



31 January 2013

Cashflow Report for the December Quarter

Ceramic Fuel Cells Limited (AIM / ASX: CFU) a leading developer of high efficiency, small generators that use fuel cell technology to convert natural gas into electricity and heat for homes and other buildings, today released its quarterly cashflow report for the period ended 31 December 2012.

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

Highlights

- Strong political support in Germany & the UK
- North-Rhine Westphalia (NRW) introduces a capital subsidy scheme - the Company expects this to reduce the installed cost of a BlueGen unit to commercial customers in NRW by EUR 10,000
- UK Government increases the feed-in tariffs applying to mCHP units like BlueGen
- The Company targets the significant UK social housing market - appoints the energy services company iPower as distribution channel for this market.
- The Company is expanding its sales resources in Europe whilst also realigning its operational activities to reduce overhead costs.
- Marketing communications now fully managed in Europe. Investment in marketing being increased to support projected sales growth in Germany, UK and Benelux
- BlueGen receives a number of prestigious awards in Germany

Operations Review

Market Developments

The Company continues to see favourable market developments in Europe and is focusing its resources on Germany, UK and the Benelux markets

Germany

There is strong political support for micro Combined Heat and Power (mCHP) in Germany and in particular for high efficiency fuel cell based mCHP. This flows from the German vision for a low carbon, non-nuclear economy and their understanding that high efficiency distributed mCHP, which can react quickly to the variable demands on the grid, increasingly being imposed by the deployment of intermittent renewables, is a highly important element to achieving the country's low carbon ambitions. In addition to the European 2020 targets (to reduce CO₂ emissions by 20%, increase energy efficiency by 20% and to have 20% renewable energy) Germany has also a stated target to reach 25% of electricity generation from CHP by 2020. We expect mCHP to play a significant role in reaching this goal.

In late October the German State of North-Rhine Westphalia announced a subsidy scheme for mCHP products. Under the new scheme the North-Rhine Westphalia Government will pay a capital subsidy to commercial

customers and Energy Service Companies who install highly efficient mCHP products of less than 50 kilowatts. Ceramic Fuel Cells' BlueGen and integrated mCHP products are strongly positioned to take full advantage of this scheme.

Based on discussions with the relevant Government bodies, the Company believes that its BlueGen and integrated mCHP products will be classed as highly innovative cogeneration systems, and therefore eligible for a subsidy of 45 percent of the extra cost of the product compared to a conventional reference product. The subsidy is increased to 55 and 65 percent for small and medium sized businesses.

While the precise subsidy amount will be determined by the relevant Government department, and may vary between customers, the Company believes its products are likely to be eligible for an initial subsidy of approximately EUR 10,000 per unit. The first applications by customers have been lodged with the department and it is expected that the first determinations will be made by mid February.

The subsidy program is due to run until the end of 2017. It is part of a North-Rhine Westphalia Government funding program of up to EUR 250 million to support CHP deployment. The subsidy is in addition to the Federal Government feed-in tariff for mCHP products. We believe that these benefits will bring the net price of a BlueGen unit to a level at which high energy, commercial users can achieve an attractive commercial return and, as such, we expect this subsidy programme to be popular and to be a significant driver of sales.

Also in October there was the opening of Germany's first commercial, virtual fuel cell power plant which will see the deployment of 25 BlueGen units. The opening was undertaken by Mr Peter Altmaier, Germany's Federal Minister for the Environment, Mr Johannes Remmel, Minister for the Environment in the state of North Rhine-Westphalia, together with Mr Bernd Wilmert, Chairman of the Board of the municipal utility network Trianel, and Sven Becker, CEO of Trianel.

A virtual power plant is a cluster of distributed electricity generation units, controlled and operated by a central entity using integrated software systems. A virtual power plant allows power generation to be modulated up or down to meet peak loads and balance intermittent power from wind or solar, with higher efficiency and more flexibility than large centralised power stations. Producing energy where it is needed eases the burden on electricity distribution networks and prevents distribution losses, which can amount to as much as 10 percent from large power plants using conventional generation methods.

At the opening Mr Altmaier declared that distributed electricity generation and energy efficiency, along with a coordinated expansion of renewable energies and electricity grids on a national level, are central elements of the electricity market of tomorrow.

United Kingdom

On 1 December the UK Government increased the feed-in tariff that applies to mCHP units that are accredited under the UK's Microgeneration Certification Scheme (MCS). The feed-in tariff that applies now is 12.5p per kilowatt-hour (kWh) for all electricity generated (this represents a 25% increase on the previous rate) plus an additional 4.5p per kWh for electricity not used on site and exported to the grid (a 50% increase on the previous rate). The increased tariff applies to the first 30,000 mCHP appliances installed. BlueGen is currently the only fuel cell based mCHP appliance accredited under the MCS and hence the only fuel cell eligible for the UK feed-in tariff.

