23 January 2012

Ceramic Fuel Cells Limited

Quarterly Cashflow Report

Ceramic Fuel Cells Limited (AIM / ASX: CFU) a leading developer of high efficiency and low emission power products for homes and other buildings, today released its quarterly cashflow report for the period ended 31 December 2011.

The cashflow report is available at www.cfcl.com.au.

Highlights

- Orders doubled in the last six months – up to 614 units
- Current open order book stands at 477 units
- EON.UK orders 105 units
- German distributor has customer commitments for all of its first order of 100 BlueGens.
- First German Utility now promoting BlueGen to its customers
- External installation & support partners trained and operating in Europe and Australia
- Unit installation rate doubles from prior year
- MOU signed with global contract manufacturer Jabil Circuit (NYSE: JBL.US)
- German production facility now accredited for Microgeneration Certificate Scheme (MCS) – units made in German plant can receive UK feed-in tariff
- Integrated CHP units from DeDietrich in France gains CE approval
- AUD 17.0m (GBP 11.4m) raised in new equity
- More industry awards - Banksia Award and Victorian Governor's Export Award

Operational Review

Order Book and Sales

The Company has now received commercial orders for a total of 614 units made up of 262 integrated mCHP products and 352 BlueGen® products. This represents a doubling of the order book from June 2011.

During the December quarter the Company received orders for 106 units. This included a new order for 105 units from E.ON UK, one of the UK's leading power and gas companies. In placing this order E.ON has reaffirmed that it is committed to working with CFCL to launch integrated power and heating products for the UK market. The agreement involves the supply of both the BlueGen modular generators and the mCHP unit in development for the UK market. Supply will commence in early 2012.

The Company's open order book currently stands at 477 units – with the geographic split being Germany 266, Netherlands 106, UK 101, and four units in other markets.

The Company has been building its capacity to sell and install units by working with its sales partners. As a result sales of 67 units were completed within the half-year to 31 December 2011, which is equivalent to the total number of units sold in the whole of the last fiscal year.

Germany

In July 2011 the Company appointed sanevo Lizenz-GmbH & Co. KG (now renamed sanevo Blue Energy) as its first distributor in Germany, with sanevo placing an initial order for 100 BlueGens. The Company has been working with sanevo to finalise its market offering and establish its installation and customer support capability.

Sanevo has recently confirmed that it has received customer commitments for all of these 100 BlueGen units, which are expected to be delivered by the end of June 2012. sanevo has a target minimum of 500 units for delivery in its second year and a target of 2,000 BlueGens over years three and four.

Working with sanevo, Stadtwerke Aalen is now the first German Utility to actively promote and support sales of BlueGen to its customers, including by providing an incentive payment to early BlueGen customers. Stadtwerke Aalen is the local electricity and gas utility for the region of Aalen in Southern Germany.

During the quarter the Company continued to work with EWE, Germany's fifth largest utility, and its external contractors as they accelerated the installation of integrated mCHP systems. During the December quarter 20 units were installed. A further 40 units are expected to be installed early in the June quarter, under the first phase of EWE's 'Lighthouse Project'. In the second phase of the project, a further 130 units are planned to be deployed later this year.

Netherlands

In July 2011 CFCL appointed Zestiq B.V. (now renamed BlueGeneration) as its first BlueGen distributor in The Netherlands. In September 2011 BlueGeneration placed an order for 100 units for delivery over 12 months. The units will be installed and maintained by the service company of the large Dutch energy company Eneco.

In December BlueGeneration started its marketing programme, focusing on small commercial customers. They expect to receive their first customer orders shortly. BlueGeneration is also working with several large Dutch energy companies on larger scale projects for BlueGen deployment.

United Kingdom

In the United Kingdom the Company is working with E.ON UK, one of the UK's largest energy retailers. In this partnership, CFCL and E.ON are working to launch integrated power and heating products for the UK market. In late November E.ON UK placed an order for 105 units. Of these, 41 BlueGen generators will be deployed under the European Union Fuel Cell and Hydrogen Joint Undertaking's Joint Technology Initiative ("JTI") fuel cell demonstration programme. These units will be installed in homes and other buildings in the UK, Germany and The Netherlands, during early 2012. A further four BlueGen units will be deployed by E.ON in demonstration and commercial customer sites outside of this programme.

CFCL and the UK heating company Ideal Boilers ("Ideal") will also develop up to 60 integrated mCHP units to be installed in homes in the UK, Benelux and Germany under the JTI project from late 2012. These units will be manufactured by Ideal.

