



# CERAMIC FUEL CELLS

*Clean power for your home*



ANNUAL REPORT 2011

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Ceramic Fuel Cells Limited is a world leader in developing fuel cell technology to generate 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.

Ceramic Fuel Cells has also sold more than 300 BlueGen® gas-to-electricity generators to major utilities and other foundation customers in Germany, the United Kingdom, Switzerland, The Netherlands, Italy, Japan, Australia and the USA.

Ceramic Fuel Cells won the 2010-11 DuPont Design for a Sustainable Future innovation award and the Microgeneration UK 2011 Technical Innovation Award.

The Ceramic Fuel Cells group employs 130 staff across its headquarters in Melbourne and plants in the United Kingdom and Germany. Ceramic Fuel Cells is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).



## *Dear Shareholder*

I am pleased to introduce the 2011 Annual Report of Ceramic Fuel Cells Limited.

Ceramic Fuel Cells has developed and commenced sales of a highly efficient and environmentally friendly electricity generator for homes and other buildings. Our patented fuel cell technology converts natural gas into electricity at up to 60 percent electrical efficiency, with an additional 25 percent of energy being recovered as heat for hot water.

Our BlueGen generators produce up to two kilowatts of electricity with very high efficiency and low emissions. This year we have completed development of BlueGen, tested it extensively with a number of customers, and now are generating volume orders.

During the 2011 financial year the Company achieved the key goals set out in the review of operations in last year's Annual Report. In particular:

- An 81 percent increase in sales revenue, to \$3.6 million
- Orders for more than 200 BlueGen units and more than 200 integrated power and heating products
- Substantial sales (over 50 percent of the total) from Germany
- The appointment of BlueGen sales partners in Australia, the United Kingdom, Germany and The Netherlands
- A successful transfer of our BlueGen assembly from Noble Park to Germany

More details of these achievements, and the goals for the year ahead, are set out in Managing Director Brendan Dow's Review of Operations.

CFCL Management and Directors are confident that there is huge market potential for our products. For example in Germany alone there are 18.5 million homes with connection to natural gas and in Europe well over 5 million hot water heaters are sold each year.

We are focusing the Company's current resources on building sales in markets where we are already present. As penetration of these markets develops, we will look to enter new global markets.

The Company's technology - which is all developed in Australia and wholly-owned - is internationally recognised. Last year the Company and our BlueGen product received a number of prestigious awards:

- The NRW.INVEST AWARD for 2010, by the Government of North Rhine-Westphalia in Germany;
- In May 2011 the 2010-11 'CEO Award' - DuPont Australia and New Zealand's most prestigious innovation award;
- The 'Design for a Sustainable Future' award, one of seven categories at the biennial DuPont Australia & New Zealand Innovation Awards;
- The Microgeneration UK 2011 Technical Innovation Award, in June 2011;
- 'Innovator of the Year' award from Climate Alliance Limited, in September 2011.

In recent months the Board has appointed two additional non-executive directors to add financial and operational expertise as the Company scales up its operations. In May 2011 the Board appointed German-based Dr Roman Dudenhausen, who has extensive experience in strategic advice, marketing and innovation in the German energy industry. In early July 2011 the Board also appointed Ms Janine Hoey. Ms Hoey has had extensive experience in commercial, operations and finance roles in the clean energy and airline industries over the past 20 years. She has also joined the Company's Audit Committee.

During the 2011-12 financial year CFCL's focus will be to continue to substantially increase sales revenue and reduce unit costs as we move into volume sales of our products.

The Board thanks you for your ongoing support of the Company and looks forward to reporting to you on further achievements during the coming year.

Yours faithfully

**Jeff Harding**

*Chairman*

# Review of Operations and Activities

For the year ended 30 June 2010

## Introduction

Ceramic Fuel Cells Limited ("CFCL") has developed and commenced sales of a highly efficient and environmentally friendly electricity generator for homes and other buildings. Our patented fuel cell technology converts natural gas into electricity at up to 60 percent electrical efficiency, with an additional 25 percent of energy being recovered as heat for hot water. During the financial year CFCL completed developing its first product, began operating a factory in Germany, and increased sales six-fold, with strong sales in Germany and Australia.

## About Ceramic Fuel Cells

Ceramic Fuel Cells is a leader in developing solid oxide fuel cell technology to provide highly efficient and low-emission electricity from widely available natural gas.

A fuel cell is an electricity generator that converts gas into electricity and heat through an electrochemical reaction, without combustion or noise. Fuel cells can provide significant environmental benefits through high efficiency and low emissions.

CFCL was established in 1992 and listed on the ASX in July 2004 and on the London AIM market in March 2006. CFCL has a broad portfolio of wholly-owned intellectual property, including 27 patent families (i.e. a single invention covered in multiple jurisdictions) and 126 individual patents that have been granted in key global markets. This intellectual property portfolio extends from the basic raw materials of the Company's fuel cells through to complete power generating products.

Global energy markets are facing a transformation. Energy use is rising, requiring significant investment in new power generation and grid infrastructure. However there is widespread agreement that greenhouse gas emissions from electricity generation must be reduced. These forces create a very large global opportunity for low-emission energy technology, like solid oxide fuel cells, which can be deployed using the existing natural gas and electricity infrastructure.

These market forces also encourage a move away from large centralised power stations towards 'distributed generation', where small scale power stations are installed close to where the power is used.

CFCL's products have achieved electrical efficiency of 60 percent, which the Directors believe is higher than any other technology in the rapidly expanding market for small scale power and heating products. When heat is recovered from the electricity production process, total efficiency is up to 85 percent - twice as efficient as the average among current European power stations.

This very high efficiency can significantly cut carbon emissions from power generation.

There is now widespread recognition that maximising electrical efficiency is the key to creating the most value from small scale power and heating products, and the Directors believe the Company's achievements can create a strong competitive advantage in this very large emerging market.

## 2011 Financial Year

During the 2011 financial year the strong focus of the Company was to increase revenue from sales of its BlueGen® and integrated power and heating generators.

CFCL achieved the following key goals set out in the review of operations in the 2010 Annual Report:

Goal in 2010 Annual Report	Achievements to September 2011
<p>Sales of BlueGen units and Gennex modules</p> <ul style="list-style-type: none"> <li>Substantially increase sales to drive the Company closer to profitability.</li> <li>Secure follow-on orders from early BlueGen customers, and increase the size of orders from existing mCHP development partners.</li> <li>CFCL expects more than half of these sales to come from Germany; a large number from the UK and the remainder from Australia.</li> </ul>	<p>Achieved</p> <ul style="list-style-type: none"> <li>✓ 81 percent increase in sales revenue, to AUD 3.6 million</li> <li>✓ Orders for more than 200 BlueGen units and more than 200 Gennex modules (for integrated mCHP products)</li> <li>✓ Follow on orders from utility customers including Ausgrid in Australia and EWE in Germany</li> <li>✓ More than half of these sales came from Germany</li> </ul>
<p>Enter agreements in initial markets for local partners to provide installation and after-sales services for BlueGen products</p>	<p>Achieved</p> <ul style="list-style-type: none"> <li>✓ Agreements signed with BlueGen distribution and service partners in Australia, the UK, The Netherlands and Germany</li> </ul>
<p>Further approvals for BlueGen:</p> <ul style="list-style-type: none"> <li>MCS certification in the United Kingdom (2010);</li> <li>Type 'A' gas appliance approval in Australia (mid 2011);</li> <li>initial safety approval for the United States (Q3 2011).</li> </ul>	<p>Achieved and Ongoing</p> <ul style="list-style-type: none"> <li>✓ MCS approval in the UK, August 2011</li> <li>✓ Type 'A' gas appliance approval in Australia, August 2011</li> <li>• US approvals expected by the end of 2011</li> </ul>
<p>Manufacturing:</p> <ul style="list-style-type: none"> <li>Transfer BlueGen assembly to Germany from early 2011</li> <li>Reduce the cost of Gennex and BlueGen components</li> <li>Agreements with key component suppliers to increase scale and further reduce costs</li> </ul>	<p>Achieved and Ongoing</p> <ul style="list-style-type: none"> <li>✓ BlueGen assembly in Germany from February 2011</li> <li>✓ Initial cost reductions achieved, further significant cost reductions ongoing</li> <li>✓ Agreements with key component suppliers signed</li> </ul>
<p>Technology: longer lifetime through improved fuel cell stack degradation and more robust system operation through improved thermal cycling</p>	<ul style="list-style-type: none"> <li>• Improvements achieved; ongoing technical progress towards commercial targets</li> </ul>
<p>Generate revenue from the UK ceramic powder plant.</p>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>



## Products

The first products to be powered by CFCL's fuel cells are small scale generators for homes and other buildings that produce one to two kilowatts of electricity as well as heat for hot water or space heating, with very high efficiency and low emissions.

In order to cater for different markets and customers, the Company has developed two generators in parallel: integrated combined heat and power (m-CHP) generators, as well as a modular



▲ The Gennex fuel cell module allows different products to use a single technology platform

generator product called BlueGen®. Both products use the Company's Gennex® fuel cell module and share many 'balance of plant' components, allowing the Company and its partners to create different products and customer offerings from the same core technology platform.

Over the last two years the Company has completed the initial development of these generators, has tested and

demonstrated the products with customers and has begun to generate larger volume orders.

The market settings in Western Europe, particularly Germany, The Netherlands and the United Kingdom, provide support for the deployment of new energy technologies. During the financial year energy policy evolved rapidly in several of these markets. Most notably, there was strong public support (leading in some cases to firm Government policy) to phase out nuclear power in Germany, Italy and Switzerland, meaning these markets will need significant additional power generation from highly efficient sources. This creates a significant opportunity to deploy low emission electricity generators. In addition, as countries come to rely more on intermittent renewable power, they will require more flexible and controllable power generators, including small scale distributed generation such as fuel cell products.

CFCL is confident that there is a large sales potential for its generators in many global markets. The Company has received inquiries from prospective customers in Asia (in particular China and India), the Middle East, South Africa, Central and Eastern Europe, Russia, North America and South America, plus every State in Australia.

Management is focusing the Company's current resources on building sales into markets where the Company already has a presence - particularly Western Europe and Australia. As the Company increases revenue and scale Management will look to take advantage of these opportunities to enter new global markets. In particular the Company is working to modify BlueGen to suit the very large North American market.

## BlueGen®

BlueGen units convert natural gas into electricity with very high efficiency. BlueGen is designed to generate between one and two kilowatts of electricity constantly, all-year round. The electricity can be used in the home or other building and the excess can be exported back to the power grid. BlueGen also produces heat for hot water.

CFCL believes that BlueGen is suitable for most buildings with connection to gas and power in many large global markets. BlueGen does not directly compete with other space heating products; as a modular generator, BlueGen can be installed as an add-on to existing heating products. With a low heat output and very high electrical efficiency, the Company believes that BlueGen has little competition from other generators in this market segment.

The addressable market for BlueGen is very large. BlueGen is suitable for many types of buildings which are connected to natural gas and the power grid, including homes, apartment buildings, commercial buildings, schools, Government buildings, hotels and shops.

## BlueGen® Sales

In the 2011 financial year CFCL continued to increase sales of BlueGen units to energy companies and other foundation customers. As at 22 September 2011, the Company has orders for 206 BlueGens, a four-fold increase from orders for 51 units at the same time last year.

Ceramic Fuel Cells has made sales of BlueGens directly to early customers, but in larger volumes the Company's strategy is to sell BlueGens through a network of distributors and to outsource the sale, installation and service of BlueGens.

During the financial year CFCL secured distribution agreements in several important markets.

Highlights from July 2010 to September 2011 include:

### Germany - Sanevo orders 100 units

In July 2011 the Company appointed sanevo Lizenz-GmbH & Co. KG (sanevo) as its first BlueGen distributor in Germany. Sanevo has placed an initial order for 100 BlueGens to be delivered in the first year, with a target minimum order of 500 for delivery in the second year and a target of 2,000 BlueGens over years three and four. This is CFCL's largest BlueGen order to date. Provided sanevo orders these agreed minimum numbers of BlueGens during 2012 to 2014, sanevo has exclusive rights to distribute BlueGen to commercial and residential customers in the German States of Baden-Württemberg and Bavaria, and in Austria. CFCL retains full rights to sell BlueGens to utilities and energy service companies

Based in Offenbach, near Frankfurt, sanevo has gained experience and reputation in marketing and selling innovative small scale power and heating products in Germany through more than 120 qualified sales partners.

Sanevo has partnered with SAG GmbH for SAG to provide installation and after-sales service for BlueGen. SAG is one of Germany's largest independent service and system providers for electricity, gas, water and telecommunications products and networks, with more than 8,300 staff and operations across Germany and Europe. With sales revenue of one billion euro, SAG has more than 120 locations throughout Germany to provide a high level of service availability.

In April 2011 each of sanevo and SAG purchased a BlueGen for their own buildings.

# Review of Operations and Activities

For the year ended 30 June 2010

## The Netherlands

In July CFCL also appointed Zestiq B.V as its first BlueGen distributor in The Netherlands. Zestiq is part of the consortium of innovative companies which in April installed a BlueGen in a 17th century canal house "De Groene Bocht" in the centre of Amsterdam.

Zestiq and its partners will market and sell BlueGens to small commercial and residential customers in The Netherlands. The BlueGens will be installed and maintained by the service company of Eneco, Eneco Installatie Bedrijven.

The other members of the consortium include several leading energy companies in The Netherlands: Liander is a distribution company with 2.9 million electricity customers and 2.1 million gas customers. GasTerra is an international natural gas trading company owned by Royal Dutch Shell, Exxon Mobil and the Dutch Government. A BlueGen is also installed at the home of a Director of GasTerra. The other consortium member, Eneco, currently provides services for a range of heating and cooling technologies, including other small scale combined heating and power products.

## United Kingdom

In May 2011 the Company appointed RES On-Site Limited, part of the RES Group, as a non-exclusive distributor in the United Kingdom. RES On-Site will target the commercial microgeneration energy market throughout the UK. RES On-Site holds MCS (Microgeneration Certification Scheme) installer accreditations in a wide range of technologies and is adding the microCHP accreditation to this and so will provide installation and after-sales service for BlueGen products.

The RES Group is a leading international renewable energy company with operations across Europe, North America and Asia Pacific. To date the RES Group has delivered more than 5GW of renewable energy projects worldwide. RES On-Site sells and installs a range of low emission power and heating products for commercial, industrial and public sector customers, including wind, biomass, solar PV and solar hot water.

## Australia

During the financial year the Company signed non-exclusive BlueGen distribution agreements with two partners in Australia. In July 2010 the Company signed an agreement with Harvey Norman

Commercial Division. Harvey Norman Holdings Limited is listed on the ASX and the Harvey Norman group is one of Australia's largest and best known retailers.

In January 2011 the Company signed an agreement with Adelaide-based Hills Holdings Limited for Hills to distribute and provide installation and after-sales service for BlueGens. Hills, also listed on the ASX, is a leading manufacturer, distributor and installer of home products including premium solar hot water products.

CFCL continued to work with both these distributors to market BlueGens to commercial customers, such as Governments and Councils, commercial buildings, hotels, property developers and architects, and schools and educational facilities. CFCL and neco agreed to terminate neco's distribution agreement from 1 July 2011. CFCL has agreed to expand the distribution territory of each of Hills and Harvey Norman Commercial to include Victoria.

During the year CFCL received its first order from Harvey Norman Commercial division, for a BlueGen to be installed in Sydney at the Ultimo TAFE centre for technical education.

## Ausgrid orders 25 units

In May CFCL announced an order for 25 BlueGens from Ausgrid (formerly Energy Australia). The order from Ausgrid follows the company's previous purchase of a BlueGen for its Smart Home in the Sydney suburb of Newington.

The 25 BlueGens will be installed in homes in Newcastle as part of Ausgrid's 'Smart Grid, Smart City' project. The AUD 100 million project, funded by the Australian Government, is Australia's largest smart grid project. The project's consortium includes CSIRO, IBM Australia, AGL, GE Energy, TransGrid, Newcastle City Council and the New South Wales Government.

## Victorian Government units installed

In July 2011 CFCL completed the installation of 30 BlueGens with the Victorian Government Office of Housing. Twenty BlueGens are installed in houses in Melbourne and ten are installed in Shepparton in regional Victoria.

As part of the project, leading Australian energy retailer Origin Energy is providing the Office of Housing clients with a one-for-one feed in tariff for the electricity generated by the BlueGens. This means that an Office of Housing tenant who exports power to the grid will get a credit on their bill equal to the normal retail rate of electricity.

This project will provide a real world case study on how BlueGens can save on energy bills for homeowners. CFCL looks forward to reporting on the project over the coming year.

## Broad customer base

During the year CFCL continued to sell BlueGens to energy companies and other customers, to develop a broad customer base of 39 customers in nine countries.

Many of the Company's customers are energy utilities. Most of these utilities are testing and demonstrating a small number of BlueGens. CFCL is confident that many of these initial test units will be converted to follow on orders, once the customer is satisfied with the performance and benefits of the product. These utility customers could provide large volume orders, however energy utilities tend to move slowly to embrace new technology.



▲ BlueGen installed at the Ausgrid 'Smart Home' in Sydney, Australia



Just as importantly, many BlueGen customers are not energy utilities. They include local or State Governments, property developers, universities and technical education institutions, an aged care facility and other companies keen to capitalise on the benefits of low emission energy. These customers can provide an important source of sales, as an alternative to energy utilities.

CFCL believes that having different types of customers (utilities, Governments, commercial customers) in several different geographic markets can help to mitigate the commercial risk of relying on one or two customers.

## **BlueGen® Product Approvals**

During the financial year the Company's operations and engineering teams invested significant time and resources in having BlueGen approved under regulatory regimes in several markets.

### **Germany**

BlueGen received full CE safety approval in April 2010. This allows BlueGens to be installed in homes and buildings in Europe. This is a full "type" approval for all BlueGen products - not just a "prototype" approval for field trial units. In Germany BlueGen was approved by BAFA in August 2010, meaning BlueGen customers are eligible to receive the CHP bonus payable on all electricity generated by BlueGen.

### **United Kingdom**

The Government introduced a feed in tariff in April 2010. To be eligible for the feed in tariff, all microgeneration products must be certified under the Microgeneration Certification Scheme ("MCS"). During the June quarter BRE Global, an independent, third-party approvals organisation, completed the technical assessment of BlueGen and confirmed that the Company has met all of the requirements under the MCS standard.

On 25 August 2011 the Company announced that BlueGen has received final MCS product and factory accreditation. BlueGen is the first fuel cell product to receive MCS certification and be eligible for the UK feed in tariff.

BlueGen customers are now able to use their BlueGen to export electricity into the national grid and earn revenue during the process. The feed in tariffs are 10.5 pence per kilowatt hour of electricity generated, plus an additional 3.1 pence per kilowatt hour of electricity exported to the grid.

### **Australia**

In August 2011 BlueGen was certified by the Australian Gas Association (AGA) for installation as a gas appliance in Australia. After rigorous testing and evaluation for compliance, AGA has certified the BlueGen to a new safety standard for fuel cell appliances. BlueGen is the first product to comply with this new standard in Australia.

BlueGen is now certified as a "Type A" gas appliance, which allows BlueGens to be installed by a licensed and trained plumber / gasfitter as for any other typical gas appliance in Australia. BlueGen has also been certified for both indoor and outdoor installations. Previously the installation of BlueGen was restricted as a "Type B" appliance, meaning that the respective State Technical Regulator was required to inspect and approve each installation.

In Australia there is currently no feed in tariff for fuel cell products. CFCL is continuing to lobby State Governments on this, and in the meantime BlueGen is being marketed to commercial customers who can use all the power on-site.

### **North America**

CFCL is working towards receiving safety approval for a version of BlueGen modified to meet North American requirements. The Company is making good progress and approval is expected by the end of the year.

### **Training for Installation and Service Partners**

An important part of deploying BlueGens into the market is to ensure high-quality installation and after sales service.

For early units CFCL provided all these services. In order to focus its engineering resources, and reduce the support costs for commercial products, CFCL is actively transitioning towards providing manufacturer's technical support, with local distribution and service partners providing installation and on-site maintenance services to customers.

CFCL has prepared comprehensive training materials and has conducted initial training for European service partners in the Heinsberg factory. Further training will be conducted for Australian service partners in Melbourne.

## **Integrated mCHP**

In parallel with the BlueGen generator, CFCL's Gennex® fuel cell module is also used in integrated micro combined heat and power (mCHP) generators in Germany, France and the United Kingdom. In these products, CFCL supplies the core Gennex fuel cell module and related components to a local appliance manufacturing partner, which integrates the fuel cell module with a boiler into an integrated product to provide power, hot water and space heating for homes.

CFCL has received an order for up to 200 mCHP units from German energy service provider EWE. This is the largest order CFCL has received, with total revenue of up to EUR 4.9 million over two years. EWE plans to install a total of 55 integrated units by 31 December 2011. Subject to these units meeting agreed performance targets, and to further funding approval from the German Government, the Company expects EWE will then order a further 145 units for delivery in 2012. As at the start of September 2011, EWE has installed 10 units and CFCL has delivered a further 25 Gennex units to its local appliance manufacturing partner.