During January 2013 the Company entered into a distribution agreement with energy services company iPower to take advantage of the increased feed-in tariff and deploy BlueGen into the social housing sector. A key target for housing associations is the reduction of fuel poverty and iPower installations of BlueGen will offer tenants a guaranteed discount on their electricity tariff.

Sales

Although the increased government support was very welcome, the North Rhine Westphalia capital subsidy scheme was originally planned for introduction in May 2012 but was delayed until November 2012 due to the holding of the state election. Consequently it caused a delay in purchasing decisions by customers as they awaited the implementation of the scheme.

Sales of 43 units were booked to revenue for the December quarter which brings the year-to-date total to 90 units.

Unit sales booked to revenue			
	Quarter	Qtr unit sales	FY unit sales
FY10			9
FY11			61
FY12	September 2011	8	169
	December 2011	59	
	March 2012	26	
	June 2012	76	
FY13	September 2012	47	90
	December 2012	43	

During December the Company began supplying units to E.ON-UK (in sub-assembly and component format) under Phase II of E.ON's Joint Technology Initiative (JTI) fuel cell demonstration programme. (E.ON has previously deployed 41 BlueGen units under Phase I of the programme in 2012). In Phase II E.ON will deploy 60 integrated mCHP units that will be developed and built by the UK boiler maker Ideal Boilers Limited in co-operation with CFCL. The Company supplied 30 units in December and will complete the balance of the order early in the first quarter of 2013.

Total cumulative orders received to the end of December were 661 units (394 BlueGen units plus 267 integrated mCHP units). Of this total, orders for 329 units have been fulfilled and the remaining open order book of 332 units is expected to be supplied across 2013 – in accordance with customer's requested delivery timing.

In response to the growing sales opportunities in Germany and the UK, the Company is expanding its sales resources.

In October Mr Andreas Ballhausen joined the European management team as Commercial Director. Mr Ballhausen is responsible for leading the business development, sales and customer service activities in Germany. He joins the Company from leading German energy utility EWE, where most recently he was in charge of establishing and running EWE's business unit selling energy services and contracting solutions for households, industry and communities. Mr Ballhausen has extensive experience with fuel cells and mCHP products and is also a member of various committees in the energy sector, including the German Fuel Cell Initiative (IBZ).

The Company has decided to augment its sales channel strategy in Germany with the implementation of a direct sales force to focus on the opportunities presented in North-Rhine Westphalia. In December the Company recruited 6 new sales staff to commence this activity and plans to expand this number to address the sales opportunities in that market. In addition to this the Company is also increasing the number of indirect sales channels that it has in the German market.

In the UK the Company is focusing on a number of key market sectors. One of these is the social housing sector where the benefits of using BlueGen are particularly strong. This week the Company announced that it had entered into a distribution agreement with the energy services company (ESCo) iPower (see - www.ipoweruk.com) that focuses on this sector. In the UK this sector accounts for approximately 4.0 million dwellings or 17.5% of the UK housing stock of approximately 22.8 million dwellings as at 31 March 2011 (source: Dept of Communities and Local Government).

iPower is a social enterprise and ESCo. iPower's principal aim is the provision of energy services to the benefit of social stakeholders and its primary customer base is social housing landlords and their tenants. Social housing tenants are those who typically pay the highest prices for electricity and hence are the most attractive target market for BlueGen in the UK. iPower plans to work with housing associations to sell discounted and low carbon electricity and heat to social housing tenants by using BlueGen and other technologies embedded at a building level over private wire networks.

In addition to this the Company is marketing BlueGen units to housing associations, premium residential and small business customers across the UK through specialised installation, sales and service partners. To date these comprise:

- Be Green Systems for London and the South East;
- Ace Energy for the South Coast and South West;
- Green Buy Energy for Yorkshire and the North Midlands;
- Richard Irvin Sustainable Energy for Scotland; and
- World Heat and Power for the North West and North Wales.

In December the Company expanded its indirect sales channels by appointing its first distributor to service the Belgium market.

Marketing

The marketing communication function is now being fully managed in Europe. The Company is increasing its investment in this area to raise the profile of both the BlueGen and Ceramic Fuel Cells brands in the key product markets of Germany, UK and Benelux. This investment will be used to drive and support projected sales growth in these markets.

Manufacturing & Accreditation

In December the plant in Heinsberg, Germany successfully underwent its annual accreditation review for the UK Microgeneration Certification Scheme (MCS). The successful completion of this audit review is necessary to ensure that BlueGen units made at the plant are allowed to carry the MCS Certificate which in turn is required to earn the feed-in tariff in the UK.

