

30 April 2013

Cashflow Report for the March Quarter

Ceramic Fuel Cells Limited (AIM / ASX: CFU), today released its quarterly cashflow report for the period ended 31 March 2013.

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

Highlights

- Favourable market developments continue to take place in Europe.
- Targeted commercial customers receive a capital subsidy under the North Rhine Westphalia (NRW) CHP programme of between €9,000 and €13,000 for each CFCL unit.
- NRW programme generating significant sales interest and enquiries.
- Alliander becomes a strategic partner in Germany seeking to install up to 600 units in their regional grid operations. Commences with initial generous promotion to customers in addition to NRW capital subsidy.
- German utility EWE orders 60 integrated mCHP units as it commences final phase of its development and demonstration programme prior to beginning planned commercial distribution in 2014.
- Project approval received for first deployment of BlueGen in UK social housing sector.
- Fund raising to provide additional working capital – in principal commitments received at the end of April 2013 for GBP 4.3 million (AUD 6.5 million).

Operational Review

Introduction

CFCL makes small scale generators that use proprietary fuel cell technology to convert natural gas into electricity and heat for homes and small commercial buildings. CFCL has commercialised its technology into products and is now focused on selling these products to commercial customers in Europe.

CFCL was established in 1992, 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) that have been granted in key global markets.

Late last year 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.

As a result of this restructure (and outsourcing cell production, discussed below), the Company's headcount was reduced by 59 full-time equivalent positions (FTEs). This reduction along with the reduction of certain activities is expected to result in a cost saving of approximately \$5 million in a full year. The Company and its subsidiaries currently employ approximately 120 staff in Australia, the United Kingdom and Europe.

Although the Company has adopted a narrower strategic focus it will continue to monitor the developments and opportunities presented in other geographic markets – particularly in North East Asia and North America. The Company would consider entering new markets if they presented significant near term sales opportunities and also provided opportunities to fund that market entry.

Market Developments

The Company continues to see favourable market developments taking place in Europe.

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. Germany sees this as a highly important element to achieving the country's low carbon ambitions. Germany's 2020 targets are to:

- reduce CO₂ emissions by 40%;
- increase energy efficiency by 20%;
- have 35% of power generated from renewable sources; and
- have 25% of electricity generation from CHP. (To meet this target there is approximately a 56TWh gap that will need to be met by new CHP. We expect that mCHP will play a significant role in reaching this goal).

In parallel with achieving these goals Germany has also established a programme to withdraw all its nuclear power plants by 2022. In 2012 nuclear power represented 16% of the German energy mix.

With these objectives in mind, in late October 2012, the largest state in Germany, North-Rhine Westphalia ("NRW"), announced a subsidy scheme for mCHP products. Under the new scheme the NRW Government will pay a capital subsidy to commercial customers and energy service companies who install highly efficient mCHP products of less than 50 kilowatts. The Company's BlueGen and integrated mCHP products are strongly positioned to take full advantage of this scheme.

The subsidy program is part of a NRW Government funding program of up to €250 million to support deployment of large and small scale CHP, and is due to run until the end of 2017. Within this programme a significant amount has been specifically set aside for innovative and highly efficient mCHP technologies less than 50kW electrical output, which the Company's products have been classed as. Based on the first applications that were approved in mid March 2013, the Company expects that commercial customers will receive a subsidy of between €9,000 and €13,000 per unit, dependent on the size of their business.

The NRW subsidy is in addition to the German Federal Government feed-in tariff for mCHP products.

The Company believes that these measures can bring the net price of a BlueGen unit down to a level where commercial customers with an appropriate level of energy use can achieve a payback period of between 5 and 7 years. As such, we expect this subsidy programme to be a significant driver of sales.

The Company's sales channel strategy is to use both direct and indirect sales channels to sell its products. In December 2012 the Company established a direct sales force in Germany to focus on the opportunities presented in North Rhine Westphalia. The Company is also working to increase its indirect sales channels in Germany through partnering with utilities and installers.

On the 13 March 2013 the Company announced that it had entered into a letter of intent to form a strategic partnership with Alliander AG, a distribution grid operator in Germany. As a first step in this arrangement, up to 600 BlueGen systems are to be installed across Alliander's regional grids in Germany by 2015.