In France, CFCL is developing the next generation of an integrated mCHP unit for the French market in partnership with boiler manufacturer BDR Thermea. BDR Thermea has named this unit Ceramis Power. The unit is expected to receive CE approval by the end of September 2011, and will then be operated with GDF-Suez.

CFCL has also developed and will shortly deploy two integrated mCHP units in the UK that represent the next generation of an integrated product for the UK market. This development is being undertaken in partnership with E.ON UK. In December 2010 E.ON UK also ordered three BlueGen units. CFCL is in ongoing discussions with E.ON UK about further sales and the next stage of product deployment.

## Marketing

During the year CFCL invested in additional resources and product related marketing activities to support the deployment of products and increase sales.

- **www.bluegen.info:** a new 'global' multi-language BlueGen website informing potential customers about the benefits of BlueGen and showcasing real-life examples;
- **www.bluegen.net:** providing existing customers remote monitoring and performance reporting capabilities through a web-based portal; and
- Developing new marketing collateral and interactive tools promoting the features and benefits of BlueGen for the Company's strategic markets.



▲ The multi-language BlueGen website - [www.bluegen.info](http://www.bluegen.info)

The BlueGen product has been recognised by several international awards. In July 2010 CFCL was awarded the prestigious Innovation NRW.INVEST AWARD for 2010 by the Government of North Rhine-Westphalia in Germany. In May 2011 BlueGen won both the 2010-11 'CEO Award' - DuPont Australia and New Zealand's most prestigious innovation award - as well as the 'Design for a Sustainable Future' award, one of seven categories at the biennial DuPont Australia & New Zealand Innovation Awards. In June 2011 CFCL also won the Microgeneration UK 2011 Technical Innovation Award for BlueGen and, in September 2011, CFCL was awarded the 'Innovator of the Year' award by Climate Alliance Limited in Australia.

## Manufacturing and Supply Chain

### German Plant

In late 2009 CFCL opened a plant in Heinsberg, Germany for the volume assembly of its fuel cell stacks. The Company has invested approximately EUR 9 million in this facility.

During the financial year CFCL operated this plant to manufacture fuel cell stacks, which are the core component of its Gennex fuel cell module and BlueGen product.

In early 2011 CFCL completed the process of transferring the BlueGen assembly operation from its Melbourne research and pilot production plant to the Heinsberg plant, in the same building as the fuel cell stack assembly operation. The Company expanded the Heinsberg plant, installed assembly and materials handling equipment and hired additional staff. The Heinsberg plant began assembling complete BlueGen units from February 2011.

During June 2011 the Heinsberg plant was audited and certified by Kiwa Gastec under the CE Surveillance Audit programme. The objective of this programme is to ensure that CFCL is manufacturing the BlueGen product in compliance with the CE approval previously granted.

During the coming financial year CFCL will increase production of fuel cell stacks and the assembly of BlueGen units at this plant. The Company has hired additional staff to ramp up production and is putting in place appropriate senior management to manage these increasing production levels.

### Supply Chain

During the financial year CFCL entered into a volume supply agreement with HC Starck for the supply of fuel cell components. Over the last few months the Company has been working with HC Starck to ensure that they can increase their production capacity to meet our forecast demand for cells, whilst maintaining our high quality standards. As part of this work CFCL has assigned several of its senior technical staff to work at HC Starck's plant in Germany, to help them meet the required cell performance standards. This work is continuing.

CFCL is also in ongoing discussions with HC Starck about the investment required by them to increase production capacity to meet the Company's future demand requirements. In the meantime CFCL continues to make fuel cell components at its pilot manufacturing site in Melbourne, and is working with other potential commercial scale cell suppliers.

### Cost Reductions

During the financial year CFCL also focused on reducing the unit costs of the BlueGen product. The costs of components used to make BlueGen units are sensitive to economies of scale. In recognition of this, the Company is seeking to move from ordering components in lots of 100, to lots of 1,000 in order to reduce unit costs. This is expected to reduce the current BlueGen cost by approximately 20 percent. Increasing economies of scale are not without some risk as many processes are required to change to accommodate volume increases, however the Company works closely with its supply chain partners to mitigate this risk.

Apart from increasing volumes, CFCL is also reducing unit costs through value engineering, that is:

- Reducing the number and complexity of components;
- Improving manufacturing processes;
- Implementing fixed tooling processes;
- Increasing manufacturing yields.

Some examples of the cost reductions achieved are:

- Changing the design of insulation materials with the supplier reduced the cost by 20 percent;
- Reducing the number of components in the water treatment system pump led to a 30 percent cost saving;
- Fixed tooling for the desulphuriser canister reduced costs by 45 percent.

### Ceramic Powder Plant

During the financial year CFCL's ceramic powder plant in Bromborough, United Kingdom, continued to make zirconia powder for use in the Company's pilot manufacturing plant in



Melbourne. Zirconia is a key input into CFCL's fuel cell components, and is also used in a wide range of other products and applications.

The Bromborough plant is successfully making zirconia powder that meets CFCL's demanding quality requirements, using the Company's patented process.

During the financial year CFCL continued to provide samples to other prospective customers for a range of ceramic powder applications.

## Employees

At the end of the financial year the Group had a total of 120 full time equivalent staff: 93 staff based at the head office in Melbourne, six in the United Kingdom, 20 in Germany and one staff member based in France.

Management and the Board recognise the importance of attracting and retaining CFCL's highly skilled staff, and the need to create appropriate incentives for those staff to deliver value to the shareholders.

All staff members have formal 'short term incentive' and 'long term incentive' remuneration plans, linked directly to performance against personal and Company key performance indicators (KPIs). A particularly important aspect of the Company's remuneration policy is to grant equity to staff, under the Directors and Employees Benefits Plan approved by shareholders in 2009 (**Equity Plan**).

Most of CFCL's staff are issued equity under the Equity Plan as part of their annual remuneration review, usually in lieu of a cash bonus or incentive payment. Typically, Australian staff are offered ordinary shares and European staff are offered share options. The issue of equity to staff is discussed further in the Remuneration Report section of the Directors' Report.

During the year CFCL recognised the commitment and service of several staff, including two staff members receiving 10 Years' service awards.

The Company continued to invest in staff learning and development, including through its annual Leadership Forum program for the Executive Management Team, key functional managers and potential future leaders.

During the year CFCL continued to apply its Occupational Health & Safety systems, with advice from local external specialists in

Australia, Germany and the UK. This allowed an ongoing resource for advice, safety inspections and other assistance with the safety program. Consistent with this safety system approach, all employees were reviewed on their contribution to the safety program during their half yearly and annual performance reviews.

With the assistance of the external specialists, staff safety training needs were determined and relevant training programs were arranged.

During the financial year five safety incidents were reported at CFCL's Melbourne operations (up from three last financial year). Of the five incidents, one involved minor injuries and four involved no injuries. There were no major injuries and no lost work time recorded for the financial year. Two safety incidents were reported at the fuel cell plant in Germany. Both incidents involved minor injuries. There were no safety incidents reported at the Company's powder plant in the United Kingdom.

## Directors

The Board has appointed two additional non-executive directors to add financial and operational expertise as the Company scales up its operations.

In May 2011 the Board appointed German-based Dr Roman Dudenhausen, who has extensive experience in strategic advice, marketing and innovation in the German energy industry. Based in Essen, Dr Dudenhausen is CEO and co-founder of conenergy ag, a leading independent service provider to the German energy industry. Dr Dudenhausen is also a director of electric vehicle maker mia electric GmbH.

In early July 2011 the Board also appointed Ms Janine Hoey as a non-executive director and member of the Audit Committee. Ms Hoey has had extensive experience in commercial, operations and finance roles in the clean energy and airline industries over the last 20 years. Based in Melbourne, Ms Hoey currently holds an executive role with Pacific Hydro Pty Ltd as the General Manager Group Operations and Commercial.

## Financial Commentary

The summary financial results for the year from 1 July 2010 to 30 June 2011 are as follows:

(All currency figures are shown in thousands)

Income (Expense)	12 months to:				Change
	30-June-2011		30-June-2010		
	AUD 0001	GBP 000	AUD 000	GBP 000	
Sales Revenue	3,681	2,301	2,033	1,271	81.1%
Operating Expenses (excluding depreciation)	(23,401)	(14,626)	(19,250)	(12,031)	21.6%
Foreign exchange gain (loss)	(2,094)	(1,309)	(3,356)	(2,098)	-37.6%
Impairment reversal (charge)	-	-	2,927	1,829	-100.0%
Depreciation & Amortisation	(3,647)	(2,279)	(2,261)	(1,413)	61.3%
EBIT - profit (loss)	(25,461)	(15,913)	(19,907)	(12,442)	27.9%
Interest & Other Income	4,285	2,678	255	159	1,580.4%
Net Profit (Loss) - after tax	(21,176)	(13,235)	(19,652)	(12,283)	-7.8%
Cash Inflow (Outflow) from:					
- Operations	(19,300)	(12,063)	(17,219)	(10,762)	12.1%
- Capital Expenditure	(1,360)	(850)	(3,879)	(2,424)	-64.9%
- Financing	28,962	18,101	9,687	6,054	199.0%

# Review of Operations and Activities CONTINUED

For the year ended 30 June 2010

## Revenue

The Group's business revenues increased during the period by 81 percent to AUD 3,681K (GBP 2,301K). Revenue in the current year is derived primarily from the sale of BlueGen and integrated mCHP units whereas last year the majority of revenue was derived from payments from partners under product development agreements.

The number of units recognised in revenue this year was 61 compared to 9 units last year.

## Other Income

Other Income in the current year was AUD 4,285K (GBP 2,678K). This primarily related to funds received by the Company in the settlement of a legal action taken against the Group's former treasury advisor.

## Expenses

Research and Product Development expenses were AUD 15,127K (GBP 9,454K) which includes the manufactured cost of units that were recognised in revenue and also a provision for warranty claims. Expenditure on R&PD project activities increased during the year by AUD 1,589K (GBP 993K) with a focus on increasing the performance and lifetime of the fuel cell stack.

General and Administration expenses were AUD 10,281K (GBP 6,426K) which was an increase of AUD 1,362K (GBP 851K) over last year. This increase arose primarily from an increase in depreciation and amortisation charge of AUD 1,100K (GBP 688K) relating to the commencement of production in the German plant from the start of the year. In addition to this the expense relating to the employee share scheme increased by AUD 228K (GBP 143K).

Sales and marketing expenses were AUD 1,640K (GBP 1,025K) which was AUD 694K (GBP 434K) lower than last year. Sales and support activities were restructured during the year to focus on the German, Netherlands and UK markets.

A foreign exchange loss on translation of AUD 2,094K (GBP 1,309K) arose during the year relating to the translation of cash balances held in foreign currencies back to Australian dollars. The Australian dollar appreciated 17.7 percent against the pound sterling and 6.1 percent against the euro across the year.

## Net Loss After Tax

The net loss for the year was AUD 21,176K (GBP 13,235K), an increase of AUD 1,524K (GBP 953K) over the prior year.

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

	AUD	GBP Equivalent
Increased sales revenue	1,648K	1,030K
Increased other income	4,030K	2,519K
Decreased net foreign exchange loss	1,262K	789K
Offset by:		
Increased operating expenses	4,151K	2,594K
No impairment reversal	2,927K	1,829K
Increased depreciation & amortisation expense	1,386K	866K

The net loss represents a loss of 1.82 cents per share (1.14 pence) compared to 1.91 cents (1.19 pence) last year.

## Cashflow and Balance Sheet

The Group's net cash outflow from operations for the year was AUD 19,300K (GBP 12,063K), an increase of 12 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 1,081K (GBP 676K) in the prior year to AUD 5,131K (GBP 3,207) this year as a result of holding component parts to produce BlueGen units (and holding fully completed units).

Cash outflow from investing activities was AUD 1,360K (GBP 850K) which was AUD 2,519K (GBP 1,574K) lower than last year. This reduction reflects the completion of the building programme at the plant in Germany.

Cash inflow from financing activities amounted to AUD 28,962K (GBP 18,101K). This arose from the issue of equity that raised a net AUD 28,886K (GBP 18,054K).

At 30 June 2011 the Group had cash of AUD 19,057K (GBP 11,911K) which was held on deposit with banks. Of this amount AUD 3,204K (GBP 2,003K) was pledged as security for bank guarantees and is unavailable for use by the CFCL Group.

## Risk management

In recent years the Company has significantly reduced the key risks facing it - however, as with any company that is commercialising new technology, there remain risks for CFCL to identify, manage and mitigate. Management and the Board believe it is important for shareholders to understand these risks.

The key risks facing CFCL are:

<b>Technical</b>	Does the product perform to the customer's expectations?
<b>Manufacturing</b>	Can the product be made reliably at acceptable levels of cost and quality?
<b>Commercial</b>	Is there a large number of customers who will buy the product - at a sensible price? Can the product be delivered, installed and maintained to meet the customer's expectations?

In general terms the nature of these risks has not changed significantly over the last few years. What has changed is the likelihood, the priority and the details of the risks. In simplistic terms, as CFCL has successfully moved from research and development into product development and now sales, the emphasis has evolved from technical risk to commercial and manufacturing risks.

### Technical

As CFCL has stated for several years, the key technical risk for CFCL (and for all fuel cell companies) is to consistently make fuel cells that work reliably, in real world conditions, for a long time.

For CFCL, this means ensuring that we have good quality input materials and that our fuel cells, stack, and systems, perform according to their specifications - particularly over a commercially acceptable lifetime. To identify and mitigate technical risk the Company has one of the largest solid oxide fuel cell testing operations in the world, testing individual fuel cells, fuel cell stacks and complete systems.

CFCL has demonstrated that its fuel cell systems work out in the field: from early 2006 to 1 September 2011 CFCL has operated 90



systems with customers in nine countries, together with 12 systems at the Company's own facilities, with an aggregate of 300,000 hours' operation. (There are 8,760 hours in one year.)

CFCL has also achieved - and exceeded - commercial targets for electrical efficiency. BlueGen and integrated mCHP generators have achieved electrical efficiency of 60 percent, demonstrating repeatable high performance in many different real world conditions. Over time the electrical efficiency gradually reduces and the thermal output of the fuel cell stack increases. Electrical efficiency is also affected by how the BlueGen unit is operated: efficiency will be lower if the power output of the unit is modulated or reduced.

During the year the Company continued to make progress on two key technical risks in order to reduce operating costs, improve commercial returns to customers and reduce warranty risk and cost for the Company.

The first objective is to extend the lifetime of the fuel cell stack towards a commercial target of four to five years. It is currently not possible to conduct 'accelerated lifetime' testing of fuel cell stacks; so, for instance, to prove that a fuel cell stack lasts for say two years, the stack must be operated for two years - by which time the stack technology has been improved and the testing regime starts again. CFCL is continuing to develop predictive lifetime models through statistical data evaluation and extrapolation which will allow it to shorten the testing process. During the year the Company improved the lifetime of its fuel cell stack, and this work will continue in the coming year.

Secondly, CFCL continued to work on improving the robustness of the fuel cell system, in particular 'thermal cycling', which means turning the unit on and off again repeatedly. Solid oxide fuel cells can generate the world's highest electrical efficiency because they operate at a higher temperature than other fuel cells. The fuel cell stack works best when it is kept at a relatively constant temperature. The power output of the system can be modulated up and down, but the system is not designed to be turned off and on (cooled down and heated up) constantly. The Company has made progress on this issue during the year and this work will continue in the coming year in order to deliver a consistent and commercially acceptable level of performance.

CFCL is also taking several steps to mitigate the risk of variable product performance in its early products. The Company has developed its BlueGen-net system, which is a sophisticated on-line system for monitoring the performance of each BlueGen and integrated mCHP generator. BlueGen-net automatically detects when the unit is performing outside pre-set parameters and allows the Company's product support engineers to remotely diagnose faults and in some cases correct faults remotely, without the cost of a site visit. Through this system CFCL is building up a rich database on the real world performance of the units, which feeds back into ongoing improvements in the design, manufacturing and installation of the products.

Progress on mitigating technical risks is regularly reported to the Board Technical Committee.

*The BlueGen unit* ►

## **Manufacturing**

CFCL needs to make its products in large numbers at low cost, with consistently high quality. Increasing the Company's manufacturing capability has been a key activity over the last two years. In order to mitigate manufacturing risks, CFCL has built a large scale manufacturing plant, to increase volume, reduce unit cost and improve quality and consistency.

CFCL is also:

- Outsourcing the manufacturing of fuel cells and other volume components; for example, the Company has outsourced the manufacture of the 'hot balance of plant' components to a lower cost supplier in Asia.
- Establishing commercial agreements with suppliers for system components.
- Testing and validating the performance of outsourced components in prototype trials before committing to larger volumes.

The key manufacturing activities that Management and the Board will focus on during the coming financial year are:

- Ensuring the Company's supplier of fuel cell components delivers a higher number of fuel cells at agreed unit prices whilst retaining acceptable quality standards. CFCL currently relies on one supplier of these components. To mitigate this supply risk, the Company continues to make fuel cell components itself in Melbourne.
- Increasing the number of fuel cell stacks and BlueGen units made at the German plant.
- Scaling up manufacturing processes in the Heinsberg plant to ensure they are uniform and consistent to deliver lower unit costs whilst retaining high quality standards.
- 'Value engineering' projects and working with suppliers to continue to reduce the cost and complexity of Gennex and BlueGen components and improve manufacturing processes.

As with many products, the process of increasing production brings with it a range of risks. Scaling up production levels requires close co-ordination among technical, accounting, manufacturing, sales and marketing and research and development departments, with appropriate internal control systems. CFCL will also closely co-ordinate its activities with its supply chain partners who may need to invest further to scale up their production capacity to meet the Company's growth projections.



## Commercial

The first key commercial risk is that CFCL needs to increase sales to get to a cashflow positive position. In the energy technology market there is often a long sales lead time, especially with utility customers. Also, early customers often want to 'try' one unit before they buy more units.

The Company is mitigating this 'sales' risk by:

- Selling into several geographic markets instead of relying on one market.
- Selling through several sales channels: direct sales for early units, plus sales through commercial distributors ("bottom up") plus energy utilities ("top-down")
- Seeking larger orders from existing development partners (for example E.ON UK), and follow on orders from early customers (such as EWE in Germany and Ausgrid in Australia)
- Hiring additional business development, sales and marketing resources, in Germany, Australia and the UK
- Investing in BlueGen product marketing tools, such as new websites
- Exploring opportunities for Government funding for early deployments
- Reducing the price (and offering different pricing models) to drive sales.

CFCL's products need to be sold at a commercially viable price. Like most products, the Company's costs of production are higher in low volumes. The challenge is to ensure that prices for early products cover these higher costs; and, as volumes increase, to ensure that costs of production come down faster than prices.

Management and the Board believe it is in the shareholders' best interests for CFCL to make a margin on every product that it sells - other than exceptions where there are strong strategic benefits to the Company - rather than taking a high-risk approach of "loss-leading" in order to get products into the market. To mitigate this pricing risk CFCL is segmenting its target markets and selling early products for a higher value to 'early adopter' customers, before expanding into the mass residential market.

Once a product is sold, CFCL must provide certain warranties and after-sales support, to ensure the product meets the customers' expectations. When a product is first introduced into the market, it is not possible to test the product for all faults, or to test it for its full expected lifetime. Therefore there is a risk that it will cost the Company more to support early products than the revenue received for those products. In addition, in order to preserve the reputation of the product the Company will need to support early products, even at a loss.

The *consequences* of this 'product support' risk increase as CFCL deploys more products into the market (there are more products to support), and as the Company comes to rely more on third parties to install and service the product properly. However the *likelihood* of this risk should reduce, as the Company develops a rich database of real world operating data which provides a 'feedback' loop into ongoing product improvements (and more reliable estimates of support costs).

CFCL is mitigating this product support risk by:

- Maintaining higher average selling price on early units to cover support costs
- Creating flexible pricing models to include an ongoing revenue stream to fund support costs
- Building cost models to understand the projected support costs and key drivers (fault rates and replacement costs for key components).
- Proactively monitoring product performance in the field and

remotely diagnosing and correcting faults (to avoid on-site service if possible)

- Training sales and service partners to provide on-site services
- Obtaining back to back warranties (where possible) from component suppliers.
- (Ideally) deploying products in a concentrated area to minimise marginal support costs
- Reducing the costs of replacement components.

There are also tradeoffs between these risks: for example, reducing the price of the Company's products would increase sales (thereby reducing the sales risk) but this may mean selling at a low or negative margin (which increases the pricing risk) and may also increase the total cost of warranty servicing (increasing the support risk). Management and the Board actively monitor the tradeoffs between these risks as CFCL increases its scale of production.

## Outlook 2011-12

During the 2011-12 financial year CFCL's focus will be to continue to increase sales revenue and reduce unit costs while moving into volume sales of its products.

