



Smart Power

APRIL 2006 - Vol 5

Clean, efficient, reliable energy for the world

10,000 hours & counting...

In our last edition we profiled the field trials of CFCL's fuel cell-powered combined heat and power (CHP) units. In early April we were pleased to announce that CFCL had passed 10,000 hours of operation of the units across the customer field trials.

The CHP units, installed at customers' premises in Germany, Australia and New Zealand, are monitored and controlled over the Internet by the customer and CFCL. (See side story on EWE.) We look forward to providing more updates of our field trials during the year.



EWE, Germany



szencorp, Australia



IRL, New Zealand

Message from CEO

First, I'd like to welcome our new investors to CFCL. We hope you find this newsletter an informative 'round up' of CFCL's activities over the past quarter. We encourage you to subscribe to receive this newsletter – and other shareholder communications – by email. (See the last page for details.)

The level of support from European investors has been particularly encouraging and has validated the Company's strategy of focusing on Europe as our initial target market – both in the capital markets and product markets.

CFCL now has a solid funding position to implement its business plan. I look forward to updating you on our progress throughout the year.

Brendan Dow

CEO



Fundraising and AIM listing completed

CFCL has successfully completed its secondary raising and dual listing on the London Stock Exchange's AIM Market. The Company met the timetable set out in the February 2006 edition of *Smart Power*, completing the placement to UK and European investors in February 2006 and listing on AIM on 2 March 2006.

The offer was oversubscribed, with £37.2m (A\$87.4m) being raised from around 90 UK and European institutional investors. One of those investors, Aegon UK, has since bought shares on-market to increase its stake in CFCL to over 9%.

In March CFCL also completed a placing to existing shareholders, raising approximately A\$3.9m (£1.6 m).

In the month after listing on AIM the Company's market capitalisation has increased by around 30% from £61m (A\$144m) to around £90m (A\$211m), with good volumes of trading and a solid level of interest from UK investors.

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For further information on any of these subjects go to CFCL's website: www.cfcl.com.au



ASX and AIM - FAQs

We have prepared these Frequently Asked Questions to help shareholders understand how the dual listing affects them. A set of more detailed FAQs for brokers is available on request. Contact details are on page 4.

What is a dual listing?

'Dual listing' means that CFCL's shares are traded on two markets – the Australian Stock Exchange (ASX) and the London AIM market.

What is a Depository Interest?

A Depository Interest is a facility provided by CFCL's share registry provider, Computershare. The facility allows an interest in the company's shares, rather than the actual shares, to be settled through the UK CREST electronic settlement system. The underlying shares continue to be listed and traded, while the depository interests are transferred in the UK CREST system. Depository Interest holders have the same rights as holders of ordinary shares (for example, to receive all shareholder notices, to vote at meetings, to receive dividends etc).

Where can I get the current stock price?

CFCL's ASX price is available on www.asx.com.au. The AIM price is on www.londonstockexchange.com. CFCL's stock code on both markets is CFU.

Can I buy and sell CFCL shares on either market?

Yes. If you hold shares on the ASX, you can continue to buy or sell CFCL shares on ASX as usual, for example through your broker. Conversely, if you hold Depository Interests, you can buy or sell through the UK AIM market as usual. To trade across markets, see below.

How do current shareholders with ASX shares (ie not Depository Interests) buy or sell CFCL shares on AIM?

You can either:

1. Ask your ASX broker to trade the shares through a UK AIM broker. (Most ASX brokers have relationships with UK brokers.) OR
2. If you already have an account with a UK AIM broker, you can trade in Depository Interests yourself: to buy CFCL Depository Interests on AIM, your broker needs to create Depository Interests; to sell CFCL Depository Interests on AIM, your broker needs to cancel Depository Interests.

For help in creating or cancelling Depository Interests please contact Computershare.

How do current shareholders with Depository Interests buy or sell CFCL shares on ASX?

Like ASX holders, you can either ask your AIM broker to trade the shares through an ASX broker, or trade in ASX shares yourself by

establishing an account with an ASX broker. Securities will be held in either Broker sponsored or Issuer sponsored format.

How do new investors buy CFCL shares?

New investors can buy shares on the ASX market or Depository Interests on the AIM market – whichever is more convenient.

How do I find a broker?

