

31 July 2013

Cashflow Report for the June Quarter

Ceramic Fuel Cells Limited (AIM / ASX: CFU), today released its quarterly cashflow report for the period ended 30 June 2013.

Highlights

- Successful capital raising of GBP 5.0m (AUD 7.6m)
- Increased sales volume – 48 units sold this quarter bringing the total for the year as a whole to 147
- Expansion of sales channels
- Large capacity furnace ramp-up nearing finalisation with excellent results.
- Cash position at 30 June 2013 AUD 10.0m (GBP 6.0m)
- Ceramic Fuel Cells will release its preliminary results for the year ended 30 June 2013 by 31 August 2013

Operational Review

Introduction

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

During the quarter the Company successfully completed a GBP 5.0m (AUD 7.6m) fund raising. This was completed in May and resulted in the issue of GBP 4.3m (AUD 6.6m) of convertible loan notes and GBP 0.7m (AUD 1.0m) of ordinary shares. In addition to this the company also received AUD 5.2m (GBP 3.1) of funds in June 2013 in relation to a tax credit arising from its Australian research and development activities undertaken in fiscal year 2012.

Market Developments and Sales

The Government in the German state of North Rhine Westphalia (NRW) has established a funding program of up to €250 million to support deployment of large and small scale CHP. The programme 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. In mid March 2013 the Company's units were approved for a capital subsidy under the programme. The subsidy is paid to commercial customers who receive an amount 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 in the future.

In response to this opportunity the Company has been seeking to expand both its direct and indirect sales channels during the quarter.

The Company's sales channel strategy, in regards to indirect sales, is to grow distribution through partnering with utilities, installers and established distribution companies.

In March 2013 the Company 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.

Under this arrangement Alliander has announced 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.

In May 2013 the company entered into a distribution partnership with Novogaz SA, a subsidiary of Holdigaz Group. Under the agreement, the two partners will join forces in distributing BlueGen units to the growing market for micro CHP's in the French-speaking part of Switzerland. This move increases the cooperation between the two partners that started in 2010 when BlueGen units and integrated systems were installed in a field testing exercise.

The Company is also in the process of growing its direct sales force in both Germany and the UK. Unfortunately this growth was constrained during the quarter due to the requirement to complete the funding exercise discussed above. The Company plans to further increase its sales force which, in turn, is expected to generate increased sales growth.

Sales volume increased during the final quarter of the year to 48 units. This compared to only 9 units in the previous quarter which had been negatively impacted by delays in the announcement of the capital subsidy to be granted to the Company's units under the NRW scheme discussed above. This had had the effect of delaying purchasing decisions by customers as they awaited the implementation of the scheme.

As a result of this delay and the resulting poor third quarter of sales, the overall sales volume for the year at 147 was slightly down on last year's result of 169 units.

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	147
	December 2012	43	
	March 2013	9	
	June 2013	48	

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. Earlier this year 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. This project involves participating tenants of Housing Solutions, a housing association located in Maidenhead, England. In the initial phase 10 BlueGen units are being deployed with each unit serving on average 5 flats. The tenants in the project will benefit from cheaper, lower carbon

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).

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 project model with other housing associations across the UK.

Manufacturing

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.

Since late December 2012 the Company has been working with the supplier of its large capacity furnace to increase the yield of the furnace to the level required by CFU. During March 2013 the Company started to use the furnace for production again and during the June quarter the furnace was taken through a phased ramp-up process. The testing and ramp-up work have now been largely completed and the results have been excellent. 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 AUD1.5m (GBP 0.9m)

In June 2013 the plant in Heinsberg successfully completed its annual review for ISO 9001 and CE accreditation.

Financial Review

June Quarter Cash Flows

Net operating cash outflow for the June quarter was AUD 1.1 (GBP 0.6m). This includes the receipt of AUD 5.2m (GBP 3.1m) in relation to a tax credit arising from the Company's Australian research and development activities undertaken in fiscal year 2012. If this amount was to be excluded then the net operating cash outflow for the quarter would have been AUD 6.2m (GBP 3.7m) which compares favourably to AUD 6.6m (GBP 4.0m) in the previous quarter

Net investing cash flows for the quarter were an outflow of AUD 0.2m (GBP 0.1m).

Net financing cash flows for the quarter were an inflow of AUD 6.9m (GBP 4.1m). In May 2013 the company received AUD 7.0m (GBP 4.6m), net of costs, in relation to the issue of ordinary shares and convertible loan notes as discussed above. A further AUD 0.3m (GBP 0.2m) will be received as part of this fund raising in the next quarter.

Cash on hand at 30 June 2013 was AUD 10.0m (GBP 6.0m).

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Relations

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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")

30 JUNE 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter	Year to date (12 months)
	\$A'000	\$A'000
1.1 Receipts from customers	456	4,607
1.2 Payments for		
(a) staff costs ¹	(2,772)	(12,834)
(b) advertising and marketing ²	(168)	(693)
(c) research and product development ³	(544)	(2,327)
(d) leased assets	-	-
(e) other working capital	(4,023)	(13,082)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest paid	(2)	(88)
1.6 Income taxes	5,184	5,184
1.7 Other		
- Government grant received	-	-
- Net GST/VAT received/(paid)	513	1,853
- Sundry income received	300	668
Net operating cash flows	(1,056)	(16,712)

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	Year to date (12 months)
		\$A'000	\$A'000
1.8	Net operating cash flows (carried forward)	(1,056)	(16,712)
	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	(209)	(541)
	(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)	-	2,235
	Net investing cash flows	(209)	1,694
1.14	Total operating and investing cash flows	(1,265)	(15,018)
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares	1,068	12,693
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings – convertible loan notes	6,034	6,034
1.18	Repayment of borrowings – finance lease	(106)	(301)
1.19	Dividends paid	-	-
1.20	Other - Financial assets: Net proceeds/(Net payments) ¹	-	-
	Other - Share issue costs	(11)	(569)
	Other - Convertible loan note issue costs	(132)	(132)
	Other - Interest received	44	157
	Other - Interest paid on borrowings (finance lease)	(19)	(71)
	Net financing cash flows	6,878	17,811
	Net increase (decrease) in cash held	5,613	2,793
1.21	Cash at beginning of quarter/year to date	3,688	6,622
1.22	Exchange rate adjustments on foreign currency cash balances	709	595
1.23	Cash at end of quarter	10,010	10,010

1. The net proceeds from/(payments for) the disposal and purchase of the company's investments are at item 1.20

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	82
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	10,010	3,688
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)	10,010	3,688

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: [?] July 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.