To achieve this goal the Company's targets for the next financial year include:

- Significantly increase sales revenue
  - Sales of BlueGen units through commercial distributors and utility customers
  - Secure further orders for integrated mCHP products
  - The Company expects most of its sales to come from Germany, The Netherlands and the UK
- Customer experience
  - Complete training for local partners to provide installation and after-sales services for BlueGen products
  - Proactively monitor and continuously improve product performance
  - Robust service and support structure to ensure high levels of customer satisfaction
- More commercial BlueGen product marketing materials tailored to key target markets, including website, case studies and features and benefits
- Manufacturing:
  - Secure and implement agreements with all key component suppliers to increase scale and further reduce costs
  - Increase the volume of fuel cell stack manufacturing and BlueGen assembly at the German plant
  - Continue to reduce the cost of Gennex and BlueGen components
- Technology: longer lifetime through improved fuel cell stack degradation and more robust system operation through improved thermal cycling

The Board and Management continue to be focused on achieving a 'cashflow breakeven' position as soon as possible, whilst managing the challenges of introducing a new product into global energy markets, and in particular the scale up of manufacturing, installation and after-sales service.

## Brendan Dow

Managing Director

# Directors' Report

For the year ended 30 June 2011



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 year ended 30 June 2011.

## Directors

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

Mr Jeff Harding, Chairman  
Mr Brendan Dow, Managing Director  
Mr Roy Rose, Deputy Chairman  
Dr Peter Binks  
Mr John Dempsey  
Dr Roman Dudenhausen (appointed 17 May 2011)  
Ms Janine Hoey (appointed 1 July 2011)  
Mr Robert (Bob) Kennett

## Principal activities

the principal activity of the Group during the year was the commercial development and demonstration of power generating products based on the Group's ceramic (solid oxide) fuel cell technology.

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

## Dividends

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

## Review Of Operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Review of Operations and Activities on pages 2 to 10 of this document.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

### (a) Share capital

\$

An increase in contributed equity of \$29,860,417 (from \$230,415,020 to \$260,275,437) as follows:	
- Issue of 95,238,096 fully paid ordinary shares at a price of 10.5 pence sterling (Australian dollar equivalent of 18.25 cents) via a placement and subscription to UK, European and Australian investors	17,380,952
- Issue of 19,222,606 fully paid ordinary shares at a price of 10.5 pence sterling (Australian dollar equivalent of 18.25 cents) via an overseas offer to UK investors	3,508,126
- Issue of 51,112,184 fully paid ordinary shares at a price of 18.25 Australian cents via a rights issue to shareholders in Australia and New Zealand	9,327,995
- Issue of 5,233,400 fully paid ordinary shares at a price of 17.0 Australian cents to employees	889,678
- Issue of 674,000 fully paid ordinary shares at a price of 16.8 Australian cents to B Dow, Managing Director	113,232
	31,219,983
- Less: Share issue transaction costs (refer Note 20(b) to the Financial Statements)	(1,359,566)
<b>Net increase in share capital</b>	<b>29,860,417</b>

### (b) Cash and Investments

A net increase in cash of \$7.6 million (from \$11.5 million to \$19.1 million) after taking into account \$28.9 million of equity raised, \$19.3 million of net operating expenditure (including receipt of a \$3.9 million legal settlement) and \$1.4 million of capital expenditure.

### (c) Inventory

An increase in inventory of \$4.0 million (from \$1.1 million to \$5.1 million) arising predominantly from the purchase of component parts for, and the manufacturing of, BlueGen units.

### (d) Provision for product warranty

An increase in provision for product warranty of \$0.9 million (from \$0.1 million to \$1.0 million).

### (e) Significant gains and expenses

#### Gains

- Other income of \$3.9 million received upon settlement of a legal claim.

#### Expenses

- Net foreign exchange loss of \$2.1 million arising primarily upon the translation of foreign currency cash balances back into Australian dollars for reporting purposes.
- Product warranty expense of \$1.2 million.

In the opinion of the directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the year under review not otherwise disclosed in this report or in the financial statements.

## Earnings Per Share

	Consolidated	
	2011	2010
	cents	cents
Basic and diluted earnings per share	(1.82)	(1.91)

## Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2011 which has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

## Likely developments and expected results of operations

Information on likely developments and expected results of operations is set out under the heading Outlook 2011-12 within the Review of Operations and Activities on page 10 of this document.

## Environmental regulation

The Group is not subject to any significant environmental regulation under a law of the Commonwealth, or of a State or Territory, of Australia.

## Directors' Details Further information regarding the directors of Ceramic Fuel Cells Limited in office at the date of this report is as follows:



### Mr Jeff Harding

*BE(Civil) Hons, BA(Economics), Master of Science in Industrial Administration, FAICD. Age 65*

*Chairman since 22 November 2007.  
Director since 17 September 2007.  
Member of Audit, Technical and Remuneration and Nominations Committees.*

#### Experience and expertise

From 1995 to 2005 Mr Harding was Managing Director of Pacific Hydro Limited, Australia's largest renewable energy developer with wind and hydro energy projects in Australia, Asia and Chile. During his tenure, Mr Harding oversaw the international expansion of the business with growth in market capitalization from A\$5 million to over A\$750 million and an increase in profit after tax each year from 1996 to 2005, when Pacific Hydro was sold to IFM Renewable Energy. Previously he was a Divisional General Manager of Brambles Australia for 5 years.

#### Current directorships of other listed companies

Non-executive director of ASX listed Carnegie Corporation Limited since 19 May 2009.

#### Former directorships of other listed companies (last 3 years)

Non-executive director and Audit Committee Chairman of AIM listed Renewable Energy Holdings Plc from 11 February 2005 to 1 September 2009.

#### Interests in shares and options

##### (refer Note 22 to the Financial Statements)

12,225,000 ordinary shares in Ceramic Fuel Cells Limited, owned by Jeffrey Harding ATF The Harding Superannuation Fund. 100,000 options over ordinary shares in Ceramic Fuel Cells Limited.



### Mr Roy Rose

*B.Sc.(Chem.), MAICD. Age 64*

*Deputy Chairman, independent non-executive director. Director since 7 July 2009.  
Chairman of Remuneration and Nominations Committee, member of Audit and Technical Committees.*

#### Experience and expertise

Mr Rose has 30 years experience in the paint, chemicals, fertilizer and medical products industries, possessing strong skills in technology and innovation, including experience commercialising and manufacturing innovative technologies. He has held non-executive directorships of Incitec Limited, CRC for Environmental Biotechnology and Qenos Pty Ltd, as well as having held senior management positions at Orica Australia. Mr Rose is currently Chairman of CSIRO's Future Manufacturing Flagship Advisory Committee. He has served on numerous Australian industry groups, including as a member and Past President of Australian Industrial Research Group.

#### Current directorships of other listed companies

None.

#### Former directorships of other listed companies (last 3 years)

ITL Limited.

#### Interests in shares and options

##### (refer Note 22 to the Financial Statements)

366,666 ordinary shares in Ceramic Fuel Cells Limited.



### Mr Brendan Dow

*B.Eng.(Hons), MBA. Age 46*

*Managing Director since 11 January 2007  
(previously Chief Executive Officer).  
Member of Technical Committee.*

#### Experience and expertise

Prior to joining Ceramic Fuel Cells Limited, Mr Dow spent almost 10 years as Managing Director of the Australian subsidiary of global electrical component manufacturers ebmpapst and Ziehl Abegg AG. He was responsible for operations across Australia and New Zealand, as well as for establishing and managing Greenfield manufacturing operations in Malaysia, and sales and marketing activities across the south-east Asian region. From 1992 to 1996 Mr Dow was a Regional Manager within General Electric Company and GEC Alstom, and from 1989 to 1992 he worked as Production Manager in London for the Gillette Company.

#### Current directorships of other listed companies

None.

#### Former directorships of other listed companies (last 3 years)

None.

#### Interests in shares and options

##### (refer Note 22 to the Financial Statements)

674,000 ordinary shares in Ceramic Fuel Cells Limited.  
2,445,000 options over ordinary shares in Ceramic Fuel Cells Limited.



### Dr Peter Binks

*D.Phil (Oxon), B.Sc. (Hons - Tas Uni.). Age 51*

*Independent non-executive director.  
Director since 5 May 2009.  
Chairman of Technical Committee and member of Remuneration and Nominations Committee.*

#### Experience and expertise

After completing a science degree at the University of Tasmania (Hons) majoring in Physics, Dr Binks attended Oxford University as a Rhodes Scholar. He completed his doctoral thesis in Theoretical Physics. Dr Binks has had a successful career with McKinsey & Company, BHP, Telstra and Nanotechnology Victoria Ltd. He was most recently the CEO of NanoVentures Australia Ltd, a company set up to attract funding and commercialise outcomes from Nanotechnology Victoria. Dr Binks is currently a director of NanoVentures Australia Limited, a director of NanoVic Commercial, and a director of NanoVic IP Holdings. From January 2006 to June 2008 Dr Binks was also a director of The Australian Nano Business Forum. On September 1 2009 Dr Binks took up the position of CEO of the General Sir John Monash Foundation, and joined the Board of that Foundation.

#### Current directorships of other listed companies

None.

#### Former directorships of other listed companies (last 3 years)

None.

#### Interests in shares and options

##### (refer Note 22 to the Financial Statements)

10,000 ordinary shares in Ceramic Fuel Cells Limited.



### Mr John Dempsey

*Grad.Dip.Acct.&Fin.Mgmt, Grad.Dip.Ag.Econ., FIPA, ACIS, GAICD, JP. Age 65*

*Independent non-executive director.  
Director since 1 July 2002.  
Chairman of Audit Committee and member of Remuneration and Nominations Committee.*

#### Experience and expertise

Mr Dempsey has been a qualified Accountant since 1974 and has worked in public practice, commerce and the Queensland rural sector in various positions. Previous appointments have included deputy Mayor of the City of Cairns, member of the Queensland Sugar Industry Tribunal, and Director/Partner in a public accountancy practice in Cairns. Last year Mr Dempsey sold his accountancy practice in Brisbane and retired from public practice. He is currently a non-executive Director of the Multiple Sclerosis Society of Australia - Queensland, a not for profit organisation. Mr Dempsey has been a non-executive Director of Queensland energy utility Energex Limited since 1999 and is its current Chairman. He is also Chairman of Allconnex Water and a non-executive director of MS Australia-Queensland, a not-for-profit organisation.

#### Current directorships of other listed companies

None.

#### Former directorships of other listed companies (last 3 years)

None.

#### Interests in shares and options

##### (refer Note 22 to the Financial Statements)

400,000 ordinary shares in Ceramic Fuel Cells Limited, owned by JHM Superfund.



### Dr Roman Dudenhausen

*D.Ec, Dipl.-Kfm Age 42*

*Independent non-executive director  
(resident in Germany).  
Director since 17 May 2011.*

#### Experience and expertise

Dr. Dudenhausen has studied economics in Essen, Germany and in Toronto, Canada, with a focus on the energy industry. He was one of the founders of the con|energy company in Essen in 1996 and, after the transformation of the company into a corporation, since 1998 has been CEO of con|energy ag. con|energy supports the energy industry with industry-specific services in the fields of management consulting, training and advanced education, information and communications, and is one of the leading service providers to the German energy market. The company is now a group which includes E-world energy & water, one of the biggest energy trade fairs worldwide, and mia electric, an electric car company. Dr Dudenhausen's doctoral work in 2000 at the University GHS in Essen was on "Risk Management in the Liberalised Energy Market". He is recognized as a committed, expert energy advisor to companies, associations and politicians. Dr Dudenhausen has written numerous national and international articles on the subjects of energy, climate and mobility.

#### Current directorships of other listed companies

None.

#### Former directorships of other listed companies (last 3 years)

None.

#### Interests in shares and options

None.



### Ms Janine Hoey

*B.Comm., GAICD Age 48*

*Independent non-executive director.  
Director since 1 July 2011.  
Member of Audit Committee.*

#### Experience and expertise

Ms Hoey is currently the Pacific Hydro Pty Ltd General Manager Group Operations and Commercial based in Melbourne. Her primary responsibility is the management and optimization of the company's key revenue, operating, cost drivers, health, safety and sustainability performance across the company's global portfolio of wind and run of river hydro assets, located primarily in Australia, Chile and Brazil. She is a Director in Pacific Hydro joint ventures companies in Chile and Australia. Janine is also a Non Executive Director of Ecogen Holdings Pty Ltd which owns and operates 960MW of gas electricity generation at Newport in Melbourne and Jeeralang in the La Trobe valley. From 2005 to 2009 Ms Hoey was based in Santiago Chile as the General Manager Latin America. She was responsible for Pacific Hydro's entry into the Brazil market in late 2006 and was acting CFO for Pacific Hydro for a 6 month period, upon her return to Australia in 2009. Prior to joining Pacific Hydro Ltd in 2004, Janine held a number of executive positions with Qantas, over a 10 year period, in addition to 4 years as Director of her own consulting company from 2001 to 2004.

#### Current directorships of other listed companies

None.

#### Former directorships of other listed companies (last 3 years)

None.

#### Interests in shares and options

None.



### Mr Robert (Bob) Kennett

*B.Sc.(Mech.Eng.), C.Eng., FIMechE Age 61*

*Independent non-executive director  
(resident in the United Kingdom).  
Director since 24 August 2006.*

#### Experience and expertise

Mr Kennett has spent his career in the energy sector, specialising in Combined Heat and Power and renewables. He was Managing Director of Powergen Combined Heat and Power Ltd for 12 years and, for three years simultaneously, was the Chairman of PowerGen Renewables Ltd. In his ten years in this position, Mr Kennett successfully established and managed a leading and profitable business in the UK Combined Heat and Power market with assets of more than £600m at 22 sites. Mr Kennett is currently a consultant advising financiers and investors on business opportunities in the UK Combined Heat and Power and Renewable Energy markets. He is on a Panel of Independent Assessors for DTI Energy Programmes, a board member of the Power Industries division of the Institution of Mechanical Engineers, a non-executive Chairman of Ignis Energy, a board member of the UK Combined Heat and Power Association and the Chairman of the Micro CHP committee of that organisation.

#### Current directorships of other listed companies

None.

#### Former directorships of other listed companies (last 3 years)

None.

#### Interests in shares and options

##### (refer Note 22 to the Financial Statements)

320,000 shares in Ceramic Fuel Cells Limited.

100,000 options over ordinary shares in Ceramic Fuel Cells Limited.

## COMPANY SECRETARY

### Mr Andrew Neilson

LLB(Hons), B.Comm., GAICD.

Age 41.

Member of Executive Management Team.

Company Secretary since 5 August 2004.

#### Experience and expertise

Mr Neilson has worked as a solicitor with one of Australia's largest law firms, and as an in-house legal counsel and commercial manager in the information technology industry. He has experience with commercialising technology, identification and allocation of commercial risk and in structuring and negotiating a range of commercial ventures with global partners, suppliers and customers. He was previously Legal Counsel for two NYSE-listed global information technology firms.

## DIRECTORS' MEETINGS

The numbers of meetings of the board of directors of Ceramic Fuel Cells Limited and of each board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director as a member of the relevant committee, were:

Name of Director	Full meetings of directors		Meetings of committees					
			Technical		Audit		Remuneration and Nominations	
	A	B	A	B	A	B	A	B
J Harding, Chairman	13	13	3	4	7	7	1	1
R R Rose, Deputy Chairman	13	13	4	4	7	7	1	1
B L Dow, Managing Director	13	13	3	4	*	*	*	*
P N Binks	13	13	4	4	*	*	1	1
J P Dempsey	13	13	*	*	7	7	1	1
R Dudenhausen (appointed 17/5/2011)	2	2	*	*	*	*	*	*
R J Kennett	13	13	*	*	*	*	*	*

A = Number of meetings attended

B = Number of meetings held during the time the director held office, and was a member of the committee, during the year

\* = Not a member of the relevant committee

## REMUNERATION REPORT

This remuneration report sets out remuneration information for Ceramic Fuel Cells Limited's non-executive directors, executive director and other key management personnel, including the five highest remunerated executives of the Group and the company.

## A Principles used to determine the nature and amount of remuneration

### Non-Executive Directors

The fees paid to non-executive directors, including the Chairman, reflect the demands which are made on, and the responsibilities of, the directors. Directors' remuneration consists of an annual fee plus statutory superannuation (where applicable). Directors are also entitled to be reimbursed for expenses incurred on Company business. Directors do not receive additional 'per meeting' fees.

The current annual fees for non-executive directors, excluding statutory superannuation, are:

Director	Fee p.a.	Comment
Jeff Harding	\$103,000	Chairman.
Roy Rose	\$66,000	Deputy Chairman, Remuneration & Nominations Committee Chairman.
Peter Binks	\$66,000	Technical Committee Chairman.
John Dempsey	\$66,000	Audit Committee Chairman.
Robert Kennett	£49,000	Non-executive director resident in the United Kingdom.
Dr Roman Dudenhausen	€55,000	Non-executive director resident in Germany.
Janine Hoey	\$50,000	Member of Audit Committee.

The Board may adjust remuneration of non-executive directors from time to time, up to an aggregate amount determined by the shareholders. The Board adjusted the fees of non-executive directors in February 2011. The current aggregate amount is \$475,000 per annum, approved by shareholders at the Annual General Meeting on 23 November 2005.

In 2009 the Company's shareholders approved a Directors and Employee Benefits Plan (**Equity Plan**), which gives the Board discretion to offer equity to directors (with shareholder approval). At the Annual General Meeting held on 22 November 2007, shareholders approved the issue of 100,000 options to each of four non-executive directors, including current directors Mr Harding and Mr Kennett. Those options granted to directors have an exercise price of \$1.01.

The Board considers that it is important to create a strong alignment of interests between staff (including senior managers and directors) and shareholders, and that at this stage of the Company's development it is appropriate for the Company to achieve this alignment by offering equity rather than by the Company paying higher cash fees.

### Managing Director and Executives

The Company enters into individual employment agreements with each of its executives, including the Managing Director.

For the financial year ended 30 June 2011, executive pay comprised annual remuneration plus two 'at risk' components, namely a short-term incentive and a long-term incentive.

Each executive's annual remuneration is based upon market rates for that person's role and responsibilities within the Company. Annual remuneration is expressed as a total remuneration package, which comprises base salary plus statutory superannuation and other entitlements.



At least once a year the Managing Director reviews the performance of each executive against previously agreed key performance indicators (KPIs), and sets KPIs for the next performance period. Information from the review process is then taken into account, along with such factors as increases in the cost of living and market parity, in determining the individual's remuneration for the next financial year. Apart from this annual review process, the Managing Director may also approve remuneration increases based upon changes in individual roles which increase an individual's level of responsibility, or recognise an increased level of skill necessary to perform a role.

The Company's short-term incentive program comprises a bonus that may be payable depending on:

- personal performance against KPIs; and
- Company performance against milestones agreed with the Board.

The short-term incentive program is part of the remuneration package for most employees who have worked with the Company for more than 12 months, including executives.

Personal KPIs and Company milestones relate to the Company's internal objectives, such as:

- technology achievements;
- product development;
- manufacturing scale up;
- market and industry development goals;
- business development and sales revenue goals.

At this stage of the Company's development, personal KPIs do not relate to the earnings or dividends of the Company and there is no direct link between cash remuneration and the share price performance of the Company (or any other company).

The short-term incentive bonus has in the past been paid as cash although it usually comprises equity issued under the Equity Plan. Under the Equity Plan the Board has discretion to offer staff shares, performance rights or options in the Company.

The Company's long-term incentive program comprises offers of equity under the Company's Equity Plan. Like the short-term incentive, the level of long-term incentive depends on personal performance against KPIs and Company performance against milestones. The long-term incentive is also generally made available to most employees who have worked with the Company for more than 12 months, including to all executives.

Over the past few years the Board has increased the amount of equity offered to staff, in particular to senior managers, in order to attract and retain quality staff, align employee incentives with shareholders' interests (by giving staff a higher ownership stake in the Company) and to give key staff significant incentives to achieve the Company's goals. The Board intends to continue to take this approach in coming years.

The specific details of any staff equity offers are set by the Board within the rules of the Equity Plan previously approved by shareholders. All such equity consequently issued is disclosed to the market.

The remuneration of the Managing Director comprises an annual salary package plus an annual equity incentive, depending on

personal and Company performance against agreed KPIs. The annual offer of equity is made in lieu of a cash bonus.

Each year the Board reviews the performance of the Company and the Managing Director against previously agreed KPIs. The results of this review feed into the annual performance and remuneration review of all staff. The Board also approves offers of equity to staff, including the Managing Director, and determines the remuneration of directors.

Before 2009 the Company issued share options as the equity component of remuneration, typically as a long term incentive. After 2009, when the Australian Government changed the laws relating to taxation of share options, Australian staff members have been offered ordinary shares instead of share options. European employees are typically offered share options.

For the 2011 remuneration review, approximately 72 percent of staff, including all senior managers, were offered equity (shares or options) as their short term incentive and long term incentive, in lieu of any cash incentive payment. Half of any shares issued to staff will be escrowed for two years, meaning that if the staff member leaves the Company within that time they forfeit the remaining shares (subject to Board discretion where for example the employee leaves because of redundancy, retirement, ill health etc, or if the business is sold). Options issued to staff have a one year waiting period before they can be exercised. The number of shares and options issued to staff will be disclosed to the market as soon as they are issued.

Management and the Board believe this approach is in the best interests of shareholders at this time. Management and the Board will continue to review the remuneration alternatives available for creating an effective short and long term incentive for staff.