A list of ASX brokers is available at www.asx.com.au and a list of AIM brokers is at www.londonstockexchange.com. If you cannot find a broker the Company can recommend several.

When are the ASX and AIM markets open?

ASX is open for trading 10.00 am to 4.00 pm Melbourne time, and AIM is open from 8.00 am to 4.30 pm London time.

How do I get the Company's ASX and AIM announcements?

ASX announcements are available on www.asx.com.au. AIM announcements are on www.londonstockexchange.com.

CFCL also publishes announcements on www.cfcl.com.au, under News. You can 'subscribe' to receive our announcements by email, at the 'Investors' page of www.cfcl.com.au (you don't need to be an investor to join.)

Industry Reports

US mega-bank Wells Fargo is the latest mainstream financial institution to acknowledge the potential of 'cleantech' investments, in its report on Alternative Energy Opportunities for Individual Investors.

In a welcome move, the Report sees more immediate potential for fuel cells as part of a **distributed generation** solution rather than the much-hyped 'Hydrogen Economy':

"On-site electricity generation could lead to significantly higher energy efficiency, which translates to cost savings for the residential consumer... We believe that the full potential of distributed energy is likely to be achieved through integration with the overall power network. Such smart networks that also include storage potential are likely to help open up niches where distributed energy is more competitive, helping to reduce costs and break down market barriers for generation technologies such as solar power and fuel cells."

This view supports CFCL's strategy, target market and initial application – our NetGen unit is designed to be highly **efficient**, it can be **integrated** into the electricity grid and can be **networked** and controlled over the internet by the electricity utility.

If you would like links to these reports and further market information please contact us.

Customer Profile – EWE

In our last edition of Smart Power we profiled szencorp, one of our field trial customers. This edition we take a closer look at EWE.



EWE is a multi-service energy company, headquartered in Oldenburg in northern Germany. In the energy sector the company's core business areas are natural gas and electricity. In the past few years, EWE has also expanded into the telecommunications and IT sectors..

EWE is now Germany's fifth-largest energy company, employing more than 5,400 people with total revenue of €7.4 billion and EBITDA of €624 million in 2005.

EWE serves more than one million electricity customers and 750,000 natural gas customers, mostly in the Lower Saxony region in Northwest Germany. The EWE Group has also expanded into other parts of Germany, as well as being the first foreign gas provider to enter the Polish market. The total length of the electricity grid spans some 80,000 km, the natural gas transmission and distribution system spans some 54,000 km, making it one of Germany's densest. EWE's portfolio covers a wide range of services involving energy, water, the environment, building management, telecommunications and information technology. EWE has taken advantage of the synergies between these sectors to provide 'bundled' domestic services to its residential and business customers.

EWE is intensively involved in renewables, fuel cell technology, direct heat supply and distributed energy management.

EWE's recently released 2005 Annual Report notes that:

"Small fuel cells than run on natural gas are a promising option for the efficient, environmentally-friendly generation of electricity and heat. EWE has been conducting research in this area for several years now and is one of the founding members of the "Fuel Cell Initiative". Together with major utilities, leading product manufacturers and also the German Energy Agency, EWE is working on the prompt market launch of complete packages for environmentally-friendly decentralised cogeneration systems."

EWE is also a member of a new committee, which has been formed to prepare the way for the "Joint Technology Initiative" (JTI), a collaboration between business and EU Government

representatives to promote hydrogen and fuel cell technology demonstration projects. EWE is actively supporting the move towards distributed or local generation, and is developing a Decentralised Energy Management System to integrate decentralised energy production plants into the existing energy supply.

More information is available at www.ewe.de

Financial Results

On 10 March 2006 CFCL released its accounts for the half-year to 31 December 2005.

Revenue for the period increased by 34.6% to A\$529,600, including A\$272,000 from the CHP field trials and the test station licensing deal with Precision Flow Technologies Inc.

On the spending side, R&D spending for the 6 months fell by 5.2% to A\$5.3m, general & administrative costs fell by 3.8% to A\$2.8m, while sales and marketing expenses increased by 82.5% to A\$617,000, reflecting the Company's increased focus on commercial and business development activities.

Finance costs were A\$506,000, largely related to the A\$8.2m of convertible notes issued in August 2005. On 6 March 2006 the Company gave notice that it would redeem all these notes on 9 June 2006. Noteholders may elect to convert into shares in the meantime.