Also during the quarter the Company obtained CE certification for a number of different fluing installation options for units in the European market which will allow for a reduction in installation costs and provide increased flexibility for customers.

During the quarter the Company continued to work with its supply chain partners to reduce costs and to increase production capacity to meet the expected requirements for 2013. The outsourcing of cell production

from the Company's Noble Park R&D and pilot manufacturing facility to Chaozhou Three-Circle (Group) (CCTC) in China has resulted in a significant reduction in cell costs and production levels are being increased whilst maintain high quality.

Corporate Restructure

In October the Company realigned its corporate structure and operational activities to reduce overhead costs and to focus resources on the German, UK and the Benelux markets. The Company has reduced its direct sales investment in Australia, Japan and North America, and transferred a number of corporate activities to Europe.

As a result of outsourcing cell production to CCTC and the above restructure activity, the company's headcount has been reduced by 56 full-time equivalent positions (FTEs). In a full year this is expected to result in a cost saving of approximately AUD 5m (GBP 3.3m) although in the current quarter it has led to an increase in cash payments of approximately AUD 0.8m (GBP 0.5m).

Awards

In October at the f-cell conference in Stuttgart, Germany the company was awarded the prestigious f-cell award sponsored by the Baden-Württemberg Ministry of the Environment, Climate Protection and the Energy Sector. The jury's citation noted "BlueGen as the most outstanding technology for 2012 with a high potential for practical application".

Also in October the Company was awarded Spirit of Innovation award at the Dutch "Energie 2012" exhibition.

In November the Company was awarded the prestigious Innovation Prize of the German Gas Industry. This prize is awarded every 2 years for the most innovative product and service in the gas industry. The awarding of this prize is seen as very significant in the German market.

Financial Review

Net operating cash outflow for the September quarter was AUD 4.6m (GBP 3.0m). This is in line with the last quarter and includes AUD 0.8m (GBP 0.5m) of redundancy related payments flowing out of the restructuring of the business discussed above.

Receipts from customers were AUD 2.2m (GBP 1.5m) which was up by AUD 0.5m (GBP 0.3m) from the previous quarter.

The net cash outflow from financing activities includes AUD 0.5m (GBP 0.3m) of payments relating to costs of the fund raising undertaken in September 2012.

Unrestricted cash on hand at 31 December was AUD 8.6m (GBP 5.7m).

For more information please contact:

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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 now focusing on markets in Germany, the United Kingdom and Benelux and is developing fully integrated power and heating products with leading energy companies E.ON UK in the United Kingdom and EWE in Germany.

The company is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).

www.cfcl.com.au

www.bluegen.info

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

82 055 736 671

Quarter ended ("current quarter")

31 DECEMBER 2012

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	2,243	3,988
1.2 Payments for		
(a) staff costs ¹	(3,170)	(6,297)
(b) advertising and marketing ²	(188)	(374)
(c) research and product development ³	(578)	(1,399)
(d) leased assets	-	-
(e) other working capital	(3,714)	(6,279)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	(18)	(36)
1.6 Income taxes paid	-	-
1.7 Other		
- Government grant received	-	-
- Net GST/VAT received/(paid)	491	952
- Sundry income received	357	364
Net operating cash flows	(4,577)	(9,081)

Notes

- '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.
- 'Advertising and marketing' excludes all S&M staff costs (as per note 1 above).
- '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 2012, but excludes all R&PD staff costs (as per note 1 above).

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(4,577)	(9,081)
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	(21)	(148)
(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	49
Net investing cash flows	(19)	(99)
1.14 Total operating and investing cash flows	(4,596)	(9,180)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares	-	11,625
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	(69)	(134)
1.19 Dividends paid	-	-
1.20 Other - Financial assets: Net proceeds/(Net payments) ¹	-	-
Other - Share issue costs	(490)	(539)
Other - Interest received	97	109
Net financing cash flows	(462)	11,061
Net increase (decrease) in cash held	(5,058)	1,881
1.21 Cash at beginning of quarter/year to date	13,584	6,622
1.22 Exchange rate adjustments on foreign currency cash balances	98	121
1.23 Cash at end of quarter ²	8,624	8,624

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' as at 31 December 2012 continues to exclude Restricted Cash Equivalents of A\$2,287,748 pledged as security for bank guarantees (and so 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	102
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	8,624	13,584
4.2	Bank term deposits:		
	- up to 3 months duration	-	-
	- between 3 and 12 months duration	-	-
4.3	Bank overdraft	-	-
4.4	Other	-	-
Total: cash at end of quarter ¹ (item 1.23)		8,624	13,584

1. 'Cash at end of quarter' as at 31 December 2012 continues to exclude Restricted Cash Equivalents of A\$2,287,748 pledged as security for bank guarantees (and so 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

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

Sign here: Date: 31 January 2013

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.