## B Remuneration details

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and the five highest paid executives of Ceramic Fuel Cells Limited and the Ceramic Fuel Cells Limited Group are set out in the following tables. The key management personnel of the Group are the directors of Ceramic Fuel Cells Limited (see pages 12 to 13 above) and those executives who report directly to the Managing Director and includes the five highest remunerated Group and/or Company executives:

- Mr Frank Boyd	Group General Manager - ERP Systems
- Dr Karl Föger	Chief Technology Officer
- Mr Peter McDonell	Human Resources Manager
- Mr Andrew Neilson	Group General Manager - Commercial (and Company Secretary)
- Mr Frank Obernitz	General Manager - Business Development
- Mr John Rajoo	Chief Operations Officer
- Mr Trent Rowe	Group General Manager - Product & Marketing
- Mr Nevill (Tony) Sherburn	Chief Financial Officer
- Mr Paddy Thompson	General Manager - Business Development

## Key management personnel of the Group

2011	Short-term benefits		Post-employment benefits	Share-based payment		Long-term benefits	Total \$
	Cash salary & fees \$	Non-monetary benefits \$	Super-annuation \$	Options <sup>1</sup> \$	Shares <sup>1</sup> \$	Long service leave \$	
Name							
<b>Directors</b>							
<i>Managing Director</i>							
B L Dow	521,874	-	25,000	-	147,329	-	694,203
<i>Non-Executive Directors</i>							
J Harding (Chairman)	25,750	-	79,760	-	-	-	105,510
R R Rose (Deputy Chairman)	44,220	-	24,450	-	-	-	68,670
P N Binks	63,000	-	5,670	-	-	-	68,670
J P Dempsey	55,770	-	12,900	-	-	-	68,670
R Dudenhausen (7/5/2011 - 30/6/2011)	12,472	-	-	-	-	-	12,472
R J Kennett	72,471	-	-	-	-	-	72,471
<b>Sub-total Directors</b>	<b>795,557</b>	<b>-</b>	<b>147,780</b>	<b>-</b>	<b>147,329</b>	<b>-</b>	<b>1,090,666</b>
<b>Other key management personnel</b>							
F R Boyd	215,412	-	93,521	-	52,132	-	361,065
F Obernitz	197,172	18,671	9,064	46,786	12,909	-	284,602
K Föger	140,802	34,476	50,000	-	44,265	3,801	273,344
A D Neilson	184,556	-	15,199	-	68,200	-	267,955
N A Sherburn	202,718	699	15,199	-	43,985	2,251	264,852
J C Rajoo	192,571	-	15,199	-	53,738	-	261,508
T M Rowe	175,574	-	15,199	-	50,697	-	241,470
P A Thompson	165,753	-	13,570	46,786	-	-	226,109
P R McDonell	84,198	-	49,207	-	24,258	-	157,663
<b>Sub-total Other key management personnel</b>	<b>1,558,756</b>	<b>53,846</b>	<b>276,158</b>	<b>93,572</b>	<b>350,184</b>	<b>6,052</b>	<b>2,338,568</b>
<b>Total</b>	<b>2,354,313</b>	<b>53,846</b>	<b>423,938</b>	<b>93,572</b>	<b>497,513</b>	<b>6,052</b>	<b>3,429,234</b>

1. The options and shares amounts represent variable components of remuneration.



▲ Installed in the German offices of Alliander Netz AG, BlueGen integrates with the building's hot water tank and heating system



## Key management personnel of the Group

2010 Name	Short-term benefits			Post-employment benefits	Share-based payment	Long-term benefits	Total \$
	Cash salary & fees \$	Cash bonus <sup>1</sup> \$	Non-monetary benefits \$	Super-annuation \$	Options <sup>1</sup> \$	Long service leave \$	
<b>Directors</b>							
<b>Managing Director</b>							
B L Dow	428,503	-	55,214	25,000	31,579	-	540,296
<b>Non-Executive Directors</b>							
J Harding (Chairman)	6,566	-	-	100,000	-	-	106,566
P N Binks	51,250	-	-	4,613	-	-	55,863
J P Dempsey	52,500	-	-	12,900	-	-	65,400
R J Kennett	71,620	-	-	-	-	-	71,620
R R Rose (7/7/2009 - 30/6/2010)	31,056	-	-	24,096	-	-	55,152
<b>Former Directors</b>							
M B Dureau (1/7/2009 - 24/11/2009)	-	-	-	24,028	-	-	24,028
<b>Sub-total Directors</b>	<b>641,495</b>	<b>-</b>	<b>55,214</b>	<b>190,637</b>	<b>31,579</b>	<b>-</b>	<b>918,925</b>
<b>Other key management personnel</b>							
F R Boyd <sup>2</sup>	213,603	9,600	-	84,261	35,854	-	343,318
K Föger	145,833	9,600	34,574	50,000	35,854	2,567	278,428
N A Sherburn	200,670	9,000	301	14,461	23,854	4,306	252,592
J C Rajoo	186,945	9,600	-	14,461	35,854	-	246,860
A D Neilson	153,550	30,000	-	13,878	35,854	-	233,282
T M Rowe	164,707	9,600	-	14,124	35,854	-	224,285
F Obernitz (1/10/2009 - 30/6/2010)	159,667	-	11,951	7,485	-	-	179,103
P R McDonell	87,573	9,600	-	40,627	35,854	-	173,654
P A Thompson (21/9/2009 - 30/6/2010)	135,380	-	-	10,569	-	-	145,949
<b>Sub-total Other key management personnel</b>	<b>1,447,928</b>	<b>87,000</b>	<b>46,826</b>	<b>249,866</b>	<b>238,978</b>	<b>6,873</b>	<b>2,077,471</b>
<b>Total</b>	<b>2,089,423</b>	<b>87,000</b>	<b>102,040</b>	<b>440,503</b>	<b>270,557</b>	<b>6,873</b>	<b>2,996,396</b>

1. The cash bonus and options amounts represent variable components of remuneration.

2. F R Boyd was appointed a member of the Executive Management Team on 1 August 2009. Amounts shown include all his remuneration for the reporting period. The amount earned whilst a key management person was \$314,708, comprising cash salary of \$195,803, cash bonus of \$8,800, superannuation of \$77,239 and options expense of \$32,866.

The relative proportions of remuneration that were linked to performance, and those that were fixed, were as follows for the year ended 30 June 2011:

Name	Fixed remuneration	At risk remuneration		
		Shares	Options	Total
<b>Directors</b>				
<b>Managing Director</b>				
B L Dow	78.8%	21.2%	-	21.2%
<b>Non-Executive Directors</b>				
J Harding (Chairman)	100.0%	-	-	-
R R Rose (Deputy Chairman)	100.0%	-	-	-
P N Binks	100.0%	-	-	-
J P Dempsey	100.0%	-	-	-
R Dudenhausen (7/5/2011 - 30/6/2011)	100.0%	-	-	-
R J Kennett	100.0%	-	-	-
<b>Other key management personnel</b>				
F R Boyd	85.6%	14.4%	-	14.4%
F Obernitz	79.0%	4.5%	16.5%	21.0%
K Föger	83.8%	16.2%	-	16.2%
A D Neilson	74.5%	25.5%	-	25.5%
N A Sherburn	83.4%	16.6%	-	16.6%
J C Rajoo	79.5%	20.5%	-	20.5%
T M Rowe	79.0%	21.0%	-	21.0%
P A Thompson	79.3%	-	20.7%	20.7%
P R McDonell	84.6%	15.4%	-	15.4%

## C Service agreements

Remuneration and other terms of employment for the Managing Director and other key management personnel are formalised in written agreements, the major remuneration provisions of which are set out below (as at 30 June 2011):

### B L Dow, *Managing Director*

- Employment contract: Fixed term contract ending 20 June 2012.
- Annual Total Salary Package (TSP): \$530,000 reviewable annually.
- Incentive Plan: Issue of equity (share options, shares or performance rights) under the CFCL Directors and Employee Benefits Plan. The type and quantity of equity to be offered will be determined by the Board based on performance against agreed key performance indicators, and within the terms approved by shareholders.
- Executive's (and Company's) notice period: 6 months.

### Other key management personnel

All employment contracts with key management personnel may be terminated early as follows: by the executive - by the giving of the required period of notice; by the company - by the giving of notice or by payment in lieu of notice or by part payment and part notice. Other than statutory entitlements and payments in lieu of notice, no termination payments apply.



▲ Installation flexibility for different markets: Outdoor installation in Australia (top) and indoor installation in The Netherlands (bottom)

### F R Boyd, *Group General Manager - ERP Systems*

- Employment contract: Fixed term contract ending 26 August 2011 (since extended to 26 August 2012)
- TSP of \$292,576 p.a. reviewable at least annually (next review 1 July 2011)
- Executive's notice period: 3 months
- Company's notice period: 6 months (reduced to 3 months on contract renewal)

### K Föger, *Chief Technology Officer*

- Employment contract: ongoing position
- TSP of \$227,015 p.a. reviewable at least annually (next review 1 July 2011)
- Executive's (and Company's) notice period: 3 months.

### P R McDonell, *Human Resources Manager*

- Employment contract: ongoing position
- TSP of \$131,171 p.a. reviewable at least annually (next review 1 July 2011)
- Executive's (and Company's) notice period: 1 month.

### A D Neilson, *Group General Manager - Commercial (& Company Secretary)*

- Employment contract: ongoing position
- TSP of \$200,000 p.a. reviewable at least annually (next review 1 July 2011)
- Executive's (and Company's) notice period: 1 month.

### F Obernitz, *General Manager - Business Development*

- Employment contract: ongoing position
- Base salary of €128,750 p.a. reviewable at least annually (next review 1 July 2011)
- Performance-based equity component of up to €65,000 gross p.a.
- Motor vehicle lease cost of up to €9,900 p.a. plus running expenses
- German social security insurance contributions
- Executive's (and Company's) notice period: 3 months.

### J C Rajoo, *Chief Operations Officer*

- Employment contract: ongoing position
- TSP of \$211,282 p.a. reviewable at least annually (next review 1 July 2011)
- Executive's (and Company's) notice period: 1 month.

### T M Rowe, *Group General Manager - Product & Marketing*

- Employment contract: ongoing position
- TSP of \$185,940 p.a. reviewable at least annually (next review 1 July 2011)
- Executive's (and Company's) notice period: 1 month.

### N A Sherburn, *Chief Financial Officer*

- Employment contract: ongoing position
- Annual TSP of \$224,677 reviewable at least annually (next review 1 July 2011)
- Executive's (and Company's) notice period: 3 months.



## P A Thompson, General Manager – Business Development

- Employment contract: ongoing position
- Base salary of £93,600 p.a. reviewable at least annually (next review 1 July 2011)
- Performance-based equity component of up to £18,000 gross p.a.
- Statutory employer pension contribution of £8,424 p.a.
- Car allowance of £7,500 p.a.
- Medical insurance premium allowance of £1,800 p.a.
- Executive's (and Company's) notice period: 3 months.

## D Share-based compensation

### Options

Options over shares in Ceramic Fuel Cells Limited have been granted under the CFCL Share Option Plan (approved by shareholders on 26 November 1999) and under the Directors and Employee Benefits Plan (approved by shareholders on 28 November 2006). Under each plan, all full time and part time permanent employees, including directors but excluding casual and short-term contract employees, may be offered options on terms agreed by the Board. Any offer of options to directors requires shareholder approval.

During the year ended 30 June 2011, options were only granted to non-Australian resident key management personnel.

The terms of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Date vested and potentially exercisable	Expiry date	Exercise price at grant date	Value per option at grant date	% Vested
1 Oct 2010	The options are expected to vest and become exercisable on 1 Oct 2011 <sup>1</sup>	30 Sep 2020	\$0.1825	\$0.11	n/a

1. There were no vesting conditions other than a 12 month waiting period.

Options granted under the plan carry no dividend, nor voting, rights. When exercisable, each option is convertible into one ordinary share of Ceramic Fuel Cells Limited. The exercise price of options is currently based upon the volume weighted average closing price (VWAP) at which the company's shares are traded upon the Australian Securities Exchange (ASX) during the week immediately prior to the date of grant.

Details of options over ordinary shares in the company provided as remuneration to directors and other key management personnel of the Group are set out below. Further information on options is set out in Note 29 to the Financial Statements.

Name	Number of options granted during the year	Value of options at grant date <sup>1</sup>	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date <sup>2</sup>
<b>Directors of Ceramic Fuel Cells Limited</b>					
B L Dow	-	-	-	200,000	-
<b>Other key management personnel</b>					
F Obernitz	567,100	\$62,381	-	-	-
P A Thompson	567,100	\$62,381	-	-	-

1. The value at grant date is calculated in accordance with AASB 2 *Share-based Payment*.

2. The value at lapse date of options which were granted as part of remuneration and which lapsed during the year because the exercise period expired.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above.

Fair values at grant date are determined using a trinomial lattice option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, an expected price volatility range of the underlying share, any share market-based performance conditions applying to the exercise of the option, the restrictions on exercise applied by the Group's Securities Trading Policy, an allowance for expected early exercise, the expected dividend yield and the risk-free rate for the term of the option.

### Details of remuneration: options

For each grant of options included in the remuneration tables in section B, and in the options tables in section D, the percentage of the available grants which vested in the financial year ended 30 June 2011 and the percentage that was forfeited because the person did not fully meet the relevant service or performance criteria is set out below.

Refer above for options vesting details. No options will vest if the vesting conditions are not satisfied, hence the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options which is yet to be expensed.

Name	Options					
	Financial year granted	Vested during financial year ended 30/6/2011 %	Potential options foregone during year %	Financial years in which options may vest	Minimum total value of grant yet to vest at 30/6/2011 \$	Maximum total value of grant yet to vest at 30/6/2011 \$
F Obernitz	2011	-	-	2012	-	15,595
P A Thompson	2011	-	-	2012	-	15,595

## Share-based compensation: options

Further details relating to options granted to each director of Ceramic Fuel Cells Limited and the five company and group executives who received the highest remuneration for the year ended 30 June 2011, are set out below:

Name	A Remuneration consisting of options	B Value at grant date	C Value at exercise date	D Value at lapse date
<i>Other key management personnel</i>				
F Obernitz	16.4%	\$62,381	-	-
P A Thompson	20.7%	\$62,381	-	-

- A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year
- B = The value at grant date (calculated in accordance with AASB 2 *Share-Based Payment*) of options granted during the year as part of remuneration, which had not lapsed and which remained unexercised as at the end of the year
- C = The value at exercise date of options that were granted as part of remuneration and which were exercised during the year, being the intrinsic value of the options at that date
- D = The value at lapse date of options that were granted as part of remuneration and which lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

## E Additional information

### Performance of Ceramic Fuel Cells Limited

The options granted on 12 October 2005 with an exercise price of \$0.58 had a 3 year vesting period and, thereafter, may only be exercised if certain share market-based performance conditions are met, as follows:



▲ Adelaide Lord Mayor Stephen Yarwood launches the BlueGen Electric Vehicle charging station at the Adelaide Central Markets

Compound share price growth per annum from grant date	Percentage of options that are exercisable
Less than 15% p.a.	Nil
15% p.a.	50%
20% p.a.	75%
25% p.a.	100%

The compound share price growth targets equate to the following share prices as at 30 June 2011:

Compound share price growth per annum from grant date	Share price target
15% p.a.	\$1.367
20% p.a.	\$1.819
25% p.a.	\$2.421

On 30 June 2011 Ceramic Fuel Cells Limited's ordinary shares closed at \$0.12 on the Australian Securities Exchange, accordingly none of these options have become exercisable.

## Loans to directors and executives

No loans were made to directors or to executives during the financial year and to the date of this report.

## Shares under option

Unissued ordinary shares of Ceramic Fuel Cells Limited under option as at the date of this report are as follows:

Grant date	Expiry date	Issue price of shares	Number of shares under option
6 May 2004	5 May 2014	\$2.00	170,000
1 Sep 2004	31 Aug 2014	\$0.76	30,000
12 Oct 2005	11 Oct 2015	\$0.57	339,500
24 Aug 2006	23 Aug 2016	\$0.58	552,000
29 Aug 2007	28 Aug 2017	\$1.01	3,062,260
29 Aug 2007	28 Aug 2017	\$0.99	100,000
4 Dec 2007	3 Dec 2017	\$0.685	285,000
4 Dec 2007	3 Dec 2011	\$1.01	200,000
28 Mar 2008	27 Mar 2018	\$0.45	1,789,900
28 Aug 2008	27 Aug 2018	\$0.102	285,000
28 Aug 2008	27 Aug 2018	\$0.44	2,906,830
5 Dec 2008	5 Dec 2018	\$0.44	1,000,000
5 Dec 2008	5 Dec 2018	\$0.45	200,000
26 Jun 2009	25 Jun 2019	\$0.175	4,039,154
26 Jun 2009	25 Jun 2019	\$0.175	675,000
1 Oct 2010	30 Sep 2020	\$0.1825	1,478,900
<b>Total</b>			<b>17,113,544</b>

No option holder has any right under the terms of the issuance of their options to participate in any other share issue of the company or of any other entity.



## Shares issued on the exercise of options

No options over shares were exercised during the year ended 30 June 2011 and from 1 July 2011 to the date of this report.

## Insurance of officers and indemnification of auditor

During the year ended 30 June 2011, Ceramic Fuel Cells Limited paid a premium of \$52,875 (2010 - \$52,875) to insure the directors and secretary of the company and its subsidiaries, plus the key management personnel and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of:

- conduct involving a wilful breach of duty in relation to the company, or
- improper use of position or information to gain advantage for self or someone else, or
- conduct causing detriment to the company.

It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Auditor is indemnified by the Group against claims from third parties arising from the provision of audit services except where prohibited by the *Corporations Act 2001*, or due to negligence, fraudulent conduct, dishonesty or breach of trust by the auditor.

## Proceedings on behalf of the company

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

## Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group is important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity and its related practices:

	Consolidated	
	2011	2010
	\$	\$
<b>(a) Taxation Services</b>		
PricewaterhouseCoopers' Australian firm		
Preparation of company income tax returns	31,000	25,500
Other tax compliance and tax planning services	188,261	27,838
Related practices of PricewaterhouseCoopers' Australian firm	23,779	21,752
<b>Total Fees for Taxation Services</b>	<b>243,040</b>	75,090
<b>(b) Other Assurance Services</b>		
PricewaterhouseCoopers' Australian firm	-	-
Related practices of PricewaterhouseCoopers' Australian firm	6,901	-
<b>Total Fees for Other Assurance Services</b>	<b>6,901</b>	-
<b>Total Fees for Non-Audit Services</b>	<b>249,941</b>	75,090

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

## Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

## Jeff Harding

Chairman

Melbourne  
22 September 2011

# Executive Management Team

## Brendan Dow

*Managing Director*

Prior to joining CFCL, Mr. Dow spent almost 10 years as Managing Director of the Australian subsidiary of two German global electrical component manufacturers. He was responsible for operations across Australia and New Zealand, as well as establishing and managing Greenfield manufacturing operations in Malaysia and sales and marketing activities across South East Asia. From 1992 to 1996, Mr. Dow was a Regional Manager within a multi-national electric equipment company. Mr. Dow completed his undergraduate degree at Swinburne University Australia in Manufacturing Engineering (Honors) and completed an MBA at Mt Eliza Business School (University of Melbourne).

## Tony Sherburn

*Chief Financial Officer*

Mr Sherburn is a Chartered Accountant with a degree in economics and more than 20 years experience in finance and accounting with an emphasis on strategic planning. He has commercial experience in a number of industries including manufacturing and new technology. In addition, Mr Sherburn has been involved in the raising of venture capital equity within a high technology environment and has held senior finance positions in public companies.

## Dr Karl Föger

*Chief Technology Officer*

Dr Föger is one of the initiators of SOFC technology in Australia and has an international reputation in research and development in the energy and environmental fields. He holds a PhD in Physical Chemistry and is a Fellow of the Royal Australian Chemical Institute and an Adjunct Professor at RMIT University in Melbourne. Dr. Föger held various research and management roles at Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO), culminating in his appointment as a Chief Research Scientist. He has been involved with the Company since its inception in 1992 and has published a number of papers on SOFC technology.

## John Rajoo

*Chief Operations Officer*

Mr Rajoo has extensive senior operations and general management experience with multi national companies specialising in high technology products, including functional areas of engineering, strategy and sales. Mr. Rajoo has also been involved in commercialising new technology products and holds qualifications in engineering and business management.

## Frank Boyd

*Group General Manager ERP Systems*

Mr Boyd is a CPA with a degree in Business Studies and is a Graduate of the AICD. He was previously Finance and Operations Director of an importing Company for 12 years and Managing Director of their subsidiary manufacturing company with factories in Australia and Malaysia. He also worked for 9 years as a consultant for Peat Marwick and held the position of Director of private business consulting services.

## Andrew Neilson

*Group General Manager - Commercial*

Mr Neilson has worked as a solicitor with one of Australia's largest law firms, and as an in-house legal counsel and commercial manager for two NYSE-listed global IT firms. He has experience with commercialising technology, identifying and managing commercial risk and in structuring and negotiating a range of contracts with global partners, suppliers and customers. Mr Neilson is a Graduate of the Australian Institute of Company Directors and holds a Bachelor of Laws (Honours) and a Bachelor of Commerce.