The net loss for the half year was A\$8.7m, 2.1% higher than in the 2004 period, largely due to higher finance costs and sales and marketing expenses. This result was better than the Company's internal budget.

Turning Fuel Cells into Products

In April 2006 CFCL welcomed Trent Rowe as our Product and Marketing Manager and member of the Executive Management Team.



Trent specialises in helping industrial companies turn their technology into 'products' and then integrate these products into customer's units. He has broad experience in the manufacturing and plastics processing industries, the Heating, Ventilation & Air Conditioning (HVAC) industry, and marketing industrial textile products.

Trent will further develop the technical and marketing aspects of CFCL's technology into products that CFCL's customers – such as appliance manufacturers – can easily integrate into end user products. This is an important part of CFCL developing into a commercially focused company.

Trent joined CFCL because of our "exciting technologies with a significant potential, at the cutting edge of energy development for the future".

Energy Market Moves

UK

In its **2006 Budget** the UK Government has allocated an additional £50 million to develop microgeneration technologies.

This was followed up by the UK Department of Trade and Industry (DTI) **Microgeneration Strategy**, released on 28 March, with the objective *"to create conditions under which microgeneration becomes a realistic alternative or supplementary energy generation source for the householder, for the community and for small businesses."*

According to a DTI-commissioned report, microgeneration - which includes micro combined heat and power and small-scale fuel cells - could provide **30-40% of the UK's electricity needs by 2050**.

European Energy Market

The UK policy moves were mirrored in Europe. On 24 March the Heads of Government from EU member states approved plans to establish a European energy strategy.

The European Commission notes that *"Europe is entering a new energy landscape. Our import dependency is 50% today, and certain to rise. Our hydrocarbon reserves are running down. Energy is becoming more expensive. Our infrastructure needs improving; EUR 1000 billion is needed over the next 20 years to meet expected energy demand and replace ageing infrastructure."*

Massive investment in German energy research

On 4 April 2006 it was reported that German Chancellor Angela Merkel announced the country's big energy companies had pledged billions of euros of investment in the sector to help Germany reshape its energy policy.

"The business world has promised to invest **30 billion euros** in infrastructure and new plants by 2012," Merkel said. "We can expect investment of 33 to 43 billion euros (40 to 52 billion dollars) in renewable energy sources," she added.

Merkel said the government would between now and 2009 set aside **two billion euros for funding energy research** in a bid to bolster the country's use of renewable energy.

About your CFCL shareholding on ASX:

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne VIC 3001 AUSTRALIA
Tel: +1300 850 505
Outside Australia: +61 3 9415 4000
Fax: +61 3 9473 2500
web.queries@computershare.com.au

About your CFCL depository interests on AIM:

The Registrar
Computershare Investor Services PLC
PO Box 82, The Pavilions,
Bridgwater Road
BRISTOL BS99 7NH United Kingdom
Tel: +44 (0) 870 702 0000
www.computershare.com

About CFCL:

Andrew Neilson - Tel: +61 (3) 9554 2822
investor@cfcl.com.au

In UK:

Brendan Bilton - Tel: +44 (1244) 893 757
europe@cfcl.com.au

In Europe

Trevor Baldock - Tel: +33 1 39 50 94 19
ltbaldock@wanadoo.fr

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Do you have any Queries?

Andrew Neilson Legal and Commercial Manager (*Company Secretary*)
Tel: +61 (0)3 9554 2300 Email: investor@cfcl.com.au

CFCL Smart Power is printed on 100% Recycled Paper (Certified) using vegetable based inks and environmentally friendly printing techniques.



CERAMIC FUEL CELLS LIMITED

ABN 82 055 736 671

Ceramic Fuel Cells Limited

Head Office and Production Facilities:
170 Browns Road, Noble Park (Melbourne)
Victoria 3174, AUSTRALIA
Tel: +61 3 9554 2300 Fax: +61 3 9790 5600
Enquiries: enquiries@cfcl.com.au

Ceramic Fuel Cells (Europe) Limited

Regus House, Herons Way
Chester Business Park, Chester, CH4 9QR, UK
Tel: +44 1244 89 3757 Fax: +44 1244 89 3101
Enquiries: europe@cfcl.com.au