These activities are part of the continuing work between CFCL and E.ON to develop a range of product configurations for different UK market segments and customer requirements. Once the Product Development Agreement with E.ON (signed in 2009) is completed during 2012 the next stage in the parties' collaboration is to negotiate and sign a Product Supply Agreement for commercial products. This is subject to the products performing as expected and to the parties agreeing the commercial terms.

France

In December CFCL's French appliance development partner DeDietrich Thermique received CE approval for the deployment of its integrated mCHP appliance called CERAMIS POWER. The first 20 units are expected to be deployed during 2012. The first units will be operated by GdF Suez, France's largest gas retailer, with more than ten million customers in France.

Australia

During the quarter the Company completed the supply and installation of 25 BlueGen units to Ausgrid (a large electricity network operator) for their AUD 100m 'Smart Grid, Smart City' project in Newcastle, New South Wales. The installation in homes was undertaken in November and December by a team of local contractors trained by CFCL.

Along with the Victorian Government Office of Housing project, under which 30 BlueGen units were installed, and other sales, this brings the current number of BlueGen units installed in Australia to 68.

In January 2012 Ausgrid released the results from the first 18 months of its 'Smart Home' project. In this project, a family home in Sydney was equipped with a range of new energy technologies, including a BlueGen unit, solar PV and an electric car.

The results show that the BlueGen unit generated on average 28 kilowatt hours of electricity per day and the generation from the solar PV system and solar pergola was 4 kilowatt hours per day. Combined, the home generated more electricity than it used. Compared to the average greenhouse emissions from power supplied in NSW, the home saved 1.4 tonnes CO2-e from its solar systems and 6.9 tonnes of CO2-e from the BlueGen unit.

Ausgrid energy efficiency expert Paul Myors said an analysis of energy use and generation at the smart home showed it was producing enough electricity to power two average households. "The Smart Home in essence has become a fully functioning power station," Mr Myors said. "The fuel cell used gas and waste heat to produce most of the on-site power, but with 65 per cent less greenhouse gas impact than power sourced from the grid."

Market Developments

The Company continues to see favourable market developments occurring in Europe.

In Germany a number of federal states are considering market introduction programs for fuel-cell based micro CHP systems. The federal state of Saxony has announced a '1,000 Basement Programme' to provide financial incentives for installing fuel cell based micro CHP units. In late 2011 the state of North Rhine Westphalia also announced plans to increase the share of CHP electricity production to 25 percent, by providing funding of EUR 250 million over several years to support the deployment of local CHP systems. Similarly, a number of regional utilities are also providing incentives to their customers to install fuel cell micro CHP systems.

In the United Kingdom, in late August 2011 BlueGen was the first (and currently the only) fuel cell product to receive the UK Microgeneration Certificate Scheme ("MCS") accreditation which enables access to the UK feed-in tariff. This entitles the owner of the BlueGen to receive 10.5 pence per kilowatt hour for all electricity generated and a further 3.1 pence per kilowatt hour for electricity exported to the grid. The UK Government has recently reviewed the feed in tariff for solar PV systems and in January announced that the solar tariff would be reduced by 50 percent. This does not apply to the tariff for mCHP systems.

In Australia there is currently no feed in tariff for fuel cell units. In January 2012 the Victorian Government announced a Victorian Competition and Efficiency Commission (VCEC) review of feed in tariffs. The review will also identify barriers to distributed renewable and low emission generation in Victoria, including co-generation and tri-generation. A final report from the review is due in June 2012. In 2009 VCEC conducted a similar review for the previous Victorian Government, which formally recommended that feed in tariff provisions be extended to cover a broader range of low-emission technologies. The Company will be making a submission to the new VCEC review. More information on the review is available at www.vcec.vic.gov.au.

In July 2011 the Australian Government announced that it will establish a AUD 10 billion commercially oriented Clean Energy Finance Corporation (CEFC) as part of its Clean Energy Future Package. The objective of the CEFC is to encourage the financing, commercialisation and deployment of renewable

energy, energy efficiency and low emissions technologies. In December the Company made a submission to the expert review panel advising the Government on the design and operation of the CEFC. The Company has also met with members of the expert review panel and the Government department responsible for setting up the CEFC. A copy of the Company's submission is available on the Company's website.

Manufacturing

The Company's German plant is now the main manufacturing site for the production of fuel cell stacks and BlueGen systems. During the quarter production and installation of units was impacted by disruption to the Company's supply chain, arising from the severe floods in Thailand. This event impacted many global manufacturing companies. The factory of the supplier of our metal castings was flooded by more than two meters of water. They have now recommenced the supply of parts and there has been no long term material impact on our production capacity.