## Peter McDonell

*Human Resources Manager*

Mr McDonell has significant human resources management experience including key roles with one of the world's leading global automotive and engineering companies. He has had extensive involvement in human resources strategy and policy, performance management, workplace relations and operational aspects of human resources. Mr McDonell has a Bachelor of Arts, Bachelor of Laws and a Graduate Diploma of Industrial Relations and is a Member of the Australian Human Resources Institute.

## Trent Rowe

*Group General Manager - Product & Marketing*

Mr Rowe specialises in facilitating industrial companies turn their technology into 'products' and then integrating these products into customer's applications. He has broad experience in the manufacturing and plastics processing industries, the Heating, Ventilation & Air Conditioning (HVAC) industry, and marketing industrial textile products. Mr Rowe has an MBA and is a member of the Australian Marketing Institute.

## Paddy Thompson

*General Manager Business Development*

Mr. Thompson has extensive business development experience gained over 10 years as a corporate finance adviser, particularly in working with companies specialising in low carbon and renewable energy generation. He has experience of building an environmental consultancy business in the UK, working with innovative environmental companies, the public sector, technologists, entrepreneurs and financiers. Mr. Thompson qualified as a chartered accountant with Ernst & Young and is also a qualified corporate financier. He is a fluent Spanish speaker and is based in the UK.

## Frank Obernitz

*General Manager Business Development*

Mr. Obernitz has gained extensive business development experience in the utility and industrial sector over the last 10 years. After setting up the sales and added value services activities of Dutch utility Nuon in Germany he became responsible for the Acquisition, Marketing and Sales group in the industry park business of the company in the Benelux and Germany. Mr. Obernitz graduated in energy and process engineering and followed a general management study at INSEAD, Fontainebleau. A native German speaker he is also fluent in Dutch and English and is based at CFCL's manufacturing site in Heinsberg, Germany.



## Auditor's Independence Declaration

As lead auditor for the audit of Ceramic Fuel Cells Limited for the year ended 30 June 2011, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Chris Dodd'.

Chris Dodd  
Partner  
PricewaterhouseCoopers

Melbourne  
22 September 2011

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# Corporate Governance Statement

## Corporate Governance

As an Australian listed company, Ceramic Fuel Cells Limited is required to have regard to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Recommendations, available on [www.asx.com.au](http://www.asx.com.au)).

The Directors are also mindful of the corporate governance requirements imposed on AIM quoted companies and the expectations of European investors, including the recommendations of the UK Combined Code on Corporate Governance.

The Company intends to comply with both sets of recommendations to the maximum extent practicable, considering the Company's resources, stage of development and current priorities.

## ASX Recommendations

The ASX Recommendations were first published in 2003, and an updated version came into force on 1 January 2008. Several further amendments to the ASX Recommendations came into force on 1 January 2011.

The ASX Recommendations are guidelines rather than prescriptions. The essence of the Recommendations is an "if not, why not" approach: that is, a company is free to depart from the Recommendations provided it discloses and explains the approach it has taken.

The table below sets out the Company's compliance with the ASX Recommendations:

ASX Principles and Recommendations	Compliance
<b>Principle 1 - Lay solid foundations for management and oversight</b>	
<i>Companies should establish and disclose the respective roles and responsibilities of board and management.</i>	
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Complies. CFCL has a written Board Charter and Committee Charters which set out these matters.
Box 1.1 Content of a director's letter upon appointment	Complies. CFCL considers these matters when drafting directors' engagement letters.
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	Complies. CFCL regularly reviews the performance of senior executives. The Board (and/or the Remuneration & Nomination Committee) formally reviews the performance of the Managing Director against agreed milestones at least annually, usually at the end of the financial year. The Managing Director formally reviews the performance of senior executives against agreed KPIs twice a year, usually after each financial half year.
Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies.
<b>Principle 2 - Structure the board to add value</b>	
<i>Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.</i>	
Recommendation 2.1: A majority of the board should be independent directors.	Complies. All Directors apart from the Managing Director are 'independent' directors according to the ASX guidelines.
Box 2.1: Relationships affecting independent status.	Complies.
Recommendation 2.2: The chair should be an independent director.	Complies.
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Complies.
Recommendation 2.4: The board should establish a nomination committee.	Complies. The Board has established a Remuneration & Nomination Committee.
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	The Directors evaluate the performance of the Board, its committees and individual directors, generally annually. This process is led by the Chairman. In 2010-11 the Board conducted an internal review, including each Director completing a questionnaire on Board and Audit Committee performance and areas for improvement.



<p>Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.</p> <p>From 1 January 2011, this includes a statement as to the mix of skills and diversity for which the Board of Directors is looking to achieve in membership of the board.</p>	<p>Complies.</p> <p>Information about the Directors is set out in the Directors' Report. The Company also maintains a Corporate Governance section on its website, <a href="http://www.cfcl.com.au">www.cfcl.com.au</a>.</p> <p>The Board of Directors aims to have a mix of skills that is appropriate for the Company's stage of operations. Currently these skills include: commercialising technology, manufacturing and engineering operations, clean energy financing and operations, experience in international energy markets and finance. As the Company commercialises its products, the mix of skills will also evolve, to include a greater focus on volume manufacturing, product marketing and sales.</p> <p>Whilst the Company provides a workplace that is open to gender diversity, the Company currently does not have a formal policy or specific objectives for gender diversity.</p> <p>In terms of geographic diversity, the Board is aware of the value of having Directors with experience in the Company's initial target markets. During 2010-11 the Board appointed Dr Roman Dudenhausen as the Company's first director based in Germany. Another director, Mr Robert Kennett, is based in the United Kingdom.</p>
<p><b>Principle 3 – Promote ethical and responsible decision-making</b> <i>Companies should actively promote ethical and responsible decision-making.</i></p>	
<p>Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company's integrity</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	<p>Complies.</p> <p>The Company has a written Code of Conduct, designed to maintain confidence in the integrity of the Company and its subsidiaries. The Code expresses certain basic principles that CFCL, its employees, contractors and external consultants should follow in all dealings related to the Company. The Code is given to new employees and directors as part of their induction into the Company.</p>
<p>Box 3.1: Suggestions for the content of a code of conduct</p>	<p>Complies.</p> <p>The Company's Code of Conduct includes principles relating to:</p> <ul style="list-style-type: none"> <li>Compliance with the law, particularly laws relating to competition and consumer protection, insider trading and privacy</li> <li>Occupational health &amp; safety policy</li> <li>Equality in employment</li> <li>Confidentiality</li> <li>Conflict of interests</li> <li>Procedures for reporting any breaches of the Code.</li> </ul>
<p>Recommendation 3.2 (from 1 January 2011) Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p>	<p>Whilst the Company provides a workplace that is open to gender diversity, the Company currently does not have a formal policy or specific objectives for gender diversity. The Board recognises the benefits of a diverse workforce and is considering how the Company can best achieve these benefits at its current stage of development.</p>
<p>Recommendation 3.3 (from 1 January 2011) Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them</p>	<p>The Company does not currently have measurable objectives for achieving gender diversity – see above.</p>
<p>Recommendation 3.4 (from 1 January 2011) Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.</p>	<p>As at 25 August 2011 there are 28 women employees in the CFCL group. Currently there are no women in senior executive positions. There is one female Director, Ms Janine Hoey.</p>
<p>Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.</p>	<p>Complies (apart from the new Recommendations 3.2 and 3.3).</p>

# Corporate Governance Statement CONTINUED

<b>Principle 4 - Safeguard integrity in financial reporting</b> <i>Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.</i>	
Recommendation 4.1: The board should establish an audit committee.	Complies.
Recommendation 4.2: The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive directors</li> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, who is not chair of the board</li> <li>• has at least three members.</li> </ul>	Complies. The Board has an audit committee comprising Mr Dempsey (Chair), Mr Harding, Ms Hoey and Mr Rose. Each of these directors is an independent non-executive director.
Recommendation 4.3: The audit committee should have a formal charter.	Complies.
Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.	Complies. Details of the qualifications of the audit committee members, and meetings of the committee, are set out in the Directors' Report.
<b>Principle 5 - Make timely and balanced disclosure</b> <i>Companies should promote timely and balanced disclosure of all material matters concerning the company.</i>	
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Complies. The Company has a Continuous Disclosure Policy.
Box 5.1: Continuous disclosure policies	Complies.
Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	Complies. A summary of the Company's Continuous Disclosure Policy is provided in the Corporate Governance section of <a href="http://www.cfcl.com.au">www.cfcl.com.au</a> .
<b>Principle 6 - Respect the rights of shareholders</b> <i>Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.</i>	
Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	The Company has a strategy for promoting effective communications with shareholders, brokers, media and other stakeholders. The Company has not disclosed a formal communications policy.
Box 6.1: Using electronic communications effectively	Complies. As a dual-listed company, with shareholders across the world, the Company uses several electronic communications tools to communicate with shareholders: Shareholders can receive all announcements and other correspondence by email, through the Company's website and also through Computershare's e-Tree service; The Company's website includes all announcements since the Company listed on ASX in 2004, other Company presentations, and the full text of AGM notices and explanatory material; The Company provides webcasts, podcasts and videos through the Boardroomradio service <a href="http://www.brr.com.au/cfu">www.brr.com.au/cfu</a> .
Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies.



<b>Principle 7 – Recognise and manage risk</b> <i>Companies should establish a sound system of risk oversight and management and internal control.</i>	
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies. The Directors' Report section of each Annual Report includes an overview of the Company's material business risks.
Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies. Management reports material business risks to the Board, including regular reports to the Board Technical committee on technical risks, and to the Board Audit committee on non-technical risks. This is an area of ongoing focus and improvement.
Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies. This disclosure is contained in the Directors' Report.
Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complies.
<b>Principle 8 – Remunerate fairly and responsibly</b> <i>Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.</i>	
Recommendation 8.1: The board should establish a remuneration committee.	Complies. The Board has established a Remuneration & Nomination Committee.
New Recommendation 8.2 (from 1 January 2011) The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent director</li> <li>• has at least three members</li> </ul>	Complies. The Remuneration & Nomination Committee comprises Mr Rose (Chair), Mr Harding, Mr Dempsey and Dr Binks – all independent directors.
Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies.
Box 8.1: Guidelines for executive remuneration packages	Complies.
Box 8.2: Guidelines for non-executive director remuneration	The Company's non-executive directors are remunerated by way of fees. There are no retirement benefits other than superannuation. Any equity issued to directors is approved by shareholders.
Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complies. Further details of the Remuneration & Nomination committee are set out in the Directors' Report.

## Board of Directors

The Board consists of a Chairman, Deputy Chairman, Managing Director and five other non-executive directors.

The Board has ultimate responsibility to the shareholders for the welfare of the Company by guiding and monitoring the Company's business affairs. The Board delegates management of the Company's resources to the executive management team, under the leadership of the Managing Director. The responsibilities of the Board and the roles and division of authority between the Chairman and Managing Director are set down in a Board Charter.

Under the Company's constitution, directors are elected for three years subject to the requirement that one-third of the directors (excluding a Managing Director) must retire at each annual general meeting. A retiring director may stand for re-election.

A director must declare any conflict of interest, and directors may not participate in discussions or resolutions pertaining to any matter in which the director has a material personal interest without Board approval.

In discharging their duties, directors are provided with direct access to senior management and outside advisors and auditors. Board committees and individual directors may seek, with the Chairman's approval, independent professional advice at the Company's expense in order to perform their duties.

The Company's practise is to execute a formal deed with each director and the Company Secretary regarding access to Board papers, indemnity and insurance.

The Board meets monthly, with additional meetings when required. The details of directors' attendance at Board meetings during the year are shown in the Directors' Report.

## Board Committees

The Board has established three standing committees. Each of these Committees has adopted a written charter.

### Audit Committee

The Audit Committee comprises Mr Dempsey (Chair), Mr Harding, Ms Hoey and Mr Rose. The Audit Committee recommends to the Board the appointment of the external auditors, reviews and monitors compliance with the audit plan, reviews the Company's financial reports, monitors the effectiveness of the accounting systems, the internal control environment, and the risk management and compliance system, and provides a clear line of communication between the external auditors and the Board. The Audit Committee regularly reviews the evaluation and testing of the Company's internal control environments undertaken by the Company's financial staff.

### Technical Committee

The Technical Committee comprises Dr Binks (Chair), Mr Rose, Mr Harding and Mr Dow, with the Chief Technical Officer and other senior managers attending by invitation. All Directors are entitled to attend all meetings of the Technical Committee. The Technical Committee overviews the Company's product and technology development programmes and advises the Board upon those matters, including technology risks.

## Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises Mr Rose (Chair), Mr Harding, Mr Dempsey and Dr Binks. The Committee reviews the remuneration of directors and senior management and the Company's recruitment, retention and termination policies for senior management. The Committee also monitors Board composition, Board and senior management succession planning, and reviews the performance of the Managing Director.

## Directors' Independence

All directors other than Managing Director Mr Dow are independent non-executive directors.

## Company Policies

The Company has adopted a range of policies and procedures to follow appropriate standards of corporate governance, including:

A Code of Conduct which requires all directors and employees to observe high standards of ethics and behaviour in the Company's activities.

Continuous disclosure policies, to keep the ASX and AIM markets informed of material price sensitive information.

A Securities Trading policy, to govern when directors and employees may trade in the Company's shares.

The Board has adopted a formal Charter, including a Directors' code of conduct, modelled on the *Australian Institute of Company Directors* Code of Conduct. The Charter sets out the responsibilities of the Board and the roles and division of authority between the Chairman and Managing Director.

## Communication with Shareholders

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company's performance. The Company promotes effective communications to keep shareholders regularly informed about the Company.

Information is communicated to shareholders through the Company's annual report, annual general meeting, half-yearly results, quarterly cashflow statements and trading updates, email alerts, market announcements and website, [www.cfcl.com.au](http://www.cfcl.com.au). CFCL also holds ad hoc 'Open Days' for shareholders to meet senior staff and to tour the Company's facilities. The Company also provides a facility on its website for shareholders to subscribe to receive Company announcements and shareholder communications by email. The Company also provides webcasts through the [Boardroomradio](#) service. Details of the Company's Corporate Governance practices are also published on [www.cfcl.com.au](http://www.cfcl.com.au).



# Financial Report

For the year ended 30 June 2011

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This financial report is the consolidated financial report of the consolidated entity consisting of Ceramic Fuel Cells Limited and its subsidiaries. The financial report is presented in the Australian currency.

Ceramic Fuel Cells Limited is a public company limited by shares, incorporated and domiciled in Australia, listed on both the Australian Securities Exchange and on the AIM Market of the London Stock Exchange. Its registered office and principal place of business is at 170 Browns Road, Noble Park, Victoria 3174, Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 2 to 10 and in the directors' report on page 11, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 22 September 2011. The directors have the power to amend and to reissue the financial report.

A copy of this financial report may be obtained from Ceramic Fuel Cells Limited's website: [www.cfcl.com.au](http://www.cfcl.com.au)

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 \$	2010 \$
<b>Revenue from continuing operations</b>	5	<b>3,680,972</b>	2,032,984
Other income	6	<b>4,284,965</b>	255,433
Research & Product Development	1(e)	<b>(15,126,946)</b>	(10,257,270)
General & Administration	1(e)	<b>(10,281,220)</b>	(8,919,372)
Sales & Marketing	1(e)	<b>(1,640,363)</b>	(2,334,848)
Net foreign exchange gain/(loss)		<b>(2,093,891)</b>	(3,355,754)
Impairment reversal/(charge)		-	2,926,957
<b>Loss before income tax</b>		<b>(21,176,483)</b>	(19,651,870)
Income tax expense		-	-
<b>Loss for the year entirely attributable to members of Ceramic Fuel Cells Limited</b>	21(b)	<b>(21,176,483)</b>	(19,651,870)
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	21(a)	<b>(1,297,226)</b>	(3,345,291)
<b>Other comprehensive income for the year, net of tax</b>		<b>(1,297,226)</b>	(3,345,291)
<b>Total comprehensive income/(expense) for the year entirely attributable to members of Ceramic Fuel Cells Limited</b>		<b>(22,473,709)</b>	(22,997,161)
		<b>Cents</b>	Cents
<b>Earnings per share for loss attributable to the ordinary equity holders of the company</b>			
Basic and diluted earnings per share	28	<b>(1.82)</b>	(1.91)

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

# Consolidated Balance Sheet

As at 30 June 2011



	Note	2011	2010
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9	19,057,009	11,474,299
Trade and other receivables	10	1,291,287	836,636
Inventories	11	5,131,081	1,081,472
Other	12	811,893	445,842
Total Current Assets		<u>26,291,270</u>	<u>13,838,249</u>
<b>Non-Current Assets</b>			
Plant and equipment	13	16,492,827	19,435,452
Intangible assets	14	1,000	1,000
Total Non-Current Assets		<u>16,493,827</u>	<u>19,436,452</u>
<b>Total Assets</b>		<u>42,785,097</u>	<u>33,274,701</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	1,840,879	1,307,448
Borrowings	18	271,937	271,944
Provisions	16	2,535,065	1,161,925
Deferred revenue	17	2,352,647	2,261,610
Total Current Liabilities		<u>7,000,528</u>	<u>5,002,927</u>
<b>Non-Current Liabilities</b>			
Borrowings	18	1,413,812	1,788,647
Provisions	19	835,631	437,644
Total Non-Current Liabilities		<u>2,249,443</u>	<u>2,226,291</u>
<b>Total Liabilities</b>		<u>9,249,971</u>	<u>7,229,218</u>
<b>Net Assets</b>		<u>33,535,126</u>	<u>26,045,483</u>
<b>EQUITY</b>			
Contributed equity	20(b)	260,275,437	230,415,020
Reserves	21(a)	(483,853)	710,438
Retained profits/(losses)	21(b)	<u>(226,256,458)</u>	<u>(205,079,975)</u>
<b>Total Equity</b>		<u>33,535,126</u>	<u>26,045,483</u>

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

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

<i>Entirely attributable to owners of Ceramic Fuel Cells Limited</i>					
	<i>Note</i>	<i>Contributed equity</i>	<i>Reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
		\$	\$	\$	\$
<b>Balance at 1 July 2009</b>		230,415,020	3,503,025	(185,428,105)	48,489,940
<b>Total comprehensive income for the year</b>		-	(3,345,291)	(19,651,870)	(22,997,161)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	20(b)	-	-	-	-
Employee share options - value of employee services	21(a)	-	552,704	-	552,704
<b>Balance at 30 June 2010</b>		<b>230,415,020</b>	<b>710,438</b>	<b>(205,079,975)</b>	<b>26,045,483</b>
<b>Total comprehensive income for the year</b>		-	(1,297,226)	(21,176,483)	(22,473,709)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	20(b)	28,857,507	-	-	28,857,507
Employee shares - value of employee services	20(b)	1,002,910	-	-	1,002,910
Employee share options - value of employee services	21(a)	-	102,935	-	102,935
<b>Balance at 30 June 2011</b>		<b>260,275,437</b>	<b>(483,853)</b>	<b>(226,256,458)</b>	<b>33,535,126</b>

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

# Consolidated Statement of Cash Flows

For the year ended 30 June 2011



	Note	2011	2010
		\$	\$
<b>Cash Flows from Operating Activities</b>			
Receipts from customers (inclusive of goods & services tax)		4,530,838	2,290,575
Payments to suppliers and employees (inclusive of goods & services tax)		<u>(27,759,750)</u>	<u>(21,764,342)</u>
		<b>(23,228,912)</b>	<b>(19,473,767)</b>
Grant receipts		-	2,220,798
Other receipts		4,040,072	107,031
Interest receipts/(payments)		<u>(110,788)</u>	<u>(73,196)</u>
<b>Net cash inflow (outflow) from operating activities</b>	27	<u><b>(19,299,628)</b></u>	<u><b>(17,219,134)</b></u>
<b>Cash Flows from Investing Activities</b>			
Decrease/(increase) in security deposits		<b>(63,595)</b>	(4,394)
Proceeds from sale of plant and equipment		-	500
Payments for plant and equipment		<u>(1,296,298)</u>	<u>(3,874,946)</u>
<b>Net cash inflow (outflow) from investing activities</b>		<u><b>(1,359,893)</b></u>	<u><b>(3,878,840)</b></u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		<b>30,217,073</b>	-
Share issue costs		<b>(1,330,995)</b>	-
Interest received		<b>331,859</b>	309,929
Repayment of borrowings		<b>(256,289)</b>	(130,051)
Net proceeds from/(payments for) financial assets		-	7,057,546
Proceeds from borrowings		-	2,449,686
<b>Net cash inflow from financing activities</b>		<u><b>28,961,648</b></u>	<u><b>9,687,110</b></u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>8,302,127</b>	<b>(11,410,864)</b>
Cash and cash equivalents at the beginning of the financial year		<b>11,474,299</b>	25,527,144
Effects of exchange rate changes on cash and cash equivalents		<u><b>(719,417)</b></u>	<u><b>(2,641,981)</b></u>
<b>Cash and cash equivalents at the end of the year</b>	9	<u><b>19,057,009</b></u>	<u><b>11,474,299</b></u>

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

# Notes to the Consolidated Financial Statements

30 June 2011

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## Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of this consolidated financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the consolidated entity consisting of Ceramic Fuel Cells Limited and its subsidiaries.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### *Compliance with IFRS*

The consolidated financial report of the Ceramic Fuel Cells Limited Group also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention.

