u>20,276,958</u>
<b>Total Assets</b>		<u>33,274,701</u>	<u>50,941,819</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		1,307,448	817,544
Borrowings	6	271,944	-
Provisions		1,161,925	843,125
Deferred revenue	7	2,261,610	258,111
<b>Total Current Liabilities</b>		<u>5,002,927</u>	<u>1,918,780</u>
<b>Non-Current Liabilities</b>			
Borrowings	6	1,788,647	-
Provisions		437,644	533,099
<b>Total Non-Current Liabilities</b>		<u>2,226,291</u>	<u>533,099</u>
<b>Total Liabilities</b>		<u>7,229,218</u>	<u>2,451,879</u>
<b>Net Assets</b>		<u>26,045,483</u>	<u>48,489,940</u>
<b>EQUITY</b>			
Contributed equity	8	230,415,020	230,415,020
Reserves	9(a)	710,438	3,503,025
Retained profits/(losses)	9(b)	<u>(205,079,975)</u>	<u>(185,428,105)</u>
<b>Total Equity</b>		<u>26,045,483</u>	<u>48,489,940</u>

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

## **Preliminary Consolidated Statement of Changes in Equity**

For the year ended 30 June 2010

	<b>Note</b>	<b>2010</b> \$	<b>2009</b> \$
<b>Total equity at the beginning of the year</b>		<u>48,489,940</u>	<u>54,952,450</u>
Changes in the fair value of financial assets	9(a)	-	3,898,009
Exchange differences on translation of foreign operations	9(a)	<u>(3,345,291)</u>	<u>(582,120)</u>
<b>Net income/(expense) recognized in equity</b>		<b>(3,345,291)</b>	<b>3,315,889</b>
<b>Profit/(loss) for the year</b>		<u><b>(19,651,870)</b></u>	<u><b>(42,175,852)</b></u>
<b>Total recognized income/(expense) for the year</b>		<u><b>(22,997,161)</b></u>	<u><b>(38,859,963)</b></u>
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity (net of transaction costs)	8	-	30,831,450
Employee share options	9(a)	<u>552,704</u>	<u>1,566,003</u>
		<u>552,704</u>	<u>32,397,453</u>
<b>Total equity at the end of the year</b>		<u><b>26,045,483</b></u>	<u><b>48,489,940</b></u>

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

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

## **Preliminary Consolidated Statement of Cash Flows**

For the year ended 30 June 2010

	<i>Note</i>	<b>2010</b> \$	<b>2009</b> \$
<b>Cash Flows from Operating Activities</b>			
Receipts from customers (inclusive of goods & services tax)		<b>2,290,575</b>	2,030,435
Payments to suppliers and employees (inclusive of goods & services tax)		<b>(21,764,342)</b>	(18,800,097)
		<b>(19,473,767)</b>	(16,769,662)
Grant revenue		<b>2,220,798</b>	123,370
Other revenue		<b>107,031</b>	51,428
Interest paid		<b>(73,196)</b>	-
<b>Net cash inflow (outflow) from operating activities</b>		<b>(17,219,134)</b>	(16,594,864)
<b>Cash Flows from Investing Activities</b>			
Decrease/(increase) in security deposits		<b>(4,394)</b>	515
Proceeds from sale of plant and equipment		<b>500</b>	810
Payments for plant and equipment		<b>(3,874,946)</b>	(8,233,045)
<b>Net cash inflow (outflow) from investing activities</b>		<b>(3,878,840)</b>	(8,231,720)
<b>Cash Flows from Financing Activities</b>			
Net proceeds from/(payments for) financial assets		<b>7,057,546</b>	4,327,143
Proceeds from borrowings		<b>2,449,686</b>	-
Repayment of borrowings		<b>(130,051)</b>	-
Interest received		<b>309,929</b>	2,153,155
Proceeds from issue of shares		-	32,234,327
Share issue costs		-	(1,402,877)
<b>Net cash inflow from financing activities</b>		<b>9,687,110</b>	37,311,748
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(11,410,864)</b>	12,485,164
Cash and cash equivalents at the beginning of the financial year		<b>25,527,144</b>	12,650,750
Effects of exchange rate changes on cash and cash equivalents		<b>(2,641,981)</b>	391,230
<b>Cash and cash equivalents at the end of the year</b>	5	<b>11,474,299</b>	25,527,144

The above preliminary consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## **Notes to the Preliminary Consolidated Financial Statements**

*Year ended 30 June 2010*

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## Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2010

### Note 1. Summary of Significant Accounting Policies

There have been no material changes in the company's application of its significant accounting policies as presented in the company's consolidated financial statements for the year ended 30 June 2009. Readers of this report should refer to Note 1, *Summary of Significant Accounting Policies*, in the afore-mentioned financial statements for details of these accounting policies.