In response to the growing order book the Company has moved over the last quarter to increase the size of orders being placed on the supply chain. Previously we had been placing orders that would purchase enough components to build in lots of 100 BlueGens. To benefit from purchasing economies-of-scale and to meet expected order growth we have moved to ordering enough components to build 1,000 BlueGens. This has resulted in unit cost savings of around 20 percent. It has also resulted in higher working capital requirements which are reflected in the cashflow for the period.

To assist in moving into higher volume production and to further reduce unit costs, in November 2011 the Company entered into a memorandum of understanding with Jabil Circuit Inc (Jabil). Jabil is a global electronic manufacturing service provider with 55 factories in 22 countries and annual turnover of USD 16 billion. The first phase of co-operation is for CFCL to source selected components from Jabil's manufacturing operations. This phase is expected to commence in early 2012. The second phase is for CFCL to source major sub-assemblies from Jabil. The final phase is for Jabil to assemble finished products as a contract manufacturer for CFCL.

Product & Manufacturing Accreditation

As mentioned above, in August 2011 BlueGen became the first fuel cell product to receive the MCS certification for microgeneration and to be eligible for the UK feed-in tariff.

The MCS accreditation process involves an extensive and rigorous third party review of all the procedures involved in manufacturing, installing and maintaining a microgeneration product. As part of that review the Company's production facilities in Melbourne, Australia were audited to ensure compliance with the high manufacturing standards required. During the December quarter the Company's plant in Heinsberg, Germany also underwent this audit process and was similarly successful in satisfying the manufacturing requirements. Accordingly, the plant in Germany can now produce BlueGen units that carry the MCS accreditation for use in the United Kingdom.

The Company continues to make progress towards receiving BlueGen product safety approval for the North American market. This approvals process is rigorous and time consuming, with many of the requirements for the North American market being in addition to or different from the European and Australian standards. During the December quarter the Company, together with the certifying bodies in North America and Europe, conducted an extensive range of tests on the BlueGen, including for compliance to electrical and gas safety standards in accordance with the USA fuel cell standard. This work took up a significant amount of the Company's engineering and product development resources, including on-site visits and tests in North America and Europe. These tests were successfully completed. The Company is continuing to work on the remaining certification requirements, whilst focusing most of its engineering resources on supporting sales in the European market. The Company now expects to achieve North American safety approval by the end of June 2012.

China – Australia Joint Centre for Energy and Mining

Whilst the Company is currently focusing its resources on existing markets, mainly in Western Europe and Australia, it is also taking early steps to establish future global markets for its products, including in Asia. The Company has visited China as part of an invited clean energy delegation and has hosted return visits by Chinese energy companies in Melbourne.

The Company has also been invited to become a founding member of a new China – Australia Joint Centre and Alliance for Energy and Mining. This consortium comprises leading Chinese and Australian science and industry partners, including universities and Academy of Sciences' institutes and the CSIRO, plus three major Chinese energy companies - coal miner and power generator Huainan Mining Corporation, coal and construction group Yancon Group Co., Ltd., and one of the world's largest coal producers, Shenhua Corporation. Ceramic Fuel Cells is one of four Australian companies invited to join the group. The consortium intends to seek funding from respective Governments under the Australia – China Science and Research Fund scheme to develop new international collaborative approaches to energy and mining research. This collaboration is part of the Company's longer term planning and will have limited impact on the Company's resources in the short term. .

Awards

During the quarter the Company has also received further industry recognition and product distinction by winning the following two awards:

Banksia Environmental Foundation 'Clean Technology –Harnessing Opportunities' Award

The Banksia Environmental Foundation is an Australian not-for-profit organisation that promotes environmental excellence and sustainability. BlueGen was judged as a product that demonstrates leadership and innovation that use new approaches, technologies and/or energy systems for business and community benefit.

Governor of Victoria Export Awards 'Minerals and Energy Award'

The Governor of Victoria Export Awards recognises and honours exporters who have achieved sustainable export growth through innovation and commitment. These awards recognise the Company and BlueGen as industry leaders amongst key Victorian exporters.

Financial Review

Quarterly Cashflow

Net operating cash outflow for the December quarter was AUD 6.9m (GBP 4.6m) which was higher than last quarter principally due to increased production and inventory purchases of AUD 1.2m (GBP 0.8m).

Receipts from customers for the quarter were AUD 1.5m (GBP 1.0m) which was slightly higher than the first quarter however; in the first weeks of January (after the end of the December quarter) the Company received a further AUD 2.0m (GBP 1.3m) from customers.

The overall net cashflow after investing and financing activities for the December quarter was an inflow of AUD 9.7m (GBP 6.5m). This inflow was principally due to the receipt of AUD 17.0m (GBP 11.4m) from the equity issues undertaken in November and December 2011. Associated with this were payments during the quarter of AUD 0.3m (GBP 0.2m) relating to costs of the equity raising.