#### *Critical accounting estimates*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

#### *Future funding considerations*

The Group is in the commercialisation stage of its fuel cell technology. Over the life of the Group it has incurred operating losses, which are detailed in the balance sheet, and is yet to become cashflow positive at an operational level. The Directors are mindful of this and continue to closely monitor the level of the Company's cash resources. Potential sources of future funding may include, but are not limited to:

- generation of sales revenue through developing and selling pre-commercial and commercial products;
- disposing of non strategic assets;
- securing debt financing for new assets and working capital requirements, either in part or in whole; and
- further issues of equity.

The Directors continue to monitor the Group's detailed financial plans and will take appropriate measures to maintain funding for the Group's operations. Accordingly, the financial report has been prepared on a going concern basis.

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Ceramic Fuel Cells Limited ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Ceramic Fuel Cells Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of any potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to, or acquired by, the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources to, and assessing the performance of, the operating segments. The chief operating decision maker is considered to be the Managing Director.

### (d) Foreign currency translation

#### *(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Ceramic Fuel Cells Limited's functional and presentation currency.

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses which relate to borrowings are presented in the statement of comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within either other income or other expenses.

Translation differences on assets and liabilities carried at fair value are reported in the profit or loss as part of the fair value gain or loss.

#### *(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

# Notes to the Consolidated Financial Statements

30 June 2011

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit or loss and statement of comprehensive income item are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of net investments in foreign entities are recognised in other comprehensive income.

## (e) Expenses classification

The statement of comprehensive income continues to be reported on the basis of the function of expenses incurred rather than by their nature. The main reasons for the classification of expenses into the functional sub-categories of Research & Product Development, General & Administration and Sales & Marketing are as follows:

- readers of the Group's statement of comprehensive income will gain a better understanding of progress towards achievement of its business plans than they would otherwise have gained if reporting was based upon the nature of costs, and
- these classifications are widely recognised within the Australian and international financial community.

Research & Product Development expense, as denoted in the statement of comprehensive income, includes the cost of all research and development projects, incorporating direct labour and direct material costs, as well as parent entity depreciation and amortisation charges, but excludes indirect project support costs and otherwise apportionable overheads, which are borne within the General & Administration expense classification. Sales & Marketing expense includes depreciation costs attributable to Ceramic Fuel Cells (Europe) Limited.

## (f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group's sales contracts generally contain multiple revenue elements. These elements include:

- the delivery and installation of the unit; and
- the provision of services. These services are for the ongoing support and maintenance of the unit for a defined period of time and, in addition to this, in the case of product development agreements, for the provision of engineering services involved in the development of the unit.

Revenue is recognised in relation to each element based on the proportion of the estimated cost associated with that element. Revenue in relation to the delivery and installation of the unit is recognised upon substantive completion of the installation. Revenue in relation to the ongoing support and maintenance of the unit is recognised over the life of the service period. Revenue in relation to engineering services is recognised in proportion to the amount of costs incurred and the total estimated cost to complete the engineering activities.

Interest income is accrued and recognised on a time proportion basis using the effective interest method. Interest income is brought to account as other income in profit or loss as the Group derives interest from its cash and financial assets which are being utilised to fund the Group's operations.

## (g) Government grants

Grants from the government are recognised as revenue, at their fair value, where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred, if received in advance, and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

## (h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable, profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and tax liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized either in other comprehensive income or directly in equity. In these circumstances the tax is also recognized in other comprehensive income or directly in equity, respectively.

Ceramic Fuel Cells Limited does not have any wholly-owned, Australian resident, controlled entities and so has not implemented the Australian tax consolidation legislation.

**(i) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases (refer Note 13). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (refer Note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

**(j) Impairment of assets**

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Any non-financial assets, other than goodwill, that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

**(k) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(l) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement no more than 30 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are

known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Factors which would indicate that a trade receivable might be impaired include significant financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments. The amount of the provision would be the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables would not be discounted if the effect of the discount were to be immaterial. The amount of the provision would be recognised in profit or loss.

**(m) Inventories**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on a standard cost basis. Costs of purchased inventory are determined after deducting any rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to effect the sale.

**(n) Plant and equipment**

*Machinery, equipment and vehicles*

All machinery, equipment and vehicles are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of machinery, equipment and vehicles is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Plant and equipment: 5 to 10 years;
- Assets under finance lease: 10 years
- Vehicles: 6.7 years;
- Furniture and fittings: 5 years; and
- Computer equipment: 3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer Note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

# Notes to the Consolidated Financial Statements

30 June 2011

## **Leasehold improvements**

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease, or the estimated useful life of the improvement to the company, whichever is the shorter. Leasehold improvements not already completely written down as at reporting date are being amortised over periods ranging from 0.6 to 5.5 years.

## **(o) Intangible assets and expenditure carried forward**

### **(i) Intellectual property**

Intellectual property consists of the actual cost incurred in purchasing (for a nominal sum) the beneficial interest in the company's intellectual property, which previously resided in the company's founding members.

This asset has an indefinite life, hence it is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstance indicate that it may be impaired.

### **(ii) Research and product development**

Expenditure on research and product development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised only if the product or service is technically and commercially feasible and adequate resources are available to complete development. Any expenditure so capitalised would comprise all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Such capitalised expenditure would be stated at cost less accumulated amortisation, the latter being calculated on a straight-line basis over the period of the expected benefit. All research and product development expenditures not meeting the criteria for capitalisation are recognised in profit or loss as expenses when incurred. The Group does not consider that the expenditure on the current programme of research and product development activities meets the full criteria for capitalisation and, as such, this expenditure is being expensed as incurred.

### **(iii) Patents**

Patent costs are written off to profit or loss in the reporting periods in which incurred.

### **(iv) Information Technology (IT) systems**

Costs incurred in the acquisition and development of the Group's global Enterprise Resources & Planning (ERP) computer system which will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis from the time of initial implementation over a period of 5 years.

## **(p) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period and which are unpaid at that date. The amounts are unsecured and are usually paid within 30 days of recognition.

## **(q) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Any fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## **(r) Provisions**

Provisions for service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for any anticipated future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate which reflects current market assessments of the time value of money and the liability-specific risks. Any increase in the provision due to the passage of time would be recognized as an interest expense.

## **(s) Employee benefits**

### **(i) Wages, salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for annual leave are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### **(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the accrued benefit method pro-rated on service. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service and any known impending changes

to relevant legislation. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(iii) Short-term incentive**

The Group recognises an expense for short-term incentives based on a formula that takes into consideration, as at each reporting date, progress towards the expected achievement of both company and employee key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(iv) Share-based payments**

Share-based compensation benefits are provided to employees, and have been provided to former directors, via the Ceramic Fuel Cells Limited Directors and Employee Benefits Plan (*Equity Plan* - refer Note 29(a)).

*Shares*

The fair value at grant date of shares granted as remuneration to employees is as follows: for services already provided, the fair value is immediately expensed to profit or loss; for services yet to be provided, the fair value is expensed as the services are provided. The share capital account is credited, with the fair value of all employee shares issued, at the time of grant.

*Share options*

The fair value of options granted under the Equity Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using an option pricing model which takes into account the exercise price, the term of the option, the vesting and performance criteria, the non-tradeable nature of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

**(t) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(u) Earnings per share**

**(i) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for any bonus elements in ordinary shares issued during the period.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**(v) Goods and Services Tax (GST) (including European Value Added Tax)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

**(w) Parent entity financial information**

The financial information for the parent entity, Ceramic Fuel Cells Limited, disclosed in Note 30 has been prepared on the same basis as the consolidated financial statements with the exception of investments in subsidiaries, which are accounted for at cost in the financial statements of Ceramic Fuel Cells Limited.

**Share-based payments**

The grant by Ceramic Fuel Cells Limited of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

**(x) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

# Notes to the Consolidated Financial Statements

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AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The Group has no financial assets at 30 June 2011 that would be affected by the standard, nor does it have any financial liabilities that are designated at fair value through profit or loss, however it may choose to hold such assets, or incur such liabilities, in the future. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 will affect the Group's accounting treatment in the future if it holds available-for-sale financial assets. AASB 9 will only permit the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group has not yet decided when to adopt AASB 9.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards (effective from 1 January 2011)*

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and any associates. However, there will be no impact on any of the amounts recognised in the Group's financial statements.

(iii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)*

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Ceramic Fuel Cells Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(iv) AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2011)*

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2011. It does not expect that any adjustments will be necessary as a result of applying the revised rules.

(v) AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (effective from 1 July 2011)*

In November 2010, the AASB made amendments to AASB 7 *Financial Instruments: Disclosures* which introduces additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer

financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

(vi) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective from 1 January 2013)*

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have any impact on its financial reporting based upon its current composition, given that all of its subsidiaries are 100% owned by the parent entity at reporting date.

AASB 11 introduces a principles-based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements but, rather, on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties which participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements as at reporting date, this standard will not have any impact on its current financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Group's investments in related entities.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure

its retained interest as part of ownership changes where a joint venture becomes an associate, and vice-versa. The amendments also introduce a "partial disposal" concept. This standard is not expected to have any impact on the financial statements.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(vii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13 (effective from 1 January 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible, as yet, to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements

(viii) AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements (effective from 1 July 2011)*

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Group's current disclosures. The Group intends to adopt the standards from 1 July 2011.

(ix) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income (effective from 1 July 2012)*

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

(x) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective from 1 July 2013)*

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

## Note 2. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to earn an appropriate return on surplus funds whilst mitigating the potential for cash flow losses arising from unfavourable movements in foreign exchange rates on funds intended for the operation of the Group's businesses. Such funds are held in pounds sterling or euros to provide a hedge against expected future cash flow requirements. The Group has not used derivative financial instruments to hedge its risk exposures during the year.

The Group holds the following financial instruments:

	2011	2010
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	19,057,009	11,474,299
Trade and other receivables	1,291,287	836,636
	<u>20,348,296</u>	<u>12,310,935</u>
<b>Financial liabilities</b>		
Trade and other payables	1,840,879	1,307,448
Borrowings	1,685,749	2,060,591
	<u>3,526,628</u>	<u>3,368,039</u>

Financial risk management is the responsibility of the Chief Financial Officer, acting within policies approved by the Board of Directors.

The Board approves documented principles for overall financial risk management, as well as written policies covering specific areas such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

The Group's investment policy guidelines set the framework within which management must manage the Group's investment portfolio. The current objectives and policy goals are to:

*Within the Investment Risk framework*

- earn appropriate returns on surplus cash within conservative levels of risk return exposure;
- mitigate the credit and liquidity risks inherent within its investment activities; and
- set dealing policy controls and management reporting processes.

*Within the Operational framework*

- ensure investments are only made in approved interest bearing securities. The policy does not permit equity investments. Investments may only be placed in a limited number of highly liquid securities;
- ensure investments are only made within the guidelines for approved institutions and limits as defined in the policy;
- ensure investments are classified appropriately for accounting purposes at the time the investments are made;
- ensure investments are either held directly or in safe custody, Euroclear or Austraclear in the name of Ceramic Fuel Cells Limited;
- ensure that the investment policy guidelines are reviewed on a regular and timely basis.

# Notes to the Consolidated Financial Statements

30 June 2011

Other aspects of the financial risk management programme and policies include:

## (a) Market risk

### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Group operates internationally and holds foreign currency funds which are intended to be used in the operation of its European businesses. As such its Australian dollar reported results are exposed to foreign currency translation adjustments arising from holding currencies other than in the Group's functional currency. During the reporting period this exposure was principally to pounds sterling and euros. The Group's policy is to retain these funds in the currencies in which they are expected to be spent as a natural hedge and not to acquire financial instruments to offset the foreign currency translation adjustments arising in the Australian dollar reported results. The potential adjustment is measured using sensitivity analysis. To the extent that these funds are matched to specific future currency outflows, there is no risk to the Group's cashflow forecasts. See table below.

### Sensitivity

Based on the financial instruments held at 30 June 2011 had the Australian dollar weakened/strengthened by 5% against the pound sterling and euro, with all other variables held constant, the Group's post tax loss for the year would have been \$693,251 lower/higher (2010 - \$242,718 lower/higher), mainly as a result of foreign exchange gains/losses on the translation of cash, investments, receivables and payables denominated in pounds sterling and euros as detailed in the above table. Profit is more sensitive in both 2011 and 2010 to movements in the Australian dollar/euro exchange rate due to the higher level of euro denominated investments. Equity would have been \$936,322 higher/\$847,207

lower (2010 - \$980,874 higher/\$887,475 lower) had the Australian dollar weakened/strengthened by 5% against the pound sterling and euro, arising from the translation of the net investment in foreign operations. Equity is more sensitive to movements in the Australian dollar/euro exchange rate in 2011 than 2010 because of the increased net investment in Germany with the construction of the Group's fuel cell plant there.

### (ii) Interest rate risk - cash flow and fair value

The Group's main interest rate risk arises from holding cash and interest-bearing securities as investments. Funds invested at variable rates expose the Group to cash flow interest rate risk. Funds invested at fixed interest rates expose the Group to fair value interest rate risk. The Group's investment policy allows for funds to be invested in securities with maximum interest rate duration of 3 years. During the reporting period the majority of the Group's funds were invested in cash and short interest rate duration securities with leading commercial banks. The value of cash and cash equivalents at 30 June 2011 that was exposed to variable interest rate risk was \$19,057,009 (2010 - \$11,474,299).

The Group also has borrowings in the form of a finance lease on certain equipment located in the German plant. At 30 June 2011 the amount owing was \$1,685,749 (2010 - \$2,060,591). The borrowings are at a fixed effective interest rate of 5.8% per annum and the lease has a further 5.3 years to run. Changes in interest rates will not effect the interest payments on these borrowings and, as they are being measured on the basis of amortised cost, nor will it affect the value of the borrowings in the balance sheet.

### Sensitivity

If, during the year ended 30 June 2011, interest rates in each currency that the Group held cash and investments in had changed by +/- 50 basis points from the actual rates with all other variables held constant, post-tax loss for the year would have been \$132,000 lower/higher (2010 - change of 50 basis points: \$119,000 lower/higher), mainly as a result of higher/lower interest income.

The Group's accounting exposure to foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	30 June 2011					30 June 2010			
	EUR	GBP	USD	NZD	JPY	EUR	GBP	USD	NZD
	\$	\$	\$	\$	\$	\$	\$	\$	
Cash and cash equivalents	7,487,030	5,853,048	15,623	-	-	10,549,163	613,046	93,451	-
Trade and other receivables	1,092,956	29,903	21,263	-	-	652,730	35,184	-	-
Net investment in foreign operations	14,654,408	3,149,625	-	-	-	14,125,727	4,513,883	-	-
Trade and other payables	463,824	92,349	13,932	22,000	29,790	239,586	77,829	-	25,349
Borrowings	1,685,749	-	-	-	-	2,060,592	-	-	-



**(b) Credit risk**

The Group is exposed to credit risk arising from the potential of a counterparty to a financial instrument failing to fulfil their obligations. To manage this risk the Group employs the Standard & Poors (S&P) credit rating system and has policies that define the maximum exposure to a single counterparty within a ratings category and the level of asset concentration of the portfolio as a whole to a specific ratings category. The Group does not invest in

securities that have an S&P credit rating lower than 'A' for long-term securities and 'A-2' for short-term securities.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historic information about counterparty default rates:

S&P Rating	2011	2010
	\$	\$
<b>Trade receivables</b>		
Counterparties with external credit ratings (S&P)		
- denominated in AUD		
AA	4,675	-
- denominated in EUR		
A	810,885	116,496
BBB	27,397	-
- denominated in USD		
A	18,678	-
- denominated in GBP		
A	5,400	-
Counterparties without external credit ratings:		
- New customers (less than 6 months)		
- denominated in AUD	12,000	48,744
- denominated in EUR	107,446	256,096
- denominated in GBP	1,260	1,894
- Existing customers (more than 6 months) with no defaults in the past		
- denominated in AUD	-	27,500
	<b>987,741</b>	450,730
<b>Cash and cash equivalents</b>		
- denominated in AUD		
AA	2,631,126	218,636
A	3,070,182	-
- denominated in EUR		
AA	1,987,841	4,159,070
A	5,499,190	6,390,096
- denominated in GBP		
AA	5,853,047	613,046
- denominated in USD		
AA	15,623	93,451
	<b>19,057,009</b>	11,474,299

# Notes to the Consolidated Financial Statements

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## (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet funding requirements.

The Group manages liquidity by continuously monitoring forecast and actual cash flows. The Group does not currently have any lines of credit or bank overdrafts.

## Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

30 June 2011							
Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/liabilities
	\$	\$	\$	\$	\$	\$	\$
<b>Non-derivatives</b>							
Trade and other payables	1,840,879	-	-	-	-	1,840,879	1,840,879
Borrowings (finance lease liabilities)	182,347	182,347	364,694	1,094,083	151,956	1,975,427	1,685,749
<b>Total non-derivatives</b>	<b>2,023,226</b>	<b>182,347</b>	<b>364,694</b>	<b>1,094,083</b>	<b>151,956</b>	<b>3,816,306</b>	<b>3,526,628</b>

30 June 2010							
Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/liabilities
	\$	\$	\$	\$	\$	\$	\$
<b>Non-derivatives</b>							
Trade and other payables	1,307,448	-	-	-	-	1,307,448	1,307,448
Borrowings (finance lease liabilities)	193,477	193,478	386,955	1,160,865	548,186	2,482,961	2,060,591
<b>Total non-derivatives</b>	<b>1,500,925</b>	<b>193,478</b>	<b>386,955</b>	<b>1,160,865</b>	<b>548,186</b>	<b>3,790,409</b>	<b>3,368,039</b>

## (d) Summarised sensitivity analysis

The following tables summarises the sensitivity of the Group's financial assets, financial liabilities and net investment in foreign operations to interest rate risk:

30 June 2011	Carrying amount	Interest rate risk			
		-50bps		+50bps	
		Loss	Equity	Loss	Equity
<b>Financial assets</b>					
Cash and cash equivalents	19,057,009	(132,000)	(132,000)	132,000	132,000
Trade and other receivables	1,291,287				
Net investment in foreign operations	17,804,033				
<b>Financial liabilities</b>					
Trade and other payables	1,840,879				
Borrowings	1,685,749				

The following tables summarises the sensitivity of the Group's financial assets, financial liabilities and net investment in foreign operations to foreign exchange risk:

30 June 2011	Carrying amount	Foreign exchange risk			
		-5%		+5%	
		Loss	Equity	Loss	Equity
<b>Financial assets</b>					
Cash and cash equivalents	19,057,009	667,281	667,281	(667,281)	(667,281)
Trade and other receivables	1,291,287	57,065	57,065	(57,065)	(57,065)
Net investment in foreign operations	17,804,033		890,203		(890,203)
<b>Financial liabilities</b>					
Trade and other payables	1,840,879	(31,095)	(31,095)	31,095	31,095
Borrowings	1,685,749	-	-	-	-

As noted above, this sensitivity analysis focuses on the accounting impact of these foreign exchange risks. The Group's policy is to hold funds in currencies in which they are expected to be spent, thus minimising the economic impact on future cash flows.



### **Note 3. Critical Accounting Estimates and Judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

#### **(a) Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal subsequent actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### ***Revenue recognition and warranty provisions***

As described in Note 1(f) the Group's sales contracts contain multiple revenue elements. Revenue is recognised in relation to each element based on the proportion of the estimated cost associated with that element. A provision for estimated warranty claims is also created at the time of the initial revenue recognition. The adequacy of this provision is reviewed at each reporting date.

The products being developed and sold by the Group are new and as such there is a relative lack of historical experience in undertaking the service, maintenance and warranty obligations of the units. This has meant that management has had to make significant assumptions as to future contract outcomes, from both a cost and technical perspective.

For most contracts the service and warranty obligations cover a period of between 1 and 3 years. The major variable cost assumption in relation to the service and maintenance of the units is the amount of labour time required. The major variable cost assumption in relation to the warranty provision is the estimated life of the fuel cell stack, which will determine how many replacement stacks (if any) will be required during the warranty period.

If the amount of labour time required to service and maintain the units is greater than management's estimates then the amount of revenue that has been deferred, and recorded in the balance sheet, will not be sufficient to cover the future costs.

If the number of stacks that are required to be replaced during the warranty period is greater than management's estimates then the warranty provision will need to be increased, resulting in an increased charge to profit or loss.

#### **(b) Critical judgements in applying the entity's accounting policies**

##### ***Impairment of non-current assets***

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to the impairment of assets. The Directors consider that the Group represents a single cash-generating unit. If an impairment trigger were to arise in the future, such as a change in technical research direction leading to potential obsolescence of one or more items of plant and equipment, then the recoverable amount of the asset/s would need to be reconsidered and determined. The carrying amount of the Group's plant and equipment at 30 June 2011 is approximately \$16.5 million (2010 - \$19.4 million), the majority of which is specialist equipment dedicated to solid oxide (ceramic) fuel cell research and product development, ceramic powder production and the production and assembly of ceramic fuel cell stacks.

##### ***Income tax losses***

The ability of each member of the Group to obtain the potential tax benefit of unused tax losses, for which no deferred tax asset has been recognised, is dependent upon:

- the derivation of future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- continued compliance with the conditions for deductibility imposed by the taxation legislation of the relevant tax jurisdiction; and
- there being no changes in tax legislation which may adversely affect the ability to realize the benefit from the deductions for the losses.