	2010	2009
	\$	\$

### Note 2. Revenue

#### From continuing operations

##### Sales revenue

Fuel cell products	2,014,660	1,670,008
Powder sales income	18,324	-
Licensing income	-	9,391
Total revenue from continuing operations	2,032,984	1,679,399

### Note 3. Other Income

Net interest received	136,384	1,947,019
Export Market Development Grant	-	123,370
Sundry income	118,768	29,815
Net gain on disposal of plant and equipment	281	765
Total other income	255,433	2,100,969

### Note 4. General & Administration Expenses

General & Administration expenses includes the following specific expense:

Share options expense	552,704	1,566,003
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### Note 5. Cash and Cash Equivalents

The amount of cash and cash equivalents at 30 June 2010 includes an amount of €1,800,000 (A\$2,579,166) which is held in a CFCL Group bank account pledged to support a bank guarantee issued in relation to a government grant received during the current reporting period (refer to Note 7 Deferred Revenue). The cash in this bank account is not available for use by the CFCL Group.



## Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2010

(continued)

2010  
\$

2009  
\$

### Note 9. Reserves and Retained Profits/(Losses)

#### (a) Reserves

Share-based payments reserve	4,377,872	3,825,168
Foreign currency translation reserve	(3,667,434)	(322,143)
Investments revaluation reserve	-	-
Total reserves	<u>710,438</u>	<u>3,503,025</u>

#### Share-based payments reserve

Balance at 1 July	3,825,168	2,259,165
Option expense	552,704	1,566,003
Balance at 30 June	<u>4,377,872</u>	<u>3,825,168</u>

#### Foreign currency translation reserve

Balance at 1 July	(322,143)	259,977
Currency translation differences arising during the year	(3,345,291)	(582,120)
Balance at 30 June	<u>(3,667,434)</u>	<u>(322,143)</u>

#### Investments revaluation reserve

Balance at 1 July	-	(3,898,009)
Revaluation - gross	-	3,898,009
Balance at 30 June	<u>-</u>	<u>-</u>

#### (b) Retained profits/(losses)

Movements in retained profits/(losses) were as follows:

Balance at 1 July	(185,428,105)	(143,252,253)
Net profit/(loss) for the year	(19,651,870)	(42,175,852)
Balance at 30 June	<u>(205,079,975)</u>	<u>(185,428,105)</u>

### Note 10. Earnings Per Share

	<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings per share	(1.91)	(8.58)

#### Weighted average number of shares

Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	<b>Number</b>	<b>Number</b>
	1,029,873,280	491,437,376

	<b>\$</b>	<b>\$</b>
<b>Earnings used in calculating basic and diluted earnings per share</b>		
Profit/(loss) attributable to the ordinary equity holders of the company	(19,651,870)	(42,175,852)

## **Notes to the Preliminary Consolidated Financial Statements**

Year ended 30 June 2010

(continued)

### **Note 11. Events Occurring After the Reporting Period**

#### **(a) Share placement**

Subsequent to the end of the financial year the company has entered into a Placing Agreement with its UK Broker, Nomura Code Securities Limited ("Nomura"), and has entered into a Subscription Agreement with an investor to issue a total of 95,238,096 ordinary shares at a price of 10.5 pence (approximately 18.25 Australian cents) and raise the equivalent of A\$17.4m (before costs). Nomura has in turn entered into agreements with certain financial institutions to place the shares on the terms specified.

#### **(b) Australia and New Zealand rights issue**

At a meeting on 17 August 2010 the directors decided that, upon entering into the agreements specified in Note 6(a) above, 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\$21,425,500 at a share issue price of 18.25 cents per share. The company intends to lodge a prospectus with the Australian Securities and Investment Commission in the coming week to allow it to undertake this rights issue. The rights issue is expected to be completed during September 2010.

#### **(c) UK issue**

At a meeting on 17 August 2010 the directors decided that, upon entering into the agreements specified in Note 6(a) above, they would seek to undertake an Open Offer to existing United Kingdom and European AIM shareholders, to raise up to £2,060,666 at a share issue price of 10.5 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 week.