Alliander announced last week an initial promotion in relation to the first 100 units to be installed in the City of Heinsberg. Alliander will augment the existing government feed-in tariff and state capital subsidy discussed above with an additional feed-in tariff amount of 10 Euro cents per kWh (capped at €5,000 over the life of the unit) and an additional upfront capital subsidy of up to €4,000 per unit (depending on the customer's electricity usage profile). This is expected to make a highly attractive investment return for customers participating in the promotion.

There is also policy support for our products in the United Kingdom. On 1 December 2012 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 is now 12.5 pence per kilowatt-hour (kWh) for all electricity generated (this represents a 25 percent increase on the previous rate) plus an additional 4.5 pence per kWh for electricity not used on site and exported to the grid (a 50 percent increase). BlueGen is currently the only fuel cell based mCHP appliance accredited under the MCS and hence the only fuel cell product eligible for this feed-in tariff. Again, the Company believes that this policy will also drive sales.

In the UK, the Company has appointed a number of indirect sales channels and intends to further expand its direct sales force there. The Company is continuing to take steps to ensure that its growth strategy is not dependent on any single sales channel.

Sales and Orders

Although the increased government support for the company's products has been very welcome, the North Rhine Westphalia capital subsidy scheme was originally planned for introduction in May 2012. It has taken till mid-March 2013 for the first announcement of the amount of subsidy that will apply to each BlueGen unit to be made. This has caused a significant delay in purchasing decisions by customers as they awaited the implementation of the scheme.

As a result of this, only 9 units were booked to revenue for the March quarter, which brings the year-to-date total to 99 units. It has been pleasing to note however that since the capital subsidy was announced, a significant number of sales enquiries have been received which are being progressed by the Company's direct sales force as well as distributors. It has also been pleasing to see local banks offering funding packages to those customers purchasing mCHP units under the NRW programme.

Unit sales booked to revenue			
	Quarter	Qtr unit sales	FY unit sales
FY11			61
FY12	September 2011	8	169
	December 2011	59	
	March 2012	26	
	June 2012	76	
FY13	September 2012	47	99
	December 2012	43	
	March 2013	9	

In the UK the Company is focusing on a number of key market sectors. One of these is the social housing sector¹ where the benefits of using BlueGen are particularly strong. In late January the company signed a distribution agreement with iPower Energy Limited ("iPower") an Energy services company (ESCo) operating in this sector. In late March the two companies received the go ahead for the first housing association project. The project will involve participating tenants of Housing Solutions, a housing association located in Maidenhead, England. In the initial phase 10 BlueGen units will be deployed with each unit serving on average 5 flats. The tenants will benefit from cheaper, lower carbon electricity and will be guaranteed a minimum discount of 10% against the best locally available standard electricity price. (Many tenants are likely to be paying higher than the standard electricity price in the area and therefore the effective discount will be greater).

iPower expects to replicate this first project with other housing associations across the UK.

In April the company received a binding order for 60 additional integrated mCHP units from German energy service provider EWE. This order starts the final phase of the development and demonstration programme for integrated mCHP generators agreed with EWE in 2010. Delivery is scheduled for June to December 2013.

¹ 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).

Manufacturing & Supply Chain

The Company has built an assembly plant in Heinsberg, Germany, to manufacture fuel cell stacks, the core of the Gennex fuel cell module, and to assemble complete BlueGen units. The individual fuel cell components are shipped to the Heinsberg plant (together with other components) to be assembled into fuel cell stacks.

In July 2012 the Company began outsourcing the production of its fuel cell components to Chaozhou Three-Circle (Group) Co., Ltd ("CCTC"). Under this supply arrangement CCTC is responsible for making the fuel cell parts to CFCL's design and specification. The outsourcing of cell production to CCTC has resulted in a significant reduction in cell costs whilst maintaining high quality standards. CCTC has invested several million dollars in its plant to service the Company's cell production requirements.

The Company works closely with its key supply chain partners and believes that they are both ready and capable of meeting the Company's future production plans.

During late 2012 the Company undertook work in conjunction with our furnace supplier on a large furnace located in our German plant. In August 2012 the supplier retrofitted the furnace with specially designed parts. The furnace was then successfully commissioned and used to produce fuel cell stacks through to November. From late December the supplier undertook further work on the furnace (at its own cost) to increase the yield to the level required by CFCL. During March 2013 we started to use the furnace for production again and are taking it through a phased ramp up process. The results of the early phases have been very pleasing and the Company expects to finish the process by the end of May.