# Notes to the Consolidated Financial Statements

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## Note 4. Segment Information

### (a) Operating segment

Management considers that the Group represents a single operating segment whose activities are directed towards the commercialisation of its fuel cell technology. Decisions as to resource allocation and the measurement of the business's performance are undertaken at the Group level.

### (b) Geographical information

Although the Group's operational businesses are managed on a global basis, they operate within two main geographical areas:

*Australia:* The home country of the parent entity. The areas of operation are principally solid oxide (ceramic) fuel cell research, product development and pilot manufacturing; and

*Europe:* Comprises the subsidiaries of the parent entity. The areas of operation include the operation of a zirconia powder manufacturing plant, a fuel cell products manufacturing and assembly plant, sales, marketing and business development.

Geographical revenues are allocated based upon the country in which the customer is located.

Geographical assets are allocated based upon the country in which the assets are physically located.

	<i>Australia</i>	<i>Europe</i>	<i>Inter-segment eliminations</i>	<i>Total</i>
	\$	\$	\$	\$
<b>2011</b>				
Sales revenue from external customers				
Customers domiciled in Australia	1,362,265	-	-	1,362,265
Customers domiciled outside Australia				
- European Union	2,462,257	1,799,607	(2,432,142)	1,829,722
- Asia	354,257	-	-	354,257
- North America	134,728	-	-	134,728
Other income	89,280	83,299	-	172,579
	<u>4,402,787</u>	<u>1,882,906</u>	<u>(2,432,142)</u>	<u>3,853,551</u>
Unallocated revenue and other income				<u>4,112,386</u>
Total revenue and other income				<u>7,965,937</u>
Non-current assets	9,809,468	21,653,961	(14,970,602)	16,492,827
Unallocated non-current assets				1,000
Total non-current assets				<u>16,493,827</u>
<b>2010</b>				
Sales revenue from external customers				
Customers domiciled in Australia	68,096	-	-	68,096
Customers domiciled outside Australia				
- European Union	168,239	1,582,340	-	1,750,579
- Asia	208,697	-	-	208,697
Other income	318,462	27,898	(221,699)	124,661
	<u>763,494</u>	<u>1,610,238</u>	<u>(221,699)</u>	<u>2,152,033</u>
Unallocated revenue and other income				136,384
Total revenue and other income				<u>2,288,417</u>
Non-current assets	10,425,668	24,084,619	(15,074,835)	19,435,452
Unallocated non-current assets				1,000
Total non-current assets				<u>19,436,452</u>



	2011	2010
	\$	\$

## Note 5. Revenue

### From continuing operations

#### Sales revenue

Fuel cell products	3,670,746	2,014,660
Powder sales income	9,641	18,324
Licensing income	585	-
Total revenue from continuing operations	<u>3,680,972</u>	<u>2,032,984</u>

## Note 6. Other Income

Sundry income	4,026,145	118,768
Net interest revenue	258,820	136,384
Net gain on disposal of plant and equipment	-	281
Total other income	<u>4,284,965</u>	<u>255,433</u>

### Sundry income

Sundry income includes an amount of A\$3,853,566 from the settlement of legal action taken against the Company's former investment and treasury advisor, Oakvale Capital Limited.

## Note 7. Expenses

Profit/(loss) before income tax includes the following specific expenses:

Depreciation - Equipment	2,303,852	1,754,217
Amortisation - Leasehold improvements	1,342,924	506,453
	<u>3,646,776</u>	<u>2,260,670</u>
Product warranty expense	1,247,710	56,619
Equity-based payments expense		
- Share-based expense	678,394	-
- Share options expense	102,935	552,704
	<u>781,329</u>	<u>552,704</u>
Other provisions - Employee entitlements	749,478	687,104
Rental expense relating to operating leases - Minimum lease payments	746,416	804,702
Defined contribution superannuation expense	733,629	667,513

# Notes to the Consolidated Financial Statements

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	2011	2010
	\$	\$

## Note 8. Income Tax Expense

### (a) Numerical reconciliation of income tax expense to prima facie tax payable

Profit/(loss) before income tax expense	<u>(21,176,483)</u>	<u>(19,651,870)</u>
Tax at the Australian tax rate of 30% (2010 - 30%)	<u>(6,352,945)</u>	<u>(5,895,561)</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Australian R&D tax concession	<u>(600,000)</u>	<u>(692,325)</u>
Share-based payments expense	<u>387,461</u>	<u>165,297</u>
Sundry non-deductible items	<u>31,849</u>	<u>53,113</u>
	<u>(6,533,635)</u>	<u>(6,369,476)</u>
Difference in overseas tax rates	<u>147,782</u>	<u>(119,100)</u>
Adjustments for tax of prior periods	<u>(5,773,379)</u>	<u>4,071,047</u>
Income tax benefit not recognised	<u>12,159,232</u>	<u>2,417,529</u>
Income tax expense	<u>-</u>	<u>-</u>

### (b) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	<u>262,826,151</u>	<u>224,260,912</u>
Potential tax benefit	<u>78,700,063</u>	<u>66,540,831</u>

Unused tax losses have been incurred by all Group entities and are calculated at rates applicable to each taxation jurisdiction.

## Note 9. Current Assets - Cash and Cash Equivalents

Cash at bank and on hand (balance as per statement of cash flows)	<u>19,057,009</u>	<u>11,474,299</u>
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### Cash at bank and on hand

Cash on hand is non-interest bearing. Cash at bank consists of multiple currencies in 'at call' accounts (bearing balance-dependent interest rates in accordance with individual account terms) and short-term deposits of up to 3 months duration.

The amount of cash and cash equivalents at 30 June 2011 includes A\$3,204,104 pledged as security for bank guarantees, and so is unavailable for use by the Group. Of this amount, A\$2,430,790 (€1,800,000) supports a bank guarantee issued in relation to a government grant received in December 2009 (refer Note 17 Deferred Revenue).

Further information about the Group's exposure to interest rate risk is discussed in Note 2.

## Note 10. Current Assets - Trade and Other Receivables

Trade receivables	<u>987,741</u>	<u>450,731</u>
GST/VAT receivable	<u>260,324</u>	<u>357,726</u>
Other receivables	<u>43,222</u>	<u>28,179</u>
	<u>1,291,287</u>	<u>836,636</u>



	2011	2010
	\$	\$

### Note 11. Current Assets - Inventories

Raw materials and stores	3,323,009	1,068,408
Work in progress	426,391	13,064
Finished goods	1,381,681	-
	<u>5,131,081</u>	<u>1,081,472</u>

#### Inventory expense

Write-downs of inventories to net realisable value recognized as an expense during the year ended 30 June 2011 amounted to \$323,476 (2010 - Nil).

### Note 12. Current Assets - Other

Prepayments	551,640	241,772
Security deposits	260,253	204,070
	<u>811,893</u>	<u>445,842</u>

#### Security deposits

The deposits are bearing fixed interest rates between 0% and 6.0% at reporting date (2010 - 0% and 4.4%).

### Note 13. Non-Current Assets - Plant and Equipment

#### Equipment

Machinery - at cost	20,654,869	27,277,717
Less: Accumulated depreciation	(14,627,735)	(13,033,351)
Net book amount	<u>6,027,134</u>	<u>14,244,366</u>
<u>Reconciliation</u>		
Opening net book amount	14,244,366	8,711,297
Exchange differences	(909,733)	(607,168)
Additions	1,382,211	200,916
Transfers in/(out)	(6,972,246)	7,693,757
Disposals (written down value)	-	(219)
Depreciation expense (Note 7)	(1,717,464)	(1,754,217)
Closing net book amount	<u>6,027,134</u>	<u>14,244,366</u>

#### Leasehold Improvements

Leasehold improvements - at cost	13,873,584	6,603,412
Less: Accumulated amortisation	(6,950,737)	(5,793,610)
Net book amount	<u>6,922,847</u>	<u>809,802</u>
<u>Reconciliation</u>		
Opening net book amount	809,802	1,508,267
Exchange differences	(76,966)	(198,536)
Additions	560,689	6,524
Transfers in/(out)	6,972,246	-
Amortisation expense (Note 7)	(1,342,924)	(506,453)
Closing net book amount	<u>6,922,847</u>	<u>809,802</u>

# Notes to the Consolidated Financial Statements

30 June 2011

	2011	2010
	\$	\$

## Note 13. Non-Current Assets - Plant and Equipment (continued)

### Assets Under Finance Lease

Plant and equipment - at cost	4,129,234	4,381,284
Less: Accumulated depreciation	<u>(586,388)</u>	-
Net book amount	<u>3,542,846</u>	<u>4,381,284</u>
<u>Reconciliation</u>		
Opening net book amount	4,381,284	-
Exchange differences	<u>(252,050)</u>	-
Additions	-	-
Transfers in/(out)	-	4,381,284
Disposals (written down value)	-	-
Depreciation expense (Note 7)	<u>(586,388)</u>	-
Closing net book amount	<u>3,542,846</u>	<u>4,381,284</u>

### Assets Under Construction

Construction in progress - at cost	-	-
<u>Reconciliation</u>		
Opening net book amount	-	10,056,394
Exchange differences	-	(1,739,964)
Additions	-	3,758,611
Transfers in/(out)	-	(12,075,041)
Disposals (written down value)	-	-
Closing net book amount	-	-

### Total Plant and Equipment

Plant and equipment - at cost	38,657,687	38,262,413
Less: Accumulated depreciation	<u>(22,164,860)</u>	<u>(18,826,961)</u>
Net book amount	<u>16,492,827</u>	<u>19,435,452</u>
<u>Reconciliation</u>		
Opening net book amount	19,435,452	20,275,958
Exchange differences	<u>(1,238,749)</u>	(2,545,668)
Additions	1,942,900	3,966,051
Transfers in/(out)	-	-
Disposals (written down value)	-	(219)
Depreciation and amortisation expense (Note 7)	<u>(3,646,776)</u>	<u>(2,260,670)</u>
Closing net book amount	<u>16,492,827</u>	<u>19,435,452</u>

## Note 14. Non-Current Assets - Intangible Assets

### Intellectual property

Cost	1,000	1,000
Less: Impairment charge	-	-
Net book amount	<u>1,000</u>	<u>1,000</u>
<u>Reconciliation</u>		
Opening net book amount	1,000	1,000
Additions	-	-
Impairment charge	-	-
Closing net book amount	<u>1,000</u>	<u>1,000</u>



	2011	2010
	\$	\$

### Note 15. Current Liabilities - Trade and Other Payables

Trade payables	495,200	253,256
Other payables	1,345,679	1,054,192
	<u>1,840,879</u>	<u>1,307,448</u>

Information about the Group's exposure to foreign exchange risk is provided in Note 2.

### Note 16. Current Liabilities - Provisions

Provisions for employee benefits: annual and long service leave	1,361,719	1,055,246
Provision for product warranty	987,871	55,252
Provision for reinstatement	129,385	-
Provision for operating leases	56,090	51,427
	<u>2,535,065</u>	<u>1,161,925</u>

#### Provision for reinstatement (Current and Non-Current)

The Group is required to restore all of its leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

### Note 17. Current Liabilities - Deferred Revenue

Deferred revenue, including government grants	<u>2,352,647</u>	<u>2,261,610</u>
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In December 2009 the Group received a regional development grant of €1,386,000 (A\$2,220,798 as at transaction date) from the Government of North Rhine Westphalia in Germany. The funding requires the company to meet certain requirements as to expenditure on construction of the Group's plant in Germany and the creation of jobs. The Group has met the requirement in relation to expenditure on the plant.

At 30 June 2011 the full amount of the grant (A\$1,871,708) has been treated as deferred revenue and will be brought to account in a future period in line with the satisfaction of the obligations.

### Note 18. Borrowings

In December 2009 the Group entered into a sale-and-leaseback transaction for certain equipment located in the Group's plant in Germany. The transaction involved the sale of equipment with a cost of €3,057,698 (A\$4,899,372 as at transaction date) to the German banking group Commerzbank. This equipment is included within the non-current asset, plant and equipment, in the balance sheet. The equipment is being leased back over 7 years with an upfront lease payment of 50% of the value of the equipment.

Finance lease liabilities (refer also to Note 24)		
Current	271,937	271,944
Non-current	1,413,812	1,788,647
	<u>1,685,749</u>	<u>2,060,591</u>

# Notes to the Consolidated Financial Statements

30 June 2011

	2011	2010
	\$	\$

## Note 19. Non-Current Liabilities - Provisions

Provision for reinstatement	531,789	-
Provision for operating leases	243,874	342,340
Provision for employee benefits: long service leave	59,968	95,304
	<u>835,631</u>	<u>437,644</u>

### Provision for Operating Leases (Current and Non-Current)

Carrying amount at start of reporting period	393,767	463,510
Initial and/or additional provisions recognised	313	31,178
Amounts used	(94,116)	(100,921)
Carrying amount at end of reporting period	<u>299,964</u>	<u>393,767</u>

The provision for operating leases relates to premises leased by the parent entity and its European-based subsidiaries during the reporting period. Australian Accounting Standard AASB 117 *Leases* requires that lease payments under an operating lease be recognised as an expense on a straight-line basis over the lease term.

## Note 20. Contributed Equity

### (a) Share capital

The share capital account of the company consists of 1,201,353,566 fully paid up, ordinary shares as at 30 June 2011.

### (b) Movements in ordinary share capital

Movements in ordinary share capital of the company during the past two years were as follows:

Date	Details	Number of shares	Issue price	Amount \$
1-7-2009	Opening balance	1,029,873,280		230,415,020
	No movement			
30-6-2010		<u>1,029,873,280</u>		<u>230,415,020</u>
27-8-2010	Placing and subscription	95,238,096	\$0.1825	17,380,952
23-9-2010	Overseas offer	19,222,606	\$0.1825	3,508,126
23-9-2010	Australia and New Zealand rights issue	51,112,184	\$0.1825	9,327,995
18-10-2010	Employee share scheme issue	5,233,400	\$0.1700	889,678
1-12-2010	Employee share scheme issue	674,000	\$0.1680	113,232
	Less: Transaction costs arising on share issues	-		(1,359,566)
30-6-2011	Balance	<u>1,201,353,566</u>		<u>260,275,437</u>

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and the proceeds on winding up of the company, in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting of the company, either personally or by duly authorised representative, proxy or attorney, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) Share options

Information relating to the company's Directors and Employee Benefits Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 29.

### (e) Capital management

The Group's and the parent entity's objective when managing capital is to safeguard their ability to continue as a going concern. This objective has been historically met by issuing shares in the capital of the parent so as to ensure sufficient cash reserves to enable the Group to carry out its operations and to meet current and future obligations as and when they arise. Further information on the Group's future funding is set out in Note 1(a).

Capital under management consists solely of fully paid up, ordinary shares. Neither the parent nor any of its subsidiaries is subject to any externally imposed capital requirements. There has been no change, from the previous reporting period, in the way in which the Group and parent has managed its capital objective.



	2011	2010
	\$	\$

## Note 21. Reserves and Retained Profits/(Losses)

### (a) Reserves

Share-based payments reserve	4,480,807	4,377,872
Foreign currency translation reserve	<u>(4,964,660)</u>	<u>(3,667,434)</u>
Total reserves	<u>(483,853)</u>	<u>710,438</u>

#### Share-based payments reserve

Balance at 1 July	4,377,872	3,825,168
Option expense	<u>102,935</u>	<u>552,704</u>
Balance at 30 June	<u>4,480,807</u>	<u>4,377,872</u>

#### Foreign currency translation reserve

Balance at 1 July	(3,667,434)	(322,143)
Currency translation differences arising during the year	<u>(1,297,226)</u>	<u>(3,345,291)</u>
Balance at 30 June	<u>(4,964,660)</u>	<u>(3,667,434)</u>

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

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

Balance at 1 July	(205,079,975)	(185,428,105)
Net profit/(loss) for the year	<u>(21,176,483)</u>	<u>(19,651,870)</u>
Balance at 30 June	<u>(226,256,458)</u>	<u>(205,079,975)</u>

### (c) Nature and purpose of reserves

#### (i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised – refer Note 1(s)(iv).

#### (ii) Foreign currency translation reserve

Exchange differences arising on translation of controlled foreign entities are taken to the foreign currency translation reserve, as described in Note 1(d). The reserve is recognised in profit or loss when the net investment is disposed.

## Note 22. Key Management Personnel Disclosures

### (a) Key management personnel compensation

	2011	2010
	\$	\$
Short-term employee benefits	2,408,159	2,278,463
Post-employment benefits	423,938	440,503
Long-term benefits	6,052	6,873
Termination benefits	-	-
Share-based payments	<u>591,085</u>	<u>270,557</u>
	<u>3,429,234</u>	<u>2,996,396</u>

Detailed remuneration disclosures are provided in the Directors' Report, within sections A to D of the Remuneration Report, on pages 14 to 20.

# Notes to the Consolidated Financial Statements

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## Note 22. Key Management Personnel Disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel

#### (i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with the terms and conditions of the options, can be found in section D of the remuneration report on pages 19 to 20.

#### (ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Ceramic Fuel Cells Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2011							
Name	Balance at the start of the year	Granted as compensation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable at year-end	Unvested at year-end
<b>Directors of Ceramic Fuel Cells Limited</b>							
B L Dow	2,645,000	-	-	(200,000)	2,445,000	2,445,000	-
J Harding	100,000	-	-	-	100,000	100,000	-
R J Kennett	100,000	-	-	-	100,000	100,000	-
<b>Former directors of Ceramic Fuel Cells Limited</b>							
M B Dureau	100,000	-	-	(100,000)	-	-	-
<b>Other key management personnel of the Group</b>							
F R Boyd	718,750	-	-	-	718,750	718,750	-
K Föger	934,450	-	-	-	934,450	889,950	44,500
P R McDonell	984,450	-	-	-	984,450	939,950	44,500
A D Neilson	1,084,450	-	-	-	1,084,450	1,039,950	44,500
F Obernitz	-	567,100	-	-	567,100	-	567,100
J C Rajoo	1,183,450	-	-	-	1,183,450	1,139,950	43,500
T M Rowe	1,068,750	-	-	-	1,068,750	1,068,750	-
N A Sherburn	928,200	-	-	-	928,200	883,700	44,500
P A Thompson	-	567,100	-	-	567,100	-	567,100

2010							
Name	Balance at the start of the year	Granted as compensation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable at year-end	Unvested at year-end
<b>Directors of Ceramic Fuel Cells Limited</b>							
B L Dow	2,645,000	-	-	-	2,645,000	2,645,000	-
J Harding	100,000	-	-	-	100,000	100,000	-
R J Kennett	100,000	-	-	-	100,000	100,000	-
<b>Former directors of Ceramic Fuel Cells Limited</b>							
M B Dureau	100,000	-	-	-	100,000	100,000	-
<b>Other key management personnel of the Group</b>							
F R Boyd	718,750	-	-	-	718,750	718,750	-
K Föger	934,450	-	-	-	934,450	889,950	44,500
P R McDonell	984,450	-	-	-	984,450	939,950	44,500
A D Neilson	1,084,450	-	-	-	1,084,450	1,039,950	44,500
J C Rajoo	1,183,450	-	-	-	1,183,450	1,139,950	43,500
T M Rowe	1,068,750	-	-	-	1,068,750	1,068,750	-
N A Sherburn	928,200	-	-	-	928,200	883,700	44,500
<b>Former key management personnel of the Group</b>							
B M Bilton	625,000	-	-	(625,000)	-	-	-



## Note 22. Key Management Personnel Disclosures (continued)

### (iii) Share holdings

The number of shares in the company held during the financial year by each director of Ceramic Fuel Cells Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2011					
Name	Balance at the start of the year	Received during the year on the exercise of options	Received during the year as compensation	Other changes during the year	Balance at the end of the year
<b>Directors of Ceramic Fuel Cells Limited</b>					
J Harding	10,350,000	-	-	1,875,000	12,225,000
B L Dow <sup>1</sup>	-	-	674,000	-	674,000
R Rose	-	-	-	366,666	366,666
P Binks	-	-	-	10,000	10,000
J P Dempsey	20,000	-	-	380,000	400,000
R J Kennett	290,000	-	-	30,000	320,000
<b>Other key management personnel of the Group</b>					
F R Boyd <sup>2</sup>	-	-	147,900	-	147,900
K Föger <sup>2</sup>	380,000	-	147,900	-	527,900
P R McDonell <sup>2</sup>	-	-	74,000	-	74,000
A D Neilson <sup>2</sup>	28,000	-	384,000	-	412,000
F Obernitz <sup>2</sup>	-	-	107,200	-	107,200
J C Rajoo <sup>2</sup>	104,500	-	246,600	-	351,100
T M Rowe <sup>2</sup>	-	-	246,600	-	246,600
N A Sherburn <sup>2</sup>	-	-	147,900	-	147,900
P A Thompson <sup>2</sup>	9,777	-	-	63,262	73,039

1. Received during the year as compensation: half the shares are subject to an escrow agreement under which they may not be sold or transferred, and they may be forfeited if employment ceases, prior to 30 June 2012.