Cash at 31 December 2011 was AUD 22.5m (GBP 15.1m).

The quarterly report is also available on the Company's website at www.cfcl.com.au

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About Ceramic Fuel Cells Limited:

Ceramic Fuel Cells 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 has sold its BlueGen gas-to-electricity generator to major utilities and other foundation customers in Germany, the United Kingdom, Switzerland, The Netherlands, Italy, Japan, Australia, and the USA. Ceramic Fuel Cells is also 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 won five important awards in 2011: the DuPont Design for a Sustainable Future Innovation Award, the Microgeneration UK Technical Innovation Award; the Minerals and Energy category at the Governor of Victoria Export Awards; the Climate Alliance Limited Innovator of the Year Award; and the Clean Technology - Harnessing Opportunities Award, presented by the Banksia Foundation.

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

www.cfcl.com.au

Rule 4.7B

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

CERAMIC FUEL CELLS LIMITED

ABN	Quarter ended ("current quarter")
82 055 736 671	**31 DECEMBER 2011**

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from customers	1,453	2,698
1.2	Payments for		
	(a) staff costs [1]	(2,973)	(5,609)
	(b) advertising and marketing [2]	(555)	(808)
	(c) research and product development [3]	(1,320)	(2,522)
	(d) leased assets	-	-
	(e) other working capital	(3,998)	(6,637)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	(23)	(48)
1.6	Income taxes paid	-	-
1.7	Other		
	- Net GST/VAT Received/(Paid)	428	405
	- Sundry income received	85	103
	Net operating cash flows	**(6,903)**	**(12,418)**

Notes

1. 'Staff costs' includes all labour and associated headcount costs, and therefore incorporates all Research & Product Development (R&PD) staff, Sales & Marketing (S&M) staff and General & Administrative (G&A) staff.
2. 'Advertising and marketing' excludes all S&M staff costs (as per note 1 above).
3. 'Research and product development' costs includes all R&PD costs as defined in Note 1(e) to the Financial Statements for the year ended 30 June 2011, but excludes all R&PD staff costs (as per note 1 above).

		Current quarter $A'000	Year to date (6 months) $A'000
1.8	Net operating cash flows (carried forward)	**(6,903)**	**(12,418)**
	Cash flows related to investing activities		
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(90)	(470)
	(e) other non-current assets	-	-
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other – Security deposits decreased (increased)	2	4
	Net investing cash flows	**(88)**	**(466)**
1.14	**Total operating and investing cash flows**	**(6,991)**	**(12,884)**
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares	16,988	16,988
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	(58)	(126)
1.19	Dividends paid	-	-
1.20	Other - Financial assets: Net proceeds/(Net payments) [1]	-	-
	Other - Share issue costs	(308)	(308)
	Other - Interest received	45	147
	Net financing cash flows	**16,667**	**16,701**
	Net increase (decrease) in cash held	**9,676**	**3,817**
1.21	Cash at beginning of quarter/year to date	13,774	19,057
1.22	Exchange rate adjustments on foreign currency cash balances	(922)	(346)
1.23	**Cash at end of quarter** [2]	**22,528**	**22,528**

1. The net proceeds from/(payments for) the disposal and purchase of the company's investments are at item 1.20
2. 'Cash at end of quarter' includes A$3,067,184 pledged as security for bank guarantees, and so is unavailable for use by the Group.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	144
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Item 1.24 - Directors' fees.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

NIL

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

NIL

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
4.1	Cash on hand and at bank	12,461	10,505
4.2	Bank term deposits:		
	- up to 3 months duration	6,773	773
	- between 3 and 12 months duration	3,294	2,496
4.3	Bank overdraft	-	-
4.4	Other	-	-
	Total: cash at end of quarter [1] (item 1.23)	**22,528**	**13,774**

1. 'Cash at end of quarter' as at 30 September 2011 includes A$3,268,808 pledged as security for bank guarantees, and so is unavailable for use by the Group.

Acquisitions and disposals of business entities

		Acquisitions *(Item 1.9(a))*	Disposals *(Item 1.10(a))*
5.1	Name of entity	Not applicable	Not applicable
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

Sign here: ..... Date: 23 January 2012

Print name: Janine Hoey
Director

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.

   - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
   - 9.2 - itemised disclosure relating to acquisitions
   - 9.4 - itemised disclosure relating to disposals
   - 12.1(a) - policy for classification of cash items
   - 12.3 - disclosure of restrictions on use of cash
   - 13.1 - comparative information

3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.