Once the furnace is ramped up to full production the Company expects to have a combined capacity of approximately 30 fuel cell stacks per week or 1,500 fuel cell stacks per year, based on current operating procedures.

The plant's production throughput can be increased above 1,500 units per year without additional capital spending, by operational efficiencies (such as improving processes and production flow, reducing furnace cycle times, loading and unloading times, robot optimisation), more flexible work practices (the plant is currently operating on a single shift); and by continuing to outsource the manufacturing and assembly of components and sub-assemblies. Modest investments in multiple tooling will also increase production levels.

To further increase production (funds permitting) the Company intends to make further capital expenditures to increase furnace capacity to around 3,000 – 3,500 stacks per year. It is expected that this capital expenditure would be approximately \$1.5 million.

In December 2012 the plant in Heinsberg 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.

Product Cost Reduction

A strategic imperative for the company is to reduce the unit cost of the BlueGen product. From December 2011 to December 2012 the Company has reduced the manufactured cost of the unit by approximately 26 percent, down to approximately €18,000 per unit. We are pursuing several options to continue to reduce unit costs including redesigning some high value components, outsourcing selected manufacturing and sub-assembly operations and internal process improvements.

As a reasonableness test of the Company's internal cost projections it has sought to benchmark itself against the experience of other industries employing similar manufacturing processes to those required for the Company's products. Based on this work, the Company believes that it should be possible to achieve up to an 18 percent reduction in the total manufactured cost of the product for each doubling of output volume. This is shown in the following chart:

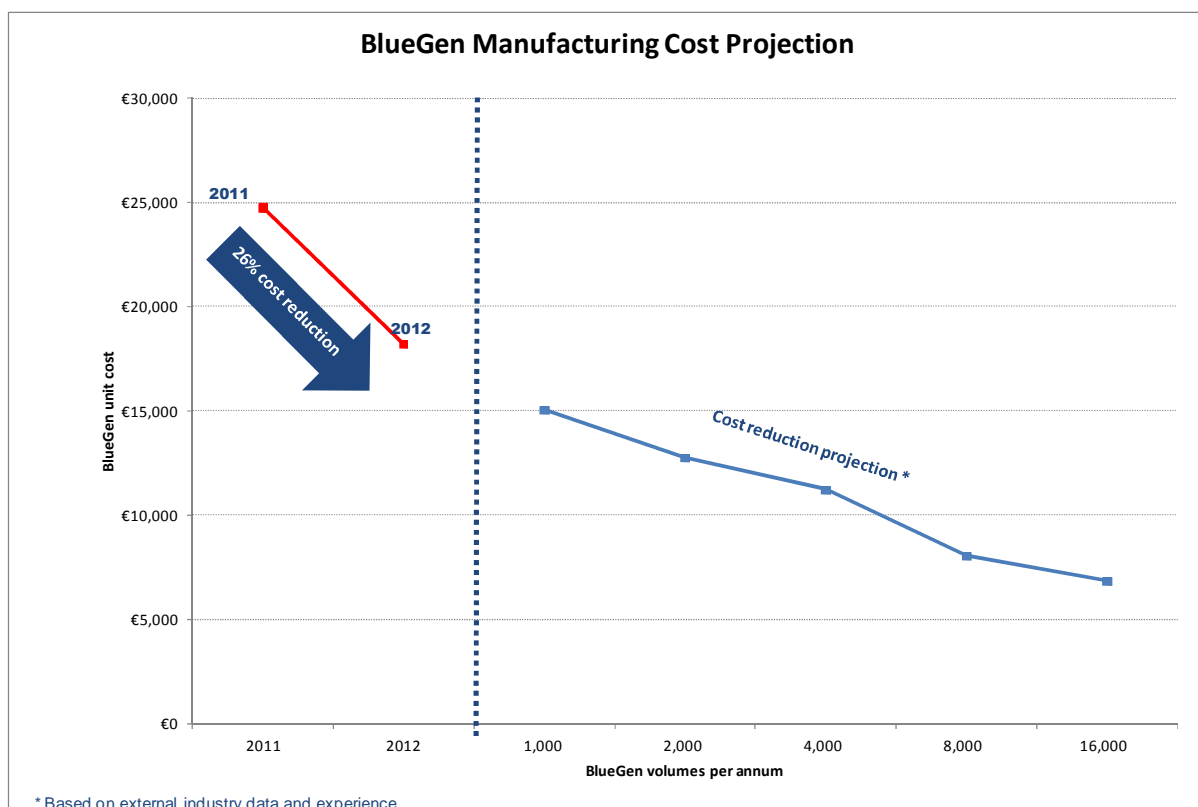


Chart 1 – BlueGen manufacturing cost projection based on external industry data and experience.