#### **(d) Settlement of legal case**

Agreement has been reached to settle legal action against the Company's former investment and treasury advisor, Oakvale Capital Limited, in relation to losses suffered in prior reporting periods on the Company's financial investments. The litigation was funded by ASX-listed litigation funder IMF Australia Limited (IMF). After legal costs and IMF's agreed share of the settlement sum, the Company will receive approximately A\$3.9 million (excluding GST). Oakvale's insurer has agreed to pay the settlement sum by 27 August 2010.

## ***Net tangible asset backing***

	<b><i>Consolidated</i></b>	
	<b><i>2010</i></b>	<b><i>2009</i></b>
	<b><i>cents</i></b>	<b><i>cents</i></b>
Net tangible asset backing per ordinary share	<b>2.5</b>	<b>4.7</b>

## ***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 entity/s during the period.

## ***Compliance statement***

This report is based on accounts which are in the process of being audited.

## Financial Commentary

The summary financial results for the year from 1 July 2009 to 30 June 2010 are as follows:

*(All currency figures are shown in thousands)*

Income (Expense)	12 months to:				Change
	30-June-2010		30-June-2009		
	AUD 000	GBP 000	AUD 000	GBP 000	
<b>Sales Revenue</b>	<b>2,033</b>	<b>1,169</b>	<b>1,679</b>	<b>965</b>	<b>21.1%</b>
<b>Operating Expenses</b> (excluding depreciation)	<b>(19,250)</b>	<b>(11,069)</b>	<b>(18,842)</b>	<b>(10,834)</b>	<b>2.2%</b>
<b>Foreign exchange gain (loss)</b>	<b>(3,356)</b>	<b>(1,930)</b>	<b>2,712</b>	<b>1,559</b>	<b>-223.7%</b>
<b>Impairment Charge</b>	<b>2,927</b>	<b>1,683</b>	<b>(27,460)</b>	<b>(15,790)</b>	<b>-110.7%</b>
<b>Depreciation &amp; Amortisation</b>	<b>(2,261)</b>	<b>(1,300)</b>	<b>(2,365)</b>	<b>(1,360)</b>	<b>-4.4%</b>
<b>EBIT - profit (loss)</b>	<b>(19,907)</b>	<b>(11,447)</b>	<b>(44,276)</b>	<b>(25,460)</b>	<b>-55.0%</b>
<b>Interest &amp; Other Income</b>	<b>255</b>	<b>147</b>	<b>2,101</b>	<b>1,208</b>	<b>-87.9%</b>
<b>Net Profit (Loss) - after tax</b>	<b>(19,652)</b>	<b>(11,300)</b>	<b>(42,175)</b>	<b>(24,252)</b>	<b>-53.4%</b>
<b>Cash Outflow from:</b>					
- Operations	<b>(17,219)</b>	<b>(9,901)</b>	<b>(16,595)</b>	<b>(9,542)</b>	<b>3.8%</b>
- Capital Expenditure	<b>(3,879)</b>	<b>(2,230)</b>	<b>(8,232)</b>	<b>(4,733)</b>	<b>-52.9%</b>

### Revenue

The Group's business revenues increased during the period by 21 percent to AUD 2,033K (GBP 1,169K). This increase was driven by the commencement of sales of the Group's first modular power and heat generator called BlueGen. The Group recognises revenue upon installation of the unit. At year end 9 units had been installed and a further 2 units had been delivered and were awaiting installation. The current total number of orders received for BlueGen units is 51.

In parallel with the BlueGen product, the Group is also developing, with partners, an integrated mCHP product to provide power, hot water and space heating. At the start of the year work on this product moved from a focus on field trialing initial units to the development of commercial units. Revenue from these development activities at AUD 1,525K (GBP 877K) was slightly down on last year.

Interest and other income was AUD 255K (GBP 147K) this year compared to AUD 2,101K (GBP 1,208K) last year. The Group received AUD 1,811K (GBP 1,041K) less in interest income for the year due to lower interest rates and a decline in the level of funds invested over the year.

### Expenses

The Group spent AUD 10,257K (GBP 5,898K) on Research and Product Development activities which represented a 4% increase on last year. Expenditure on product development activities was broadly similar to last year with the increase in overall expenditure arising from a higher level of manufacturing activity associated with the rollout of the BlueGen units.