2. Received during the year as compensation: half the shares are subject to escrow agreements under which they may not be sold or transferred, and they may be forfeited if employment ceases, prior to 1 October 2012.

2010					
Name	Balance at the start of the year	Received during the year on the exercise of options	Received during the year as compensation	Other changes during the year	Balance at the end of the year
<b>Directors of Ceramic Fuel Cells Limited</b>					
J Harding	10,350,000	-	-	-	10,350,000
J P Dempsey	-	-	-	20,000	20,000
R J Kennett	290,000	-	-	-	290,000
<b>Other key management personnel of the Group</b>					
K Föger	380,000	-	-	-	380,000
A D Neilson	28,000	-	-	-	28,000
J C Rajoo	104,500	-	-	-	104,500
P A Thompson	-	-	-	9,777	9,777

### (c) Loans to key management personnel

No loans were made to directors or to other key management personnel during the year ended 30 June 2011 (2010 – Nil).

# Notes to the Consolidated Financial Statements

30 June 2011

	<i>Consolidated</i>	
	2011	2010
	\$	\$

## Note 23. Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

### (a) PricewaterhouseCoopers Australia

#### *Audit and other assurance services*

Audit and review of financial reports	146,494	146,667
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#### *Taxation services*

Review of company income tax returns	31,000	25,500
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Other tax compliance and planning services	188,261	27,838
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Total fees for taxation services	219,261	53,338
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<b>Total fees of PricewaterhouseCoopers Australia</b>	<b>365,755</b>	<b>200,005</b>
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### (b) Related practices of PricewaterhouseCoopers Australia

#### *Audit and other assurance services*

Audit and review of financial reports	39,686	39,425
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Other audits	6,901	-
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Total fees for audit and other assurance services	46,587	39,425
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#### *Taxation services*

Preparation of company tax returns	-	16,858
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Tax advice and planning services	23,779	4,894
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Total fees for taxation services	23,779	21,752
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<b>Total fees of related practices of PricewaterhouseCoopers Australia</b>	<b>70,366</b>	<b>61,177</b>
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	<i>Consolidated</i>	
	2011	2010
	\$	\$

## Note 24. Commitments

### (a) Capital Commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	125,064	37,796
Later than one year but not later than five years	-	-
Later than five years	-	-
	<u>125,064</u>	<u>37,796</u>

### (b) Lease Commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities.

#### (i) Operating leases

The Group leases offices and warehouses under non-cancellable operating leases expiring within 0.6 to 5.5 years. The leases have varying terms, escalation and break clauses, and renewal rights.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	806,736	841,894
Later than one year but not later than five years	1,429,876	1,922,043
Later than five years	154,048	485,593
Commitments not recognised in the financial statements	<u>2,390,660</u>	<u>3,249,530</u>

#### (ii) Finance leases

The Group leases certain equipment located at its plant in Germany under a 7 year, non-cancellable finance lease.

Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:

Within one year	364,694	386,955
Later than one year but not later than five years	1,458,777	1,547,820
Later than five years	151,956	548,186
Minimum lease payments	<u>1,975,427</u>	<u>2,482,961</u>
Future finance charges	<u>(289,678)</u>	<u>(422,370)</u>
Total lease liability	<u>1,685,749</u>	<u>2,060,591</u>
Representing lease liabilities (Note 18):		
Current	271,937	271,944
Non-current	<u>1,413,812</u>	<u>1,788,647</u>
	<u>1,685,749</u>	<u>2,060,591</u>

The present value of finance lease liabilities is as follows:

Within one year	271,937	271,944
Later than one year but not later than five years	1,264,086	1,264,123
Later than five years	149,726	524,524
	<u>1,685,749</u>	<u>2,060,591</u>

# Notes to the Consolidated Financial Statements

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## Note 25. Related Party Transactions

### (a) Parent entity

The parent entity within the Group is Ceramic Fuel Cells Limited which, at 30 June 2011, owned 100% of the issued share capital of its two UK subsidiaries, Ceramic Fuel Cells (Europe) Limited and Ceramic Fuel Cells (Powder) Limited, its German subsidiary, Ceramic Fuel Cells GmbH, and its Dutch subsidiary, Ceramic Fuel Cells B.V..

### (b) Key management personnel

	2011	2010
	\$	\$
Key management personnel compensation	<u>3,429,234</u>	<u>2,996,396</u>

Disclosures relating to key management personnel are set out in Note 22.

## Note 26. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding <sup>1</sup>	
			2011	2010
			%	%
<b>Parent entity</b>				
Ceramic Fuel Cells Limited	Australia	Ordinary		
<b>Subsidiaries</b>				
Ceramic Fuel Cells (Europe) Limited	United Kingdom	Ordinary	100	100
Ceramic Fuel Cells (Powder) Limited	United Kingdom	Ordinary	100	100
Ceramic Fuel Cells GmbH	Germany	Ordinary	100	100
Ceramic Fuel Cells B.V. <sup>2</sup>	Netherlands	Ordinary	100	n/a

1. The proportion of ownership interest is equal to the proportion of voting power held.

2. Ceramic Fuel Cells B.V. was incorporated on 13 April 2011.



	2011	2010
	\$	\$

### Note 27. Reconciliation of Profit/(Loss) after Income Tax to Net Cash Inflow/(Outflow) from Operating Activities

Operating profit/(loss) after income tax	(21,176,483)	(19,651,870)
Depreciation and amortisation	3,646,776	2,260,670
Impairment charge/(reversal) on financial assets	-	(2,926,957)
Non-cash employee benefits expense: share-based payments	781,329	552,704
Net (gain)/loss on disposal of non-current assets	-	(281)
Net foreign exchange differences	740,447	1,485,087
Net interest revenue	(258,820)	(136,384)
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	(432,884)	(377,927)
Decrease/(increase) in inventories	(4,049,609)	(1,001,380)
Decrease/(increase) in other operating assets	(309,868)	(133,954)
Increase/(decrease) in trade and other payables	558,494	484,314
Increase/(decrease) in other provisions	1,109,953	223,345
Increase/(decrease) in deferred revenue	91,037	2,003,499
Net cash inflow/(outflow) from operating activities	<u>(19,299,628)</u>	<u>(17,219,134)</u>

### Note 28. Earnings Per Share

Basic and diluted earnings per share	<i>Cents</i> (1.82)	<i>Cents</i> (1.91)
<b>Weighted average number of shares</b>	<i>Number</i>	<i>Number</i>
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	1,166,669,245	1,029,873,280
<b>Earnings used in calculating basic and diluted earnings per share</b>	\$	\$
Profit/(loss) attributable to the ordinary equity holders of the company	(21,176,483)	(19,651,870)

There were no results from discontinued operations, 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.

# Notes to the Consolidated Financial Statements

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## Note 29. Share-based Payments

### (a) Equity Plan

Options over shares in Ceramic Fuel Cells Limited have been granted under:

- the CFCL Share Option Plan, originally approved by shareholders at the annual general meeting of the company held on 26 November 1999; and
- the Directors and Employee Benefits Plan, approved by shareholders on 28 November 2006,

hereinafter collectively referred to as the Equity Plan.

Under the Equity Plan, all full time and part time permanent employees, including directors but excluding casual and short-term contract employees, may be offered equity upon successful completion of their employment probationary period. Any offer of equity is at the Board's discretion and no individual has a contractual right to receive any guaranteed benefit. No option holder has any right under the options to participate in any other share issue of the company or of any other entity. Options granted under the Equity Plan carry no dividend or voting rights.

### Options

Unissued ordinary shares of Ceramic Fuel Cells Limited under option at 30 June 2011 totalled 17,116,544, all of which have been issued under the Equity Plan.

2011								
Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted during the year	Forfeited during the year <sup>1</sup>	Exercised during the year	Balance at end of year	Vested and exercisable at end of year
		(\$)	(number)	(number)	(number)	(number)	(number)	(number)
25 Jul 2000	24 Jul 2010	1.49	134,000	-	(134,000)	-	-	-
23 Feb 2001	22 Feb 2011	1.49	1,000	-	(1,000)	-	-	-
27 Jul 2001	26 Jul 2011	1.49	3,000	-	-	-	3,000	3,000
6 May 2004	5 May 2014	2.00	170,000	-	-	-	170,000	170,000
1 Sep 2004	31 Aug 2014	0.76	30,000	-	-	-	30,000	30,000
12 Oct 2005	11 Oct 2015	0.57	339,500	-	-	-	339,500	-
24 Aug 2006	23 Aug 2016	0.58	556,000	-	(4,000)	-	552,000	552,000
26 Oct 2006	26 Oct 2010	0.2699	200,000	-	(200,000)	-	-	-
29 Aug 2007	28 Aug 2017	1.01	3,071,760	-	(9,500)	-	3,062,260	3,062,260
29 Aug 2007	28 Aug 2017	0.99	100,000	-	-	-	100,000	100,000
4 Dec 2007	3 Dec 2017	0.685	285,000	-	-	-	285,000	285,000
4 Dec 2007	3 Dec 2011	1.01	300,000	-	(100,000)	-	200,000	200,000
28 Mar 2008	27 Mar 2018	0.45	1,814,900	-	(25,000)	-	1,789,900	1,789,900
28 Aug 2008	27 Aug 2018	0.102	285,000	-	-	-	285,000	285,000
28 Aug 2008	27 Aug 2018	0.44	2,949,330	-	(42,500)	-	2,906,830	2,906,830
5 Dec 2008	5 Dec 2018	0.44	1,000,000	-	-	-	1,000,000	1,000,000
5 Dec 2008	5 Dec 2018	0.45	200,000	-	-	-	200,000	200,000
26 Jun 2009	25 Jun 2019	0.175	4,039,154	-	-	-	4,039,154	4,039,154
26 Jun 2009	25 Jun 2019	0.175	675,000	-	-	-	675,000	675,000
1 Oct 2010	30 Sep 2020	0.1825	-	1,478,900	-	-	1,478,900	-
<b>Total</b>			<b>16,153,644</b>	<b>1,478,900</b>	<b>(516,000)</b>	<b>-</b>	<b>17,116,544</b>	<b>15,298,144</b>
Weighted average exercise price:			\$0.52	\$0.18	\$0.77	-	\$0.48	\$0.51

1. Forfeited includes lapsed due to expiration of option.

The weighted average remaining life of share options outstanding at the end of the period was 6.3 years (2010 – 6.9 years).



2010								
Grant Date	Expiry Date	Exercise Price <sup>1</sup>	Balance at start of year	Granted during the year	Forfeited during the year <sup>2</sup>	Exercised during the year	Balance at end of year	Vested and exercisable at end of year
		(\$)	(number)	(number)	(number)	(number)	(number)	(number)
15 May 2000	14 May 2010	1.49	60,000	-	(60,000)	-	-	-
25 Jul 2000	24 Jul 2010	1.49	134,000	-	-	-	134,000	134,000
23 Feb 2001	22 Feb 2011	1.49	1,000	-	-	-	1,000	1,000
27 Jul 2001	26 Jul 2011	1.49	3,000	-	-	-	3,000	3,000
6 May 2004	5 May 2014	2.00	170,000	-	-	-	170,000	170,000
1 Sep 2004	31 Aug 2014	0.76	30,000	-	-	-	30,000	30,000
12 Oct 2005	11 Oct 2015	0.57	342,000	-	(2,500)	-	339,500	-
9 Aug 2006	8 Aug 2016	0.61	150,000	-	(150,000)	-	-	-
24 Aug 2006	23 Aug 2016	0.58	565,120	-	(9,120)	-	556,000	556,000
26 Oct 2006	26 Oct 2010	0.2699	200,000	-	-	-	200,000	200,000
29 Aug 2007	28 Aug 2017	1.01	3,496,810	-	(425,050)	-	3,071,760	3,071,760
29 Aug 2007	28 Aug 2017	0.99	100,000	-	-	-	100,000	100,000
4 Dec 2007	3 Dec 2011	0.685	285,000	-	-	-	285,000	285,000
4 Dec 2007	3 Dec 2011	1.01	300,000	-	-	-	300,000	300,000
28 Mar 2008	27 Mar 2018	0.45	1,986,900	-	(172,000)	-	1,814,900	1,814,900
28 Aug 2008	27 Aug 2012	0.102	285,000	-	-	-	285,000	285,000
28 Aug 2008	27 Aug 2018	0.44	2,949,330	-	-	-	2,949,330	2,949,330
5 Dec 2008	20 Jun 2014	0.44	1,000,000	-	-	-	1,000,000	1,000,000
5 Dec 2008	5 Dec 2012	0.45	200,000	-	-	-	200,000	200,000
26 Jun 2009	25 Jun 2019	0.175	4,043,654	-	(4,500)	-	4,039,154	4,039,154
26 Jun 2009	25 Jun 2013	0.175	675,000	-	-	-	675,000	675,000
<b>Total</b>			<b>16,976,814</b>	<b>-</b>	<b>(823,170)</b>	<b>-</b>	<b>16,153,644</b>	<b>15,814,144</b>
Weighted average exercise price:			\$0.53	-	\$0.84	-	\$0.52	\$0.51

1. Effective 1 July 2009 the exercise price of all options on issue as at the date of the April 2009 rights issue was reduced by one cent in accordance with the rules of the Australian Securities Exchange (ASX).

2. Forfeited includes lapsed due to expiration of option.

The weighted average remaining life of share options outstanding at the end of the period was 6.9 years (2009 - 7.9 years).

### (b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2011	2010
	\$	\$
Share-based payments expense	<b>781,329</b>	552,704

# Notes to the Consolidated Financial Statements

30 June 2011

	2011	2010
	\$	\$

## Note 30. Parent Entity Financial Information

### (a) Summary financial information

Aggregated items within the financial statements of the parent entity include:

#### Balance Sheet

Current assets	17,388,050	6,424,191
Total assets	43,009,227	28,942,882
Current liabilities	4,197,206	2,366,047
Total liabilities	4,688,478	2,509,213
<i>Shareholders' equity</i>		
Contributed equity	260,275,437	230,415,020
Share-based payments reserves	4,000,549	4,377,872
Retained profits/(losses)	(225,955,237)	(208,359,223)
Total Equity	38,320,749	26,433,669
<b>Net profit/(loss) for the year</b>	<b>(17,596,014)</b>	<b>(19,344,293)</b>
<b>Total comprehensive income/(expense) for the year</b>	<b>(17,596,014)</b>	<b>(19,344,293)</b>

### (b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees in respect of its subsidiary undertakings as at 30 June 2011 (2010 - Nil).

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 (2010 - Nil).

### (d) Contractual commitments for the acquisition of plant and equipment

Commitments for the acquisition of plant and equipment contracted for at reporting date but not recognised as liabilities:

	71,541	37,796
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# Directors' Declaration



In the directors' opinion:

- (a) the financial statements and notes set out on pages 30 to 62 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 30 June 2011 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

**Jeff Harding**

Chairman

Melbourne

22 September 2011



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

### **Report on the financial report**

We have audited the accompanying financial report of Ceramic Fuel Cells Limited (the company), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Ceramic Fuel Cells Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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

### *Independence*

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

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Ceramic Fuel Cells Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 14 to 20 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Ceramic Fuel Cells Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Chris Dodd'.

Chris Dodd  
Partner

Melbourne  
22 September 2011

# Shareholder Information

The shareholder information in this section was applicable as at 28 September 2011.

## Equity Securities

### Ordinary Shares

The Company had on issue 1,201,353,566 fully paid ordinary shares, held by a total of 12,868 shareholders: 12,489 shareholders on the Australian Securities Exchange (ASX) and 379 depository interest (DI) holders on the London Stock Exchange AIM market (AIM). There is no on-market buy-back.

The voting rights attaching to shares are set out in clause 62 of the Company's Constitution. Subject to that clause, at general meetings of the Company:

On a show of hands each person present as a member, proxy, attorney or representative of a member, has one vote; and

On a poll each member present in person or by proxy, attorney or representative has one vote for each fully paid share.

### Options

The Company had 17,113,544 ordinary shares of the Company under option under the CFCL Share Option Plan and Directors and Employees Benefits Plan, held by 89 option holders. Options do not carry any voting rights. The options are not listed.

### Distribution

Range	Ordinary Shares			Options
	ASX share-holders	AIM DI holders	Total share-holders	
1 - 1,000	373	12	385	-
1,001 - 5,000	2,248	41	2,289	2
5,001 - 10,000	2,170	47	2,217	7
10,001 - 100,000	6,470	171	6,641	48
100,000+	1,228	108	1,336	32
Total	12,489	379	12,868	89

The number of security investors holding less than a marketable parcel of 3,847 securities is 1,681 and they hold 3,615,340 securities.

### Substantial Shareholders

Substantial holders in the Company as disclosed in substantial shareholding notices received by the Company as at 28 September 2011 are:

Holder	Number of securities
Neo International Investments Limited	90,909,090
KBC Asset Management Limited	82,334,808

## Top 20 Shareholders

Registered Holder of Shares or Depository Interests	Number	% of total shares
HSBC Client Holdings Nominee (UK) Limited	90,966,090	7.57
BBHISL Nominees Limited	58,941,560	4.91
J P Morgan Nominees Australia Limited	42,924,316	3.57
Metasource Pty Ltd	38,250,000	3.18
Log Creek Pty Ltd	29,166,666	2.43
Vidacos Nominees Limited	27,779,423	2.31
State Street Nominees Limited	25,434,770	2.12
JP Morgan Nominees Australia Limited <Cash Income A/C>	23,682,914	1.97
Northern Trust Nominees (Ireland) Limited	17,403,060	1.45
KBC Securities Nv	17,261,697	1.44
HSBC Custody Nominees (Australia) Limited	12,386,425	1.03
Mr Jeffrey Harding <The Harding Super Fund A/C>	12,225,000	1.02
Citicorp Nominees Pty Limited	11,398,520	0.95
Barclayshare Nominees Limited	11,251,322	0.94
National Nominees Limited	11,221,767	0.93
TD Waterhouse Nominees (Europe) Limited	11,205,891	0.93
CBD Plaza (Aust) Pty Ltd	10,229,128	0.85
Moore Family Nominee Pty Ltd <Moore Family Super Fund A/C>	10,068,493	0.84
Vidacos Nominees Limited	9,702,069	0.81
L R Nominees Limited	8,826,051	0.73
Total for Top 20	480,325,162	39.98

## Restricted Securities

There are no 'restricted securities' as defined in the ASX Listing Rules.



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## Corporate Directory

Board of Directors	Jeff Harding (Chairman) Roy Rose (Deputy Chairman) Brendan Dow (Managing Director) Dr Peter Binks John Dempsey Robert (Bob) Kennett Dr Roman Dudenhausen Janine Hoey
Company Secretary	Andrew Neilson
Registered Office	170 Browns Road, Noble Park Victoria, 3174 Australia Telephone: +613 9554 2300 Facsimile: +613 9790 5600 Email: <a href="mailto:enquiries@cfcl.com.au">enquiries@cfcl.com.au</a> Internet: <a href="http://www.cfcl.com.au">www.cfcl.com.au</a>
UK Office	Ceramic Fuel Cells (Europe) Limited Ceramic Fuel Cells (Powder) Limited Unit 8, Candy Park Hardknott Road, Bromborough Wirral, CH62 3QB United Kingdom Telephone: +44 (0) 151 334 8880 Email: <a href="mailto:europe@cfcl.com.au">europe@cfcl.com.au</a>
German Office	Ceramic Fuel Cells GmbH Boos-Fremery-Strasse 62 D-52525 Heinsberg Germany Telephone: +49 (0) 2452 15 3752 Email: <a href="mailto:germany@cfcl.com.au">germany@cfcl.com.au</a>
Netherlands Office	Ceramic Fuel Cells B.V. Vogt 21 6422 RK Heerlen, The Netherlands Telephone: +31 (0) 88 544 5071 Email: <a href="mailto:europe@cfcl.com.au">europe@cfcl.com.au</a>
Auditors	PricewaterhouseCoopers Freshwater Place 2 Southbank Boulevard, Southbank Victoria, 3006 Australia
Share Registry	Australia Computershare Investor Services Pty Limited 452 Johnston Street, Abbotsford Victoria, 3067 Australia Telephone: +1300 850 505 (Outside Australia: +61 3 9415 4000) Facsimile: +61 3 9473 2500 Email: <a href="mailto:web.queries@computershare.com.au">web.queries@computershare.com.au</a> Internet: <a href="http://www.computershare.com">www.computershare.com</a>  United Kingdom Computershare Investor Services Plc PO Box 82, The Pavilions Bridgwater Road, Bristol BS99 7NH United Kingdom Telephone: +44 (0) 8707 020 000
AIM Nominated Adviser	Nomura Code Securities Limited 1 Carey Lane, London EC2V 8AE United Kingdom Telephone +44 207 776 1200 <a href="http://www.nomuracode.com">www.nomuracode.com</a>
Annual General Meeting	The Annual General Meeting of Ceramic Fuel Cells Limited will be held at 5.30pm Wednesday 23 November 2011 at the offices of DLA Piper, 140 William Street, Melbourne. A formal notice of meeting and proxy form are being sent to members with this report.
Stock Exchange Listing	Ceramic Fuel Cells Limited shares are quoted on the Australian Securities Exchange and as depository interests on the London Stock Exchange AIM market. The stock code on both markets is CFU.





**CERAMIC FUEL CELLS**

*Clean power for your home*

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