The company's objective is to move as rapidly as possible to a cost position for the unit where by the commercial selling price does not require a subsidy to ensure that the customer achieves a suitable economic return and whilst also allowing the company to make an appropriate level of profit..

Financial Review

March Quarter Cash Flows

Net operating cash outflow for the March quarter was AUD 6.6m (GBP 4.4m) which was approximately AUD 2.0m (GBP 1.3m) greater than the two previous quarters principally due to the delay in sales discussed above and the resultant reduction in receipts from customers.

Net investing cash flows for the quarter was an inflow of AUD 2.0m (GBP 1.3m) arising from the release of AUD 2.2m (GBP 1.5m) from a security deposit used to provide a bank guarantee in relation to grant received from the NRW Government in Germany. The compliance with the grant requirements was concluded in December 2012 and the bank guarantee was returned during the March quarter.

Cash on hand at 31 March was AUD 3.7m (GBP 2.4m).

Fund Raising Activities After The End Of The Quarter

The Company is in the process of completing a small placement to institutional investors in the UK. At 30 April 2013 the Company has received in-principal commitments from institutional investors to raise an amount of GBP 4.3 million (AUD 6.5 million), subject to the finalisation of transaction documents with each of them. This documentation is expected to be completed over the next 2 days. The amount to be raised may increase further over that period.

The fundraising will be constituted by the issue of both new ordinary shares and secured convertible loan notes. The notes will have a 3 year term, a 9% per annum coupon rate (payable quarterly) and can be converted into equity at anytime at the holder's election. The issue price of the new ordinary shares and the conversion price for the loan notes will be 2.14 pence per share (approximately 3.2 cents).

The Company proposes to convene an extraordinary general meeting of its members to approve certain elements of the capital raising and in particular, the grant of security over the Company's intellectual property to secure repayment of the convertible loan notes.

In addition to these funds, the Company expects to receive a further AUD 5.0m (GBP 3.3m) in cash from the Australian Government around the middle of the year in relation to a tax refund. This amount arises as a refundable credit in relation to the Company's FY12 Research & Development expenditure that is claimable for tax purposes.

The above funding will be used to provide the Company with additional working capital.

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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 MARCH 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter	Year to date (9 months)
	\$A'000	\$A'000
1.1 Receipts from customers	163	4,151
1.2 Payments for		
(a) staff costs ¹	(3,259)	(9,556)
(b) advertising and marketing ²	(151)	(525)
(c) research and product development ³	(384)	(1,783)
(d) leased assets	-	-
(e) other working capital	(3,269)	(9,548)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	(102)	(138)
1.6 Income taxes paid	-	-
1.7 Other		
- Government grant received	-	-
- Net GST/VAT received/(paid)	388	1,340
- Sundry income received	4	368
Net operating cash flows	(6,610)	(15,691)

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 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 (9 months) \$A'000
1.8	Net operating cash flows (carried forward)	(6,610)	(15,691)
	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	(184)	(332)
	(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	2,169	2,218
	Net investing cash flows	1,985	1,886
1.14	Total operating and investing cash flows	(4,625)	(13,805)
	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	(61)	(195)
1.19	Dividends paid	-	-
1.20	Other - Financial assets: Net proceeds/(Net payments) ¹	-	-
	Other - Share issue costs	(19)	(558)
	Other - Interest received	4	113
	Net financing cash flows	(76)	10,985
	Net increase (decrease) in cash held	(4,701)	(2,820)
1.21	Cash at beginning of quarter/year to date	8,624	6,622
1.22	Exchange rate adjustments on foreign currency cash balances	(235)	(114)
1.23	Cash at end of quarter ²	3,688	3,688

1. The net proceeds from/(payments for) the disposal and purchase of the company's investments are at item 1.20
2. During the current quarter a security deposit of A\$2,207,235 (previously classified as a Restricted Cash Equivalent) was released and so is now freely available 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	115
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	3,688	8,624
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 (item 1.23)	3,688	8,624

Acquisitions and disposals of business entities

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i>
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: 30 April 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.