The Group employed 64 full time equivalent staff in R&PD and production activities, over the year which was slightly lower than last year

Sales and Marketing costs increased by 35%, to AUD 2,335K (GBP 1,343K). The increase in costs was driven by the expansion of business development and support activities in Europe associated with the rollout of the BlueGen product.

The Group's expenditure on General and Administration costs at AUD 8,919K (GBP 5,129K) was down 7 percent on last year. This was largely due to a reduction in the expensing of previously issued employee share options of AUD 1,013K (GBP 582K), partially offset by higher costs in Germany associated with the building of the plant there.

A foreign exchange loss on translation of AUD 3,356K (GBP 1,930K) arose during the year relating to the translation of cash balances held in foreign currencies back to Australian dollars. The Australian dollar appreciated 16% against the pound sterling and 21% against the euro across the year.

During the year the Company disposed of the remaining financial securities that it had held. These securities had been previously treated as impaired and had been written down to a fair value of AUD 4,253K at 30 June 2009. They were sold in the first half of the year for an amount greater than this which has given rise to a reversal of the previous impairment charge amounting to AUD 2,927K (GBP 1,321K).

### **Net Loss After Tax**

The net loss for the year was AUD 19,652K (GBP 11,300K), a reduction of AUD 22,524K (GBP 12,951K) over the prior year.

The main reasons for the reduced loss are outlined above and can be summarised as:

	AUD	GBP Equivalent
• Higher sales revenue	354K	204K
• Reduced impairment charge	30,386K	17,472K
Offset by:		
• Reduced interest and other income	1,846K	1,061K
• Increased operating expenses	303K	174K
• Turnaround from foreign exchange gain on translation to a loss in the current year	6,067K	3,489K

The net loss represents a loss of 1.91 cents per share (1.10 pence) compared to 8.58 cents (4.93 pence) last year.

### **Cashflow and Balance Sheet**

The Group's net cash outflow from operations was AUD 17,219K (GBP 9,901K) up by 3.7 percent over last year. As the Group commences the commercial rollout of its BlueGen product its level of working capital requirement is increasing. Inventory at year end has increased from AUD 80K (GBP 46K) in the prior year to AUD 1,081K (GBP 622K) this year as a result of purchasing component parts for production of BlueGen units.

Also included in net cash outflow from operations was a regional development grant from the Government of North Rhine Westphalia in Germany. The amount received was EUR 1,386K (equivalent at transaction date to AUD 2,221K and GBP 1,277K) and this has been included in deferred income in the balance sheet pending satisfaction of the obligations attached to the grant – refer to Note 7 in accompanying financial statements.

Cash outflow from investing activities was AUD 3,879K (GBP 2,230K) which was AUD 4,353K (GBP 2,502K) lower than last year. This reduction reflects the conclusion of the building programme at the plant in Germany.

Cash inflow from financing activities amounted to AUD 9,687K (GBP 5,570K). This principally arose from:

- The sale of financial securities discussed above which resulted in a cash inflow of AUD 7,058K (GBP 4,058K); and

- The proceeds from a sale-and-leaseback transaction of equipment at the German plant. The details of this transaction are described in Note 6 to the accompanying financial statements.

At 30 June 2010 the Group had cash of AUD 11,474K (GBP 6,597K) which was held on deposit with banks. Of this amount EUR 1,800K (AUD 2,579K / GBP 1,483K) was pledged to support a bank guarantee issued in relation to the government grant discussed above. These funds are not available for use by the Group.

### ***Subsequent Events***

On 19 August 2010 the Company announced:

- That it had entered into a Placing Agreement with its UK Broker and a Subscription Agreement with an investor to issue a total of 95,238,096 ordinary shares at a price of 10.5 pence to raise approximately AUD 17.4m (before cost);
- That it would undertake a rights issue to ASX shareholders registered in Australia and New Zealand. The company will seek to raise up to AUD 21,425K at a share issue price of 18.25 cents per share; and
- That it would seek to undertake an Open Offer to existing United Kingdom and European AIM shareholders, to raise up to GBP 2,061K at a share issue price of 10.5 pence.

These transactions are more fully described in Note 11 to the accompanying financial statements.

Also subsequent to the end of the financial year the Company agreed to settle a legal action that it had brought against a former investment and treasury advisor. Arising out of this settlement the Company will receive AUD 3,897K by the end of August 2010. This is more fully described in Note 11 to the accompanying financial statements.